MEDISANA

HEALTHY RESULTS

Annual report 2007

MEDISANA®

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Ralf Lindner
Chairman of the Management Board
of MEDISANA AG

"Reflecting on the past record-breaking financial year, we can say that the success in 2007 is no one-off, but rather the beginning of a new chapter. Strategically, MEDISANA is currently in a phase of sustainable growth. The repositioning of the brands and the corporate reorganisation brought a significantly increased market acceptance, a more flexible cost structure as well as a continuous expansion of the market position."

Dear Shareholders,

The reorganisation and repositioning which MEDISANA AG introduced in financial year 2005/06 was finally completed in the reporting year and was reflected in record MEDISANA Group sales of €30.2 million, compared with €23.2 million in the previous year.

This corresponds to sales growth of about 30%!

It should be noted that MEDISANA is also increasingly successful internationally. €10.3 million of the sales were achieved by foreign subsidiaries. Ending the cooperation with the Italy-based company Sanico S.R.L. and the organisational measures implemented regarding the sales structure in Great Britain and Spain proved to be the right steps in order to be able to make more consistent use of existing potential in these markets. With approximately 70 employees, MEDISANA currently looks after customers in over 35 countries. MEDISANA has manufacturing partners in over ten countries.

Driven by the Group's strong sales growth, gross profit increased to €9.5 million (2006: €7.2 million). Operating progress had an even more pronounced effect on the Group's profit. After recording a loss of €2.4 million the previous year, in 2007 we were able to post a record profit of €0.8 million. The basis for this year's profit were, aside from the sales performance of our products and a further optimised cost structure, additional improvements in the business operations.

Motivated by these successes, we've created additional conditions during the reporting year so that MEDISANA can continue to play a larger role in the fast-growing health care market in the years ahead. In the process, the demographic development is really working in our favour. Our main target group, aged 50 and over, accounts for 75% of health care expenses and, in 2010, will make up approx. 36% of the total population. At the same time, this portion of the population has a high per capita income and is willing to invest a large amount of it in its health. The market for medicine and home health care products profits considerably from this constantly increasing awareness of one's own health. On top of this, in the health care market costs will continue to shift from the health insurers to the consumer.

In addition to retaining our policy on cost discipline and sustainable profit, our strategy for the current financial year involves aggressive advertising which effectively transports our USPs in all sales channels. The consumer already associates the MEDISANA, Promed and Happy Life brands with premium quality and leading technology. Building on this, we are currently positioning MEDISANA as a "Health Care Centre of Expertise". Subject-specific advertising campaigns and existing product line systems are intended to provide the consumer with product- and subject-related information in order to further strengthen trust in the brand. In short: those who mean Home Health Care, should in future say MEDISANA.

Aside from organic growth, which in 2008 is also driven by the introduction of new products, we are currently contemplating growing through acquisitions. The important thing is that the targeted company operates profitably and that its range of products and organisational structure are suitable for our company. We are also open to the idea of accepting new investors. But, here too, the following applies: what does not fit into our concept of sustainable growth will not be implemented. Because of our company's own strength, we are by no means under any pressure.

Our most recent success is very closely associated with our employees. I extend my special thanks to you for the commitment that has contributed to the growth and profitability of MEDISANA AG. In order to be even more effective in the future, we first and foremost need satisfied customers, and I'd also like to take this opportunity to thank all our customers for their loyalty in the past. Demand more from us in future – we will continue to increase our potential and we'll also come up with a few global innovations in 2008. Just like in 2007 when we introduced the talking blood pressure monitors at the Medica in Düsseldorf, which attracted a great deal of attention, and within a short period of time established a new market segment with high sales volumes throughout Europe.

Reflecting on the past record-breaking financial year, we can say that the success in 2007 is no one-off, but rather the beginning of a new chapter. Strategically, MEDISANA is currently in a phase of sustainable growth. The repositioning of the brands and the corporate reorganisation brought a significantly increased market acceptance, a more flexible cost structure as well as a continuous expansion of the market position. This has allowed us, for instance, to triple our market share of blood pressure monitors in Germany over the last two years and to become the clear market leader in the highly profitable premium segment.

And, of course, I'd like to thank you, our shareholders, for the trust you've placed in us. The continuing great demands awaiting us in 2008 will allow us to become, I am certain of this, a stronger and more efficient company from quarter to quarter.

We are working hard to become even better – especially as a long-term profitable investment for our shareholders and our customers, our valued partners in the service of health.

Yours sincerely,

Ralf Lindner
Chairman of the Management Board of MEDISANA AG

Hilden, Germany. May 2008

Report of the Supervisory Board

Dear Shareholders,

MEDISANA AG was able to celebrate a number of successes during the 2007 financial year. The restructuring is complete and has resulted in a phase of sustainable growth. In several areas, MEDISANA was able to claim market and technology leadership and produce a significant growth in profit. In this respect, we are very happy about the development of the 2007 financial year.

The Supervisory Board has acted responsibly in fulfilling its incumbent tasks according to the articles and the law, and continuously monitored the management. On the basis of jointly held meetings as well as various individual conversations, the information submitted to the Supervisory Board was verified and many questions were answered by the Management Board. Furthermore, the Management Board was advised by the Supervisory Board on individual questions and strategic planning.

Supervisory Board meetings and the main consultation points

In the last financial year, five Supervisory Board meetings were held. These took place on 27.03.2007, 27.4.2007, 23.08.2007, 14.09.2007 and on 23.11.2007 with the participation of all Supervisory Board members and the members of the Management Board. In addition, the Supervisory Board uses the opportunity to draw up written resolutions in lieu of meetings. Aside from the Supervisory Board meetings, a timely briefing (via telephone) of the Supervisory Board was held regarding the current development of the company and individual, larger scale events as well as other noteworthy activity during monthly discussions with the Management Board.

At the meetings as well as during regular personal meetings, the Management Board answered and explained all of the Supervisory Board's questions relevant to business development, corporate planning and strategic development. In this connection, the main themes were risk management, investments, personnel or the positioning and further development of business areas. Another subject area touched on during these meetings was the structural development of the company internationally.

Thus, the Supervisory Board was always kept up to date and, alongside detailed reports provided during the meetings, received monthly written reports from the Management Board containing the very latest information.

Corporate governance

In its meetings, the Supervisory Board monitored compliance with the adopted rules of the German Corporate Governance Code. Finally, the Management Board and the Supervisory Board updated the statement of compliance according to Article 161 of the German Companies Act in connection with the German Corporate Governance Code. The 2007 statement of compliance with the Corporate Governance Code has been reproduced in the annual report in the Corporate Governance section and also published on the Internet at www.medisana.de.

Audit of the annual financial statements of MEDISANA AG and the consolidated financial statements

According to the vote of the annual general meeting on 23 August 2007, the Supervisory Board has awarded the audit mandate for the 2007 consolidated financial statements and annual financial statements to WARTH & KLEIN G.m.b.H., Wirtschaftsprüfungsgesellschaft (certified public accountants), Düsseldorf. The audit mandate was subsequently issued by the Supervisory Board and included clear rules pertaining to the details of the mandate and the cooperation of the Supervisory Board with the public accountants.

The accounting and the annual financial statements of MEDISANA AG, the consolidated financial statements for 2007 as well as the annual report of the company and the Group were audited by the certified public accountants in accordance with the law and the articles of the company and were given an unqualified audit certificate.

The Supervisory Board and the Management Board discussed the audit results, risk management and organisational matters of the Group companies at length with the accountants. During the balance sheet review meeting on 25 April 2008, the auditors participated in the items on the agenda relating to their work, reported on the essential audit results and fielded questions from the Supervisory Board.

All Supervisory Board members had received a copy of the annual financial statements, the annual report and the audit reports prior to the balance sheet review meeting. The consolidated financial statements according to IFRS were approved by the Supervisory Board on 16 May 2008. We noted the auditor's report with approval. There were no objections following the conclusion of the audit of the annual financial statements, the consolidated financial statements and the annual report. We approved the MEDISANA AG annual financial statements and consolidated financial statements prepared by the Management Board. The annual financial statements have therefore been declared. We approve the management report, in particular the statements concerning the further development of the company.

A thank you from the Supervisory Board

The Supervisory Board would like to thank the Management Board, the managers and all MEDISANA Group employees for their commitment and successful work in the past financial year.

On behalf of the Supervisory Board

Dr Matthias Hartz
Chairman of the Supervisory Board

Hilden, Germany. 16 May 2008

Corporate governance

Corporate governance as a comprehensive and integrated approach

Corporate governance – that means standards of good and responsible corporate leadership. Our corporate governance system embraces the entire corporation.

Yet comprehensive corporate governance does not emerge by simply adhering to rules, however important they may be. Because the rules can only provide the framework within which a good and responsible corporate management can exist. It ultimately comes down to creating trust in the company and within the company.

The MEDISANA Management Board and Supervisory Board view the concept of corporate governance as comprehensive and encompassing, because it comprises the corporate values, processes and goals which serve our corporate mandate and therefore the added value for our shareholders and customers.

2007 statement of compliance with the German Corporate Governance Code according to Article 161 of the German Companies Act

The Management Board and Supervisory Board of MEDISANA AG are committed to the work and the goals of the government-commisioned German Corporate Governance Code. It creates transparent guidelines which serve to assist in the proper and ethically correct management of the corporation.

The Code allows selective deviations if, in certain cases, strict observance was found to make little or no sense for the affected company.

That said, the Management Board and Supervisory Board of MEDISANA AG declare that the recommendations of the government-commissioned German Corporate Governance Code have been adhered to since the submission of the last statement of compliance and will be adhered to in future, with the following provisions:

Deviations:

- According to Sections 5.1.2 and 5.4.1, the institutions should define age limits for the members. The Management Board and Supervisory Board do not see the necessity of establishing age limits because, firstly, people are appointed based on their knowledge, ability and expertise and, secondly, because the current age structure does not necessitate a limitation.

- Based on Section 5.3, the Supervisory Board should form commissions and an audit commission. The Supervisory Board does not maintain commissions, nor an audit commission. With only three members, the committee is purposely kept small to suit the company's size and to achieve a high level of efficiency. All of the important issues and main areas of the Code will be comprehensively dealt with by the entire Supervisory Board. For this reason, committees will not be established.

- Article 5.4.7 of the German Corporate Governance Code recommends the incorporation of success-oriented payment components in the remuneration system of the Supervisory Board members and the individualised drawing up of the payments. Up until now, the company has foregone a success-oriented component and the individualised drawing up of payments, since this is included in the company's article. A success-oriented compensation model for the Supervisory Board will be presented to the annual shareholder's meeting, as soon as MEDISANA has surpassed the break-even point.

- **The individualised disclosure of the Management Board members' remuneration** as well as the disclosure and drawing up of the main features of the Management Board's remuneration system should take place in a remuneration report, as part of a corporate governance report, in accordance with Article 4.2.4 and Article 4.2.5 of the German Corporate Government Code. In line with the Code, fixed and variable monetary remuneration components are intended for the Management Board of MEDISANA AG. Stock option programmes or similar arrangements with long-term incentive appeal and risk characteristics as well as pension commitments do not exist. The total remuneration of each Management Board member is not disclosed individually. The main reason for this is that the itemised publication of the salary components represents an intrusion on the personal rights of the Board member, but does not really provide the shareholder with any additional or more valuable information. The shareholder can also deduce whether the Management Board's remuneration is appropriate by referring to the overall remuneration of the Board, which is available in the annual report.

- Regarding the publication of the reports, according to Article 7.1.2 it is recommended that the consolidated financial statements be made available within 90 days and interim reports within 45 days. Up until now, the company has overshot these publication time periods. The disclosure of the consolidated financial statements and the mid-year financial statement occurs immediately after completion. We strive to adhere to the recommended disclosure periods in the Code of 90 or 45 days after the conclusion of each reporting period.

- In Article 6.6, the German Corporate Governance Code recommends an overview of all reported director's dealings in the so-called Corporate Governance Report. The company forgoes the need to do this, because all transactions are usually published in a timely manner on their homepage under "Corporate Governance". In this regard, please refer to the more informative data on the company's homepage.

Signed

Ralf Lindner
Chairman of the Management Board

Marco Getz
Management Board

Dr Matthias Hartz
Chairman of the Supervisory Board

Hilden, Germany. December 2007

Statement by the Management Board

We attest to the best of our knowledge that, according to generally accepted accounting principles, the consolidated financial statements give a fair representation of the Group's financial position and earnings situation. Moreover, in the Group annual report, the general business development, including the results, and the situation of the Group are depicted in such a way as to give a fair representation of the actual situation, as well as clearly detailing the essential opportunities and risks stemming from the forecasted development of the Group.

Ralf Lindner
Chairman of the Management Board
of MEDISANA AG

Marco Getz
Management Board
of MEDISANA AG

Hilden, Germany. 30 April 2008

Share ownership[1)] of Board members

	Member	Shares as of 31.12.2007	Percentage of capital stock
Ralf Lindner	Chairman of the Management Board	1,829,996	26.02
Dr Matthias Hartz	Chairman of the Supervisory Board	365,400	5.19
Thies G. J. Goldberg	Supervisory Board	930,000	13.22
Dr Heinrich Komesker	Supervisory Board	40,150	0.57
Total		**3,165,546**	**45.00**

1) in each case, amount from direct or assigned share ownership

Miscellaneous

The corporation has procured insurance, without an excess, against financial loss (so-called directors and officers insurance) for Management Board and Supervisory Board members.

Accounting

Shareholders and third parties are primarily informed through the consolidated financial statements. During the financial year, they are informed on the development of the company through the mid-year report as well as through first- and third-quarter interim reports. The consolidated financial statements, the mid-year report and the interim reports are compiled in line with internationally accepted accounting principles. The consolidated financial statements are compiled by the Management Board and are verified by both the Supervisory Board and the auditor. The consolidated financial statements and the mid-year report are not yet publicly available within the recommended 90- or 45-day time periods. Our goal in future is to optimise the actual time needed to make the information public.

MTP

The best rated

In Germany, around 20 million people suffer from high blood pressure and many are not even aware of it. High blood pressure can only be detected by means of a test and even then the blood pressure monitor must be technically reliable and precise. The MTP upper-arm blood pressure monitor from MEDISANA meets the highest demands, and was the best-rated device in a test by Stiftung Warentest (independent German consumer product testing agency) in a 2006 product test of 20 devices.

Baugleich mit Testmodell Art.-Nr. 51040
Erweiterte Ausstattung: 2 × 99 Speicher


TIMER
7:15 8M20
132
83
mmHg
84
SYS.
mmHg
DIA.
mmHg
START
PULSE
/MIN
MEMORY
MEDISANA®

MEDISANA stock[1]

Characteristics of MEDISANA stock

WKN (security identification number)	549254
ISIN	DE0005492540
Stock exchange initials	MHH
Stock exchange	Xetra Frankfurt Stock Exchange Düsseldorf Hamburg Munich Stuttgart
Trading segment	General standard
Capital stock on 31.12.2007 (in euro)	7,034,327
Outstanding shares on 31.12.2007 (in units)	7,034,327
Market capitalisation on 31.12.2007 (in €m)	31.0

Stock market 2007: a rough year for second-tier stock

During the 2007 financial year, the MEDISANA AG stock suffered from the generally very difficult market conditions for second-tier stock and, despite the record results, only moved laterally. The stock ultimately tracked the second-tier stock index S-DAX (-6.7 %). The Prime Pharma & Healthcare Index achieved a slight increase for the year (9.8 %), but profited from the index composition which includes, with companies like Fresenius, a few first-tier stocks, which performed noticeably better than the second- and third-tier stocks. Altogether, the value of each MEDISANA no-par value stock fell by 9.1 % in the reporting year and closed at €4.40 at the year-end.

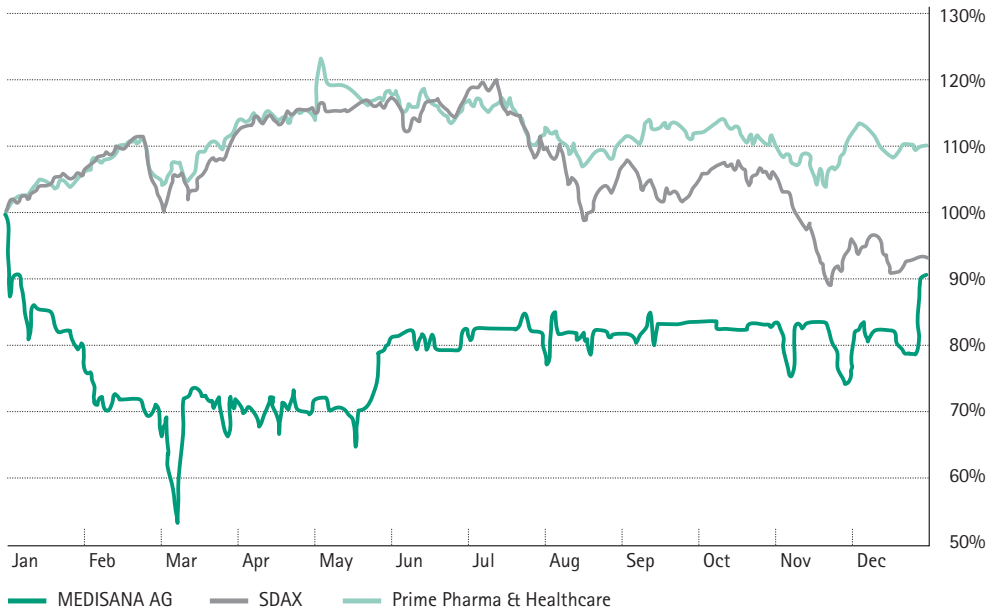
	01.01.2007	31.12.2007	Change in %
MEDISANA stock (in €)	4.84	4.40	-9.1
S-DAX	5,567	5,192	-6.7
Prime Pharma & Healthcare	1,693	1,859	+9.8

Highlights 2007:

- **Record results**
- **Further internationalisation**
- **Numerous new products**
- **Expanded sales and marketing strategy**

	2006	2007
Consolidated results (undiluted) per share in EUR	**–0.35**	**+0.11**
Share price in EUR (XETRA)		
Closing price on last trading day	4.84	4.40
Highest closing price	6.60	4.84
Lowest closing price	3.55	2.95

Relative development of the MEDISANA stock in 2007 in comparison to the market (indexed)



[1] Data partially rounded

USC

For clear respiratory passages

Through micro membrane nebulisation, aerosol compounds penetrate all arborisations of the respiratory passages and have an immediate and long-lasting effect. Even after only a few uses, you can feel the treatment is working. The ultrasound inhalation device from MEDISANA is small, compact, very lightweight and particularly quiet – and is therefore also suitable for children.

