CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF FRESENIUS AG, BAD HOMBURG V.D.H.

at December 31, 2005

applying § 315a HGB in accordance with
International Financial Reporting Standards

CONTENTS

MANAGEMENT REPORT

- Sales up 8 %, net income up 34%.
- Operating cash flow of € 784 million achieved.
- Outlook for 2006: Sales expected to exceed € 10 billion, net income projected to grow by more than 30 %.

The business of the Fresenius Group developed very positively in 2005. We again achieved new sales and earnings records while improving our profitability. Fresenius Kabi and Fresenius ProServe were strengthened by the acquisitions of Labesfal, HELIOS and Clinico. Fresenius Medical Care announced plans to acquire the US dialysis care provider Renal Care Group. Investments in acquisitions rose substantially and were financed using a mix of equity and debt.

OPERATIONS AND BUSINESS ENVIRONMENT

Group Structure and Business

Fresenius is an international healthcare group with products and services for dialysis, the hospital and outpatient medical care. In addition, Fresenius focuses on hospital operations as well as on engineering and services for hospitals and the pharmaceutical industry.

Our operating business comprises the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe, which are legally independent and are managed by the operating parent company, Fresenius AG. The corporate structure remained unchanged in the reporting period.

Fresenius Medical Care mainly focuses on dialysis care and manufactures and markets products for the treatment of patients with End Stage Renal Disease (ESRD). Fresenius Kabi specializes in the production and sale of products for infusion therapy, clinical nutrition and transfusion technology. Fresenius ProServe is active in hospital operations and offers engineering and services for hospitals and other health care facilities as well as for the pharmaceutical industry. The segment Corporate/Other comprises the holding activities of Fresenius AG, the IT service provider Fresenius Netcare as well as Fresenius Biotech. Fresenius Biotech is active in the research and development of antibody and cell therapies. The segment Corporate/Other also performs consolidation activities between the segments.

Fresenius operates internationally so the business segments have a regional and decentralized structure. Responsibilities are clearly defined in line with the company's "entrepreneur in the enterprise" management principle. Additionally, management accountability is reinforced by an earnings and target-linked compensation system.

Fresenius has an international marketing and production network with more than 50 production sites worldwide. Key production sites are located in the United States, Japan, Germany and Sweden. Beyond this, Fresenius has manufacturing plants in other European countries, Latin America, Asia and South Africa. The international production network allows us to implement our business model while meeting the most exacting logistics and regulatory demands. The decentralized structure of the production sites also has the advantage that it significantly reduces transportation costs and currency exposure.

Management and control

The corporate organs of the Group are the Management Board, the Supervisory Board and the Annual General Meeting. In accordance with the German Stock Corporation Act (AktG), Fresenius AG has a dual management and control system consisting of the Management Board and the Supervisory Board. These two boards work independently of each other. No one person is allowed to be a member of both organs.

The Management Board conducts the business and represents the company in dealings with third parties. The Management Board has five members. According to the Management Board's rules of procedure, each member is accountable for his area of responsibility. However, the members have joint responsibility for the management of the Group. The Management Board is required to report to the Supervisory Board regularly, in particular on its corporate policy and strategies, the profitability of the business, current operations and any other matters that could be of significant importance for the company’s profitability and liquidity.

The Supervisory Board appoints the members of the Management Board and supervises and advises the Management Board in managing the company. However, the Supervisory Board is fundamentally prohibited from managing the company in any way. The Management Board’s rules of procedure require it to obtain the Supervisory Board's approval for specific activities. The Supervisory Board comprises six shareholders‘ representatives and six employees’ representatives. The shareholders' representatives are elected by the Annual General Meeting. The employees‘ representatives are elected in accordance with the German Co-Determination Act (MitbestG). The Supervisory Board must meet at least twice per calendar year.

For information on compensation, please see pages 139 and 140 in the Notes.

Key Products, Services and Business Processes

Fresenius offers a comprehensive range of products for hemodialysis and peritoneal dialysis and provides dialysis care in its own dialysis clinics. Dialysis products are sold to internal clinics as well as to external dialysis care providers. In addition, Fresenius is one of the few companies to offer a comprehensive portfolio of enteral and parenteral nutrition therapies. Fresenius also offers a broad spectrum of products for fluid and blood volume replacement as well as a portfolio of generic intravenously administered (IV) drugs. Fresenius Kabi markets its products primarily to hospitals and other health care facilities. Fresenius ProServe is active as a private hospital operator in Germany and the Czech Republic through HELIOS and Wittgensteiner Kliniken. It also offers engineering and services for hospitals and health care facilities through VAMED and engineering and services for the pharmaceutical industry through Pharmaplan.

Important Markets and Competitive Position

Fresenius operates in around 60 countries through its subsidiaries. The United States and Europe are the main markets where Fresenius generates 47 % and 38 % of its sales, respectively.

Fresenius Medical Care is the largest dialysis company in the world. Fresenius Kabi holds leading positions in Europe and in the growth markets of Asia-Pacific, Latin America and South Africa. The acquisition of HELIOS has established Fresenius ProServe as one of the leading private hospital operators in Germany.

Legal and Economic Factors

The markets of Fresenius are fundamentally stable and relatively independent of economic cycles because of the central importance of the life-saving and life-sustaining products and treatments which the Group offers. Furthermore, the markets in which Fresenius operates are expanding. This is due, on the one hand, to demographics and the demand for innovative therapies in industrialized counties and, on the other hand, to the increasing availability of high-quality health care in developing countries.

The statement of income and the balance sheet can be influenced by currency translation effects as a result of exchange rate fluctuations, especially in the rate of the US dollar to the euro. This had hardly any affect on the statement of income in fiscal 2005 as the average annual exchange rate between the US dollar and the euro was virtually unchanged at 1.2442 in 2005 versus 1.2439 in 2004. The balance sheet, however, was significantly affected as the closing rate as of December 31, 2005 was 1.1797 as compared with 1.3621 as of December 31, 2004.

Legal factors that would have significantly impacted the development of business did not occur.

Corporate Performance Measures, Goals and Strategy

The Management Board controls the business segments by setting strategic and operative targets, and through various financial ratios. In line with our growth strategy, organic growth is an important criterion. Furthermore, operating profit or EBIT (earnings before interest and taxes) is a useful yardstick for measuring the profitability of the business segments. Financing is a central Group function over which the business segments have no control. Therefore, neither interest expenses resulting from financing activities nor tax expenses are included in the financial targets for the business segments. The Management Board believes that, in addition to operating profit, EBITDA (earnings before interest, taxes, depreciation and amortization) is a good indicator of the business segments' ability to achieve positive financial results and service financial commitments. The contributions our business segments make to operating cash flow are controlled on the basis of days sales outstanding and scope of inventories. At Group level we use return on operating assets (ROOA) and return on invested capital (ROIC) as benchmarks to evaluate our business segments and their contribution to shareholder value. Another key performance indicator at Group level is the net debt/EBITDA ratio.

The key elements of Fresenius Group's strategy and goals are:

- To expand our market position: Fresenius' goal is to ensure the long-term future of the company as a leading international provider of products and services in the health care industry. Fresenius Medical Care is the largest dialysis company in the world. The announced acquisition of Renal Care Group will further strengthen its position in the United States. Future opportunities in dialysis will emerge from the further international expansion of the dialysis care business. Fresenius Kabi is the European market leader in infusion therapy and clinical nutrition. The company also plans to roll out more products from its portfolio in the growth markets in order to strengthen its position. Fresenius Kabi aims to increase its market share through the launch of new products in the field of generic intravenously administered drugs, and new medical devices for infusion therapy and clinical nutrition. The acquisition of HELIOS Kliniken presents opportunities for Fresenius to build on a strong position as the privatization of the German hospital market accelerates.
- To extend our global presence: Besides sustained organic growth in markets where Fresenius is already established, the company's strategy is to diversify into new growth markets, especially in Asia-Pacific and Latin America. With our brand name, product portfolio and existing infrastructure, we intend to focus on markets that offer attractive growth potential. Fresenius plans to make selected acquisitions to expand its market position and diversify geographically.
- To strengthen innovation in the development of new products and technologies: Fresenius' strategy is to build on

its strong position in technology, its expertise in patient care and its ability to manufacture cost-effectively. We believe that our R & D expertise can be leveraged in daily operations to tailor products and systems to individual patient needs while providing a high level of safety and ease of use. Fresenius will continue to meet the requirements of best-of-class medical standards by developing and producing effective products and treatment methods for the critically ill. Fresenius ProServe's goal is to widen the brand-name recognition of its health care services and innovative therapies.

- To enhance profitability: Our goal is to continue improving Group profitability. On the costs side, Fresenius is concentrating particularly on making its production plants still more efficient, exploiting economies of scale, leveraging the existing marketing and distribution infrastructure more intensively, and practicing strict cost control. Focusing on operating cash flow with efficient working capital management will increase our flexibility for investments and improve the financial ratios.

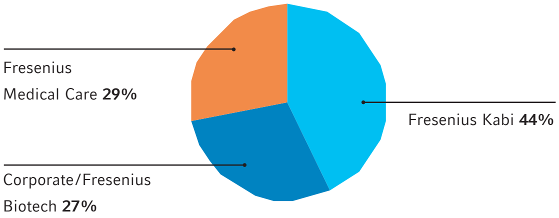
Research and Development

Fresenius focuses its R & D efforts on the core activities of the business segments. These are:

- Dialysis and other extracorporeal therapies
- Infusion and nutrition therapies as well as medical technology
- Antibody and cell therapies

Besides products, we are concentrating on developing optimized or completely new therapies, treatment methods and services. In 2005, we successfully continued numerous projects. Several new products were launched.

R & D EXPENSES BY BUSINESS SEGMENT



2005: € 147 million

Fresenius Medical Care continued to invest in improving treatment therapies. The main focus of the projects was on the further development of dialyzers and especially on a new generation of dialysis machines for hemodialysis. The new 5008 dialysis machine was introduced in 2005. Another area was peritoneal dialysis and other extracorporeal therapies. Fresenius Kabi focused on developing new products and product enhancements in its core areas of infusion therapy, clinical nutrition and medical technology. In 2005, we successfully completed the development of the new primary packaging for our SMOFlipid® parenteral nutrition product. We also worked on a new variety of our blood volume replacement Voluven®. In infusion technology the focus was on additional devices for our Agilia generation. Important projects at Fresenius Biotech involved antibody therapies: Clinical studies on the treatment of cancer continued last year. We expect the results from studies covering a range of indications in 2006.

Expenses on research and development amounted to € 147 million in 2005, 20% more than the € 122 million spent the previous year. We invested around 5% of our product sales in R & D. The chart shows R & D expenses by business segment. Fresenius Kabi hiked its R & D spending considerably, from € 52 million in 2004 to € 64 million in

2005. R&D expenses in the Corporate segment were up from € 36 million in 2004 to € 40 million last year. This was driven by Fresenius Biotech.

As of December 31, 2005, 856 people were employed in research and development (December 31, 2004: 819). Of that figure, 353 people were employed by Fresenius Medical Care, 432 by Fresenius Kabi and 71 by Fresenius Biotech.

Our main research sites are in Europe, while the United States and China perform production-related research. Our R&D activities are mainly conducted in-house. External R&D activities are commissioned only on a limited scale.

Overall Business Development

Economic environment

Although the global economy continued to grow strongly in 2005, the 4.5 % increase in gross domestic product (GDP) failed to match previous year's 5.0 %. The drastic rise in oil prices was the primary restraint on economic development. The price of crude Brent oil was under US$ 40 per barrel at the beginning of 2005 but had climbed to more than US$ 55 by mid-March and hit record levels of nearly US$ 70 in the following months. International trade was again the key driver of the global economy, and low interest rates continued to have a positive effect. The development of local economies was mixed. The economies of China and the United States remained robust in contrast to the weaker economies of Japan and countries in the euro zone.

– Europe

GDP in the euro zone rose by 1.5 % (2004: 1.8 %) although growth rates varied from country to country. Spain (3.4 %) and Ireland (4.5 %) boasted the highest GDP growth while Germany (1.1 %), Portugal (1.0 %), the Netherlands (0.7 %) and Italy (0.2 %) were at the lower end. The, in part, poor economic development was due in the main to subdued consumer spending, a reflection of the weak labor market, as well as lower corporate investment spending despite improved profits and low interest rates. Public finances in the euro countries remained strained and almost half of the countries overshot the deficit level of 3 % agreed in the Economic Stability Treaty. Germany's economic development was once again supported by robust export growth while domestic demand failed to recover. Some EU countries that do not use the euro also experienced weaker economies, but not at the same level as the countries in the currency union. The economic momentum of the new member countries continued but, at 5.2 %, their aggregate GDP growth was lower in 2005 than in 2004 (7.0 %).

– United States

The US economy slowed only slightly in 2005 despite the Federal Reserve's rate tightening from 2.25 % to 4.5 %, the strong climb in oil prices and the damage from hurricanes. Strong domestic demand supported the 3.5 % increase in GDP (2004: 4.2 %). Consumer spending and investments were the main drivers, supported by positive developments on the labor market. Imports rose faster than exports, leading to a further increase in the trade deficit.

– Asia

Asia (excluding Japan) was once again the world's fastest-growing region with a 7.7 % increase in GDP (2004: 8.0 %). After a temporary downturn in the second half of 2004, Japan's GDP rose 2.7 % in 2005 (2004: 2.3 %). Growing disposable incomes stimulated the economy. China continued its impressive growth track, with GDP up 9.4 % in 2005 (2004: 9.5 %). Exports also played a significant role. In India, the IT and pharmaceutical industries supported the economy. With GDP growth of 7.7 % last year, India remains one of the growth centers of the world (2004: 7.2 %). Oil-importing countries such as South Korea and Thailand, with GDP increases of 3.8 % and 4.5 %, respectively, felt the dampening effect of higher oil prices. By contrast, oil-exporting nations such as Indonesia and Malaysia performed better and continued their dynamic growth with rates of 5.1 % and 5.0 %.

– Latin America
  Although growth in Latin America remained robust with a rise in GDP of 4.3 %, it was significantly lower than the 6.1 % in 2004. Argentina saw GDP growth of 8.7 %, Brazil 2.5 % and Mexico 3.1 %. Drivers were the growth of the global economy and the sustained demand for raw materials. Especially the commodity exporting countries in Latin America benefited from these trends. The positive economic environment was dampened by emerging inflationary risks. This is especially true in Argentina where price inflation doubled to about 12 % in 2005. Mexico and Brazil weakened domestic demand with their monetary policies.

Health care industry

The health care sector is one of the world's most stable industries and has set itself apart through years of continuous growth and its relative insensitivity to economic fluctuations. Aging populations, demand for innovative medicine especially in industrialized nations, and the demand for primary care in developing countries are the main contributing factors.

At the same time, the cost of health care is rising and is claiming an ever increasing share of national income. Health care spending in the OECD countries has climbed from an average of 7.1 % of GDP in 1990 to an average of 8.8 % in 2003. In 2003, the United States had the highest health care spending relative to GDP of 15 %, followed by Switzerland with 11.5 % and Germany with 11.1 %.

Reforms and cost-control measures are the main reactions to the explosion in costs in the health care systems. Disease prevention programs and innovative reimbursement models, where the quality of treatment is used as the key parameter, are also gaining in importance. By educating patients better about how to lead a healthy life and on prophylactic measures, numerous costly treatments can be prevented in the long-term. The quality of treatment is a key factor in improving medical results and reducing treatment costs.

The following describes the development of our most important markets:

– The dialysis market
  About 1.45 million people worldwide who suffer from chronic kidney failure regularly receive dialysis treatment. More than 89 % of dialysis patients receive hemodialysis while about 11 % choose peritoneal dialysis. An aging population and an increase in diabetes and high blood pressure, which often lead to terminal kidney failure, are the main factors behind the rise in patient numbers. Optimized treatments that extend the lives of patients and higher standards of living in developing nations are additional reasons for the increase in patient numbers.

  The prevalence, or the number of patients treated for terminal kidney failure as a proportion of the population, differs substantially. The 20 strongest economies, which include the two largest dialysis markets, the United States and Japan, have an average prevalence of more than 1,000 patients per million population. In countries with lower economic outputs the prevalence is about 500 patients per million population and in countries with weak economies it is less than 100 patients per million population. These numbers show how limited the access to dialysis treatment remains in many parts of the world.

Source: Bank research, German Council of Economic Experts Annual Report 2005/2006

The majority of hemodialysis patients are treated in dialysis clinics. There are more than 23,500 dialysis centers worldwide, with an average of 55 hemodialysis patients receiving treatment per clinic. In the United States, most of the centers are run privately and less than 5 % of the approximately 4,500 clinics are publicly operated. By comparison, some 60 % of the approximately 4,000 dialysis clinics in Europe are publicly owned. Overall, the number of patients grew about 6 % in 2005. As they increase their level of health care coverage, economically weak regions show growth rates of about 10%, well above those in the United States, Japan and Western and Central Europe. In 2005, the global market for dialysis products was worth more than US$ 8 billion.

The ongoing consolidation of the dialysis industry in recent years continued with the DaVita/Gambro Healthcare deal. DaVita acquired the US dialysis clinics of Gambro in 2005. Fresenius Medical Care announced plans to acquire Renal Care Group in May 2005.

Because treatment costs in the United States are covered primarily by public health insurers, competition among providers is primarily with respect to quality and availability. Outside the United States, Fresenius Medical Care competes in most countries mainly with independent clinics and clinics that are affiliated to hospitals.

Fresenius Medical Care is the leading global company in dialysis care as well as in dialysis products, where its market share is approximately 28 %.

– The market for infusion therapy and clinical nutrition

Demographic changes, the resulting higher need for medical services and the demand for innovative therapies are the main growth drivers in our markets. However, market conditions vary widely from region to region. In Central and Western Europe, cost-saving measures and health care reforms are the key factors shaping the public health systems. At the same time, the cost pressure in these countries is triggering new demand. Therapies that lead to better clinical results while reducing hospital stays and speeding up the recovery of the patients are gaining in importance. Cost pressure in hospitals, budget caps and new health care savings plans are resulting in outpatient and inpatient care being linked more and more closely, and are leading to an increase in outpatient treatment.

The overall market for infusion therapy and clinical nutrition is growing in Central and Western Europe at a low single-digit rate. The growth in generic intravenously administered drugs for hospitals is in the mid-single-digit range. Continuing cost pressure at hospitals and increasing use of generic drugs as well as the expiration of numerous patents will accelerate this growth in the future.

The market for medical devices for infusion therapy and clinical nutrition continues to grow in Europe at a mid-single-digit rate. Innovative technologies in particular ensure that the treatment of patients is made even safer while the efficiency of therapies increases.

In the growth regions of Asia-Pacific, Latin America and Eastern Europe, the health care systems are developing rapidly. The main focus here is to provide primary health care to the population, which is continuously increasing the demand for health-related services. Growth rates in our product markets here are in the high single-digit and sometimes double-digit region.

– The German hospital market

In 2004, the German hospital market consisted of 2,166 acute care hospitals with a total of 531,333 beds. More than 16.8 million treatments were performed. From 1999 through 2004, the average stay of a patient in an acute care clinic dropped by one day to 8.7 days in 2004 (2003: 8.9 days). At the same time, the bed utilization rate fell between 1999 and 2004 from 82.2 % to 75.5 %. The market is worth about € 65 billion.

Government health policy has unleashed significant pressure for change in the hospital market, especially among care providers. A new reimbursement system based on diagnosis-related groups (DRGs) was introduced in Germany in 2004. Patients are categorized into a DRG based on their diagnosis and proposed treatment, in order to classify them according to the level of costs incurred. Each treatment group has a specific DRG value that is based on the average cost at comparable hospitals. The reimbursement rate for a complex heart bypass surgery is higher than for a standard appendectomy. Before the DRG program was introduced, reimbursement was based on the principle of refunded costs which encouraged unnecessarily long stays in hospital and inefficient treatment.

To promote transparency in hospital services, the German government has introduced a system of structured quality reports. All acute care hospitals had to submit these reports for the first time in 2005. The reports include key figures of hospital operations such as the number of treatments and information on quality management. Furthermore, the system allows for patients and their practitioners to select hospitals based on objective criteria for the first time.

The standardized DRG-based reimbursement will increase competition between hospitals and force them to place much more emphasis on quality and patient satisfaction than before. There will be consequences for clinics with unfavorable cost structures and inefficient workflows.

According to a survey last year by the German Hospital Institute, the financial situation of hospitals continues to be marked by a decrease in the number of inpatient cases and growing difficulties in financing investments. The investment rate decreased to 11.3 % in 2004 (2003: 13.6 %). Of the 319 hospitals in the survey, 40 % expect funds for investments to decrease further over the next three years.

Strained public finances are the reason for this development. In general, hospitals in Germany are entitled to government-supported investments. Therefore, such investments are not included in the revenues for health services. Public insurers cover only the operating costs. After the changes introduced in 2004, many hospitals find it difficult to maintain high medical and technical standards as well as to cope with their investment needs. Overall, about 40 % of the hospitals involved in the study rated their economic situation as "unsatisfactory" while 18 % said it was "good". 39 % were undecided.

The introduction of the DRG system has led to a reduction in the length of hospital stays and consequently in staff cuts, especially in nursing staff. The number of doctors, however, has increased, as has the number of personnel in medical controlling and documentation. 2005 saw the first privatization of a university hospital, the Giessen and Marburg University Hospital.

The Management Board's assessment of the effect of general economic developments and developments in the health care sector for Fresenius

On the whole, the global economy and the health care sector – in both the mature and growth markets – developed positively for Fresenius in 2005. This triggered a large part of the Group's growth, although Fresenius, with its excellent products and services, outpaced the expansion of the health care industry as a whole.

Source: Federal Statistical Office of Germany, OECD Indicators – 2005 Edition, Krankenhaus Barometer Survey 2005

Significant factors affecting business development

Last year no significant factors arose or existed that could have a significant influence on the Group statement of income. The positive business development was primarily the result of the good performance of Fresenius Medical Care and Fresenius Kabi, which achieved significant increases in sales as well as earnings. The balance sheet of the Fresenius Group as of December 31, 2005 was affected by the first-time consolidation of HELIOS Kliniken GmbH as well as the capital increase at Fresenius AG and the bridge financing.

The Management Board's assessment of business results

The Management Board is of the opinion that the economic development of the Fresenius Group was extremely positive in 2005. The two main business segments Fresenius Medical Care and Fresenius Kabi especially profited from the continued strong demand for products and services and did better than the market on the whole. This was reflected in sustained strong organic growth and higher profitability. Fresenius ProServe also achieved an improvement in earnings. Order intake, an indicator of future sales, increased significantly in Fresenius ProServe's project business.

Comparison of the actual business results with forecasts

The targets set by Fresenius for 2005 were either achieved or exceeded. With an actual currency-adjusted sales increase of 8 %, Fresenius was well within its forecast of 6 % to 9 %. The guidance of currency-adjusted net income growth of >25 % was exceeded at 33%. This was mainly due to the better-than expected performance at Fresenius Medical Care and Fresenius Kabi. The net debt/EBITDA ratio was lower than the predicted 2.5 despite the acquisition of HELIOS, and came to 2.3 % on December 31, 2005 on a pro forma basis. Since HELIOS's debt was recognized in the balance sheet as at December 31, 2005, but the HELIOS business was not yet included in the Group statement of income, the ratio has been calculated on a pro forma basis including the EBITDA of HELIOS. Please refer to page 83 of the Notes.

RESULTS OF OPERATIONS, FINANCIAL POSITION, ASSETS AND LIABILITIES

In the year under review, Fresenius completed the following significant acquisitions:

In December 2005, the group acquired HELIOS Kliniken GmbH, Fulda, Germany, one of the largest private hospital operators in the country. HELIOS owns 24 clinics with a total capacity of approximately 9,300 beds in Germany (December 31, 2005). The purchase price for 100 % of the HELIOS shares was € 1.5 billion plus € 100 million for the net cash position. Fresenius acquired 94 % of the HELIOS shares, 6 % will continue to be held by the HELIOS management.

Fresenius also made two other major acquisitions in the Fresenius Kabi business segment. In January, Fresenius Kabi acquired Labesfal – Laboratório de Especialidades Farmacêuticas Almiro S. A., which operates in the Portuguese market for generic intravenously administered drugs. In December 2005, Fresenius Kabi acquired the business of Clinico GmbH, Germany, a manufacturer of medical devices. Labesfal was consolidated in the Group financial statements as from January 1, 2005 while HELIOS Kliniken and the business of Clinico were consolidated as of December 31, 2005.

Owing to the size of the HELIOS acquisition, a pro forma calculation of business results in 2005 including the HELIOS business is shown below.

in million €	**2005** pro forma	2005 as reported
Sales	**9,086**	7,889
EBIT	**1,074**	967
Net income	**268**	222

Results of operations

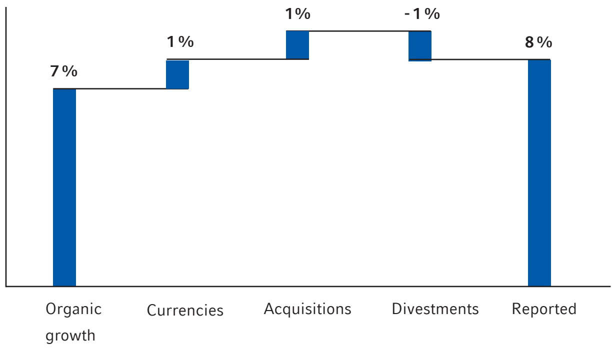
Sales

In 2005, Group sales increased by 8 % to € 7,889 million. Organic growth contributed 7 % and acquisitions 1 % to sales growth while divestments had a -1 % effect on sales. Currency translation effects had an impact of -1 %. The chart shows the respective influences on the sales growth of the Fresenius Group. There were no significant price effects or effects from changes in product mix and none are expected in the foreseeable future.

The largest regions in the Group were North America, which contributed 47 % of total sales, and Europe 38 %, followed by Asia-Pacific with 7 %, Latin America 5 % and Africa 3 %. Germany contributed 12 % to Group sales.

We increased sales in all regions of the world. The highest growth rates were achieved in Latin America with 28% and Africa with 16 %. North America also performed strongly with currency-adjusted growth of 7%. This was primarily driven by the good sales development in the dialysis care segment at Fresenius Medical Care. Sales in Europe were up 8 %. In Asia-Pacific we achieved a sales growth of only 2 %, since sales of Fresenius ProServe in this region fell due to the lower project volume .

SALES GROWTH ANALYSIS



Sales development by business segment was as follows:

- Fresenius Medical Care grew sales by 8% to € 5,443 million (2004: € 5,035 million). Organic growth contributed 7%, and acquisitions effects 1 %. In particular, dialysis care in North America and dialysis products and dialysis care in Europe posted strong sales increases.
- Sales of Fresenius Kabi rose to € 1,681 million in 2005, 13% above the € 1,491 million in 2004. The company achieved strong organic growth of 7 %. Acquisitions in-

in million €	2005	2004	Change	Organic growth	Currency translation effects	Acquisitions/ Divestments	% of total sales 2005
Europe	**3,030**	2,802	8 %	7 %	0 %	1 %	38 %
North America	**3,746**	3,499	7%	7 %	0 %	0%	47 %
Asia-Pacific	**557**	547	2 %	0 %	2 %	0 %	7 %
Latin America	**356**	279	28%	16 %	10 %	2%	5 %
Africa	**200**	172	16 %	15 %	0 %	1 %	3 %
Total	**7,889**	7,299	8 %	7 %	1%	0%	100 %

creased sales by 5 %, driven primarily by the purchase of Labesfal. Currency translation effects added 2 % while divestments lopped off 1 %.

In Europe, Fresenius Kabi posted organic growth of 4 %, which was a considerable improvement on the 1 % of the previous year when sales were affected by a 6 % decline in Germany. The main reasons at that time were the cost-cutting measures in the health care system and related price pressure. In Asia-Pacific and Latin America strong organic growth of 15 % and 14 % was achieved.

- Fresenius ProServe generated sales of € 809 million in 2005 (2004: € 813 million). On a like-for-like basis (without the nursing home business that was sold in 2004 and the international hospital management business that was closed), sales were 5 % higher than the previous year.

Order intake and order backlog were significantly higher than in the previous year. Order intake in Fresenius ProServe's project business rose by 40 % to € 341 million (2004: € 244 million), while order backlog at year-end was up 7 % to € 360 million (December 31, 2004: € 335 million).

Earnings Structure

We achieved excellent growth rates in net income. Group net income rose 34% to € 222 million (33% at constant exchange rates). The successful development is mainly due to the results of the two largest business segments, Fresenius Medical Care and Fresenius Kabi. Improvements at Fresenius ProServe and a lower Group tax ratio also had a positive impact. Currency translation effects had a slight positive impact overall. Inflation had no significant effect on the results of operations last year.

Group earnings before interest, taxes, depreciation and amortization (EBITDA) rose 11 % to € 1,292 million (2004: € 1,165 million). Group EBIT was up 13% at constant exchange rates and up 14% at actual rates to € 967 million (2004: € 848 million).

EBIT contributions from the three business segments developed as follows:

- Fresenius Medical Care achieved EBIT growth of 10 % to € 755 million (2004: € 689 million). The EBIT margin came to 13.9 % (2004: 13.7 %). This includes one-time expenses of € 18 million for the change of Fresenius

in million €	**2005**	2004	Change	Organic growth	Currency translation effects	Acquisitions/ Divestments	% of total sales
Fresenius Medical Care	**5,443**	5,035	8%	7 %	0%	1 %	69 %
Fresenius Kabi	**1,681**	1,491	13 %	7 %	2 %	4 %	21 %
Fresenius ProServe	**809**	813	0 %	5 %	0 %	-5 %	10 %

in million €	2005	2004	Change
Fresenius Medical Care	**755**	689	10 %
Fresenius Kabi	**229**	179	28%
Fresenius ProServe	**20**	8	–

Medical Care's legal form into a KGaA (German partnership limited by shares). The growth in operating profit was driven primarily by the strong performance of the dialysis care business in the United States as well as significant improvements in the international business.

- Fresenius Kabi saw a strong improvement in earnings in 2005: EBIT rose 28% to € 229 million from € 179 million in the previous year. The EBIT margin advanced to 13.6% after 12.0 % in 2004. In addition to the excellent business development in all the regions, further measures to optimize costs and increase efficiency, especially in production, had a positive effect.
- ProServe closed 2005 with EBIT of € 20 million (2004: € 8 million, including one-time expenses of € 8 million for restructuring measures). This strong year-on-year increase of 25% is primarily the result of restructuring benefits.

Development of other major items of the statement of income

Gross profit came to € 2,695 million, exceeding the € 2,377 million in 2004 by 13 % (13 % also at constant currency rates). The gross profit margin rose to 34.2% (2004: 32.6%). Cost of goods sold rose 6% to € 5,194 million in 2005. This is 65.8% of Group sales after 67.4% in 2004. Selling, general and administrative expenses consist primarily of personnel costs, marketing and distribution costs and amortization and depreciation. These expenses rose by 12 % to € 1,581 million in 2005 (2004: € 1,407 million). Amortization and depreciation amounted to € 325 million (2004: € 317 million). Depreciation and amortization as a percentage of sales dipped slightly from 4.3 % in 2004 to 4.1 % in 2005.

Group net interest expense was € 203 million, € 7 million less than last year's € 210 million. This was the result of the lower debt level over the course of the year as well as improved refinancing terms.

In 2005, the tax rate fell to 38.4% (2004: 40.3%).

Minority interests rose to € 249 million (2004: € 215 million) primarily due to the good earnings growth at Fresenius Medical Care. Minority shareholders in Fresenius Medical Care account for 96 % of total minority interests.

Earnings per ordinary share rose to € 5.27 (2004: € 4.03). Earnings per preference share rose to € 5.30 (2004: € 4.06). This is an increase of 31% each for both share classes, and is lower than the growth in net income due to the higher average number of shares following the capital increase.

Group profitability was significantly improved in 2005. The EBITDA margin increased to 16.4% (2004: 16.0 %) and the EBIT margin rose to 12.3 % (2004: 11.6 %). The return on sales before taxes and minority interests was 9.7 % (2004: 8.7 %).

Value Added

The value added statement shows Fresenius' total output in 2005 less goods and services purchased and less depreciation and amortization. The value added of the Fresenius Group amounted to € 3,518 million in 2005 (2004: € 3,231 million). This is an increase of 9 % over 2004. The distribution statement shows that, at € 2,479 million or 71%, the largest portion of our value added went to our employees. Governments and lenders came next with € 365 million and € 203 million, or 10% and 6 %, respectively. Shareholders received € 76 million, minority interests € 249 million. The company retained € 146 million for reinvestments.

Financial Position

Financial management policies and goals

Ensuring our financial flexibility is key to the financing strategy of the Fresenius Group. We achieve this through a broad spectrum of financial instruments and a wide diversification of our investors. The maturity profile is characterized by a broad spread of maturities with a large proportion of mid to long-term financing.

Overall, sufficient financial cushion is assured not only by the financial instruments used, but also by the only partly drawn revolving syndicated credit lines and the unused bilateral credit lines at our disposal. Market capacity, financing costs, investor diversification, flexibility, qualification requirements and maturities are all taken into consideration when selecting financial instruments. At the same time, we seek to optimize our financing costs.

In line with the Group's structure, the financing for Fresenius Medical Care and for the Fresenius Group excluding Fresenius Medical Care is conducted separately. There are no joint loans or credit agreements and no mutual guarantees. The Fresenius Kabi and Fresenius ProServe business segments are financed primarily through Fresenius AG to avoid any subordination of loans.

Financing

Fresenius meets its financing and working capital needs through a combination of operating cash flows from the business segments and short, mid and long-term borrowings as well as by issuing bonds and trust preferred securities, and through the commercial paper program. Fresenius AG also completed a capital increase in cash in the fourth quarter of 2005, using the entire Approved Capital I and a portion of Approved Capital II.

