



Fresenius Group in Figures

in million €	2005 US GAAP	2004 US GAAP	2003 US GAAP	2002 US GAAP	2001 US GAAP
Results of operations					
Sales	7,889	7,271	7,064	7,507	7,307
EBIT ^{a)}	969	845	781	837	762
Net income	222	168	115	134	93
Depreciation and amortization	320	315	325	341	494
Operating cash flow	780	851	776	697	509
Operating cash flow in % of sales	9.9 %	11.7 %	11.0 %	9.3 %	7.0 %
Earnings per ordinary share in € ^{b)}	5.28	4.08	2.79	3.25	2.27
Earnings per preference share in € ^{b)}	5.31	4.11	2.82	3.28	2.30
Balance sheet					
Total assets	11,594	8,188	8,347	8,915	9,867
Non-current assets	8,063	5,433	5,603	6,172	6,837
Shareholders' equity ^{b)}	5,130	3,347	3,214	3,369	3,689
Equity ratio ^{b)}	44 %	41 %	39 %	38 %	37 %
Investments ^{b)}	2,247	421	430	507	1,233
Profitability					
EBIT margin ^{b)}	12.3 %	11.6 %	11.1 %	11.1 %	10.4 %
Return on equity after taxes (ROE) ^{d)}	11.4 %	10.5 %	7.5 %	8.3 %	5.3 %
Return on operating assets (ROOA) ^{d)}	11.7 %	11.1 %	9.8 %	9.7 %	9.0 %
Return on invested capital (ROIC) ^{d)}	8.0 %	7.4 %	6.3 %	6.5 %	7.5 %
Dividend per ordinary share in €	1.48 ^{e)}	1.35	1.23	1.14	1.03
Dividend per preference share in €	1.51 ^{e)}	1.38	1.26	1.17	1.06
Employees (December 31)	91,971	68,494	66,264	63,638	60,667

^{a)}2001: before special charge for US legal matters of Fresenius Medical Care

^{b)}Shareholders' equity including minority interest

^{c)}Property, plant and equipment and intangible assets, acquisitions

^{d)}2005: balance sheet adjusted for acquisition of HELIOS Kliniken

^{e)}Proposal

A 10-year overview is available on our website: www.fresenius-ag.com/Investor_Relations



Fresenius Medical Care

Key figures of the business segments

Fresenius is a health care Group with products and services for dialysis, the hospital and the medical care of patients at home. In addition, Fresenius focuses on hospital operations as well as on engineering and services for hospitals and the pharmaceutical industry. Nearly 92,000 employees work with dedication in the service of health in around 100 countries of the globe.

Dialysis products,
Dialysis care,
Extracorporeal therapies



in million US\$	2005	2004	Change
Sales	6,772	6,228	9 %
EBIT	939	852	10 %
Net income	455	402	13 %
Operating cash flow	670	828	-19 %
Capital expenditure/acquisitions	449	399	13 %
R+D expenses	51	51	0 %
Employees (December 31)	50,250	46,949	7 %

Infusion therapy,
Clinical nutrition,
Transfusion technology



in million €	2005	2004	Change
Sales	1,681	1,491	13 %
EBIT	234	176	33 %
Net income	111	79	41 %
Operating cash flow	237	170	39 %
Capital expenditure/acquisitions	351	68	-
R+D expenses	64	56	14 %
Employees (December 31)	14,453	11,577	25 %

Hospital operations,
Services for hospitals,
Engineering and services for
the pharmaceutical industry



in million €	2005	2004	Change
Sales	809	813	0 %
EBIT	20	9	122 %
Net income	2	-10	-
Operating cash flow	19	23	-17 %
Capital expenditure/acquisitions	1,519	29	-
Order intake	341	244	40 %
Employees (December 31)	26,664*	9,398	-

* Includes the employees of HELIOS Kliniken since the company was consolidated effective December 31, 2005.

ACHIEVING OUR GOALS

- ▶ Delivering the best therapies
- ▶ Growing through new products and services
- ▶ Expanding in growth markets
- ▶ Enhancing earnings power

We are pursuing our long-term goals with energy and commitment, and are seizing on our opportunities. Our products and services offer a future for seriously ill patients.

Read more about our goals in this Annual Report.

Page 7 ● **FRESENIUS KABI** –
Achieve sustainable and
profitable growth

Page 25 ● **FRESENIUS MEDICAL CARE** –
Increase market leadership

Page 57 ● **FRESENIUS PROSERVE** –
Be a leading private hospital
operator in Germany



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To our Shareholders:

For Fresenius, 2005 was an extraordinary and hugely successful year. We put in place strategic initiatives to build our company into a leading global health care group. In particular, we took advantage of significant acquisition opportunities. At the same time, all our business segments continued to show profitable organic growth.

I would like to describe in greater detail the key strategic steps of 2005:

The acquisition of Renal Care Group provides an excellent fit with Fresenius Medical Care's North American operations. With Renal Care Group, Fresenius Medical Care can build on its leading position in dialysis care and create additional growth opportunities for its dialysis products business. Renal Care Group is both fast-growing and highly profitable. This acquisition largely completes the consolidation of the US dialysis market and strengthens Fresenius Medical Care's unique position.

We converted Fresenius Medical Care's preference shares into ordinary shares and changed its legal form to a KGaA. Both are important structural steps that increase the financial flexibility of Fresenius Medical Care and pave the way for future profitable growth. The ordinary shares are now more attractive to investors. At the same time, it is important that Fresenius retains management control and continues to consolidate this largest business segment. We have emphasized that we will maintain the highest standards of corporate governance as well as transparency and openness in our corporate communications with this change in legal form.

Fresenius Kabi's acquisitions of Labesfal and Clinico provide an excellent platform for future growth and fit perfectly with our strategic objectives. They significantly extend Fresenius Kabi's product portfolio of generic IV drugs and medical devices related to infusion and nutrition therapies. Fresenius Kabi has a strong distribution network for the hospital sector and will market the new product lines internationally.

Following the acquisition of HELIOS Kliniken, Fresenius ProServe has developed into our third strong business segment. The combination of HELIOS Kliniken with our own hospital chain makes us a leading private hospital operator in Germany. The key rationale for the acquisition was to gain access to HELIOS' expertise in hospital operations, especially in quality management. The company has proven since its inception that it is possible to align the highest quality levels of medical care with financial success. HELIOS is an excellent platform for Fresenius to strengthen our position in acute care hospitals and to participate in the privatization of the German hospital industry.

In addition to these significant strategic initiatives, we achieved excellent financial results in 2005. Sales and earnings reached record levels. Sales increased by 8 percent to €7.9 billion and net income rose by 32 percent to €222 million. These are outstanding achievements and I would like to thank our associates whose dedication and hard work made them happen.

As a result of its acquisitions in 2005, Fresenius has expanded significantly. For the first time, sales are expected to exceed €10 billion in 2006. We will have more than 100,000 employees worldwide. Now our focus is on the integration of the new companies into the group and on continued profitable growth. Our management team is committed to creating value for shareholders. The company's mid-term financial goals remain unchanged – in addition to organic revenue growth of 5 to 6 percent, we will continue to target growth through selective acquisitions. Net income is expected to increase at a significantly higher rate than sales. At the same time, we aim to improve our debt ratios following the landmark investments of 2005.

With courageous strategic steps, solid operations management and commercial prudence, we will continue to build our company and achieve our corporate goals. I very much appreciate your continued trust and support on this path.



Dr. Ulf M. Schneider
Chairman of the Management Board

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)

OUR GOAL: ACHIEVE SUSTAINABLE AND PROFITABLE GROWTH

1998 ● **MARKET LEADER IN INFUSION THERAPY AND CLINICAL NUTRITION IN EUROPE**
Acquisition of the international infusion solution business of Pharmacia & Upjohn

2000 ● **MARKET POSITION IN ASIA-PACIFIC, LATIN AMERICA AND SOUTH AFRICA STRENGTHENED**
Expanded market presence through acquisitions

2005 ● **PRODUCT PORTFOLIO OF I.V. DRUGS AND MEDICAL DEVICES EXPANDED**
Acquisitions of Labesfal and Clinico

2006/2007 ● **INTERNATIONALIZE NEW PRODUCT PORTFOLIO**
Distribute Clinico's products in Europe, Asia-Pacific and Latin America, in 2007 introduce Labesfal's products to Europe

Following years ● **EXPAND MARKET LEADERSHIP**
Profitable growth – organically and through selected acquisitions



Intravenously administered drugs and medical devices in an intensive care unit.

OUR MILESTONES: ACQUISITIONS OF LABESFAL AND CLINICO

Fresenius Kabi provides infusion therapies and clinical nutrition for critically and chronically ill patients. As the market leader in Europe, and with leading positions in Asia-Pacific and Latin America, our strategy is to offer products for all core segments of infusion therapy and clinical nutrition. These products include generic intravenously administered drugs and medical devices, two areas in which we reached significant milestones in 2005.

A strategically important step was the acquisition of Labesfal, which produces generic intravenously administered drugs for the domestic Portuguese market. The acquisition substantially expands our portfolio in this product area. We will market Labesfal's products to hospitals throughout Europe, where the market is currently worth €2.5 to 3.0 billion. Our today's portfolio addresses a market volume of €1.2 billion. We are striving to expand our product portfolio.

Another milestone was the acquisition of Clinico, a manufacturer of medical devices. Clinico's products ideally complement Fresenius Kabi's existing portfolio. This acquisition enhances our market position and offers exceptional opportunities for international growth.

Both acquisitions strengthen our market position. Fresenius Kabi already is one of the five largest hospital suppliers in Europe.

Innovative medical devices increase safety during drug infusion.



OUR WAY FORWARD: BENEFIT FROM AN INTERNATIONAL SALES AND PRODUCTION NETWORK

Fresenius Kabi's strong position in the hospital market is an excellent platform for profitable growth. We will take advantage of our European sales network of more than 20 subsidiaries for the introduction of the Labesfal products. The documentation for regulatory approval of the first eight drugs was submitted early in 2006 – market launch in Europe is planned to start early in 2007. We have offered infusion devices as well as products to administer infusion therapies and clinical nutrition for many years. With Clinico's product portfolio we add a comprehensive range of disposables to our devices and application systems. We have already taken the necessary initial steps to market these products internationally via our sales organizations in Europe as well as in Asia-Pacific and Latin America. In this way, not only do we immediately access these markets, but by using existing sales and marketing channels we also improve our returns on invested capital.

To create sustainable and profitable growth, we employ the strategy to extend our value-added chain. Both acquisitions broaden our global development and production network and expand our value-added chain. This has a positive effect on the quality of our products as well as on production costs. Labesfal has a high-tech production plant in Portugal. Its state-of-the-art technology and vast production capacity will make it our competence center for the production of intravenously administered drugs. Clinico has a development center and a tool-making site in Germany, as well as plants with advanced production technologies in Poland and China.

Clinco's and Labesfal's modern technologies ensure top-quality products.





The production of intravenously administered drugs requires a maximum level of technological know-how.

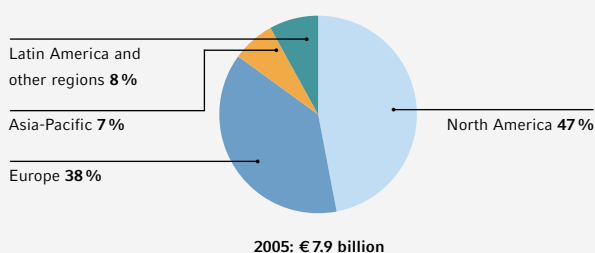
SUMMARY OF THE FISCAL YEAR

SALES

Consolidated sales increased by 8 % to €7,889 billion.

Organic growth contributed 7 % and acquisitions 2 % to overall growth. Divestments had a -1 % effect on sales. Currency translation had hardly any impact, primarily because the average US dollar/euro rate for the year was unchanged.

SALES BY REGION



- ▶ In both North America and Europe, our largest markets, we had strong growth rates of 8 %.
- ▶ In Latin America, we achieved an outstanding growth rate of 30 %, while we grew by 16 % in Africa.
- ▶ In the Asia-Pacific region, sales increased by 2 %. Here, Fresenius ProServe's sales decreased due to the lower project volume.

EARNINGS

Earnings growth in 2005 reflected the excellent business performance at Fresenius Medical Care and Fresenius Kabi. Improvements at Fresenius ProServe, lower net interest expenses and a lower tax rate also had positive effects.

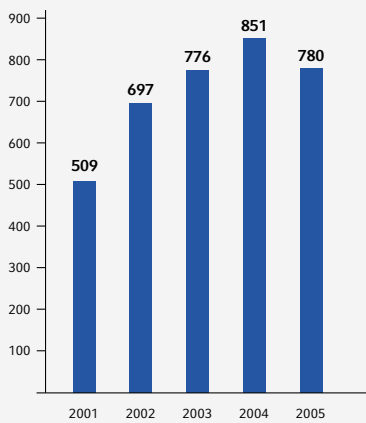
in million €	2005	2004	Change	Change in constant currency
EBIT	969	845	15 %	14 %
Net interest	-203	-209	3 %	3 %
Income taxes	-298	-253	-18 %	-17 %
Minority interest	-246	-215	-14 %	-13 %
Net income	222	168	32 %	31 %

- ▶ Operating income (EBIT) grew by 15 %. The EBIT margin increased from 11.6 % in 2004 to 12.3 % in 2005.
- ▶ Net interest improved to €-203 million due to positive effects from a lower debt level in combination with lower interest rates from various refinancing measures.
- ▶ Net income grew by 32 % to €222 million.

CASH FLOW

Group operating cash flow once again was at a high level in 2005. The cash flow rate was 9.9%.

OPERATING CASH FLOW, IN MILLION €

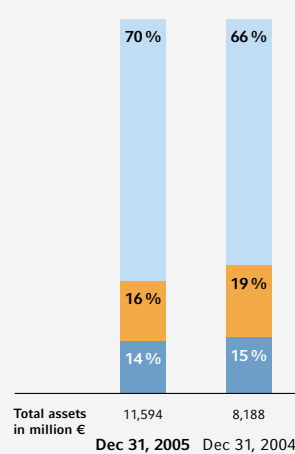


- ▶ Operating cash flow was €780 million (2004: €851 million). The decrease was primarily attributable to tax payments for previous years at Fresenius Medical Care.
- ▶ Despite higher capital expenditure (€-331 million), cash flow before acquisitions and dividends amounted to €449 million (2004: €565 million). Dividends and 20% of the 2005 acquisitions (€1,606 million, net) were financed through cash flow.

BALANCE SHEET

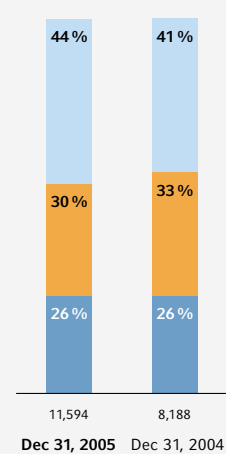
The balance sheet was affected by the acquisitions, particularly the purchase of HELIOS, as well as by the capital increase and a bridge financing. Total assets rose by 42% to €11,594 million.

ASSETS



- Non-current assets
- Trade accounts receivable
- Other current assets

EQUITY AND LIABILITIES



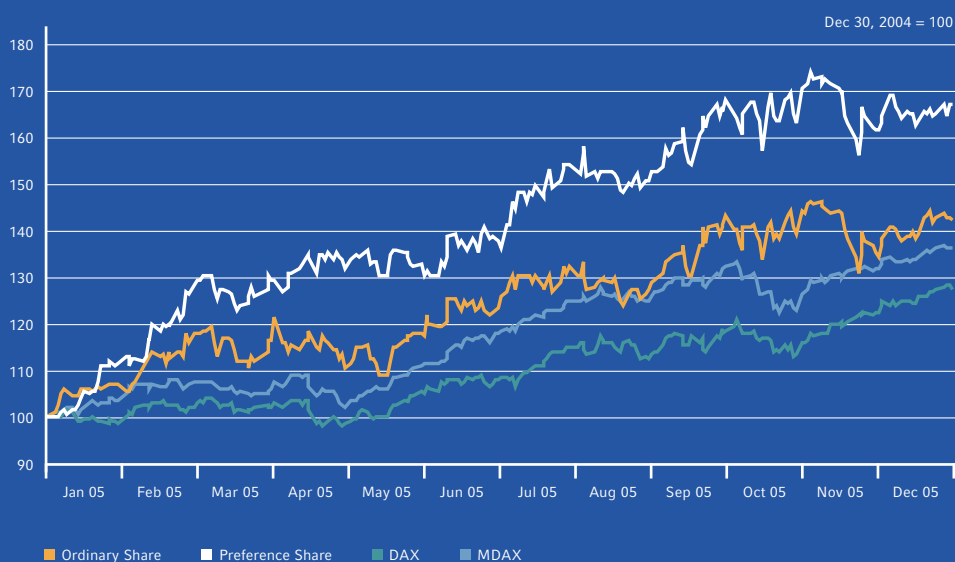
- Equity and minority interest
- Debt
- Other liabilities

- ▶ The balance sheet is solid: including minority interest, the equity ratio improved to 44.2%.
- ▶ Debt increased by €767 million to €3,502 million, mainly due to acquisition financing.
- ▶ Including minority interest, shareholders' equity rose to €5,130 million, reflecting the capital increase and the excellent earnings growth.

FRESENIUS SHARES AND CORPORATE GOVERNANCE REPORT

- ▶ In terms of market capitalization, Fresenius is one of the 35 largest publicly traded companies in Germany.
- ▶ The ordinary share rose 42 % in 2005 and the preference share 67 %. The ordinary share outperformed the DAX by around 15 %, the preference share by approximately 40 %.
- ▶ Capital was increased with the successful issue of 4.7 million new ordinary and 4.7 million new preference shares.
- ▶ Another dividend increase is proposed.