Overview

Record year 2007: from growth to sustainable growth

After the substantial improvements in business operations in 2006, MEDISANA concluded financial year 2007 with substantial increases across the board. MEDISANA Group sales grew by 30 % to a record sales level of €30.2 million, after reaching €23.2 million in the previous year. It should be noted that MEDISANA is also increasingly successful internationally. €10.3 million of the sales were achieved by foreign subsidiaries. Driven by the Group's strong sales growth, gross profit increased to €9.6 million (2006: €7.2 million).

Operating progress had an even more pronounced effect on the Group's profit. After recording a loss of €2.4 million the previous year, in 2007 a record profit of €0.8 million was posted. The basis for this year's profit were, aside from the newly optimised cost structure, the improvements made in the operational business.

These figures prove that the successes of 2006 were no one-off. Strategically, MEDISANA is currently in a phase of sustainable growth. The repositioning of the brands and the corporate reorganisation brought a significantly increased market acceptance, a more flexible cost structure as well as a continuous expansion of the market position.

These are the best conditions to tackle 2008 even more courageously and, in particular, to capture additional market shares internationally. The second important subject for the current financial year is to further increase profitability. MEDISANA is again anticipating another strong year in 2008 with two-digit percentage growth in sales.

I. Legal structure/business activity, legal foundation and framework

1. Business activity, legal structure, organisation, management and control

For over 25 years, MEDISANA has been a brand name associated with expertise in the field of private home health care products. After repositioning the brand over the last few years, MEDISANA is focusing its strategy in particular on the development, manufacture and sales of premium products for the consumer. A consistent philosophy of quality stands behind the product brand names MEDISANA, Promed, Lightwave and Happy Life. MEDISANA Group's comprehensive product range includes home therapy products such as humidifiers and massage devices, medical measuring devices such as blood pressure monitors and electronic fever thermometers, and also includes beauty products such as manicure devices. MEDISANA therefore mainly occupies the following business lines with increasing success:

- **Home therapy**
- **Health care**
- **Beauty**

The strategically important target markets for our sales and marketing activities are Europe, Asia and North America.

The corporate culture of MEDISANA is characterised by innovative leadership, consistently high standards of quality and the further development and integration of new technologies. This guarantees sustainable, profit-oriented growth, a stronger capacity to compete and an increase in the market share.

Structure of the Group/subsidiaries

MEDISANA Group consists of the holding company, MEDISANA AG, Hilden (Germany) and nine subsidiaries as of the balance sheet date, 31.12.2007. The percentage interest held by the subsidiaries amounts to:

Company	Interest
Registered office	(%)
Promed GmbH	**51.2**
Fachant/Germany	
Rebac GmbH i.L.	**51.0**
Hilden/Germany	
Medisana Antiinfective Technologies GmbH	**100.0**
Hilden/Germany	
Medisana Far East, Hong Kong/China	**90.0**
Voting right share and profit or loss share	**100.0**
Medisana Health Care, S.L.	**100.0**
Barcelona/Spain	
Medisana USA, Inc.	**100.0**
Charlotte/North Carolina, USA	
Medisana Hellas Ltd	**51.0**
Heraklion/Greece	
Medisana Benelux NV	**100.0**
Kerkrade/Netherlands	
Medisana Healthcare UK Ltd	**100.0**
London/Great Britain	

Management Board and Supervisory Board

The businesses of the MEDISANA Group are run by both members of the Management Board, who are monitored by a three-member Supervisory Board. In regularly occurring executive committee meetings, important transactions and other business matters relevant to the management of the Group are discussed. In particular, deviations from the strategy are identified and, if necessary, corrections are made. The most important figures for managing the Group are customer revenues, sales volumes, prices, manufacturing and purchasing costs, gross income margin, earnings before interest and tax (EBIT), earnings before interest, tax and depreciation (EBITDA), capital ratio, cash flow and the debt/equity ratio.

Management Board and Supervisory Board of MEDISANA AG

Formation

Chairman of the Management Board
Ralf Lindner
Strategy, investor relations/corporate marketing, global sales

Management Board
Marco Getz
Finance, controlling, administration

Supervisory Board
(Chairman of the Supervisory Board)
Dr Matthias Hartz
Thies G. J. Goldberg **Dr Heinrich Komesker**

The compensation of the Management Board is based on a fixed salary. A year-end management bonus at the discretion of the Supervisory Board was not determined for the 2006 financial year. The current statement of compliance with the Corporate Governance Code of MEDISANA AG does not stipulate a separate compensation report; we have thus refrained from compiling one here. Furthermore, on 24.08.2006, based on a resolution in respect of the so-called "opt-out regulation" with an approval rating of 99.26 % of the represented voting capital, the annual general meeting made use of the option and decided that detailed information pertaining to the Management Board's compensation in accordance with Art. 285, Section 1, No. 9, Letter a, Clauses 5 to 9, as well as Art. 314, Section 1, No. 6, Letter a, Clauses 5 to 9 of the German Commercial Code should be omitted.

2. Legal foundation as well as information according to Art. 315, Section 4 HGB (German Commercial Code)

Market listing

Since 13 June 2000, MEDISANA AG has been a publicly quoted company.

Capital stock

On 31 December 2007 the corporation's capital stock amounted to €7,034,327, classified as 7,034,327 bearer shares (no-par value shares) with voting rights, and with a face value of €1.00. Restrictions, which pertain to the voting rights or the assignment of shares, are not known.

The following direct or indirect investments in the company's capital stock, which exceed 10% as well as 5% of the voting rights, have been reported (percentages result from the number of reported shares as of the balance sheet date in relation to the number of total outstanding shares on the balance sheet date):

Interest	Notifications
26.0%	**Cedar Holdings GmbH, Hilden**
	Mr Ralf Lindner, Chairman of the Management Board, assigned interest
18.5%	**Sofaer Capital Inc., Hong Kong**
13.2%	**Raptor Beteiligungsgesellschaft mbH, Hamburg**
	Mr Thies G. J. Goldberg, Supervisory Board, assigned interest
5.1%	**Dr Matthias Hartz, Chairman of the Supervisory Board**

There are no bearers of shares with special rights or with any other voting control.

Approval to issue new shares/authorised capital

The annual general meeting on 24.08.2006 authorised the Management Board, with the approval of the Supervisory Board, to increase the corporation's capital stock by €3,517,163 until 23.08.2011 by means of one-off or repeated issuing of up to 3,517,163 new no-par value shares in exchange for one-off or repeated cash contributions and/or assets in kind. The shareholders are to be given subscription rights. The Management Board is authorised, however, with Supervisory Board approval, to bar subscription rights in the following instances:

1. as compensation in response to the residual amounts stemming from a capital increase;

2. for increasing the capital stock against cash deposits of up to 10% of the company's

capital stock, according to the regulations of Article 186, Section 3, Clause 4 of the German Companies Act. In this case, the par value of the new shares cannot be significantly lower than the average price of the closing prices of the preceding five trading days on the Frankfurt Stock Exchange, which precede the determination of the par value by the Management Board. In terms of this authorisation, when acquiring the new shares through an issuing agent, under the issuing agent's simultaneous commitment to offer the purchase of the new shares to one or more third parties which have been determined by the corporation, the par value is the amount which is to be paid by one or more third parties; or

3. insofar as the new shares have been offered in return for the purchase of companies, parts of companies, investments in companies, industrial property rights or in return for other assets in kind.

Regulations to the appointment of the Management Board

According to Article 6 of the company's articles of association, the Management Board consists of one or more persons, whereby the Supervisory Board determines the number of members on the Management Board in accordance with legal stipulations. The Supervisory Board can appoint a member of the Board as the Chairman of the Management Board as well as appoint deputy Board members.

Based on legal requirements, the Supervisory Board appoints the Board members for a maximum of five years. A repeated appointment or an extension of the term, in each case for a maximum of five years, is admissible.

Changes to the company's articles

The Supervisory Board is authorised to alter the company's articles. Otherwise the statutory provisions apply.

The essential agreements under the condition of change of control

The Management Board is not aware of essential agreements by MEDISANA AG, which arise under the conditions of a change of control resulting from a takeover bid.

3. Macroeconomic environment

- **Global economy still dynamic**
- **Economic upswing in Europe continues, albeit weakly.**
- **Germany: domestic market experiencing (slightly slowed) economic upswing**
- **However: first signs of a decrease in growth/fear of recession in the USA**

The global economy continued to expand in 2007, at a slightly decreased pace. Due to more dynamic economic growth in Europe (GDP Eurozone +2.6%, the 27 member states +2.9%) and due to the weakened US economy (+2.1%) most notably as a result of the real estate crisis, the difference in growth between industrialised countries has significantly reduced. The Japanese economy recorded an increase of 1.9% in 2007.

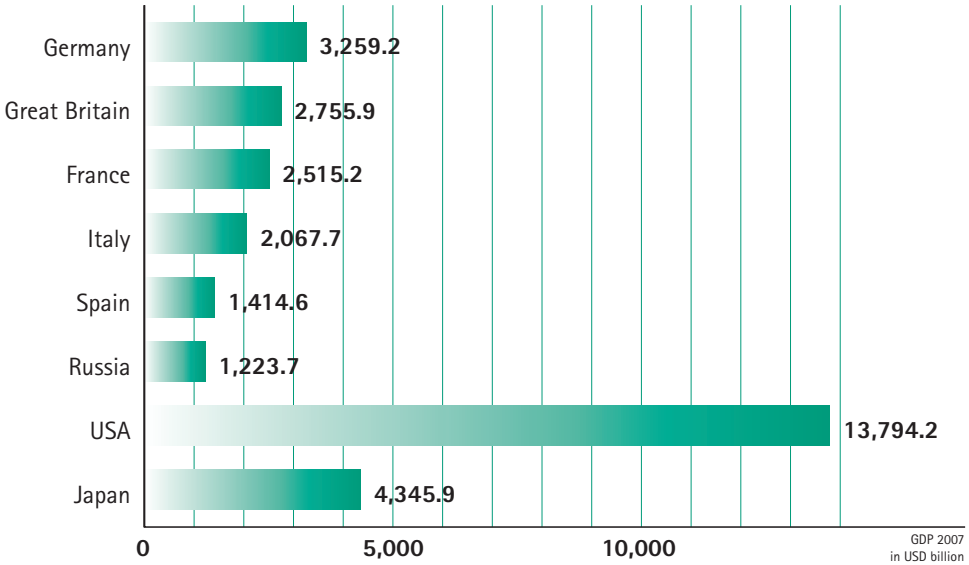
By contrast, the national economies of the emerging markets continued to develop very dynamically in 2007. The growth rates of China (+11.5%), India (+8.9%) and Russia (+7.5%) were significantly higher than those of the industrialised countries.

Europe and Germany

In 2007, the economic upswing in Europe has continued at a somewhat slower pace. The economy grew during the reporting period at a rate of 2.7% (previous year: 2.9%). The growth was mainly fuelled by investments and exports.

In 2007, the German economy recorded a strong economic upswing. According to the Statistisches Bundesamt (Federal Office of Statistics), the gross domestic product (GDP) grew by 2.5% (adjusted by 2.6%) and grew almost as strongly as the previous year (+2.9%).

2007 gross domestic product (in USD billion)



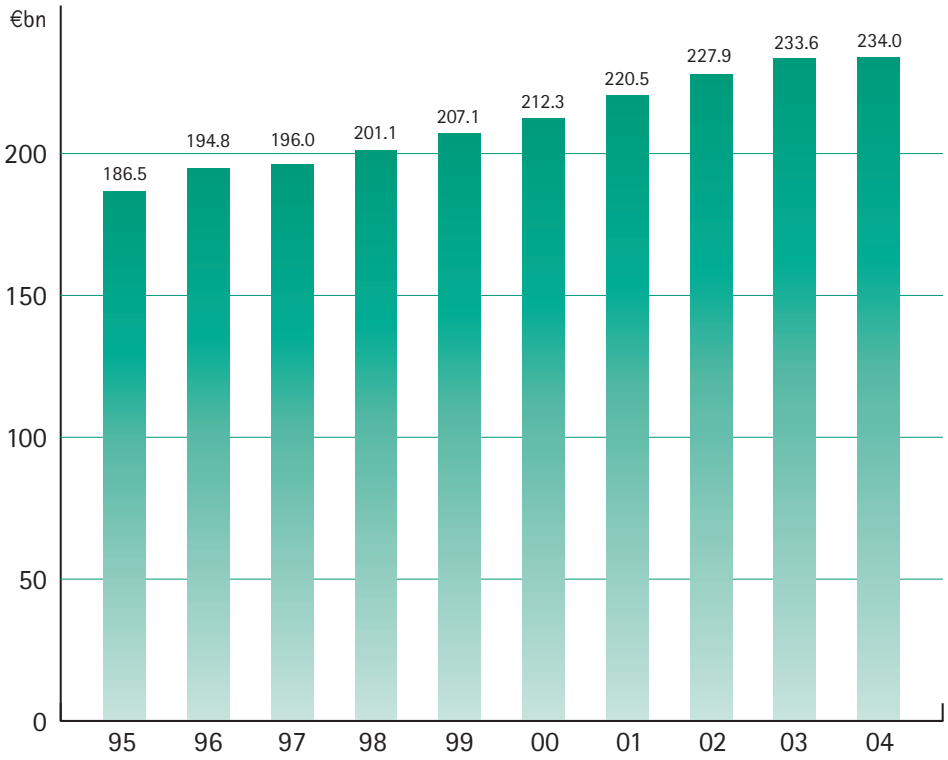
Primary growth impulses came via international as well as domestic business, although German exports, which increased by 8.3 %, grew significantly stronger than the imports, which increased by 5.7 %.
As in the previous year, the growth was a result of fixed asset investments (+4.9 %) and investment in machinery and equipment, which grew by 8.4 %, reaching a record level. On the other hand, production evolved more cautiously: after strong growth in 2006 (+4.3 %), in 2007 it only grew by 2.0 %. Even private consumption, which had evolved positively in the previous year, was affected by a reduction in sales. In 2007, the retail industry registered the highest decrease in sales in five years. Due mainly to significant pull-forward effects as a result of the VAT increase at the beginning of the year – the highest in German history – a decrease of 0.3 % was registered (2006: + 0.6 %).

The economy was also reflected in the labour market. The number of people in employment increased by 1.7 % to 39.8 million (annual average), reaching the highest level since reunification.

Health care market

Over the last ten years, the health care industry has grown to become an important economic factor. According to information from the OECD, in 2005, the year from which the most recent data is available, the proportion of the gross domestic product attributed to the health care sector amounted to 10.7 %. As such, this industry segment has more weight within the total economy than, for example, the automobile or electronic industries. According to data from the Hamburgisches Weltwirtschaftsinstitut (HWWI, Hamburg Institute of International Economics) there are about 4.2 million people employed by the health care industry. Each year, the industry acheives sales of about €260 billion. An industry analysis by the Deutsche Industriebank and Prognos AG proves that this is a continuing trend. By the year 2030, the analysis predicts an annual increase of 1.7 % in the gross value added.

Development of health care expenditure in Germany (nominal) 1995–2004



Three factors mainly affect this industry growth.

- Firstly, the significant demographic shifts and the resulting aging society. For example, by 2030 the group of people aged 65 or over will increase by 38% from 15.8 million to 21.8 million people, the number of people under 20, however, will significantly decrease from 16.6 million to 13.8 million (-17%) (Source: IKB and Prognos AG).

- The second factor is the dynamic innovation development or rather the medical-technical advancement.

- Thirdly, society's new understanding of health.

A study conducted by Roland Berger Strategy Consultants shows that many people are increasingly willing to invest more money in their health. Meanwhile, each adult spends about €900 a year on screening, alternative medicine, spa and wellness, sport and a healthy diet. Since the turn of century, this amounts to a yearly increase in personal healthcare expenditure of 6% – which is in addition to the health insurance fees. According to the aforementioned study, the most important growth drivers are the market for simple and fast screening as well as the growing market for tele-medical products. In precisely this health care market, which is strictly geared toward consumers, MEDISANA is positioned with its products.

Aside from Germany, health is also highly valued in many other industrialised countries, something proved by an international comparison. With its proportion of health care expenditure in relation to GDP, in this comparison Germany is ranked fourth place, placing it above the 9% average of the OECD countries (Source: OECD). Only the USA (15.5%), Switzerland (11.6%) and France (11.1%) were ranked higher than Germany. In 2005, Germany was ranked tenth in terms of health care expenditure per capita. Between 2000 and 2005, these expenditures grew in real terms by an average of 1.3% per year and therefore the least, when compared to other OECD countries.

All in all, the development of the overall economic and industry-specific conditions in 2007 had a positive effect on business operations. In contrast to the previous year, confidence in economic development led to an increased investment in health care products.

4. Competition

The quickly growing health care market and the global trend toward medical fitness and wellness has increasingly led to large corporations adjusting their range of products accordingly. Market entry barriers, such as the Medical Devices Act with its strict approval requirements, naturally affect financially strong corporations less drastically. Indeed, the competition will become noticeably more difficult, particularly for smaller companies. According to a study conducted by Roland Berger Strategy Consultants GmbH, even with expenditures totalling €60 billion in the "secondary health care market", the consumer's demand is still not fully satisfied. Beyond the €60 billion market, the consultants at Roland Berger see an additional €16 billion demand, which due to a lack of appropriate products, has not yet been served. A comprehensive current product pipeline thus proves to be a competitive advantage for skimming off these potential customers and participating in this fast-growing market. Besides that, the ability of a company to use economies of scale remains important when attempting to counter decreasing margins on products which are offered by various competitors.