STATEMENT OF INCOME (SUMMARY)

in million €	2005	2004	Change	Change in constant currency
Sales	**7.889**	7,299	8 %	7%
Cost of goods sold	**-5,194**	-4,922	-6 %	-5%
Gross profit	**2,695**	2,377	13 %	13 %
Operating expenses	**-1,728**	-1,529	-13%	-12 %
EBIT	**967**	848	14%	13%
Net interest	**-203**	-210	3 %	4%
Income taxes	**-293**	-257	-14%	-14%
Minority interest	**-249**	-215	-16%	-15%
Net income	**222**	166	34%	33%
Earnings per ordinary share (in €)	**5.27**	4.03	31%	30%
Earnings per preference share (in €)	**5.30**	4.06	31%	30%
EBITDA	**1,292**	1,165	11 %	10%
Depreciation and amortization	**325**	317	3%	2%
EBITDA margin	**16.4%**	16.0 %		
EBIT margin	**12.3 %**	11.6 %		

VALUE ADDED STATEMENT

in million €	2005	%	2004	%
Creation				
Company output	**7,907**	**100**	7,306	100
- Materials and services purchased	**4,064**	**51**	3,758	51
Gross value added	**3,843**	**49**	3,548	49
- Depreciation and amortization	**325**	**4**	317	4
Net value added	**3,518**	**45**	3,231	45
Distribution				
Employees	**2,479**	**71**	2,318	72
Governments	**365**	**10**	322	10
Lenders	**203**	**6**	210	6
Shareholders	**76**	**2**	56	2
Company and minority interests	**395**	**11**	325	10
Net value added	**3,518**	**100**	3,231	100

Group financing activities in 2005 were primarily to finance the acquisition of HELIOS at the end of 2005 as well as the acquisition of Renal Care Group that was announced in May 2005. Detailed financing plans approved by the banks were already in place when the acquisitions were announced. The loans were arranged at advantageous conditions because of the positive acceptance of our corporate business strategy by the capital markets and the financing mix. The good business performance and sustained cash flows also had a positive effect on the financing conditions. A significant reduction in debt in recent years and the improved financial ratios have strengthened investor confidence in Fresenius. Despite some volatility in the second quarter of 2005, the positive bond market environment was also beneficial. The banking markets in Europe, the United States and Japan were very receptive to the Fresenius debt offerings.

On May 3, 2005, Fresenius Medical Care received financing confirmation totaling US$ 5 billion from Bank of America and Deutsche Bank for the Renal Care Group acquisition, one to be provided by a syndicate of banks and the other by a syndicate of banks and other institutional investors. In accordance with the new credit agreement, the senior credit facilities may be drawn to pay the purchase price of Renal Care Group and, among other things, to refinance existing loans under Fresenius Medical Care's 2003 credit agreement as well as certain liabilities of Renal Care Group, or for general corporate purposes.

The new senior loan comprises a US$ 1 billion revolving credit facility with a maturity of five years, a loan (Term Loan A) of US$ 2 billion with a maturity of five years as well as a US$ 2 billion loan (Term Loan B) with a maturity of seven years. The revolving credit line and Term Loan A were syndicated in July of 2005. Syndication of Term Loan B is planned to be completed shortly before the closing of the acquisition of Renal Care Group.

Interest rates of the new senior bank loan are based on the prevailing market reference rates plus a spread. The applicable spread is variable and depends on the ratio of Fresenius Medical Care's debt to EBITDA. Fresenius Medical Care has largely limited its risk exposure to higher interest payments from rising variable reference rates by entering into appropriate interest hedging transactions. The credit agreements contain covenants that limit Fresenius Medical Care's debt ratio and require it to meet certain fixed-cost coverage ratios. There are other restrictions, too, regarding collateral, asset disposals, investments etc.

The Fresenius Medical Care Senior Note (Schuldscheindarlehen) of € 128.5 million from 2001 due in July 2005 was refinanced with a four-year € 200 million Senior Note due in July 2009. This Senior Note also contains covenants limiting financial leverage.

Fresenius Medical Care also entered a credit agreement with the European Investment Bank (EIB) in July 2005 worth € 131 million consisting of a € 90 million revolving line of credit and a loan of € 41 million. The facility has a maturity of eight years. The loan was drawn in September 2005 while no funds had been drawn from the revolving credit line as of December 31, 2005.

The HELIOS acquisition and the purchase of the Clinico business were financed by a capital increase and a bond issue. The capital increase was carried out in November 2005 with proceeds of € 919 million (gross). Shareholders were offered 4.7 million new ordinary shares and 4.7 million new preference shares at the rate of two new shares for every nine shares held. The subscription price was € 93 per new ordinary share and € 102 per new preference share.

The HELIOS acquisition was bridge financed between December 2005 and the time the bond was issued. The bridge loan was used to pay the purchase price for HELIOS on December 22, 2005. On January 20, 2006 this loan was repaid with the proceeds from the bond issue.

This bond generated gross proceeds of € 1 billion. The size of the issue was initially € 700 million but was increased to exploit an advantageous opportunity to refinance a € 300 million bond issued in 2003 and due in 2009. We offered to redeem this bond at 105.168 % of its nominal value. 71 % (€ 212 million) accepted the tender offer. A call option will allow the remaining € 88 million outstanding volume to be redeemed beginning on April 30, 2006.

The new bond comprises one tranche with a nominal value of € 500 million, a maturity of 7 years and an annual interest rate of 5.0 % and a second tranche with a nominal value of € 500 million, a maturity of 10 years and an annual interest rate of 5.5 % as well as a call option for the issuer after five years.

The terms of the bond contain usual conditions. These limit certain payments, such as dividends and share buybacks, and place restrictions on increasing debt beyond refinancings and an agreed financing cushion if the EBITDA/interest ratio falls below 2.5. We believe this agreement gives us enough room to maneuver and achieve our goals without limiting our financial flexibility.

Fresenius AG has a commercial paper program under which up to € 250 million in short-term notes can be issued. On December 31, 2005, only € 22 million was used (December 31, 2004: € 10 million).

The Fresenius Group has drawn about € 1,540 million of bilateral and syndicated credit lines. In addition, on December 31, 2005 the Group had approximately € 1,500 million in unused credit lines at its disposal, including a confirmed credit line of € 1,000 million. These credit facilities are generally used for covering corporate purposes and are usually unsecured.

As of December 31, 2005, both Fresenius AG and Fresenius Medical Care AG, including all subsidiaries, complied with all the covenants under all the credit agreements.

Effect of off-balance-sheet financing instruments on financial position and assets and liabilities

Fresenius is not involved in any off-balance-sheet transactions that could have or will have a significant effect on its financial position, expenses or earnings, profitability, liquidity, investments, assets or capitalization.

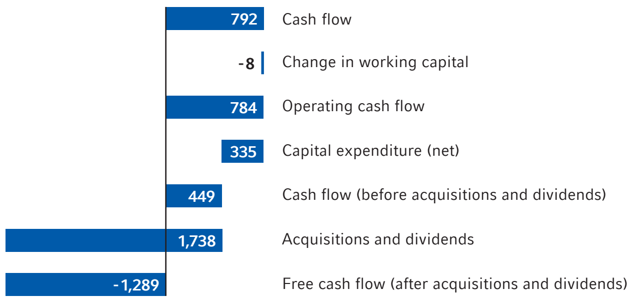
Liquidity analysis

In 2005, key sources of liquidity were operating cash flow, short-term borrowings and long-term loans as well as the issuance of new bearer ordinary shares and new bearer preference shares. Cash flow from operations is influenced by the profitability of Fresenius' business and by working capital, especially accounts receivable. Cash flow can be generated from short-term borrowings through the sale of receivables under the Fresenius Medical Care accounts receivable securitization program which is included in the balance sheet, as well as through the use of the commercial paper program. Long-term funding is provided by the revolving credit facilities of Fresenius Medical Care, bonds issued by Fresenius AG, bank credit agreements and trust preferred securities issued by Fresenius Medical Care. Fresenius believes that the existing and new credit facilities as well as the operating cash flow and additional short-term borrowings are sufficient to meet the company's forecast liquidity needs.

Dividend

The Management and Supervisory Boards will propose a dividend increase to the Annual General Meeting. For 2005, a dividend of € 1.48 per ordinary share (2004: € 1.35) and € 1.51 (2004: € 1.38) per preference share is proposed. This is an average increase of 10 %. The total distribution will be € 75.8 million (2004: € 55.9 million).

CASH FLOW STATEMENT IN MILLION €



Cash Flow Analysis

The Group cash flow statement shows a sustained development. Group cash flow increased 11% to € 792 million in 2005 (2004: € 712 million) due to the strong increase in net income. The change in working capital was € -8 million (2004: € 148 million). Higher income tax payments at Fresenius Medical Care had a negative effect.

Operating cash flow came to € 784 million in 2005 (2004: € 860 million). Operating cash flow was more than sufficient to meet all the financing needs for investments excluding acquisitions. Cash used for investments in the Group totaled € 357 million, while proceeds from the sale of property, plant and equipment amounted to € 22 million (2004: € 319 million and € 22 million, respectively). Cash flow before acquisitions and dividends came to € 449 million (2004: € 563 million). Cash flow was sufficient to finance all of the dividends of € 132 million and 20 % of net acquisitions in 2005. The balance was financed through bank debt and the capital increase.

Cash provided from financing activities (without dividends paid) amounted to € 1,256 million in 2005 (2004: € -459 million) and was primarily influenced by the capital increase and the bridge loan in connection with the HELIOS acquisition. Dividend payments in 2005 resulted in a total payout of € 132 million (2004: € 122 million), with the Fresenius AG dividend accounting for € 56 million (2004: € 51 million). Cash and cash equivalents amounted to € 252 million on December 31, 2005 (2004: € 140 million).

Investments and Acquisitions

In 2005, the Fresenius Group invested € 2.251 million (2003: € 432 million) This was the highest investment volume in the company's history. € 357 million (2004: € 319 million) was invested in property, plant and equipment and intangible assets. € 1,894 million was invested in acquisitions (2004: € 113 million). Of the total investment volume, 16 % was invested in property, plant and equipment and intangible assets. 84 % was invested in acquisitions.

The largest acquisition was the purchase of 94 % of the shares of HELIOS. Funds were also invested in the expansion of our global dialysis care business through the purchase of dialysis clinics by Fresenius Medical Care. At Fresenius Kabi, the funds were mainly used for the expansion of its product portfolio: generic intravenously administered drugs and in the medical devices business.

The major investments in property, plant and equipment and intangible assets were as follows:

- Start-up of new dialysis clinics, primarily in the United States, as well as the expansion and modernization of existing clinics
- Expansion and optimization of production sites at Fresenius Medical Care and Fresenius Kabi
- Hospital modernization and investments in IT at Fresenius ProServe
- Expansion of the corporate headquarters in Bad Homburg, Germany

CASH FLOW STATEMENT (SUMMARY)

in million €	**2005**	2004
Net income before minority interests	**471**	381
Depreciation and amortization	**325**	317
Change in pension provisions	**-4**	14
Cash flow	**792**	712
Change in working capital	**-8**	148
Operating cash flow	**784**	860
Property, plant and equipment and intangible assets	**-357**	-319
Proceeds from the sale of property, plant and equipment	**22**	22
Cash flow before acquisitions and dividends	**449**	563
Cash used for acquisitions/proceeds from disposals	**-1,606**	-90
Dividends	**-132**	-122
Free cash flow after acquisitions and dividends	**-1,289**	351
Cash provided from financing activities (without dividends paid)	**1,388**	-337
Currency-adjusted change in cash and cash equivalents	**13**	-2
Change in cash and cash equivalents	**112**	12

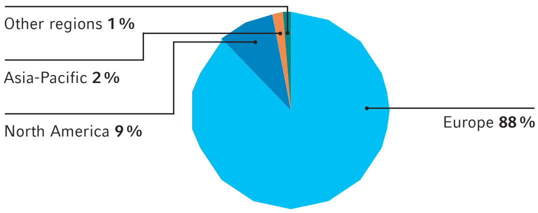
The detailed cash flow statement is shown in the consolidated financial statements.

The table below shows the distribution of investments by business segment. The chart on the right shows the regional breakdown of investments.

To continue with major investments that were already underway on the last reporting date, investments in property, plant and equipment of about € 150 million will be made in 2006. This is chiefly for investment obligations for hospitals at Fresenius ProServe as well as for investments to expand and optimize production plants.

These projects will be financed from operating cash flow.

INVESTMENTS BY REGION



2005: € 2,251 million

Assets and Liabilities

Asset and liability structure

The total assets of the Group rose by € 3,402 million (41%) to € 11,602 million (December 31, 2004: € 8,200 million). At constant exchange rates, assets grew by 33 %. € 2.5 billion (30 %) of the strong growth in total assets is acquisition-related, mainly attributable to HELIOS. Business expansion contributed 3% to the increase. Inflation had no significant effect on the assets of Fresenius in 2005.

Non-current assets came to € 8,259 million (2004: € 5,611 million). Based on the closing exchange rates as of December 31, 2004, the increase was 37%. High additions in property, plant and equipment as well as goodwill had a significant effect here. Goodwill from acquisitions amounted to € 1,440 million on December 31, 2005, of which € 1,195 million resulted from the purchase of HELIOS.

Current assets amounted to € 3,343 million (2004: € 2,589 million), an increase of 23% at constant exchange rates. Within current assets, trade accounts receivable rose to € 1.871 million (2004: € 1,528 million), primarily due to business expansion. Adjusted for currency effects, receivables grew by 14 %. Benefits were felt from more efficient receivables management. Days sales outstanding improved further to 79 days (2004: 80 days). These improved ratios

INVESTMENTS BY BUSINESS SEGMENT

in million €	2005	2004	Thereof property, plant and equipment and intangible assets	Thereof acquisitions	Change	% of total
Fresenius Medical Care	**361**	328	253	108	10%	16 %
Fresenius Kabi	**355**	72	81	274	--	16 %
Fresenius ProServe	**1,519**	29	12	1,507	--	67%
Corporate/Other	**16**	3	11	5	--	1%
Total	**2,251**	432	357	1,894	--	100 %

reduced the amount of capital tied up within the Group. Inventory turnover increased slightly in 2005 to 48 days (2004: 46 days).

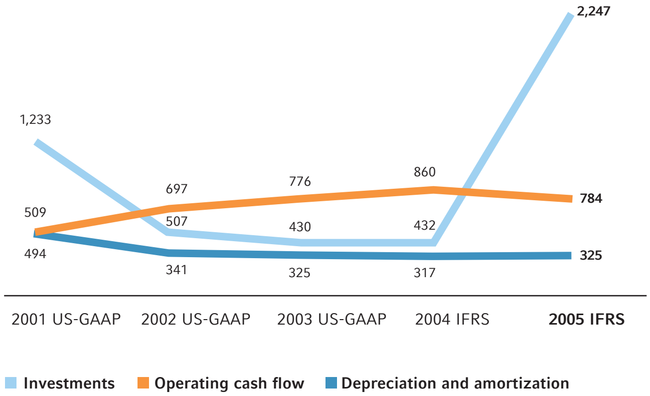
The liabilities and equity side of the balance sheet was marked primarily by the capital increase. Shareholders' equity including minority interests rose 54% to € 5,204 million (2004: € 3,383 million). Adjusted for currency effects, the increase was 40 %. Group net income increased shareholders' equity by € 222 million. The capital increase in the fourth quarter of 2005 had an effect of € 872 million (net) on the capital reserves and of € 24 million on subscribed capital. The equity ratio including minority interests rose from 41.3% on December 31, 2004 to 44.9% at the end of 2005.

The liabilities and equity side of the balance sheet reflects our solid financing structure. Shareholders' equity of the Group including minority interests covers 63% of non-current assets (2004: 60%). Shareholders' equity, minority interests and long-term liabilities cover all non-current assets and 36% of inventories.

The long-term liabilities of € 3,320 million on December 31, 2005 were € 549 million or 20% above the € 2,771 million of the previous year (15% at constant exchange rates). The short-term liabilities were € 3,078 million or 50% above the previous year's figure (€ 2,046 million). Adjusted for currency effects, short-term liabilities would have been 44% higher than in 2004.

The Group has no significant accruals. The largest single accrual is for the settlement of fraudulent conveyance claims and all other legal matters in connection with the National Medical Care transaction in 1996 resulting from the bankruptcy of W.R. Grace & Co. This accrual amounts to US$ 115 million (€ 97 million). Please see page 97 of the Notes for details.

DEVELOPMENT OF INVESTMENTS, OPERATING CASH FLOW, DEPRECIATION AND AMORTIZATION IN MILLION €



Bank loans, Eurobonds, commercial papers and trust preferred securities of the Group increased primarily due to the acquisition of HELIOS and Clinico to € 3,502 million (December 31, 2004: € 2,735 million); at constant exchange rates: € 3,384 million. Of the group's financial liabilities, 30% are in US dollars. Liabilities with a remaining term of up to one year came to € 1.047 million (December 31, 2004: € 583 million) and with a remaining term of one to five years and over five years amounted to € 2,455 million (December 31, 2004: € 2,152 million).

The net debt to equity ratio including minorities (gearing) decreased from 77% in 2004 to 62%. The return on equity after taxes rose to 11.2% (2004: 10.3%). The return on total assets after taxes and excluding minority interests was 4.9 % in 2005 (2004: 4.6%). In calculating the profitability ratios, the respective balance sheet items were adjusted for the effects of the capital increase and for HELIOS, since HELIOS was consolidated for the first time as of December 31, 2005 so its results of operations are not included.

The following table shows other key asset and capital ratios:

	Dec 31, 2005	Dec 31, 2004
Debt/EBITDA ratio pro-forma*	2.5	2.4
Net debt/EBITDA ratio pro-forma*	2.3	2.2
EBITDA/interest ratio	6.4	5.5

* including EBITDA of HELIOS of the fiscal year 2005.

Currency and interest risk management

On December 31, 2005, the nominal value of all foreign currency hedging contracts was € 1,390 million. These contracts had a market value of € -3 million. The nominal value of interest rate hedging contracts was € 3,386 million, with a market value of € 18 million. Further information is available in the Risk Report on page 25 and in the Notes on pages 121 to 127.

NON-FINANCIAL PERFORMANCE INDICATORS

Employees

The Fresenius Group employed 91,971 people worldwide at the end of 2005, an increase of 23,477 or 34 % (December 31, 2004: 68,494). This is mainly due to the HELIOS acquisition.

The number of employees in the business segments developed as follows:

Number of employees	Dec 31, 2004	Dec 31, 2003	Change
Fresenius Medical Care	50,250	46,949	7 %
Fresenius Kabi	14,453	11,577	25 %
Fresenius ProServe	26,664	9,398	184 %
Corporate/Other	604	570	6 %
Total	91,971	68,494	34 %

In the segment Corporate/Other the increase was largely attributable to Fresenius Biotech.

The chart shows the regions where our employees work. These percentages roughly correspond to the sales contributions of the respective continents. 29,975 people are employed in Germany.

In 2005, personnel expenses of the Fresenius Group came to € 2,479 million, an increase of 7 % versus the previous year's figure of € 2,320 million. Personnel expenses per employee amounted to € 34,700 (2004: € 34,200).

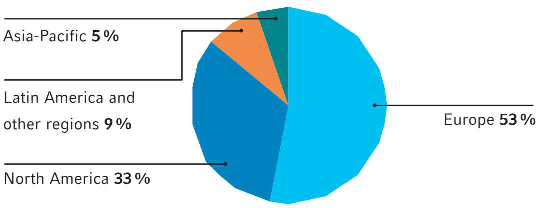
There were no significant changes to compensation or employment agreements in 2005.

Procurement

The efficient procurement of goods and services is important for Group profitability since the health care sector faces cost cuts from health insurance companies as well as price pressure. We are constantly striving to optimize our purchasing processes and to establish pricing structures that allow flexibility within our strict quality and safety standards. Fresenius coordinates global procurement centrally so as to bundle similar requirements and negotiate global frame contracts. The central coordinating offices coordinate purchasing for the production sites and organize comprehensive quality and safety checks of purchased goods. Current market and price developments are analyzed on an ongoing basis.

The Purchasing Consulting Center (PCC) of Fresenius Medical Care, as the key coordinator, last year continued with the internationalization of our procurement strategy to find suppliers to better meet our stringent demands while reducing our exposure to currency exchange fluctuations. Standardized products are key as they provide cost efficiency benefits. They simplify logistics, for example, since transportation can be better coordinated and loading capacities used more efficiently. Furthermore, we are able to purchase packing materials at lower prices as a result of standardization.

EMPLOYEES BY REGION



2005: 91,971

One of our most important task last year was the ongoing procurement of oil-based products such as polycarbonate, a key raw material for manufacturing dialyzers. Here we faced price increases because of the rise in oil prices and the strong demand from China. For these reasons, prices for plastic pellets and packing materials such as foil also increased.

Long-term supply contracts helped to stabilize purchase prices of chlorides and glucose at 2004 levels. This strategy also applied to energy and media in 2005, since we entered into long-term service agreements at unchanged conditions. Prices for cardboard boxes were also kept stable with a multi-year contract.

At Fresenius Kabi, a new negotiation strategy and efforts to bundle demand became fully effective in 2005. This led to significant savings for amino acids and glass containers for instance. The production sites in Portugal and the Czech Republic that joined the Group in 2005 were integrated into the Strategic Purchasing of Fresenius Kabi. New supply agreements were negotiated which led to significant savings.

Together with Fresenius Medical Care, Fresenius Kabi entered into a supply agreement that covers most of our demand for starches – especially dextrose – from a single global supplier, therefore achieving lower prices. The procurement of plastics for Fresenius Kabi was also affected by the sustained high oil prices. This led to an increase in prices for all derivative products.

Quality management

Our process-oriented quality management fulfills ISO 9001:2000 standards and is designed to meet the demands of our customers. This covers not only the quality of our products but also all business processes and additional services and therapies we provide. The quality management system integrates all product groups, such as drugs, medical products and nutrition and it also includes clinics. The system is regularly evaluated through internal quality audits and external certification bodies. Its effectiveness was again confirmed in 2005.

Our products receive intense review as an integral part of our development activities. The drugs are subject to regulatory approval requirements and related documents are carefully reviewed by the respective approval agencies. Medical products undergo a conformity assessment procedure, and compliance with the appropriate norms is documented. In enteral nutrition, we already follow the Hazard Analysis Critical Control Point (HACCP) principle during the development process.

We have established quality assurance systems in all our production facilities. In addition to the controlled use of raw materials, validated production procedures as well as ambience and in-process controls, each batch also undergoes final controls and a formal release procedure. Our production facilities are regularly inspected by regulatory authorities or other independent institutions. All audits and inspections led to the renewal of the respective manufacturing authorization or certification.

Sales and marketing are also an integral part of the quality management system. For example, the system monitors distribution and can – at any time – trace the location of a particular batch with a particular client.

The external certification of our subsidiaries according to ISO 9001:2000 was further rolled out in 2005. All European production sites of Fresenius Kabi, for example, were certified in a matrix according to ISO 9001, and its sales and marketing activities in Germany were certified. The demands of patients, doctors and health insurers for the best possible and most cost-effective care were the focus of this certification. A continuous improvement process creates opportunities for optimization and increases competitiveness through better cost structures. With the certification we have set uniform standards to further enhance the quality of care.

The two new companies, Infusia and Labesfal, have been integrated into the quality management system. Infusia's production in the Czech Republic has already been included in Fresenius Kabi's certification. Certification for the production of medical products (EN 13485, MDD and ISO 9001:2000) was received in November from the German TÜV Product Service.

Fresenius Medical Care continued integrating dialysis clinics into the quality management system. The certification according to ISO 9001:2000 of clinics in Slovenia, the Czech Republic and specially in Hungary was the focus in 2005.

OVERALL ASSESSMENT OF THE BUSINESS SITUATION

The Management Board continued to assess the development of the Fresenius Group as positive at the time this Management Report was prepared. There is a strong demand around the world for our products and services. The development in the first few weeks of 2006, with further increases in sales and earnings, fully met our expectations.

RISK REPORT

Through its continuous expansion, especially in international markets, and the increasing complexity and dynamics of our business, the Fresenius Group is exposed to a number of risks. These risks are directly related to business activity and have to be entered into if opportunities are to be exploited. As a provider of often life-saving products and services for severely and chronically ill people, we are relatively independent of economic cycles. Our experience in the development and manufacture of products as well as in our markets is a solid base from which we can safely assess risks.

Risk management

The management of risks is a continuous task so the identification, evaluation and control of risks are key tools of Group management.

The Fresenius risk management system is an integral part of corporate strategy and is based on its guidelines. Through the combination of our internal monitoring system, our risk controlling and an early-warning system derived from our risk management system, we can identify and counteract at an early stage those potential developments which could threaten the companies' future. We have assigned the responsibilities for the processes and for monitoring risks in the individual business segments as follows:

- Risk situations are evaluated regularly with standardized processes and compared with given requirements. Responses can be initiated at an early stage when negative developments emerge.
- The managers responsible are required to report relevant changes in the risk profile without delay to the Management Board.
- Constant observation of the markets as well as close contacts to customers, suppliers and institutions allow us to swiftly identify and react to changes in our business environment.

Risk management measures are supported both at Group level and in the individual business segments by our risk controlling as well as our management information system. Based on detailed monthly and quarterly financial reports, deviations in earnings and assets from budget figures are identified and analyzed. In addition to risk management, a monitoring system has been established comprising organizational processes and measures as well as internal controls and audits.

Our risk management system is regularly evaluated and adjusted to allow us to react early to changes in the markets, and the current system has proven effective to date.

The international operations of the Fresenius Group expose us to a variety of currency risks. In addition, the financing of the business exposes us to certain interest rate risks. We use derivative financial instruments as part of our risk management to avoid the negative impacts of these risks. We limit ourselves to non-exchange-traded, marketable instruments that are used exclusively to hedge our operations and not for trading or speculation.

The Fresenius Group's currency and interest rate risk management activities are based on a policy approved by the Management Board that defines the targets, organization and handling of the risk management processes. In particular, the guidelines assign responsibilities for risk determination, the execution of hedging transactions and for the regular reporting of risk management activities. These responsibilities are coordinated with the management structures in the other business areas of the Group. Hedging transactions using derivatives are carried out solely by the Corporate Treasury Department of the Fresenius Group, apart from a few exceptions in order to adhere to foreign currency regulations, and are subject to stringent internal controls. This ensures that the Management Board is fully informed of all significant risks and current hedging activities.

The functionality and effectiveness of the risk management system is reviewed as part of the audit of the annual financial statements. Conclusions arising from the audit are taken into account in the ongoing refinement of our risk management system.

Risk areas

The main risk areas to the operations of the Fresenius Group are as follows:

- General economic risks

  From today's point of view, the development of the global economy presents no significant risk to the Fresenius Group. In 2006, we expect overall economic growth to continue. For the Fresenius Group, we expect continued strong demand for our life-saving and life-sustaining products and services.

- Risks in the general operating framework conditions

  The risk situation of each individual business segment depends on the development of its markets. Therefore, political, legal and financial conditions are monitored and evaluated carefully. In addition, the continuous internationalization of the markets of the Fresenius Group requires us to keep abreast of country-specific risks.

- Risks in the health care sector

  Risks related to changes in health care market conditions are of major importance to the Fresenius Group. The main risks are the development of new products and therapies by competitors, the financing of health care systems and reimbursement in the health care sector. This is especially true in the United States, where a large portion of our sales are generated, and where changes in the reimbursement system could have an impact on our business. The same is valid for the hospital market in Germany. The introduction of Diagnosis Related Groups should increase the efficiency of hospitals while reducing expenses of the health care system. Patients are largely assigned to hospitals by the public health and pension insurers. It is especially important that the contracts with these insurers and health care institutions are maintained. For this reason, we not only continually monitor legislative changes but pro-actively work together with governmental health care institutions. Furthermore, our close ties with the medical and scientific communities allow us to identify and support relevant technological innovations and keep abreast of current developments in alternative treatment methods. This allows us to evaluate and adjust our corporate strategy if necessary.

- Operating risks
- Production, products and services
  We confront potential risks in production and services with the following measures: Compliance with product and manufacturing regulations is ensured by quality management systems in accordance with the internationally recognized quality standards ISO 9001 and ISO 9002 and the corresponding internal standards as defined, for example, by our quality and work procedure manuals. Regular audits are carried out by quality management officers at each of the group's production sites and dialysis clinics to test compliance with all regulations in all areas from management and administration to production and clinical services and patient satisfaction. Our production facilities comply with the international "Good Manufacturing Practice" (GMP) guidelines or other nationally and internationally recognized standards. In addition, the Quality Management and Compliance Programs document and ensure that business is performed in line with high ethical standards, and in accordance with official guidelines. Internal and external audits review the legality and efficiency of our operations as well as the effectiveness of our internal monitoring systems. Potential risks, such as those arising from the start-up of a new production site or the introduction of new technologies, are countered through careful planning, regular analysis and continual progress reviews. Performing medical procedures on patients in our acute and post acute care hospitals presents inherent risks; operational risks include the need for hygiene and sterile conditions. We counteract these risks with structured operating procedures, continuous personnel training and patient-oriented working methods. Risks can also arise from increasing pressure on our product prices and from price increases on the procurement side. Changes in the reimbursement guidelines or the dosages for erythropoietin (EPO), a hormone used in dialysis that stimulates the production of red blood cells, could have a significant impact on the sales and earnings of Fresenius. A change in the procurement conditions for EPO could also significantly increase Fresenius' costs. Reimbursement and revenues from the administration of EPO accounted for approximately 10 % of total sales of the Fresenius Group in 2005.

- Research and Development
  The development of new products and therapies always carries the risk that the development target is not achieved. Regulatory approval of new products requires comprehensive, cost-intensive pre-clinical and clinical studies. The Fresenius Group spreads its risk widely by conducting development activities in various product segments. We also counteract risks from research and development projects by regularly analyzing and assessing development trends and examining the progress of research projects. We also strictly comply with the legal regulations for clinical and chemical-pharmaceutical research and development.

- Risks from the integration of acquisitions
  The integration of acquisitions or potential acquisitions carries risks that can adversely affect assets and liabilities, financial position and results of operations of Fresenius.

Following an acquisition, the infrastructure of the acquired company must be integrated while legal questions and contractual obligations are clarified. Marketing, patient services and logistics must also be unified. Ongoing business processes as well as relationships with customers can be harmed by losing key managers during integration. The integration process could prove to be more difficult and cost-intensive or last longer than expected. Risks could arise from the operations of the newly acquired company that Fresenius believed to be insignificant or was unaware of. An acquisition may also prove to be less beneficial than initially believed.

- Other risks
  Risks in personnel marketing are not considered to be significant. Nevertheless, the Group uses comprehensive recruiting and personnel development programs to counteract a possible shortage of skilled personnel. Fresenius counters the general shortage of specialized hospital personnel through targeted personnel marketing measures in order to recruit a qualified and dedicated workforce, and thus ensure the high standards of treatment quality. Other risks, including those in our IT systems, are also not considered to be significant. IT risks are countered through security measures such as controls and monitoring. In addition, we counter these risks with constant investment in hardware and software as well as by improving our system expertise.

- Financial risks
  Potential financial risks that arise from exposure to foreign currencies and interest rates are countered by a special risk management program. Derivative financial instruments are used to hedge against interest rate and foreign currency risks. These instruments are used solely for hedging current operations and are not allowed for trading or speculative purposes. Further details are available on pages 121 to 127 of the Notes. Potential financial risks that could arise from acquisitions and investments in property, plant and equipment and intangible assets are assessed in advance by performing careful and in-depth reviews, sometimes with the support of external consultants. As a globally active company, Fresenius is widely exposed to translation effects due to foreign exchange rate fluctuations. The US dollar/euro exchange rate is of particular importance due to our extensive US operations. The considerable debt of Fresenius could limit its ability to pay dividends or implement its corporate strategy.

- Government reimbursement payments
  Fresenius is subject to comprehensive government regulations in nearly all countries where it is active. This is especially true in the United States and Germany. In addition, Fresenius must adhere to general rules of law, which can vary from country to country. There can be far-reaching legal repercussions if Fresenius fails to comply with any of these laws or regulations. The majority of Group revenues derives from government reimbursement programs such as the US Government, Medicare and Medicaid reimbursement programs. Legal changes, or changes in the reimbursement method, could affect the amount of these payments and have a significant adverse impact on the assets and liabilities, financial position and results of operations of the Group.

- Legal risks
  Risks that arise from legal issues are continually identified, analyzed and communicated.

  At the beginning of 2003, a definitive agreement was signed regarding the settlement of fraudulent conveyance claims and all other legal matters in connection with the

National Medical Care transaction in 1996 arising from the bankruptcy of W.R. Grace. Under the Settlement Agreement, Fresenius Medical Care will pay a total of US$ 115 million to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation. The Settlement Agreement has been approved by the U.S. District Court. Also, the claims which were made out of court by certain private US health insurers were settled by an agreement. Consequently, all legal issues resulting from the NMC transaction have been concluded. Please see page 97 and page 118 of the Notes for details.

In October 2004, Fresenius Medical Care Holdings, Inc., and its subsidiary Spectra Renal Management, received subpoenas from the US Department of Justice, Eastern District of New York. The subpoenas require production of a broad range of documents relating to the companies' operations, with specific attention to documents relating to a certain hormone test and vitamin D therapies for dialysis patients. Furthermore, in April 2005 Fresenius Medical Care Holdings, Inc. received a subpoena from the US Department of Justice in St. Louis (Missouri) in connection with civil and criminal investigations. Documentation must be provided on clinical quality programs, business development activities, compensation of clinic managers, contractual relationships with doctors, joint ventures, and our anemia treatment therapy. Please see page 119 and page 120 of the Notes for further details.