RELATIVE SHARE PRICE PERFORMANCE



2005 was a very successful year for equity markets with robust growth among many German and European stocks. The excellent business performance, positive market sentiment and new strategic initiatives led to a strong increase in the Fresenius shares.

STOCK MARKETS

The DAX closed the year 2005 at 5,408 points, corresponding to an impressive increase of 27.1%. In other major European stock markets, only the Swiss and the Swedish primary indices performed better, with increases of 33.2% and 29.4%, respectively. The European Blue Chip index Dow Jones STOXX 50 rose 20.7% last year. In comparison, the US markets were markedly weaker. The S & P 500 ended the year only 3.0% higher, while the Dow Jones Industrial Average fell 0.6%.

After a modest start, the DAX climbed almost continuously from 4,224 points in early May to the end of the year, staying above 5,000 points from November on. Mid and small-cap stocks once again enjoyed especially strong demand. The MDAX closed near to its new record of 7,336 points, growing 36% year-on-year, and outpacing the DAX for the sixth consecutive time. The SDAX also performed strongly, rising by 35.2%. Corporate earnings growth played a pivotal role in this development. Outperformers in the European sectors of the Dow Jones STOXX 600 index were basic resources (49.4%), industrial goods and services (33.2%), and construction and materials (31.4%). Only telecommunications ended the year with a loss (-1.8%).

Further economic recovery and corporate earnings growth should drive the German equity market in 2006. Weakening cyclical impulses, lower cost-savings potential from

restructuring measures and further increases in oil prices as well as geopolitical turbulence – specially in the Middle East – could potentially slow the positive momentum.

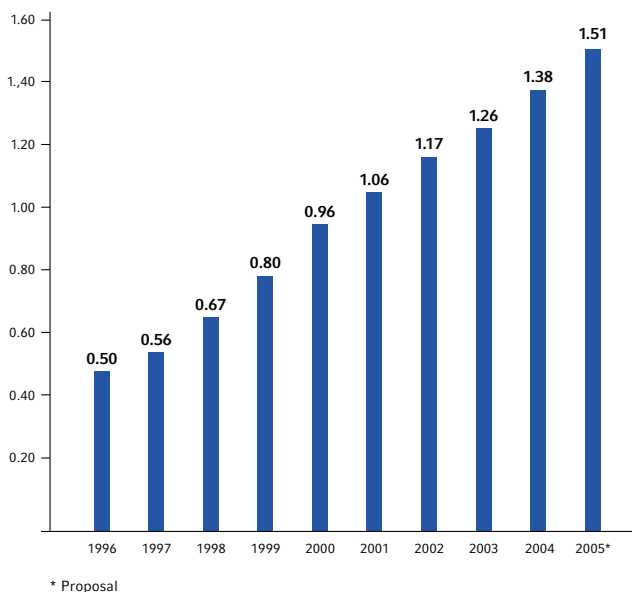
FRESENIUS SHARES

In 2005, the ordinary share rose 42.0% and the preference share 66.6%. Both shares easily outperformed the DAX and even exceeded the better performing MDAX. This was the third consecutive year in which the Fresenius shares outperformed the DAX. We were also able to outpace the European Dow Jones STOXX 600 Healthcare index (27.8%) as well as the German Prime Pharma & Healthcare index (26.1%).

At the start of 2005, both shares were trading at their low for the year, with the ordinary share at € 75.58 and the preference share at € 68.94. With little exception, both showed a continuous upward trend throughout the year, peaking on November 3, 2005, when the ordinary share was at € 109.15 and the preference share at € 119.50. The ordinary share closed 2005 at € 106.00 and the preference share ended at € 114.65. Over the last three years, the ordinary share price has more than tripled and the preference share price more than doubled.

During 2005, Fresenius increased its market capitalization by about € 2 billion to approximately € 5.6 billion on December 31, 2005 (2004 number of shares adjusted by the capital increase). The average Xetra daily trading volume

DIVIDEND PREFERENCE SHARE IN €



of the ordinary share more than tripled from around 4,400 shares in 2004 to approximately 14,300 shares last year. Similarly, the daily Xetra volume of the preference share increased significantly from around 48,500 shares to an average of 81,400 shares.

DIVIDEND

We are committed to continuing our profit-driven dividend policy and to increasing our dividend once again as a result of the substantial advance in earnings of our business segments. We are proposing to our shareholders a dividend of € 1.48 per ordinary share (2004: € 1.35) and € 1.51 per preference share (2004: € 1.38). This is an average increase of 10%. As the 9.4 million new shares from the capital increase are fully

entitled to the 2005 dividend, the total dividend distribution will be € 75.8 million (2004: € 55.9 million), representing 34% of the Group's net income.

SHARE RETURN

The Fresenius shares have performed exceptionally over a 10-year period. An investor who spent € 10,000 on Fresenius preference shares at the end of 1995 would have owned stock worth € 32,783.03 at the end of 2005. This corresponds to an average annual return of 13.7% (not including dividends and subscription rights). The MDAX achieved an average annual return of about 10.7% over the same period.

CAPITAL STRUCTURE

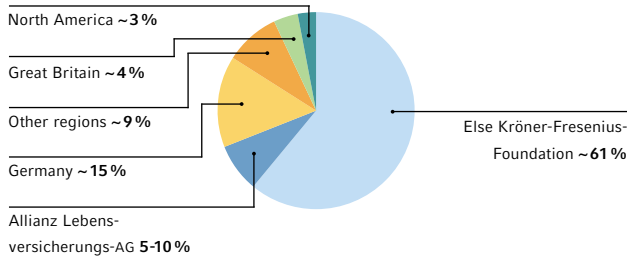
To finance the acquisitions of HELIOS and Clinico, we increased our capital in November 2005. We issued 4.7 million ordinary shares and 4.7 million preference shares. In addition, exercised stock options led to an increase in the number of shares in both classes of 175,621 each. Accordingly, the subscribed capital of Fresenius AG rose to € 129,849,036.80 on December 31, 2005. At the end of the year, 50,772,280 shares were outstanding, divided into 25,361,140 bearer ordinary shares and 25,361,140 bearer preference shares.

Please see Note 28 for further information on stock option plans.

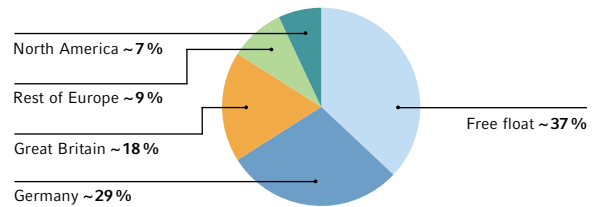
SHAREHOLDER STRUCTURE

The Else Kröner-Fresenius-Foundation is Fresenius' largest shareholder with 61.2% of the voting shares. According to Allianz Lebensversicherungs-AG the company holds between 5 and 10% of the voting shares.

HOLDERS OF ORDINARY SHARES



HOLDERS OF PREFERENCE SHARES



At the beginning of 2006, we conducted a shareholder survey which identified 81 % of total outstanding shares. We were thus able to identify nearly all of the ordinary shares and 63 % of the preference shares.

According to this survey, 213 institutional investors hold about 20.6 million shares, divided into 6.5 million ordinary shares and 14.1 million preference shares. 1.1 million ordinary shares and 1.9 million preference shares are held by retail investors.

The top ten investors hold 17 % of the total ordinary share capital and 23 % of the total preference share capital.

Both share classes are mainly held by investors in Germany and Great Britain.

INVESTOR RELATIONS

Our Investor Relations focus on comprehensive, open, and timely communication with private shareholders, institutional investors and financial analysts. We continually strive to provide a fair assessment of the Company's situation and its market conditions. We also aim to create further interest in Fresenius, its growth and its potential.

In the past year, our dialogue with the financial community was again very active. The Fresenius Management partici-

pated in seven international investor conferences and presented the Company in seven roadshows in various European countries and the United States. We also held roadshows in Europe and the United States regarding our capital increase. In addition, we held numerous one-to-one meetings with financial analysts and institutional investors during 2005. We also increased our contact with private investors and our online communications.

The Internet is a key component of our financial communications. Live online broadcasts of our analyst meetings, held at least three times a year, met with considerable interest, demonstrated by the increasing number of participants. Presentation materials used during these meetings, as well as recordings of the meetings, may be viewed at www.fresenius-ag.com/Investor Relations/Presentations. Although our Internet information service was intensively used in 2005, we would welcome your suggestions on how we can better meet your information needs. For 2006, we are planning to enhance our online pages and further expand the informational content of our website.

EARNINGS PER SHARE

	2005	2004
Net income (million €)	222	168
Earnings per ordinary share (€)	5.28	4.08
Earnings per preference share (€)	5.31	4.11
Fully diluted earnings per ordinary share (€)	5.24	4.07
Fully diluted earnings per preference share (€)	5.27	4.10
Average number of shares outstanding	41,880,416	40,969,910
Average number of shares outstanding fully diluted	42,205,914	41,093,404

BASIC SHARE INFORMATION

	Ordinary share	Preference share
Securities Identification no.	578 560	578 563
Ticker symbol	FRE	FRE3
ISIN	DE0005785604	DE0005785638
Bloomberg symbol	FRE GR	FRE3 GR
Reuters symbol	FREG.de	FREG_p.de
Main trading location	Frankfurt/Xetra	Frankfurt/Xetra

In 2005, Fresenius was once again recognized for the excellence of its financial communications. In the competition for the best annual report held by the business magazine "manager magazine", more than 200 annual reports from publicly traded German and other European companies were evaluated. We were placed second in the MDAX category.

EARNINGS PER SHARE

In 2005, the Fresenius Group achieved earnings per ordinary share of € 5.28 and earnings per preference share of € 5.31 (2004: € 4.08 per ordinary share and € 4.11 per preference share). Through the capital increase, the average number of shares outstanding rose by 0.78 million to approximately 41.88 million. Further details on earnings per share are provided on page 74 of the Management Report and on page 139 of the Notes.

ANALYST RECOMMENDATIONS

The recommendations of financial analysts are an important factor for both institutional as well as private investors when making investment decisions. Statistics from the sector service I/B/E/S and our own surveys showed that “buy” recom-

mendations prevailed. Until February 24, 2006 we were rated with 13 “buy”, 4 “hold” and one “sell” recommendations. This reflects their confidence in the long-term earning power of the Fresenius Group and the potential for our shares. The table below lists the banks providing analyst coverage to Fresenius and their recommendations.

ANALYST RECOMMENDATION

Bankhaus Metzler	February 2006	Buy
BHF-Bank	February 2006	Buy
Cheuvreux	February 2006	Outperform
Commerzbank	September 2005	Hold
Deutsche Bank*	February 2005	Buy
DZ Bank*	November 2005	Buy
equinet	February 2006	Hold
Goldman Sachs	November 2005	Outperform
Helaba Trust	February 2006	Buy
HypoVereinsbank*	November 2005	Underperform
Landesbank Baden-Württemberg*	October 2005	Buy
Landesbank Rheinland-Pfalz	February 2006	Outperform
Main First Bank	February 2006	Buy
Merrill Lynch	February 2006	Buy
M.M. Warburg	February 2005	Hold
NordLB	November 2005	Hold
Sal. Oppenheim	February 2006	Buy
WestLB*	November 2005	Outperform

*No publication of research as these banks supported the Fresenius Group in various transactions.

KEY DATA OF THE FRESENIUS SHARES

	2005	2004	2003	2002	2001
Number of shares	50,722,280	40,971,038	40,969,684	40,969,684	40,969,548
Ordinary shares	25,361,140	20,485,519	20,484,842	20,484,842	20,484,774
Preference shares	25,361,140	20,485,519	20,484,842	20,484,842	20,484,774
Stock exchange quotation ordinary share ¹⁾ (€)					
High	109.15	83.49	68.50	80.50	113.75
Low	75.58	60.29	32.50	20.45	76.98
Year-end quotation	106.00	74.65	64.50	36.05	81.00
Stock exchange quotation preference share ¹⁾ (€)					
High	119.50	72.27	57.55	91.25	143.00
Low	68.94	50.87	36.01	21.48	86.70
Year-end quotation	114.65	68.83	54.55	36.45	91.30
Market capitalization ²⁾ (million €)	5,596	2,939	2,437	1,485	3,530
Total dividend distribution (million €)	75.8³⁾	55.9	51.0	47.3	42.8
Per share in €					
Dividend ordinary share	1.48³⁾	1.35	1.23	1.14	1.03
Dividend preference share	1.51³⁾	1.38	1.26	1.17	1.06
Earnings per ordinary share	5.28	4.08	2.79	3.25	2.27
Earnings per preference share	5.31	4.11	2.82	3.28	2.30

¹⁾ Final Xetra quotations on the Frankfurt Stock Exchange

²⁾ Total number of ordinary and preference shares multiplied by the respective Xetra year-end quotations on the Frankfurt Stock Exchange

³⁾ Proposal

CORPORATE GOVERNANCE REPORT

The German Corporate Governance Code was established to increase the level of trust in the corporate management of publicly traded companies. It aims to provide more transparency for investors on existing regulations covering the management and monitoring of companies. The Management and Supervisory Boards of Fresenius AG support the principles set out in the German Corporate Governance

Code and are committed to responsible management that is focused at achieving a sustainable increase in the value of the Company. Key elements of this approach are solid financial management, long-term corporate strategies and strict adherence to legal and ethical business standards. Transparent corporate communications is a further commitment.

Good Corporate Governance has been established corporate policy at Fresenius long before the German Corporate Governance Code was introduced. Our value-enhancing

strategies, as well as the majority of the guidelines, recommendations and proposals that are contained in the Code, have been firm components of Fresenius' activities for many years.

Supervisory Board

The Supervisory Board of Fresenius AG appoints the members of the Management Board and advises and supervises them. The Supervisory Board of Fresenius AG has 12 members. Six are elected by the Annual General Meeting in accordance with the German Stock Corporation Act (Aktiengesetz) and six are elected by the employees in compliance with the German Co-determination Act (Mitbestimmungsgesetz). The terms of office of the current Supervisory Board members end at the close of the 2008 Annual General Meeting. The members of the Supervisory Board are listed on page 197 of this Annual Report. One Supervisory Board member is a partner in a law firm that provides legal advice to Fresenius AG. The Supervisory Board approved this mandate. There are no other consulting and service contracts between the Company and other members of the Supervisory Board. The Supervisory Board is not aware of any conflicts of interest involving members of the Supervisory or Management Boards. Members are required to promptly notify the Supervisory Board should such conflicts arise.

Supervisory Board Committees

The Supervisory Board of Fresenius AG has formed three committees. Each consists of three members of the Supervisory Board except for the Mediation Committee, which has four members. The chairman of a committee is appointed in line with Clauses 5.2. and 5.3.2 of the German Corporate Governance Code. The members of the committees are listed on page 197 of this Annual Report. The Audit Committee's function is to prepare the Supervisory Board's approval of the financial statements and the consolidated financial state-

ments, review the quarterly reports and – following discussion with the Management Board – appoint the auditor for the financial statements and agree the auditor's fees. The Personnel Committee is responsible for approving the employment terms of members of the Management Board. The Mediation Committee performs its duties as set out in § 31 paragraph 3, sentence 1 of the Co-determination Act and proposes potential Management Board members to the Supervisory Board, if the required two-thirds majority was not achieved in the first ballot.

Supervisory Board Efficiency Evaluation

The Supervisory Board performs regular efficiency evaluations in accordance with Clause 5.6. of the German Corporate Governance Code. So far, the self-evaluations have shown that the Supervisory Board is organized efficiently and that there is good cooperation between both boards. According to Clause 5.1.3. the Supervisory Board has established rules of procedure.

Management Board

The Management Board of Fresenius AG is responsible for managing the Company and conducts Fresenius' business. Its actions and decisions are focused on the interests of the Company. The Management Board has five members, who are listed on page 6 of this Annual Report.

Cooperation between the Management and Supervisory Boards

The Management and Supervisory Boards work closely together in the interest of the Company. The Management Board informs the Supervisory Board regularly, promptly, and comprehensively on the Group's and the business divisions' development, on corporate planning, and on key undertakings. Important business transactions require the approval of the Supervisory Board. In addition, the Management Board regularly informs the Supervisory Board

about the risk situation and risk management of the Group and discusses with the Supervisory Board the Company's strategic focus.

Compensation of the Management and Supervisory Boards

Total payments to the Management Board for carrying out their duties in Fresenius AG and its subsidiaries amounted to € 5,482 thousand in 2005. Of this, € 2,998 thousand was fixed compensation and € 2,484 thousand was variable compensation. The variable compensation is dependent on the earnings of the Fresenius Group and/or its business segments. In addition, the members of the Management Board received 51,170 convertible bonds pursuant to the 2003 Fresenius AG stock option plan. At the end of 2005, the members of the Management Board held 143,336 stock options under the 1998 stock option plan and 134,018 convertible bonds under the 2003 stock option plan. 110,936 stock options were exercised in 2005.

Payments to the Supervisory Board are determined by the Annual General Meeting and are subject to the provisions of § 13 of the articles of association of Fresenius AG. Total payments to the Supervisory Board of Fresenius AG for 2005 amounted to € 1,027 thousand. This included € 249 thousand in fixed compensation and € 778 thousand in variable compensation. Each Supervisory Board member receives € 13 thousand in fixed compensation. The Chairman receives double this amount and the Deputy Chairman one and a half times the compensation of a Supervisory Board member. Variable compensation of each member of the Supervisory Board for 2005 amounted to € 65 thousand. The members of the Audit Committee and the Personnel Committee receive an additional € 10 thousand each. Chairmen of the committees receive twice the additional compensation.