5. Research and development

As a developer and manufacturer of technology-based consumer products, MEDISANA has recognised that research and development (R&D) is a fundamental prerequisite for remaining competitive and successful in the long term; innovation and inventive spirit have the highest priority. Compared to the R&D departments of multinational corporations, the rather small yet highly flexible R&D unit at MEDISANA has the competitive advantage of being able to include the latest trends at an early stage and to use them in evolutionary developments and innovative product concepts.

The most important guideline of R&D activities is customer satisfaction. All of the brands (MEDISANA, Promed, Lightwave and Happy Life) profit from the Group's synchronised innovation portfolio. Additional sources of innovation are accessed through the early integration of selected suppliers.

Research and development are divided into product optimisation and development of new product concepts. In the reporting year, MEDISANA focused on technological improvements as well as optimising the user-friendliness of the existing product portfolio.

The most important new product was the talking blood pressure measuring device, successfully introduced in 2007. Furthermore, the product range was expanded to include scales as well as the range of massage and wellness products. The MEDISANA air humidifier received an important product optimisation at the end of 2007 when it was fitted with a preheater to reduce the bacterial exposure.

Last year's new products

Among the most important new products in 2007 were:

- Upper arm blood pressure monitors with voice output, MTV and MTC
- Wrist blood pressure monitors with voice output, HGV and HGC
- Personal scales PSC
- Ultrabreeze humidifier
- Wellness stones WST
- Ultrasonic inhalation device USC
- Epilator EPG
- Massage slipper HL 30900/10
- Infrared ear thermometer IHL 30780

In the 2007 financial year, €67,000 (2006: €341,000) was recorded as expenditure in the area of research and development. In 2007, the R&D expenditure of Rebac GmbH i.L. was reduced to €14,000 (2006: €285,000).

6. Procurement

The supplier management, in particular the cooperation with the subcontractors, was further optimised during the reporting year and processes and costs thus were streamlined whilst simultaneously improving the quality of delivery. A further emphasis was on the global search for supply sources.

As in the previous year, the prices for many oil-based product components followed the price development for crude oil, and increased again significantly at the end of the financial year. The copper price on the London Metal Exchange rose comparably moderately throughout 2007 with an increase of 5%, yet this was still listed significantly higher than the previous all-time high. In the course of the high demand from China and the tense situation on the supply side, in May 2007 the copper price, at 8,200 USD per tonne, inched toward its 2006 recorded all-time high of 8,800 USD per tonne. Just like all the other asset categories, the industrial metals and copper in particular were not spared by the turbulence in the financial markets, caused by the sub-prime crisis and the associated credit crunch. Since the beginning of October, copper, at about 8,000 USD per tonne, has had to endure price losses of 15%.

The component prices, like plastics for example, remained static at a high level, just like in the previous year.

II. Development of business operations

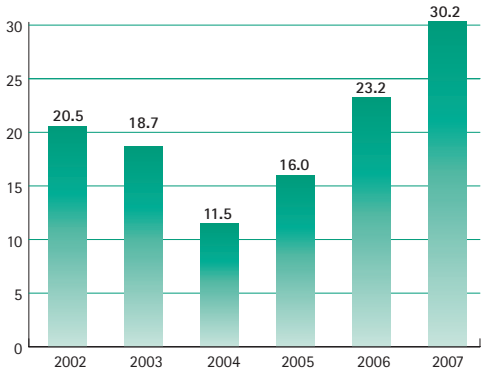
1. Sales and earnings situation

30 % sales growth – improved operating results situation

In the 2007 financial year, MEDISANA Group sales were €30.2 million, a good 30 % more than the previous year. The corporation was able to improve its market position and to segue from the successful turnaround period of 2005–2006 into a phase of sustainable growth. The intensified customer relationships as well as the acquisition of new customers played an important role in achieving this.

Development of sales – 7-year comparison

(in € million)

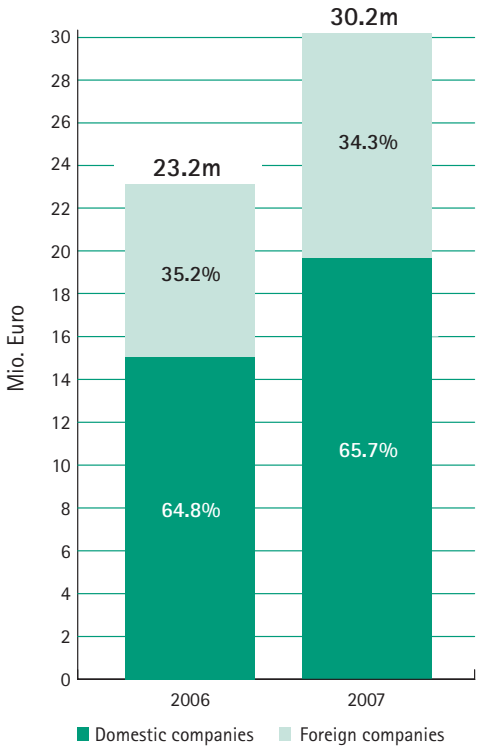


Of the total sales revenues, domestic sales account for €19,839,000 (2006: €15,017,000). This is against foreign sales revenues totalling €10,319,000 (2006: €8,167,000). Even though domestic revenues were again the main growth driver during the financial year, in 2007 the foreign revenues also increased more significantly than in the previous year. In the financial year, there were revenue reductions totalling €2,190,000 (2006: €1,589,000).

In the reporting year, segment sales in Germany amounted to €26.8 million. External sales, that is, segment sales adjusted taking intersegment sales into account, amounted to €19.8 million. In the previous year, the comparable figures were €19.2 million or rather €15 million. Measured on total sales of €30.2 million (previous year: €23.2 million), more than half of the sales, both before and after the consolidation, were generated in Germany. Of the external German sales, MEDISANA AG accounted for €12.6 million (previous year: €8.2 million) and Promed GmbH for €7.2 million (previous year: €6.5 million). In the rest of Europe, €9.7 million in segment and external sales were generated (previous year: €7.9 million or rather €7.8 million), in North America €0.6 million (previous year: €0.3 million). As was the case in the previous year, the customer regions of South and Latin America, Africa, Asia and Australia generated no segment or external sales.

Sales: split between domestic and foreign subsidiaries

(Segment report I, by region)



In our segment report II – by business line – the business activities are structured into the areas of Home Therapy, Health Control and Beauty.

Sales: split according to business line
(Segment report II)

Home Therapy
32.9% (2006: 40.1%)

Beauty
26.6% (2006: 30.2%)

Health Control
33.1% (2006: 22.3%)

Other
7.4% (2006: 7.4%)

Due to MEDISANA product policy, the three main business lines further converged in the reporting year. While sales in the area of Home Therapy remained at the previous year's level (€9.9 million, following €9.3 million in 2006), the absolute sales increase in the Health Care area (from €5.2 million in 2006 to €10.0 million in 2007) led to each area having a percentage share of overall sales of around 33%. In comparison to the previous year, the Beauty area increased sales by €1.0 million to €8.0 million, achieveing a 27% share of total sales. The remaining 7% sales were related to other businesses.

The gross operating result increased in 2007 to €9.6 million (2006: €7.2 million). Due predominantly to increased performance, the cost for materials increased by 29.1% from €16 million to €20.6 million. The increase was a good 1% under the sales growth rate. The gross profit margin increased from 31.2% in 2006 to 31.7% in the reporting year. The main reasons for this were the special factors due to the favourable EUR/USD exchange rate and also improvements made in business operations.

In 2007, earnings before interest and tax (EBIT) improved by €2.3 million to €1.0 million compared to €-1.3 million in the previous year. The EBIT profit margin improved to 3.5% (previous year: -5.5%).

In 2007, the consolidated income/loss amounted to €0.8 million compared to €-2.4 million the previous year. As a weighted, undiluted result €0.11 per share was accounted for, compared to €-0.35 in the previous year.

Annual net profit achieved for the first time since the restructuring

On the expenses side, at €1.6 million, purchasing and stockkeeping costs remained at the previous year's level. Sales and marketing costs of €4.5 million (previous year: €4.5 million) were also at the previous year's level. The optimisation processes implemented last year are taking hold and improving the percentage relationship between costs and sales on a sustainable basis.

Despite an increase in sales, other operating expenses levelled off at around €0.9 million (previous year: €0.8 million). The optimisation processes in goods logistics as well as a reduction in advertising expenses are the main reasons for this. In comparison to the previous year, the expansion of business activities resulted in an 8.2% increase in personnel costs to €3,390,000 (previous year: €3,120,000). At €794,000, the amortisation on intangible assets and the depreciation on tangible assets remained below the previous year's level (2006: €933,000), while the bad debt provision burdened the annual result with €380,000, compared to only €201,000 in the previous year.

The interest expenses increased slightly from €400,000 in the previous year to €411,000.

Despite the much stronger growth of the business, the corporation's financing volume and utilisation of the provided reference line remained virtually at last year's level.

After posting a loss of €2.4 million in the previous year, MEDISANA Group, after engineering a successful turnaround, has for the first time posted a profit of €0.8 million and now finally finds itself in a period of sustainable growth. The profit will be carried forward into the new year.

2. Financial situation

Liquidity improved

After a cash outflow from operating activities totalling €4.6 million in the previous year, MEDISANA was able to generate a cash inflow from operating activities totalling €1.6 million.

The main reason for this was the positive change in the annual result to €755,000 (previous year: €-2.4 million). Further positive changes resulted from the management of current receivables and payables, which improved the cash flow from operating activities from €-4.4 million in the previous year to €1.3 million.

The cash flow from investment activities accounted for €-0.3 million (previous year: €1.7 million). The main reasons for this were investments in fixed assets, which were at the previous year's level. Major investment plans are not necessary at this time.

Unlike previous years, the cash flow from financing activities was not affected by a capital increase, but solely by payment of debt and in the reporting year amounted to €-0.8 million (previous year: €3.2 million). The level of financial means on the balance sheet date improved in the annual comparison from €1.6 million to €2.2 million as of 31.12.2007.

For financing the products there are sufficient USD supplier credits available. The financial framework has been assured at least until 31.12.2008. Under consideration of the available liquid funds, the cost-conscious financial security objective has been met.

The financing costs vary with the utilisation of variable payment terms on the basis of the LIBOR. As a rule, the currency exchange risk is minimised through cost-free hedging transactions which are entered into upon the ordering of goods. In financial year 2007, 'forward plus' contracts as well as forward exchange deals were especially used for this. The maximum term is six months.

3. Assets situation

The total assets of the MEDISANA Group increased in the reporting year from €25,547,000 in the previous year to €26,803,000. As a result of depreciation, fixed assets diminished slightly, this was against an increase in short-term assets to €21.2 million (previous year: €19.4 million). A reason for this was the increase in trade receivables from €7.7 million to €8 million as well as an increase in inventories from €8 million to €9.3 million. In an annual comparison, liquid assets improved from €1.6 million to €2.2. million on the balance sheet date.

The capital stock remains unchanged at €7,034,327. The shareholder's equity of MEDISANA AG increased from €12.8 million to €13.7 million in the reporting year. The equity ratio in terms of total assets increased slightly to 51.1% (previous year: 50%), mainly because of the improved results. Long-term debt decreased from €0.9 million to €0.6 million, short-term debt increased slightly from €12 million to €12.6 million in the reporting year.

The asset, financial and earnings situation is deemed to be satisfactory, particularly against the background of the operational earnings situation indexing sustainable growth, which is based on significant sales growth and sustainable cost discipline.

Employees

Because of the utilisation of synergy effects, in 2007 the number of employees decreased.

	2006	2007
Total	**68**	**67**
of which part-time	14	15

On average, MEDISANA employed 67 staff members in the reporting year, one less than the average of the previous year.

Personnel costs increased in the reporting year from €3,120,000 in the previous year to €3,389,000.

Social responsibility

MEDISANA AG views the current growth as a social mission for the community at the same time. That is why last year MEDISANA assumed the role of a training enterprise, giving the younger generation a start in professional life. As of 31.12.2007 MEDISANA employed one apprentice in the field of media design for digital and print media. Furthermore, as a globally active corporation, MEDISANA offers its employees further training opportunities focusing on languages. By doing so, the employees of MEDISANA and therefore also MEDISANA AG are able to give the best possible answer to the demands of a globalised market: ability, innovation and competitiveness.

Thanks to our employees

There is more to the success of the reporting year than product innovations, restructuring programmes and sophisticated marketing. And it's something quite extraordinary: every single MEDISANA employee. The Board would like to personally thank all employees for their work, their commitment and their dedication. We would also ask that all employees do everything they can to help MEDISANA achieve even more this year.

III. Risk report

MEDISANA takes calculated risks in order to achieve the corporate goal of high earnings growth and a risk-appropriate return. Risks can emerge within the framework of the business operations and also through changes in the economic, political as well as legislative environment. In this respect, it is essential to minimise or avoid possible risks or to only accept those types of risks which are unavoidable within the framework of adding value. Thus, potential perils can be controlled and at the same time opportunities that arise can be used.

Principles of risk management

The early detection of opportunities and risks as well as their registration, evaluation and monitoring are the basis for successful management. In the company, management regularly and systematically includes opportunity and risk assessment in the planning and decision-making processes. Including regional managers in the reporting process ensures that the risks in the international organisation are extensively monitored and registered. Aside from the primary criteria of asset protection, the Board is also guided by the following principles in risk management:

- Adherence to regulatory standards and compliance directives
- Transparency in the disclosure of risks
- Risk-conscious behaviour by the corporate management

Identified risks

The corporation is exposed to numerous risks in the development, manufacturing and marketing of products from the Home Health Care area. Among the risks and uncertainties are:

Economic risks
In the regional sales markets, the economic risk is mainly influenced by the local economic situation as well as by the development of product demand in the health care and wellness area. A weak economic environment and especially a subdued propensity to consume inevitably influences the demand for these products.

External risks can result from the political, legal and regulatory environment in which the MEDISANA Group operates. On the other hand, the cutback in insurance benefits for therapy in health care is not a risk, but represents an opportunity for MEDISANA, especially since the therapeutic success that Home Health Care products bring can be paid for by the consumers themselves.

Industry risks
Among the most significant risks facing a company are those which threaten its market position and competitive advantages. Therefore, risks can arise due to an increase in competitive pressure upon market entry of a new competitor or product innovations from current competitors. By having a deep pool of product ideas, further developments and design improvements, MEDISANA strives to keep or expand its competitive advantage.

Operational risks
Operational risks include manufacturing stoppages at suppliers, delivery problems and other operational risk factors. These are counteracted by MEDISANA through optimised material and product flows as well as efficient Group- and industry-wide communication.

There is a system-intrinsic risk in the development and approval of new MEDISANA products. This can manifest itself, for example, as a delay in the project's predetermined timeframe. That is why project management is structured in such a way that time delays can be quickly made up. The most important goal in the development of new products is the timely implementation, under consideration of each country's approval requirements. In the process, the EU Directive 93/42 as well as the requirements of the Medical Devices Act, for example, must be adhered to.

MEDISANA AG has taken out insurance to protect against possible claims and liability risks. In order to assure that the insurance fully covers or at least limits the financial risk, the insurance cover is constantly evaluated and, if necessary, adjusted.

Financial risks
Financial risks can entail currency, interest and bad debt risk as well as risks stemming from the financing of business operations. Ever since the implementation of measures for recapitalisation in 2004/2005, sufficient financing by means of external or own funds has been secured. On this basis, it is possible to largely avoid the risk of a change in interest rates. Financial risks are tracked through an up-to-date forecast of all the most important monthly budget and result amounts, and analysed and updated accordingly. In the receivables area, the development of the receivables balance is continuously monitored. The monitoring and control of the liquidity risks take place within the framework of both short- and long-term financial planning.

Currency risks
Currency risks exist in the MEDISANA Group when products are purchased in USD

from suppliers in Asia. In view of currency rate fluctuations, the currency risk when purchasing is of superior consequence to the MEDISANA Group. In order to counteract this, the currency risk is mainly limited by means of 'forward plus' contracts and forward exchange deals. Speculative transactions are not admissible. Business partners for derivative financial instrument contracts are exclusively domestic banks with a flawless credit rating.

Default risks

Default risks exist mainly with trade receivables; MEDISANA counteracts this by means of detailed customer credit checks. To secure the remaining risk, value adjustments are accrued. These are continuously monitored and, if necessary, adjusted.

Legal risks

As a globally operating corporation, MEDISANA cannot completely rule out legal risks. According to the Management Board's assessment, current pending legal proceedings are not expected to have any notable influence on the asset and earnings situation of the corporation. For the pending proceedings, sufficient provisions have been accrued.

Evaluation of the total risk

During the reporting period, the risk situation of the MEDISANA Group has not significantly changed in relation to the previous year.

Risk management process

In order to adequately counteract these risks, various measures have been taken. In the view of the MEDISANA Management Board, an organisational structure, which can continuously be adapted and further developed to meet the dynamic development of the corporation, is an important basis for an efficient management system for the limitation of risks. At regular intervals, the financial controlling department provides the Management Board with all the relevant information for managing the corporation. The IT-supported risk management system used for this purpose includes budget, controlling and reporting systems.

The complete process can be summarised in the following steps:

Risk identification and risk monitoring through inclusion of the regional managers in the reporting process

↓

Quantification of risk

↓

Risk management, for example, through diversification of the product range and the sales channels

↓

Risk controlling and risk reporting to the Supervisory Board and comprehensive shareholder information

The Management Board is overwhelmingly convinced that MEDISANA AG is equipped with a comprehensive and understandable system spanning all company activities which, based on a defined risk strategy, enables and secures a continuous and systematic approach.

IV. Events after the balance sheet date

On 5.1.2008 Medisana Hellas founded the subsidiary Medisana Turkey as a 51 % shareholder. As of 05.01.2008, this purchase expanded the consolidated group of companies.

After the balance sheet date, the share in Medisana Far East was increased to 100 %.

V. Prognosis and opportunity report – outlook

Complementary to the risk report, the prognosis and opportunity report provides an outlook on the expected future development of the MEDISANA Group. For MEDISANA, opportunities especially arise from technical innovations, the development of new products and by continuing to open up new markets.