Furthermore, the Fresenius Group is involved in various legal issues resulting from business operations. Although it is not possible to predict the outcome of these disputes, none are expected to have a significant adverse impact on the assets and liabilities, financial position and results of operations of the Group.

Overall risk

The basis for evaluating overall risk is the risk management system that is regularly audited by management. Potential risks for the Group include factors outside or only partially within its control such as the development of national and global economies, which Fresenius constantly monitors. Risks also include factors within its control such as operating risks, which the Company anticipates early and reacts to appropriately. At the current time, there are no recognizable risks regarding future performance that appear to present a long-term and material threat to the assets and liabilities, financial position and results of operations of the Group. We have created organizational structures that include all the conditions needed to quickly alert us to emerging risk situations.

Corporate rating

The planned acquisition of Renal Care Group, Inc., which will be entirely financed with bank debt, led to a slight adjustment in the rating of Fresenius Medical Care and Fresenius AG. Standard & Poors placed the ratings on Credit Watch and announced it would alter the rating from BB+, watch negative, to BB, negative outlook, when the acquisition was closed. Moody's lowered the ratings of Fresenius Medical Care and Fresenius AG before the planned acquisition from Ba1 to Ba2. The outlook is stable. Given our intention to finance the acquisition with bank debt, we anticipated these downgrades. The financing mix used in the acquisition of HELIOS and the business of Clinico at the end of 2005 did not cause any change in the ratings of Fresenius AG.

FRESENIUS AG RATINGS

	Rating	Outlook
Standard & Poors	BB+	watch neg.
Moody's	Ba2	stable

SUBSEQUENT EVENTS

On May 3, 2005, Fresenius Medical Care entered a contract to acquire all of the share capital of Renal Care Group, Inc., a US dialysis care company, for approximately US$ 3.5 billion in cash. Renal Care Group had preliminary revenues of US$ 1.5 to 1.6 billion in 2005. Fresenius Medical Care expects to close the acquisition in the first quarter of 2006. In February 2006, Fresenius Medical Care Holdings and Renal Care Group entered into a definitive agreement to sell approximately 100 dialysis clinics serving an average of approximately 60 to 65 patients per clinic to National Renal Institutes, Inc. The execution of this agreement is an important step toward concluding the review by the United States Federal Trade Commission (FTC) of Fresenius Medical Care's acquisition of Renal Care Group. The purchase price for the divested clinics is approximately US$ 450 million to be paid in cash, subject to post-closing adjustments to current assets and other routine matters. For details on the financing of this acquisition please refer to page 16 of the Management Report.

In 2005, Fresenius Medical Care also initiated a change in its corporate structure, consisting of the conversion of the preference shares of Fresenius Medical Care into ordinary shares and a change of legal form into a Kommanditgesellschaft auf Aktien or KGaA (German partnership limited by shares). 96 % of the preference shareholders exchanged their shares at a ratio of 1:1 and a conversion premium of € 9.75 per tendered preference share. The conversion and the change in legal form of Fresenius Medical Care AG to a KGaA was completed in February 2006. The company is now legally an AG & Co. KGaA. Fresenius AG now holds 36.77 % of the voting capital of Fresenius Medical Care AG & Co. KGaA.

The change in legal form and the creation of just one share class are strategic initiatives to broaden the future financial flexibility of Fresenius Medical Care. With the focus on one share class, the liquidity of the ordinary shares will increase significantly, the share structure will be simpler and the stock will become more attractive to investors. Only a KGaA structure allows Fresenius AG to retain its controlling position over Fresenius Medical Care and to continue to consolidate Fresenius Medical Care in its financial statements.

In January 2006, Fresenius issued a bond with a total value of € 1 billion through its wholly-owned subsidiary Fresenius Finance B.V., the Netherlands. The proceeds from the bond, together with the capital increase at the end of 2005, were used to finance the purchase of HELIOS, to replace a € 300 million bond, 71 % of which was redeemed for cash, and for general corporate purposes.

Otherwise, no major changes in the situation of the company or our sector have occurred since the beginning of 2006. There are also no plans for major changes to the structure, administration or legal form of the Group or in human resources. No other events of material importance have occurred since the close of the fiscal year.

OUTLOOK

This Management Report contains forward-looking statements, including statements on future sales, expenses and investments as well as potential changes in the health care sector, our competitive environment and our financial situation. These statements were made on the basis of the expectations and assessments of the Management Board concerning events that possibly could affect the company in the future. Such forward-looking statements are subject as a matter of course to risks, uncertainties, assumptions and other factors, so that the actual results, including the financial position and profitability of Fresenius, could differ materially from or be more negative than those expressly or implicitly assumed or described in these statements. For further information, please see our Risks Report on page 24f.

General outlook

The outlook remains positive for the Fresenius Group in the coming years. The Group expects organic sales growth of about 5 to 6 % with earnings growing even faster. Within the business segments, the acquisition of HELIOS will lead to a stronger contribution to the Group from Fresenius ProServe. On a pro forma basis including the HELIOS acquisition, Fresenius ProServe would have contributed 22 % of Group sales last year rather than the reported 10 %. The acquisition of HELIOS in 2005 and the planned acquisition of Renal Care Group in 2006 will lead to a significant increase in debt with a related impact on interest expenses. Our goal is to further improve the debt ratios of the Group. The integration of these acquisitions into the Group will be another focus of our efforts this year so as to avoid potential future risks.

Economic outlook

For the year 2006, continued growth in the global economy is expected. The United States and China will once again be the driving forces. Economists expect GDP growth in 2006 of up to 4.0 % in the United States, the world's biggest economy, and 8.5 % in China. However, these positive forecasts could be jeopardized by further rising oil prices. Many economists believe that the growing US trade deficit could be a major risk for the global economy, since it could lead to a significant devaluation of the dollar.

- Europe

  Current surveys expect a slight economic recovery among the euro countries. Increasing corporate profits, stronger order intake and the growing need for investments and modernization will increase momentum for investment. Consumer spending is expected to develop slightly better than in 2005. The growth in exports should accelerate if the global economy continues to grow and the euro weakens further. At the same time, imports are likely to rise on stronger domestic demand. The trade balance will therefore only provide limited stimulus in 2006. Also, the European Central Bank is expected to raise interest rates during 2006. Overall, GDP growth of 2.1 % is expected in the euro countries.

  Germany's domestic demand is still not expected to recover substantially. A number of special effects – the Soccer World Cup and the bringing forward of purchases ahead of the VAT hike in 2007 – should bolster GDP. GDP growth of 1.5 % is expected in Germany in 2006.

- United States

  Consumer spending is expected to grow more slowly in 2006 since energy prices are likely to remain high and the Federal Reserve could make further rate hikes. High employment and rising incomes should partially compensate for these effects and help to maintain robust growth in consumer spending. The budget deficit will widen further in 2006 due in part to the massive public spending to repair the hurricane damages sustained in 2005. Overall, GDP growth of about 3.75 % is expected.

- Asia
  Observers expect GDP growth of 7.2 % in Asia (excluding Japan) in 2006. Thanks to its highly competitive export industry, China will continue to drive the growth but at a slightly slower pace than in 2005. In addition, the industrial economies could see stronger momentum than last year, which will also support China's growth. China is expected to achieve overall economic growth of 8.5 %. The Japanese economy appears to be heading in the right direction. The main challenge for the Japanese government is further budget consolidation. GDP growth in Japan is expected to be 3.1 %.

- Latin America
  Its high foreign debt continues to be a risk for Latin America, and it could quickly become more severe as international interest rates pick up. Sustained economic recovery could also be threatened by the double-digit inflation rates that still prevail in some countries, political uncertainties from a number of parliamentary and presidential elections as well as capital outflows. Growth in the region should remain robust, with overall economic growth of nearly 4.0 % expected for 2006. More than 50 % of Latin America's exports are raw materials. The development of the raw material markets will therefore be a significant factor for the relatively good economic outlook for Latin American countries.

Health care sector and markets

The health care market offers us exceptional opportunities as described below. Its three key characteristics – it is global, it is innovation-driven and demand is steadily growing – are the factors that drive our business. Fresenius responded to these challenges, entering the international markets early on, and has successfully met the growing demands of the market with innovative and technologically superior products and therapies.

- The dialysis market
  We expect the number of dialysis patients to rise to approximately 2 million by 2010. For 2006, we expexct growth of 5 to 7 % although significant regional differences are anticipated. In industrialized nations such as the United States, Japan and the countries of Central and Western Europe, we expect below-average patient growth. While the population of industrialized nations has access to dialysis treatment, the needs of patients with chronic kidney failure are still not met sufficiently in many developing nations, so we predict an average growth rate in these markets of around 10 %. The fact that 80 % of the world's population lives in these growth countries highlights the enormous potential of the dialysis market in developing nations.

  In addition, the reimbursement of dialysis treatment according to quality-based criteria remains a central issue. In this reimbursement model, the quality of treatment would increase while the total cost of treating a dialysis patient would remain constant.

  Fresenius Medical Care is active in many countries with a variety of health care systems and reimbursement schemes. In the United States, our largest market, patients covered by the public health insurers Medicare and Medicaid account for about 60 % of Fresenius Medical Care's sales. Beginning on April 1, 2006, a new guideline will take effect that governs the treatment of dialysis patients with anemia. To treat anemia, EPO is administered during the dialysis treatment. The EPO dosage is determined by a patient's hematocrit level. The new guideline

Source: Bank research, German Council of Economic Experts (Annual Report 2005/2006).

has increased the recommended hematocrit range for dialysis patients from between 33 % and 36 % to 39 %. The reimbursement scheme was adjusted accordingly. At the beginning of 2005, the reimbursement rate per dialysis treatment (composite rate) was increased by 1.6 %. At the end of 2005 a bill was introduced in the United States Congress proposing a further increase in the composite rate by 1.6 %. This bill became law at the beginning of 2006 and the reimbursement rate has been increased retroactively as from January 1, 2006. A new reimbursement system was developed for separately billable dialysis drugs. Reimbursement was previously based on the average wholesale price (AWP) of dialysis drugs. Now the average sale price (ASP) plus 6 % is the basis for reimbursement. We expect these changes will have no or a slightly positive effect on the business of Fresenius Medical Care.

We have identified no significant changes to the reimbursement schemes in the other world markets. Also, it is not foreseeable when private companies will be allowed to operate dialysis clinics in Germany and Japan.

– The market for infusion therapy and clinical nutrition

Medical advances and demographic developments will remain the growth drivers in the health care market. Cost pressure and health care reforms are expected in Europe, particularly in Central and Western Europe. Despite these trends, we forecast an increase in demand for innovative therapies and cost-effective products. We expect mid-single-digit growth rates in the market for infusion therapy and clinical nutrition in Central and Western Europe. The market for generic intravenous drugs in Europe should see growth in the high single digits.

High growth potential continues to be presented in the regions of Asia-Pacific, Latin America and Eastern Europe. Increasing demand for primary care in hospitals, which creates higher demand for medical products, will result in strong growth rates in many of these countries. In Eastern Europe and among the new EU countries, we foresee market growth in the high single digits. Growth is expected to continue at a double-digit rate in Asia-Pacific and Latin America, with sharply increasing demand for medical devices. The strong interest in improving primary health care in these regions will not diminish in the coming years.

– The German hospital market

Pressure on the profitability and transparency of the German hospital market will continue to increase in the coming years. Growing competition, especially in performance and quality, will require significant structural changes in hospitals. Strained public finances limit the ability of public hospitals to rationalize and invest in modernization, which impairs their competitiveness. However, private hospital chains and alliances are able to respond better to the pressure to improve profitability. They have more experience, enabling them to improve the efficiency of structures and processes and to achieve cost benefits in procurement. In addition, they are generally better placed to finance the necessary investments. Therefore, the privatization of public hospitals is expected to further accelerate.

Private hospital operators forecast further growth opportunities through the acquisition of public institutions. Overall, experts expect the market share of private operators to increase from 25 % currently to about 40 % in 2020. The average hospital stay should decrease by another 20 % to approximately seven days in 2020.

Source: Krankenhaus Barometer Survey 2005, Allianz Group

Group sales

With its international production and sales platform and its market-oriented products the Fresenius Group is ideally positioned for continued growth. In addition, the developments described in the chapter "Health care sector and markets" provide a solid basis. In 2006, we expect to increase Group sales to approximately € 10.5 billion at 2005 exchange rates. Much of the sales growth this year will be due to the first-time consolidation of Renal Care Group and the inclusion of HELIOS in the statement of income. So organic growth needs to be mentioned separately. For 2006, this should be in the region of 5 to 6 %.

While our traditional markets in Europe and North America are growing at low to mid-single digit rates, we expect to see continued stronger expansion in the Asia-Pacific and Latin America regions. This will also be reflected in the development of sales: while we expect single-digit rates of growth in our major markets of the United States and Europe, sales in the growth regions should increase at double-digit rates.

Group earnings

We again expect a significant increase in Group net income in 2006 due to sustained sales growth and ongoing cost-saving measures, with a special focus on production. Furthermore, acquisitions are expected to contribute to this increase.

Net income is projected to grow by more than 30 % in constant currency despite the cost-cutting and price pressure in the market. The net income guidance already includes an amount of € 30 million (after tax) associated with expected one-time expenses for the integration of Renal Care Group and the refinancing of debt as well as for costs related to the change of accounting principles for stock options. Due to the higher number of shares issued in December 2005, earnings per share are projected to increase by approximately 10 % in constant currency.

Sales and Earnings of the Business Segments

Overall, we expect good improvements in sales and earnings in 2006 in each of our business segments: The number of dialysis patients should rise by about 5 to 7 % in 2006, leading to a continued growth in demand for dialysis products and a higher number of treatments. For the full year 2006, Fresenius Medical Care expects revenue growth at constant currencies of approximately 25 % on a pro forma basis, giving effect to the RCG merger as compared to 2005 reported revenues. Pro forma amounts assume consolidation of RCG's operations into Fresenius Medical Care for the full twelve months of 2006. For the full year 2006, Fresenius Medical Care expects to report revenue of more than US$ 8 billion. Fresenius Medical Care's projected net income growth on a pro forma basis for 2006 is expected to be between 10 and 15 %, based on the US$ 472 million net income excluding one-time costs achieved in 2005. This guidance does not take into effect any expected one-time items and the change of accounting principles for stock options. Fresenius Medical Care expects the after tax impact of the one-time items and the change of accounting principles to be around US$ 50 million.

Fresenius Kabi expects the positive development to continue in 2006. Sales are expected to increase about 10 % in constant currency. The Asia-Pacific and Latin America regions are projected to continue their growth pattern. The first-time consolidation of Clinico in the statement of income and the consolidation of Pharmatel will also have a positive effect on sales. Pharmatel is an Australian company, in which Fresenius Kabi increased its stake from 25.1 % to 50.1 % at the beginning of 2006. The projected sales growth combined with cost optimizations will result in a significant earnings improvement in 2006. Fresenius Kabi's EBIT margin is projected to increase to 14.5 to 15.0 %.

At Fresenius ProServe, the statement of income will be significantly affected by the first-time consolidation of HELIOS Kliniken in the statement of income. We will concentrate on improving earnings in our hospital operations business. Moreover, we will see growth in our engineering and services business due to the excellent order intake development. On a pro forma basis, Fresenius ProServe achieved sales of € 2,009 million and EBIT of € 125 million in 2005. For 2006, Fresenius ProServe expects an organic sales growth of 1 to 3 % based on 2005 sales of € 2,009 million. Projected EBIT will be between € 140 million and € 150 million.

Fresenius Biotech will continue its clinical study program. For 2006, Fresenius Biotech's activities should lead to EBIT in the range of € -45 to -50 million. This increase is largely due to the expanded clinical study program.

Financing

In 2005, we generated a solid operating cash flow thanks to the good development of earnings and the further improvement in receivables management. The cash flow margin came to 10.0 %. For 2006, we anticipate a sustainable high cash flow. The cash flow margin, however, is expected to be below the 2005 figure.

A key figure for the Fresenius Group is the net debt/ EBITDA ratio. On December 31, 2005 this ratio stood at 2.3, adjusted by the EBITDA of HELIOS (see page 22 of the Management Report). This figure will climb to about 3.5 in 2006 because of the fully debt financed Renal Care Group acquisition. Our goal is to reach a ratio of < 3.0 by 2008. We will concentrate on increasing earnings and on a continued strong cash flow and debt reduction. Selected acquisitions must meet our profitability criteria.

Overall, we have sufficient financial cushion with syndicated credit lines, an only partially utilized receivables securitization program at Fresenius Medical Care, the unused portion of the commercial paper program and substantial open bilateral credit lines available from banks. On December 31, 2005, the Fresenius Group had a commercial paper program of € 250 million, of which only € 22 million was used, as well as substantial open bilateral credit lines at its disposal.

Investments

Fresenius is planning to invest in further growth and to increase investment spending. In 2006, investments in property, plant and equipment and intangible assets are projected to increase to approximately € 550 to 600 million (2005: € 357 million). The bulk will be invested at Fresenius Medical Care and Fresenius ProServe, with Fresenius Medical Care accounting for about two-thirds and Fresenius Kabi and Fresenius ProServe for the remaining third. The focus of the investments at Fresenius Medical Care will be on the construction and expansion of dialysis clinics as well as on the expansion and maintenance of production sites. Investments at Fresenius Kabi will also be used to expand and maintain production plants and introduce new manufacturing technology. At Fresenius ProServe we will invest primarily in the modernization and equipment of hospitals. The regional focus of the investments will be on Europe and North America, each with around 45 %. The remainder will be invested in Asia, Latin America and Africa. About 30 % of the funds will be invested in Germany.

Procurement

Procurement optimization, including price and conditions as well as product quality, is an important component of earnings growth. We will also focus on optimizing the procurement process as well as the cooperation between individual sites. Procurement alliances across various sectors will allow us to increase purchasing volumes and strengthen our negotiation position with our suppliers.

In 2006, a key project at Fresenius Medical Care will be to ensure a constant supply of plastics. We will identify several suppliers per product to guarantee a steady flow of the high-quality materials we require. Because suppliers of intermediate petroleum-based products adjust their prices every quarter, we expect the prices of these products to fluctuate. We project a significant price increase in energy and media for 2006.

Fresenius Kabi will also increase its use of the Asian procurement market. This will lower prices for materials such as amino acids and related raw materials. However, considerably higher prices for energy and energy-related products such as glass containers will have a noticeable impact.

Research and Development

Our R&D activities will continue to play a key role in securing the Group's long-term growth through innovative and new therapies. We are concentrating our R&D on products for the treatment of patients with chronic kidney failure with an emphasis on dialysis membranes and other products, and on dialysis machines. We are also focusing on other extracorporeal therapies, such as the treatment of patients with liver disease, as well as on alternative anticoagulants. Another focus is research on infusion and nutrition therapies. We are also concentrating on targeted development in the biotechnology sector in the field of antibody therapies where we expect results from clinical studies in 2006.

We are planning to invest more in R&D in 2006. The increase should be higher than the forecast organic growth in sales. The number of employees in research and development will also be increased.

Market-oriented R&D with strict time-to-market management processes is crucial to the success of new products. We continually review our R&D results based on clearly-defined milestones.

Innovative ideas, product development and therapies with a high level of quality will continue to be the basis for our market-leading products.

Corporate legal structure and organization

The Fresenius Group is divided into three business segments, each of which is a legally independent entity. The business segments are organized on a regional and decentralized basis to provide the greatest flexibility to meet the demands of their respective markets. The "entrepreneur in the enterprise" principle with clearly defined responsibilities has proven itself over many years. We will continue to follow this principle. We are not planning to change Fresenius' legal structure.

Planned changes in human resources and the social area

The number of employees in the Group will top the 100,000 mark in 2006 when the employees of Renal Care Group are included for the first time. Almost 50 % of the employees will be located in Europe, about 40 % in North America and approximately 10 % in Asia-Pacific, Latin America and Africa. The number of employees in our traditional businesses will also be increased in order to achieve our organic growth targets but the rate of increase will be below the expected organic sales growth.

Dividend

Continuity in our dividend policy remains an important priority. This has been demonstrated impressively by steady dividend increases over the last twelve years. Also for the fiscal year 2006, we want to remain true to this policy and offer our shareholders a dividend in line with our positive earnings forecasts.

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CONSOLIDATED STATEMENT OF INCOME

January 1 to December 31, in million €	Note	2005	2004
Sales	3	**7,889**	7,299
Cost of goods sold	4	**-5,194**	-4,922
Gross profit		**2,695**	2,377
Selling, general and administrative expenses	6	**-1,581**	-1,407
Research and development expenses	7	**-147**	-122
Operating income (EBIT)		**967**	848
Interest income	8	**20**	15
Interest expense	8	**-223**	-225
Earnings before income taxes and minority interest		**764**	638
Income taxes	9	**-293**	-257
Earnings after income taxes and before minority interest		**471**	381
Minority interest	22	**-249**	-215
Net income of the Group		**222**	166
Basic earnings per ordinary share in €	10	**5.27**	4.03
Fully diluted earnings per ordinary share in €	10	**5.23**	4.02
Basic earnings per preference share in €	10	**5.30**	4.06
Fully diluted earnings per preference share in €	10	**5.26**	4.05

The following Notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

ASSETS

as of December 31, in million €	Note	**2005**	2004
Cash and cash equivalents	11	**252**	140
Trade accounts receivable, less allowances for doubtful accounts	12	**1,871**	1,528
Accounts receivable from related parties		**15**	17
Inventories	13	**727**	619
Prepaid expenses and other current assets	14	**478**	283
Assets held for sale and discontinued operations		**0**	2
I. Total current assets		**3,343**	2,589
Property, plant and equipment	15	**2,359**	1,697
Goodwill	16	**4,696**	2,907
Other intangible assets	16	**559**	499
Other non-current assets	14	**362**	234
thereof at equity consolidated financial investments		**14**	8
Deferred taxes	9	**283**	274
II. Total non-current assets		**8,259**	5,611
Total assets		**11,602**	8,200

LIABILITIES AND SHAREHOLDERS' EQUITY

in million €	Note	2005	2004
Trade accounts payable		**353**	273
Accounts payable to related parties		**2**	1
Accrued expenses and other current liabilities	17, 18	**1,530**	994
Short-term borrowings	19	**824**	391
Short-term liabilities and loans from related parties		**1**	2
Current portion of long-term debt and capital lease obligations	19	**222**	190
Accruals for income taxes		**146**	195
A. Total short-term liabilities		**3,078**	2,046
Long-term debt and liabilities from capital lease obligations, less current portion	19	**1,455**	1,219
Long-term liabilities and loans from related parties		**–**	–
Other long-term liabilities	17, 18	**288**	143
Pension obligations	20	**256**	220
Deferred taxes	9	**321**	256
Trust preferred securities of Fresenius Medical Care Capital Trusts	21	**1,000**	933
B. Total long-term liabilities		**3,320**	2,771
I. Total liabilities		**6,398**	4,817
A. Minority interest	22	**2,323**	1,766
Subscribed capital	23	**130**	105
Capital reserves		**1,603**	696
Other reserves		**985**	819
Accumulated other comprehensive income (loss)	24	**163**	-3
B. Total Groups' equity		**2,881**	1,617
II. Total shareholders' equity		**5,204**	3,383
Total liabilities and shareholders' equity		**11,602**	8,200

The following Notes are an integral part of the Consolidated Finanical Statements.

CONSOLIDATED CASH FLOW STATEMENT

January 1 to December 31, in million €	Note	2005	2004
Cash provided by/used for operating activities			
Net income		**222**	166
Minority interest		**249**	215
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities			
Cash inflow from hedging		**0**	12
Depreciation and amortization		**325**	317
Gain from sale of investments		**0**	-14
Change in deferred taxes		**14**	29
Gain/loss on sale of fixed assets		**7**	-1
Change in assets and liabilities, net of amounts from businesses acquired or disposed of			
Change in trade accounts receivable, net	12	**-42**	-21
Change in inventories	13	**-12**	9
Change in prepaid expenses and other current and non-current assets	14	**-132**	79
Change in accounts receivable from/payable to related parties		**6**	4
Change in trade accounts payable, accruals and other short-term and long-term liabilities		**406**	275
Received interest		**20**	15
Paid interest		**-208**	-228
Change in accruals for income taxes		**289**	183
Income taxes piad		**-360**	-180
Cash provided by operating activities		**784**	860
Cash provided by/used for investing activities			
Purchase of property, plant and equipment		**-357**	-319
Proceeds from sale of property, plant and equipment		**22**	22
Purchase of shares in related companies and investments, net	2, 27	**-1,608**	-100
Proceeds from sale of shares in related companies and investments, net	27	**2**	10
Cash used for investing activities		**1,941**	-387

in Mio €	Anhang (Tz)	2005	2004
Cash provided by/used for financing activities			
Proceeds from short-term borrowings	19	**37**	87
Repayments of short-term borrowings	19	**-70**	-77
Proceeds from short-term borrowings from related parties		**0**	1
Repayments of short-term borrowings from related parties		**-4**	-1
Proceeds from long-term debt and capital lease obligations	19	**945**	607
Repayments of long-term debt and capital lease obligations	19	**-310**	-1,097
Changes of accounts receivable facility	19	**-194**	143
Proceeds from exercise of stock options		**90**	3
Dividends paid		**-132**	-122
Proceeds from issuance of bearer ordinary shares	23	**438**	0
Proceeds from issuance of bearer preference shares	23	**481**	0
Payments of additional costs of capital increase	23	**-22**	0
Change in minority interest	22	**-1**	0
Payments on hedge contracts for intercompany loans in foreign currency		**-2**	-3
Cash provided by/used for financing activities		**1,256**	-459
Effect of exchange rate changes on cash and cash equivalents		**13**	-2
Net increase in cash and cash equivalents		**112**	12
Cash and cash equivalents at beginning of the year	11	**140**	128
Cash and cash equivalents at end of the year	11	**252**	140

Der nachfolgende Anhang ist integraler Bestandteil des Konzernabschlusses.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY*

		Ordinary shares		Preference shares		Subscribed capital	
in million €	Note	Number of shares (thousand)	Amount (thousand €)	Number of shares (thousand)	Amount (thousand €)	Amount (thousand €)	Amount (million €)
As of December 31, 2003		20,485	52,441	20,485	52,441	104,882	105
Issuance of bearer ordinary and bearer preference shares	23						
Proceeds from exercise of stock options	29	1	2	1	2	4	-
Compensation expense related to stock options	29						
Dividends paid	23						
Comprehensive income (loss)							
Net income							
Other comprehensive income (loss) related to							
Cash flow hedges	24, 26						
Foreign currency translation	24						
Comprehensive income (loss)							
As of December 31, 2004		20,486	52,443	20,486	52,443	104,886	105
Issuance of bearer ordinary and bearer preference shares	23	4,700	12,032	4,700	12,032	24,064	24
Proceeds from the exercise of stock options	29	175	449	175	449	898	1
Compensation expense related to stock options	29						
Dividends paid	23						
Comprehensive income (loss)							
Net income							
Other comprehensive income (loss) related to							
Cash flow hedges	24, 26						
Foreign currency translation	24						
Comprehensive income (loss)							
As of December 31, 2005		25,361	64,924	25,361	64,924	129,848	130

*The developement of minority interest is shown in Note 22.

		Reserves		Other comprehensive income (loss)		
in million €	Note	Capital-reserves	Other reserves	Foreign currency translation	Cash flow hedges	Total
As of December 31, 2003		687	704	39	4	1,539
Issuance of bearer ordinary and bearer preference shares	23					
Proceeds from exercise of stock options	29	–				–
Compensation expense related to stock options	29	9				9
Dividends paid	23		-51			-51
Comprehensive income (loss)						
Net income			166			166
Other comprehensive income (loss) related to						
Cash flow hedges	24, 26				-22	-22
Foreign currency translation	24			-24		-24
Comprehensive income (loss)		0	166	-24	-22	120
As of December 31, 2004		696	819	15	-18	1,617
Issuance of bearer ordinary and bearer preference shares	23	872				896
Proceeds from the exercise of stock options	29	25				26
Compensation expense related to stock options	29	10				10
Dividends paid	23		-56			-56
Comprehensive income (loss)						
Net income			222			222
Other comprehensive income (loss) related to						
Cash flow hedges	24, 26				32	32
Foreign currency translation	24			134		134
Comprehensive income (loss)		0	222	134	32	388
As of December 31, 2005		1,603	985	149	14	2,881

The following Notes are an integral part of the Consolidated Financial Statements.

SEGMENT REPORTING

by business segments

in million €	Fresenius Medical Care 2005	2004	Change	Fresenius Kabi 2005	2004	Change
Sales	**5,443**	5,035	8%	**1,681**	1,491	13%
thereof contribution to consolidated sales	**5,418**	5,007	8%	**1,651**	1,465	13%
thereof intercompany sales	**25**	28	-11%	**30**	26	15%
contribution to consolidated sales	**69%**	69%		**21%**	20%	
EBITDA	**958**	876	9%	**316**	263	20%
Depreciation and amortization	**203**	187	9%	**87**	84	4%
EBIT	**755**	689	10%	**229**	179	28%
Net interest	**-139**	-148	6%	**-51**	-46	-11%
Net income	**371**	322	15%	**106**	81	31%
thereof from associates and joint ventures	**-3**	-1	-200%	**-1**	0	--
Operating cash flow	**539**	671	-20%	**241**	174	39%
Cash flow before acquisitions and dividends	**300**	454	-34%	**167**	121	38%
Debt	**1,857**	1,820	2%	**903**	709	27%
Other operating liabilities	**1,203**	1,104	9%	**545**	439	24%
Total assets	**6,782**	5,864	16%	**1,856**	1,511	23%
Capital expenditure	**253**	232	9%	**81**	59	37%
Acquisitions	**108**	96	13%	**274**	13	--
Research and development expenses	**42**	34	24%	**64**	52	23%
Employees (per capita on balance sheet date)	**50,250**	46,949	7%	**14,453**	11,577	25%
Key figures						
EBITDA margin	**17.6%**	17.4%		**18.8%**	17.6%	
EBIT margin	**13.9%**	13.7%		**13.6%**	12.0%	
ROOA	**12.6%**	11.7%		**14.1%**	13.5%	
Depreciation and amortization as % of sales	**3.7%**	3.7%		**5.2%**	5.6%	

Fresenius ProServe			Konzern/Sonstiges			Fresenius Group		
2005	2004	Change	**2005**	2004	Change	**2005**	2004	Change
809	813	0%	**-44**	-40	-10%	**7,889**	7,299	8%
804	811	-1%	**16**	16	0%	**7,889**	7,299	8%
5	2	150%	**-60**	-56	-7%	**0**	0	
10%	11%		**0%**	0%		**100%**	100%	
45	37	22%	**-27**	-11	-145%	**1,292**	1,165	11%
25	29	-14%	**10**	17	-41%	**325**	317	3%
20	8	150%	**-37**	-28	-32%	**967**	848	14%
-10	-12	17%	**-3**	-4	25%	**-203**	-210	3%
1	-11	109%	**-256**	-226	-13%	**222**	166	34%
1	-3	133%	**0**	0	--	**-3**	-4	25%
19	23	-17%	**-15**	-8	-88%	**784**	860	-9%
7	-1	--	**-25**	-11	-127%	**449**	563	-20%
229	222	3%	**513**	-16	--	**3,502**	2,735	28%
819	305	169%	**8**	-22	136%	**2,575**	1,826	41%
2,863	744	--	**101**	81	25%	**11,602**	8,200	41%
12	25	-52%	**11**	3	--	**357**	319	12%
1,507	4	--	**5**	0	--	**1,894**	113	--
1	–	--	**40**	36	11%	**147**	122	20%
26,664	9,398	184%	**604**	570	6%	**91,971**	68,494	34%
5.6%	4.6%					**16.4%**	16.0%	
2.5%	1.0%					**12.3%**	11.6%	
3.5%	1.4%					**11.7%**	11.0%	
3.1%	3.6%					**4.1%**	4.3%	

The segment repoting is integral part of the Notes.
The following Notes are an integral part of the Consolidated Financial Statements.

SEGMENT REPORTING
by region

in million €	Europa			Nordamerika		
	2005	2004	Change	**2005**	2004	Change
Sales	**3,030**	2,802	8%	**3,746**	3,499	7%
contribution to consolidated sales	**38%**	39%		**47%**	48%	
EBIT	**322**	297	8%	**533**	479	11%
Depreciation and amortization	**175**	183	-4%	**112**	103	9%
Total assets	**5,791**	3,285	76%	**4,752**	4,044	18%
Capital expanditure	**182**	155	17%	**141**	133	6%
Acquisitions	**1,791**	41	--	**62**	52	19%
Employees (per capita on balance sheet date)	**48,169**	27,373	76%	**31,031**	29,690	5%

Asien-Pazifik			Lateinamerika			Afrika			Fresenius Group		
2005	2004	Change	**2005**	2004	Change	**2005**	2004	Change	**2005**	2004	Change
557	547	2%	**356**	279	28%	**200**	172	16%	**7,889**	7,299	8%
7%	7%		**5%**	4%		**3%**	2%		**100%**	100%	
59	36	64%	**32**	19	68%	**21**	17	24%	**967**	848	14%
22	19	16%	**14**	10	40%	**2**	2	0%	**325**	317	3%
556	472	18%	**428**	329	30%	**75**	70	7%	**11,602**	8,200	41%
15	14	7%	**17**	13	31%	**2**	4	-50%	**357**	319	12%
33	15	120%	**7**	0	--	**1**	5	-80%	**1,894**	113	--
4,296	3,633	18%	**7,772**	7,126	9%	**703**	672	5%	**91,971**	68,494	34%

The segment repoting is integral part of the Notes.
The following Notes are an integral part of the Consolidated Financial Statements.