Stock Option Plans

Fresenius AG has had a stock option plan since 1998. A new stock option plan was approved by the Annual General Meeting in 2003 that is based on the issuance of convertible bonds. The convertible bonds mature in 10 years from the date of issue. The beneficiaries may exercise the corresponding conversion rights for one third of their bonds two years after the relevant grant. A further one third may be converted three years after their issue and the remaining one third may be converted in their fourth year. Convertible bonds of bearer ordinary shares and convertible bonds of non-voting bearer preference shares can only be converted in the same amount. The conversion price for non-continuing convertible bonds shall correspond to the average stock exchange price of the bearer ordinary share as well as the non-voting bearer preference share of the Company over the last 30 trading days prior to the grant of the bonds, less the par value of the converted bond. The conversion price for convertible bonds which are subject to a success target shall correspond to the stock price of the bearer ordinary share, as well as the non-voting bearer preference share when the target is first reached, less the par value of the converted bond.

Directors & Officers-Insurance (D & O)

Fresenius AG has arranged a consequential loss liability insurance policy (D&O insurance) for the members of the Management and Supervisory Boards of Fresenius AG and for all representative bodies of its German and international affiliates. The D&O policy applies worldwide and runs until the end of June 2006. The policy covers the legal defense costs of a member of a representative body should a claim be made and, where relevant, any damages awarded. Members of the Supervisory Board and the Management Board are subject to an appropriate retention fee.

Annual General Meeting

About 400 shareholders attended the Annual General Meeting (AGM) on May 25, 2005 in Frankfurt/Main, representing about 85 % of the ordinary and approximately 11 % of the preference share capital. As in the previous year, we broadcast the speech of the Chairman of the Management Board live over the Internet for those shareholders unable to attend the AGM. The recording of the speech (in German) is available at [www.fresenius-ag.com/Investor Relations/Annual General Meeting](http://www.fresenius-ag.com/Investor_Relations/Annual_General_Meeting).

Shareholders can appoint a proxy to exercise their voting rights at the AGM. In accordance with the principles of the German Corporate Governance Code, Fresenius AG appoints one or more voting representatives to vote according to shareholders' instructions.

In accordance with the Act on Corporate Integrity and Modernization of the Right of Avoidance (UMAG) passed November 1, 2005, we will amend the registration and verification of shareholders attending the AGM. The main change will be to move the record date for shareholders to 21 days prior to the AGM, in line with international practice.

Transparency and Communication

Fresenius AG adheres to all recommendations of Clause 6 of the German Corporate Governance Code. Transparency and speedy communication are highly valued by Fresenius AG. We promptly notify our shareholders of significant new developments as well as changes in voting rights in the Company. All publications are posted on the Internet without delay, and we regularly inform our shareholders about important dates. Our financial reports are published in accordance with the timing recommendations of the German Corporate Governance Code. We also publish Directors' Dealings, which have to be notified in accordance with § 15a of the German Secu-

rities Trading Act (Wertpapierhandelsgesetz) on the Internet at [www.fresenius-ag.com/Investor Relations/Corporate Governance](http://www.fresenius-ag.com/Investor_Relations/Corporate_Governance).

The members of the Management and the Supervisory Boards together held less than 1 % of the total outstanding shares on December 31, 2005.

Compliance

Compliance with legal and ethical principles is an integral part of the corporate culture of Fresenius. Fresenius has made provisions to ensure compliance with, for example, the new insider trading laws as well as putting in place provisions for combating corruption.

Risk Management

We consider that the responsible handling of risks is an element of good corporate governance. Fresenius practices systematic risk management that allows the Management Board to react promptly to relevant changes in the risk profile. The risk management system is reviewed as part of the annual audit. Further information may be found in the risk report on page 84.

Financial Accounting and Reporting

Fresenius prepares its group financial statements in accordance with the United States Generally Accepted Accounting Principles (US GAAP). As from the 2005 fiscal year, Fresenius, as a publicly traded company based in a member country of the European Union, is required to prepare and publish its financial statements in accordance with International Financial Reporting Standards (IFRS) pursuant to § 315a of the German Commercial Code. Our largest subsidiary, Fresenius Medical Care, prepares its financial statements in accordance with US GAAP, therefore, we will continue to publish our financial statements in accordance with US GAAP

to make them comparable and transparent for our shareholders. Additionally, we will publish our financial statements in accordance with IFRS, as required by law.

Implementation of the German Corporate Governance Code Guidelines

The Management Board and Supervisory Boards of Fresenius AG have made a Declaration of Compliance pursuant to § 161 German Stock Corporation Act (Aktiengesetz), in accordance with the German Corporate Governance Code of June 2, 2005 and have made it available to the shareholders. In accordance with Clause 3.10. of the Code, this declaration, as well as past declarations, is available on our website at [www.fresenius-ag.com/Investor Relations/Corporate Governance](http://www.fresenius-ag.com/Investor_Relations/Corporate_Governance).

On December 1, 2005, the Management and Supervisory Boards of Fresenius AG issued their fourth Declaration of Compliance with § 161 of German Stock Corporation Act. Herein, it is stated that the recommendations of the German

Corporate Governance Code as amended on June 2, 2005 have been and are being met. The Management and Supervisory Boards also intend to follow any future recommendation of the German Corporate Governance Code. The following recommendations are the only ones that have not been or are not being met:

- ▶ Disclosure of individual compensation for each member of the Management Board, according to Clause 4.2.4., sentence 2, in our view limits the structuring of compensation so that it is differentiated by individual performance and responsibility.
- ▶ Clause 4.2.3. paragraph 2, sentence 2 recommends that stock options and similar instruments should be linked to demanding, relevant comparison parameters. This is not common practice internationally. As a global company, Fresenius competes on a worldwide basis for highly qualified staff. Therefore, under the current stock option plan it is possible to refrain from a success target.

OUR GOAL: INCREASE MARKET LEADERSHIP

1996 ● **FOUNDATION OF FRESENIUS MEDICAL CARE**
The world's largest dialysis company

2002 ● **INTRODUCTION OF SINGLE-USE
DIALYZERS IN THE US**
As part of the *UltraCare™* concept, Fresenius
Medical Care converts its clinics from re-use
to single-use dialyzers

2005 ● **ACQUISITION OF RENAL CARE GROUP**
Increase leading market position in the United
States – the largest dialysis market in the world

2006 ● **CLOSING OF ACQUISITION AND FOCUS
ON INTEGRATION**
Renal Care Group acquisition expected to be
closed in the first quarter of 2006. Fresenius
Medical Care to focus its US activities on the
successful integration of the company

Following years ● **EXPANSION OF DIALYSIS
PORTFOLIO**
Additional growth through new
dialysis services and renal drugs



Fresenius Medical Care has won the 2006 German Business Innovation Award for its 5008 dialysis therapy system.

OUR MILESTONE: ACQUISITION OF RENAL CARE GROUP

For Fresenius Medical Care, 2005 was marked by the largest acquisition in its history – Renal Care Group, the fourth-largest dialysis care provider in the United States. This acquisition is a key strategic step.

Enhance position as the world's leading dialysis provider. Fresenius Medical Care took advantage of the unique growth opportunity in a largely consolidated market, since DaVita purchased Gambro's clinic business last year. The closing of the Renal Care Group acquisition expected in the first quarter of 2006 will assure our leading position in the most important dialysis market in the world.

Renal Care Group and Fresenius Medical Care bring together the key success factors in the dialysis industry – an attractive customer base and cost leadership in products. The highly-profitable Renal Care Group will significantly improve earnings potential and growth opportunities for Fresenius Medical Care. Renal Care Group generates an industry-leading share of its revenue from private payors. Renal Care Group serves more than 32,500 patients in over 450 clinics while Fresenius Medical Care treats approximately 89,300 patients in 1,155 dialysis centers in the United States. With its service network, Renal Care Group provides the perfect geographic match for Fresenius Medical Care's operations.

The new 5008 dialysis therapy system sets itself apart with a simple interface and improved treatment quality. Routine procedures and maintenance have been significantly reduced.



OUR WAY FORWARD: CONTINUALLY IMPROVING THE QUALITY OF PRODUCTS AND CARE

Valuable synergies. While Fresenius Medical Care benefits from the entire value chain as an integrated company, Renal Care Group is a dialysis care provider without its own product business. This creates additional growth opportunities for Fresenius Medical Care in dialysis machines, dialyzers, and disposables and improves its competitiveness. Purchasing in larger quantities allows for better terms. Including savings in administration, from 2007, synergy benefits of US\$ 40 to US\$ 50 million are a distinct possibility.

Both companies strive for the best-possible treatment quality and innovative therapies. Renal Care Group not only fits well geographically and strategically with Fresenius Medical Care, but the two companies are also similar in corporate culture and goals. Both have recognized quality criteria in conformity with the highest medical standards. Treatment results from individual clinics are compared within the own clinic network as well as with national and international standards to safeguard uniform, high-quality care. Both companies have made significant progress in this sphere in recent years – Renal Care Group’s treatment results, for example, are well above the US average. With its *UltraCare™* program, Fresenius Medical Care is the only provider that uses single-use dialyzers exclusively. This advance is expected to lower the mortality rate in the mid- to long-term. When the most successful dialysis company in the world joins with Renal Care Group in 2006, combining its resources and expertise, it will be another key step on our way – using innovative therapies to increase life expectancy and enhance patients’ quality of life.

The dialyzer or “artificial kidney” is a key component of hemodialysis treatment. We are committed to continually improving the effectiveness of this product.



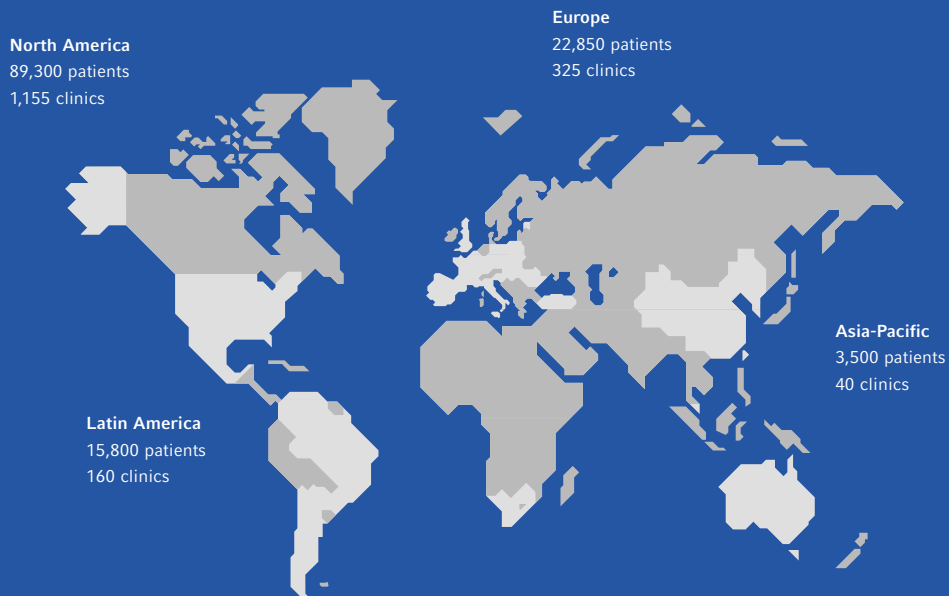


Fresenius Medical Care produces approximately 60 million dialyzers per year.

FRESENIUS MEDICAL CARE

- ▶ Excellent business performance continues.
- ▶ In 2005, Fresenius Medical Care treated 131,450 patients; the number of treatments increased by 5% to 19.7 million.
- ▶ Renal Care Group acquisition strengthens market leadership.
- ▶ Conversion of preference shares into ordinary shares and transformation of legal form completed.

DIALYSIS CLINICS AND NUMBER OF PATIENTS TREATED



As at December 31, 2005

Fresenius Medical Care – the world’s leading provider of dialysis products and dialysis care – achieved an excellent performance in 2005: Dialysis care sales increased by 8 %; dialysis product sales grew by 10 %. Net income of Fresenius Medical Care rose by 13 %.

BUSINESS DEVELOPMENT

In 2005, sales rose 9 % to US\$ 6,772 million (2004: US\$ 6,228 million). Constant-currency sales growth was 8 %. 68 % of sales was achieved in North America, 23 % in Europe and 9 % in the remaining regions of the world.

Dialysis care accounted for 72 % of Fresenius Medical Care’s sales and dialysis products for 28 %. Sales in dialysis care grew by 8 % to US\$ 4,867 million (2004: US\$ 4,501 million) while sales of dialysis products rose by 10 % to US\$ 1,905 million. Growth in dialysis care is largely driven by the US market. Excellent growth was also achieved by the international products business.

Fresenius Medical Care increased EBIT by 10 % to US\$ 939 million (2004: US\$ 852 million). Net income was US\$ 455 million (2004: US\$ 402 million) representing an exceptional growth of 13 %.

An outstanding event for Fresenius Medical Care in 2005 was the acquisition of the US dialysis care provider Renal Care Group. The acquisition is expected to close in the first quarter of 2006. In 2005, Renal Care Group achieved sales of US\$ 1.57 billion. Please see pages 25 to 29 of this report for further details. In addition, the conversion of Fresenius Medical Care’s preference shares into ordinary shares and the change in the company’s legal form to a KGaA were important milestones. More on these changes can be found on page 112 and 113.

NORTH AMERICA

The business in our largest region developed exceptionally well last year as shown in the following table:

	2005	2004	Change
Sales (in million US\$)	4,577	4,248	8 %
Dialysis clinics (December 31)	1,155	1,130	2 %
Dialysis patients (December 31)	89,300	86,350	3 %
Treatments (in millions)	13.5	13.0	4 %
Total number of dialysis patients in the region*	~385,000		
Increase in the number of patients*	~4 %		

* Internal estimates

Mexico was included to the North America region in 2005. Figures for 2004 have been adjusted to reflect this change.

Dialysis care continues to be our major activity in North America. Sales in this area increased by 7 % to 4.05 US\$ billion. We were able to significantly increase revenues per treatment to US\$ 302 from US\$ 290 in 2004. This was due to the higher number of privately insured patients we treated. Private payors provide a higher reimbursement rate than public health insurance plans. Furthermore, we were able to increase reimbursement rate from private payors. In 2005,

we increased our percentage of sales with private payors from 37 % to 40 %. The percentage of patients Fresenius Medical Care treated in 2005 was 27 % of the total market.

UltraCare™ remained the focus of our dialysis care activities in 2005. All our North American clinics now use this therapy, which features single-use dialyzers instead of re-use dialyzers. Our goal is to achieve the best possible clinical outcomes and therefore improve the quality of life of our patients. At the same time, this therapy concept allows us to further expand and strengthen our position as market leader. For this reason, comprehensive marketing programs were launched to raise the level of awareness of *UltraCare™* among external dialysis providers.

Our nocturnal dialysis treatment program is attracting strong interest. Patients usually spend every second night at one of our clinics to undergo dialysis while they sleep. In 2005 we broadened the network of clinics offering nocturnal dialysis. The demand for home hemodialysis is also growing. Approximately 1,800 of our patients underwent dialysis at home at the end of 2005. We also successfully expanded our products and services for home hemodialysis: We provide patients with a dialysis machine tailored for home hemodialysis – the 2008K@Home – as well as with comprehensive training and informational materials.

In spring of 2005, Fresenius Medical Care introduced a new information system in the United States that improves the recording of treatment data and the analysis of treatment quality. The new information system will improve monitoring

functions and can more quickly adapt to new billing models within the existing workflow. Implementation of the new system is expected to be complete in 2008 and will require an investment of more than US\$ 100 million.

Our dialysis products business also developed positively. It includes products for hemo- and peritoneal dialysis as well as hospital services such as extracorporeal therapies and laboratory services. Sales rose to US\$ 523 million in 2005, an increase of 17 %. This was mainly due to strong demand for Optiflux dialyzers and the 2008K dialysis machine. Our market share for these product groups in the net available external market, which we define as dialysis clinics that are not part of a chain, is almost 70 %. The 2008K is the leading machine – we have produced nearly 10,000 units for the North American market. We also enjoyed above-average growth in dialyzers and set a sales record of more than 26 million Optiflux units. At the end of 2005, about 60 % of all hemodialysis patients in the United States were dialyzed using single-use dialyzers from Fresenius Medical Care. We increased our market share in peritoneal dialysis from 27 % in 2004 to 31 %. Here we expanded our product portfolio.

Fresenius Medical Care also made further advancements in Disease Management. Our programs offer fully integrated therapies that include, besides dialysis treatment, vascular access care and patient nutrition – all aiming to avoid unnecessary hospital stays. Last year we bought out our partners in Optimal Renal Care and Renaissance Health Care and merged the companies into a single unit. We took this step to combine

the strengths of both organizations and operate Disease Management even more efficiently. At the end of 2005 we had contracts with private health insurers to care for about 4,000 patients.

For the first time, the Center for Medicare and Medicaid Services (CMS) has awarded us a contract to operate a four-year demonstration project for dialysis patients. CMS oversees the public US health insurance programs. For the project, Fresenius Medical Care is paid a monthly per-patient fee rather than billing for each individual service. The agreed fee covers all health care services for the patients included in the program. The project will include several thousand patients. We are convinced that this comprehensive care program and method of reimbursement will result in improved treatment for our patients. As a vertically integrated provider of dialysis products and care, Fresenius Medical Care considers itself to be well positioned to profit from the future development of Disease Management programs.

Laboratory tests are the decisive factor for nephrologists when deciding on the dialysis therapy for their patients. Therefore, test results contribute significantly to a patient's treatment quality and to quality of life. Our subsidiary Spectra Renal Management performs these laboratory services for about 125,000 dialysis patients. It is the largest clinical laboratory for dialysis-related services in North America, with a market share of around 42% and almost 42 million tests performed in 2005 (2004: 41 million).