Strategy: from growth to sustainable growth

After the successful restructuring and return to the growth phase, the target of the strategic endeavours during the current, as well as subsequent, financial year(s) is to permanently secure the significant sales growth and the sustainable profitability. Aside from the constant monitoring and improvement of the corporate structures as well as a continuous renewal and expansion of the product range, the targeted utilisation of even difficult general conditions is crucial in achieving

this. By occupying the premium segment, MEDISANA AG is confident that the basic conditions have been created in order to be able to generate growth rates in the consolidated results during every phase of the general business cycle. Behind this is the assumption that spending on premium products in the Home Health Care area will continue, to a certain extent independent of the particular economic conditions, since health has advanced to being the most important value in life for the individual.

General conditions

Global economic growth slightly weaker

In 2008 the global economy will continue to grow, although much more slowly than previously expected. For the global real gross domestic product, growth of only 2.4% is expected this year. The reasons for this are the continually increasing oil and raw material prices, fear of a recession in the USA and the "subprime crisis", which could evolve into a serious financial market crisis.

Germany: national economic growth slows considerably in 2008

According to the unanimous opinion of most economic research institutes, the economic recovery in Germany should weaken in 2008. According to the ifo Institute, growth is expected to be 1.8 % in 2008. Researchers are thus lowering their previous expectations. Even the Kiel Institute for the World Economy is drastically lowering its prognosis. The Kiel Institute's researchers now only expect growth of 1.9 % instead of the previously forecast 2.4 %. For the current year, the IfW is lowering its prognosis from 2.7 % to 2.6 %. Correspondingly, as a result of the continuing crisis in the US home and mortgage market, the International Monetary Fund (IMF) lowered its prognosis for global economic growth during the current year from 2.2 % to 1.8 %.

Crucial to the poorer economic prognoses is the expected worsening of global economic conditions and the tension on the financial markets. Declining investment activity will most likely have a burdening effect. As a result the most important pillar of domestic demand will be significantly weakened, according to researchers. Additional instability factors, which could influence the prognoses, are the development of the oil price and the US dollar.

Industry development

The change in the health care industry from solely a "health insurance company market" to a private "secondary health care market" continues unabated and has, according to the Kondratiev wave, already developed into the next big economic growth driver. The reason for this is that health care expenditure, in the face of an overwhelmed government-run health care system, will in future shift even more strongly towards the patient. As the individual increasingly views his or her health as something important, he or she will demand further goods and services of their own accord, in addition to the health care services reimbursed by the insurer. Product innovations in "luxury and lifestyle medicine" serve this trend, as can be seen in the expenditure statistics of the Federal Office of Statistics over the last few years. Companies that can come up with innovative products will continue to find attractive market opportunities. Industry analysts admit that the largest performance potential lies in areas where patients themselves pay 100 %.

Corporate strategy and planned business activities

MEDISANA possesses three fundamental brands which cover all areas of the home

health care market. MEDISANA serves the premium segment, Happy Life serves the market for price-conscious consumers and Promed for special retailers. Within this product range, MEDISANA was able to realise enormous development and marketing synergies.

Aside from the unchanged comprehensive product pipeline, in 2008 new marketing concepts will generate additional growth. At the forefront are excellently designed packages, the evolution of existing merchandise fixtures and product range systems as well as the new category management system. In addition, the in-store video systems in the sales areas inform people about the listed products by means of an entertaining film, thus introducing the interested consumer to the subject and the product.

Furthermore, MEDISANA is constantly reviewing the option to expand via acquisitions. The important thing is that the targeted company operates profitably and that its range of products and organisational structure are suitable for MEDISANA. The basic prerequisite for both subjects is: only that which fits the concept of sustainable growth will be implemented. Because of its own strength, MEDISANA is by no means under any pressure.

Sales and earnings prognosis

Through their strategy of specialisation, MEDISANA AG has occupied a dynamically growing and high margin segment of the increasingly popular health care market. Even with a weakening economy, based on the increasing population of the over 50-year-olds in the MEDISANA target countries, we can expect an additional increase in spending on screening and self-treatment. It is thus with good reason that in 2008 the Management Board of MEDISANA is continuing the aggressive strategy of previous years and expects to significantly increase market shares. The positive impulses from the fourth quarter in 2007, as well as the good start to the new financial year, give the Management Board good reason to expect strong double-digit sales growth. Furthermore, there is a clear focus on the profitability goal.

Summary statement of the prognosis report

In the case of any acquisitions, sales and earnings prognoses would have to be adjusted, since the outlook is based on the current business. Based on the outlined assumptions, the management of the MEDISANA Group assumes a positive sales and earnings development for the financial years 2008 and 2009.

All prognoses take the balance between risk and opportunity into account and are based on the business operations plan and the middle-term outlook of the Management Board. Nevertheless, the actual results can deviate from anticipated developments, if one of the mentioned uncertainties or any other uncertainty occurs, or the assumptions based on the statements prove to be inapplicable.

Crucial to the poorer economic prognoses is the expected worsening of global economic conditions and the tension on the financial markets. Declining investment activity will most likely have a burdening effect. As a result the most important pillar of domestic demand will be significantly weakened, according to economic researchers.

Additional instability factors, which could influence the prognoses, are the development of the oil price and the US dollar.

Ralf Lindner
Chairman of the Management Board of MEDISANA AG

Marco Getz
Management Board of MEDISANA AG

Hilden, Germany. 30 April 2008

MTV

Blood pressure monitor MTV
with diagnostic function and voice output

Innovative upper arm blood pressure monitor: The accurate blood pressure measurement is complemented by a simple classification of test results in accordance with the World Health Organisation assessment sytem, a colour-coded scale and voice output (up to six selectable languages). In addition, the MTV possesses an arrhythmia indicator.


MEDISANA
10:35 10M 24D
SYS.
DIA.
127
79
mmHg
76
PUL n/min
START
MEM
6V DC

Consolidated financial statements

Statement of income
Balance sheet
Cash flow statement
Statement of changes in equity

Notes
- Basis of accounting
- Notes to the balance sheet
- Notes to the statement of income
- Notes to the cash flow statement
- Notes to the segment reporting
- Other notes

Auditor's opinion

Consolidated statement of income for financial year 2007

EURO	Notes	2006	2007
Sales revenue	**(17)**	**23,184,363**	**30,157,578**
Cost of sales	(18)	-15,958,592	-20,601,852
Gross profit/loss		**7,225,771**	**9,555,726**
Purchasing and stockkeeping	(19)	-1,545,470	-1,588,644
Sales and marketing	(19)	-4,473,447	-4,453,739
Administration	(19)	-2,312,448	-2,348,397
Other operating expenses	(20)	-831,198	-892,804
Other operating income	(21)	672,497	773,853
EBIT		**-1,264,295**	**1,045,995**
Interest income	(22)	37,727	15,338
Interest expense	(22)	-400,143	-411,606
Profit/loss from companies valued using the equity method	(23)	-955,435	0
Earnings before income taxes (EBT)		**-2,582,146**	**649,727**
Income taxes	(24)	123,298	195,870
Profit/loss for the year including shares of other partners		**-2,458,848**	**845,597**
Shares of other partners	(25)	102,668	-90,253
Profit/loss for the year		**-2,356,180**	**755,344**
Undiluted profit/loss per share (EUR)	**(26)**	**-0.35**	**0.11**

Group balance sheet as of 31.12.2007

EURO	Notes	31.12.2006	31.12.2007
ASSETS			
Long-term assets	**(1)**	**6,172,477**	**5,598,663**
Intangible assets	(2)	2,675,999	2,087,505
Tangible assets	(3)	357,379	433,056
Financial assets (at equity)	(5)	0	-
Long-term receivables	(7)	247,381	89,446
Tax reimbursement claims	(8)	117,702	79,752
Deferred tax refund claims	(9)	2,774,016	2,908,904
Short-term assets		**19,374,692**	**21,204,383**
Inventories	(6)	8,004,698	9,334,838
Trade receivables	(7)	7,744,569	8,063,650
Other receivables and other assets	(7)	1,968,996	1,575,040
Tax reimbursement claims	(8)	10,888	31,215
Liquid assets	(10)	1,645,541	2,199,640
		25,547,169	**26,803,046**

Group balance sheet as of 31.12.2007

EURO	Notes	31.12.2006	31.12.2007
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity	**(11)**	**12,767,320**	**13,685,282**
Capital stock		7,034,327	7,034,327
Capital reserves		24,626,905	24,626,905
Balancing item for currency conversion		-265,778	-338,512
Retained earnings		-16,503,698	-18,948,158
Profit/loss for the year		-2,356,180	755,344
Shares of other partners	(12)	231,744	555,376
Long-term debt		**862,888**	**566,880**
Provisions for pensions	(13)	180,496	208,584
Deferred income tax debt	(9)	553,010	329,419
Long-term financial liabilities	(16)	129,382	28,877
Short-term debt		**11,916,961**	**12,550,884**
Provisions for pensions	(13)	1,122,316	1,175,914
Other provisions	(14)	864,180	1,016,126
Effective income tax debt	(15)	16,878	27,013
Short-term financial liabilities	(16)	2,314,062	1,676,737
Trade payables	(16)	6,145,421	7,695,393
Other liabilities	(16)	1,454,104	959,701
		25,547,169	**26,803,046**

Consolidated cash flow statement for financial year 2007

	Notes (27)	31.12.2006	31.12.2007
EURO			
Consolidated annual results		-2,356,180	755,344
Depreciation		1,890,952	794,131
Other non-cash expenses and income		2,439	-221,043
Net interest result		362,416	396,268
Net tax result (without deferred taxes)		46,764	161,637
Change in inventories		16,773	-1,330,140
Change in receivables, payables (without financing charges)		-4,401,367	1,288,380
Change in provisions		334,353	233,633
Paid income taxes		-70,123	-114,155
Paid interest		-395,322	-348,749
Interest payments received		2,722	3,723
Inflow/outflow of funds from operating activity		**-4,566,573**	**1,619,029**
Investment in fixed assets without acquisition of shares		-325,891	-294,987
Investments in consolidated companies		-17,539	-23,752
Revenue from the disposal of tangible and intangible assets		4,000	24,510
Deposits/payments made as a result of loans granted to third parties		2,000,000	0
Inflow/outflow of funds from investment activity		**1,660,570**	**-294,229**
Capital increase of Medisana AG		2,968,330	0
Distribution to third parties		-12,103	-27,213
Short-term financial liabilities		304,422	-637,325
Long-term financial liabilities		-29,300	-100,505
Inflow/outflow of funds from financing activity		**3,231,349**	**-765,043**
Changes in liquid assets affecting payment		**325,346**	**559,757**
Liquid assets 01.01		1,320,304	1,645,541
Exchange rate-related changes in liquid assets		-109	-5,658
Liquid assets 31.12		**1,645,541**	**2,199,640**

Statement of changes in equity

Notes (11)	Capital stock	Capital reserve	Balancing item for currency conversion	Retained earnings	Profit/loss for the year	Shares of other part-ners	Total
EURO							
Status on 1 January 2006	**6,434,327**	**22,258,757**	**-167,431**	**-13,347,705**	**-3,302,056**	**346,372**	**12,222,264**
Appropriation of profit				-3.302.056	3.302.056		0
Capital increase through contribution in kind	600,000	2,368,148					2,968,148
Dividend payments to third parties						-12,103	-12,103
Currency differences			-98,347	146,063		143	47,859
Consolidated annual results					-2,356,180	-102,668	-2,458,848
Status on 31 December 2006	**7,034,327**	**24,626,905**	**-265,778**	**-16,503,698**	**-2,356,180**	**231,744**	**12,767,320**
Appropriation of profit				-2,356,180	2,356,180		0
Dividend payments to third parties						-27,213	-27,213
Purchase of shares Medisana Spain				-3,913		-743	-4,656
Purchase of shares Medisana UK				-18,352		0	-18,352
Loss absorption Rebac GmbH				-261,335		261,335	0
Currency differences			-72,734	195,320			122,586
Consolidated annual results					755,344	90,253	845,597
Status on 31 December 2007	**7,034,327**	**24,626,905**	**-338,512**	**-18,948,158**	**755,344**	**555,376**	**13,685,282**

BASIS OF ACCOUNTING

GENERAL INFORMATION

Medisana AG, with its registered office at Itterpark 7–9, Hilden, Germany, is the parent company of the Medisana Group and a public limited company under German law. The company is listed in the commercial register of the local district court in Düsseldorf (HRB 51250)/Germany.

The Medisana Group develops, markets and sells high-quality devices in the home health care area. The devices are manufactured in Asia, the administrative headquarters are located in Hilden. In Germany products are distributed via large retailers and specialist shops. Elsewhere products are distributed via the foreign subsidiaries in Spain, the Netherlands, Greece and Great Britain as well as via distribution partners.

The consolidated financial statements were prepared in euros. Unless otherwise stated, all amounts in the corporate notes are stated in thousands of euros (€,000s.). Within the individual parts of the consolidated financial statement, rounding differences have occured as a result of decimal places. This also applies to all the data in the notes in €,000s.

In each case, the value shown is the rounded-off amount.

BASIS OF ACCOUNTING

The consolidated financial statements are prepared according to the IFRS, as they are applied in the EU, and additionally using the applicable regulations of Article 315a, Section 1 HGB (German Commercial Code). It also complies with the IFRS, effective up to the balance sheet date. In the financial year, 'IFRS 7 Financial Instruments: Disclosures' was used for the first time.
Information, which is required to be shown in the balance sheet, is stated in accordance with IAS 1.68. In doing so, a differentiation must be made between short- and long-term assets as well as short- and long-term debt. The previous year's values are also shown in this way.

Information, which is required to be shown in the profit and loss statement, is stated according to IAS 1.78. The manner of representation is to be selected in such a way as to allow a reliable and relevant presentation of information according to IAS 1.88. The Group's statement of profit and loss was compiled using the cost of sales method.

CONSOLIDATED COMPANIES

Aside from Medisana AG, all domestic and foreign subsidiaries in which Medisana AG directly or indirectly controls the majority of the voting rights are included in the consolidated financial statements. The initial consolidation generally takes place as soon as the first opportunity arises to determine the financial and business policies.

Besides Medisana AG as the parent company, the consolidated group of companies includes nine subsidiaries, of which three are in Germany, four are located in other European countries and two are outside of Europe.

	31.12.2006	Additions	Disposals	31.12.2007
Fully consolidated corporations				
-of which in Germany	3	1	0	4
-of which elsewhere	6	0	0	6

Medisana Antiinfective Technologies GmbH was founded in May 2007. The company headquarters are also located in Hilden, Germany.
In 2007, an additional 4.9 % of the shares in Medisana Healthcare, S.L., located in Barcelona, Spain, were purchased. Also purchased were 25.1 % of the shares of Medisana Healthcare UK Ltd, located in London. Both subsidiaries now account for a group share of 100 %.

Consolidated companies of the Medisana Group as of 31.12.2007

Company	Consolidated since	Group share in per cent
Medisana AG, Hilden (Germany)		Parent
Medisana Far East Ltd, Hong Kong	05.07.2000	90.0*
Medisana USA Inc.; Charlotte, NC (USA)	01.01.2000	100.0
Medisana Healthcare, S.L.; Barcelona (Spain)	01.10.2000	100.0
Medisana Hellas Ltd; Heraklion (Greece)	01.01.2001	51.0
Medisana Benelux NV; Kerkrade (Netherlands)	01.01.2001	100.0
Medisana Healthcare UK Ltd; London (GB)	01.04.2003	100.0
Rebac GmbH, Hilden (Germany)	01.10.2005	51.0
Promed GmbH, Farchant (Germany)	01.10.2005	51.2
Medisana Antiinfective Technologies GmbH (Germany)	14.05.2007	100.0

* 100% voting rights share

The investment Sanico S.R.L. Cusago, Italy, which was valued at equity in the previous year, was sold during the financial year.

BASIS FOR CONSOLIDATION

All subsidiaries are included in the consolidated financial statements of Medisana AG. Investments in joint ventures do not exist. In the consolidated financial statements, associated entities are represented using the equity method.

The moment of initial consolidation of the susbidiaries is, in accordance with IFRS 3.25, the purchase point, which means the day on which the acquirer effectively takes control of the purchased company.

The capital consolidation of the subsidiaries is carried out using the purchase method based on IFRS 3.14 In doing so, the purchase costs of the shares in affiliated companies are compared to the group share in the reappraised equity of each company. In order to complete the capital consolidation, the write-downs on shares in incorporated companies undertaken in the individual accounts are generally reversed. A residual debit difference resulting from the capital consolidation is capitalised as goodwill.

If additional shares in already fully consolidated subsidiaries are purchased, then the transaction is not liable to be treated as an initial consolidation company acquisition in terms of IFRS 3, but as a transaction with minority shareholders and is accounted for as an equity shift between the various shareholder groups.

The purchase costs of investments incorporated according to the equity method are increased or reduced annually by the changes in the equity of the associated entities relating to the Medisana Group. For the assignment and forward projection of a difference (contained in the valuation of the investment) between the acquisition costs of the investment and the company's equity share, the effective regulations for full consolidation are applied.

The effects of intercompany activity are eliminated. Receivables, loans and payables between consolidated entities are set off against one another within the framework of the debt consolidation. Intergroup profits in the inventories of consolidated entities are consolidated like dividend collections and intergroup income and expenses. Deferred taxes according to IAS 12 are assessed on temporary differences resulting from the consolidation.
In comparison to the previous year, the consolidation methods remain unchanged.

CURRENCY CONVERSION

The financial statements of the foreign Group subsidiaries in the USA, Great Britain and Hong Kong are converted to euros using the functional currency concept. The balance sheet was converted using the average exchange rate on the balance sheet date. The statement of profit and loss was converted using the yearly average exchange rates. The resulting conversion differences and those resulting from the currency conversion of balances carried forward from the preceeding year are shown as neutral in equity.