CONTENTS

1. PRINCIPLES

I. Group structure

Fresenius is a health care Group with products and services for dialysis, the hospital and the medical care of patients at home. Further areas of activity are hospital operations as well as engineering and services for hospitals and the pharmaceutical industry. In addition to the activities of the Fresenius AG, the operating activities are split into the following legally-independent business segments (sub-groups) as of December 31, 2005:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats about 131,450 patients in its own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care. Within the scope of this care chain, the company offers products for fluid and blood volume replacement, generic intravenously administered drugs, parenteral and enteral nutrition products and medical devices. The company is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe focuses on hospital operations as well as on engineering and services for hospitals, health care facilities and the pharmaceutical industry.

Fresenius AG continued to own 50.76 % of the ordinary voting shares of Fresenius Medical Care AG at the end of the 2005 fiscal year. Fresenius AG's share of the total subscribed capital of Fresenius Medical Care AG (ordinary and preference shares) continued to be 36.4% at December 31, 2005.

Fresenius AG continued to hold 100 % of the management companies of the business segments Fresenius Kabi (Fresenius Kabi AG) and Fresenius ProServe (Fresenius ProServe GmbH) on December 31, 2005.

In addition, Fresenius AG holds interests in companies with holding functions regarding real estate, financing and insurance, as well as in Fresenius Netcare GmbH which offers services in the field of information technology and in Fresenius Biotech Beteiligungs GmbH.

The reporting currency in the Fresenius Group is the euro. In order to make the presentation clearer, amounts are mostly shown in million euros. Amounts which are lower than one million euros after they have been rounded are marked with "–".

II. Transformation of Fresenius Medical Care AG's legal form and conversion of its preference shares

On February 10, 2006, Fresenius Medical Care completed a transformation of its legal form under German law as approved by its shareholders during an Extraordinary General Meeting held on August 30, 2005 (EGM). Upon registration of the transformation of legal form in the commercial register of the local court in Hof an der Saale, on February 10, 2006, Fresenius Medical Care AG's legal form was changed from a stock corporation (Aktiengesellschaft) to a partnership limited by shares (Kommanditgesellschaft auf Aktien) with the name Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA). Fresenius Medical Care as a KGaA is the same legal entity under German law, rather than a successor to the AG. Fresenius Medical Care Management AG, a subsidiary of Fresenius AG, the majority voting shareholder of Fresenius Medical Care AG prior to the transformation, is the general partner of FMC-AG & Co. KGaA. Upon effectiveness of the transformation of legal form, the share capital of Fresenius Medical Care AG became the share capital of FMC-AG & Co. KGaA, and persons who were shareholders of Fresenius Medical Care AG became shareholders of FMC-AG & Co. KGaA.

This transformation has no impact on the consolidation of Fresenius Medical Care in the consolidated financial statement of the Fresenius Group.

In conjunction with the transformation of legal form, Fresenius Medical Care AG offered holders of its non-voting preference shares (including preference shares represented by American Depositary Shares (ADSs)) the opportunity to convert their shares into ordinary shares at a conversion ratio of one preference share plus a conversion premium of € 9.75 per ordinary share. The conversion was completed place on February 10, 2006.

Several ordinary shareholders challenged the resolutions adopted at the EGM approving the conversion of the preference shares into ordinary shares, the adjustment of the employee participation programs, the creation of authorized capital and the transformation of the legal form of Fresenius Medical Care AG with the objective of having the resolutions declared null and void. On December 19, 2005 Fresenius Medical Care AG and the claimants agreed to a settlement with the participation of Fresenius AG and Fresenius Medical Care Management AG and all proceedings were terminated.

Pursuant to the settlement Fresenius Medical Care Management AG undertook to (i) make an ex gratia payment to the ordinary shareholders of Fresenius Medical Care (other than Fresenius AG), of € 0.12 for every share issued as an ordinary share up to August 30, 2005 and (ii) to pay to ordinary shareholders who, at the EGM of August 30, 2005, voted against the conversion proposal, an additional € 0.69 per ordinary share. Ordinary shareholders who were shareholders at the close of business on the day of registration of the conversion and transformation with the commercial register were entitled to a payment under (i) above. Ordinary shareholders who voted against the conversion resolution in the extraordinary general meeting on August 30, 2005, as evidenced by the voting cards held by Fresenius Medical Care AG, were entitled to a payment under (ii) above, but only in respect of shares voted against the conversion resolution. The right to receive payment under (ii) will lapsed as to any shareholder who does not make a written claim for payment with Fresenius Medical Care by February 28, 2006.

Fresenius Medical Care also agreed to bear court fees and shareholder legal expenses in connection with the settlement.

The total costs of the settlement are estimated to be approximately € 5.9 million. A further part of the settlement agreement and German law require that these costs be borne by Fresenius AG and Fresenius Medical Care Management AG.

As part of the settlement, Fresenius Medical Care, with the participation of Fresenius AG and the general partner, Fresenius Medical Care Management AG, also agreed to establish, at the first ordinary general meeting after registration of the transformation of legal form, a joint committee (the Joint Committee) (gemeinsamer Ausschuss) of the supervisory boards of Fresenius Medical Care Management AG and FMC-AG & Co. KGaA with authority to advise and decide on certain significant transactions between FMC-AG & Co. KGaA and Fresenius AG and to approve certain significant acquisitions, dispositions, spin-offs and similar matters. FMC-AG & Co. KGaA also agreed to establish an Audit and Corporate Governance Committee of the FMC-AG & Co. KGaA Supervisory Board to review the report of the general partner on relations with related parties and report to the overall supervisory board thereon.

III. Basis of presentation

As a stock exchange listed parent company in a member state of the European Union, Fresenius AG is required, from January 1, 2005 onwards, to prepare and publish consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), applying § 315a of the German Commercial Code (HGB). The consolidated financial statements of Fresenius AG at December 31, 2005 have therefore been prepared for the first time in accordance with the Standards valid on the balance sheet date issued by the International Accounting Standards Board (IASB) and the mandatory Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), applying IFRS 1 (First-time Adoption of International Financial Reporting Standards). IFRS 1 requires that the opening balance sheet at January 1, 2004, and the comparative figures at December 31, 2004 are prepared in accordance with all Standards which are operative up to December 31, 2005. Up to December 31, 2004, the Fresenius Group had applied the exemption regulations contained in § 292a HGB which permitted it to draw up consolidated financial statements in accordance with accounting principles generally accepted in the USA (US GAAP) rather than in accordance with HGB. For reconciliation of the equity and net income of the Group reported for US GAAP and IFRS purposes see Note 1. VI, Reconciliation of equity and net income of the Group.

In addition to the IFRS consolidated financial statements for the fiscal year 2005 required by law, the Fresenius Group continues to prepare and publish consolidated financial statements in accordance with US GAAP. The IFRS consolidated financial statements are prepared in accordance with those IFRS which are binding to be applied in the EU.

In order to improve clarity of presentation, various items are aggregated in the consolidated balance sheet and statement of income. These items are analyzed separately in the Notes if this provides useful information to the users of the consolidated financial statements.

Moreover the Notes include information required by HGB according to § 315a section 1 sentence 1 HGB. The consolidated financial statements have been complemented with the management report according to § 315a HGB in conjunction with § 315 HGB.

The consolidated balance sheet contains all information required to be disclosed by IAS 1 (Presentation of Financial Statements) and is in accordance with RIC 1 (Balance Sheet Classification according to current/non-current Distinction in compliance with IAS 1 Presentation of Financial Statements) classified on the basis of the maturity of assets and liabilities following the consolidated balance sheet in accordance with US GAAP; the consolidated statement of income is classified using the cost of sales format.

At February 24, 2006, the Management Board authorised the consolidated financial statements for issue and passed it through to the Supervisory Board. The Supervisory Board has to control and approve the consolidated financial statements.

IV. Summary of significant accounting policies

a) Consolidation methods

The financial statements of consolidated entities have been prepared using uniform accounting methods in accordance with IAS 27 (Consolidated and Separate Financial Statements).

Capital consolidation is performed according to IFRS 3 (Business Combinations) by offsetting investments in subsidiaries against the underlying equity at the dates of acquisition. The identifiable assets and liabilities of subsidiaries are included at their fair values. Any remaining debit balance is recognized as goodwill and is tested at least once a year for impairment.

The equity method is applied using the same principles in accordance with IAS 28 (Investments in Associates).

All significant intercompany revenues, expenses, income, receivables and payables are eliminated.

Profits and losses on items of property, plant and equipment and inventory acquired from other group entities are also eliminated.

Deferred tax assets and liabilities are recognized on temporary differences resulting from consolidation procedures.

The minority shareholders' interest in the equity of group entities and in profits and losses are presented as "minority interest".

b) Composition of the Group

Besides Fresenius AG, the consolidated financial statements include all material subsidiaries in which Fresenius AG, directly or indirectly, holds a majority investment or the majority of the voting power and has the posibility of control.

Special purpose entities as defined by SIC 12 (Consolidation - Special Purpose Entities) are consolidated if they are controlled by a Fresenius Group company (that means risks and chances mainly belonging to the Group).

Joint ventures and entities in which Fresenius AG, directly or indirectly, holds between 20% and 50% of the voting power and can exercise a significant influence over their financial and operating policies, are consolidated using the equity method.

The consolidated financial statements of the year 2005 include, in addition to Fresenius AG, 117 (2004: 77) German and 634 (2004: 629) foreign companies.

The composition of the Group changed as follows:

	Germany	Abroad	Total
December 31, 2004	**77**	**629**	**706**
Additions	47	52	99
of which newly founded	0	13	13
of which acquired	46	23	69
Disposals	7	47	54
of which no longer consolidated	2	24	26
of which merged	5	23	28
December 31, 2005	**117**	**634**	**751**

17 companies (2004: 11) were accounted for under the equity method.

The complete list of the investments of Fresenius AG will be submitted to the Commercial Register of the District Court of Bad Homburg v.d.H under the number HRB 2617.

c) Sales recognition policy
Sales from services are recognized at amounts estimated to be received under reimbursement arrangements. Sales are recognized on the date services and related products are provided and the payor is obligated to pay.

Product sales are recognized when title to the product passes to the customers either at the time of shipment, upon receipt by the customer or upon any other terms that clearly define passage of title. As product returns are not typical, no return allowances are established. As product returns are not typical, an appropriate reduction to sales, cost of sales and accounts receivable is made in the event a return is actual. Sales are stated net of discounts, allowances, settlement discounts and rebates.

In the business segment Fresenius ProServe, sales are recognized for long-term production contracts using the percentage-of-completion (PoC) method when the conditions contained in IAS 18 (Revenue) and IAS 11 (Construction Contracts) are met. The sales to be recognized are calculated as a percentage of the costs already incurred based on the estimated total cost of the contract or milestones laid down in the contract depending on the circumstances. Profits are only recognized when the outcome of a production contract accounted for using the PoC method can be measured reliably.

d) Government grants

In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), public sector grants are not recognized until there is reasonable assurance that the conditions attached to them have been complied with and the grants will be received. Firstly the grant is accounted as a liability and as soon as it is used (acquisition of an asset) it is offset against the acquisition costs. Firstly the grant is accounted as a liability and as soon as it is used (acquisition of an asset) set against the acquisition costs. Expense-related grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate.

e) Research and development costs

Research costs are incurred in conjunction with original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Development is the technical and commercial implementation of research findings.

Research costs and non-capitalizable development costs are recognized as expenses as incurred, since they do not fully meet the criteria for the recognition of an intangible asset set out in IAS 38 (Intangible Assets). Research and development expenses including depreciation of capitalized development costs of the Fresenius Group for the fiscal years 2005 and 2004 amounted to € 147 million and € 122 million, respectively.

f) Impairment

The Fresenius Group reviews the carrying value of its property, plant and equipment, its intangible assets with definite useful lives as well as other non-current assets for impairment whenever events or changes in circumstances indicate that the carrying amount is higher than the asset's net realizable value or its value in use in accordance with IAS 36 (Impairment of Assets). The net realizable value of an asset is defined as its fair value less costs to sell.

The value in use is the present value of future cash flows expected to be derived from the relevant asset. If it is not possible to estimate the future cash flows from the individual assets, impairment is tested on the basis of the future cash flows of the corresponding cash generating units (CGUs).

Impairment losses are reversed when the reasons for impairment no longer exist.

In accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) assets held for sale are accounted at the carrying value or any lower fair value minus selling costs. As long as the company still intends to sell the asset, it is not depreciated. Disposed assets which are not sold, are accounted for as assets in use, until their real divestiture.

g) Interest

The Fresenius Group includes interest which is directly attributable to the acquisition, construction or manufacture of qualifying assets in accordance with IAS 23 (Borrowing Costs).

For the fiscal years 2005 and 2004, interest of € 2 million and € 1 million, based on an average interest rate of 7.2 % and 8.0 %, respectively, was recognized as a component of the cost of assets.

h) Income taxes

In accordance with IAS 12 (Income Taxes), deferred tax assets and liabilities are recognized for the future consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis as well as on consolidation procedures affecting net income. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of existing tax losses available for carryforward where future recoverability is probable.

Deferred taxes are computed using enacted or planned tax rates which are expected to apply in the relevant national jurisdictions when the amounts are recovered.

The carrying amount of a deferred tax asset shall be reviewed at each balance sheet date. The carrying amount of a deferred tax asset shall be reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction shall be reversed to the date and extent that it becomes probable that sufficient taxable profit will be available (See Note 9, Income taxes).

i) Earnings per share

Earnings per ordinary share and preference share are computed in accordance with IAS 33 (Earnings per Share). Earnings per ordinary share are based on the net income for the year less the preferential amount due on preference shares, divided by the weighted average number of ordinary shares and preference shares outstanding during the period. For the purpose of calculating earnings per preference share, the preferential amount due on preference shares is added to the earnings per ordinary share. Diluted earnings per share include the effect of all potentially diluting convertible instruments and option rights, in that diluted earnings per share assumes that the relevant shares had been in circulation during the year. Instruments which are in place in conjunction with the Fresenius and Fresenius Medical Care employee stock option schemes could have a diluting effect.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash funds and all short-term, liquid investments with an original maturity of up to three months.

k) Trade accounts receivable

Trade accounts receivable are stated at their nominal value less allowances for doubtful debts. Allowances are estimated mainly on the basis of payment history to date, the age structure of balances and the contractual partner involved. In order to assess the appropriateness of allowances, checks are carried out at regular intervals, to determine whether there have been any divergences to previous payment history.

Receivables with maturities of over one year which bear no or lower-than-market interest are discounted.

l) Inventories

In accordance with IAS 2 (Inventories), inventories comprise all assets which are held for sale in the normal course of business (finished products), in the process of production for such sale (work in progress) or consumed in the production process or in the rendering of services (raw materials and supplies).

Inventories are measured at the lower of cost (computed using the average cost or FIFO method) or net realizable value. Manufacturing cost comprises direct costs, production and material overheads and depreciation.

m) Property, plant and equipment
Property, plant and equipment are stated at purchasing cost less accumulated depreciation. Significant improvements are capitalized; repair and maintenance costs that do not extend the useful lives of the assets are charged to expenses as incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years for buildings and improvements (with a weighted average life of 18 years) and 3 to 15 years for machinery and equipment (with a weighted average life of 10 years).

n) Intangible assets with definite useful lives
In accordance with IAS 38 (Intangible Assets), intangible assets with definite useful lives are amortized over their respective useful lives and reviewed for impairment in accordance with IAS 36 (Impairment of Assets) (see Note 1. IV f, Impairment).

Purchased and internally generated intangible assets, for example patents and distribution rights are stated at cost less straight-line amortization and are amortized over their contractual or estimated useful lives.

Impairment losses are recognized in the event of losses in value of a lasting nature and are reversed when the reasons for impairment no longer exist except for impairments on goodwill.

Development costs are measured on manufacturing costs when the recognition criteria set out in IAS 38 (Intangible Assets) are met.

For development costs of dialysis machines manufactured by Fresenius Medical Care the timing of the recognition as assets is based on the technical utilizability of the machines. Capitalized development costs are amortized on a straight-line basis over a useful life of 10 years.

In the case of Fresenius Kabi, development costs may be capitalized after the registration of a new product. Costs are depreciated on a straight-line basis over a useful life of 5 years.

o) Goodwill and other intangible assets with indefinite useful lives
Intangible assets such as tradenames and management contracts acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by IAS 38 (Intangible Assets). They are recorded at acquisition costs.

Any excess of the purchase cost over the fair value of the identifiable assets, liabilities and contingent liabilities is recognized as goodwill. In accordance with IFRS 3 (Business Combinations), goodwill is no longer amortized systematically; instead Goodwill and other intangible assets with indefinite useful lives are tested for impairment annually and during the year when an event becomes known that could trigger an impairment. The Fresenius Group accounts for tradenames and management contracts as intangible assets with indefinite useful lives.

For the purposes of identifying impairment losses on goodwill, the Fresenius Group has determined the smallest identifiable group of assets (cash generating units or CGUs) in accordance with IAS 36 (Impairment of Assets) and determined the carrying amount of each CGU by allocating all assets and liabilities (including goodwill and intangible assets) to those units. The fair value of each CGU is compared with its carrying amount at least once a year. The fair value of a CGU is determined using a discounted cash flow approach. In the case that the fair value of the CGU is less than its carrying value, a second step is performed which compares the fair value of the CGU's goodwill to the carrying value of its goodwill. If the fair value of the goodwill is less than the carrying value, the difference is recorded as an impairment.

In order to test intangible assets with indefinite useful lives for impairment, the Fresenius Group compares the fair value of those intangible assets with their carrying amount. The fair value of these intangible assets is measured using a discounted cash flow method and other suitable methods.

The recoverability of goodwill and other separable intangible assets with indefinite useful lives recorded in the Group's consolidated balance sheet was verified. Therefore the Fresenius Group did not record any impairment losses in 2005. In the year 2004 an impairment loss of €4 million in the business segment Fresenius Biotech was recorded.

Impairment losses recognized on goodwill are not reversed at a later date if the reasons for impairment no longer exist.

Any excess of the net fair value of identifiable assets and liabilities over cost still existing after reassessing the purchase price allocation is recognized immediately in profit or loss.

On first-time adoption of IFRS, goodwill is measured in the opening balance sheet in accordance with IFRS 1 at its carrying amount before the date of transition to IFRS, taking into account the recognition criteria for intangible assets and contingent liabilities.

Fresenius Group uses the option of IFRS 1 for recognizing business combinations as occurred before the first time adoption of IFRS.

p) Leases
Leased assets, assign to Fresenius Group based on chances and risks (i.e. finance leases) are recognized as property, plant and equipment in accordance with IAS 17 (Leases) and measured on receipt date at their fair values as long as the present values of the lease payments are not lower. Leased assets are depreciated in straight-line over their useful lives. If there is doubt as to when title to the asset passes at a later stage and there is no purchase option the asset is depreciated over the lease term, if this is shorter. The payment obligations relating to future lease instalments are recognized as financial liabilities. An impairment loss is recognized if the recoverable amount is lower than the amortized cost of the leased asset. The impairment loss is reversed if the reasons for impairment no longer exist.

Finance lease liabilities are measured at the present value of the future lease payments.

Property, plant and equipment, which is rent by Fresenius Group is accounted at its purchase costs. Its depreciation is calculated using the straight-line method over the leasing time and its expected residual value.

r) Derivative financial instruments
Derivative financial instruments such as foreign currency forward contracts, options and swaps are used generally for hedging purposes only, in order to reduce currency, interest rate and market value risks. In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), all derivative financial instruments are measured at their fair value. Changes in the fair value of derivative financial instruments that meet the criteria for the application of hedge accounting are recognized either in profit or loss on the one hand or directly in equity on the other, depending on whether the hedge is designated as a fair value hedge (i.e. hedging specific balance sheet items) or as a cash flow hedge (i.e. hedging future cash flow risks).

In the case of a fair value hedge, the hedge-effective portion of fair value gains or losses on the hedged item and on the derivative financial instrument is recognized in profit or loss. In the case of a cash flow hedge, fair value gains or losses are recognized directly in equity until the hedged item itself is recognized in profit or loss. The non-effective portion of a cash flow hedge is recognized immediately in profit or loss.

Amounts due from and payable to the counterparties of interest rate swaps are recorded on an accrual basis at each reporting date at amounts computed by reference to the respective interest rate swap contract. Realized gains and losses that occur from the early termination or expiration of contracts are deferred and recorded in income over the remaining period of the original swap agreement if the corresponding debt is still outstanding. Gains and losses arising from interest differential on contracts that hedge specific borrowings are recorded as interest expense over the life of the contract. In the event the hedged asset is sold, or otherwise disposed of, or liability is terminated, the gain or loss on the interest rate swap would be matched with the offsetting gain or loss of the related item (see Note 26, Financial Instruments).

r) Liabilities

Liabilities at the balance sheet date are stated in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) at amortized cost which normally corresponds to the settlement amount.

s) Legal costs

The Fresenius Group record accruals for legal issues when they are probable and their amount can be reasonably estimated. These accruals include expenses for legal and consulting services in connection with these legal issues.

t) Other accrued expenses

In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), accruals for taxes and other obligations are recognized when there is a present obligation to a third party arising from past events, it is probable that the obligation will be settled in the future and a reliable estimate can be made of the amount.

Tax accruals include obligations for the current year and for earlier periods.

Non-current accruals with a remaining period of more than one year are discounted to the present value of the expenditures expected to settle the obligation.

u) Pension accruals and similar obligations

Pension accruals for post-employment benefits are measured using the projected unit credit method in accordance with IAS 19 (Employee Benefits), taking into account future salary and pension increase trends. Actuarial gains and losses that exceed a corridor of 10% of the present value of the defined benefit obligation are spread over the expected average remaining working lives, adjusted for fluctuation, of the employees participating in the plans.

As permitted by IFRS 1, all cumulative actuarial gains and losses were recognized in the opening balance sheet at January 1, 2004.

v) Debt issuance costs

Costs related to the issuance of debt are amortized over the term of the related obligation.

w) Stock option plans

The total cost of stock options and convertible equity instruments granted to members of the Management Board and executive employees of Fresenius Group at the grant date is measured in accordance with IFRS 2 (Share-based Payment) using the Black-Scholes financial model and recognized as expense over the vesting period of the stock option plans.

x) Self-insurance programs

The largest subsidiary of the Fresenius Group in North America is partially self-insured for professional, product and general liability, auto liability and workers' compensation claims under which the company assumes responsibility for incurred claims up to predetermined amounts above which third party insurance applies. Reported balances for the year include estimates of the anticipated expense for claims incurred (both reported and incurred but not reported) based on historical experience and existing claim activity. This experience includes both the rate of claims incidence (number) and claim severity (cost) and is combined with individual claim expectations to estimate the reported amounts.

y) Foreign currency translation

The reporting currency is the euro. The Fresenius Group follows the provisions of IAS 21 (The Effects of Changes in Foreign Exchange Rates).

Assets, liabilities, contingent liabilities and other financial commitments are translated at their mid-closing rate on the balance sheet date (closing rate); income statement items, including the net income/loss for the year, are translated at the annual average rate. The resulting exchange differences are recognized directly in equity (in accumulated other comprehensive income (loss)). In addition, the translation adjustments of certain intercompany borrowings, which are considered foreign equity investments, are reported in accumulated other comprehensive income (loss).

The exchange rates of the main currencies affecting foreign currency translation developed as follows:

	Year-end exchange rate* Dec 31, 2005	Year-end exchange rate* Dec 31, 2004	**Average exchange rate 2005**	Average exchange rate 2004
US dollar per €	**1.1797**	1.3621	**1.2442**	1.2439
Pound sterling per €	**0.6853**	0.7051	**0,6839**	0.6787
Swedish krona per €	**9.3885**	9.0206	**9.2816**	9.1243
Chinese renminbi per €	**9.5204**	11.2891	**10.1639**	10.1813
Japanese yen per €	**138.90**	139.65	**136.86**	134.44

* mean rate on balance sheet date

Accumulated translation differences resulting from foreign currency translation of subsidiaries are not deemed to be zero at the date of transition to IFRS. They have been shown as a separate item in the Groups'equity.

z) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates and would be recognized in earnings when more accurate knowledge exists.

aa) Receivables management

The companies of the Fresenius Group perform ongoing evaluations of the financial situation of their customers and generally do not require a collateral from the customers for the supply of products and provision of services. Approximately 25% and 26%, respectively, of the sales of the Fresenius Group in 2005 and 2004 are subject to the regulations and the governmental health care programs in the United States, especially Medicare and Medicaid.

bb) Recent pronouncements and accounting changes

The Fresenius Group has prepared its consolidated financial statements at December 31, 2005 for the first time in conformity with IFRS and in accordance with IFRS 1. IFRS 1 requires that the opening balance sheet at January 1, 2004 and the comparative figures at December 31, 2004 are all prepared in accordance with Standards operative up to December 31, 2005. A number of pronouncements issued by the International Accounting Standards Board (IASB) has not yet been endorsed by the EU Commission.

In 2004 and 2005, the IASB issued two for the Fresenius group relevant new Standards and amendments to four for the Fresenius group relevant Standards which are mandatory from January 1, 2006 onwards.

- IFRS 4 (Insurance Contracts)
- IFRS 7 (Financial Instruments: Disclosures)
- Amendment to IAS 1 (Presentation of Financial Statements)
- Amendment to IAS 19 (Employee benefits: Actuarial Gains and Losses, Group Plans and Disclosure)
- Amendment to IAS 21 (Effects of Changes in Foreign Exchange Rates)
- Amendment to IAS 39 (Financial Instruments: Recognition and Measurement
    1. Cash Flow Hedge Accounting of Forecast Intragroup Transactions
    2. Fair Value Option
    3. Financial Guarantee Contracts)

In December 2004, the IASB approved an amendment to IAS 19 (Employee Benefits), allowing actual gains and losses from defined benefit post-employment plans to be recognized directly in equity in the year in which they arise. Under this rule, no amounts are recognized in profit or loss. The Fresenius Group offset actuarial gains and losses in the opening balance sheet and uses the corridor method. In addition, IAS 19 contains more extensive disclosure requirements which are very similar to those required by US GAAP (SFAS 132). These amendments to IAS 19 is effective for fiscal years commencing on or after January 1, 2006. In line with the recommendation of the IASB, the Fresenius Group has applied the amendment in the opening balance sheet at January 1, 2004.

In April 2005, the IASB issued the amendment to IAS 39 (Financial Instruments: Recognition and Measurement): Cash Flow Hedge Accounting of Forecast Intragroup Transactions. As a basic rule, only assets, liabilities, firm commitments or expected and highly probable external future transactions can be designated as hedged items for the purposes of hedge accounting. Accordingly, it is only permitted to account for hedge relationships resulting from transactions between group companies in the separate financial statements, but not in the consolidated financial statements. As a result of this amendment to IAS 39, a forecast intragroup transaction can be designated as a hedged item in the consolidated financial statements under specific circumstances. Application of this amendment is mandatory for fiscal years commencing on or after January 1, 2006. In line with the recommendation of the IASB, the Fresenius Group has applied the amendment in the opening balance sheet at January 1, 2004.

In June 2005, the IASB issued the amendment to IAS 39 (Financial Instruments: Recognition and Measurement): Fair Value Option. This amendment restricts the use of the fair value option on financial instruments that meet specific criteria. Application of this amendment is mandatory for fiscal years commencing on or after January 1, 2006. The Fresenius Group is currently analyzing the potential impact of the amendment, if any, on the Group's consolidated financial statements.

In August 2005, The IASB issued the amendment to IAS 39 (Financial Instruments: Recognition and Measurement) und IFRS 4 (Insurance Contracts) addressing the accounting for financial contracts. Under the amendments, the issuer generally accounts for financial guarantee contracts as a financial instrument liability. The Amendment define a financial guarantee contract as a contract, that requires the issuer to make specified payments to reimburse the holder of the contract for a loss that the holder incurs because a specified debtor fails to make payments when due. The Amendments to IAS 39 and IFRS 4 are effective for fiscal years commencing on or after January 1, 2006. The Fresenius Group is currently analyzing the potential impact of the amendment, if any, on the Group's consolidated financial statements.

In August, 2005, the IASB issued amendment to IAS 1 (Presentation of Financial Statements). The changes to IAS 1 will require an entity to disclose certain "quantitative" information about its objectives, policies and processes for their capital management. Application of this amendments is mandatory for fiscal years commencing on or after January 1, 2007. The first time adoption of IAS 1 in the fiscal year 2007 will result in additional notes.

In August, 2005, the IASB issued IFRS 7 (Financial Instruments: Disclosures). IFRS 7 introduces new requirements to improve the information on financial instruments with regard to risk management, beside the already existing disclosures (about approach/definition, presentation and measurement of financial instruments) in the IFRS-consolidated financial statements. IFRS 7 is effective for annual periods beginning on or after January 1, 2007. The first time adoption of this standard in the fiscal year 2007 will result in additional notes on financial instruments.

In December 2005, the IASB issued an amendment to IAS 21 (The Effects of Changes in Foreign Exchange Rates). The amendment simplifies the recognition of exchange differences of certain monetary items that form part of a net investment in a foreign operation. Application of this amendment is mandatory for fiscal years commencing on or after January 1, 2006. The Fresenius Group is currently analyzing the potential impact of the amendment, if any, on the Group's consolidated financial statements.

The International Financial Reporting Interpretations Committee (IFRIC) issued two for the Fresenius Group relevant new Interpretations in 2004 and 2005, which are mandatory from January 1, 2006 onwards:

- IFRIC 4 (Determining whether an Arrangement contains a Lease)
- IFRIC 7 (Applying the Restatement Approach under IAS 29 (Financial Reporting in Hyperinflationary Economies))

In December 2004 IFRIC issued IFRIC Interpretation 4 (Determining whether an Arrangement contains a Lease) (IFRIC 4). IFRIC 4 results in the application of IAS 17 (Leases) when an arrangement is place which does not take the legal form of a lease (a so called undisclosed lease agreement) but which qualifies as a lease under the definition contained in IAS 17. A contract is a lease or contains a lease if fulfilment of the arrangement is dependent on the use of a specific asset or specific assets. Application of IFRIC 4 is mandatory for fiscal years commencing on or after January 1, 2006. The Fresenius Group is currently analyzing the potential impact of the Interpretation, if any, on the Group's consolidated financial statements.

In November 2005, IFRIC issued IFRIC 7 (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies). The Interpretation clarifies the requirements under IAS 29 relating to two issues that constituents had raised with the IFRIC. The first requirement is how comparative amounts in financial statements should be restated when an entity identifies the existence of hyperinflation in the economy of the currency in which its financial statements are measured (its functional currency). The second requirement is how deferred tax items in the opening balance sheet should be restated. IFRIC 7 shall be applied for annual periods beginning on or after March 1, 2006. The Fresenius Group is currently analyzing the potential impact of the Interpretation, if any, on the Group's consolidated financial statements.

V. Critical accounting policies

In our opinion, the following accounting policies and topics are critical for the consolidated financial statements in the present economic environment. The influences and judgements as well as the uncertainties which affect them are also important factors to be considered when looking at present and future operating earnings.

a) Recoverability of goodwill and intangible assets with indefinite useful lives
Fresenius Groups acquisitions in the fiscal year have created a significant amount of intangible assets, including goodwill, tradenames and management contracts. At December 31, 2005 and December 31, 2004, the carrying amount of goodwill and non-amortizable intangible assets amounted to € 5,085 million and € 3,246 million, respectively, which represented 44 % and 40 %, respectively, of total assets.

In accordance with IFRS 3 (Business Combinations) an annual impairment test of goodwill and non-amortizable intangible assets is performed at least once a year, or if events occur or circumstances change that would indicate the carrying value might be impaired (see Note 1. IV. o, Goodwill and other intangible assets with indefinite useful lives).

To comply with the regulation of IFRS 3 and determine possible impairments of these assets, the fair value of the reporting units (Cash generating units) is compared to the reporting unit's carrying amount. The fair value of each reporting unit is estimated using estimated future cash flows for the unit discounted by a weighted average cost of capital specific to that unit. Estimated cash flows are based on budgets for the next three years, and projections for the following years based on an expected growth rate. The growth rates are based on industry and internal projections. The discount rate reflects any inflation in local cash flows and risks inherent to each reporting unit. If the fair value of the reporting unit is less than its carrying value, a second step is performed which compares the fair value of the reporting unit's goodwill to the carrying value of its goodwill. If the fair value of the goodwill is less than its carrying value, the difference is recorded as an impairment.

A prolonged downturn in the health care industry with higher than expected costs for providing health care services could adversely affect the estimated future cash flows of certain countries or segments. Future adverse changes in a reporting unit's economic environment could affect the discount rate. A decrease in the estimated future cash flows and/or a decline in the reporting units economic environment could result in impairment charges to goodwill and other intangible assets with indefinite lives which could materially and adversely affect the Group's future operating results.

b) Legal contingencies
The Fresenius Group is involved in legal matters relating to a number of matters arising in the ordinary course of our business. Furthermore, Fresenius Medical Care is party to litigation in connection with the NMC transaction in 1996 for the purchase of the National Medical Care, Inc. For details, please see Note 25, Commitments and contingent liabilities.

The Fresenius Group regularly analyses current information including, as applicable, its legal defenses and provides accruals for probable contingent losses including the estimated legal expenses to resolve the matters. Fresenius uses the resources of its internal legal department as well as external lawyers for the assessment. In making the decision regarding the need for loss accrual, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss is considered.

If an unfavorable outcome is probable but the amount of loss cannot be reasonably estimated by management, appropriate disclosure is provided, but no contingent losses are accrued. The filing of a suit or formal assertion of a claim or assessment, or the disclosure of any such suit or assertion, does not automatically indicate that accrual of a loss has be done.

c) Allowance for doubtful accounts
Trade accounts receivable are a significant asset of the Group and the allowance for doubtful accounts is a significant estimate made by management. Trade accounts receivable were € 1,871 million and € 1,528 million in 2005 and 2004, respectively. The majority of receivables derives from the business segment Fresenius Medical Care and mainly relates to the dialysis care business in North America.