EUROPE/MIDDLE EAST/AFRICA

These regions developed very positively, with sales growth outpacing the market in many countries. This growth enabled Fresenius Medical Care to expand its position as the leading provider of dialysis care and products. The number of dialysis patients also increased substantially, as the following table shows:

	2005	2004	Change
Sales (in million US\$)	1,592	1,458	9 %
Dialysis clinics (December 31)	325	285	14 %
Dialysis patients (December 31)	22,850	20,250	13 %
Treatments (in millions)	3.38	3.07	10 %
Total number of dialysis patients in the regions*	~440,000		
Growth in the number of patients*	~5 %		

* Internal estimates

Last year, 35% of sales was generated in dialysis care (US\$ 550 million) and 65% in dialysis products (US\$ 1,042 million).

Europe is a fragmented region. We are active in more than 35 individual markets, some of which have fundamental differences in their reimbursement policies and market access. Some countries, including Germany, currently pro-

hibit private companies from operating dialysis clinics, while in Eastern Europe a move toward privatization is creating additional growth opportunities for Fresenius Medical Care.

In Central Europe we are primarily active in dialysis products. This market did not grow despite increasing patient numbers, underlining the high level of competition we face in this region. Nevertheless, we were very successful in this region and achieved good sales growth.

The successful introduction of our 5008 therapy system was a milestone in 2005. This new generation of dialysis machines generated very positive demand from our customers. With this system our lead in innovation is once more sustained.

We also continued to achieve good growth with our FX-class dialyzers, enabling us to further expand our market share. We now supply over 50 % of all dialyzers used in Germany.

Sales in products for acute dialysis also increased. We expanded our market share with Multifiltrate, a system specially designed for treating acute kidney failure. The Genius therapy system is also attracting wider acceptance and is marketed in various countries such as Belgium, Austria, Switzerland, Italy, and Poland.

In peritoneal dialysis, a South Korean study documented the superiority of our biocompatible dialysis solutions. These results also generated considerable interest in Europe and had a positive impact on the sales of our *bicaVera forte* and *balance* dialysis solutions. In Belgium, for example, *bicaVera* became established as the standard peritoneal dialysis solution.

In contrast to the markets of Central Europe, where Fresenius Medical Care is primarily active in dialysis prod-

ucts, in many other areas of Europe we have positioned ourselves as a provider of dialysis care.

We were very successful in France where the number of treatments rose by 5 %. By the end of the year we had treated about 1,400 patients there. In product sales, we achieved a new record with more than 1.1 million dialyzers sold. Thus, a quarter of all dialyzers used in France are produced by Fresenius Medical Care.

In Spain and Portugal we are the leading dialysis care provider. The number of our patients exceeded 8,000 – more than a quarter of all patients on the Iberian Peninsula. The introduction of the 5008 dialysis machine was especially successful in Portugal.

We had an exceptional success in Great Britain, where we achieved significant growth in both dialysis products and dialysis care. We treated approximately 2,100 hemodialysis patients in Great Britain in 2005. In 2006, we expect further positive developments. In Ireland, we plan to open our first dialysis clinic.

East and southeast Europe were among our regions showing the strongest growth in 2005. Turkey is now one of our key markets. We increased the number of patients there by nearly 10 % and treated about 4,100 dialysis patients in approximately 40 clinics by the end of the year. In addition, the reimbursement rate for dialysis treatments increased by approximately 20 %, making a further contribution to our positive results in Turkey. Peritoneal dialysis also developed very favorably. By the end of 2005, we had treated around 1,300 patients with our peritoneal dialysis products (2004: 1,000 patients).

In Poland, our market position was significantly strengthened by the acquisition and construction of 12 dialysis clinics. At the end of the year, we treated around 1,200 patients, about 10 % of all dialysis patients in the country.

Hungary was one of the first countries in Eastern Europe where Fresenius Medical Care established a presence. This early market entry has enabled us to reach a market share of about 40 % in hemodialysis care. At the same time, like other private care providers, we are facing an important challenge: since 2003 the reimbursement rate per treatment has been reduced on average by 4 % per year making it much lower than in neighboring countries.

We also strengthened our position in other regions of east and southeast Europe, such as Slovenia and the Czech Republic.

In the Middle East and Africa we are mainly active in the product business. In 2005, we were able to sign a frame contract with the United Arab Emirates for the sale of more than 120 dialysis machines of the 5008 series.

In the summer of 2005, Fresenius Medical Care started the production of peritoneal dialysis products in South Africa in order to meet the strong demand. This will considerably improve our market share to around 12 %. We also expanded our hemodialysis business and, by the end of the year, had treated nearly 300 patients, two thirds more compared to 2004.

ASIA-PACIFIC

In Asia-Pacific the regions are very fragmented, with some mature markets, such as Japan, contrasting with countries such as India or Indonesia where the markets are still developing.

Overall we considerably expanded our business, as shown in the following table:

	2005	2004	Change
Sales (in million US\$)	338	314	8 %
Dialysis clinics (December 31)	40	35	14 %
Dialysis patients (December 31)	3,500	3.000	17 %
Treatments (in millions)	0.51	0.46	11 %
Total number of dialysis patients in the regions*	~475,000		
Growth in the number of patients*	~7 %		

* Internal estimates

In 2005, Fresenius Medical Care achieved above average sales growth in most countries in the Asia-Pacific region. Dialysis care accounted for 23 % of sales (US\$ 79 million) and dialysis products for 77 % (US\$ 259 million).

Sales in China, Taiwan and Hong Kong considerably outpaced the market, showing an increase of more than 24 %. In just five years, sales have nearly tripled. We were especially successful in Taiwan, where the replacement of re-use dialyzers by our single-use models increased hemodialysis product sales by around 20 %. The number of patients treated in our clinics rose more than 30 % to more than 1,700. Our position in China also firmed and we now have a market

share of more than 40 % in dialyzers and dialysis machines. In Hong Kong, peritoneal dialysis is the dominant treatment method. We treat more than 1,100 patients there.

Peritoneal dialysis developed very positively in South Korea, where we supply our products to more than 2,000 patients. Sales growth was also generated by new products: We installed our new 5008 machines in the dialysis center of a leading university clinic. In addition, in 2006 we will begin marketing our dialysis concentrates, which are produced locally with a partner.

In Australia we are not only planning and building the necessary dialysis infrastructure, we also offer fully integrated dialysis management services for hemo and peritoneal dialysis patients. At the beginning of 2006 we won the tender to provide comprehensive care to home hemodialysis patients in Western Australia. Moreover, we care for around 200 peritoneal dialysis patients. The quality of treatment provided is increasingly important, and our high quality standards have, in some cases, enabled us to achieve a higher reimbursement rate per treatment.

Fresenius Medical Care also expanded its market share in the product business in the southeast Asia-Pacific region.

With about 250,000 dialysis patients, Japan is the biggest market in the region and accounts for about 20 % of all dialysis patients worldwide. Fresenius Medical Care is mainly active in two areas: dialysis products and, through its subsidiary NephroCare Japan, as a provider of comprehensive consulting services for dialysis centers.

In 2005, the Japanese dialysis market was once again marked by price pressure and strong competition, which kept market growth below the increase in patient numbers.

At the beginning of 2005, Fresenius Medical Care altered the production and marketing cooperation with Kawasumi Laboratories, and will now supply the partner with polysulfone fibers rather than contract manufacturing-made dialyzers. In dialysis products, we reaffirmed our position as one of the leading providers.

Growth in the Asia-Pacific area is expected to continue. We intend to outpace the overall market for dialysis products and dialysis care in 2006 and position ourselves as a best partner in dialysis therapy.

LATIN AMERICA

Our business activities in Latin America developed extremely well. This is a consequence of the region's robust economic development and a sharp increase in patient numbers.

	2005	2004	Change
Sales (in million US\$)	264	208	27 %
Dialysis clinics (December 31)	160	155	3 %
Dialysis patients (December 31)	15,800	14,800	7 %
Treatments (in millions)	2.37	2.27	4 %
Total number of dialysis patients in the regions*	~145,000		
Growth in the number of patients*	~6-7 %		

* Internal estimates

In 2005, we achieved a constant-currency sales increase of 17%. Dialysis care accounted for 70% of sales (US\$ 184 million) and dialysis products for 30% (US\$ 80 million).

Argentina is Fresenius Medical Care's most important market in the region with about 7,000 patients cared for in over 80 dialysis clinics. This represents about 5% more patients than in 2004. Last year we expanded our acute dialysis activities. Decision-makers in the health care sector are becoming increasingly aware of the importance of quality in dialysis treatment. As a result, we succeeded in increasing our number of Disease Management contracts from two to seven in 2005.

In Brazil, we are the leading provider of hemodialysis products and we extended this position in 2005. More than half of all dialyzers used in Brazil are supplied by Fresenius Medical Care. With about 4,100 patients in our partner clin-

ics – international companies are prohibited from operating dialysis centers – we were able to exceed market growth. Last year we also signed our first contract for Disease Management.

Our business also grew in Colombia, where the number of hemodialysis patients treated rose by 14% to more than 3,100. The sale of dialysis products also developed positively. In 2005, we increased production of dialysis solutions to meet domestic demand and intensified exports to neighboring countries.

In Venezuela, our business developed very positively, with the number of peritoneal dialysis patients treated increasing by about 150 to more than 700. Our hemodialysis business also grew faster than the market. By the end of 2005 we cared for about 1,300 hemodialysis patients and now have a market share of about 20%.

FRESENIUS KABI

- ▶ We grew strongly – in sales and earnings.
- ▶ New products in infusion therapy and clinical nutrition round out our portfolio.
- ▶ Our decentralized structure enhances our market position.

INTERNATIONAL SALES, DISTRIBUTION, AND R & D NETWORK



As at December 31, 2005

2005 was an exceptional year for Fresenius Kabi with significant increase in earnings and high organic sales growth in all regions. The successful integration of our 2005 acquisitions will foster our dynamic growth in our business units.

Fresenius Kabi is one of the few companies to offer infusion therapy, clinical nutrition, and related medical devices. Our market position is strong: We are the market leader in Europe and leading in almost all of our markets in Latin America and Asia-Pacific.

Fresenius Kabi offers an integrated product portfolio. We develop, manufacture, and market pharmaceutical products as well as medical devices and disposables for infusion and nutrition therapies. We focus on products for the treatment and care of critically and chronically ill patients.

In infusion therapy we offer products for fluid and blood volume replacement as well as generic intravenously administered drugs (IV drugs). We also supply infusion technologies, infusion disposables, and patient data management systems.

In clinical nutrition we provide parenteral (administered intravenously) and enteral nutrition (administered via the gastrointestinal tract). Other products include inpatient and outpatient infusion technologies, infusion disposables, and patient data management systems.

Our products are used in the entire network of medical care: in the emergency room, during operations, in intensive care, in regular hospital wards as well as in outpatient care.

A further business unit of Fresenius Kabi is transfusion technology, where we offer a range of products for use by blood banks and blood donation units to produce blood products.

BUSINESS DEVELOPMENT

In 2005, Fresenius Kabi achieved a significant increase in sales of 13 % to € 1,681 million (2004: € 1,491 million). Organic growth rose by a strong 7 %. Acquisitions increased sales by 5 %, primarily due to Labesfal. Currency translation added 2 % to sales, divestments had a -1 % effect.

The table shows the development by region:

in million €	2005	2004	Change	Organic growth
Germany	405	401	1 %	1 %
Europe ex Germany	819	712	15 %	5 %
Asia-Pacific	183	157	17 %	15 %
Latin America	101	79	28 %	14 %
Other regions	173	142	22 %	18 %

In Europe we considerably increased sales and achieved organic growth of 4 %. In Germany, sales grew by 1 % despite cost-saving measures in the health care sector.

Outside Europe, in the international segment, we continued our usual high level of growth.

Sales by product segment were as follows:

in million €	2005	2004	Organic growth
Infusion therapy	895	759	7 %
Clinical nutrition	674	624	8 %
Transfusion technology	112	108	1 %

Fresenius Kabi significantly increased earnings. EBIT rose by 33 % last year to €234 million (2004: €176 million). Our EBIT margin was 13.9 % (2004: 11.8 %). We clearly exceeded the projected full-year EBIT margin target of >13.5 %, which was raised at the mid of 2005.

Our business developed extremely well in both Europe and the international segment. In Europe we achieved an EBIT of €216 million (2004: €172 million), corresponding to an increase of 26 % and an EBIT margin of 17.6 % (2004: 15.5 %). In the international segment, EBIT rose by 35 % to €74 million (2004: €55 million). The EBIT margin increased to 16.2 % (2004: 14.6 %). Corporate costs and corporate research and development expenses amounted to €56 million (2004: €51 million).

ACQUISITIONS AND INTERNATIONAL EXPANSION

A key goal for 2005 was to broaden our international presence and our product portfolio – via acquisitions and through the foundation and strengthening of subsidiaries.

On January 1, 2005 we set up a subsidiary in the Philippines. It is an important step towards expanding of our business in this country. Previously, we were only represented by two distribution partners.

In March 2005 we closed our acquisition of Labesfal. This company produces and markets generic intravenously administered drugs for hospitals.

Halfway through the year we increased our stake in the Chinese joint venture Beijing Fresenius Kabi Pharmaceutical Co., Ltd. (BFP) from 65 % to 100 %, buying out 35 % from the Beijing Double Crane Pharmaceutical Co., Ltd. In 2005, BFP achieved sales of €46 million. The company's approximately 450 employees produce infusion solutions and IV anesthetics. Founded in 1994, the company is one of our most successful subsidiaries in the Asia-Pacific region. The BFP-produced blood volume replacement solution HAES-steril® and the anesthetic Propofol Fresenius rank among the seven most successful products recently introduced in China by foreign firms. Since 1982 we have also been active in China with another joint venture, the Sino Swed Pharmaceutical Co. Ltd. Last year, to maximize the opportunities offered by the dynamic development of the Chinese healthcare market, we founded a holding company based in Beijing to coordinate all of our subsidiaries' activities in the country.

In August 2005, we signed a contract to acquire a 25 % stake in E-Wha International, Inc., an owner-managed South Korean medical technology company. E-Wha, which is based in Seoul, develops, produces and markets disposable infusion systems. As a result, we have acquired the worldwide rights to market, distribute and further develop the E-Wha infusion systems. The company's main product group is disposable infusion pumps primarily used in outpatients for administering medication in cancer and for pain therapy.

On September 1, 2005, we established a subsidiary in Malaysia, where previously we had only been represented by our distribution partners.

In December 2005, we completed the acquisition of the business of Clinico GmbH, a German manufacturer of medical devices.

On January 1, 2006, Fresenius Kabi increased its stake in Pharmatel Fresenius Kabi Pty Ltd. from 25.1 % to 50.1 %. Launched in 2004, the Australian joint venture compounds intravenously administered drugs and is also active in parenteral nutrition.

INFUSION THERAPY

In 2005, Fresenius Kabi strengthened its position as market leader in Europe and expanded its market presence in Asia-Pacific, Latin America, and South Africa.

Fresenius Kabi has been active in the field of blood volume replacement for several decades. Our replacement solutions contain hydroxyethyl starch (HES), which is made from maize. HES products are artificial colloids that can be used with any blood group. We are market leader in this field in Europe, Asia-Pacific, and Latin America. We have established a new generation of colloids with our product Voluven[®], which we sell in approximately 70 countries. Its medical superiority and safety in use have won us widespread acceptance of this product. In Brazil for example, only one year after its introduction, Voluven[®] has become the blood volume replacement solution of choice and the leader in artificial colloids.

Propofol Fresenius is an anesthetic agent that we sell in more than 80 countries. We achieved high growth rates in Asia-Pacific, where we already rank among the largest sup-

pliers. We concluded the regulatory approval process for our new Propofol variety with medium-chain and long-chain fatty acids in 2005 and started their launch in the EU and Switzerland. Propofol Fresenius is a highly effective and easily controllable anesthetic. These properties have resulted in its increasing use in diagnostic procedures such as endoscopy.

In 2005, we introduced numerous new medical devices for infusion therapy. At MEDICA, the world's largest trade fair for medical technology, we presented the first product from our new Agilia line. The Injectomat Agilia is a high precision syringe pump for the intravenous administration of medication. Ease of use and safety were priorities in the pump's development. A simple menu enables it to be configured for use in general and intensive care, during surgery, and in emergency rooms. Data saved in the Injectomat Agilia – such as flow rate and volume – can be transferred directly to hospitals' data management systems.

We also introduced a new device for the instant diagnosis of blood parameters: EasyLab measures, monitors, and documents blood parameters such as electrolytes, pH-levels, oxygen, and carbon dioxide partial pressure, as well as hematocrit levels. The device can be used in intensive care and during surgery, but also in dialysis and by the general practitioner for monitoring lung function.

Another new product in 2005 was Ambix ANAPA, a disposable pump for administering medication that can be used for all types of infusions. Among the single-use pumps on the market, Ambix ANAPA is distinguished by its precision, safety, and easy handling. Designed especially for outpatient care, the pump is used primarily for cancer and pain therapies. Ambix ANAPA is a product of E-Wha infusion systems.

Fresenius Kabi makes substantial contributions to the training and education of the specialist medical community worldwide. Our scientific symposium FRACTA (Fresenius Kabi Advanced Course on Transfusion Alternatives) was held in India and Russia in 2005. The intensive, scientific discussion about current strategies for using infusions in volume therapies was greeted with very strong interest. The scarcity of blood will increasingly become an important topic in many emerging markets.

CLINICAL NUTRITION

Clinical nutrition can improve the general condition of patients and accelerate the recovery process. We lead this field in most of our markets in Europe, Asia-Pacific, Latin America, and South Africa. In 2005, we were able to increase our market share, especially in growth regions.

In parenteral nutrition our multi-chamber bag portfolio continues to attract strong interest. Each bag contains all the patient's daily nutritional requirements. We offer nutrition in 1, 2 and 3-chamber bags to accord with the patient's individual need. In 2005, we introduced our 3-chamber bag Kabiven® in various countries, such as Australia, Brazil, Russia, and the Philippines.

We also successfully introduced our new product Structo-Kabiven® electrolyte-free, which was specially developed for the needs of dialysis patients receiving parenteral nutrition. We launched StructoKabiven® electrolyte-free in Great Britain at the end of 2005 and plan to introduce it in additional European countries in 2006.