The consolidated financial statements are prepared in euros. In relation to the euro, the exchange rates have performed as follows:

Exchange rates

		Average rate in EUR on balance sheet date		Yearly average rates in EUR	
		31.12.2006	31.12.2007	2006	2007
USA	1 USD	0.7580	0.6794	0.79703	0.73082
UK	1 GBP	1.4852	1.3571	1.46725	1.46206
Hong Kong	1 HKD	0.0975	0.0871	0.10262	0.09368

ACCOUNTING AND VALUATION METHODS

Acquired **intangible assets** are valued at their purchase costs minus the scheduled straight-line depreciation over the course of their useful life and, if necessary, the non-scheduled depreciation. Assets with indefinite useful lives are subject to an annual depreciation test and a review of the indefinite useful life hypothesis. The depreciation on licenses and industrial property rights are based on useful lives of 3 to 20 years. The intangible assets acquired in a merger are valued at their applicable fair value at the point of acquisition.

Under the conditions of IAS 38, self-produced intangible assets are capitalised to the tune of the incurred expenses and are depreciated on a straight-line basis in accordance with the useful life of purchased intangible assets.

The subsequent valuation of intangible assets is carried out according to IAS 38.74 based on the cost-of-acquisition model.

After the conclusion of the annual budgeting process, the goodwill **emerging from the consolidation** is annually subjected to a recoverability test based on the use value. An impairment in value is immediately recorded as an expense in the profit and loss statement and is not written up in the following periods.

Tangible assets are valued at acquisition or manufacturing costs minus the scheduled and, if necessary, non-scheduled depreciation. The subsequent valuation is carried out according to IAS 16.30 based on the cost-of-acquisition model. Tangible assets are generally depreciated using the straight-line method over the foreseeable useful life, as long as in special cases there is no other depreciation method which would more closely reflect the actual useful progression.

The tangible fixed assets are regularly depreciated by means of the following useful economic life (in years):

Technical equipment and machines	**3–4**
Other equipment, fixtures, fittings and equipment	**4–10**

If evidence of depreciation exists and the achievable value is less than the continued acquisition or manufacturing costs, then the tangible assets are depreciated on a non-scheduled basis. If the reasons for non-scheduled depreciation are omitted, then a correlating write-up takes place.

Deferred taxes are assessed in the conversion from regional accounting principles to IFRS, from consolidation entries, on acquired tax assets as well as expected tax savings from accumulated deficits. The prerequisite for this is a valuation of the profit performance in the mid-term financial planning of each entity. Where sufficient substantial details for the future targeted profit are no longer given, depreciation up to the achievable value will be undertaken. The deferred taxes from consolidation entries are uniformly based on the relevant rate for Germany of 30% (previous year: 38.65%). Incidentally, the valuation is carried out at the regionally applicable tax rate at the time of sale.

Income tax reimbursement claims and income tax debt are assessed at face value. Amounts with a residual maturity of more than one year are discounted using the effective-interest-rate method.
Inventories are **valued** at the acquisition price, including the incidental acquisition costs, on the basis of average prices. The inventories are valued at the lower value between acquisition costs and net realisable amount minus any incurred costs. The inventory risks in relation to reduced usability is accommodated through appropriate value deductions. Where the net realisable amount has increased on earlier devalued inventories, the resulting write-up is accounted for as a reduction in sales costs. Inventory disposals are also accounted for as sales costs. Financing costs are not included.

Accounts receivable and other assets are entered in the balance sheet at their face value and, subsequently, at the continued acquisition cost. Allowances have been made for all identifiable individual risks by means of appropriate value adjustments. Accounts receivable valued in foreign currency are valued at the applicable average rate on the balance sheet date. The resulting fluctuations in value are recognised in profit or loss. Non-interest or low-interest bearing receivables with a maturity period of more than one year are discounted.

The long-term receivables are partially related to the pension provisions and therefore were calculated in a similar way.

The **trade receivables** as well as the **other receivables** and **other assets** are due in less than one year and will allow the company to draw on liquidity to the tune of the valuation value.
It is anticipated that reinsurance designated as due in the short term will be carried forward within 12 months to those eligible for pensions.

The items listed under **liquid funds** include immediately available funds in the form of cash in banks and cash assets.

Capital stock and **capital reserves** are stated at the amount of the payments for the purchase of Medisana shares. Decreases are a result of the buyback of treasury stock by the company. Costs for raising equity are deducted from the capital reserve.

The **offsetting items from currency exchange rates** depict the changes that have occurred in the subsidiaries' acquired equity in foreign currency between the day of initial consolidation and the balance sheet date, as a result of currency rate fluctuations. Moreover, here the exchange rate differences between the balance sheet and the profit and loss statement, which result from the conversion of the local books in foreign currency, are accounted for.

The **retained earnings** depict the results carried forward on new account from the prior period.

The **shares of other partners** constitute the share in capital and the profit/loss of minority interests in subsidiaries.

Provisions for pensions and similar obligations are calculated based on the internationally customary projected-unit-credit method. Accordingly, the scope of obligation calculations are based on expected future salary and pension increases as well as additional actuarial estimates. In cases of differences between the actuarial estimates and the actual trend based on the calculation parameters, actuarial profits or losses arise, leading to a divergence between the defined benefit obligation and the provision entered in the balance sheet. Actuarial profits and losses, which lie outside a 10% margin of the defined benefit obligation, are spread out over the average remaining years of service. Just like the interest share of the provision allocation, the service cost is accounted for in the personnel costs.

The **other provisions** include any identifiable obligations on the balance sheet date

which are related to past business transactions or past incidents and whose amount and reason is uncertain. The provisions are estimated at the likely amount to be paid. Setting off against positive profit contributions is not admissible. Provisions are only recorded if they are backed by a legal or factual commitment towards third parties. If the discounted interest effect is substantial, long-term provisions are recorded at their discounted settlement amount on the balance sheet date. The settlement amount comprises the cost increases as of the balance sheet date, which also have to be considered in accordance with IAS 37.

Liabilities are estimated at the applicable fair value minus transaction costs at the point of their emergence. Over time, the liabilities are valued at their continued acquisition cost by using the effective-interest-rate method. Liabilities valued in foreign currency are reported at the applicable average rate on the balance sheet date.

Sales revenues or other operating income are realised when the services have been rendered or the risk has been transferred to the customer.

Operating expenses are recorded to the profit and loss account when the service has been taken up or when it was first generated. Warranty provisions are set up at the time of the realisation of the corresponding sales revenues. Development costs are recorded as expense in the year they are incurred, unless they should be capitalised according to IAS 38. Interest income and expenses are recorded in the period in which they are incurred and neither capitalised nor recorded as a liability.

Within the Medisana Group, derivative financial instruments are only used to hedge against currency risk resulting from normal business operations. On conclusion of currency hedging transactions,

paid option bonuses are valued – until they are either exercised or expire – under short-term other assets at their acquisition cost, and on the balance sheet date at the lower value between acquisition cost and market value.

All derivative financial instruments are recognised as income and valued at the applicable fair value. Derivative financial instruments with a positive fair value are recorded as other assets, while derivates with a negative fair value are recorded as short-term trade accounts payable. The booking of a derivative takes place on the trading day. The write-off is recorded upon expiration of the financial instrument.

External capital costs are immediately recognised as expenditure in accordance with IAS 23.

Application of changed and new standards and interpretations

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have published the following standards and interpretations. These are not yet binding for the 2007 financial year and do not have to be applied. Essentially, the new standards and interpretations will not be applied ahead of schedule.

IFRS 2 change (2008) "Vesting conditions and cancellations" clarifies the meaning of vesting conditions pertaining to share-based remunerations and stipulates that all annulments of share-based compensation packages – regardless of the annulling party – should be accounted for in a similar manner. The changes to IFRS 2 were published on 17 January 2008 and will first become binding for financial years starting on or after 1 July 2009. The official statement from the IASB has not yet been adopted by the EU. No notable effects on the consolidated financial statements of Medisana AG are expected.

IFRS 3 (2008) "Business combinations" includes altered regulations regarding the accounting methods of company acquisitions. The application area and the accounting of successive share purchases were altered in particular, and a voting right was introduced. The shares of non-controlling shareholders can be valued at their applicable fair value or with the proportionate net assets. Depending on which one of the options a company chooses to follow, potentially existing goodwill will be disclosed either entirely or only with the share of the majority shareholder, within the framework of the company acquisition. IFRS 3, published on 10 January 2008, will first become binding for financial years starting on or after 1 July 2009. The offi-

cial statement from the IASB has not yet been adopted by the EU. No notable effects on the consolidated financial statements of Medisana AG are expected.

IFRS 8: "Operating segments" replaces IAS 14 "Segment reporting". The main difference to IAS 14 is the classification and presentation of relevant segment information by means of the "full management approach", whereby, in future, the segment reporting will follow internal company reporting structures. In contrast, IAS 14 calls for the preparation of relevant information in accordance with the accounting guidelines used in the compilation of the consolidated financial statements. The standard will first become binding for financial years starting on or after 1 January 2009. The effects of these future applicable standards on the Medisana Group are currently under review. Expanded disclosure requirements are particularly expected.

IAS 1 (2007) "Presentation of financial statements" includes new guidelines for the presentation of the financial statements. In future, the non-owner-related equity changes in particular must be strictly separated from the owner-related equity changes and further information provided relating to other comprehensive income. IAS 1 (2007) will first be applicable for financial years starting on or after 1 January 2009. The official statement from the IASB has not yet been adopted by the EU. No notable effects on the consolidated financial statements of Medisana AG are expected.

IAS 23 (2007) "Borrowing costs": With the amended version of IAS 23, the IASB has removed the option to handle external capital costs that are directly related to the acquisition, construction or manufacture of qualified assets. In future, these external capital costs are to be capitalised as past of the acquisition or manufacturing costs of assets. IAS 23 (2007) will first be applicable for financial years starting on or after 1 January 2009. The official statement from the IASB has not yet been adopted by the EU. The effects of these future applicable standards on the Medisana Group are currently under review. The final impact is still unknown.

IAS 27 (2008) "Consolidated and separate financial statements": With the amended version of IAS 27, the IASB has changed the accounting guidelines for transactions between non-controlling and controlling shareholders of a group, as well as the accounting guidelines in the case of a loss of control over a subsidiary. Transactions, through which a parent company changes its percentage interest held in a subsidiary, without losing control over the subsidiary, are in future to be accounted for as a profit-neutral equity transaction. Furthermore, the standard regulates how a deconsolidation profit should be calculated and how a remaining residual interest in former subsidiaries should be valued. The changes to IAS 27 were published on 10 January 2008 and will first be applicable for financial years starting on or after 1 July 2009. The official statement from the IASB has not yet been adopted by the EU. No notable effects on the consolidated financial statements of Medisana AG are expected.

IAS 32 (amended February 2008) "Amendments to IAS 32 **financial instruments:** Presentation and IAS 1 presentation of financial statements – puttable financial instruments and obligations arising on liquidation" regulates whether a financial instrument should be classified as equity or as a liability. Under certain conditions the new version of IAS 32 allows terminable financial instruments to be shown as equity. The change in the standard will first be applicable for financial years starting on or after 1 March 2009. The official statement from the IASB has not yet been adopted by the EU. No notable effects on the consolidated financial statements of Medisana AG are expected.

IFRIC 11 "IFRS 2 – transactions using treasury stock and shares from group companies" answers the question of how IFRS 2 is to be applied to share-based payment conditions which contain the company's own equity capital instruments or equity capital instruments of another company of the same group. The interpretation is first applicable for financial years starting on or after 1 March 2007. No notable effects on the consolidated financial statements of Medisana AG are expected.

IFRIC 12 "Service concession arrangements" regulates the accounting of arrangements in which the public sector concludes contracts with private corporations, which are oriented towards the fulfilment of public tasks. In order to fulfil this task, the private corporation uses infrastructure which remains under the control of public authorities. The private corporation is responsible for the construction, operation and maintenance of the infrastructure. The interpretation is first applicable for financial years starting on or after 1 January 2008. The official statement from the IFRIC has not yet been adopted by the EU. No notable effects on the consolidated financial statements of Medisana AG are expected.

IFRIC 13 "Customer loyalty programmes" regulates the disclosure of sales revenues in relation to customer bonus programmes run by the manufacturers or service providers themselves, or through third parties. The interpretation is first applicable for financial years starting on or after 1 July 2008. The official statement from the IFRIC has not yet been adopted by the EU. No notable effects on the consolidated financial statements of Medisana AG are expected.

IFRIC 14 "IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction" deals with questions regarding the accounting of pension plans. The interpretation is first applicable for financial years starting on or after 1 January 2008. The official statement from the IFRIC has not yet been adopted by the EU. The effects of these future applicable standards on the Medisana Group are currently under review. The final impact is still unknown.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) LONG-TERM ASSETS

Schedule of fixed assets as of 31.12.2007

Euros	Gross values			
	01.01.2007	Additions	Disposals	31.12.2007
Goodwill	1,171,613	0	0	1,171,613
Intangible assets	2,902,350	76,807	8,125	2,971,032
Tangible assets	2,422,774	218,180	39,422	2,601,532
Financial assets (at equity)	957,897	0	957,897	0
Total	**7,454,634**	**294,987**	**1,005,444**	**6,744,177**

Schedule of fixed assets as of 31.12.2006

Euros	Gross values			
	01.01.2006	Additions	Disposals	31.12.2006
Goodwill	1,171,613	0	0	1,171,613
Intangible assets	2,743,425	158,925	0	2,902,350
Tangible assets	2,288,787	166,966	32,979	2,422,774
Financial assets (at equity)	955,435	2,462	0	957,897
Total	**7,159,260**	**328,353**	**32,979**	**7,454,634**

Depreciation				Net values	
01.01.2007	Additions	Disposals	31.12.2007	31.12.2006	31.12.2007
0	0	0	0	1,171,613	1,171,613
1,397,964	657,175	0	2,055,139	1,504,386	915,892
2,065,395	136,956	33,875	2,168,476	357,379	433,056
957,897	0	957,897	0	0	0
4,421,256	**794,131**	**991,772**	**4,223,616**	**3,033,378**	**2,520,561**

Depreciation				Net values	
01.01.2006	Additions	Disposals	31.12.2006	31.12.2005	31.12.2006
0	0	0	0	1,171,613	1,171,613
620,959	777,005	0	1,397,964	2,122,466	1,504,386
1,942,041	156,049	32,695	2,065,395	346,747	357,379
0	957,897	0	957,897	955,435	0
2,563,000	**1,890,951**	**32,695**	**4,421,256**	**4,596,261**	**3,033,378**

(2) GOODWILL AND INTANGIBLE ASSETS

The accounted – for goodwill is distributed as follows:

€,000s	2006	2007
Santec	728	728
Medisana Benelux	342	342
Medisana Spain	33	33
Medisana Hellas	45	45
Promed GmbH	23	23
	1,171	**1,171**

The goodwill related to Santec is directly accounted for on Medisana AG's balance sheet, since it resulted from the merger of Santec into Medisana AG in 2001. On the basis of an indefinite useful life, the recoverability is determined on the foundation of the use value of this currency-generating unit, since the use value resulting from the merger remains effective for an indefinite period of time. At a discount factor of 7.28 % (previous year: 8.57 %), the applied growth rate covering the goodwill in terms of the empirically based inflow of funds used in income budgeting generally amounts to less than 15 % per year. For the prognosis timeframe, which extends beyond four years, the assumption of zero growth is used as a basis.

The goodwill recoverability assessment did not lead to any need for devaluation.

The intangible assets account completely for licenses, industrial property rights and similar rights.

As in the previous year, the book value of a brand right of Promed GmbH with an indefinite useful life amounts to €656,000. The recoverability is assessed each year through Promed GmbH's brand-specific revenue budget with an unlimited duration. The unlimited duration is a result of the virtually unlimited useful life of the renewable brand rights. The determined use value is valued at 1 % of the brand value, which is the customary market commission which has been saved through the acquisition. At a discount factor of 7.28 % (previous year: 8.57 %), the applied growth rate in terms of the empirically based sales amounts to less than 15 % per year. For the prognosis timeframe, which extends beyond four years, the assumption of zero growth is used as a basis.

Due to the opening of liquidation proceedings, the Rebac patent rights amounting to €399,000 and listed in the Germany business segment as of 31 December 2006, were completely written down to the applicable fair value of zero in the financial year, based on own assumptions.

The intangible assets are regularly amortised over their useful life. In the 2007 financial year, the amortisation on intangible assets amounted to €657,000 (previous year: €777,000). Of this, the value adjustment on the Rebac patent rights amounting to €399,000 was accounted for as depreciation according to IAS 36 and recorded in the other operating expenses, and €258,000 as amortisation.
In the 2007 financial year an additional €53,000 (previous year: €34,000) of self-generated development was capitalised. As of 31.12.2007, the gross value therefore amounts to €101,000 (previous year: €48,000). After scheduled straight-line annual amortisation of €26,000 (previous year: €14,000) the net value on the balance sheet date amounted to €61,000 (previous year: €34,000).

(3) TANGIBLE ASSETS

The tangible assets only contain tools as well as fixtures, fittings and equipment. There is no non-scheduled depreciation on the tangible assets (previous year: €0).
Two cars with a total book value of €35,000 (previous year: €0) were pledged as security for existing financial liabilities, until the residual debt is dissolved.

(4) LEASING

Leasing payments in the following years – Operating Leases

€,000s as of 31.12.2007	2008	2009–2012	from 2013
Buildings	196	60	0
Technical equipment and machines	0	0	0
Other leasing contracts	34	38	0
	230	**98**	**0**

€,000s as of 31.12.2005	2007	2008–2011	from 2012
Buildings	112	232	0
Technical equipment and machines	37	15	0
Other leasing contracts	47	11	0
	196	**258**	**0**

(5) FINANCIAL ASSETS

The 25 % investment in Sanico S.R.L. Cusago, Italy, whose value was completely adjusted in the previous year, was sold during the financial year. The result was disposal proceeds totalling €25,000, which was recorded as other operating income.

(6) INVENTORIES

The inventories totalling €9,335,000 (previous year: €8,005,000) consist solely of goods. Within the framework of the consolidated financial statements, a value adjustment was made on the balance sheet date amounting to €348,000 (previous year: €408,000). The adjustment was made due to reduced usability and lower net residual value. As a result of the dissolution of the previous years' valuation allowance, there were reduced sales costs totalling €60,000 (previous year: €54,000) The dissolution resulted from an inventory correction related to old appliances.