The allowance for doubtful accounts was € 200 million and € 166 million as of December 31, 2005 and December 31, 2004, respectively.

Sales are recognized and invoiced at amounts estimated to be receivable under reimbursement arrangements with third party payors. Estimates for the allowances for doubtful accounts are mainly based on historic collection experience, taking into account the aging of accounts receivable and the contract partners. The Fresenius Group believes that these analyses result in a well-founded estimate of allowances for doubtful accounts. From time to time the Fresenius Group reviews changes in collection experience to ensure the appropriateness of the allowances.

Detoriation in the aging of receivables and collection difficulties could require that Fresenius increases the estimates of allowances for doubtful accounts. Additional expenses for uncollectible receivables could have a significant negative impact on future operating results.

d) Self-insurance programs
The largest subsidiary of the Fresenius Group in North America is partially self-insured for professional, product and general liability, auto liability and workers' compensation claims under which the company assumes responsibility for incurred claims up to predetermined amounts above which third party insurance applies. Reported balances for the year include estimates of the anticipated expense for claims incurred (both reported and incurred but not reported) based on historical experience and existing claim activity. This experience includes both the rate of claims incidence (number) and claim severity (cost) and is combined with individual claim expectations to estimate the reported amounts.

VI. Reconciliation of equity and net income

As a stock exchange listed parent company in a member state of the European Union, Fresenius AG is required from January 1, 2005 onwards, to prepare and publish consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), applying § 315a of the German Commercial Code (HGB). The consolidated financial statements at December 31, 2005 are therefore the first set of financial statements prepared by the Fresenius Group in conformity with IFRS.

IFRS 1 requires the preparation of comparative financial statements at December 31, 2004, comprising a consolidated statement of income for the fiscal year 2004 and a consolidated balance sheet at December 31, 2004. The opening IFRS balance sheet has therefore been prepared as at January 1, 2004.

The following reconciliations of equity and net income show the reconciling items resulting from the application of diverging principles contained in US GAAP and IFRS.

The application of diverging principles has no materiel impact on net assets, financial position and results of operations of the Fresenius Group.

Reconciliation of equity based on the total balance sheet as of December 31, 2005 and December 31, 2004

in million €	US GAAP December 31, 2005	Adjustments	IFRS December 31, 2005	US GAAP December 31, 2004	Adjustments	IFRS December 31, 2004
Cash and cash equivalents	252	0	252	140	0	140
Trade accounts receivable less allowances for doubtful accounts	1,871	0	1,871	1,528	0	1,528
Accounts receivable from related parties	15	0	15	17	0	17
Inventories	727	0	727	619	0	619
Prepaid expenses and other current assets	478	0	478	283	0	283
Deferred taxes	188	-188	0	168	-168	0
Assets held for sale and discontinued operations	0	0	0	0	2	2
I. Total current assets	**3,531**	**-188**	**3,343**	**2,755**	**-166**	**2,589**
Property, plant and equipment	2,356	3	2,359	1,696	1	1,697
Goodwill	4,680	16	4,696	2,905	2	2,907
Other intangible assets	541	18	559	480	19	499
Other non-current assets	359	3	362	234	0	234
Deferred taxes	127	156	283	118	156	274
II. Total non-current assets	**8,063**	**196**	**8,259**	**5,433**	**178**	**5,611**
Total assets	**11,594**	**8**	**11,602**	**8,188**	**12**	**8,200**

in million €	US GAAP December 31, 2005	Adjustments	IFRS December 31, 2005	US GAAP December 31, 2004	Adjustments	IFRS December 31, 2004
Trade accounts payable	353	0	353	273	0	273
Accounts payable to related parties	2	0	2	1	0	1
Accrued expenses and other current liabilities	1,522	8	1,530	986	8	994
Short-term borrowings	224	600	824	391	0	391
Short-term liabilities and loans from related parties	1	0	1	2	0	2
Current portion of long-term debt and capital lease obligations	222	0	222	190	0	190
Accruals for income taxes	146	0	146	195	0	195
Deferred taxes	27	-27	0	18	-18	0
A. Total short-term liabilities	**2,497**	**581**	**3,078**	**2,056**	**-10**	**2,046**
Long-term debt and liabilities from capital lease obligations less current portion	2,055	-600	1,455	1,219	0	1,219
Long-term liabilities and loans from related parties	-	0	-	-	0	-
Other long-term liabilities	304	-16	288	160	-17	143
Pensions and similar obligations	305	-49	256	228	-8	220
Deferred taxes	303	18	321	245	11	256
Trust preferred securities of Fresenius Medical Care Capital Trusts	1,000	0	1,000	933	0	933
B. Total long-term liabilities	**3,967**	**-647**	**3,320**	**2,785**	**-14**	**2,771**
I. Total liabilities	**6,464**	**-66**	**6,398**	**4,841**	**-24**	**4,817**
A. Minority interest	**2,289**	**34**	**2,323**	**1,744**	**22**	**1,766**
Subscribed capital	130	0	130	105	0	105
Capital reserves	1,546	57	1,603	645	51	696
Other reserves	1,061	-76	985	895	-76	819
Accumulated other comprehensive income (loss)	104	59	163	-42	39	-3
B. Total Groups' equity	**2,841**	**40**	**2,881**	**1,603**	**14**	**1,617**
II. Total shareholders' equity	**5,130**	**74**	**5,204**	**3,347**	**36**	**3,383**
Total liabilities and shareholders' equity	**11,594**	**8**	**11,602**	**8,188**	**12**	**8,200**

Reconciliation of equity based on the total balance sheet as of January 1, 2004

in million €	US GAAP January 1, 2004	Adjustments	IFRS January 1, 2004
Cash and cash equivalents	125	3	128
Trade accounts receivable less allowances for doubtful accounts	1,415	139	1,554
Accounts receivable from related parties	23	0	23
Inventories	642	3	645
Prepaid expenses and other current assets	357	1	358
Deferred taxes	182	-182	0
Assets held for sale and discontinued operations	0	0	0
I. Total current assets	**2,744**	**-36**	**2,708**
Property, plant and equipment	1,721	11	1,732
Goodwill	2,977	28	3,005
Other intangible assets	504	16	520
Other non-current assets	303	-29	274
Deferred taxes	98	172	270
II. Total non-current assets	**5,603**	**198**	**5,801**
Total assets	**8,347**	**162**	**8,509**

in million €	US GAAP January 1, 2004	Adjustments	IFRS January 1, 2004
Trade accounts payable	265	2	267
Accounts payable to related parties	1	0	1
Accrued expenses and other current liabilities	987	20	1,007
Short-term borrowings	132	125	257
Short-term liabilities and loans from related parties	3	0	3
Current portion of long-term debt and capital lease obligations	495	0	495
Accruals for income taxes	197	0	197
Deferred taxes	47	-47	0
A. Total short-term liabilities	**2,127**	**100**	**2,227**
Long-term debt and liabilities from capital lease obligations less current portion	1,416	14	1,430
Long-term liabilities and loans from related parties	-	0	-
Other long-term liabilities	166	-18	148
Pensions and similar obligations	216	13	229
Deferred taxes	231	32	263
Trust preferred securities of Fresenius Medical Care Care Capital Trusts	977	0	977
B. Total long-term liabilities	**3,006**	**41**	**3,047**
I. Total liabilities	**5,133**	**141**	**5,274**
A. Minority interest	**1,678**	**18**	**1,696**
Subscribed capital	105	0	105
Capital reserves	644	43	687
Other reserves	778	-74	704
Accumulated other comprehensive income (loss)	9	34	43
B. Total Groups' equity	**1,536**	**3**	**1,539**
II. Total shareholders' equity	**3,214**	**21**	**3,235**
Total liabilities and shareholders' equity	**8,347**	**162**	**8,509**

Reconciliation of single equity positions

in million €	December 31, 2005	December 31, 2004	January 1, 2004
Other reserves in accordance with US GAAP	**1,061**	**895**	**778**
Research and development costs	12	11	8
Income resulted from Sale and Leaseback transactions	12	9	11
Increased early retirement accruals	-10	-10	-12
Pension obligations adjustments	-37	-44	-44
Increased personnel expenses for stock options	-57	-51	-43
Other Adjustments	4	9	6
Other reserves in accordance with IFRS	**985**	**819**	**704**
Other capital reserves in accordance with US GAAP	**1,546**	**645**	**644**
Increased personnel expenses for stock options	57	51	43
Other capital reserves in accordance with IFRS	**1,603**	**696**	**687**
Comprehensive income (loss) in accordance with US GAAP	**104**	**-42**	**9**
Derecognition of the minimum pension liability	71	43	35
Other Adjustments	-12	-4	-1
Comprehensive income (loss) in accordance with IFRS	**163**	**-3**	**43**
Minority interest in accordance with US GAAP	**2,289**	**1,744**	**1,678**
Income resulted from Sale and Leaseback transactions	21	16	20
Capitalized development costs	8	9	4
Other Adjustments	5	-3	-6
Minority interest in accordance with IFRS	**2,323**	**1,766**	**1,696**

The following reconciliation shows the application of diverging principles contained in US GAAP and IFRS on the consolidated statement of income for 2005 and 2004.

in million €	US GAAP 2005	Adjustments	IFRS 2005	US GAAP 2004	Adjustments	IFRS 2004
Sales	7,889	0	7,889	7,271	28	7,299
Cost of goods sold	-5,200	6	-5,194	-4,895	-27	-4,922
Gross profit	**2,689**	**6**	**2,695**	**2,376**	**1**	**2,377**
Selling, general and administrative expenses	-1,571	-10	-1,581	-1,398	-9	-1,407
Research and development expenses	-149	2	-147	-133	11	-122
Operating income (EBIT)	**969**	**-2**	**967**	**845**	**3**	**848**
Interest income	20	0	20	15	0	15
Interest expenses	-223	0	-223	-224	-1	-225
Earnings before income taxes and minority interest	**766**	**-2**	**764**	**636**	**2**	**638**
Income taxes	-298	5	-293	-253	-4	-257
Earnings after income taxes and before minority interest	**468**	**3**	**471**	**383**	**-2**	**381**
Minority interest	-246	-3	-249	-215	0	-215
Net income of the Group	**222**	**0**	**222**	**168**	**-2**	**166**
Basic earnings per ordinary share in €	**5.28**	**-0.01**	**5.27**	**4.08**	**-0.05**	**4.03**
Fully diluted earnings per ordinary share in €	**5.24**	**-0.01**	**5.23**	**4.07**	**-0.05**	**4.02**
Basic earnings per preference share in €	**5.31**	**-0.01**	**5.30**	**4.11**	**-0.05**	**4.06**
Fully diluted earnings per preference share in €	**5.27**	**-0.01**	**5.26**	**4.10**	**-0.05**	**4.05**

In the cash flow statements of 2005 and 2004 a postponement between Cash provided by/used for operating activities and investing activities in an amount of € 4 million and € 11 million, respectively, results from the capitalization of development costs. In addition no more material differences of the cash flow statement items resulting from the application of diverging principles contained in US GAAP and IFRS.

Analysis of the main divergences

1. Variable interest entities (VIEs) have been consolidated for the purposes of the Fresenius Group's US GAAP consolidated financial statements with effect from March 31, 2004 in accordance with FIN 46R (Consolidation of Variable Interest Entities (revised)). For IFRS purposes, all such entities were included in the opening balance sheet at January 1, 2004 in accordance with SIC 12 (Consolidation - Special Purpose Entities). This gives rise to divergences in various line items of the consolidated balance sheet and statement of income, which will not occur in accounting periods subsequent to first-time inclusion.

2. By contrast to the treatment under US GAAP, Fresenius Medical Care's accounts receivable facility is recognized as an asset in the opening IFRS balance sheet as a special purpose entity. As a result, current trade accounts receivable and short-term borrowings at January 1, 2004 are € 125 million higher than for US GAAP purposes. In 2004, Fresenius Medical Care amended the accounts receivable facility. Under the terms of the amendment, NMC Funding Corp., a 100 % subsidiary of
Fresenius Medical Care, retains the right to repurchase all transferred interests in the accounts receivable sold to the banks under the facility. Since the change, the receivables remain on the US GAAP consolidated balance sheet and the proceeds from the sale of undivided interests are recorded as short-term borrowings. The divergences between IFRS and US GAAP therefore no longer exist after the fiscal year 2004.

3. Deferred tax assets and liabilities are reported for IFRS purposes as non-current items irrespective of their maturity. As a consequence, deferred tax assets and liabilities reported as current for US GAAP purposes are reclassified to non-current assets and liabilities for IFRS purposes. As a result of these reclassifications and other additional deferred tax assets recognized on restatements, non-current deferred assets are € 172 million higher in the IFRS opening balance sheet than for US GAAP purposes. At December 31, 2005 and December 31, 2004, non-current deferred assets were each € 156 million higher for IFRS purposes than for US GAAP purposes.

4. Development costs are recognized as expense under US GAAP. For IFRS purposes, they are recognized as intangible assets when all of the recognition criteria set out in IAS 38 (Intangible Assets) are met. Other intangible assets were therefore € 12 million higher in the IFRS opening balance sheet at January 1, 2004 and € 20 million higher at December 31, 2005 as well as of December 31, 2004. Other reserves in the IFRS opening balance sheet were accordingly € 8 million and at December 31, 2005 and December 31, 2004 € 12 million and € 11 million higher, respectively. Minority interest were in the opening balance sheet € 4 million higher and at December 31, 2004

and December 31, 2005 € 8 million and € 9 million higher, respectively.
As a result of the recognition of development costs as assets, the EBIT for the fiscal year 2005 were € 1 million lower and for the fiscal year 2004 € 11 million higher for IFRS purposes.

5. By contrast to US GAAP accounting principles, it is necessary for IFRS purposes, depending on the likelihood of the incurrence of cost, to recognize provisions for the potential cost of pre-retirement part-time working arrangements ("Altersteilzeit"). The provision is therefore higher for IFRS purposes than for US GAAP purposes. The difference at January 1, 2004 was € 16 million and at December 31, 2005 and December 31, 2004 € 21 million and € 14 million, respectively.

   Other reserves in the IFRS opening balance sheet were € 12 million and at December 31, 2005 and December 31, 2004 € 10 million each lower than for US GAAP purposes. Minority interest were reduced at each date by € 4 million.

6. Pension provisions in the IFRS opening balance sheet were € 13 million higher than for US GAAP purposes, mainly as a result of the recognition of cumulative actuarial gains and losses. Unlike US GAAP, no additional minimum liability (AML) is recognized for IFRS purposes. This is therefore derecognized for IFRS purposes and has the effect of increasing other comprehensive income (loss). The recognition of cumulative actuarial gains and losses decreased other reserves by € 44 million as of January 1, 2004.

   In the comparative balance sheet at December 31, 2004, the corridor method has been applied for both IFRS and US GAAP purposes, so that actuarial gains and losses have been treated identically. Pension provisions for IFRS purposes are € 49 million as of December 31, 2005 and € 8 million as of December 2004 lower than for US GAAP purposes.

7. Stock options are measured for IFRS purposes at their fair value in accordance with IFRS 2 (Share-based Payment). Compared to the intrinsic value measurement permitted by ABP 25, the personnel costs IFRS purposes is € 43 million higher; this amount reduces other reserves in the IFRS opening balance sheet.

   As of December 31, 2005 and December 31, 2004 additional expenditures are in an amount of € 57 million and € 51 million, respectively.

   The personnel costs for share-based payments for the fiscal year 2005 and 2004 are € 11 million and € 12 million higher for IFRS purposes than for US GAAP purposes, respectively, thus reducing EBIT by the same amount and net income by € 6 million and € 8 million, respectively.

2. ACQUISITIONS AND DIVESTITURES

Acquisitions

The Fresenius Group made acquisitions totaling € 1,894 million and € 113 million in 2005 and 2004, respectively. Of this total, Fresenius Medical Care invested € 108 million and € 96 million, respectively, Fresenius Kabi € 274 million and € 13 million, Fresenius ProServe € 1,507 million and € 4 million, the segment Corporate/Other € 5 million and made no acquisitions in the previous year.

All acquisitions have been accounted for by the purchase method and accordingly have been consolidated from the date of acquisition. The excess of the total acquisition costs over the fair value of the net assets acquired amounted to € 1,467 million and € 88 million in 2005 and 2004, respectively.

Fresenius Medical Care made acquisitions in 2005 amounting to € 108 million, of which € 101 million was paid in cash. Purchase price consideration of € 7 million will be paid in subsequent years. The majority of this amount (€ 76 million) was used to purchase dialysis clinics.

On May 3, 2005, Fresenius Medical Care entered into a definitive merger agreement for the acquisition (Acquisition) of Renal Care Group, Inc. (RCG), a Delaware corporation with principle offices in Nashville, Tennessee, for an all cash purchase price of approximately US$ 3.5 billion. At December 31, 2005, RCG provided dialysis and ancillary services to over 32,360 patients through more than 450 owned outpatient dialysis centers in 34 states within the United States, in addition to providing acute dialysis services to more than 200 hospitals. Completion of the Acquisition, approved by RCG's stockholders in a vote held on August 24, 2005, is subject to governmental approvals (including termination or expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (the Act)) and other regulatory approvals.

On February 15, 2006, Fresenius Medical Care announced that Fresenius Medical Care and RCG had entered into a definitive agreement to sell approximately 100 dialysis centers serving on average approximately 60-65 patients per center to National Renal Institutes, Inc., a wholly owned subsidiary of DSI Holding Company, Inc. The divestiture of these centers is an important step toward concluding the review by the United States Federal Trade Commission (FTC) of Fresenius Medical Care's acquisition of RCG. The purchase price for the divested centers is approximately US$ 450 million to be paid in cash, subject to post-closing adjustments for working capital and other routine matters. The sale of the centers is expected to close shortly after the completion of Fresenius Medical Care's acquisition of RCG. Both the divestiture and the acquisition of RCG remain subject to FTC approval.

In connection with the Acquisition, Fresenius Medical Care has entered into a commitment letter pursuant to which Bank of America, N.A. (BofA) and Deutsche Bank AG (DB) have agreed, subject to certain conditions, to underwrite an aggregate US$ 5 billion in principal amount of term and revolving loans to be syndicated to other financial institutions. Funding is subject to customary closing conditions and BofA's and DB's acquiescence to any material modification to the merger agreement and any waiver of any material conditions precedent under that agreement. Interest on the new senior credit facilities will be at the option of Fresenius Medical Care at a rate equal to either (i) LIBOR plus an applicable margin, or (ii) the higher of BofA's prime rate or the Federal Funds rate plus 0.5% plus an applicable margin. The applicable margin is variable and depends on the consolidated leverage ratio of Fresenius Medical Care (Margin). The financing will be available to Fresenius Medical Care, among other uses, to pay the purchase price and related expenses for the proposed acquisition of RCG, to refinance outstanding indebtedness under the Fresenius Medical Care 2003 Senior Credit Agreement (see Note 18, Debt and capital lease obligations) and certain indebtedness of RCG, and for general corporate purposes. In conjunction with the forecasted utilization of the new senior credit facilities and the related variable rate based interest payments, Fresenius Medical Care entered into forward starting interest rate swaps in the notional amount of US$ 2,465 million. These instruments, designated as cash flow hedges, effectively convert forecasted LIBOR based interest payments into fixed rate based interest payments which fix the interest rates on US$ 2,465 million of the forecasted financing under the new senior credit facility at 4.32% plus Margin.

On November 30, 2005, Fresenius Medical Care announced it had commenced a cash tender offer (Tender Offer), contingent upon satisfaction of the conditions to the closing of the Acquisition, for all the US$ 159.685 million of RCG's 9% Senior Subordinated Notes (Notes). Under the terms of the Tender Offer, the total consideration to be paid for validly tendered and accepted Notes will be the present value of the future cash flows up to and including November 1, 2007, based on an assumption that the Notes will be redeemed at a price of US$ 1,045 per US$ 1,000 principal amount of Notes on such date, discounted at a rate equal to 50 basis points over the yield to maturity on the 4.25% US Treasury Note due October 31, 2007. The terms of the offer also require certain consents, (Consents), to certain proposed amendments to the Indenture governing the Notes that would eliminate substantially all restrictive covenants and certain other provisions of Indenture. Upon consummation of the Tender Offer, holders of Notes tendered together with Consents before the end of business on December 13, 2005 will receive a consent payment of US$ 30 per US$ 1,000 principal amount of Notes tendered which will be included in Fresenius Medical Care's costs of the Acquisition. Notes and Consents tendered after this date cannot be withdrawn and are not entitled to receive the consent payment. Holders of Notes tendered and not withdrawn will receive accrued and unpaid interest from the last interest date up to, but not including, the date payment is made for the Notes. As most recently extended, the offer expires February 27, 2006, unless further extended by FMC-AG & Co. KGaA. The Tender Offer is contingent upon receipt of consents from the holders of a majority in aggregate outstanding principal amount of the Notes and satisfaction of the conditions to the Acquisition. As of 5:00 p.m., New York City time, on January 27, 2006, 99.87% of the outstanding aggregate principal amount of the Notes had been tendered. Tendered notes may no longer be withdrawn.

On October 25, 2004, RCG received a subpoena from the office of the United States Attorney for the Eastern District of New York. The subpoena requires the production of documents related to numerous aspects of their business and operations, including those of RenaLab, Inc., their laboratory. The subpoena includes specific requests for documents related to testing for parathyroid hormone (PTH) levels and vitamin D therapies. RCG has announced that it intends to cooperate with the government's investigation.

On August 9, 2005, RCG received with a subpoena from the office of the United States Attorney for the Eastern District of Missouri in connection with a joint civil and criminal investigation. The subpoena requires the production of documents related to numerous aspects of RCG's business and operations. The areas covered by the subpoena include RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, RCG's relationships with physicians, medical director compensation, joint ventures with physicians and purchase of dialysis equipment from Fresenius Medical Care. RCG has announced that it intends to cooperate with the government's investigation.

Upon the closing of the proposed acquisition, Fresenius Medical Care will assume RCG's obligations to comply with these subpoenas.

Fresenius Medical Care believes the proposed acquisition will be consummated late in the first quarter of 2006 and it will be earnings neutral to slightly accretive in 2006 after excluding transaction related expenses and accretive from 2007 onward.

Fresenius Medical Care made acquisitions in 2004 amounting to € 96 million, of which € 84 million was paid in cash. Consideration paid in the form of debt waivers amounted to € 7 million. Purchase price consideration of € 5 million will be paid in subsequent years. The majority of this amount (€ 83 million) was used to purchase dialysis clinics. The largest single acquisition related to the acquisition of dialysis clinics in Memphis, USA, for a consideration of € 24 million.

In the year 2005 Fresenius Kabi made acquisitions of € 274 million, referring mainly to the acquisition of the Portuguese company Labesfal – Laboratório de Especialidades Farmacêuticas Almiro S.A. (Labesfal), the Czech company Infusia a.s., the acquisition of the remaining 35 % shares of Beijing Fresenius Kabi Pharmaceutical Co., Ltd., China and the business of Clinico GmbH, Bad Hersfeld, Germany (Clinico).

In the year 2004, acquisitions made by Fresenius Kabi amounting to € 13 million related to the purchase of the 20 % minority interest in Fresenius Kabi Korea Ltd., Korea, a research entity with a focus on HESylation, the Biotechnologie-Gesellschaft Mittelhessen mbH, Gießen and the acquisition of the compounding activities of Isotec Ltd. in South Africa as well as the first purchase price payment for the compounding joint venture Pharmatel Pty Ltd., Australia; an other payment was made in December 2005.

In December 2005 Fresenius AG acquired HELIOS Kliniken GmbH, Fulda, Germany (HELIOS). The hospitals of HELIOS and the Fresenius hospitals of the Wittgensteiner Group will operate under the leadership and brand of HELIOS in the business segment Fresenius ProServe. The purchase price for 100 % of the HELIOS shares is € 1.5 billion plus € 100 million for the net cash position. Fresenius AG acquired 94 % of the HELIOS shares while 6 % continued to be held by the HELIOS management. In December 2005, Fresenius AG assigned its share in HELIOS Kliniken GmbH, Fulda, to Fresenius ProServe GmbH. In addition to the contractually agreed purchase price, Fresenius AG also incurred additional acquisition costs amounting to € 2 million. The balance sheet total according to IFRS of € 1,076 million before the acquisition has been reduced by € 42 million. This effect results from withdrawal of goodwill from prior acquisitions of € 46 million which is partly compensated by revaluation of fixed assets after tax € 4 million. Due to these effects and the recognition of pension liabilities in an amount of € 2 million after tax the equity (without minority interest) in an amount of € 374 million before acquisition has been reduced by € 44 million to € 330 million. The excess of the purchase price (including additional acquisition costs) over the group's share of equity was recognized as goodwill with an initial carrying amount of € 1,195 million. Other intangible assets were not identified. The acquisitions of the HELIOS Kliniken GmbH and of the business of Clinico GmbH were financed by a share capital increase (see Note 23, Shareholders equity) and a bond (see Note 33, Subsequent events). Bridge financing arrangements were put in place for the period between the announcement of the acquisition of HELIOS Kliniken GmbH and the issue of the bond (see Note 19, Debt and capital lease obligations).

Acquisitions made by Fresenius ProServe in 2004 amounting to € 4 million related principally to an investment in the project development company, THK Therme Laa in Austria.

In 2005, Fresenius Biotech paid additional cost in an amount of € 4 million for the investment in the Trion Pharma GmbH, München, Germany aquired in 2002. In the prior year they made no acquisitions.

Divestitures

In 2005, there have been no significant divestitures.

In December 2004 Fresenius ProServe sold its subsidiary hospitalia care to Kursana Residenzen GmbH, Berlin, Germany. Prior to the sale, hospitalia care had sales of € 38 million in 2004.

Impacts on the Fresenius Group resulting from acquisitions

The acquisitions completed in 2005, or which were included in the consolidated statements for the first full year, contributed, compared to the previous year, the following amounts to the development of sales and earnings:

in million €	2005
Sales	106
EBITDA	33
EBIT	27
Net interest	-9
Net income	12

The acquisitions increased the total assets of the Fresenius Group by € 2,469 million.

The acquisition of HELIOS, placed at the end of December 2005, had no impact on the Groups income statement of 2005. If the acquisition of HELIOS would had taken place at January 1, 2005 it would have affected the consolidated statement of income as follows:

in million €	as reported	pro forma
Sales	7,889	9,086
EBITDA	1,292	1,430
EBIT	967	1,074
Net interest	-203	-239
Net income	222	268

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

3. SALES

Sales by activity are as follows:

in million €	2005	2004
Sales of services	**4,462**	4,194
Sales of products and related goods	**3,113**	2,787
Sales from long-term production contracts	**314**	318
Other sales	**–**	–
Sales	**7,889**	7,299

An analysis of sales by business segment and region is shown in the segment information on pages 44 to 47.

4. COST OF SALES

Cost of sales comprises the following:

in million €	2005	2004
Costs of services	**3,273**	3,134
Manufacturing cost of products and related goods	**1,668**	1,521
Cost of long-term production contracts	**253**	267
Other cost of sales	**–**	–
Cost of sales	**5,194**	4,922

5. PERSONNEL EXPENSES

Cost of goods sold, selling, general and administrative expenses and expenditure on research and development, include personnel expenses amounting to € 2,479 million and € 2,320 million in 2005 and 2004, respectively. Personnel expenses comprise the following:

in million €	2005	2004
Wages and salaries	**1,990**	1,858
Social security contributions and cost of retirement pensions and social assistance	**489**	462
thereof amount for retirement pensions	**54**	46
Personnel expenses	**2,479**	2,320

The annual average number of employees in the Fresenius Group was:

by function	**2005**	2004
Production and service	**53,334**	50,759
Administration	**11,084**	10,679
Sales and marketing	**6,340**	5,576
Research and development	**853**	824
Total employees	**71,611**	67,838

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses amount to € 402 million (2004: € 391 million) and include expenditure for sales personnel amounting to € 184 million (2004: € 171 million).

General and administrative expenses amounted to € 1,179 million (2004: € 1,016 million) and related to expenditure for administrative functions not attributable to development, production or selling.

7. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of € 147 million (2004: € 122 million) include expenditure for research and non-capitalizable development costs as well as depreciation and amortization expenses of € 4 million (2004: € 2 million).

8. NET INTEREST

The negativ net interest in an amount of € 203 million, resuting from interest income in an amount of € 20 million and interest expenses in an amount of € 223 million, includes interest income on interest-bearing securities and loans, gains and losses relating to current securities and all interest expenses. It also includes profit-share and dividend income from current and non-current securities.
The interest component of additions to provisions comprises the expense arising from unwinding the interest each year on non-current provisions in conjunction with their measurement at present value.

9. INCOME TAXES

Earnings before income taxes and minority interest is attributable to the following geographic reginos:

in million €	**2005**	2004
Germany	**80**	26
Abroad	**684**	612
Total	**764**	638

Income tax expense (benefit) for the years 2005 and 2004 consists of the following:

in million €	**2005**			2004		
	Germany	**Abroad**	**Total**	**Germany**	**Abroad**	**Total**
Current taxes	**37**	**242**	**279**	43	181	224
Deferred taxes	**-13**	**27**	**14**	-1	34	33
Income taxes	**24**	**269**	**293**	42	215	257

In 2005 and 2004, Fresenius AG is subject to German federal corporation income tax at a base rate of 25 % plus a solidarity surcharge of 5.5 % on federal corporation taxes payable.

A reconciliation between the expected and actual income tax expense is shown below. The expected corporate income tax expense is computed by applying the German corporation tax rate (including the solidarity surcharge) and the effective trade tax rate on income before income taxes and minority interest. The respective combined tax rates are 37.31 % for 2005 and 37.42% for 2004.

in million €	**2005**	2004
Computed "expected" income tax expense	**285**	239
Increase (reduction) in income taxes resulting from:		
Items not recognized for tax purposes	**31**	14
Foreign tax rate differential	**-23**	3
Tax-free income	**-18**	-23
Taxes for prior years	**23**	13
Other	**-5**	11
Income taxes	**293**	257
Effective tax rate	38.4%	40.3%

The tax effects of the temporary differences that give rise to deferred tax assets and liabilities at December 31 are presented below:

in million €	**2005**	2004
Deferred tax assets		
Accounts receivable	**25**	28
Inventories	**39**	33
Other current assets	**7**	2
Other non-current assets	**32**	50
Accrued expenses	**179**	150
Other short-term liabilities	**14**	10
Other liabilities	**10**	6
Pension obligations	**21**	15
Losses carried forward from previous years	**50**	66
Deferred tax assets	**377**	360
Deferred tax liabilities		
Accounts receivable	**10**	10
Inventories	**12**	12
Other current assets	**3**	3
Other non-current assets	**270**	226
Accrued expenses	**50**	54
Other short-term liabilities	**47**	19
Other liabilities	**23**	18
Deferred tax liabilities	**415**	342
Accumulated deferred taxes	**-38**	18

in million €	**2005**	2004
Deferred tax assets	**283**	274
Deferred tax liabilities	**321**	256
Accumulated deferred taxes	**-38**	18

The following table shows the amounts, and the years in which operating losses expire:

for the fiscal years	in million €
2006	7
2007	13
2008	11
2009	16
2010	13
2011	5
2012	3
2013	–
2014	2
2015	6
Thereafter	6
Total	**82**

The total remaining operating losses of € 382 million can mainly be carried forward for an unlimited period.

In assessing the realizability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections of future taxable income over the periods in which the deferred tax assets are deductible, the Management believes it is more likely than not that the Fresenius Group will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2005.

Provision has not been made for additional taxes on € 622 million undistributed earnings of foreign subsidiaries of Fresenius Medical Care as these earnings are considered permanently reinvested.

10. EARNINGS PER SHARE

The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations.

in million €, except for amounts per share (€)	**2005**	2004
Numerators		
Net income of the group	**222**	166
less preference on preference shares	**1**	1
Income available to all class of shares	**221**	165
Denominators (number of shares)		
Weighted average number of ordinary shares outstanding	**20,940,208**	20,484,955
Weighted average number of preference shares outstanding	**20,940,208**	20,484,955
Total weighted average number of shares outstanding of all classes	**41,880,416**	40,969,910
Potentially dilutive ordinary shares	**162,749**	61,747
Potentially dilutive preference shares	**162,749**	61,747
Total weighted average shares outstanding of all classes assuming dilution	**42,205,914**	41,093,404
Total weighted average ordinary shares assuming dilution	**21,102,957**	20,546,702
Total weighted average preference shares assuming dilution	**21,102,957**	20,546,702
Basic earnings per ordinary share	**5.27**	4.03
Preference per preference share	**0.03**	0.03
Basic earnings per preference share	**5.30**	4.06
Fully diluted earnings per ordinary share	**5.23**	4.02
Preference per preference share	**0.03**	0.03
Fully diluted earnings per preference share	**5.26**	4.05

The owners of preference shares are entitled to a preference of € 0.03 per bearer preference share per fiscal year.

NOTES ON THE CONSOLIDATED BALANCE SHEET

11. CASH AND CASH EQUIVALENTS

in million €	2005	2004
Cash	209	127
Securities (with a maturity of up to 90 days)	43	13
Total cash and cash equivalents	**252**	140

As of December 31, 2005 and December 31, 2004 committed funds in an amount of € 10 million and € 26 million, respectively, are included in cash and cash equivalents.

12. TRADE ACCOUNTS RECEIVABLE

in million €	2005	2004
Trade accounts receivables	2,071	1,694
less allowance	200	166
Trade accounts receivable (net)	**1,871**	1,528

All trade accounts receivable are due within one year.