SMOFlipid® is a lipid emulsion containing four different lipid components to combine all the advantages of various fatty acids. The correct balance of fatty acids is important in

the parenteral nutrition therapy of patients in intensive care and helps to shorten hospital stays. The high acceptance of SMOFlipid® by medical experts was confirmed during an international symposium for clinical nutrition held by the European Society of Intensive Care Medicine in 2005. Experts and opinion leaders are showing increasing interest in using special lipids in nutritional therapies for patients in intensive care. In 2005, we introduced this product in several more European countries.

Our expertise in clinical nutrition is based, among other things, on the fact that we offer both parenteral and enteral therapies. One of our priorities in 2005 was to further expand our enteral nutrition products internationally. South Korea was one of the countries where we launched our Fresubin® products as part of our strategy to enlarge our product range in the Asian markets.

We also launched the enteral sip feed Fresubin® protein energy Drink in several European countries and now market it in over 20 countries. Malnourished patients have increased protein and energy requirements. The dosage of the nutrients and the proven superior taste have enabled us to establish this product very successfully on the market. In 2005, we introduced Fresubin® protein energy Drink in Great Britain, Scandinavia, South Africa, and other countries.

Ketosteril® is used to treat chronic kidney disease. It contains all the amino acids essential for these patients. Studies show that a Ketosteril®-supplemented, low-protein diet helps to preserve residual renal function, thus slowing the disease's progress and delaying the start of dialysis.

Ketosteril® is registered in over 50 countries and is being successfully marketed in Asia, Latin America, and Eastern Europe. In 2005, we received regulatory approval for South Korea and began distributing the product there toward the end of the year.

In the field of medical devices for enteral nutrition, we also introduced a new transnasal feeding tube for use in the early stages of intensive care. To save patients from undergoing additional surgery, the feeding tube is placed via the mouth or nose. The new feeding tube Freka® Easy In consists of an intestinal tube and a gastric tube. The nutrition is administered via the intestinal tube, and secretions are removed via the gastric tube. In 2005, we introduced this product in Germany, Austria, and the Netherlands.

Fresenius Kabi's BodyScout is a new device for measuring body components (for example, fat mass, muscle mass, and intra- and extracellular water). Based on a new spectroscopic multifrequency measuring technique, the device determines and monitors the nutritional status and fluid levels of a patient. We introduced the product at MEDICA 2005.

We held our scientific symposium "Fresenius Kabi Advanced Nutrition Course" (FRANC) in Brazil, Germany, and Australia in 2005. Eminent physicians and nutritionists lectured on the latest developments in clinical nutrition therapy for seriously and chronically ill patients. Workshops on specialized topics provided participants with a platform for a vigorous exchange of ideas.

TRANSFUSION TECHNOLOGY

In the area of transfusion technology, we offer disposable systems and medical devices for collecting and processing blood and blood products.

We consolidated our market leadership in in-line filter blood bag systems in Germany, Italy, Austria and Brazil and were able to expand our positions in Eastern Europe and Turkey. Last year we sold approximately 9.5 million blood bag systems worldwide. We made significant advances in intro-

ducing our devices for whole blood processing to international markets. Our mixing device Hemolight plus and Hemo-seal, a device for the disconnection of PVC-tubing, were successfully introduced in around 20 countries in Eastern Europe, the Middle East, and Asia-Pacific. Altogether, we now sell this product in 59 countries. CompoGuard, another mixing device model, also did well on the market. We were able to extend our leading market position in this product in Great Britain, Italy, France, and Spain in 2005.

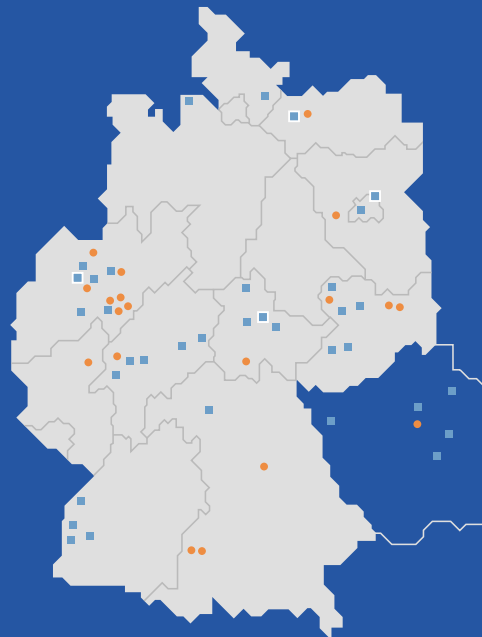
Our COM.TEC cell separator was introduced in China and other markets in 2005. As a result of the very high acceptance of this product, we were able to achieve double-digit growth in sales.

We built a new production line for blood bag systems at our subsidiary Infusia in Horatev, near Prague in the Czech Republic. Its high quality of production and strategic location have provided us with the perfect platform for expanding our transfusion technology products business in Central and Eastern Europe.

FRESENIUS PROSERVE

- ▶ The acquisition of HELIOS significantly strengthened our hospital operations business.
- ▶ Orders in the project business increased by 40 %.
- ▶ We secured new contracts in the hospital services business.

ACUTE CARE AND POST ACUTE CARE HOSPITALS OF THE HELIOS GROUP



● Acute care ■ Post acute care □ Maximum-care hospital

As at December 31, 2005

2005 was a pivotal year for Fresenius ProServe. The acquisition of HELIOS makes us a leading private hospital operator in Germany and gives us an excellent platform for further growth in the German hospital market. Our hospital engineering and services business achieved strong order intake growth as did the engineering and services business for the pharmaceutical industry.

BUSINESS DEVELOPMENT

In 2005, Fresenius ProServe achieved sales of € 809 million (2004: € 813 million). On a comparable basis, excluding the nursing home business that was sold in 2004 and the international hospital management business that was discontinued in the same year, sales grew 5 %.

Sales at the hospital operations business (WKA) rose 2 % to € 350 million (2004: € 343 million). Sales at the hospital engineering and services division (VAMED) reached € 377 million, 7 % above the previous year (2004: € 352 million). The engineering and services business for the pharmaceutical industry (Pharmaplan) had sales of € 82 million, 4 % above the € 79 million of 2004. The moderate sales development in the engineering business resulted from postponements in the billing for major projects in the fourth quarter of 2005. The overall good business development in 2005 is reflected in the strong order intake and order backlog: Order intake on December 31, 2005 reached € 341 million (2004: € 244 million), an increase of 40 %. Order backlog achieved € 360 million (2004: € 335 million), corresponding to 7 % growth.

EBIT of Fresenius ProServe was € 20 million, significantly above the previous year's figure (2004: € 9 million; € 17 million before one-time expenses).

THE ACQUISITION OF HELIOS KLINIKEN

HELIOS is one of the largest hospital chains in Germany with sales of € 1.2 billion in 2005. The company owns 24 hospitals with a total capacity of around 9,300 beds. It employs approximately 17,300 people.

HELIOS and the hospitals of the Wittgensteiner Group (WKA) will become a single unit. WKA will operate under the leadership of HELIOS. Both companies are highly complementary in terms of medical focus and geographical fit. Combining the acute clinics of HELIOS with the post acute care activities of WKA will create new opportunities for high quality medical treatment provided by a single operator.

Further information about HELIOS is on pages 57 to 61 of this Annual Report.

HOSPITAL OPERATIONS BUSINESS

WKA owns 16 post acute care clinics and 11 acute care hospitals in Germany and the Czech Republic with a total capacity of about 5,000 beds.

The introduction of Diagnosis Related Groups (DRGs) in 2004 in Germany has increased the importance for transparency and quality in hospitals. In future, these will be key competitive factors in the hospital market in addition to profitability. In 2005, German hospitals were asked for the first time to prepare structured quality reports. These reports in-

clude information on the quality of treatment and are to be made available to the general public. Structured quality reports will enable patients, health insurers, and physicians to make better comparisons of the performance and the quality of individual hospitals. In the long term, only hospitals that provide high quality care will be able to persist. WKA adapted to the new conditions and optimized its range of medical services as well as internal structures and processes.

One example of innovative medicine is ReValving, a new cardiac technology performed for the first time in Germany at the Klinikum Siegburg Rhein-Sieg GmbH. During ReValving, an artificial heart valve is implanted without surgically removing the old valve. A catheter is used to transport the new valve to the heart through a peripheral artery. There it self-expands, taking over the function of the defective valve. This method is especially beneficial to high-risk patients because it eliminates the need of open-heart surgery.

In 2005, WKA continued to focus on innovative medical treatments in its post acute clinics. Combined with a high degree of specialization, this will provide valuable experience for physicians as well as increase the level of quality. The rehabilitation clinic at Bad Ems, Germany, is just one example. The previous broad range of care services is now focused on cardiology and orthopedics.

Shorter average stays at acute care hospitals have increased the demand for early rehabilitation therapies. This is especially true for patients with complex diseases who are referred for rehabilitation. Two WKA clinics now have mechanical ventilation equipment to assist in early rehabilitation.

The Seehospital Sahlenburg in Cuxhaven added a new outpatient department. A new uro-oncology ward opened at the Klinik Bergisch Land in Wuppertal. The new ward specializes in providing care for patients with bladder and prostate cancer, helping to meet the demand from the increasing

numbers of patients with these diseases. Various infrastructure projects were also completed to provide better service and comfort for patients.

Cost-reduction projects were successfully continued. For example, we further consolidated our product range in procurement, optimizing our purchase bundling. WKA also invested in its IT systems in 2005 to record patient data more efficiently and further simplify billing.

These and other measures strengthened the competitiveness of WKA last year, improved the service for our patients, and increased our profile among referrers.

HOSPITAL ENGINEERING AND SERVICES

VAMED specializes in international hospital projects and is a world leader in the development and construction of major hospital projects. The company is uniquely positioned, offering a comprehensive portfolio of services. These range from project development, planning and construction to facility management and management of hospitals and other health care facilities. The company is also pioneering public private partnership (PPPs) for hospitals and other health care facilities in Central Europe.

VAMED won the contract to build, equip, and manage one of the most modern hospitals in Malaysia, the Prince Court Medical Center in Kuala Lumpur. As part of the efforts to provide relief for tsunami victims in Southeast Asia, Austrian and Hungarian aid organizations commissioned VAMED to construct a pediatric clinic in Banda Aceh – the biggest reconstruction project in the entire disaster area. Another major contract was won in Vietnam for the modernization of six hospitals. A modernization project for six hospitals in China is progressing according to plan. New contracts for equipping the new central hospital in Libreville, Gabon were secured. We also completed the modernization of two university hospitals in Nigeria.

VAMED is the leading provider of technical hospital management in Europe and 2005 was another successful year for this business. The Vienna General Hospital (AKH), one of Europe's largest hospitals with about 2,200 beds, extended its contract for technical management with VAMED. In Germany, VAMED and its bidding consortium were awarded a contract to take over and manage the non-medical services activities of Berlin's Charité university hospital. This is one of the largest service contracts recently awarded in Europe. Three major projects in Austria strengthened VAMED's domestic market leadership in health care facilities and thermal spas.

Government clients in the health care sector are showing increasing interest in public private partnerships. In this business model, public and private partners plan, construct, finance, and operate hospitals or other health care facilities through a joint company. Such projects provide cost and quality benefits for both partners. In 2005, VAMED won additional contracts with existing PPP partners, such as with three maximum-care hospitals and various post acute clinics in Austria.

In 2006, VAMED's focus in Europe will be the completion of its various fully-integrated turnkey projects and PPPs. In such projects, VAMED contributes its core competencies and experience in the organization and execution of PPPs, making it a valuable strategic partner. Outside Europe, the focus will be on customized engineering and services for hospitals.

ENGINEERING AND SERVICES FOR THE PHARMACEUTICAL INDUSTRY

Pharmaplan provides services such as the planning, construction, and supervision of pharmaceutical and medical-technical production plants.

Last year, Pharmaplan significantly improved its order intake. This positive development was driven by increased manufacturing orders from pharmaceutical and biotechnology companies. Pharmaplan acquired contracts of well-known companies in Germany, France and Switzerland and won a contract to build the largest modular biotechnology production plant in Europe. It also won the contract for a major project in Germany for the production of highly effective drugs from a multinational pharmaceutical company. In Korea the company won various planning contracts.

In addition, Pharmaplan strengthened its presence in Eastern Europe with the founding of a joint venture in Prague to service the markets in the Czech Republic, Slovakia and other Eastern European countries. A sales and marketing office was opened in Kuala Lumpur, Malaysia, to expand our position in Southeast Asia.

Pharmatec, a Pharmaplan subsidiary, secured a major contract in Germany for delivery of innovative systems to cleanse bio-pharmaceutical production plants. To meet increased demand in this sector, Pharmatec began working with the leading manufacturer of fermentation systems in Germany. This cooperation will allow Pharmatec to offer the full service range necessary for the production of bio-pharmaceutical products.

ADDITIONAL INFORMATION ON THE FISCAL YEAR

- ▶ We offer career opportunities for our employees.
- ▶ We broadened our human resources development activities.
- ▶ In our R&D we are committed to deliver effective help for severely ill patients with our products and therapies.
- ▶ Active environmental protection is part of our corporate responsibility.

EMPLOYEES

Fresenius has excellent perspectives for the future. These perspectives create opportunities for our employees. Fresenius is an attractive employer – not only for national and international university graduates and specialists but also for high school leavers and trainees.

The successes to date motivate us to continue developing our activities in human resources. We are conscious, too, of our socio-political responsibilities as a major employer. We have expanded our family support program for example. We pay parents a day care allowance starting when their child is born.

For Fresenius, training and education are particularly important. Today, training opportunities for school leavers are lacking in Germany, but demographics will soon reverse this situation. We are preparing ourselves for growing competition for talented job applicants. This includes attractive training programs not only for apprentices but also for university graduates. This should help us to recruit dedicated young people and win their loyalty. Last year, the number of apprenticeships offered remained at a high level and we trained over 450 young people. At the same time we have made it easier for them to seek jobs within the company after their training. A “trainee database” now launched provides a platform through which trainees can introduce themselves, proactively and individually, to our managers.

Employee development and personnel marketing

For us, the development of our employees is an ongoing mission. Our development program for top executives is based on our “entrepreneur in the enterprise” corporate philosophy. This program was continued last year and extended to further management levels. Besides potential and needs analyses, which are followed through with appropriate skill development measures, we are now focusing increasingly on personalized on-the-job training to support executives in their daily work. One example is the use of external “sparring partners” to mentor executive staff. The development portfolio is supplemented by feedback from supervisors and colleagues on interpersonal and professional skills. Our longstanding cooperation with the business school INSEAD in Fontainebleau and Singapore is acquiring still greater importance in this context. We also cooperate with other international business schools.

Top positions for highly qualified specialists are not easy to fill. Therefore, we have adopted and further refined the concept of “alternative career opportunities.” It creates three potential career tracks – management, specialist or project manager. This is implemented through potential and needs review processes. Our goal is to offer development opportunities for employees within a flat hierarchical structure.

Fresenius strives to project its reputation as an attractive employer more strongly in the domestic and international

job market. Here, we are focusing on our online recruitment activities as the majority of candidates today use this medium for job seeking.

Profit-sharing scheme and stock option plan

It is tradition at Fresenius for employees to participate in the company's success. We consider identification with the company to be a key success factor.

There is a stock option plan for the members of the Management Board and selected executives at Fresenius AG and its affiliated companies. Executives at Fresenius Medical Care AG and its affiliated companies have a separate stock option plan. For further information on the stock option plan please see page 183 and the following pages of the Notes.

Non-executive employees can participate in the company's financial success through bonus shares. The company's EBIT determines the level of the bonus. The amount to be paid in 2006 per entitled employee for 2005 under the profit-sharing scheme is € 1,000.00 gross (full-time equivalents). Two-thirds of the amount is paid in shares. Entitled employees can opt to have the remaining third paid in cash or in additional shares. The profit-sharing scheme enjoys high acceptance: last year more than half of the employees chose to have the entire bonus paid in shares. This clearly indicates the strong confidence Fresenius employees have in their company.

***team@work* – The Fresenius Employee Award**

Last year Fresenius launched the *team@work*-Award and endowed it with over € 50,000. The award has been created to foster team spirit, strengthen cooperation and, ultimately, realize cost savings more intensively within the Fresenius Group. Solutions to problems in one business segment can often be applied to other areas within the Fresenius Group. Passing on ideas and working together are the keywords.

26 teams with a total of about 150 employees from ten countries competed for the award. The high quality of these cooperation projects was convincing: the *team@work*-Award will be repeated again this year. If employees bundle their knowledge, experience and technologies this creates a win-win situation for everyone – those with the ideas, those who use them and Fresenius. The synergies could be the key advantage that helps us to maintain a leading position in our markets.

RESEARCH AND DEVELOPMENT

We place great importance on our research and development. The challenge and commitment in our R&D efforts is to help severely ill effectively with our products and therapies. Our aim is to provide patients with optimal care so that they enjoy a better quality of life and live longer.

Dialysis

Research and development at Fresenius Medical Care is focused on products and therapies for dialysis and other extracorporeal blood treatments. Fresenius Medical Care profits from its unique position as a vertically integrated company and the experience it gathers daily from treating patients with kidney disease. This allows us to clearly identify the needs of patients, physicians and nurses: easy-to-use products, best treatment results and maximum safety. This experience is constantly fed back into our R&D activities.