(7) ACCOUNTS RECEIVABLE

In the long-term receivables, the main entry is a discounted, long-term rental prepayment for a municipality totalling €34,000 (previous year: €53,000). There is no interest rate risk or credit default risk as a result. The book value is equivalent to the fair value.
Moreover, capitalised pension plan reinsurance totalling €48,000 (previous year: €35,000) is included. The pension plan reinsurance matures in 2012.

Pension plan reinsurance is also shown in the other short-term receivables and other assets. Due to an agreement with the former Chairman of the Board in relation to the settlement of his pension claim, this was scheduled to be transferred to him in June 2007. This did not occur in 2007, but should be made up in the 2008 financial year.

The pension plan reinsurance is settled according to IAS 19.104D, using the present value of the related pension liabilities totalling €1,176,000 (previous year: €1,122,000). The pension plan reinsurance serves to finance the pension promises. As far as possible, the interest rate risk is equalised through a reverse effect in the valuation of the pension provisions. Due to the excellent credit rating of the domestic contract partners, the credit default risk is practically nil. On the balance sheet date and based on an actuarial appraisal, the fair value of the pension plan reinsurance amounted to €650,000 (previous year: €553,000). Until it is settled, the pension plan reinsurance remains pledged as a security for a short-term financial liability totalling €206,000.

The trade receivables result from normal commercial deliveries and services with third-party companies. As was the case in the previous year, accounts receivable with a residual maturity of more than one year do not exist. The trade receiv-

ables totalling €8,064,000 (previous year: €7,745,000) primarily have payment terms of 30 days. There is no interest paid on the trade receivables. Accordingly, there is no resulting interest rate risk.

The default risk on trade receivables was taken into account based on days overdue in accordance with the default risk due to corresponding value adjustments to the tune of €329,000 (previous year: €394,000). The change in the value adjustment of €149,000 (previous year: €29,000) is accounted for under impairment in the other operating expenses. The net loss from receivables amounts to €152,000 (previous year: €80,000).

€,000s	31.12.2006	31.12.2007
Trade receivables		
- Accounts receivable	8,139	8,607
- Value adjustments	394	543
	7,745	**8,064**

The value adjustments are split into specific bad debt charges of €493,000 (previous year: €354,000) as well as lumped specific bad debt charges of €50,000 (previous year: €40,000).

The value adjustments have developed as follows:

€,000s	31.12.2006	31.12.2007
- As of 1 January	365	394
- Utilisation	0	-129
- Reversals	-76	-33
- Additions	105	311
- As of 31 December	**394**	**543**

Of the non-value-adjusted trade receivables totalling €7,360,000 (previous year: €6,964,000), €4,199,000 (previous year: €3,680,000) were not due on the balance sheet date.

The overdue, non-value-adjusted receivables are overdue within the following time bands as of 31 December:

€,000s	31.12.2006	31.12.2007
- Less than 30 days	1,255	1,355
- Between 30 and 90 days	618	968
- Between 91 and 180 days	552	483
- Greater than 181 days	859	354
	3,285	**3,161**

The shown book values of the short-term assets correspond to the fair values. Medisana is convinced that the overdue, non-value-adjusted receivables are fully recoverable. Contingent receivables do not exist on the balance sheet date.

(8) TAX RECEIVABLES

To improve clarity in comparison to the previous year, the breakdown has changed insofar as long-term tax credits are no longer shown as deferred tax credits. Short-term tax reimbursement claims are shown as other assets instead of other receivables.

The long-term tax reimbursement claims totalling €80,000 (previous year: €118,000) reflect a corporation tax credit which is payable in instalments until 2017.
The short-term reimbursement claims totalling €31,000 (previous year: €11,000) reflect the corporation tax credit payable in 2008 as well as current income tax claims and tax prepayments.

(9) DEFERRED TAX CLAIMS

Formation:

€,000s	31.12.2006	31.12.2007
Deferred taxes		
- resulting from valuation differences and consolidation	165	168
- resulting from losses carried forward	2,609	2,741
	2,774	**2,909**

The capitalised amounts are subject to the risk of future tax rate changes. In 2007 there was a tax rate change to 30.00% (previous year: 38.65%) at the Group's headquarters.

On the basis of the budget of Medisana AG, it is assumed with a sufficient degree of certainty that in the following years there will be a deferred income tax decrease at Medisana AG amounting to €2,286,000 (previous year: €2,134,000). Due to the improved income budgeting since the turnaround, and despite the lower valuation (to €707,000) of the deferred taxes on losses carried forward resulting from the tax rate decrease, it was possible to capitalise an additional €152,000 of the value-adjusted losses carried forward from the previous years. In total, the accumulated value adjustments on deferred taxes from losses carried forward decreased to €5,237,000 (previous year: €6,565,000). There is no time limit on the taxable losses carried forward.

Medisana USA accounts for additional deferred income tax decreases from losses carried forward amounting to €440,000 (previous year: €476,000). Capitalisation as of 31.12.2007 to the tune of €125,000 (previous year: €85,000) did not occur due to a lack of reliable future profits.

In addition, on the basis of the income budgeting, Medisana Spain capitalised deferred income tax decreases from losses carried forward to the tune of €15,000 (previous year: €0).

Capitalised deferred taxes on losses carried forward were not scheduled for either Medisana UK or Medisana Far East, since both entities are currently classed as dormant.
In the face of the winding-up of Rebac GmbH i.L., the capitalisation of deferred taxes on the losses carried forward by the company did not take place.

The deferred taxes for 2006 and 2007 are assigned to the following issues:

€,000s	2006	2006	2007	2007
	asset	liability	asset	liability
Fixed assets	0	455	0	259
Accounts receivable	0	1	31	0
Losses carried forward	2,609	0	2,741	0
Pension provision with reinsurance	21	80	26	55
Other provisions	2	0	3	0
Liabilities	0	0	0	9
Consolidation measures	142	17	108	6
Consolidated financial statements	**2,774**	**553**	**2,909**	**329**

From the tax rate change at the Group headquarters in Germany, a profit and loss account effect of €2,000 relating to the temporary differences was recorded.

(10) LIQUID ASSETS

The liquid assets in the form of cash on hand and bank balances available at any time constitute the short-term liquid reserves of the Group. Foreign currency balances are valued at the exchange rate effective on the balance sheet date. Neither an interest rate risk nor a credit default risk exists. The book value is equivalent to the fair value.

At Commerzbank AG, Düsseldorf, existing credit balances amounting to €127,000 are pledged as security for a bank guarantee.

(11) EQUITY

As of 1 January 2006, the capital stock of Medisana AG amounted to €6,434,000. Since the capital increase to the tune of €600,000, completed in June, the capital stock remained unchanged as of 31.12.2007 at €7,034,000. The capital stock consists of the same number of no-par value shares (without face value). It is fully paid-in.

As of 31.12.2007 there is no treasury stock in the portfolio.

At the annual general meeting on 24.08.2006 the Management Board was authorised, with the approval of the Supervisory Board, to increase the corporation's capital

stock by €3,517,163 until 23.08.2011 by means of one-off or repeated issuing of up to 3,517,163 new no-par value shares in exchange for one-off or repeated cash contributions and/or assets in kind. On the balance sheet date, the approved capital amounting to 3,517,163 no-par value shares remained entirely available.

The dividend payments to third parties include the share of dividend payments of subsidiaries allotted to minority shareholders. There was no dividend paid to Medisana AG shareholders.

The minority shareholders of the already fully consolidated Spain and UK subsidiaries sold their shares to Medisana, effective on 1 January 2007. The resulting asset-side difference as well as the minority shares assigned to the minority shareholders as of 31 December 2006 were set off against the opening retained earnings, since it was not related to an entity acquisition and there was no obligation for an initial consolidation in terms of IFRS 3.

Regarding the financial liabilities of Rebac GmbH i.L., which are furnished with letters of subordination, a creditor submitted a final and unconditional waiver amounting to €261,000 as of 31 December 2007, which was recorded to the profit and loss account. Since it is no longer possible to show a negative minority share for this shareholder (due to this debt waiver), the resulting minority share from previous periods will be assigned to Medisana and accordingly shown as a reduction in the opening retained earnings.
On the balance sheet date, the stated foreign currency differences in the equity amounted to €-339,000 (previous year: €-266,000).

In accordance with Article 21, Section 1 WpHG (Securities Trade Act), the following information has been received and published:

Dr Matthias Hartz, Hong Kong SAR, informed us on 26 February 2008 (in accordance with Article 21, Section 1 and Article 22, Section 1, Clause 1 WpHG) that on 26 March 2007 his share of voting rights in MEDISANA AG, Hilden, Germany, exceeded the 5% threshold and on this day he owned 5.19% of the voting rights (equal to 365,400 shares with an equal amount of voting rights). According to Article 22, Section 1, Clause 1, of the 365,400 voting rights, 150,400 of them (equal to about 2.14% of all voting rights), were to be assigned to 8plus AG, Hergiswil, Switzerland. Furthermore, Dr Hartz has advised that the 150,400 shares originally held by 8plus AG were transferred to him on 15 February 2008, so that since then he

is directly entitled to 5.19 % of the voting rights (365,400 shares).

Ralf Lindner informed us on 31 January 2008 (in accordance with Article 21, Section 1 and Article 22, Section 1, Clause 1 WpHG) that on 31 August 2007 his share of voting rights in MEDISANA AG exceeded the 25 % threshold and on this day he owned 25.13 % of the voting rights (equal to 1,767,845 shares with an equal amount of voting rights). From that, he was assigned 24.67 % (1,735,512 shares) of the voting rights in accordance with Article 22, Section 1, Clause 1 WpHG. These shares were assigned to Mr Lindner from the portfolio of Cedar Holdings GmbH.

Cedar Holdings GmbH, Hilden, Germany, informed us on 31 January 2008 (in accordance with Article 21, Section 1, Clause 1 WpHG) that on 22 November 2007 their share of voting rights in MEDISANA AG exceeded the 25 % threshold and amounted to 25.10 % (equal to 1,765,512 shares).

(12) SHARES OF OTHER SHAREHOLDERS

The balancing item for shares of other shareholders consists of the other shareholders' capital share amounting to €510,000 (previous year: €335,000) and from the shares of other other shareholders in the annual profit/loss amounting to €90,000 (previous year: €-103,000).

(13) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Provisions for obligations (resulting from claims) towards two (previous year: two) retired employees and two (previous year: two) current employees were accrued. These obligations are related to individual pension promises.

The company's pension scheme consists of performance-based benefit systems. With performance-based benefit plans, the company's main obligation lies in complying with the agreed benefits for current as well as former employees. The valuation of the provision for performance-based benefit plans is based on the projected unit credit method in accordance with IAS 19. According to this method, the defined benefit obligation is actuarially determined on the basis of assumptions regarding life expectancy, salary and pension increases, fluctuation, the interest rate trend as well as additional calculation parameters. The provision is reduced by the market value of existing pension fund assets or effectively pledged pension plan reinsurance. Just like the interest expense, the service cost is accounted for in the personnel costs.

The actuarial calculation of the DBO for all domestic pension obligations was based on the following parameters:

€,000s	31.12.2006	31.12.2007
Discount rate	4.50%	5.50%
Salary trend	0.00%	0.00%
Pension trend	1.75%	2.00%

The present value of the obligations consists of the following:

€,000s	31.12.2006	31.12.2007
Defined benefit obligation (DBO) at the beginning of the period	1,502	1,459
Current service cost	13	12
Interest expense (according to IAS 19)	60	65
Experience-based adjustments	6	8
Actuarial profits (-) / losses (+)	-122	-164
DBO at the end of the period	**1,459**	**1,380**

As of 31 December 2007 the DBO is made up of obligations to the tune of €1,153,000, which are not financed through funds, and obligations to the tune of €227,000 financed through qualified pension plan reinsurance or funds.

The obligations not financed through funds amounting to €1,153,000 (previous year: €1,226,000) are primarily reinsured through term life insurance. As far as possible, the rights stemming from the insurance contracts congruently cover the agreed performance pertaining to amount and term. There is no recognition as plan assets, since the insurance benefit has not been effectively pledged. The capitalised reimbursement claim is shown under long-term receivables to the tune of €48,000 (previous year: €35,000) and under the short-term receivables to the tune of €1,176,000 (previous year: €1,122,000). On the balance sheet date and based on an actuarial appraisal, the fair value of the reimbursement claims amounted to €650,000 (previous year: €553,000). Revenues from reimbursement claims are not expected, as long as the book value of the reimbursement claims does not exceed the fair value.

The reimbursement claims have developed as follows:

€,000s	31.12.2006	31.12.2007
Reimbursement claims at the beginning of the period	**972**	**1,157**
Employer contributions	89	86
Actuarial profits / losses	96	-19
Reimbursement claims at the end of the period	**1,157**	**1,224**

For the next financial year, we expect the employer contributions to remain constant.

The DBO, which is financed through qualified pension plan reinsurance and amounts to €227,000 (previous year: €233,000), is effectively pledged to those entitled to the provision.

The plan assets have developed as follows:

€,000s	31.12.2006	31.12.2007
Plan assets at the beginning of the period	**106**	**124**
Employer contributions	13	13
Expected revenues from the plan assets	5	6
Actuarial profits and losses	0	0
Plan assets at the end of the period	**124**	**143**

For the next financial year, we expect the employer contributions to remain constant.

The expected income from plan assets in the category "financial assets available for sale" is calculated at 4.5%. The actual income from plan assets comes to €5,000 (previous year: €5,000). For the following financial year, an income of €6,000 is expected.

The following table shows a transition of the DBO into the pension provision shown in the consolidated financial statement according to IAS 19.

€,000s	31.12.2006	31.12.2007
DBO of obligations not financed through funds	1,226	1,153
DBO of obligations which are financed through qualified pension plan reinsurance/funds.	233	227
Defined benefit obligation (DBO)	**1,459**	**1,380**
Accounted for fund assets at market values	-124	-143
Adjustments based on actuarial profits and losses that were not recorded	-31	146
Provisions for pensions and similar obligations	**1,303**	**1,384**

According to IAS 19, actuarial profits and losses are recorded as an expense over the average remaining years of service of the staff, as long as these exceed 10% of the total obligation.

In the current reporting period as well as the four previous reporting periods, the DBO and the applicable fair value of the plan assets have developed as follows:

€,000s	2003	2004	2005	2006	2007
Defined benefit obligation (DBO)	665	806	1,502	1,459	1,380
Applicable fair value of the plan assets	0	0	106	124	143
Experience-based adjustments of the DBO	3	4	4	6	8

The following amounts were recorded in the profit and loss statement:

€,000s	2006	2007
Current service cost	-13	-12
Interest expense from the obligation	-60	-66
Employer contributions	-89	-99
Expected revenues from the plan assets	5	5
Expected revenues from reimbursement claims recorded as assets	1	67
Realised actuarial profits or losses	-20	0
	-176	**-105**

Ongoing service costs, interest expense from the obligation, as well as realised actuarial profits or losses that are related to the obligation, are recorded in the personnel costs. Employer contributions are recorded as other administrative expenses. The expected income from plan assets and realised actuarial profits or losses that are related to the plan assets are recorded in other operating income.

(13) OTHER PROVISIONS

Other long-term provisions do not exist on the balance sheet date.

Other short-term provisions

	Status 01.01.2007	Utilisation	Reversals	Additions	Status 31.12.2007
€,000s					
Risks in commodity transactions					
- Guarantees	132	132	0	181	181
- Customer returns	58	54	4	58	58
- Outstanding invoices	91	91	0	57	57
- Bonuses and rebates	369	369	0	387	387
	650	**646**	**4**	**683**	**683**
Personnel and social sector					
- Holiday provisions	56	45	0	69	80
	56	**45**	**0**	**69**	**80**
Miscellaneous					
Sales commission	0	0	0	12	12
Legal expenses	5	5	0	97	97
Annual financial statement and auditing costs	120	120	0	108	108
Supervisory Board remuneration	30	13	0	13	30
Others	3	3	0	6	6
	158	**141**	**0**	**236**	**253**
	864	**832**	**4**	**988**	**1,016**

The provisions related to the risks associated with commodity transactions pertain to guarantee risks amounting to €181,000 (previous year: €132,000), customer returns to the tune of €58,000 (previous year: €58,000), unpaid invoices totalling €57,000 (previous year: €91,000) as well as bonuses and rebates amounting to €387,000 (previous year: €369,000).

The provision for legal expenses to the tune of €97,000 (previous year: €5,000) includes the estimated lawyer fees.
Also included in the other provisions are, primarily, annual financial statement and auditing expenses to the tune of €108,000 (previous year: €120,000), Supervisory Board remuneration amounting to €30,000 (previous year: €30,000) as well as sales commission totalling €12,000 (previous year: €0).

The obligations will most likely be settled within the next financial year.

(15) INCOME TAXES

€,000s	31.12.2006	31.12.2007
Deferred taxes	553	329
Actual income tax obligations	17	27
	570	**356**

The deferred taxes totalling €329,000 (previous year: €553,000) are the result of temporary differences in the transition from single entity financial statements to Group financial statements based on IFRS. Incidentally, we refer to our remarks under (9).

(16) LIABILITIES

Financial liabilities:

€,000s	31.12.2006	31.12.2007
Long-term financial liabilities	129	29
Short-term financial liabilities	2,314	1,677
	2,443	**1,706**

The long-term financial liabilities consist of the following:

	Interest rate p.a.	Term	31.12.2006	31.12.2007
€,000s				
Loan	4 %	indefinite	21	0
Loan	2.9 %	in instalments until 31.12.2010	0	23
Silent partnership	22 %	31.12.2008	66	0
Loan	6 %	in instalments until 31.12.2011	10	0
Miscellaneous	variable		32	6
			129	**29**

The loan with an indefinite term to the tune of €21,000 will be repaid in 2008 and is therefore shown as a short-term liability as of 31 December 2007.

The newly disclosed loan amount in the financial year includes the long-term portion of an annuity loan from the Volkswagen Bank.

The silent partnership was reclassified as a short-term liability.

The original loan, with terms until 2011, was reclassified as a short-term financial liability because of the winding-up of Rebac GmbH i.L.

The interest rate risk only affects the other long-term financial liabilities. The obligations are based on variable interest rates. Since the long-term financial liabilities are based on interest rates commensurate with the risk, the fair values more or less represent the book values.