13. INVENTORIES

As of December 31, inventories consist of the following:

in million €	2005	2004
Raw materials and purchased components	176	134
Work in progress	117	93
Finished goods	465	426
less reserves	31	34
Inventories (net)	**727**	619

Reversals of write downs of inventory amounted to € 3 million. No reversals of write downs of inventory occurred in the prior year.

The companies of the Fresenius Group are obligated to purchase approximately € 295 million of raw materials and purchased components, of which € 183 million is committed at December 31, 2005 for 2006. The terms of these agreements run one to four years. Advance payments from customers of € 63 million have been offset against inventories.

Inventories as of December 31, 2005 and as of December 31, 2004 include approximately € 23 million and approximately € 16 million, respectively, of the product Erythropoietin (EPO) which is supplied by a single source supplier in the United States. Delays, stoppages, or interruptions in the supply of EPO could adversely affect the operating results of Fresenius Medical Care. Revenues from EPO accounted for 10% and 11% of total sales of the Fresenius Group for 2005 and 2004, respectively.

14. PREPAID EXPENSES AND OTHER CURRENT AND NON-CURRENT ASSETS

As of December 31, prepaid expenses and other current and non-current assets comprise the following:

in million €	2005	thereof short-term	2004	thereof short-term
Accounts receivable resulting from German "Krankenhausgesetz"	**175**	**105**	4	4
Tax receivables	**118**	**115**	73	71
Investments and long-term loans	**72**	**0**	53	0
Derivative financial instruments	**52**	**9**	53	14
Advances made	**43**	**22**	25	23
Prepaid expenses	**39**	**10**	39	7
Re-insurance claims	**24**	**0**	19	0
Accounts receivable from management contracts in clinics	**18**	**18**	14	14
Other assets	**306**	**205**	245	155
Prepaid expenses and other assets, gross	**847**	**484**	525	288
less allowances	**7**	**6**	8	5
Prepaid expenses and other assets, net	**840**	**478**	517	283

Impairment losses of € 3 million and € 7 million were recognized on other non-current assets in the fiscal years 2005 and 2004, respectively. In 2005 there were no reclassifications to other non-current assets. In 2004 reclassification amounted to € 3 million.

15. PROPERTY, PLANT AND EQUIPMENT

As of December 31, the acquisition and manufacturing costs and accumulated depreciation of property, plant and equipment consist of the following:

Acquisition and manufacturing costs

in million €	As of January 1, 2005	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	As of December 31, 2005
Land and land facilities	96	2	69	1	0	2	**166**
Buildings and improvements	1,142	71	258	58	27	31	**1,525**
Machinery and equipment	1,744	94	90	152	34	108	**2,006**
Machinery, equipment and rental equipment under capital leases	167	0	3	15	-1	11	**173**
Construction in progress	99	4	94	122	-60	2	**257**
Property, plant and equipment	3,248	171	514	348	0	154	**4,127**

Depreciation

in million €	As of January 1, 2005	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2005**
Land and land facilities	0	0	0	0	0	0	**0**
Buildings and improvements	420	28	0	74	4	22	**504**
Machinery and equipment	1,061	41	0	189	-4	99	**1,188**
Machinery, equipment and rental equipment under capital leases	69	2	0	13	0	9	**75**
Construction in progress	1	1	0	0	0	1	**1**
Property, plant and equipment	1,551	72	0	276	0	131	**1,768**

Carrying amounts

in million €	**December 31, 2005**	December 31, 2004
Land and land facilities	**166**	96
Buildings and improvements	**1,021**	722
Machinery and equipment	**818**	683
Machinery, equipment and rental equipment under capitalized leases	**98**	98
Construction in progress	**256**	98
Property, plant and equipment	**2,359**	1,697

Changes in the composition of the group resulted from business combinations.

The depreciation expense for 2005 and 2004 amounted to € 276 million and € 265 million, respectively.

Included in property, plant and equipment as of December 31, 2005 and 2004 were € 111 million and € 93 million, respectively, of peritoneal dialysis cycler machines which Fresenius Medical Care leases to customers with end-stage renal disease on a month-to-month basis and hemodialysis machines which Fresenius Medical Care leases to physicians under operating leases.

To a lesser extent, property, plant and equipment are also leased for the treatment of patients by other business segments.

Depreciation on machinery, equipment and rental equipment under capital leases amounted to € 13 million and € 10 million in 2005 and 2004, respectively.

For details of minimum lease payments see Note 19, Debt and capital lease obligations.

In conjunction with financial services activities, the companies of the Fresenius Group lease out their own products. For the year 2005 the cost and accumulated depreciation on such assets amounted to €151 million and €33 million, respectively. Minimum lease payments under non-cancellable operating leases in an amount of €4 million fall due as follows:

in million €	2005
Due within one year	1
Due in between one and five years	3
Due later than five years	0

16. GOODWILL AND OTHER INTANGIBLE ASSETS

As of December 31, the acquisition and manufacturing cost and accumulated amortization of intangible assets consist of the following:

Acquisition and manufacturing cost

in million €	As of Januar 1, 2005	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	As of December 31, 2005
Goodwill	2,911	349	105	1,344	0	9	4,700
Patient relationships	202	24	12	1	1	103	137
Tradenames and patents	223	26	0	1	1	1	250
Distribution rights	20	0	1	1	0	0	22
Development costs	26	0	0	4	0	0	30
Other	345	43	5	12	-2	25	378
Goodwill and other intangible assets	3,727	442	123	1,363	0	138	5,517

Amortization

in million €	As of January 1, 2005	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	As of December 31, 2005
Goodwill	4	0	0	0	0	0	4
Patient relationships	166	18	0	15	0	103	96
Tradenames and patents	31	0	0	4	0	2	33
Distribution rights	7	0	0	5	0	0	12
Development costs	6	0	0	4	0	0	10
Other	107	8	0	18	0	26	107
Goodwill and other intangible assets	321	26	0	46	0	131	262

Carrying amounts

in million €	December 31, 2005	December 31, 2004
Goodwill	**4,696**	2,907
Patient relationships	**41**	36
Tradenames and patents	**217**	192
Distribution rights	**10**	13
Development costs	**20**	20
Other	**271**	238
Goodwill and other intangible assets	**5,255**	3,406

The split of intangible assets into regularly amortizable and non-amortizable intangible assets is shown in the following table:

Regularly amortizable intangible assets

	December 31, 2005			December 31, 2004		
in million €	**Acquisition/ manufacturing cost**	**Accumulated amortization**	**Carrying amounts**	Acquisition/ manufacturing-cost	Accumulated amortization	Carrying amounts
Patient relationships	**137**	**96**	**41**	202	166	36
Patents	**46**	**33**	**13**	44	31	13
Distribution rights	**22**	**12**	**10**	20	7	13
Development costs	**30**	**10**	**20**	26	6	20
Other	**193**	**107**	**86**	185	107	78
Total	**428**	**258**	**170**	477	317	160

Non-amortizable intangible assets

	December 31, 2005			December 31, 2004		
in million €	**Acquisition/ manufacturing cost**	**Accumulated amortization**	**Carrying amounts**	Acquisition/ manufacturing-cost	Accumulated amortization	Carrying amounts
Tradenames	**204**	**0**	**204**	179	0	179
Management contracts	**185**	**0**	**185**	160	0	160
Subtotal	**389**	**0**	**389**	339	0	339
Goodwill	**4,700**	**4**	**4,696**	2,911	4	2,907
Total	**5,089**	**4**	**5,085**	3,250	4	3,246

The accumulated amortization of non-amortizable intangible assets is due to impairments in accordance with IAS 36 (Impairment of Assets).

Amortization on intangible assets amounted to € 46 million and € 45 million for 2005 and 2004, respectively.

The regularly amortizable intangible assets have an average useful life of 15 years (patient relationships an average of 11 years, patents an average of 11 years, distribution rights an average of 4 years, other intangible assets an average of 20 years).

In 2002, in connection with an acquisition, the Group acquired research results which costs of € 12 million were recognized as assets and are being amortized over their estimated useful life. In 2005 € 4 million were recognized as subsequent acquisition cost.

In 2004, a goodwill impairment loss of € 4 million was recognized in the Fresenius Biotech business segment (which is part of the Group/Other segment) since the prospects for one project have changed in the light of results of clinical studies, thus resulted in a reduction of the present value of expected cash flows.

Estimated regular amortization expenses of intangible assets for the next five years are shown in the following table:

in million €	2006	2007	2008	2009	2010
Estimated amortization expenses for the next five fiscal years	41	34	26	20	17

The carrying amount of goodwill has developed as follows:

in million €	
Carrying amount as of January 1, 2005	**2,907**
Additions/disposals, net	1,440
Impairment	0
Reclassifications	0
Foreing currency translation	349
Carrying amount as of December 31, 2005	**4,696**

The increase in the carrying amount mainly results from the addition of the goodwill due to the HELIOS acquisition in an amount of approximately € 1.2 billion and from foreign currency translation effects mainly referring to the goodwill of Fresenius Medical Care.

Fresenius Medical Care capitalized development costs in an amount of € 13 million for the fiscal year 2005 (2004: € 14 million). Capitalized development costs are amortized on a straight-line basis over a useful life of 10 years. The amortization expense for the fiscal year 2005 amounted to € 1 million. In the prior year there had been no material amortization expenses.

In the case of Fresenius Kabi, costs capitalized amounted to € 7 million in 2005 (2004: € 6 million). Amortization is recorded on a straight-line basis over a useful life of 5 years and amounted to € 3 million for the fiscal year 2005 (2004: € 2 million).

17. OTHER ACCRUED EXPENSES

As of December 31, other accrued expenses consist of the following:

in million €	2005	2005 thereof short-term	2004	2004 thereof short-term
Personnel expenses	**254**	**254**	209	209
Special charge for legal matters	**100**	**100**	90	90
Advances received	**84**	**84**	58	58
Self-insurance programs	**64**	**64**	42	42
Bonuses and discounts	**38**	**38**	34	34
Legal matters, advisory and audit fees	**23**	**23**	18	18
Warranties and complaints	**21**	**21**	19	19
Commissions	**20**	**20**	21	21
Physician compensation	**18**	**18**	16	16
All other accrued expenses	**271**	**193**	126	101
Other accured expenses	**893**	**815**	633	608

Other accrued expenses develope in the fiscal year as follows:

in million €	As of January 1, 2005	Changes in entities consolidated	Additions	Reclassifi-cations	Utilized	Reversed	Foreign currency translation	**As of December 31, 2005**
Personnel expenses	209	21	107	0	71	12	0	**254**
Special charge for legal matters	90	0	0	0	4	0	14	**100**
Advances received	58	15	93	0	68	12	-2	**84**
Self-insurance programs	42	0	16	0	0	0	6	**64**
Bonuses and discounts	34	3	29	-1	24	3	0	**38**
Legal matters, advisory and audit fees	18	3	14	0	10	2	0	**23**
Warranties and complaints	19	0	17	1	8	6	-2	**21**
Commissions	21	0	20	0	20	2	1	**20**
Physician compensation	16	0	0	0	0	0	2	**18**
All other accrued expenses	126	100	137	0	74	8	-10	**271**
Total	633	142	433	0	279	45	9	**893**

Reversal of long term reserves in 2005 is not material.

At December 31, 2005, there is a balance of US$ 118 million (€ 100 million), including US$ 115 million for a settlement payment relating to the accrual for the special charge for legal matters of Fresenius Medical Care as described below. Fresenius Medical Care believes that these provisions are adequate for the settlement of those matters. During 2005, US$ 5 million (€ 4 million) were applied against the accrual for the special charge for legal matters.

In 2001, Fresenius Medical Care recorded a US$ 258 million special charge to address 1996 merger-related legal matters, estimated liabilities and legal expenses arising in connection with the W.R. Grace & Co. Chapter 11 proceedings (Grace Chapter 11 Proceedings) and the cost of resolving pending litigation and other disputes with certain commercial insurers (see Note 25, Commitments and contingent liabilities).

Fresenius Medical Care accrued US$ 172 million principally representing a provision for income taxes payable for the years prior to the 1996 merger for which W.R. Grace & Co. had agreed to indemnify Fresenius Medical Care, but which Fresenius Medical Care may ultimately be obligated to pay as a result of Grace's Chapter 11 Proceedings. In addition, that amount included the costs of defending the Fresenius Medical Care in litigation arising out of the Grace Chapter 11 Proceedings (see Note 25, Commitments and contingent liabilities).

Fresenius Medical Care included US$ 55 million in the special charge to provide for settlement obligations, legal expenses and the resolution of disputed accounts receivable relating to various insurance companies.

The remaining amount of the special charge of US$ 31 million was accrued mainly for (1) assets and receivables that are impaired in connection with other legal matters and (2) anticipated expenses associated with the continued defense and resolution of the legal matters.

During the second quarter of 2003, the court supervising the Grace Chapter 11 Proceedings approved the definitive settlement agreement entered into among Fresenius Medical Care, the committee representing the asbestos creditors and W.R. Grace & Co (see Note 25, Commitments and contingent liabilities). Under the settlement agreement, Fresenius Medical Care will pay US$ 115 million upon plan confirmation. Based on these developments, Fresenius Medical Care reduced its estimate in 2003 for the settlement and related costs of the Grace Chapter 11 Proceedings by US$ 39 million. This reduction of the provision for the W.R. Grace & Co. matter has been applied to the other components of the special charge (i. e. reserves for settlement obligations and disputed accounts receivable from commercial insurers and other merger-related legal matters described in this Note).

18. OTHER LIABILITIES

As of December 31, other liabilities consist of the following:

in million €	**2005**	**thereof short-term**	2004	**thereof short-term**
Accounts receivable resulting from German "Krankenhausgesetz"	**172**	**127**	5	5
Personnel liabilities	**114**	**111**	66	50
Advance payments from customers	**87**	**82**	66	66
Tax liabilities	**80**	**77**	53	51
Accounts receivable credit balance	**11**	**7**	14	4
Derivative financial instruments	**39**	**15**	74	15
Interest liabilities	**27**	**27**	20	20
Accounts payable to government institutions	**2**	**2**	26	26
All other liabilities	**393**	**267**	180	149
Other liabilities	**925**	**715**	504	386

Of the total amount of other non-current liabilities amounting to € 210 million at December 31, 2005 € 130 million are due in between one and five years and € 80 million are due later than five years. The caption long-term accrued expenses and other long-term liabilities in an amount of € 288 million includes also long-term accrued expenses in an amount of € 78 million as of December 2005.

19. DEBT AND CAPITAL LEASE OBLIGATIONS

Short-term borrowings

Lines of credit and short-term borrowings

Short-term borrowings of € 824 million and € 391 million at December 31, 2005, and 2004, respectively, represent amounts borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks. The average interest rates on these borrowings in 2005, and 2004 was 3.5% and 3.8 % p. a., respectively.

Excluding amounts available under the Fresenius Medical Care 2003 Senior Credit Agreement (as described below), at December 31, 2005 and 2004, the Fresenius Group had € 610 million and € 490 million, respectively, available under such commercial bank agreements. In some instances, lines of credit are secured by assets of the Fresenius Group's subsidiary that is party to the agreement and may contain various covenants including, but not limited to, requirements for maintaining defined levels of working capital, net worth, capital expenditures and certain financial ratios.

Accouts receivable facility

Fresenius Medical Care has an asset securitization facility (accounts receivable facility), which provides borrowings up to a maximum of US$ 460 million (€ 390 million). Under the facility, certain receivables are sold to NMC Funding Corporation (NMC Funding)., a wholly-owned subsidiary of Fresenius Medical Care. NMC Funding then assigns undivided ownership interests in the accounts receivable to certain bank investors. Under the terms of the accounts receivable facility, NMC Funding retains the right to recall all transferred interests in the accounts receivable assigned to the banks under the facility. As Fresenius Medical Care has the right at any time to recall the then outstanding interests, the receivables remain on the consolidated balance sheet and the proceeds from the transfer of undivided interests are recorded as short-term borrowings.

At December 31, 2005 there are outstanding short-term borrowings under the facility of US$ 94 million (€ 80 million). NMC Funding pays interest to the bank investors, calculated based on the commercial paper rates for the particular tranches selected. The effective interest rate during the twelve months ended December 31, 2005 ranged from 2.49% to 4.63%. The costs are expensed as incurred and recorded as interest expense and related financing costs. On October 20, 2005 Fresenius Medical Care amended the accounts receivable facility to extend the maturity date to October 19, 2006.

Bridge loan facility

In October 2005, Fresenius AG entered into an agreement pursuant to which two banks agreed to provide a loan facility in the amount of € 700 million with a term of 364 days to bridge the issuance of the Notes (see Note 33, Subsequent events). The loan facility was guaranteed by Fresenius Kabi AG and Fresenius ProServe GmbH and was used in addition to the proceeds from the capital increase (see Note 23, Shareholders' equity) to fund the acquisition of HELIOS Kliniken GmbH and the business of Clinico GmbH. From December 1, 2005, the bridge loan facility was reduced by € 100 million to € 600 million because the proceeds from the capital increase exceeded the amount according to the original finance concept. At the end of December 2005, the loan facility was fully used for the purchase of the acquisitions and was repaid by the proceeds of the Notes issuance at the end of January 2006 (see Note 33, Subsequent events).

Long-term debt and liabilities from capital lease obligations

As of December 31, long-term debt and capital lease obligations consist of the following:

in milion €	**2005**	2004
Euro Notes	**460**	389
Euro Bonds	**400**	400
Fresenius Medical Care 2003 Senior Credit Agreement	**399**	356
European Investment Bank agreement	**41**	0
Capital lease obligations	**40**	41
Other	**337**	223
Subtotal	**1,677**	1,409
less current portion	**222**	190
Long-term debt and capital lease obligations, less current portion	**1,455**	1,219

Aggregate annual repayments applicable to the Euro Notes, Fresenius Medical Care 2003 Senior Credit Agreement, Bonds, capital leases and other borrowings for the five years subsequent to December 31, 2005 (excluding borrowings underlying trust preferred securities, see Note 21, Trust preferred securities) are:

for the fiscal years	in million €
2006	222
2007	260
2008	163
2009	766
2010	113
Subsequent years	153
Total	**1,677**

The weighted effective interest rates at the balance sheet date for long-term liabilities are shown in the following table:

in %	**2005**	2004
Liabilities to banks	**6.8**	6.7
Capital lease obligations	**5.7**	5.6

Euro Notes

Euro Notes (Schuldscheindarlehen) issued by Fresenius Finance B.V. amounting to € 260 million have residual terms to maturity of up to 3 years. Interest rates are linked to EURIBOR. The Euro Notes (Schuldscheindarlehen), which are mostly hedged through interest swaps, carried interest rates of between 3.95% and 5.61% during the year 2005.

On July 27, 2005, Fresenius Medical Care issued new Euro Notes (Schuldscheindarlehen) totaling € 200 million with a € 126 million tranche at a fixed interest rate of 4.57 % and a € 74 million tranche with a floating rate at EURIBOR plus applicable margin resulting in an average interest rate of 4.10 % for the period ending December 31, 2005. The Euro Notes mature on July 27, 2009. The proceeds were used to liquidate € 129 million of Euro Notes issued in 2001 that were due in July 2005 and for working capital.

Euro Bonds

In April 2003, Fresenius Finance B.V. issued Euro Bonds for a total amount of € 400 million in two tranches in order to repay short-term bank loans. Both tranches have a maturity of six years. The first tranche of € 300 million bears interest at 7.75 % p.a. and is three years non-callable by the issuer (for the first time on April 30, 2006). If the company decides to apply its right to give notice to redeem the Euro Bonds early, the redemption will be effected at different price levels which, depending on the date on which notice is given, could exceed the issue price. The redemption prices were fixed at the date of issue. The second tranche of € 100 million bears interest at 7.5 % p.a. and is not callable before maturity. The Fresenius Group applied to its right to give notice to redeem the bonds earlier in January 2006 and 71 % of the volume of the first tranche were repurchased (see Note 33, Subsequent events).

The fixed interest tranche with a nominal amount of € 400 million issued in the year 1999 was refinanced in mid-May 2004 by senior notes for a total amount of € 260 million with a maturity of two to five years. In addition short-term bank facilities and the commercial paper program were utilized.

The Euro Bonds of Fresenius Finance B.V., issued in April 2003, are guaranteed by Fresenius AG, Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius AG has given a number of commitments to provide protection to the bondholders, which, under certain circumstances, partly restrict the scope of action of Fresenius AG and its subsidiaries (excluding FMC-AG & Co. KGaA and their subsidiaries). These commitments include, amongst other things, restrictions in the amount of further debt that can be raised, the payment of dividends, the volume of capital expenditure, the redemption of subordinated liabilities and the mortgaging or sale of assets. Some of these restrictions are lifted automatically when the rating of the company reaches investment grade. In the event of non-compliance with the terms of the Euro Bonds, the bondholders (owning in aggregate more than 25 % of the outstanding Euro Bonds) are entitled to call the Euro Bonds and demand immediate repayments plus interest. As of December 31, 2005, the Fresenius Group is in compliance with all of its commitments.

Fresenius Medical Care 2003 Senior Credit Agreement

On February 21, 2003, Fresenius Medical Care entered into an amended and restated bank agreement (Fresenius Medical Care 2003 Senior Credit Agreement) with Bank of America N.A., Credit Suisse First Boston, Dresdner Bank AG New York, JPMorgan Chase Bank, The Bank of Nova Scotia and certain other lenders (collectively: Lenders), replacing the 1996 NMC Senior Credit Agreement that was scheduled to expire at September 30, 2003. Under the terms of the Fresenius Medical Care 2003 Senior Credit Agreement, the Lenders made available to Fresenius Medical Care and certain subsidiaries and affiliates an aggregate amount of up to US$ 1,500 million. Under the Fresenius Medical Care 2003 Senior Credit Agreement, all principal payments made on term loans permanently reduce the total amounts available.

Amendments in 2004 reduced the aggregate amount available to US$ 1,200 million while increasing the available amounts under the revolving loan portion and reducing the amounts available under the term loan portion. In the 2004 amendments, Fresenius Medical Care also reduced the interest rates on the Revolving Credit by 62.5 basis points and the interest rates on certain of the term loan tranches by 62.5 and 75 basis points while extending the termination date of the facility until February 28, 2010. In addition, under the 2004 amendments, Fresenius Medical Care can increase the amount of the revolving credit facility by up to US$ 200 million during the extended life of the Fresenius Medical Care 2003 Senior Credit Agreement.

The following table shows the available and outstanding credit under the Fresenius Medical Care 2003 Senior Credit Agreement as of December 31:

	Maximum amount available		Balance outstanding	
in US$ million	**2005**	2004	**2005**	2004
Revolving Credit	**750**	750	**46**	35
Term Loan A-1	**425**	450	**425**	450
Total	**1,175**	1,200	**471**	485

As of December 31, 2005, US$ 80 million (€ 68 million) is committed by Fresenius Medical Care to outstanding letters of credit which are not included as part of the Balance outstanding as of December 31, 2005.

The terms of the credit facilities available at December 31, 2005 are:

- a revolving credit facility of up to US$ 750 million (of which up to US$ 250 million is available for letters of credit, up to US$ 300 million is available for borrowings in certain non-US currencies, up to US$ 75 million is available as swing line in US dollars, up to US$ 250 million is available as a competitive loan facility and up to US$ 50 million is available as swing line in certain non-US currencies, the total of which cannot exceed US$ 750 million) which will be due and payable on February 28, 2010.
- a term loan facility (Loan A-1) of US$ 450 million, also maturing on February 28, 2010. The terms of the Fresenius Medical Care 2003 Senior Credit Agreement require payments that permanently reduce the term loan facility. The repayment began in the fourth quarter of 2005 and amounts to US$ 25 million per quarter. The remaining amount outstanding is due on February 28, 2010.

The revolving credit facility and Loan A-1 interest rates are equal to LIBOR plus an applicable margin, or base rate, defined as the higher of the Bank of America prime rate or the Federal Funds rate plus 0.5 % plus the applicable margin. The applicable margin is variable and depends on the ratio of Fresenius Medical Care's funded debt to EBITDA as defined in the Fresenius Medical Care 2003 Senior Credit Agreement.

In addition to scheduled principal payments, indebtedness outstanding under the Fresenius Medical Care 2003 Senior Credit Agreement will be reduced by portions of the net cash proceeds from certain sales of assets, securitization transactions other than Fresenius Medical Care's existing accounts receivable financing facility and the issuance of subordinated debt.

The Fresenius Medical Care 2003 Senior Credit Agreement contains affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Some of the covenants limit indebtedness of and investments by Fresenius Medical Care, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. Additionally, the Fresenius Medical Care 2003 Senior Credit Agreement provides for a dividend restriction which is US$ 200 million for dividends paid in 2006, and increases in subsequent years. Fresenius Medical Care paid dividends of US$ 137 million (€ 109 million) in 2005. In default, the outstanding balance under the Fresenius Medical Care 2003 Senior Credit Agreement becomes immediately due and payable at the option of the Lenders. At December 31, 2005 Fresenius Medical Care is in compliance with all financial covenants under the Fresenius Medical Care 2003 Senior Credit Agreement.

In connection with the acquisition of Renal Care Group, Inc., the Fresenius Medical Care has entered into a commitment letter pursuant to which Bank of America, N.A. and Deutsche Bank AG have agreed, subject to certain conditions, to underwrite an aggregate US$ 5.0 billion in principal amount of term and revolving loans for syndication to other financial institutions that would replace the Fresenius Medical Care 2003 Senior Credit Agreement (see Note 2, Acquisitions and desinvestitures).

European Investment Bank agreement

Fresenius Medical Care entered into a credit agreement with the European Investment Bank (EIB) on July 13, 2005 in the total amount of € 131 million consisting of a € 90 million revolving credit line and a € 41 million term loan. The facility has an 8-year term with the revolving line terminating on July 12, 2013 and the term loan terminating on September 13, 2013. Both loans bear variable interest rates that change quarterly with Fresenius Medical Care having options to convert into fixed rates. The EIB is a not-for-profit long-term, lending institution of the European Union that loans funds at favorable rates for the purpose of capital investment projects, normally for up to half of the funds required for such projects. Fresenius Medical Care will use these funds to refinance certain research and development projects and investments in expansion and optimization of existing production facilities in Germany. The loans are secured by bank guarantees and have customary covenants. The term loan was drawn down on September 15, 2005 with average interest for the period ending December 31, 2005 at 3.89 %. There have been no drawdowns on the revolving credit facility as of December 31, 2005.

Capital lease obligations

Details of capital lease obligations are given below:

in million €	2005
Capital lease obligations (minimum lease payments)	**79**
due within one year	11
due between one and five years	32
due later than five years	36
Interest component included in future minimum lease payments	**39**
due within one year	5
due between one and five years	17
later than five years	17
Present value of capital lease obligations (minimum lease payments)	**40**
due within one year	6
due between one and five years	15
due later than five years	19

20. PENSIONS AND SIMILAR OBLIGATIONS

General

Pension provisions are recognized for obligations for current and future pension benefits to current and former employees of the Fresenius Group and their surviving dependents. Pension plans are structured differently according to the legal, economic and financial circumstances in each relevant country; in general, however, plan benefits are based on employee's years of services and final salary.

A distinction must be made between defined benefit and defined contribution plans. Under defined benefit plans, the entity is required to pay the benefits granted to current and former employees when they are due. Defined benefit plans may be funded or unfunded. Within the Fresenius Group, funded pension plans are in place in particular in the USA, Norway, the United Kingdom, the Netherlands and Austria.

Under defined contribution plans, an entity pays fixed contributions into a separate entity or fund during the life of the service relationship and does not assume any other obligations.

Pension obligations under defined benefit plans are computed on an actuarial basis at the level of the defined benefit obligation. This computation requires the use of estimates. The main factors affecting the level of the obligations are: assumptions on life expectancy, the discount rate and salary and pension level trends.

In the case of funded plans, the defined benefit obligation is offset against plan assets. A pension asset is recognized (and reported under other assets) if the fair value of plan assets exceeds the defined benefit obligation and if the entity has a right of reimbursement against the fund or a right to reduce future payments to the fund. A pension liability is recognized if the defined benefit obligation exceeds the fair value of plan assets. This liability is reported under pension provisions.

Actuarial gains and losses may result from increases or decreases in either the present value of the defined benefit obligation or in the fair value of plan assets. Causes of actuarial gains or losses include the effect of changes in assumptions, changes in estimates caused by the actual development of risks impacting on pension obligations and differences between the actual and expected return on plan assets.

Defined benefit pension plans

More than half of the pension obligations totaling € 256 million relate to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1988, which applies for most of the German entities of the Group. The remaining amount is related to individual plans from mostly non-German Group entities.

Plan benefits are generally based on an employee's years of service and final salary. Consistent with predominant practice in Germany, the pension obligations of the German entities of the Fresenius Group are unfunded. The German pension plan does not have a separate pension fund.

Fresenius Medical Care currently has two principal pension plans, one for German employees, and the other covering employees in the United States. During the first quarter of 2002, Fresenius Medical Care Holdings, Inc. (FMCH) curtailed its defined benefit and supplemental executive retirement plans. Under the curtailment amendment, no additional defined benefits for future services will be earned by substantially all employees eligible to participate in the plan. FMCH has retained all employee pension obligations as of the curtailment date for the fully-vested and frozen benefits for all employees. Each year FMCH contributes at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended. There was no minimum funding requirement for FMCH for the defined benefit plan in 2005. FMCH voluntarily contributed US$ 26 million (€ 21 million) during 2005.

The defined benefit obligation amounting to € 571 million (2004: € 434 million) includes € 232 million (2004: € 178 million) which is funded by plan assets and € 339 million (2004: € 256 million) which is covered by pension provisions.

Pension obligations have developed as follows:

in million €	**2005**	2004
Defined benefit obligations at the beginning of the year	**434**	384
Changes in entities consolidated	**40**	0
Foreign currency translation	**26**	-13
Current service costs	**14**	11
Interest cost	**24**	22
Other changes	**1**	2
Transfer of plan participants	**-**	1
Change in amendments	**-6**	0
Actuarial losses	**49**	37
Benefits paid	**-11**	-10
Defined benefit obligations at the end of the year	**571**	434
thereof vested	**478**	354

Pension obligations amounting to € 571 million (2004: € 434 million) include € 253 million (2004: € 208 million) relating to funded defined obligation pension plans.

The funded status of the plans has developed as follows:

in million €	2005	2004
Fair value of plan assets at the beginning of the year	**178**	156
Changes in entities consolidated	**-1**	0
Foreign currency translation	**21**	-10
Actual return on plan assets	**14**	13
Employer contribution	**24**	3
Employee contribution	**1**	1
Übertrag	0	20
Benefits paid	**-5**	-5
Fair value of plan assets at the end of the year	**232**	178
thereof used by the employees of the companies (real estate and other assets)	**0**	0
thereof invested in companies of the Fresenius Group	**0**	0

The pension provision is derived as follows:

in million €	2005	2004
Funded status	**339**	256
Unrecognized actuarial gain/loss	**-85**	-35
Unrecognized service costs of prior years	**2**	-1
Pension liability, at December 31	**256**	220

The following assumptions for pension benefit obligations are applied:

in %	2005	2004
Weighted-average assumptions for pension benefit obligations as of December 31		
Discount rate	**4.7**	5.3
Rate of compensation increase	**3.5**	3.7
Rate of pension increase	**1.4**	1.5

Defined benefit pension plans gave rise to a net periodic benefit cost of € 24 million (2004: € 23 million) for the Fresenius Group, comprising the following components:

in million €	**2005**	2004
Components of net periodic benefit cost		
Service costs	**14**	11
Interest cost	**24**	22
Expected return on plan assets	**-14**	-11
Amortization of transition obligations	**0**	1
Amortization of prior service costs	**-1**	0
Amortization of unrealized losses, net	**1**	0
Plan amendments	**–**	0
Net periodic benefit cost	**24**	23

Net priodic benefit cost is allocated as personnel expense to each of the income statement function lines.

The following assumptions for net periodic benefit cost are applied:

in %	**2005**	2004
Weighted-average assumptions for the net periodic benefit cost, as of December 31		
Discount rate	**5.3**	5.4
Expected return on plan assets	**7.1**	7.1
Rate of compensation increase	**3.7**	3.5

Changes in the discount factor, inflation and mortality assumptions used for the actuarial computation resulted in actuarial losses in 2005 which increased the fair value of the defined benefit obligation. Unrecognized actuarial losses outside the 10% corridor for each defined benefit plan amounted to € 85 million (2004: € 35 million).

The following table shows an analysis of actual and expected pension payments for the next years:

in million €	2005
Cash used for pension obligations	
Benefit payments prior year	10
Benefit payments current year	11
Expected future benefit payments	
Expected benefit payments in 2006	14
Expected benefit payments in 2007	15
Expected benefit payments in 2008	16
Expected benefit payments in 2009	18
Expected benefit payments in 2010	19
Expected benefit payments between 2011 and 2015	119
Total expected benefit payments for the next 10 years	**201**

The measurement date used to determine pension benefit measurements was December 31, 2005 for the plans of FMCH and September 30, 2005 for all non-US plans.

Pension obligations at December 31, 2005 and 2004 relate to the following geographical regions:

in million €	**2005**	2004
Germany	**199**	138
Europe (excluding Germany)	**55**	58
North America	**2**	22
Asia-Pacific	**0**	2
Latin America	**0**	–
Africa	**0**	0
Total pension obligations	**256**	220

The pension obligations relate mainly to Europe and North America, with approximately 75% relating specifically to Germany, one fifth relating to the rest of Europe and the rest relating to North America, respectively.

Approximately two thirds of beneficiaries are located in North America, approximately one quarter in Germany and the remainder throughout the rest of Europe and other continents.