In 2005, we focused on completing the development of our new 5008 therapy system. Features of the system are its simple interface and improved treatment quality. Routine processes and maintenance have been significantly reduced. Side-effects occur less often than with conventional dialysis machines. Long-term treatment with the newly developed

machine has also proven to be gentler. For the first time, Online-Hemodiafiltration (Online-HDF) is standard in the new 5008 therapy system. This best-possible therapy for patients with chronic kidney failure has a positive effect on risk factors related to cardiovascular diseases and could further lower the mortality rate. This was confirmed by a study published at the beginning of June. Patients in the study who received Online-HDF treatment had a better chance of survival than those receiving conventional hemodialysis treatment. The developers were able to build on the experience gathered at Fresenius Medical Care's 1,680 own dialysis clinics around the world. The machine was not only intensively tested in the laboratory but also at a number of dialysis centers. Before they were released the machines were successfully tested in more than 240,000 treatments. This close relationship with clinics allowed the machine to be optimized for the needs of patients and treatment personnel.

Aside from the dialysis machine, the dialyzer is another key component of dialysis. Fresenius Medical Care is researching into dialysis membranes that function selectively and would influence the treatment process. Membranes could either have specific adsorption properties or contain substances for targeted release.

Another field of development is anticoagulants which temporarily reduce the coagulability of the blood. Here, we are looking for an alternative to the drug Heparin. Our aim is to reduce the coagulability of the blood only when in extracorporeal circulation and not within the patient's circulatory system. A solution containing citrate is introduced into the patient's blood as it enters the extracorporeal circulation. Through complexation of the calcium ions in the blood, it effectively interrupts the clotting cascade. The controlled addition of a calcium solution at the end of the extracorporeal circulation reinstates the original coagulability. The correct dosing of both solutions requires appropriate pump-

ing units as well as computer-aided calculations and broad practical experience with the kinetics of these solutions in extracorporeal circulation.

We are also focusing on peritoneal dialysis. Special design details and the simple and safe handling of the tubes and connectors used in transferring the peritoneal dialysis solution into the abdominal cavity reduce the risk of bacterial contamination which could, for example, lead to peritonitis. Peritonitis can restrict the effectiveness of the peritoneum, the body's own filter used in peritoneal dialysis treatment, or render it unsuitable for use in further treatments. The composition of the solutions themselves as well as the buffer systems used can also influence the long-term success of peritoneal dialysis treatment.

The good tolerance of our biocompatible peritoneal dialysis solution *balance** was proven in a study conducted in South Korea. This was the largest study to date that compared mortality rates of patients using standard PD solutions and the new biocompatible PD solutions. The study showed that the use of biocompatible solutions leads to a lower mortality rate and better protects the peritoneum.

Extracorporeal therapies for the treatment of liver disease are another focus of our R&D activities, and are based on the experiences and technologies used in dialysis. In many cases, these therapies are able to provide additional time until liver transplantation is possible, or the liver uses its regenerative abilities and heals itself. Fresenius Medical Care's Prometheus® system is currently in clinical development. A clinical study showed that detoxification with this system is highly effective. A Europe-wide, multi-center study started in 2005 should now verify the therapy success. Beyond this, we are also developing bioreactors with functioning cells and are evaluating the effectiveness in potential treatment areas that include the liver-support application.

*Peritoneal Dialysis International (Vol. 25, pp 248-255)

Infusion therapy and clinical nutrition

At Fresenius Kabi, the focus of R&D activities is on developing high-quality products and technologies, which are at the same time both innovative and safe, to improve the treatment of critically and chronically ill patients. In 2005, we worked on the development of new products and on further product enhancements. The emphasis here was on all product components – the primary packaging, the pharmaceutical solution for infusion therapy and clinical nutrition, the related medical devices for the application, and the manufacturing technology.

In parenteral nutrition we successfully completed development of the new primary packaging for SMOfIipid®. SMOfIipid® is administered intravenously to intensive care patients. The product was introduced in 2004 and has established itself in many markets as the innovative lipid emulsion. Until now, it was offered exclusively in glass bottles. In 2006, we will begin offering it in 1-chamber bags. Clinical studies evaluating SMOfIipid® as the lipid component in 3-chamber bags have also been successfully completed. The launch of this multi-chamber bag with the new lipid emulsion is planned for 2007.

The high therapeutic relevance of SMOfIipid® can also play an important role in parenteral nutrition for critically ill children. Last year we successfully completed the first clinical study for the use of this product in pediatric care and plan to submit the application for regulatory approval in 2007.

StructoKabiven® provides nutrition for severely ill patients. It contains both medium- and long-chain fatty acids, glucose and amino acids. Last year we successfully completed the development of an additional StructoKabiven® product. The new StructoKabiven® electrolyte-free is specially developed for the needs of dialysis patients receiving parenteral nutri-

tion. These require individual doses of electrolytes. The new product provides nutrients while intravenously infusing the necessary amount of electrolytes individually required. We launched this product on European markets in 2005.

In enteral nutrition we offer sip and tube feeding as well as specialized products. Patients often are not able to ingest enough nutrients – they do not want or cannot eat enough. This is the case with patients who are recovering from surgery or are struggling with weakness, for instance as a result of cancer. These patients require additional enteral sip feeding to maintain bodily functions. The willingness to consume these regularly is decisive for a patient's health to improve. So we have focused on optimizing the taste of our sip feeds and have refined various recipes in the Fresubin® Protein Energy Drink product family.

In 2005, we obtained positive results from the study on our ProvideXtra® enteral sip feed. ProvideXtra® is used for instance in chronic inflammatory bowel disease such as Morbus Crohn. The effectiveness of insulin can be limited during so-called insulin resistance, especially after surgery. Insulin is a hormone produced by the pancreas that supports processes to lower blood sugar levels while helping to build tissue. Our study showed that pre-operative treatment with ProvideXtra® reduced insulin resistance in surgical patients. Based on the results of the study, the applications for the product can be expanded which will further improve the care for chronically and critically ill people.

For Intestamin®, we worked on another galenic application. Intestamin® is used in the early nutrition of critically ill intensive care patients. It contains key nutrients to support

the gut and protect against malnourishment, which could adversely affect the course of the disease or recovery. The new product will simplify the use of enteral nutrition in the early post-operative phase. We expect a market launch in 2006.

We completed a clinical study on our product Diben last year. The results confirm its high therapeutic effect in diabetes patients. Diben is one of the few enteral nutrition products that contribute to a long-term improvement in the blood-sugar levels of diabetes patients.

Fresenius is also the global leader in artificial colloids. This makes it our responsibility to continue developing innovative products for blood volume replacement and contribute to a high level of quality in the care of patients in emergency and intensive care medicine. In 2005, we worked on the development of a new variant of Voluven®. Voluven® is an international reference product for blood volume replacement. The new product will widen the applications for blood volume replacement substances.

We are also developing a novel technology platform based on our research in colloids (hydroxyethyl starch). Our aim is to use the so-called HESylation procedure to couple hydroxyethyl starch with drugs. One of the benefits is that this can extend the circulating life of the drug in the blood and therefore prolong its effect. The development of HESylation as a new technology platform is in the preclinical stage.

In infusion technology we worked on further devices in our Agilia generation. Our goal here is to develop solutions that meet the demands in the operating theater and intensive care wards as well as general hospital wards. For example, we focused on the development of an infusion pump that is designed for use in cardiac surgery. Dosages during such

operations are critical. Our new pump will allow exact dosing and the use of units such as milligram per kilogram of body weight per minute or per hour. An integrated medical library which includes the hospital's own specific standards simplifies the handling for the hospital personnel and offers additional protection from incorrect dosages.

Another product from the Agilia family is a new volumetric pump that can be used universally and within the Agilia concept. Flow rates can be controlled precisely and the easy handling of the interface allows use of the machine both in and outside the hospital. The international market launch for both products is planned for 2006.

The development of our 3-chamber bag has set new technology standards in primary packaging systems in parenteral nutrition. Last year we worked on the development of a new generation of the 3-chamber packaging system. A newly developed port technology used in this system is a further step of eliminating application errors and increase patient safety. A new packaging design and improvements in filling technology will make production more efficient. The launch of this product is planned for 2006. At the same time, work continued on the development of our own production line for the new 3-chamber bag, which will be implemented at other sites when completed.

In the field of packaging technology for infusion therapies we worked on a new bottle-pack container. The bottle-pack container cap is another innovative development that makes for maximum patient safety. Patent disclosure took place at the end of 2005. The new bottle-pack container is due to be launched in 2006.

Antibody and cell therapies

Fresenius Biotech develops innovative therapies with trifunctional antibodies for the treatment of cancer as well as cell therapies for the treatment of various organ systems (such as the immune system). In the field of polyclonal antibodies, Fresenius Biotech has successfully marketed ATG-Fresenius S for many years. ATG-Fresenius S is an immunosuppressive agent used to suppress graft rejection following organ transplantation.

In cancer therapy, the results of two clinical studies were presented at the 2005 American Society of Clinical Oncology (ASCO) Annual Meeting and were very well received.

A first phase I study with the trifunctional antibody *removab*[®] in metastatic breast cancer was successfully completed. The antibody is safe and tolerable when applied intravenously and was effective in single cases. Last year we prepared a phase II study and the first patient should be included in the study in the spring of 2006.

The second phase I study with the trifunctional antibody *removab*[®] presented at the ASCO meeting proved to be safe and tolerable in an intra-peritoneal application in patients with peritoneal carcinomatosis. Preparations for two phase II studies to treat advanced gastric cancer have already started. The first study will investigate the antibody as an additional therapy to surgery. The second study will investigate the use of the antibody in combination with chemotherapy since chemotherapy will play a bigger role in gastric cancer treatment in the future.

Further studies have been conducted with the antibody *removab*[®]. Their status is as follows:

- ▶ The recruitment phase for an European study to receive regulatory approval for treatment of symptomatic ascites caused by malignant tumors was completed. A final report is expected in the second half of 2006 once the clinical data from more than 200 patients has been analyzed.

- ▶ The patient recruitment for a study to determine dosages in the treatment of malignant pleural effusion was completed. A final report will also be available in the second half of 2006.
- ▶ Together with the consortium of gynecological oncologists (Arbeitsgemeinschaft Gynäkologischer Onkologen or AGO), the recruitment for a phase IIa study treating advanced ovarian cancer was completed. The final report is expected in the first half of 2006.

In the area of polyclonal antibodies, our immunosuppressive agent ATG-Fresenius S was further developed in two clinical projects:

A study with ATG-Fresenius S is being conducted with a view to launching the product on the US market. The aim of the study is to prove that the use of ATG-Fresenius S can lower the organ rejection reaction after lung transplantation. Since our partner, Enzon Pharmaceuticals, will not continue the program through to the regulatory approval and marketing of ATG-Fresenius S since it is refocusing its R & D activities, we are currently in negotiations with a potential partner to continue the clinical development program.

A second project with ATG-Fresenius S is a study for the prophylaxis of acute Graft-versus-Host Disease after stem cell transplantation. In this study, the standard therapy (i. e. Cyclosporin A and methotrexate) is being compared with the standard therapy with additional administration of ATG-Fresenius S. As planned, we were able to add further study centers in Europe and recruit patients during 2005. The first preliminary results confirm the safety of ATG-Fresenius S in the selected dosage. The final report is expected for 2009.

In the area of transplantation immunology, the observation of patients in a pilot study of immunotolerance following organ transplantation was continued. The aim of this devel-

opment approach is to achieve immunotolerance to the implanted organ by modifying cells of the organ donor.

R & D financial figures can be found in the Management Report on page 66.

ENVIRONMENTAL MANAGEMENT

As a health care company, Fresenius is committed to protect nature as the basis of life and to use its resources responsibly. It is our mission to constantly improve our performance in the areas of environmental protection, occupational health and technical safety, product responsibility and logistics, and to comply with legal requirements.

Environmental management in accordance with ISO 14001:1996 and 14001:2004 is in place at various production plants and dialysis clinics. Additional sites, for instance in France and Italy, were certified last year. The new 14001:2004 standard places greater focus on a continuous evaluation of a production site's impact on the environment with emphasis on emissions and waste.

Active environmental protection at our production sites and related logistics activities means that we constantly strive to make our processes more environmentally friendly. This often results in cost savings. For example, at our plant in St. Wendel, Germany, we have been able to significantly reduce our consumption of steam and packaging materials: 13,300 tones of steam were saved through an improved heat recovery system as well as the introduction of an electric sealing system for the production of peritoneal dialysis bags. The standardization of packaging materials created savings of 15 tones of cardboard and lowered transport costs for dialyzers by 12%. Moreover, we were able to save 61 tones of plastic foil by using a more compact method for the sterile packaging of medical devices.

Environmental protection measures do not just kick in at the production level, but are an integral part of the product

development process: The 5008 dialysis machine developed at our plant in Schweinfurt, Germany, requires up to 30% less water and electricity than our previous machines, making for a significant reduction in operating costs. This presents enormous potential for saving resources as our dialysis clinics outside North America start using the machines in the mid to long term.

Our North American dialysis clinics practice sort-clean separation of waste, which reduces the volume of residual waste. This program was rolled out in 2005 from 640 locations to 880 Fresenius Medical Care clinics and allows us to recycle almost 2,600 tones of paper and cardboard packaging. The more than 70 water treatment systems for the preparation of ultra-pure water are another environmental measure. These can prepare about three-fourths of the water required and save nearly 100 liters of freshwater per dialysis treatment. Ultra-pure water is a key quality component in the production of dialyzers as well as in dialysis treatment. Because of the large quantities used, small adjustments in consumption can lead to significant savings.

We also further exploited the potential for reducing the natural resources used in the shipping of goods and products between production facilities, warehouses and dialysis clinics. We have increased our use of double-decker trucks since they can transport significantly more at one time.

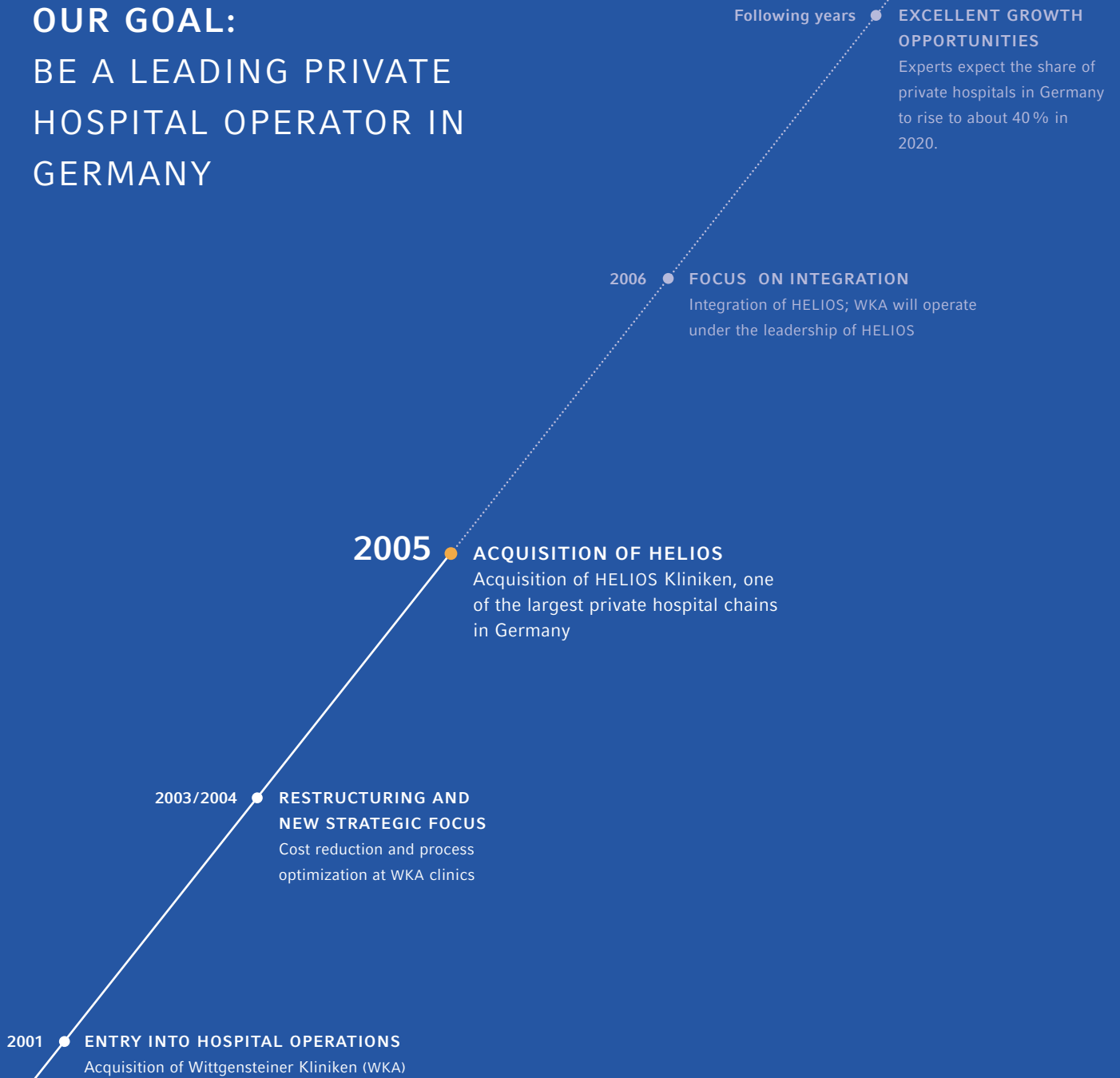
An initiative to reduce waste was also introduced at our plant in Friedberg, Germany. The use of a new preparation technology for the production of infusion solutions, using silos instead of sacks for raw materials, has cut the volume of waste by nearly 6%. With a recycling rate of about 94%, some 5,300 tones of materials are re-used.

For the eighth time, Fresenius Kabi in Graz, Austria was awarded as an especially environmentally friendly production site by the local ÖKOPROFIT® program. The Fresenius

Kabi site has been a partner in the program for ten years. The aim of ÖKOPROFIT®, an initiative of the city of Graz that is now imitated internationally, is to combine financial with ecological benefits. Innovative technologies can reduce both the consumption of resources and the volume of waste and emissions. This results in cost savings and improves a company's financial performance. At the same time, through conservation efforts of this kind ÖKOPROFIT® makes a positive contribution to the environment. The environmental protection agency, companies and external consultants collaborate closely on a training program. In Germany, more than 1,000 companies in 54 cities participate in the project, including our enteral nutrition production site in Bad Homburg.