The **short-term financial liabilities** consist of the following:

Contract partner	Conditions	31.12.2006	31.12.2007
		€,000s	€,000s
Banks	variable	697	1,067
Insurance	variable	206	206
Third party	10.75 %	127	132
Third party	3.5–6.0 %	985	221
Third party	non-interest bearing	299	6
Silent partnership	22%	0	45
		2,314	**1,677**

The short-term financial liabilities are due within one year. Therefore, the fair value more or less represents the book value. The loan from the insurance company amounting to €206,000 is secured through capitalised pension plan reinsurance.

The loan with an interest rate of 10.75 % is attributed to the creditors of Rebac GmbH i.L. It amounts to €109,000 and remains furnished with a letter of subordination. Additional letters of subordination pertain to third-party loans (3.5 %–6.0 %) to the tune of €50,000 (previous year: €50,000) as well as to the silent partnership to the tune of €45,000 (unchanged).

The interest rate risk affects the liabilities with variable contractual conditions.

The **trade accounts payable** are due within one year. The payment term is generally 180 days. Interest is applied in accordance with the LIBOR. Medisana is able to eliminate this interest rate risk by making payments within 60 days. Payments are generally made in USD.

The currency risk is limited at an early stage through cost-free 'forward plus' contracts as well as forward exchange deals. Acquisition costs are not incurred. The USD-based 'forward plus' contracts are valued at a fair value of €-214,000 (previous year: €-67,000) using the Black Scholes fair-value model. The applicable fair value is included within the scope of the valuation of trade accounts payable. The reporting as a liability ends when the contract expires in June 2008.

The forward exchange deals for purchasing USD pertain to the timeframe up until April 2008. The forward exchange deals comprise a dollar value of $3,154,000. The total value, converted as per the exchange rate on the balance sheet date amounts to €2,140,000. The USD-based 'forward plus' contracts are valued at a fair value of €-52,000 (previous year: €-10,000) using the Black Scholes fair-value model. The applicable fair value is included within the scope of the valuation of trade accounts payable. The reporting as a liability ends when the contract expires in April 2008.

The net losses resulting from these financial liabilities that affect net income and are valued at the applicable fair value, amount to €189,000 in relation to the previous year's values (previous year: €167,000). The disclosure in the profit and loss statement is shown as a reduction in the exchange rate profit and recorded under other operating income.

The **other liabilities** mainly include customers with a credit balance to the tune of €104,000 (previous year: €320,000) as well as tax payables amounting to €524,000 (previous year: €689,000). The disclosed amounts are due. There is no interest applied. The liabilities more or less represent the fair value.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

(17) SALES REVENUES

Gross sales revenues amounting to €32,347,000 (previous year: €24,773,000) were achieved. Against that were sales deductions amounting to €2,190,000 (previous year: €1,589,000).

€,000s	2006	2007
Sales revenue		
Medisana AG	8,203	12,639
Medisana USA	334	594
Medisana Far East	0	0
Medisana Spain	2,001	2,614
Medisana Benelux	3,777	5,313
Medisana Hellas	872	775
Medisana UK	1,183	1,023
Promed GmbH	6,475	7,196
Rebac GmbH	339	4
	23,184	**30,158**

In the scope of its function as parent company, Medisana AG produced additional sales (intercompany) of €6,982,000 (previous year: €4,152,000), which were eliminated in the Group consolidation. In addition, with an amount of €1,755,000 (previous year: €1,218,000) Medisana AG bears the largest portion of the expenses from sales deductions. The split of the sales revenues by region can be viewed in the segment reporting.

(18) COST OF SALES

The cost of sales amounting to €20,602,000 (previous year: €15,959,000) contains the purchasing costs of the sold goods as well as the marketing costs directly attributable to the sales revenues. The material purchasing costs amount to €18,750,000 (previous year: €14.557,000). The directly attributable marketing costs amount to €1,852,000 (previous year: €1,402,000).

The gross profit totalling €9,556,000 (previous year: €7,226,000) reflects the result of the sales revenues and the costs directly attributable to it.

(19) PURCHASING & STOCKKEEPING, SALES & MARKETING, ADMINISTRATION

The costs for purchasing and stockkeeping, sales and marketing as well as administration totalling €8,391,000 (previous year: €8,331,000) include personnel expenses, depreciation and other expenses related to this area. The items include the following:

a) Purchasing and stockkeeping

€,000s	2006	2007
Personnel costs	607	716
Scheduled depreciation	149	110
Research and development costs	56	53
Consulting expenses	113	80
Quality testing expenses	83	99
Occupancy costs	293	305
Leasing expenses	62	98
Other expenses	182	128
	1,545	**1,589**

b) Sales and marketing

€,000s	2006	2007
Personnel costs	1,492	1,774
Scheduled depreciation	107	150
Research and development costs	285	14
Consulting expenses	267	257
Marketing expenses	1,530	1,689
Travel expenses	472	99
Office expenses	123	68
Occupancy costs	61	111
Leasing expenses	46	47
Other expenses	90	245
	4,473	**4,454**

c) Administration

€,000s	2006	2007
Personnel costs	1,020	899
Scheduled depreciation	149	135
Consulting expenses	341	356
Marketing expenses	26	57
Travel expenses	139	76
Office expenses	187	159
Occupancy costs	43	48
IT	72	51
Leasing expenses	35	36
Annual financial statement expenses	183	155
Other expenses	117	376
	2,312	**2,348**

The occupancy costs are apportioned to subtenant relationships across all three areas and amount to €206,000 (previous year: €116,000).

The following expenses for Warth & Klein GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, as the auditor for the single entity and consolidated financial statements, are included in the annual financial statement expenses:
Year-end audit €88,000 (previous year: €114,000); for certification or valuation services €12,000 (previous year: €3,000); for tax consulting services €14,000 (previous year: €17,000); for other services €7,000 (previous year: €2,000).

During the financial year, the company employed an average of:
55 (previous year: 56) clerical staff and 12 (previous year: 12) industrial staff.

The regional allocation of the employees is as follows:

Employees	**2006**	**2007**
Germany	40	41
Rest of Europe	28	26
	68	**67**

The total personnel costs (**€,000s**) are divided as follows:

Employees	**2006**	**2007**
Wages and salaries	2,516	2,826
Social security costs	364	472
Pension scheme expenses	240	92
	3,120	**3,390**

In the financial year, the expensed remuneration of the key management staff amounted to €502,000 (previous year: €490,000). These are entirely short-term payables to the Group's internal legal representatives. Of that, an unchanged expense of €2,000 was incurred for services after the termination of an employment contract. €18,000 (previous year: €0) was registered due to the termination of employment contracts.

Included in the expenses for the pension scheme are the amounts for the defined contribution plans amounting to €7,000 (previous year: €51,000) as well as the additions to the pension provision.

(20) OTHER OPERATING EXPENSES

The other operating expenses amounting to €893,000 (previous year: €831,000) include, for the most part, expenses from value adjustments according to IAS 36.

The other operating expenses are related to the following items:

€,000s	2006	2007
Profits and losses relating to value adjustments according to IAS 36	729	779
Other expenses	102	126
	831	**893**

Expenses from the value adjustment relating to Rebac Wirkstoff amounting to €399,000 (previous year: €528,000) as well as a bad debt provision to the tune of €380,000 (previous year: €201,000) are included in the profit and loss result from value adjustments according to IAS 36.

(21) OTHER OPERATING INCOME

€,000s	2006	2007
Income from the disposal of assets	4	25
Exchange rate profits	264	212
Income from the increase in pension plan reinsurance	185	115
Income from licensing deals	36	0
Income from waiving of debts	0	289
Income from reversal of accruals	26	4
Other income	157	129
	672	**774**

(22) FINANCIAL RESULT

€,000s	2006	2007
Interest income	38	15
Interest expense	-400	-411
Finance result	**-362**	**-396**

The total interest expense for financial assets and financial liabilities, which are not valued at the income statement-related applicable fair value, amounts to €38,000 (previous year: €13,000).

(23) PROFIT/LOSS FROM COMPANIES VALUED USING THE EQUITY METHOD

The stake in Sanico Italy, whose value was fully adjusted in previous years, was sold in 2007. An allocable, proportional year-end result as well as a deconsolidation result for Medisana did not materialise.

(24) INCOME TAXES

€,000s	2006	2007
Current income taxes	-47	-162
Deferred income taxes	170	358
	123	**196**

The income from deferred income taxes amounting to €358,000 is mainly a result of the increase in deferred taxes on losses carried forward (€162,000) as well as the changes in the deferred taxes based on the valuation differences (€215,000). This amount was minimised through expense from the change in deferred taxes due to consolidation measures.

In the following, a transition from the expected to the actual recorded tax expense is shown. In order to calculate the expected tax expense, the profit before income taxes is multiplied by a tax rate of 38.65% (previous year: 38.65%). This rate is comprised of a tax rate of 25% for corporation tax plus solidarity surcharge and 15.8% for trade income tax. The expected tax expense/income is then compared to the actual tax expense/income.

Transition from expected to actual income tax expense/income

€,000s	2006	2007
Earnings before taxes	**-2,582**	**650**
Expected tax expense / tax income	**998**	**-251**
Changes to the income taxes resulting from:		
- Changes in the value adjustment of deferred taxes on losses carried forward	-672	1060
- Deferred taxes on consolidation effects	51	0
- Deferred taxes on deconsolidation effects	100	0
- Tax rate change	0	-683
- Differences resulting from foreign tax rates and exchange rate differences	-19	30
- Equity valuation	-369	0
- Tax-free income and non-tax-deductible expenses	34	40
Actual tax expense / tax income	**123**	**196**
Effective tax rate in %	4.78	-30.15

(25) YEAR-END RESULT AND SHARES OF OTHER SHAREHOLDERS

The shares of other shareholders represent €90,000 (previous year: €852,000) profit shares and €0 (previous year: €-955,000) loss shares.

The profit shares (+) or loss shares (-) of other shareholders affect the year-end results of the following affiliated entities:

€,000s	2006	2007
Sanico GmbH i.L.	233	0
Medisana Spain	-2	0
Medisana UK	-3	0
Medisana Hellas	13	13
Promed GmbH	74	77
Rebac GmbH	-418	0
	-103	**90**

(26) PROFIT/LOSS PER SHARE

The profit/loss per share (earnings per share: EPS) is calculated as a quotient of the Group's profit/loss and the weighted average of shares in circulation during the financial year

	2006	2007
Group year-end result for the shareholders of Medisana AG	-2,356,180	755,344
Weighted average per share	6,678,026	7,034,237
Earnings per share (EPS)	**-0.35**	**0.11**

The undiluted profit/loss per share is €0.11.

Based on the approved capital of 3,517,163 shares, the number of shares could be diluted in future.

Transition to the year-end result of the parent company:

€,000s	2006	2007
Consolidated annual results	-2,356	755
./. Results of subsidiaries and affiliated entities	-167	-123
./. Consolidation measures	-443	-13
./. Year-end result of other partners	103	90
Medisana AG year-end result according to IFRS	**-1,849**	**709**

NOTES TO THE CASH FLOW STATEMENT

(27) CASH FLOW STATEMENT

The cash flow statement is prepared according to the regulations of IAS 7 and is structured based on the cash inflows resulting from operating activity as well as from investing and financing activities. The impact of exchange rate changes on the financial means fund are shown separately.

Included in the inflow of funds from operating activities (€1,619,000; previous year: €-4,567,000) is interest income amounting to €3,000 (previous year: €3,000) and interest expense amounting to €349,000 (previous year: €395,000). The paid income tax amounts to €114,000 (previous year: €70,000).

The outflow of funds from investment activity (€-294,000; previous year: €1,660,000) is mainly a result of the investment in fixed assets to the tune of €295,000.

The outflow of funds from financing activity (€-765,000; previous year: €3,211,000) is mainly a result of the repayment of loans to the tune of €750,000.

The financial means fund of the cash flow statement equates to the liquid funds.

NOTES TO THE SEGMENT REPORTING

(28) SEGMENT REPORTING

The global business operations of the Medisana Group are completely focused on its core business of home health care. The primary segment reporting is geared towards a geographical segmentation. Here, the data is allocated to the location of each entity. To do this, the following geographical breakdown is made:

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

Medisana AG, Medisana Antiinfective Technologies GmbH, Promed GmbH and Rebac GmbH belong to the Germany segment. Medisana Far East is assigned to the other regions' segment and Medisana USA to the North America segment. The European geographical segment includes Medisana Spain, Benelux, Greece and Great Britain. Intersegment sales arise on the basis of purchase prices plus a commensurate cost and profit allowance.

The secondary segment reporting is geared towards the following business lines:

- **Health Control**
- **Home Therapy**
- **Beauty**
- **Other**

The Health Control segment includes products which record measurable biometric data and monitor important bodily functions such as blood pressure and temperature. The Home Therapy segment comprises products for effective self treatment such as, for example, ultrasound inhalation devices. The Beauty segment comprises all products for personal hygiene and beauty care. That includes, for example, hand and foot care devices.

The secondary segment reporting additionally shows, by breakdown of the external sales, in which region the products were sold.

The segment information is compiled in accordance with the same accounting and valuation methods that were used for compiling and preparing the financial statements.

The segment assets and segment debt contain the essential operating assets.

The segment result denotes the result before interest and income tax.

Investments and depreciation are related to the tangible assets and intangible assets.

This segmentation is carried out in accordance with IAS 14.35.

MEDISANA GROUP
2007 segment reporting by region

Segments	Germany		Rest of Europe		North America		Other regions		Consolidation		**Group**	
€,000s	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	**2006**	**2007**
Balance sheet												
Equity/Shares of other partners	14,221	14,594	175	23	-380	-362	-23	-24	-1,226	-546	**12,767**	**13,685**
Segment assets	20,326	22,602	5,558	6,110	487	1,028	35	27	-3,633	-5,873	**22,773**	**23,894**
Segment debt	8,958	11,135	4,656	5,309	481	995	58	51	-4,349	-6,407	**9,804**	**11,083**
P&L												
External sales	15,017	19,839	7,833	9,725	334	594	0	0	0	0	**23,184**	**30,158**
Intersegment sales	4,152	6,982	93	0	0	0	0	0	-4,245	-6,982	**0**	**0**
Segment sales	19,169	26,821	7,926	9,725	334	594	0	0	-4,245	-6,982	**23,184**	**30,158**
Depreciation	-334	-343	-71	-52	0	0	0	0	0	0	**-405**	**-395**
Segment result	-1,373	1,014	-977	36	-10	-35	21	-4	119	35	**-2,220**	**1,046**
of which	0	0	-958	0	0	0	0	0	0	0	**-958**	**0**
equity result												
Other data												
Expenses/income (excl. depreciation) not affecting payment	2	-221	0	0	0	0	0	0	0	0	**2**	**-221**
Investments	273	214	53	81	0	0	0	0	0	0	**326**	**295**
Employees as of 31.12.	46	42	32	25	0	0	0	0	0	0	**78**	**67**

The segment result reflects the EBIT plus the equity result per segment. The equity book value in the 'Rest of Europe' segment was written down to zero in 2006 and was disposed of in 2007.

In the financial year, the Germany segment was charged an amount of €399,000 (previous year: €528,000) because of a value impairment of the Rebac patent rights according to IAS 36. Additionally, a bad debt provision amounting to €176,000 (previous year: €140,000) was recorded to the profit and loss account.

The 'Rest of Europe' segment is based on a bad debt provision affecting net income amounting to €205,000 (previous year: €60,000) as well as an equity valuation in the previous year amounting to €958,000.

MEDISANA GROUP
2007 segment reporting by region

Segments	Health Control		Home Therapy		Beauty		Other		**Group**	
€,000s	2006	2007	2006	2007	2006	2007	2006	2007	**2006**	**2007**
Balance sheet										
Segment assets	5,070	7,902	9,131	7,869	6,873	6,352	1,699	1,771	**22,773**	**23,894**
of which										
equity book values	0	-	0	-	0	-	0	-	**0**	**-**
P&L										
External sales	5,161	9,974	9,295	9,933	6,997	8,016	1,731	2,235	**23,184**	**30,158**
Germany	2,509	5,980	3,654	4,124	3,637	3,390	362	212	**10,162**	**13,706**
Italy	8	0	20	0	4	0	4	0	**36**	**0**
Other EU countries	2,375	3,844	4,665	5,371	1,882	3,927	1,313	1,407	**10,235**	**14,549**
Rest of Europe	236	84	541	255	466	55	37	20	**1,280**	**414**
North America	0	0	334	0	792	630	0	594	**1,126**	**1,224**
South and Latin America	2	9	5	35	1	4	1	0	**9**	**48**
Africa	3	7	6	14	1	7	1	1	**11**	**29**
Asia	28	50	70	122	180	3	13	1	**291**	**176**
Australia/Pacific	0	0	0	12	34	0	0	0	**34**	**12**
Other data										
Segment investments	73	98	131	97	98	78	24	22	**326**	**295**

OTHER NOTES

(29) EVENTS AFTER THE BALANCE SHEET DATE

On 5 January 2008 Medisana Hellas founded the subsidiary Medisana Turkey as a 51% owner. As of 05.01.2008, this purchase expanded the consolidated group of companies.

On 16 April 2008, the shares of Medisana Far East were increased to 100% and all shares furnished with the same rights. Acquisition costs were not incurred.

An estimate of the financial impact of these changes is not possible at this time.

(30) MANAGEMENT OF FINANCIAL RISKS

As an internationally active Group, the business operations as well as the financial transactions of the Medisana Group are subject to liquidity, credit, interest rate and exchange rate risks which could have an influence on the asset, financial and earnings situation of the Group.

In the following, risk management as well as individual risks are addressed:

Risk management

The risk management system, also with regard to financial risks, is a part of the overall planning, controlling and reporting process. A handbook defines the identification and analysis of the risks. The responsible individual companies and business segments report regularly to the management. The goal is to be able to recognise risks early on and thus create room to manoeuvre which can be used for the long-term security of the company.