Plan investment policy and strategy

The investment strategy for the Fresenius Medical Care North America pension plan is to earn a long-term rate of return on assets of at least 7.5 % compounded annually while utilizing a target investment allocation of 36% equity and 64% long-term US bonds.

The investment policy considers that there will be a time horizon for invested funds of more than 5 years. The total portfolio will be measured against a policy index that reflects the asset class benchmarks and the target asset allocation. The Plan policy does not allow investments in securities of FMC-AG & Co. KGaA or other related party stock. The performance benchmarks for the separate asset classes include: S&P 500 Index, Russell 2000 Growth Index, MSCI EAFE Index, Lehman U.S. Long Government/Credit Bond Index and the HFRI Fund of Funds Index.

The following schedule describes the Fresenius Group´s allocation of its plan assets:

in %	**Allocation 2005**	Allocation 2004	Target allocation
Categories of plan assets			
Equity securities	**43**	48	37
Debt securities	**55**	50	61
Real estate	**1**	1	1
Other	**1**	1	1
Total	**100**	100	100

The expected long-term rate of return on assets of Fresenius Group amounts to 7.0% compounded annually. Allocations in the fiscal year 2006 are expected to amount to € 22 million.

Defined contribution plans
Fresenius Group's total expenses under defined contribution plans for the years 2005 and 2004 was € 14 million each. The main part relates to the 401(k) savings plan, which employees of FMCH are eligible to join. Fresenius Medical Care's total expense under this defined contribution plan was € 12 million in 2005 and 2004.

21. TRUST PREFERRED SECURITIES

Fresenius Medical Care issued trust preferred securities through Fresenius Medical Care Capital Trusts, statutory business trusts organized under the laws of the State of Delaware/USA. Fresenius Medical Care owns all of the common securities of these trusts. The sole asset of each trust is a senior subordinated note of Fresenius Medical Care AG or a wholly-owned subsidiary of Fresenius Medical Care AG, Fresenius Medical Care Deutschland GmbH and Fresenius Medical Care Holdings, Inc. (Fresenius Medical Care Deutschland GmbH and Fresenius Medical Care Holdings, Inc., being the Guarantor Subsidiaries) have guaranteed payment and performance of the senior subordinated notes to the respective Fresenius Medical Care Capital Trusts. The trust preferred securities are guaranteed by Fresenius Medical Care through a series of undertakings by Fresenius Medical Care and the Guarantor Subsidiaries.

The trust preferred securities entitle the holders to distributions at a fixed annual rate of the stated amount and are mandatorily redeemable after 10 years.

Earlier redemption at the option of the holders may also occur upon a change of control followed by a rating decline or defined events of default including a failure to pay interest. Upon liquidation of the trusts, the holders of trust preferred securities are entitled to a distribution equal to the stated amount. The trust preferred securities do not hold voting rights in the trust except under limited circumstances.

The trust preferred securities agreements contain affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Some of the covenants limit the Fresenius Medical Care's indebtedness and its investments, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. Some of these covenants are subordinated to the Fresenius Medical Care 2003 Senior Credit Agreement covenants. As of December 31, 2005, Fresenius Medical Care is in compliance with all financial covenants under all trust preferred securities agreements.

The trust preferred securities outstanding as of December 31, 2005 and 2004 are as follows:

	Year issued	Stated amount	Interest rate	Mandatory redemption date	**2005** **in million €**	2004 in million €
Fresenius Medical Care Capital Trust II	1998	US$450 million	7 7/8 %	Feb 1, 2008	**366**	324
Fresenius Medical Care Capital Trust III	1998	DM 300 million	7 3/8 %	Feb 1, 2008	**154**	154
Fresenius Medical Care Capital Trust IV	2001	US$ 225 million	7 7/8 %	Jun 15, 2011	**183**	158
Fresenius Medical Care Capital Trust V	2001	€ 300 million	7 3/8 %	Jun 15, 2011	**297**	297
Trust preferred securities					**1,000**	933

22. MINORITY INTEREST

As of December 31, minority interest in the Group is as follows:

in million €	**2005**	2004
Minority interest in Fresenius Medical Care AG	**2,182**	1,706
Minority interest in the business segments		
Fresenius Medical Care	**12**	13
Fresenius Kabi	**25**	27
Fresenius ProServe	**104**	19
Corporate/Other	**–**	1
Total minority interest	**2,323**	1,766

Minority interest increased in 2005 by € 557 million (2004: € 70 million) to € 2,323 million (2004: € 1,766 million). The change resulted on the one hand from the minorities' share of profit in an amount of € 249 million for 2005 (2004: € 215 million), and from the minorities' share of dividend payments in an amount of € 76 million (2004: € 71 million), first-time consolidations and positive currency effects amounted to € 384 million (2004: € -74 million) on the other.

23. SHAREHOLDERS' EQUITY

Subscribed capital

The Management Board resolved on October 25, 2005 and on November 15, 2005, with the approval of the Supervisory Board on the same dates, to increase the issued share capital for cash consideration by € 24,064,000 from € 105,785,036.80 to € 129,849,036.80 by issuing 4,700,000 new bearer ordinary shares (new ordinary shares) and 4,700,000 new bearer preference shares (new preference shares).

The new ordinary shares and the new preference shares were offered to the shareholders at a ratio of 9:2 in each case. The subscription price per new ordinary share and per new preference share was € 93 and €102, respectively. The capital increase generated gross proceeds of € 919 million.

The registration of the capital increase with the commercial register in Bad Homburg v.d.H. took place on November 29, 2005.

Following the increase, the subscribed capital of Fresenius AG is divided into 25,361,140 bearer ordinary shares and 25,361,140 non-voting bearer preference shares. The shares are issued as non-par value shares and have a theoretical nominal value of € 2.56.

During the fiscal year 2005 351,242 stock options were exercised.

In a letter dated May 19, 2005, Vermögensverwaltungsgesellschaft Nachlass Else Kröner mbH notified Fresenius AG that, effective May 12, 2005, the voting rights held by it in Fresenius AG, fell below the 50% threshold and that it no longer holds any of the company's voting rights. Also in a letter dated May 19, 2005, Else Kröner-Fresenius-Stiftung, Bad Homburg v.d.H., which owns 100% of Vermögensverwaltungsgesellschaft Nachlass Else Kröner mbH, notified the company that, effective May 12, 2005, the voting rights held by it in Fresenius AG continued to exceed the 50% threshold and that it still owns 74.241% of the voting rights. However since May 12, 2005, 67.286% of the voting rights are no longer attributable according to § 22 section 1 No. 1 of the German Trade Securities Act (WpHG) but are led directly - just as 2.226% of the voting rights have been. 4.729% of the shares continue to be attributable to the Foundation in accordance with § 22 section 2 sentence 1, 1st clause of the German Trade Securities Act (WpHG).

In a letter dated November 21, 2005, Allianz AG, Munich, notified Fresenius AG in accordance with § 21 section 1 and § 24 of the WpHG that the number of Fresenius AG voting rights held by AZ-Argos 19 AG - that in future will operate under the name Allianz Deutschland AG, Königinstraße 28, 80802 Munich - exceed the 5% threshold on November 17, 2005 due to an internal reorganization of the group and that it now owns 9.73% of the voting stock. These voting rights are allocated to AZ-Argos 19 AG in accordance with § 22 section 1 sentence 1 No. 1 of the WpHG. The number of the voting rights of Fresenius AG, Bad Homburg v.d.H. held by Allianz Aktiengesellschaft, Königinstraße 28, 80802 Munich, has changed in a manner that not requires notification.

Approved capital

By resolution of the Annual General Meeting on May 31, 2001, the Management Board of Fresenius AG was authorized, with the approval of the Supervisory Board, to increase by May 30, 2006

- the subscribed capital of Fresenius AG by a maximum nominal value of € 20,480,000.00 by issuing new bearer ordinary shares and/or non-voting bearer preference shares for cash (Approved Capital I),
- the subscribed capital of Fresenius AG by a maximum nominal amount of € 10,240,000.00 by issuing new bearer ordinary shares and/or non-voting bearer preference shares for cash (Approved Capital II). The Management Board is authorised with the approval of the Supervisory Board to preclude the subscription rights of the shareholders as a whole (§§ 203 Section 2, 186 Section 3 sentence 4 Stock Corporation Law (AktG)).

These authorizations were exercised to implement the capital increase described in the section "subscribed capital". Approved Capital I was exercised in full; and Approved Capital II was partly exercised. The remaining Approved Capital II amounts to € 6,656,000.00 as of December 31, 2005.

Conditional capital

By resolution of the Annual General Meeting on May 28, 2003, the previous conditional capital (Conditional Capital I) of € 4,448,010.24 was reduced to € 3,296,010.24, divided into 643,752 bearer ordinary shares and 643,752 bearer preference shares. This amount is required to secure the subscription rights in connection with the stock options on bearer ordinary shares and bearer preference shares authorized by the Annual General Meeting on June 18, 1998.

In order to enable the 2003 Stock Option Plan to be executed, the subscribed capital was increased conditionally (Conditional Capital II) by up to € 4,608,000.00 through the issue of up to 900,000 bearer ordinary shares and 900,000 non-voting bearer preference shares. The issue of bearer ordinary shares and non-voting bearer preference shares is made at the specified conversion price. The conditional capital increase can only be carried out to the extent that the convertible bonds are issued and the owners of the convertible bonds exercise their conversion rights.

Conditional capital develop as follows:

in €	Ordinary shares	Preference shares	Total
Conditional Capital I Fresenius AG Stock Option Plan 1998	1,646,272.00	1,646,272.00	3,292,544.00
Conditional Capital II Fresenius AG Stock Option Plan 2003	2,304,000.00	2,304,000.00	4,608,000.00
Total conditional capital as of January 1, 2005	**3,950,272.00**	**3,950,272.00**	**7,900,544.00**
Fresenius AG Stock Option Plan 1998 – options exercised	-400,023.04	-400,023.04	-800,046.08
Fresenius AG Stock Option Plan 2003 – options exercised	-49,566.72	-49,566.72	-99,133.44
Total conditional capital as of December 31, 2005	**3,500,682.24**	**3,500,682.24**	**7,001,364.48**

Capital reserves

Capital reserves comprise the premium paid on the issue of shares and stock options (additional paid-in capital).

The costs of the share capital increase in an amount of € 23 million in 2005 have been set off against the capital reserves directly without any impact on the consolidated statement of income.

Other reserves

Other reserves comprise earnings generated by group entities in previous years to the extent that they have not been distributed.

Dividends

Under the German Stock Corporation Act, the amount of dividends available for distribution to shareholders is based upon the unconsolidated retained earnings of Fresenius AG as reported in its balance sheet determined in accordance with the German Commercial Code (HGB).

At the Annual General Meeting on May 25, 2005, a resolution was passed to pay a dividend of € 1.35 per bearer ordinary share and € 1.38 per bearer preference share, i.e. a total dividend of € 55.9 million was resolved.

24. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income/loss comprises all amounts recognized directly in equity resulting from the translation of foreign subsidiaries and the effects (net of tax) of measuring financial instruments at their fair value.

Changes in the components of other comprehensive income (loss) in 2005 and 2004 were as follows:

in million €			**2005**			2004
	Amount before taxes	**Tax effect**	**Amount after taxes**	Amount before taxes	Tax effect	Amount after taxes
Change in unrealized gains/losses	**56**	**-23**	**33**	-29	11	-18
Realized gains/losses due to reclassifications	**-1**	**–**	**-1**	-7	3	-4
Change in unrealized gains/losses on derivative financial instruments	**55**	**-23**	**32**	-36	14	-22
Foreign currency translation adjustment	**134**	**0**	**134**	-24	0	-24
Other comprehensive income (loss)	**189**	**-23**	**166**	-60	14	-46

OTHER NOTES

25. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent assets and liabilities
As of December 2005 contingent assets do not consist in the Fresenius Group. Contingent liabilities are not material.

Operating leases and rental payments
The companies of the Fresenius Group lease office and manufacturing buildings as well as machinery and equipment under various lease agreements expiring on dates through 2026. Rental expense recorded for operating leases for the years ended December 31, 2005 and 2004 was € 297 million and € 289 million, respectively.

At December 31, 2004, Fresenius Medical Care acquired dialysis machines that were previously sold in sale-lease back transactions. The machines were acquired for € 23 million and are included in capital expenditures in the accompanying consolidated statement of cash flows 2004 of the Fresenius Group.

Future minimum rental payments under non-cancellable operating leases for the five years succeeding December 31, 2005 and thereafter are:

for the fiscal years	in million €
2006	249
2007	211
2008	175
2009	145
2010	115
Thereafter	475
Total	**1,370**

As of December 31, 2005 reconstruction obligations exist up to the year 2010 from the acquisition contracts from hospitals at projected costs of up to € 171 million. Thereof € 80 million relates to the year 2006.

Other commitmens than the above mentioned contingent liabilities are immaterial.

Legal proceedings

Commercial litigation

Fresenius Medical Care was originally formed as a result of a series of transactions pursuant to the Agreement and Plan of Reorganization (the Merger) dated as of February 4, 1996 by and between W.R. Grace & Co. and Fresenius AG. At the time of the Merger, a W.R. Grace & Co. subsidiary known as W.R. Grace & Co.-Conn. had, and continues to have, significant liabilities arising out of product-liability related litigation (including asbestos-related actions), pre-Merger tax claims and other claims unrelated to National Medical Care, Inc. (NMC), which was W.R. Grace & Co.'s dialysis business prior to the Merger. In connection with the Merger, W.R. Grace & Co.-Conn. agreed to indemnify Fresenius Medical Care, Fresenius Medical Care Holdings, Inc. (FMCH) and NMC against all liabilities of W.R. Grace & Co., whether relating to events occurring before or after the Merger, other than liabilities arising from or relating to NMC's operations. W.R. Grace & Co. and certain of its subsidiaries filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code (the Grace Chapter 11 Proceedings) on April 2, 2001.

Pre-Merger tax claims or tax claims that would arise if events were to violate the tax-free nature of the Merger, could ultimately be Fresenius Medical Care's obligation. In particular, W.R. Grace & Co. has disclosed in its filings with the Securities and Exchange Commission that: its tax returns for the 1993 to 1996 tax years are under audit by the US tax authorities Internal Revenue Service (the Service); W.R. Grace & Co. has received the Service's examination report on tax periods 1993 to 1996; that during those years W.R. Grace & Co. deducted approximately US$ 122 million in interest attributable to corporate owned life insurance (COLI) policy loans; and that a U.S. District Court ruling has denied interest deductions of a taxpayer in a similar situation W.R. Grace & Co. has paid US$ 21 million of tax and interest related to COLI deductions taken in tax years prior to 1993.

In October 2004, W.R. Grace & Co. obtained bankruptcy court approval to settle its COLI claims with the Service. In January 2005, W.R. Grace & Co., FMCH and Sealed Air Corporation executed a settlement agreement with respect to the Service's COLI-related claims and other tax claims.

At April 14, 2005, W.R. Grace & Co. paid the Service approximately US$ 90 million in connection with taxes owed for the tax periods 1993 to 1996 pursuant to a bankruptcy court order directing W.R. Grace & Co. to make such payment. Subject to certain representations made by W.R. Grace & Co., Fresenius Medical Care and Fresenius AG, W.R. Grace & Co. and certain of its affiliates had agreed to indemnify Fresenius Medical Care against this and other pre-Merger and Merger-related tax liabilities.

Prior to and after the commencement of the Grace Chapter 11 Proceedings, class action complaints were filed against W.R. Grace & Co. and FMCH by plaintiffs claiming to be creditors of W.R. Grace & Co.-Conn., and by the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate in the Grace Chapter 11 Proceedings, alleging among other things that the Merger was a fraudulent conveyance, violated the uniform fraudulent transfer act and constituted a conspiracy. All such cases have been stayed and transferred to or are pending before the U.S. District Court as part of the Grace Chapter 11 Proceedings.

In 2003, Fresenius Medical Care reached agreement with the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate and W.R. Grace & Co. in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to Fresenius Medical Care that arise out of the bankruptcy of W.R. Grace & Co. Under the terms of the settlement agreement as amended (the Settlement Agreement), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and Fresenius Medical Care will receive protection against existing and potential future W.R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W.R. Grace & Co. consolidated tax group upon confirmation of a W.R. Grace & Co. final bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, Fresenius Medical Care will pay a total of US$ 115 million to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation. No admission of liability has been or will be made. The Settlement Agreement has been approved by the U.S. District Court. Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (Sealed Air, formerly known as

Grace Holding, Inc.). Fresenius Medical Care is engaged in litigation with Sealed Air to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by Fresenius Medical Care relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of Fresenius Medical Care's payment obligation, this litigation will be dismissed with prejudice.

On April 4, 2003, FMCH filed a suit in the U.S. District Court for the Northern District of California, (Fresenius USA, Inc., et al., v. Baxter International, Inc., et al.), Case No. C 03-1431, seeking a declaratory judgment that FMCH does not infringe on patents held by Baxter International, Inc. and its subsidiaries and affiliates (Baxter), that the patents are invalid, and that Baxter is without right or authority to threaten or maintain suit against FMCH for alleged infringement of Baxter's patents. In general, the alleged patents concern touch screens, conductivity alarms, power failure data storage, and balance chambers for hemodialysis machines. Baxter has filed counterclaims against FMCH seeking monetary damages and injunctive relief, and alleging that FMCH will fully infringed on Baxter's patents. Both parties have filed multiple dispositive motions, some of which have been decided by the court. Trial is currently scheduled for June 2006. FMCH believes its claims are meritorious, although the ultimate outcome of any such proceedings cannot be predicted at this time and an adverse result could have a material adverse effect on Fresenius Medical Care's business, financial condition, and results of operations.

For information regarding the settlement of shareholder litigation that challenged the resolutions approving Fresenius Medical Care's transformation of legal form and the conversion of preference shares to ordinary shares, see Note 1. II, Transformation of Fresenius Medical Care's legal form and conversion of its preference shares.

Other litigation and potential exposures

In October 2004, FMCH and its Spectra Renal Management subsidiary received subpoenas from the U.S. Department of Justice, Eastern District of New York in connection with a civil and criminal investigation, which requires production of a broad range of documents relating to the FMCH's operations, with specific attention to documents relating to laboratory testing for parathyroid hormone (PTH) levels and vitamin D therapies. Fresenius Medical Care is cooperating with the government's requests for information. While Fresenius Medical Care believes that it has complied with applicable laws relating to PTH testing and use of vitamin D therapies, an adverse determination in this investigation could have a material adverse effect on Fresenius Medical Care's business, financial condition, and results of operations.

In April 2005, FMCH received a subpoena from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. The subpoena requires production of a broad range of documents relating to the FMCH's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relations, joint ventures and anemia management programs. Fresenius Medical Care is cooperating with the government's requests for information. An adverse determination in this investigation could have a material adverse effect on Fresenius Medical Care's business, financial condition and results of operations.

Accrued special charge of Fresenius Medical Care for legal matters

At December 31, 2001, Fresenius Medical Care recorded a pre-tax special charge to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. While Fresenius Medical Care believes that its remaining accruals reasonably estimate its currently anticipated costs related to the continued defense and resolution of the remaining matters, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual.

Furthermore, the Fresenius Group is involved in various legal disputes arising from the ordinary course of its business. Although the ultimate outcome of these legal disputes cannot be predicted, we do not expect any material adverse effects on the business, financial condition and results of operations of the Group.

26. FINANCIAL INSTRUMENTS

Market risk

I.) General

The Fresenius Group is inevitably exposed to effects related to foreign exchange fluctuations in connection with its international business activities that are denominated in various currencies. In order to finance its business operations the Fresenius Group issues bonds, trust preferred securities and commercial papers and concludes mainly long-term credit agreements and mid-term Euro Notes (Schuldscheindarlehen) with banks. Due to these financing activities +the Fresenius Group is exposed to interest risk caused by changes in variable interest rates and the risk of changes in the fair value of balance sheet items caused by changes in fixed interest rates.

In order to manage the risks of interest rate and foreign exchange rate fluctuations, the Fresenius Group enters into appropriate hedging transactions with highly rated financial institutions as authorized by the Management Board. Derivative financial instruments are not used for trading purposes.

In general, the Fresenius Group conducts its derivative financial instrument activities under the control of a single centralized department. The Fresenius Group has established guidelines derived from best practice standards in the banking industry for risk assessment procedures and supervision concerning the use of financial derivatives. These guidelines require, amongst other things a clear segregation of duties in the areas of execution, administration, accounting and controlling.

The Fresenius Group calculates benchmarks for individual exposures in order to quantify interest and foreign exchange risks. The benchmarks are derived from achievable and reasonable market rates. Depending on the individual benchmarks appropriate hedge strategies are determined and implemented as scheduled.

As of December 31, 2005 the notional amounts of Fresenius Group's foreign exchange derivatives amounted to € 1,390 million and the notional amounts of interest rate derivatives amounted to € 3,386 million. In the case of interest rate derivatives it should be voted that the notional amounts generally only represent the base for contract specific computations and not necessarily the exchange of amounts by the parties. A potential risk resulting from the use of interest rate derivatives therefore cannot be measured solely on the bases of the notional amounts of the contracts.

Earnings of the Fresenius Group were not materially affected by hedge ineffectiveness in the reporting period since the critical terms of the interest and foreign exchange derivatives matched the critical terms of the underlying exposures.

II.) Fair value of financial instruments

The following table presents the carrying amounts and fair values of the Group's financial instruments as of December 31.

in million €	2005 Carrying amount	2005 Fair value	2004 Carrying amount	2004 Fair value
Non-derivatives				
Assets				
Cash and cash equivalents	**252**	**252**	140	140
Accounts receivable	**1,871**	**1,871**	1,528	1,528
Liabilities				
Trade accounts payable (including related parties)	**355**	**355**	274	274
Income taxes payable	**146**	**146**	195	195
Long-term loans (excluding trust preferred securities, notes and bonds)	**817**	**817**	620	620
Short-term loans (including related parties)	**825**	**825**	393	393
Trust preferred securities	**1,000**	**1,082**	933	1,048
Euro Notes	**460**	**460**	389	389
Bonds	**400**	**427**	400	441
Derivatives				
Foreign exchange contracts	**-3**	**-3**	17	17
thereof short-term	**-2**	**-2**	10	10
Dollar interest rate hedges	**19**	**19**	-34	-34
thereof short-term	**–**	**–**	–	–
Euro interest rate hedges	**-1**	**-1**	-3	-3
thereof short-term	**–**	**–**	–	–
Other interest rate hedges	**–**	**–**	-1	-1
thereof short-term	**–**	**–**	–	–

The carrying amounts in the table are included in the consolidated balance sheet under the indicated captions, except for derivatives, which are included in other assets or other liabilities.

Estimation of fair values

The significant methods and assumptions used to estimate the fair values of financial instruments are as follows:

Short-term financial instruments are valued at their carrying amounts, which are reasonable estimates of the fair value due to the relatively short period to maturity of the instruments. This approach applies to cash and cash equivalents, receivables and accounts payables including income tax payables.

Long-term bank debt of Fresenius Medical Care is valued at its carrying amount because the actual drawings under the facility carry interest on a variable basis, mainly with an interest rate fixed for three months. The interest rates reflect actual money market conditions, plus specific margins which represent company-related financial ratios as well as the entire set of terms and conditions including covenants as determined in the Fresenius Medical Care 2003 Senior Credit Agreement.

The fair value of the bonds and trust preferred securities is calculated based on market prices on the balance sheet date. The fair value of the Euro Notes (Schuldscheindarlehen) is calculated as the differential between the coupon and the market quotation at the reporting date including a company specific margin. Due to the relatively short period between reporting date and the issuance of the notes the specific margin changes since inception are deemed to be immaterial.

The fair value of financial instruments is defined as the amount including unrealized gains and losses resulting from existing contracts at which the instrument could be exchanged between willing parties. Dealer quotes are available for all material financial instruments of the Fresenius Group.

III.) Accounting for and reporting of non-derivative financial instruments

The carrying amounts of the non-derivative financial instruments are included in the consolidated balance sheet under their related item.

IV.) Accounting for and reporting of derivative financial instruments (and hedge accounting)

Foreign exchange risk management

The Fresenius Group has determined the euro as its financial reporting currency. Therefore, foreign exchange translation risks resulting from the fluctuation of exchange rates between the euro and the local currencies in which the financial statements of the foreign subsidiaries are maintained, have an impact on results of operations and financial position reported in the consolidated financial statements.

The Fresenius Group's foreign exchange transaction risks mainly relate to transactions such as sales and purchases as well as project business denominated in foreign currency. Particularly products manufactured by Fresenius Group entities are denominated in the local currency of the respective manufacturer and are delivered worldwide to various Fresenius Group entities. These intragroup sales are denominated mainly in euro, US dollar and yen. Group companies are therefore exposed to changes of the foreign exchange rates between the invoicing currencies and the local currencies in which they conduct their businesses. For the purpose of hedging these existing and foreseeable foreign exchange transaction risks the Fresenius Group enters into foreign exchange forward contracts and, on a small scale, foreign exchange options. Foreign exchange forward contracts and options are not used for purposes other than hedging foreign exchange exposures. As at December 31, 2005, the Fresenius Group has no foreign exchange options.

In connection with intercompany loans in foreign currency the Fresenius Group normally uses foreign exchange swaps thus assuring that no foreign exchange risks arise from those loans.

The hedge-effective portion of changes in the fair value of foreign exchange forward contracts that are designated and qualified as cash flow hedges are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of cost of goods sold, of selling, general and administrative expenses or as interest income or expenses in the same period in which the hedged transaction affects earnings.

Recognized in equity

		Cash flow hedges of forecasted product purchases		**Cash flow hedges associated with foreign currency denominated inter-company financing transaction**	
	Balance sheet date	in million €	affecting net income probably in	in million €	affecting net income probably in
Income/loss before tax	December 31, 2005	-6.7	2006-2009	–	–
	December 31, 2004	1.8	2005-2006	-0.9	2005-2006
Income/loss after tax	December 31, 2005	-5.0	2006-2009	–	–
	December 31, 2004	-1.4	2005-2006	-0.5	2005-2006

Recognized in the consolidated statement of income

	Fiscal year	Cash flow hedges of forecasted product purchases in million €	Cash flow hedges associated with foreign currency denominated inter-company financing transaction in million €
Income/loss before tax	2005	0.7	–
	2004	-0.8	–
Income/loss after tax	2005	0.6	–
	2004	-0.6	–

The after tax losses of € 18 million deferred in accumulated other comprehensive income (loss) at December 31, 2004 had a low negative currency impact of € 2 million.

As of December 31, 2005, the notional volume and fair value of foreign exchange contracts relating to foreign currency intercompany loans amounted to € 943 million and € 4 million, respectively. Hedge accounting is not applied to these foreign exchange contracts. Accordingly, the foreign exchange contracts are recognized as assets and liabilities and changes in fair values are recognized against earnings.

As of December 31, 2005 the notional amounts of foreign exchange forward contracts in place to hedge risks from operational business totalled € 447 million with a fair value of € -7 million.

As of December 31, 2005, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 42 months.

Interest rate risk management

The Fresenius Group's interest rate risks mainly arise from money market and capital market transactions of the subgroup parent company in connection with the financing of the business segments Fresenius ProServe, Fresenius Kabi and the subgroup Fresenius Medical Care. Interest rate hedging transactions are therefore primarily concluded by Fresenius AG and FMC-AG & Co. KGaA.

The Fresenius Group enters into interest rate swaps and, on a small scale, into interest rate options in order to hedge against interest rate exposures arising from short-term and long-term borrowings and accounts receivable securitization programs at variable rates by swapping them into fixed rates and to hedge against fluctuations in market interest rates by swapping fixed interest rates against variable interest rates. In conjunction with interest rate swaps, the Fresenius Group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

Cash Flow Hedge

The Fresenius Group enters into interest rate swaps that are designated as cash flow hedges effectively converting certain variable interest rate payments, resulting from existing revolving loans, Euro Notes (Schuldscheindarlehen) and an accounts receivable facility mainly denominated in US dollar or euro, into fixed interest rate payments. The US dollar interest rate swaps with a notional volume of US$ 800 million bear an average interest rate of 5.26% and expire at various dates between 2006 and 2009, while the Euro interest rate swaps with a notional volume of € 222 million bear an average interest rate of 3.17% and expire at various dates between 2007 and 2009.

In conjunction with the proposed acquisition of Renal Care Group, Inc. and the forecasted variable rate based interest payments for its financing, Fresenius Medical Care has entered into forward starting interest rate swaps in the notional amount of US$ 2,465 million. These instruments, designated as cash flow hedges, effectively convert forecasted variable rate based interest payments into fixed rate based interest payments with an average fixed rate of 4.32% plus an applicable margin. These swaps are denominated in US dollars and expire at various dates between 2008 and 2012.

At December 31, 2005, after-tax gains of € 18.8 million (pre-tax € 30.6 million) were recognized in accumulated other comprehensive income (loss). At December 31, 2004, the equivalent amounts were € 18.8 million and € 31.1 million. Interest payable and interest receivable under the swap agreements are accrued or deferred as appropriate and recorded as an adjustment to the interest expense at each reporting date.

Fair Value Hedge

Fresenius Medical Care entered into US dollar interest rate swaps designated as fair value hedges to hedge the risk of changes in the fair value of parts of its fixed interest borrowings. These interest rate swaps effectively convert the fixed interest payments on Fresenius Medical Care Capital Trust II trust preferred securities denominated in US dollars into variable interest rate payments. Since the critical terms of the interest rate swap agreements are identical to the terms of Fresenius Medical Care Capital Trust II trust preferred securities, the hedging relationship is highly effective and no ineffectiveness is recognized in earnings. The interest rate swaps are reported at fair value in the balance sheet. The reported amount of the hedged portion of fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts and trust preferred securities offset each other in the income statement. At December 31, 2005, the notional volume of these swaps at Fresenius Medical Care was US$ 450 million (€ 381 million).

Credit risk

The Fresenius Group is exposed to potential losses in the event of non-performance by counterparties to financial instruments but does not expect any counterparties to fail to meet their obligations. The current credit exposure of derivatives is represented by the fair value of contracts with a positive fair value at the reporting date.

27. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

The cash flow statements of the Fresenius Group for the fiscal years 2005 and 2004 are shown on pages 40 to 41.

Cash funds reported in the cash flow statement comprise all cash and cash equivalent items reported in the balance sheet (i.e. cash in hand, cheques, central bank balances, securities and cash at bank) which are readily convertible within three months and are subject to insignificant risk of changes in value.

The following summaries provide additional information with regard to the consolidated cash flow statement:

in million €	2005	2004
Interest paid	**208**	228
Income taxes paid	**360**	180

The increase in income taxes paid refers mainly to taxes in an amount of US$ 119 million (€ 96 million) paid by Fresenius Medical Care.

in million €	2005	2004
Assets acquired	**2,697**	137
Liabilities assumed	**-605**	-11
Minority interest	**-60**	0
Notes assumed in connection with acquisitions	**-193**	-13
Cash paid	**1,839**	113
Cash acquired	**-231**	-13
Cash paid for acquisitions, net	**1,608**	100

Cash paid for net-acquisitions includes proceeds from divestitures. In 2005 there were € 2 million divestitures (2004: € 10 million).

28. NOTES ON SEGMENT REPORTING

General

The segment reporting tables shown on pages 44 to 47 of this annual report are an integral part of the Notes.

The Fresenius Group has identified the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe which corresponds to the internal organizational and reporting structures (Management Approach) at December 31, 2005.

The definition of key data disclosed in conjunction with segment reporting correspond to the definition of key data of the internal reporting system in place across the Fresenius Group. Internal and external reporting and accounting correspond to each other; the same key data and definitions are used.

Sales and proceeds between the segments are indicative of the actual sales and proceeds agreed with third parties. Administrative services are billed in accordance with service level agreements.

The business segments were identified in accordance with IAS 14 (Segment Reporting), which defines the segment reporting requirements in annual financial statements and interim reports with regard to the operating business, product and service businesses and regions. The business segments of the Fresenius Group are as follows:

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats about 131,450 patients in its own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care. Within the scope of this care chain, the company offers products for fluid and blood volume replacement, generic intravenously administered drugs, parenteral and enteral nutrition products and medical devices. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe focuses on hospital operations as well as on engineering and services for hospitals, health care facilities and the pharmaceutical industry.

With the exception of ROOA, the key data at the balance sheet date include, within the ProServe segment, the figures for HELIOS Kliniken GmbH, Fulda, Germany, which was acquired in December 2005.

The segment Corporate/Other mainly comprises the holding functions of Fresenius AG as well as Fresenius Netcare GmbH, which provides services in the field of information technology as well as Fresenius Biotech, which does not fulfill the characteristics of a reportable segment. In addition, the segment Corporate/Other includes intersegment consolidation adjustments.

Segment reporting by region takes account of geographical factors and the similarity of markets in terms of opportunities and risks. The allocation to a particular region is based on the domicile of the customers.

Notes on the business segments

The key figures used by the Management Board to assess segment performance, have been selected in such a way that they include all items of income and expenses which fall under the area of responsibility of the business segments. The Management Board is convinced that the most suitable performance indicator is the operating income (EBIT). The Management Board believes that, in addition to the operating income, the figure for earnings before interest, taxes and depreciation/amortization (EBITDA) can also help investors to assess the ability of the Fresenius Group to generate cash flows and to meet its financial obligations. The EBITDA figure is also the basis for assessing Fresenius Medical Care's compliance with the terms of the 2003 Senior Credit Agreement and trust preferred securities credit agreement with the European Investment Bank and that of Fresenius AG in conjunction with the 2003 Eurobond.

Depreciation and amortization is presented for the intangible assets with definite useful lives and property, plant and equipment of the respective business segment as well as impairment losses on goodwill.

Net interest comprises interest and other similar expenses and income.

Net income is defined as earnings after income taxes and minority interest.