The environmental protection program at our production site in Uppsala, where we produce parenteral nutrition products, focuses on reducing waste as well as effluent and emissions as an ongoing process. One project targets energy savings and reduced use of non-fossil fuels with a view to minimizing the emission of greenhouse gases into the atmosphere. In another project a membrane filter system was installed to purify wastewater from fat. The filtering capacity is 95%. This reduces the volume of waste and the related disposal costs. The amount of waste per ton of nutrition solution produced was cut by as much as 24 %.

OUR GOAL: BE A LEADING PRIVATE HOSPITAL OPERATOR IN GERMANY





OUR MILESTONE: ACQUISITION OF HELIOS KLINIKEN

Two factors are vital for long-term success in hospital operations: The first is a successful network of hospitals with high medical standards and efficient operations. The second is the expertise to acquire, integrate and manage new hospitals profitably. The strategy we used to acquire a major hospital group was based on these two key elements. In the fall of 2005, the opportunity to acquire HELIOS Kliniken arose.

Through this acquisition, Fresenius is now one of the three leading private hospital operators in Germany. With sales of about € 1.5 billion in 2005, HELIOS* ranks among the largest and most profitable private hospital chains in Germany. HELIOS owns 51 hospitals with a total capacity of approximately 14,300 beds including four maximum-care hospitals with more than 1,000 beds each. The company performs around 420,000 inpatient treatments annually.

Fresenius and HELIOS are committed to providing best-in-class treatment. HELIOS is recognized as the industry leader in medical quality standards. The company provides excellent care that reflects and advances the latest scientific knowledge, benefiting both our patients and insurers.

* All figures pro forma, including Wittgensteiner Kliniken.

The HELIOS Kliniken Group offers expertise in all areas and at all levels of clinical care, including maximum care.



OUR WAY FORWARD: CONVINCE WITH QUALITY, GROW THROUGH ACQUISITIONS

This commitment can only be achieved through strict quality control. At the HELIOS clinics, quantifiable medical targets and internal benchmarking have yielded mortality rates below the German average for most internal medicine diagnoses and surgeries. HELIOS has evaluated approximately 1.8 million inpatient cases – the largest non-institutional quality management project ever undertaken. Payment to the clinics' chief physicians and commercial managers is tied to specific medical targets. Quality is a core competitive factor.

The German hospital sector is on the move to further privatization. Rising costs and the crisis in public finance are putting more pressure on hospitals to improve efficiency while providing high standards of medical quality. Hospitals with a favorable cost structure and efficient workflows will remain competitive. Private hospital operators often respond better than public hospitals to these market requirements. Through its use of innovative medicine, strict quality control and knowledge management, HELIOS is proof that hospitals are able to operate profitably. In the first year after acquiring a hospital, HELIOS expects to achieve an EBITDA margin of 3% with an increase to around 15% in five years. Only about 9% of hospital beds in Germany are currently privatized. Experts expect this number to increase considerably in the coming years. The acquisition of HELIOS puts us in a strong position to profit from the excellent growth opportunities offered by the privatization of the German hospital market.

Since 1999 HELIOS has published a comprehensive annual report on the quality of the medical care in its clinics. These reports are available online at www.helios-kliniken.de (in German).





Knowledge is the basis of our comprehensive patient care.

MANAGEMENT REPORT

- ▶ Sales up 8 %, net income up 32 %.
- ▶ Operating cash flow of € 780 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 189 and 190 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 countries 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 effect on the state-

ment 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.

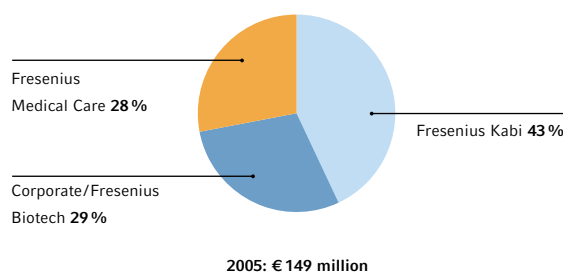
Research and Development

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



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 € 149 million in 2005, 12% more than the € 133 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 € 56 million in 2004 to € 64 million in

2005. R&D expenses in the Corporate segment were up from € 36 million in 2004 to € 43 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.

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.

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 31%. 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 133 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	1,073	969
Net income	265	222

Results of operations

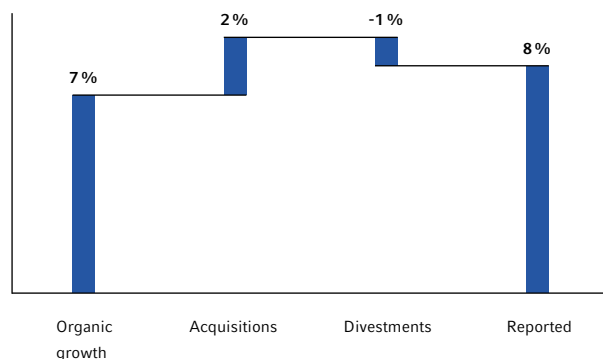
Sales

In 2005, Group sales increased by 8% to €7,889 million. Organic growth contributed 7% while acquisitions/divestments contributed 1% to this sales growth. Currency translation effects had hardly any impact. 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 30% and Africa with 16%. North America also performed strongly with currency-adjusted growth of 8%. 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 9% to €5,443 million (2004: €5,007 million). Organic growth contributed 7%, and acquisitions and currency translation effects 1% each. 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

in million €	2005	2004	Change	Organic growth	Currency translation effects	Acquisitions/Divestments	% of total sales 2005
Europe	3,032	2,802	8%	7%	0%	1%	38%
North America	3,746	3,478	8%	7%	0%	1%	47%
Asia-Pacific	557	547	2%	0%	2%	0%	7%
Latin America	354	272	30%	16%	10%	4%	5%
Africa	200	172	16%	15%	0%	1%	3%
Total	7,889	7,271	8%	7%	0%	1%	100%

achieved strong organic growth of 7%. Acquisitions increased 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 32% to € 222 million (31% 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 € 1,289 million (2004: € 1,160 million). Group EBIT was up 14% at constant exchange rates and up 15% at actual rates to € 969 million (2004: € 845 million).

EBIT contributions from the three business segments developed as follows:

- ▶ Fresenius Medical Care achieved EBIT growth of 10% to € 755 million (2004: € 685 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 2005
Fresenius Medical Care	5,443	5,007	9%	7%	1%	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	685	10 %
Fresenius Kabi	234	176	33 %
Fresenius ProServe	20	9	--

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 33 % to € 234 million from € 176 million in the previous year. The EBIT margin advanced to 13.9 % after 11.8 % 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: € 9 million, including one-time expenses of € 8 million for restructuring measures). This strong year-on-year increase of 18 % is primarily the result of restructuring benefits.

Development of other major items of the statement of income

Gross profit came to € 2,689 million, exceeding the € 2,376 million in 2004 by 13 % (13 % also at constant currency rates). The gross profit margin rose to 34.1 % (2004: 32.7 %). Cost of goods sold rose 6 % to € 5,200 million in 2005. This is 65.9 % of Group sales after 67.3 % 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 € 1,571 million in 2005 (2004: € 1,398 million). Amortization and depreciation amounted to € 320 million (2004: € 315 million). Depre-

ciation 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, € 6 million less than last year's € 209 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 38.9 % (2004: 39.8 %).

Minority interests rose to € 246 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 € 5.28 (2004: € 4.08). Earnings per preference share rose to € 5.31 (2004: € 4.11). This is an increase of 29 % 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 16.3 % (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 € 3,523 million in 2005 (2004: € 3,228 million). This is an increase of 9 % over 2004. The distribution statement shows that, at € 2,482 million or 70 %, the largest portion of our value added went to our employees. Governments and lenders came next with € 370 million and € 203 million, or 11 % and 6 %, respectively. Shareholders received € 76 million, minority interests € 246 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	7,271	8 %	8 %
Cost of goods sold	-5,200	-4,895	-6 %	-6 %
Gross profit	2,689	2,376	13 %	13 %
Operating expenses	-1,720	-1,531	-12 %	-12 %
EBIT	969	845	15 %	14 %
Net interest	-203	-209	3 %	3 %
Income taxes	-298	-253	-18 %	-17 %
Minority interest	-246	-215	-14 %	-13 %
Net income	222	168	32 %	31 %
Earnings per ordinary share (in €)	5.28	4.08	29 %	28 %
Earnings per preference share (in €)	5.31	4.11	29 %	28 %
EBITDA	1,289	1,160	11 %	11 %
Depreciation and amortization	320	315	2 %	1 %
EBITDA margin	16.3 %	16.0 %		
EBIT margin	12.3 %	11.6 %		

VALUE ADDED STATEMENT

in million €	2005	%	2004	%
Creation				
Company output	7,907	100	7,278	100
- Materials and services purchased	4,064	51	3,735	52
Gross value added	3,843	49	3,543	48
- Depreciation and amortization	320	4	315	4
Net value added	3,523	45	3,228	44
Distribution				
Employees	2,482	70	2,318	72
Governments	370	11	318	10
Lenders	203	6	209	6
Shareholders	76	2	56	2
Company and minority interests	392	11	327	10
Net value added	3,523	100	3,228	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 (Schuldschein-darlehen) 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 De-

cember 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 €

789	Cash flow
-9	Change in working capital
780	Operating cash flow
331	Capital expenditure (net)
449	Cash flow (before acquisitions and dividends)
1,738	Acquisitions and dividends
-1,289	Free cash flow (after acquisitions and dividends)

Cash Flow Analysis

The Group cash flow statement shows a sustained development. Group cash flow increased 10% to € 789 million in 2005 (2004: € 718 million) due to the strong increase in net income. The change in working capital was € -9 million (2004: € 133 million). Higher income tax payments at Fresenius Medical Care had a negative effect.

Operating cash flow came to € 780 million in 2005 (2004: € 851 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 € 353 million, while proceeds from the sale of property, plant and equipment amounted to € 22 million (2004: € 308 million and € 22 million, respectively). Cash flow before acquisitions and dividends came to € 449 million (2004: € 565 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: €-458 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 €2.247 million (2003: €421 million) This was the highest investment volume in the company's history. €353 million (2004: €308 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	468	383
Depreciation and amortization	320	315
Change in pension provisions	1	20
Cash flow	789	718
Change in working capital	-9	133
Operating cash flow	780	851
Property, plant and equipment and intangible assets	-353	-308
Proceeds from the sale of property, plant and equipment	22	22
Cash flow before acquisitions and dividends	449	565
Cash used for acquisitions/proceeds from disposals	-1,606	-90
Dividends	-132	-122
Free cash flow after acquisitions and dividends	-1,289	353
Cash provided from financing activities (without dividends paid)	1,388	-336
Currency-adjusted change in cash and cash equivalents	13	-2
Change in cash and cash equivalents	112	15

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.

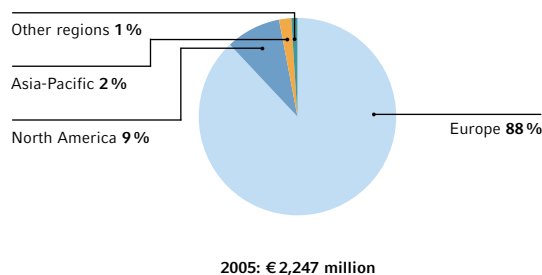
Assets and Liabilities

Asset and liability structure

The total assets of the Group rose by € 3,406 million (42 %) to € 11,594 million (December 31, 2004: € 8,188 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 € 8,063 million (2004: € 5,433 million). Based on the closing exchange rates as of December 31, 2004, the increase was 39 %. High additions

INVESTMENTS BY REGION



in property, plant and equipment as well as goodwill had a significant effect here. Goodwill from acquisitions amounted to € 1,426 million on December 31, 2005, of which € 1,190 million resulted from the purchase of HELIOS.

Current assets amounted to € 3,531 million (2004: € 2,755 million), an increase of 21 % 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	320	253	108	13 %	16 %
Fresenius Kabi	351	68	77	274	--	16 %
Fresenius ProServe	1,519	29	12	1,507	--	68 %
Corporate/Other	16	4	11	5	--	0 %
Total	2,247	421	353	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).

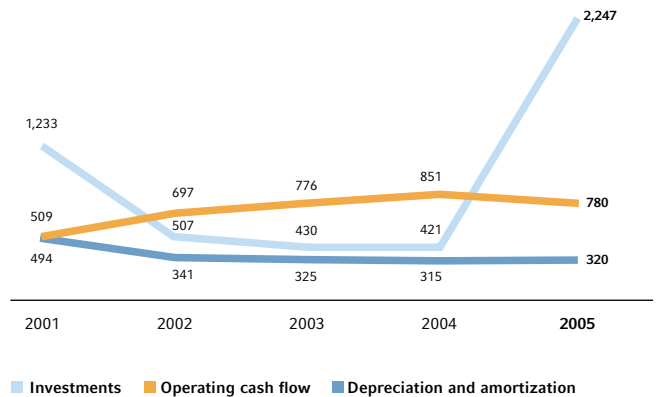
The liabilities and equity side of the balance sheet was marked primarily by the capital increase. Shareholders' equity including minority interests rose 53 % to €5,130 million (2004: €3,347 million). Adjusted for currency effects, the increase was 40 %. Group net income increased shareholders' equity 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 40.9 % on December 31, 2004 to 44.2 % 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 64 % of non-current assets (2004: 62 %). Shareholders' equity, minority interests and long-term liabilities cover all non-current assets including all inventories.

The long-term liabilities of €3,967 million on December 31, 2005 were €1,182 million or 42 % above the €2,785 million of the previous year (38 % at constant exchange rates). The short-term liabilities were €2,497 million or 21 % above the previous year's figure (€2,056 million). Adjusted for currency effects, short-term liabilities would have been 15 % 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 148 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 €447 million (December 31, 2004: €583 million) and with a remaining term of one to five years and over five years amounted to €3,055 million (December 31, 2004: €2,152 million).

The net debt to equity ratio including minorities (gearing) decreased from 78 % in 2004 to 63 %. The return on equity after taxes rose to 11.4 % (2004: 10.5 %). The return on total assets after taxes and excluding minority interests was 4.9 % in 2005 (2004: 4.7 %). 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	6.3	5.6

* 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 85 and in the Notes on pages 172 to 178.

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 €2,482 million, an increase of 7 % versus the previous year's figure of €2,318 million. Personnel expenses per employee amounted to €34,700 (2004: €34,200).

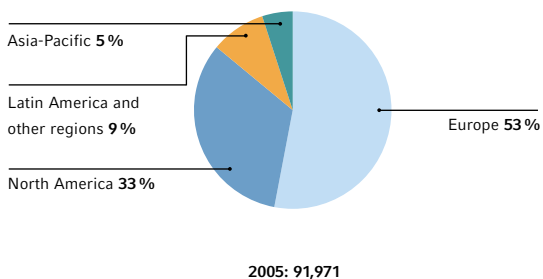
There were no significant changes to compensation or employment agreements in 2005.

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



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 certi-

fied 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 172 to 178 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 148 and page 169 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 170 and page 171 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 & Pooors	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 76 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 84 f.

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 expect 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

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.

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 9.9%. 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 82 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 securi-

tization 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: €353 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.