Liquidity risk

The Medisana Group counteracts liquidity risks with suitable liquidity planning, which is secured through committed credit lines. The planning is monitored via a monthly reporting system. Variations to the assessment of the business development, which cannot be absorbed through countermeasures, will possibly lead to a financing need which can only be covered through new financing.

On the balance sheet date, the supplier credit line, which has been committed for the coming financial year, amounted to $12,000 or to €8,142,000 (previous year: $10,000 or €7,580,000). Of this, as of 31 December 2007 $8.781,000 or €5,958,000 had been utilised. In order to pay the short-term financial liabilities due in 2008 amounting to €1,677,000 (previous year: €2,314,000), as of the balance sheet date, liquid assets amounting to €2,200,000 (previous year: €1,646,000) were available. For the development of the long-term financial liabilities, please refer to (16).

Based on this sensitivity analysis, the liquidity situation on the balance sheet date is covered and satisfactory.

Credit risk

The customers' default risk is counteracted through credit information. In the case of a default risk, then corresponding bad debt provisions are accrued. For details relating to overdue and value-adjusted financial assets, please refer to (7).

The categorisation of the financial assets and liabilities are as follows:

			Book values									
	Fair value		Cash and cash equivalents		Credits and accounts receivable		Affecting net income at the applicable fair value)*		Financial assets available for sale		**Total**	
€,000s	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	**2006**	**2007**
Financial assets	**11,607**	**11,928**	**1,646**	**2,200**	**8,804**	**8,504**	**0**	**0**	**1,157**	**1,224**	**11,607**	**11,928**
Long-term receivables	247	89			212	41			35	48	**247**	**89**
Trade receivables	7,745	8,064			7,745	8,064					**7,745**	**8,064**
Other receivables and other assets (short-term)	1,969	1,575			847	399			1,122	1,176	**1,969**	**1,575**
Liquid assets	1,646	2,200	1,646	2,200							**1,646**	**2,200**

) only 'held for trading purposes'*

The maximum credit default risk includes the applied total book values. The credit quality of the non-value-adjusted and non-overdue financial assets is deemed good and without risk, particularly in relation to the existing claims to cash and cash equivalents in respect of banks and insurance companies and the financial assets available for sale. Incidentally, the credit and receivable risks are faced with a default rate of 1.0% in 2007 and 0.6% in 2006. According to IFRS 7 (Sensitivity analysis for risk assessment), each 0.1% change in the default rate would have a profit/loss and equity effect on the balance sheet date of €9,000 with a constant receivables portfolio.

			Book values					
	Fair value		Other debt		Capitalised financial instruments affecting the net income at the applicable fair value)*		Total	
€,000s	2006	2007	2006	2007	2006	2007	2006	2007
Financial liabilities	**10,042**	**10,361**	**9,965**	**10,095**	**77**	**266**	**10,042**	**10,361**
Long-term financial liabilities	129	29	129	29			**129**	**29**
Short-term financial liabilities	2,314	1,677	2,314	1,677			**2,314**	**1,677**
Trade payables	6,145	7,695	6,068	7,429	77	266	**6,145**	**7,695**
Other liabilities	1,454	960	1,454	960			**1,454**	**960**

) only 'held for trading purposes'*

Interest rate risk

The scope of the interest rate-conditional cash flow risk was explained in the notes to the consolidated financial statements. Overall, the interest rate risk is seen as low, because Medisana can avoid the major interest rate charge of the supplier credit line by paying early. Incidentally, the interest rate risk-afflicted financing could be adjusted to the market conditions in the short- to medium-term. Hedging transactions are not used for this.

Currency risk

Currency risks exist in the MEDISANA Group when products are purchased in USD from suppliers in Asia. In view of currency rate fluctuations, the currency risk when purchasing is of superior consequence to the MEDISANA Group. In order to counteract this, the currency risk is mainly limited by means of 'forward plus' contracts and forward exchange deals.

In relation to the additional 'forward plus' contracts and the foreign currency hedging contracts established on the balance sheet date, please refer to our remarks under (16).
Financial instruments are not held for speculative reasons.

According to IFRS 7 (Sensitivity analysis for risk assessment), each one-cent change in the USD/EUR exchange rate could mean a change in profit/loss and equity of €4,000 per $1 million of purchased goods.

(31) WAIVING OF DEBTS

As of 20 December 2007, Medisana AG declared a changed debtor warrant with respect to Gimelli International Ltd, Hong Kong. This relates to the debt waiver of TTI Techtronic Industries Co. Ltd, Hong Kong, declared on 23 September 2004, as well as the debt waiver of Gimelli International Ltd, Hong Kong declared on 20 October 2004.

From 2008, the debtor warrant allows for a repayment of Medisana AG's commercial year-end result exceeding the EBT amount of €2,000. The payment should be made in HKD at the current foreign exchange rate. This obligation is valid until a total amount of HKD 40,557,000 (equivalent to €3,532,000 on the balance sheet date) has been paid to Gimelli International Ltd, Hong Kong.

(32) INFORMATION ON RELATIONSHIPS TO AFFILIATED COMPANIES AND PEOPLE

The Chairman of the Management Board of Medisana AG is simultaneously Managing Director of Royal Appliance International GmbH, Hilden, Germany. Since 1 January 2005, Royal Appliance International GmbH has sublet the building it has leased in Hilden to Medisana AG. From this, there was a cost transfer amounting to €36,000 in 2007 (previous year: €36,000). An additional €24,000 (previous year: €24,000) was charged to Medisana AG for the use of IT equipment and services. Since 1 May 2006, Royal Appliance International GmbH also sublets the warehouse it has leased in Neuss to Medisana AG. From this, costs were passed on from Royal Appliance International GmbH amounting to €170,000 in 2007 (previous year: €80,000).

Furthermore, in the 2007 financial year employees of Royal Appliance International GmbH performed personnel-related services for Medisana AG amounting to €281,000 (previous year: €251,000). On the other hand, in the 2007 financial year Medisana AG provided Royal Appliance International GmbH with personnel-related services to the tune of €36,000 (previous year: €0), and leasing costs were passed on amounting to €18,000 (previous year: €0).

The €500,000 loan granted in the previous year from Royal Appliance was repaid.

Allowing for the short-term prepayments of Royal Appliance International GmbH, as of 31 December 2007 the following short-term due and payable balances arose at Medisana AG.

€,000s	2006	2007
Trade receivables	17	39
Trade payables	340	143
Short-term financial liabilities	500	0

The business relationship between Royal Appliance International GmbH and Medisana AG was conducted at market conditions.

The Chairman of the Management Board of Medisana AG is simultaneously Managing Director of Cedar Holdings GmbH, Hilden, Germany. Cedar Holdings GmbH grants Medisana AG a loan to the tune of €150,000 (previous year: €150,000) and Rebac GmbH i.L. a loan with a letter of subordination to the tune of €50,000 (previous year: €50,000). Both loans are shown under the short-term financial liabilities.

The loan to Medisana AG bears a 4% interest rate; the loan to Rebac GmbH i.L. a 5% interest rate. This led to an interest expense for Medisana AG totalling €6,000 (previous year: €6,000) and an interest expense for Rebac GmbH i.L. totalling €1,000 (previous year: €3,000). The interest for the loan to Rebac was only charged up to the point when insolvency proceedings began in respect of Rebac GmbH i.L.
On the balance sheet date, Medisana AG had trade accounts payable amounting to €19,000 (previous year: €12,000). Those of Rebac amounted to €7,000 (previous year: €6,000).
The business relationship between Cedar Holdings GmbH and Medisana AG as well as Rebac GmbH i.L. was conducted at market conditions.

The Chairman of the Management Board of Medisana AG is simultaneously Managing Director of Stellar GmbH, Hilden, Germany. In 2007 Medisana AG transacted good and services with Stellar GmbH and generated sales amounting to €162,000 (previous year: €51,000). On the balance sheet date, Medisana AG shows a trade receivable balance in respect of Stellar GmbH to the tune of €19,000 (previous year: €59,000) as well as trade payables totalling €24,000 (previous year: €1,000). These payables are a result of personnel-related services, which Stellar performed for Medisana. The business relationship between Stellar GmbH and Medisana AG was conducted at market conditions. The amounts are due and payable in the short term.

The Chairman of the Management Board of Medisana AG is simultaneously Managing Director of Domostar GmbH, Hilden, Germany. There were no transacted goods or services between Medisana and Domostar GmbH in 2007, therefore this did not result in any sales (previous year: €1,000). Due to the clearing out of warehouse inventory at Domostar, in the previous year Medisana took back €3,000 worth of goods against credit. On the balance sheet date, Medisana AG shows a trade accounts receivable balance towards Domostar amounting to €-3,000 (previous year: €19,000), as well as a trade accounts payable balance amounting to €0 (previous year: €1,000).
The business relationship between Domostar GmbH and Medisana AG was conducted at market conditions.

Mr Bert Peels, former Board member of Medisana AG and former Managing Director of Medisana Benelux N.V., is simultaneously Managing Director of Sube B.V., Heerlen. His Managing Director remuneration from Medisana Benelux N.V: amounting to €59,000 (previous year. €78,000) was paid to Sube B.V. during the course of the financial year.

Sube B.V., Heerlen, is the Managing Partner of Trebs B.V., Heerlen. In the 2007 financial year, Trebs B.V., Heerlen, did not deliver any goods to Medisana AG (previous year: €375,000). Trebs B.V., Heerlen, holds the European distribution rights for the Medinose. Open items do not exist in respect of Trebs B.V. (previous year: €10,000 liability).

Medisana Benelux N.V. purchased goods with a total value of €392,000 (previous year: €0) from Trebs B.V. at market prices. In addition, personnel costs amounting to €16,000 (previous year: €-32,000) were passed on from Medisana Benelux N.V. to Trebs B.V. Overheads totalling €34,000 (previous year: €13,000) were recharged to Trebs B.V. The open receivables and payables remain unchanged at under €1,000.

Sube B.V., Heerlen, is the Managing Director of Nearbor Ltd, Hong Kong. In the previous year, a payment of €25,000 was made to Nearbor Ltd, Hong Kong for distribution rights. Open balances do not exist on the balance sheet date.

Additional reportable relationships to affiliated persons or parties do not exist.

(33) CONTINGENCIES/ CONTINGENT LIABILITIES

Medisana assumed a comprehensive obligation to meet liabilities for legal fees and contingent liabilities resulting from a lawsuit relating to advertising claims. The total costs cannot yet be determined.

The Group did not enter into any additional contingencies or contingent commitments.

(34) GUARANTEES

In 2003, Medisana AG received a loan from Stuttgarter Versicherung.
The pension plan reinsurance with Stuttgarter Versicherung is kept as a security. The book value on the balance sheet date amounts to €206,000 (previous year: €206,000)

At Commerzbank AG, Düsseldorf, existing credit balances amounting to €127,000 are pledged as a security for a bank guarantee.

(35) CORPORATE GOVERNANCE STATEMENT

The statement of compliance to the German Corporate Governance Code, which is required in accordance with Article 161 of the German Companies Act, was issued by the Management Board and the Supervisory Board and was made accessible to the shareholders.

(36) SUPERVISORY BOARD AND MANAGEMENT BOARD

During the reporting period the executive positions of Medisana AG were filled as follows:

MANAGEMENT BOARD

Mr Ralf Lindner
Hamburg, Germany
(Chairman of the Management Board)
Board member responsible for strategy, investor relations/corporate marketing, global sales
- Member of the Supervisory Board at CCP Systems AG, Stuttgart, Germany

Mr Hubertus A. Peels
Heerlen/Netherlands
(until 30.09.2007)
Board member responsible for ROW sales, distribution partner liaison and foreign subsidiaries, excluding USA

Mr Marco Getz
Aachen, Germany
(since 01.10.2007)
Board member responsible for finance, controlling and administration

In 2007, the total remuneration for the Management Board members was €264,000 (previous year: €150,000).

As of 31.12.2007, €1,176,000 (previous year: €1,122,000) of the pension provision are apportionable to former Management Board members.

SUPERVISORY BOARD

Dr Matthias Hartz
Hong Kong,
Senior Vice President, Corporate Affairs – TTI Group
(Chairman)
- Member of the Supervisory Board at A&M Electric Tools GmbH, Winnenden, Germany

Mr Thies G.J. Goldberg Hamburg, Germany,
Independent Corporate Consultant, Goldberg Consulting GmbH
(Vice Chairman of the Supervisory Board)

Dr Heinrich Komesker
Unkel,
Technical Managing Director
JK-Holding GmbH

In 2007, the remuneration of the Supervisory Board totalled €15,000 (previous year: €18,000).

Hilden, Germany. 24.04.2008
The Management Board

Audit certificate

We have audited the consolidated financial statements of Medisana AG, Hilden, Germany – consisting of balance sheet, profit and loss statement, statement of changes in equity, cash flow statement and notes – as well as the Group annual report for the financial year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and Group annual report in accordance with IFRS, as they are applied in the EU, and the additional applicable commercial law regulations, according to Article 315a, Section 1 HGB (German Commercial Code), are the responsibility of the company's legal representatives. Our job is to present an assessment of the consolidated financial statements and the Group annual report on the basis of the audit carried out by ourselves.

We have performed our audit of the consolidated financial statements in accordance with Article 317 of the German Commercial Code and in compliance with the German standards of proper auditing set forth by the Institute of German Chartered Accountants (IDW). According to these standards, the audit is to be planned and carried out in such a manner that any inaccuracies or infringements that have a significant effect on the true presentation of the company's assets, financial position and earnings by means of the consolidated financial statements and the Group annual report, taking into account the applicable statutory accounting regulations, are detected with sufficient certainty. In determining the actions to be taken during the course of the audit, knowledge about the business activities and about the economic and legal environment in which the Group operates are taken into consideration, as are the expectations relating to possible errors. In the context of the audit, the effectiveness of the internal financial accounting monitoring system and evidence of the accuracy of the details in the consolidated financial statements and Group annual report are predominantly assessed on the basis of random samples. The audit includes an evaluation of the annual financial statements of the companies included in the consolidated financial statements, the differentiation of all the companies to be consolidated, the accounting and consolidation principles applied and the key projections of the legal representatives as well as an appraisal of the overall presentation of the consolidated financial statements and the Group annual report. We believe that our audit constitutes a sufficiently secure basis for our assessment.

Our audit identified no cause for objection.

In our opinion, and based on the knowledge gained during the audit, the consolidated financial statements conform to the IFRS, as they apply in the EU, and German commercial law additionally applicable according to Article 315a, Section 1 HGB and provide a true and fair view of the assets, financial position and earnings situation of the Group. The Group annual report is in line with the consolidated financial statements and, as a whole, provides an accurate picture of the Group's position and accurately depicts the opportunities and risks of future development.

Warth & Klein GmbH
Auditing firm

Dr Thomas Senger
Chartered accountant

Ronald Rulfs
Chartered accountant

Düsseldorf, Germany. 15 May 2008

Information on risk

Forward-looking statements contain risks

This document includes forward-looking statements about future developments which are based on the management's current assumptions. Words such as "anticipate", "assume", "believe", "assess", "expect", "intend", "can/could", "planning", "projecting", "should" and similar expressions define these kinds of forward-looking statements. Such statements are subject to certain risk and uncertainties. Should one of the uncertain factors or other uncertainties occur or the assumptions used to make these statements prove to be wrong, then actual results could vary significantly from the implicitly expressed results specified in these statements. We neither intend nor do we assume an obligation to continuously update our forward-looking statements, since these solely pertain to circumstances present on the day of their publication.

Financial calendar

The financial calendar reflects all the important dates of MEDISANA AG and provides an overview of the previous and upcoming announcements. Additional information or event documents are available upon request.

28 May 2008	**Publication of the 2007 year-end financial report**
4 June 2008	**Publication of the first quarter interim report**
26 June 2008	**Annual general meeting Location: Wöllhaf Konferenz- und Banketttcenter (Wöllhaf conference and banquet centre), Düsseldorf International Airport, Terminal B, 40474 Düsseldorf, Germany Time: 11.00 a.m. welcoming coffee from 10.30 a.m.**
7 August 2008	**Publication of the 2008 mid-year financial report**
6 November 2008	**Publication of the third quarter interim report**

MEDISANA worldwide

SUBSIDIARIES

Netherlands/Belgium/Luxembourg
Medisana Benelux NV
Euregiopark 30
6467 JE Kerkrade
Tel.: +31 (0)45 547 0860
Fax: +31 (0)45 547 0879
Email: info@medisana.nl
Internet: www.medisana.nl

Germany
Promed
Lindenweg 11
82490 Farchant
Tel.: +49 (0)8821 962 118
Fax: +49 (0)8821 962 121
Email: info@promed.de
Internet: www.promed.de

England
Medisana Healthcare UK Ltd
Kingswood Road
Hampton Lovett
Droitwich
WR9 0QH
Tel.: +44 (0)20 7237 8899
Fax: +44 (0)20 7252 2299
Email: sales@medisana.nl
Internet: www.medisana.co.uk

Greece
Medisana Hellas
Kosma Etolou & Kazantzaki 10
141 21 N. Iraklion
Tel.: +30 210 275 0932
Fax: +30 210 275 0019
Email: info@medisana.gr
Internet: www.medisana.gr

Spain
Medisana Healthcare, s.l.
Plaza Jose Freixa i Argemí, no 8
08224 Terrassa (Barcelona)
Tel.: +34 937 336 707
Fax: +34 937 888 655
Email: info@medisana.es
Internet: www.medisana.es

Asia
Medisana Far East Ltd
Rm. 812 World Commerce Centre
Harbour City
11 Canton Road
Kowloon/Hong Kong
Tel.: +852 2736 8276
Fax: +852 2314 8339
Email: info@medisana.com.hk

USA
Medisana USA LTD
7005 Cochran Road
OH 44139-2103 Glenwillow
Tel.: +1 800 928 9366
Fax: +1 847 431 6869

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Publisher **MEDISANA AG**
Itterpark 7–9
40724 Hilden
Tel.: +49 (0)2103 200 760
Fax: +49 (0)2103 200 7626
Email: info@medisana.de
www.medisana.de

MEDISANA AG

Itterpark 7–9 · 40724 Hilden · Germany

Tel. +49 (0)2103 200 760 · Fax +49 (0)2103 200 7626 · info@medisana.de · www.medisana.de