The operating cash flow comprises net income, minority interest, depreciation and amortization and the change in working capital.

The cash flow before acquisitions and dividends is the operating cash flow less net capital expenditure.

Debt comprises bank loans, bonds, trust preferred securities, capital lease obligations, liabilities relating to outstanding acquisitions as well as intercompany liabilities.

Capital expenditure includes additions to intangible assets and property, plant and equipment.

Acquisitions refer to both the purchase of shares in legally-independent companies, and the acquisition of business divisions. The key figures presented with regard to acquisitions present the contractual purchase prices comprising amounts paid in cash, debts assumed and the issuance of shares, whereas for the purposes of the cash flow statement, only cash purchase price components less acquired cash and cash equivalents are reported.

The EBITDA margin is calculated as a ratio of EBITDA to sales.

The EBIT margin is calculated as a ratio of EBIT to sales.

The return on operating assets (ROOA) is defined as the ratio of EBIT to average operating assets. Operating assets are defined as total assets (excluded deferred tax assets) less trade accounts payable and advance payments from customers.

In addition, the key indicator "Depreciation and amortization as a percentage of sales" is also disclosed.

Reconciliation of key figures to consolidated earnings

in million €	2005	2004
Total EBITDA of reporting segments	**1,319**	1,176
Depreciation and amortization	**-325**	-313
Impairment	**0**	-4
General corporate expenses Corporate/Other	**-27**	-11
Interest expenses	**-223**	-225
Interest income	**20**	15
Total earnings before income taxes and minority interest	**764**	638
Total EBIT of reporting segments	**1,004**	876
General corporate expenses Corporate/Other	**-37**	-28
Interest expenses	**-223**	-225
Interest income	**20**	15
Total earnings before income taxes and minority interest	**764**	638
Depreciation and amortization of reporting segments	**315**	300
Depreciation and amortization Corporate/Other	**10**	13
Impairment Corporate/Other	**0**	4
Total depreciation and amortization	**325**	317

Reconciliation of net debt

in milion €	December 31, 2005	December 31, 2004
Short-term borrowings	**824**	391
Short-term liabilities and loans from related parties	**1**	2
Current portion of long-term debt and capital lease obligations	**222**	190
Long-term debt and liabilities from capital lease obligations, less current portion	**1,455**	1,219
Trust preferred securities of Fresenius Medical Care Capital Trusts	**1,000**	933
Debt	**3,502**	2,735
less cash and cash equivalents	**252**	140
Net debt	**3,250**	2,595

Non-current assets by geographical region

in million €	December 31, 2005	December 31, 2004
Germany	**2,175**	829
Europe (excluding Germany)	**1,600**	974
North America	**3,692**	3,125
Asia-Pacific	**166**	210
Latin America	**265**	131
Africa	**33**	29
Total non-current assets*	**7,931**	5,298

*The aggregate amount of net non-current assets is the sum of non-current assets less deferred tax assets and derivative financial instruments.

29. STOCK OPTIONS

Fresenius AG stock option plans

On December 31, 2005, Fresenius AG has two stock option plans in place. Besides the stock option based program of 1998, the currently active plan from the year 2003 is based on convertible bonds. The latter is currently the only plan under which options in the form of convertible bonds are granted.

Under the 2003 plan, convertible bonds with a principal of up to € 4.6 million may be issued to the members of the Management Board, to members of the management of affiliated companies, to employees of the company and to employees of its affiliated companies representing grants for up to 900,000 bearer ordinary shares and up to 900,000 non-voting bearer preference shares. Members of the Management Board and employees of FMC-AG & Co. KGaA and its affiliated companies which are only affiliated with the company through FMC-AG & Co. KGaA are excluded. Members of the Management Board of Fresenius AG are entitled, in total, up to 400,000 convertible bonds given the right to subscribe up to 200,000 bearer ordinary shares and the same number of non-voting bearer preference shares. Employees are entitled, in total, up to 1,400,000 convertible bonds given the right to subscribe up to 700,000 bearer ordinary shares and the same number of non-voting bearer preference shares.

The convertible bonds have a par value of € 2.56 and bear interest at a rate of 5.5%. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of the bond. Fresenius AG has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by Fresenius AG and are not reflected in the consolidated financial statements. The options expire in ten years and one third of them can be exercised beginning after two, three or four years. Bonds issued to members of the Management Board, to members of the management of affiliated companies, to employees of the company and to employees of its affiliated companies who did not issue a note to the Company are recognized as a liability on Fresenius Group's consolidated balance sheet.

Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target becomes the stock exchange quoted price of the ordinary or preference shares upon the first time the stock exchange quoted price exceeds the Initial Value by at least 25%. The Initial Value is the joint average stock exchange price of bearer ordinary shares and non-voting bearer preference shares during the last 30 trading days prior to the date of grant. The conversion price of options without a stock price target is the Initial Value. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15% less than if the employee elected options subject to the stock price target. Each option entitles the holder thereof, upon payment of the respective conversion price, to acquire one ordinary or one preference share. Up to 20% of the total amount available for the issuance of awards under the Fresenius AG 2003 Stock Option Plan may be issued each year. At December 31, 2005, 767,324 stock options were outstanding, thereof 47,236 which are exercisable.

During 1998, Fresenius AG adopted a stock incentive plan (Fresenius AG 1998 Stock Option Plan) for Fresenius AG's key management and executive employees. This stock incentive plan was replaced by the Fresenius AG 2003 plan and no options have been granted since 2003. Under this plan eligible employees had the right to acquire ordinary and preference shares of Fresenius AG. Options granted under this plan have a ten-year term, and one third of them vest on each of the second, third and fourth anniversaries of the award date. One ordinary or one preference share can be acquired for each option. At December 31, 2005, 763,266 stock options were outstanding, thereof 676,724 which are exercisable.

Due to the capital increase completed in December 2005 which involved the granting of subscription rights to stockholders the exercise prices under the 1998 plan and, for the past, the conversion prices of the 2003 plan will be reduced in line with the provisions of both stock option plans. The amount of reduction corresponds to an amount calculated on the basis of the average price of the stockholders' subscription right during their entire trading period on the Frankfurt Stock Exchange - rounded to the nearest full € 0,05. For ordinary shares, this means a reduction of the exercise or conversion price of €1.90 and one of € 2.05 for preference shares.

Stock option transactions are summarized as follows:

Ordinary shares December 31	Number of options	Average exercise price in €	Number of options exercisable
Balance 2003	738,684	73.31	316,300
Granted	131,226	69.66	
Exercised	677	61.26	
Forfeited	32,968	73.06	
Balance 2004	836,265	72.75	433,251
Granted	155,101	90.49	
Excercised	175,621	70.71	
Forfeited	50,450	74.12	
Balance 2005	765,295	73.67	361,980

Preference shares December 31	Number of options	Average exercise price in €	Number of options exercisable
Balance 2003	738,684	82.60	316,300
Granted	131,226	60.70	
Exercised	677	65.45	
Forfeited	32,968	82.09	
Balance 2004	836,265	79.72	433,251
Granted	155,101	94.03	
Excercised	175,621	78.28	
Forfeited	50,450	82.13	
Balance 2005	765,295	80.91	361,980

The following table provides information with respect to stock options outstanding and exercisable at December 31, 2005:

Ordinary shares Range of exercise price in €	Number of options outstanding	Average remaining contractual life	Average exercise price in €	Number of options exercisable	Average exercise price in €
40.01–45.00	89,303	7.50	40.96	20,601	40.96
50.01–55.00	16,426	7.50	54.54	3,017	54.54
55.01–60.00	84,523	6.50	59.36	41,252	59.36
65.01–70.00	159,367	6.92	66.33	50,298	67.33
80.01–85.00	56,675	4.06	80.40	42,512	80.36
85.01–90.00	132,774	9.50	85.95	0	85.95
90.01–95.00	204,300	5.60	92.15	204,300	92.15
105.01–110.00	21,927	9.50	106.54	0	106.54
	765,295	6.91	73.67	361,980	80.35

Ordinary shares Range of exercise price in €	Number of options outstanding	Average remaining contractual life	Average exercise price in €	Number of options exercisable	Average exercise price in €
35.01–40.00	89,303	7.50	35.47	20,601	35.47
40.01–45.00	16,426	7.50	43.58	3,017	43.58
55.01–60.00	109,069	8.50	57.00	0	57.00
60.01–65.00	84,523	6.50	63.40	41,252	63.40
75.01–80.00	64,461	4.60	77.48	50,298	77.37
85.01–90.00	175,286	7.82	88.53	42,512	88.81
100.01–105.00	108,272	6.58	104.18	108,272	104.18
115.01–120.00	21,927	9.50	115.55	0	115.55
125.01–130.00	96,028	4.50	126.37	96,028	126.37
	765,295	6.91	80.91	361,980	95.47

Fresenius Medical Care stock option plans

At December 31, 2005, Fresenius Medical Care has awards outstanding under the terms of various stock-based compensation plans, including the Fresenius Medical Care 2001 plan, which is the only plan of Fresenius Medical Care with stock option awards currently available for grant. Under the Fresenius Medical Care 2001 plan, convertible bonds with a principal of up to € 10.24 million may be issued to the members of the Management Board and other employees of Fresenius Medical Care representing grants for up to 4 million non-voting preference shares. The convertible bonds have a par value of € 2.56 and bear interest at a rate of 5.5 %. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of and secured by the bond. Fresenius Medical Care has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by Fresenius Medical Care and are not reflected in Fresenius Medical Care's consolidated financial statements. The options expire in ten years and can be exercised beginning after two, three or four years. Bonds issued to Management Board members, who did not issue a note to Fresenius Medical Care, are recognized as a liability on Fresenius Medical Care's balance sheet.

Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target becomes the stock exchange quoted price of the preference shares upon the first time the stock exchange quoted price exceeds the Initial Value by at least 25 %. The Initial Value is the average price of the preference shares during the last 30 trading days prior to the date of grant. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15 % less than if the employee elected options subject to the stock price target. The conversion price of the options without a stock price target is the Initial Value. Each option entitles the holder thereof, upon payment the respective conversion price, to acquire one preference share. Up to 20 % of the total amount available for the issuance of awards under the Fresenius Medical Care 2001 plan may be issued each year through May 22, 2006. At December 31, 2005, options for up to 172,224 preference shares are still available for grant through May 22, 2006 under the Fresenius Medical Care 2001 Plan.

During 1998, Fresenius Medical Care adopted two stock incentive plans (Fresenius Medical Care 98 Plan 1 and Fresenius Medical Care 98 Plan 2) for Fresenius Medical Care's key management and executive employees. These stock incentive plans were replaced by the Fresenius Medical Care 2001 plan and no options have been granted since 2001. Under these plans eligible employees had the right to acquire preference shares of Fresenius Medical Care AG. Options granted under these plans have a ten-year term, and one third of them vest on each of the second, third and fourth anniversaries of the award date. Each option can be exercised for one preference share.

Stock option transactions are summarized as follows:

Preference shares December 31	Number of options (in thousand)	Average exercise price in €	Number of options exercisable (in thousand)
Balance 2003	3,989	43.34	2,147
Granted	1,021	44.81	
Exercised	83	33.92	
Forfeited	266	46.74	
Balance 2004	4,661	43.60	2,393
Granted	1,044	62.36	
Exercised	1,466	44.51	
Forfeited	136	44.94	
Balance 2005	4,103	47.88	1,537

The following table provides information with respect to stock options outstanding and exercisable at December 31, 2005:

Ordinary shares Range of exercise price in €	Number of options outstanding	Average remaining contractual life	Average exercise price in €	Number of options exercisable	Average exercise price in €
25.01–35.00	1,154,792	6.42	31.16	572,967	31.23
35.01–45.00	1,035,044	7.75	43.40	186,221	42.51
45.01–55.00	162,365	4.79	49.60	162,365	49.60
55.01–65.00	1,176,695	7.19	56.97	501,859	57.81
65.01–90.00	573,643	8.98	70.76	113,505	73.38
	4,102,539	7.27	47.92	1,536,917	46.33

In connection with the conversion of the Fresenius Medical Care's preference shares into ordinary shares, holders of options to acquire preference shares had the opportunity to convert their options so that they would be exercisable to acquire ordinary shares. Holders of 234,311 options elected not to convert. Holders of 3,863,470 options converted resulting in 2,849,318 options for ordinary shares (see Note 1. II, Transformation of Fresenius Medical Care's legal form and conversion of its preference shares).

Personnel expenses in connection with stock option plans of the Fresenius Group
The Fresenius Group accounts for its stock option plans in accordance with IFRS 2 (Share-based Payment). As such, compensation expense is calculated by multiplying the fair value on the issuing date with the numbers of issued options. For stock incentive plans which are performance based, the Fresenius Group recognizes compensation expense over the vesting periods, based on the then current market values of the underlying stock.
The Fresenius Group recognized compensation expenses of € 15 million in 2005 and € 13 million 2004 for stock options granted since 1998.

Fiar Value of Stock Options

The per share weighted-average fair value of stock options granted during 2005 and 2004 was € 31.89 and € 25.31, respectively, on the date of the grant using the Black-Scholes option-pricing model with the weighted-average assumptions presented below.

Weighted-average assumptions	**2005**	2004
Expected dividend yield	**2.10%**	2.05%
Risk-free interest rate	**2.50%**	3.50%
Expected volatility	**40.00%**	40.00%
Expected life of options	**5.3 years**	5.3

30. ADDITIONAL INFORMATION RELATING TO THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Management Board

The Management Board conducts the business and represents the company in dealings with third parties. The Management Board has five members. According to the Management Board's rules of procedure, each member is accountable for his area of responsibility. However, the members have joint responsibility for the management of the Group. For the year ended December 31, 2005, the total remuneration of the Management Board paid in cash for carrying out their duties in Fresenius AG and its subsidiaries amounted to € 5,482 thousand. Of this amount, € 2,998 thousand was paid as fixed salary and € 2,484 thousand was paid in the form of variable income. The amount of the variable income depends on the earnings of the Fresenius Group and/or the business segments.

In addition in 2005, the members of the Management Board received 51,170 convertible bonds under the 2003 Fresenius AG Stock Option Plan. At the end of the fiscal year 2005, the members of the Management Board held 143,336 stock options and 134,018 convertible bonds. In fiscal year 2005, 110,936 stock options were exercised.

As of December 31, 2005 pension obligations of € 1,434 thousand are recognized by the Fresenius Group to cover pension entitlements of current members of the Management Board.

€ 716 thousand was paid to former members of the Management Board and their surviving dependents. The pension accrual for these persons amounts to € 10,079 thousand.

Fresenius AG has undertaken to exempt members of the Management Board of Fresenius AG from claims that may arise due to their work for Fresenius AG and related companies and that may be supported by foreign law as long as the claims extend beyond German law. To insure against this risk, the Company has taken out Directors and Officers Insurance in a reasonable amount. The exemption is valid for the tenure of respective Management Board members on the Management Board and claims that may result from this time period after their tenure has ended.

Supervisory Board

The Supervisory Board appoints the members of the Management Board and supervises and advises the Management Board in managing the company. However, the Supervisory Board is fundamentally prohibited from managing the company in any way. The remuneration of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in § 13 of the statutes of Fresenius AG. The total remuneration of the Supervisory Board of Fresenius AG in 2005 was € 1,027 thousand. This included € 249 thousand relating to fixed and € 778 thousand relating to variable components. The fixed remuneration per Supervisory Board member was equivalent to € 13 thousand, whereby the Chairman receives double of this amount and the deputy to the Chairman receives one and half times the amount of a Supervisory Board member. The members of the Audit Committee and the Personnel Committee of the Supervisory Board receive an additional € 10 thousand each and the Chairman of the committee receives a further € 10 thousand. For each full financial year of service, the remuneration increases by 10% for each percentage point that the dividend paid on each ordinary share for that year (gross dividend according to the resolution of the Annual General Meeting) exceeds 13% of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. Thus, the variable remuneration per Supervisory Board member amounted to € 65 thousand for 2005. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board.

One subsidiary paid € 22 thousand to the surviving dependents of a former Supervisory Board member. The subsidiary accrued a pension provision for this purpose of € 48 thousand.

D&O Insurance

Fresenius AG has concluded a consequential loss liability insurance policy (D&O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of Fresenius AG and for all representative bodies of affiliates in Germany and elsewhere. The D&O policy applies throughout the world and runs until the end of June 2006. The policy covers the legal defense costs of a member of a representative body when a claim is made and, where relevant, any damages to be paid which are covered by the policy.

31. RELATED PARTY TRANSACTIONS

A member of the Supervisory Board of Fresenius AG is a member of the Management Board of a bank, while an other Member of the Supervisory Board of Fresenius AG is a member of the Management Board of a sister company to this bank, which received € 3.9 million for services relating to the capital increase and being the arrangeur for an Euro Note.

A member of the Supervisory Board of Fresenius AG is a member of the Advisory Board of an insurance company which received a premium of € 4.3 million.

A member of the Supervisory Board of Fresenius AG is a partner in a law firm that provided services to the Fresenius Group. The Fresenius Group paid to this law firm approximately € 1.9 million in the year 2005.

32. FEES FOR THE AUDITOR

In 2005 and 2004 fess for the auditor were expensed as follows:

in million €	**2005**	2004
Audit fees	**4**	3
Tax consulting fees	**–**	1
Audit-related fees	**–**	–
Other fees	**1**	–
Total auditor fees	**5**	4

33. SUBSEQUENT EVENTS

In January 2006, Fresenius issued a bond with a total value of € 1 billion through its wholly-owned subsidiary Fresenius Finance B.V. The proceeds from the bond, together with the capital increase at the end of 2005, were used to finance the purchase of HELIOS, to replace a € 300 million bond due in the year 2009 and callable in the year 2006, 71% of which was redeemed for cash, and for general company purposes. The new bond comprises one tranche with a nominal value of € 500 million, a maturity of 7 years and an annual interest rate of 5.0% and a second tranche with a nominal value of € 500 million, a maturity of 10 years and an annual interest rate of 5.5% as well as a call option for the issuer after five years. Fresenius AG, Fresenius Kabi AG and Fresenius ProServe GmbH are the guarantees for this issue.

On February 10, 2006, Fresenius Medical Care AG completed the change in legal form, resolved by the shareholders at the Extraordinary General Meeting held on August 30, 2005. In conjunction with the conversion offer approximately 96% of its preference shares have been converted into ordinary shares at the same date. The Company now operates as an AG & Co. KGaA (see Note 1. II, Transformation of Fresenius Medical Care's legal form and conversion of its preference shares).

Significant events relating to the proposed acquisition of RCG are described in Note 2, Acquisitions and divestitures.

There have been no further significant changes in the group position or environment sector since the beginning of the fiscal year 2006. At present, the Fresenius Group is not planning to carry out any significant changes in its structure, administration or legal form or in the area of personnel.

34. CORPORATE GOVERNANCE

The Management Boards and the Supervisory Boards of Fresenius AG and FMC-AG & Co. KGaA have submitted the Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act (AktG) in accordance with the German Corporate Governance Code dated June 2, 2005 and made this permanently available to the shareholders.

35. PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The Management Board of Fresenius AG proposes to the Annual General Meeting that the earnings for 2005 of Fresenius AG be distributed as follows:

in million €

Payment of a dividend of € 1.48 per bearer ordinary share on the 25,361,140 ordinary shares entitled to dividend	**37,534,487.20**
Payment of a dividend of € 1.51 per bearer preference share on the 25,361,140 preference shares entitled to dividend	**38,295,321.40**
Balance to be carried forward	**222,908.07**
	76,052,716.67

Bad Homburg v.d.H., February 24, 2006

The Management Board

Dr. U. M. Schneider R. Baule A. Gaddum Dr. B. Lipps S. Sturm

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Fresenius Aktiengesellschaft, Bad Homburg v. d. Höhe, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2005 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Art. 315a (1) HGB are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Art. 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

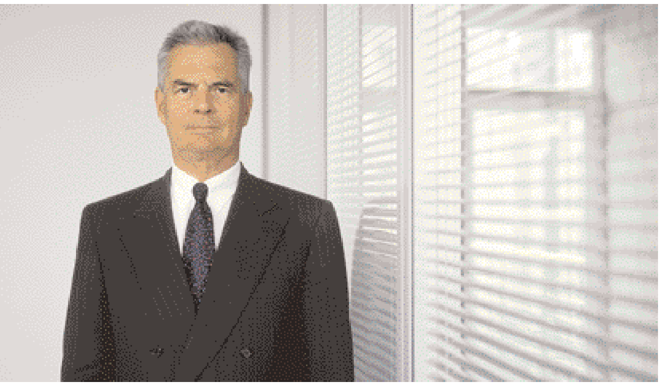
Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with International Financial Reporting Standards (IFRS), as adopted by the EU, the additional requirements of German commercial law pursuant to Art. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 24, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Hölzl	Steckhan
German Public Auditor	German Public Auditor



Report of the Supervisory Board

In 2005, the Supervisory Board performed the duties assigned to it by law and by the Company's Articles of Association, regularly advising and monitoring the Management Board. It was closely involved in all decisions that were of major importance to the Group.

Business development and important transactions

The Management Board regularly informed the Supervisory Board of the business developments and plans as well as of important business transactions concerning both the Group and the individual business segments. The Supervisory Board held six joint meetings with the Management Board to address business developments and policies in detail based on the reports presented. The meetings focused on business operation and transactions requiring the approval of the Supervisory Board. The emphasis was on Fresenius Medical Care AG's change of legal form to a partnership limited by shares (Kommanditgesellschaft auf Aktien, or KGaA), the conversion of Fresenius Medical Care's preference shares into ordinary shares and acquisitions by the individual business segments as well as the related financing. The Supervisory Board reviewed in detail the economic and legal reasons for the change of legal form and the preference share conversion. The Board also fully considered the opportunities and risks posed by Fresenius Medical Care's acquisition of Renal Care Group, the purchase of HELIOS Kliniken by Fresenius AG and Clinico's takeover by Fresenius Kabi. The Supervisory Board thoroughly discussed these strategically important acquisitions with the Management Board and approved each of them unanimously. The Supervisory Board also carefully reviewed and discussed the Company's strategic direction with the Management Board before giving its approval. After consulting with the Management Board, it also approved financing the acquisitions through a capital increase from approved capital, a bond and utilizing bank credit facilities. The Supervisory Board also thoroughly reviewed and discussed all other significant business activities with the Management Board. The Supervisory Board approved the Group's medium-term planning, following a detailed review and discussions with the Management Board. In addition, the Supervisory Board received information about the Group's risk management activities at regular meetings and from the Audit Committee.

In accordance with the German Corporate Governance Code, the Management Board and the Supervisory Board jointly issued a Declaration of Compliance.

In addition to the meetings, the Chairman of the Supervisory Board also received regular updates about the Company's current situation and all major transactions.

Work of the committees

The committee formed pursuant to § 27, Section 3 of the German Co-determination Law did not meet in 2005. The Personnel Committee held two meetings and the Audit Committee held four. The Audit Committee focused on the preliminary audit of the 2004 financial statements of Fresenius AG and the Group and on reviewing the audit report with the auditors. The Audit Committee also reviewed the 2005 quarterly reports and the risk management system.

To efficiently monitor the capital increase from approved capital, the Supervisory Board formed an Ad-hoc 2005 Capital Increase Committee on October 13, 2005. After approving the increase in capital and its main conditions, the Supervisory Board delegated to this committee the authority to approve the definitive conditions shortly before the share issue. During three telephone conferences, the Ad-hoc 2005 Capital Increase Committee passed the necessary resolutions regarding primarily the final subscription price, the number of new shares to be issued and the subscription ratio. The work of the Ad-Hoc 2005 Capital Increase Committee was completed when the new shares were recorded in the Commercial Register on November 29, 2005.

Personnel

The following changes took place within the Supervisory Board and the Management Board in 2005: Dr. Gerhard Rupprecht, Member of the Board of Management of Allianz AG and Chairman of the Board of Management of Allianz Deutschland AG, was elected to the Supervisory Board by a large majority at the Annual Shareholders' Meeting, in accordance with § 8, Section 3 of Fresenius AG's Articles of Association. The Supervisory Board appointed Andreas Gaddum as the Management Board's member responsible for the Fresenius ProServe business segment, effective July 1, 2005. Andreas Gaddum succeeds Rainer Hohmann, who stepped down from the Management Board, effective May 20, 2005.

Financial statements and consolidated financial statements

The accounting records, the Fresenius AG financial statements which were prepared according to the German Commercial Code (HGB) and the Fresenius AG Management Report for 2005 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. They were elected as auditors at Fresenius AG's Annual Shareholders' Meeting on May 25, 2005 and subsequently commissioned by the Supervisory Board. The auditors issued their unqualified audit opinion for these statements. The same applies to Fresenius AG's consolidated financial statements, which were prepared according to IFRS accounting principles, and the US GAAP statements, which were prepared voluntarily. Management Reports were added to the consolidated financial statements. The financial statements, consolidated financial statements, Management Reports and auditors' reports were submitted to the Supervisory Board within the required time limit. The Supervisory Board noted and approved the auditors' findings. The Supervisory Board's own review found no objections in the Fresenius AG financial statements or the consolidated financial statements. The auditors attended all Supervisory Board meetings.

At its March 17, 2006 meeting, the Supervisory Board approved Fresenius AG's financial statements for the fiscal year 2005 as presented by the Management Board, thereby adopting them as official. The Supervisory Board also approved the consolidated financial statements prepared according to IFRS standards and the consolidated financial statements prepared voluntarily according to US GAAP for 2005. The auditors gave a detailed report on the results of the audit during the meeting. The Supervisory Board concurred with the proposal by the Management Board on how to appropriate the 2005 retained earnings.

The Supervisory Board would like to thank the Management Board and all our employees for their achievements and commitment during the fiscal year 2005.

Bad Homburg v.d.H., March 17, 2006
The Supervisory Board

Dr. Gerd Krick
Chairman

MANAGEMENT BOARD

Dr. Ulf M. Schneider

Frankfurt am Main

Chairman

Corporate Offices
Supervisory Board
Fresenius Kabi AG (Chairman)
Fresenius Medical Care AG (until February 10, 2006)
Fresenius Medical Care Management AG (Chairman)
(since April 8, 2005)
Eufets AG (Chairman)
Fresenius Kabi Austria GmbH, Austria
Fresenius Medical Care Groupe France S.A., France
(Chairman)
Fresenius HemoCare Netherlands B.V., Netherlands
Board of Directors
FHC (Holdings), Ltd., Great Britain

Andreas Gaddum

(since July 1, 2005)

Mainz

Business Segment Fresenius ProServe

Corporate Offices
Supervisory Board
VAMED AG, Austria (since September 16, 2005)
Wittgensteiner Kliniken AG (Chairman)
(since September 23, 2005)

Dr. Ben Lipps

Boston, Massachusetts (USA)

Business Segment
Fresenius Medical Care

Corporate Offices
Management Board
Fresenius Medical Care AG (Chairman)
(until February 10, 2006)
Fresenius Medical Care Management AG (Chairman)
(since December 21, 2005)

Rainer Baule

Ettlingen

Business Segment Fresenius Kabi

Corporate Offices
Supervisory Board
Fresenius Kabi Austria GmbH, Austria (Chairman)
Fresenius HemoCare Netherlands B.V., Netherlands
(Chairman)
Fresenius Kabi Groupe France S.A., France
Board of Directors
FHC (Holdings), Ltd., Great Britain

Rainer Hohmann

(until May 20, 2005)

Bochum

Business Segment Fresenius ProServe

Corporate Offices
Supervisory Board
VAMED AG, Austria (until June 30, 2005)
Wittgensteiner Kliniken AG (Chairman)
(until March 16, 2005)

Stephan Sturm

Hofheim am Taunus

Chief Financial Officer and
Labor Relations Director

Corporate Offices
Supervisory Board
Fresenius Kabi AG (since January 19, 2005)
Wittgensteiner Kliniken AG (since February 22, 2005)
Fresenius HemoCare Netherlands B.V., Netherlands
(since June 24, 2005)
Board of Directors
FHC (Holdings), Ltd., Great Britain (since January 21, 2005)

SUPERVISORY BOARD

Dr. h.c. Hans Kröner

Bad Homburg v.d.H.
Honorary Chairman of the Supervisory Board

Dr. Gerd Krick

Königstein
Former Chairman of the Management Board Fresenius AG
Chairman

Chairman of the Personnel Committee
Member of the Audit Committee

Offices
Supervisory Board
Fresenius Medical Care AG & Co. KGaA (Chairman)
Fresenius Medical Care Management AG (since December 21, 2005)
VAMED AG, Austria (Chairman)
Allianz Private Krankenversicherungs-AG
Advisory Board
HDI Haftpflichtverband der deutschen Industrie V.a.G.
Board of Directors
Adelphi Capital Europe Fund, Cayman Islands
Board of Trustees
Donau-Universität Krems, Austria

Gerhard Herres

Beckingen-Haustadt
Member of the Trade Union Deutscher Handels- und Industrie-angestellten Verband im CGB
Chairman of the Works Council St. Wendel plant
Spokesman of the Standing Committee on Industry and Trade
Member of the General Works Council

Dr. Gabriele Kröner

Berg
Doctor

Offices
Management Board
Else Kröner-Fresenius-Stiftung

Dr. rer. nat. Bernd Mathieu

Bad Homburg v.d.H.
Graduate chemist

Corporate Offices
Board of Directors
Fresenius Medical Care Japan Co. Ltd., Japan
Fresenius-Kawasumi Co. Ltd., Japan

Christel Neumann

Schonungen
Chairlady of the Fresenius European Employee Forum
Chairlady of the Works Council Schweinfurt plant
Member of the General Works Council

Ilona Oesterle

Waldsolms
Deputy Chairlady of the Works Council Bad Homburg v.d.H.

Dr. Gerhard Rupprecht

Gerlingen
Member of the Management Board Allianz AG (since January 1, 2006)
Chairman of the Management Board Allianz Deutschland AG (since January 1, 2006)
Chairman of the Management Board Allianz Lebensversicherungs-AG (until December 31, 2005)

Offices
Supervisory Board
Heidelberger Druckmaschinen AG
Quelle AG
ThyssenKrupp Automotive AG
Allianz Lebensversicherungs-AG (Chairman) (since January 1, 2006)
Allianz Versicherungs-AG (Chairman) (since January 1, 2006)
Allianz Private Krankenversicherungs-AG (Chairman) (since January 1, 2006)
Allianz Elementar Lebensversicherungs-AG, Austria (Chairman) (until January 16, 2006)
Allianz Elementar Versicherungs-AG, Austria (until January 16, 2006)
Allianz Life Insurance Company of North America, USA (until April 29, 2005)
Allianz First Life Insurance Co. Ltd., Korea

Wilhelm Sachs

Friedrichsdorf
Chairman of the General Works Council
Deputy Chairman of the Works Council Friedberg plant
Deputy Chairman of the Standing Committee on Industry and Trade

Dr. Dieter Schenk

Munich
Lawyer and tax consultant

Offices
Supervisory Board
Fresenius Medical Care AG & Co. KGaA (Deputy Chairman)
Fresenius Medical Care Management AG (Deputy Chairman) (since April 8, 2005)
Gabor Shoes AG (Chairman)
Greiffenberger AG (Deputy Chairman)
TOPTICA Photonics AG (Deputy Chairman)

Dr. Karl Schneider

Mannheim
Former Spokesman of Südzucker AG

Member of the Personnel Committee

Volker Weber

(since January 19, 2005)
Löhnberg
Deputy Chairman (since March 18, 2005)
Full-time Secretary of the Trade Union IG Bergbau, Chemie, Energie

Member of the Personnel Committee
Member of the Audit Committee

Offices
Supervisory Board
SV Deutschland GmbH

Dr. Bernhard Wunderlin

Bad Homburg v.d.H.
Former Managing Director Harald Quandt Holding GmbH

Chairman of the Audit Committee

Offices
Supervisory Board
Harald Quandt Holding GmbH
Augsburger Aktienbank AG
Advisory Board
Von Rautenkranz Nachfolger GbR
Marsh & McLennan Holdings GmbH
Administrative Board
Senckenbergische Naturforschende Gesellschaft
Management Board
Gemeinnützige Hertie-Stiftung
Board of Trustees
Hertie School of Governance
Foundation Council
PwC-Stiftung

Financial calendar

Report on 1st quarter 2006 Conference call	May 3, 2006
Annual General Meeting, Frankfurt am Main (Germany)	May 10, 2006
Payment of dividend*	May 11, 2006
Report on 1st half 2006 Analysts' meeting, Bad Homburg v. d. H. Live webcast	August 4, 2006
Report on 1st - 3rd quarters 2006 Analysts' meeting, Bad Homburg v. d. H. Live webcast Press conference, Bad Homburg v. d. H. Live webcast	November 3, 2006

* subject to the prior approval by the Annual General Meeting

Corporate Head Office
Else-Kröner-Strasse 1
Bad Homburg v.d.H.

Postal address
Fresenius AG
61346 Bad Homburg v.d.H.

Contact for shareholders
Investor Relations
Telephone: ++49 61 72 6 08-24 85
++49 61 72 6 08-24 86
++49 61 72 6 08-24 87
Telefax: ++49 61 72 6 08-24 88
e-mail: ir-fre@fresenius-ag.com

Contact for journalists
Corporate Communications
Telephone: ++49 61 72 6 08-23 02
Telefax: ++49 61 72 6 08-22 94
e-mail: pr-fre@fresenius-ag.com

The German version of this Report is legally binding.

The financial statements of Fresenius AG is available on our website and may be obtained upon request.

You will find further information and current news about our company on our website at: http://www.fresenius-ag.com

Forward-looking statements:
This Report contains forward-looking statements. These statements represent assessments which we have made on the basis of the information available to us at the time. Should the assumptions on which the statements are based not occur, or if risks should arise – as mentioned in the risk management report – the actual results could differ materially from the results currently expected.