KEY FIGURES OF MAJOR AFFILIATED COMPANIES

Company	Held by Fresenius in %	Sales 2005 in million US\$	Profit/Loss ¹⁾ 2005 in million US\$	Equity Dec 31, 2005 in million US\$	Employees Dec 31, 2005
Europe					
1 Fresenius Medical Care AG Hof an der Saale, Germany (sub-group/US GAAP)	shareholdings: 36.40 share of votes: 50.76 ²⁾	6,772	455	3,973.7	50,250

Company	Held by Fresenius in %	Sales 2005 in million €	Profit/Loss ¹⁾ 2005 in million €	Equity Dec 31, 2005 in million €	Employees Dec 31, 2005
Europe					
2 Fresenius Kabi Deutschland GmbH Bad Homburg v.d.H., Germany (with profit transfer agreement)	100	509.7	–	314.5	1,659
3 Fresenius HemoCare Deutschland GmbH Bad Homburg v.d.H., Germany (with profit transfer agreement)	100	28.3	–	9.1	162
4 MC Medizintechnik GmbH Alzenau, Germany (with profit transfer agreement)	100	26.6	–	2.2	92
5 V. Krütten Medizinische Einmalgeräte GmbH Idstein, Germany (with profit transfer agreement)	100	16.2	–	2.3	119
6 Pharmaplan Group Bad Homburg v.d.H., Germany	100	82.5	4.0 ³⁾	16.0	464
7 Wittgensteiner Kliniken Group Bad Berleburg, Germany	100	349.6	-9.4	73.8	6,983
8 Fresenius Kabi France S.A.S. Sèvres, France	100	118.3	1.2	27.7	552
9 Fresenius Vial S.A.S. Brézins, France	100	49.5	3.5	20.0	232
10 Calea France S.A.S. Sèvres, France	100	17.8	0.2	1.2	129
11 Fresenius Kabi Italia S.p.A. Verona, Italy	100	61.9	0.5	46.8	271
12 Fresenius HemoCare Italia S.r.l. Medolla/Modena, Italy	100	39.4	0.3	7.9	180
13 Fresenius Kabi España S.A. Barcelona, Spain	100	47.8	2.6	21.4	183
14 Labesfal – Laboratório de Especialidades Farmacêuticas Almiro S.A. Campo de Besteiros, Portugal	100	62.0	13.6	47.7	364
15 Fresenius Kabi Ltd. Basingstoke/Hampshire, Great Britain	100	102.0	3.1	5.6	303

Company	Held by Fresenius in %	Sales 2005 in million €	Profit/Loss ¹⁾ 2005 in million €	Equity Dec 31, 2005 in million €	Employees Dec 31, 2005
Europe					
16 Fresenius Kabi Austria GmbH Graz, Austria	100	162.0	20.4	57.2	546
17 VAMED Group Vienna, Austria	77	367.6	15.7	78.1	1,884
18 Fresenius Kabi (Schweiz) AG Stans, Switzerland	100	19.8	0.6	4.6	47
19 Fresenius HemoCare Netherlands B.V. Emmen, The Netherlands	100	114.7	3.5	29.8	1,127
20 Fresenius Kabi Nederland B.V. 's-Hertogenbosch, The Netherlands	100	20.1	1.9	2.0	13
21 Fresenius Kabi N.V. Schelle, Belgium	100	27.9	-0.5	2.4	39
22 Fresenius Kabi Norge A.S. Halden, Norway	100	57.9	7.6	20.5	378
23 Fresenius Kabi AB Stockholm, Sweden	100	170.1	14.9	174.8	745
24 Fresenius Kabi Polzka Sp.Z.o.o. Warsaw, Poland	100	19.5	-0.5	12.1	231
25 Fresenius Kabi S.r.o. Prague, Czech Republic	100	18.6	-0.8	3.3	186
America					
26 Calea Ltd. Toronto, Canada	100	69.8	5.2	11.4	275
27 Grupo Fresenius México S.A. de C.V. Guadalajara, Mexico	100	29.0	3.6	28.5	503
28 Fresenius Kabi Brasil Ltda. Campinas/São Paulo, Brazil	100	40.8	-0.8	7.1	1,036
Asia					
29 Sino-Swed Pharmaceutical Corporation Ltd. Wuxi, China	51	58.5	12.8	50.7	992
30 Beijing Fresenius Kabi Pharmaceutical Co., Ltd. Beijing, China	100	45.6	5.8	25.2	451
31 Fresenius Kabi Korea Ltd. Yongin, Korea	100	21.9	0.6	6.2	104
Africa					
32 Fresenius Kabi South Africa Ltd. Midrand, South Africa	100	67.1	10.1	42.4	501

¹⁾ net income/loss

²⁾ In February 2006, 96 % of all outstanding Fresenius Medical Care preference shares were tendered into ordinary shares and the transformation of the company's legal form into a KGaA became effective. Fresenius AG owns 36.77 % of the voting ordinary shares of Fresenius Medical Care AG & Co. KGaA.

³⁾ € 0.1 million before loss transfer according to profit and loss transfer agreement

The complete list of investment holdings will be filed with the Commercial Register of the District Court of Bad Homburg v.d.H.

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CONSOLIDATED STATEMENT OF INCOME

January 1 to December 31, in million €	Note	2005	2004
Sales	3	7,889	7,271
Cost of goods sold	4	-5,200	-4,895
Gross profit		2,689	2,376
Selling, general and administrative expenses	6	-1,571	-1,398
Research and development expenses		-149	-133
Operating income (EBIT)		969	845
Interest income	7	20	15
Interest expenses	7	-223	-224
Earnings before income taxes and minority interest		766	636
Income taxes	8	-298	-253
Minority interest	21	-246	-215
Net income		222	168
Basic earnings per ordinary share in €	9	5.28	4.08
Fully diluted earnings per ordinary share in €	9	5.24	4.07
Basic earnings per preference share in €	9	5.31	4.11
Fully diluted earnings per preference share in €	9	5.27	4.10

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	10	252	140
Trade accounts receivable, less allowances for doubtful accounts	11	1,871	1,528
Accounts receivable and loans from related parties		15	17
Inventories	12	727	619
Prepaid expenses and other current assets	13	478	283
Deferred taxes	8	188	168
I. Total current assets		3,531	2,755
Property, plant and equipment	14	2,356	1,696
Goodwill	15	4,680	2,905
Other intangible assets	15	541	480
Other non-current assets	13	359	234
Deferred taxes	8	127	118
II. Total non-current assets		8,063	5,433
Total assets		11,594	8,188

LIABILITIES AND SHAREHOLDERS' EQUITY

in million €	Note	2005	2004
Trade accounts payable		353	273
Short-term accounts payable to related parties		2	1
Short-term accrued expenses and other current liabilities	16, 17	1,522	986
Short-term borrowings	18	224	391
Short-term liabilities and loans from related parties		1	2
Current portion of long-term debt and capital lease obligations	18	222	190
Accruals for income taxes		146	195
Deferred taxes	8	27	18
A. Total short-term liabilities		2,497	2,056
Long-term debt and capital lease obligations, less current portion	18	2,055	1,219
Long-term liabilities and loans from related parties		-	-
Long-term accrued expenses and other long-term liabilities	16, 17	304	160
Pension obligations	19	305	228
Deferred taxes	8	303	245
Trust preferred securities of Fresenius Medical Care Capital Trusts	20	1,000	933
B. Total long-term liabilities		3,967	2,785
I. Total liabilities		6,464	4,841
II. Minority interest	21	2,289	1,744
Subscribed capital	22	130	105
Capital reserve		1,546	645
Other reserves		1,061	895
Accumulated other comprehensive income (loss)	23	104	-42
III. Total shareholders' equity		2,841	1,603
Total liabilities and shareholders' equity		11,594	8,188

The following Notes are an integral part of the Consolidated Financial 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	168
Minority interest	21	246	215
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities			
Cash inflow from hedging		0	12
Depreciation and amortization		320	315
Gain from sale of investments		0	-14
Change in deferred taxes		10	25
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	11	-42	-20
Change in inventories	12	-12	9
Change in prepaid expenses and other current and non-current assets	13	-101	100
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		195	36
Change in accruals for income taxes		-71	2
Cash provided by operating activities		780	851
Cash provided by/used for investing activities			
Purchase of property, plant and equipment		-353	-308
Proceeds from the sale of property, plant and equipment		22	22
Purchase of shares in related companies and investments, net	2, 26	-1,608	-100
Proceeds from the sale of shares in related companies and investments, net	26	2	10
Cash used for investing activities		-1,937	-376

in million €	Note	2005	2004
Cash provided by/used for financing activities			
Proceeds from short-term borrowings	18	37	87
Repayments of short-term borrowings	18	-70	-77
Proceeds from short-term and long-term borrowings from related parties		0	1
Repayments of short-term and long-term borrowings from related parties		-4	-1
Proceeds from long-term debt and capital lease obligations	18	945	607
Repayments of long-term debt and capital lease obligations	18	-310	-1,096
Changes of accounts receivable facility	18	-194	143
Proceeds from exercise of stock options		90	3
Dividends paid		-132	-122
Proceeds from issuance of bearer ordinary shares	22	438	0
Proceeds from issuance of bearer preference shares	22	481	0
Payments of additional costs of capital increase	22	-22	0
Change in minority interest	21	-1	-
Payments on hedge contracts for intercompany loans in foreign currency		-2	-3
Cash provided by/used for financing activities		1,256	-458
Effect of exchange rate changes on cash and cash equivalents		13	-2
Net increase in cash and cash equivalents		112	15
Cash and cash equivalents at the beginning of the year	10	140	125
Cash and cash equivalents at the end of the year	10	252	140

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

in million €	Note	Ordinary shares		Preference shares		Subscribed capital	
		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	22						
Proceeds from exercise of stock options	28	1	2	1	2	4	–
Compensation expense related to stock options	28						
Dividends paid	22						
Comprehensive income (loss)							
Net income							
Other comprehensive income (loss) related to							
Cash flow hedges	23, 25						
Foreign currency translation	23						
Minimum pension liability	19, 23						
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	22	4,700	12,032	4,700	12,032	24,064	24
Proceeds from the exercise of stock options	28	175	449	175	449	898	1
Compensation expense related to stock options	28						
Dividends paid	22						
Comprehensive income (loss)							
Net income							
Other comprehensive income (loss) related to							
Cash flow hedges	23, 25						
Foreign currency translation	23						
Minimum pension liability	19, 23						
Comprehensive income (loss)							
As of December 31, 2005		25,361	64,924	25,361	64,924	129,848	130

in million €	Note	Reserves		Other comprehensive income (loss)			Total
		Capital reserve	Other reserves	Foreign currency translation	Cash flow hedges	Pensions	
As of December 31, 2003		644	778	40	4	-35	1,536
Issuance of bearer ordinary and bearer preference shares	22						0
Proceeds from exercise of stock options	28	-					-
Compensation expense related to stock options	28	1					1
Dividends paid	22		-51				-51
Comprehensive income (loss)							
Net income			168				168
Other comprehensive income (loss) related to							
Cash flow hedges	23, 25				-22		-22
Foreign currency translation	23			-20			-20
Minimum pension liability	19, 23					-9	-9
Comprehensive income (loss)		0	168	-20	-22	-9	117
As of December 31, 2004		645	895	20	-18	-44	1,603
Issuance of bearer ordinary and bearer preference shares	22	872					896
Proceeds from the exercise of stock options	28	25					26
Compensation expense related to stock options	28	4					4
Dividends paid	22		-56				-56
Comprehensive income (loss)							
Net income			222				222
Other comprehensive income (loss) related to							
Cash flow hedges	23, 25				32		32
Foreign currency translation	23			141			141
Minimum pension liability	19, 23					-27	-27
Comprehensive income (loss)		0	222	141	32	-27	368
As of December 31, 2005		1,546	1,061	161	14	-71	2,841

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

SEGMENT REPORTING

by business segments

in million €	Fresenius Medical Care			Fresenius Kabi		
	2005	2004	Change	2005	2004	Change
Sales	5,443	5,007	9 %	1,681	1,491	13 %
thereof contribution to consolidated sales	5,418	4,979	9 %	1,651	1,465	13 %
thereof intercompany sales	25	28	-11 %	30	26	15 %
contribution to consolidated sales	69 %	69 %		21 %	20 %	
EBITDA	957	872	10 %	318	258	23 %
Depreciation and amortization	202	187	8 %	84	82	2 %
EBIT	755	685	10 %	234	176	33 %
Net interest	-139	-147	5 %	-51	-46	-11 %
Net income	366	323	13 %	111	79	41 %
Operating cash flow	539	665	-19 %	237	170	39 %
Cash flow before acquisitions and dividends	300	456	-34 %	167	121	38 %
Debt	1,857	1,820	2 %	903	709	27 %
Total assets	6,767	5,845	16 %	1,867	1,518	23 %
Capital expenditure	253	224	13 %	77	55	40 %
Acquisitions	108	96	13 %	274	13	--
Research and development expenses	41	41	0 %	64	56	14 %
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 %		18.9 %	17.3 %	
EBIT margin	13.9 %	13.7 %		13.9 %	11.8 %	
ROOA	12.6 %	11.8 %		14.5 %	13.4 %	
Depreciation and amortization in % of sales	3.7 %	3.7 %		5.0 %	5.5 %	

	Fresenius ProServe			Corporate/Other			Fresenius Group		
	2005	2004	Change	2005	2004	Change	2005	2004	Change
	809	813	0 %	-44	-40	-10 %	7,889	7,271	8 %
	804	811	-1 %	16	16	0 %	7,889	7,271	8 %
	5	2	150 %	-60	-56	-7 %	0	0	
	10 %	11 %		0 %	0 %		100 %	100 %	
	45	39	15 %	-31	-9	--	1,289	1,160	11 %
	25	30	-17 %	9	16	-44 %	320	315	2 %
	20	9	122 %	-40	-25	-60 %	969	845	15 %
	-10	-11	9 %	-3	-5	40 %	-203	-209	3 %
	2	-10	120 %	-257	-224	-15 %	222	168	32 %
	19	23	-17 %	-15	-7	-114 %	780	851	-8 %
	7	-1	--	-25	-11	-127 %	449	565	-21 %
	229	222	3 %	513	-16	--	3,502	2,735	28 %
	2,859	742	--	101	83	22 %	11,594	8,188	42 %
	12	25	-52 %	11	4	--	353	308	15 %
	1,507	4	--	5	0	--	1,894	113	--
	1	0	--	43	36	19 %	149	133	12 %
	26,664	9,398	184 %	604	570	6 %	91,971	68,494	34 %
	5.6 %	4.8 %					16.3 %	16.0 %	
	2.5 %	1.1 %					12.3 %	11.6 %	
	3.6 %	1.5 %					11.7 %	11.1 %	
	3.1 %	3.7 %					4.1 %	4.3 %	

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

SEGMENT REPORTING

by region

in million €	Europe			North America		
	2005	2004	Change	2005	2004	Change
Sales	3,032	2,802	8 %	3,746	3,478	8 %
contribution to consolidated sales	38 %	39 %		47 %	48 %	
EBIT	337	295	14 %	522	478	9 %
Depreciation and amortization	170	182	-7 %	112	102	10 %
Total assets	5,784	3,269	77 %	4,747	4,046	17 %
Capital expenditure	179	145	23 %	141	132	7 %
Acquisitions	1,791	41	--	62	52	19 %
Employees (per capita on balance sheet date)	48,169	27,373	76 %	31,031	29,690	5 %

	Asia-Pacific			Latin America			Africa			Fresenius Group		
	2005	2004	Change	2005	2004	Change	2005	2004	Change	2005	2004	Change
	557	547	2 %	354	272	30 %	200	172	16 %	7,889	7,271	8 %
	7 %	7 %		5 %	4 %		3 %	2 %		100 %	100 %	
	59	36	64 %	31	19	63 %	20	17	18 %	969	845	15 %
	22	19	16 %	14	10	40 %	2	2	0 %	320	315	2 %
	556	472	18 %	431	330	31 %	76	71	7 %	11,594	8,188	42 %
	14	14	0 %	17	13	31 %	2	4	-50 %	353	308	15 %
	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 reporting is integral part of the Notes.

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

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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. 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.

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 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 lapse 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

The accompanying consolidated financial statements have been prepared in accordance with the United States Generally Accepted Accounting Principles (US GAAP).

From January 1, 2005 on, Fresenius AG as a stock exchange listed company in a member state of the European Union has to prepare and to publish the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applying § 315a of the German Commercial Code (HGB). The Fresenius Group continues to prepare and publish the consolidated financial statements in accordance with US GAAP and in addition will prepare and publish the consolidated financial statements according to IFRS as legally required.

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 where this provides useful information to the users of the consolidated financial statements.

The consolidated balance sheet is classified on the basis of the maturity of assets and liabilities; the consolidated statement of income is classified using the cost of sales format.

IV. Summary of significant accounting policies

a) Principles of consolidation

The financial statements of consolidated entities have been prepared using uniform accounting methods.

Capital consolidation is performed according to SFAS No. 141 (Business Combinations) and SFAS No. 142 (Goodwill and other intangible assets) 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 performed according to APB No. 18 (The Equity Method of Accounting for Investments in Common Stock).

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.

Minority interest comprise the interest of minority shareholders in the consolidated equity of group entities, including profits and losses attributable to the minority shareholders.

b) Composition of the Group

The consolidated financial statements include all material companies in which Fresenius AG has legal or effective control. In addition, the Fresenius Group consolidates variable interest entities (VIEs) for which it is deemed the primary beneficiary. If material, the equity method of accounting is used for investments in associated companies (usually 20 % to 50 % owned). All other investments are recorded at acquisition costs.

Fresenius Medical Care enters into various arrangements with certain dialysis clinics to provide management services, financing and product supply. Some of these clinics are VIEs. Under FIN 46R (Consolidation of Variable Interest Entities (revised)) these clinics are consolidated if Fresenius Medical Care is determined to be the primary beneficiary. These VIEs generate approximately € 48 million (US\$ 59 million) in annual revenue.

In accordance with FIN 46R, the VIEs are fully consolidated. The interest held by the other shareholders in these consolidated VIEs is reported as minority interest in the consolidated balance sheet at December 31, 2005.

Fresenius ProServe participates in long-term project entities which are set up for long-term defined periods of time and for the specific purpose of constructing and operating thermal centers. Some of these project entities qualify as VIEs, whereby Fresenius ProServe is not the primary beneficiary. The project entities generate approximately € 28 million in annual revenue. From today's perspective and due to the contractual situation, Fresenius ProServe is not exposed to any material risk of loss from these VIEs.

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) Classifications

Certain items in the previous year's consolidated financial statements have been reclassified to conform with the current year's presentation. Net operating results have not been materially affected by the reclassifications.

d) 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, an appropriate reduction to sales, cost of sales and accounts receivable is made in the event a return is actual.

In the business segment Fresenius ProServe, sales are recognized for long-term production contracts depending on the individual agreement and in accordance with the percentage of completion method. 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.

e) Research and development expenses

Research and development expenses are expensed as incurred.

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 value of these assets may not be recoverable in accordance with SFAS No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets). Recoverability of these assets is measured in a first step by a comparison of the carrying value of an asset to the future net cash flow directly associated with the asset. If assets are considered to be

impaired, the impairment recognized is the amount by which the carrying value exceeds the fair value of the asset. The Fresenius Group uses various valuation factors, including market prices and present value techniques to assess fair value.

In accordance with SFAS No. 144, long-lived assets to be disposed of by sale are reported at the lower of carrying value or fair value less cost to sell and depreciation is ceased. Long-lived assets to be disposed of other than by sale are considered to be held and used until disposal.

g) Interest

The Fresenius Group includes interests which are directly attributable to the acquisition, construction or manufacture of qualifying assets in accordance with SFAS No. 34 (Capitalization of Interest 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 SFAS No. 109 (Accounting for 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 adopted tax rates in the relevant national jurisdictions when the amounts are recovered. Tax rates, which will be valid in the future, but are not adopted till the balance sheet date, are not considered.

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. Reduction shall be reversed to the date and extent that it becomes probable that sufficient taxable profit will be available (See Note 8, Income taxes).

i) Earnings per share

Basic earnings per ordinary share and preference share for all years presented have been calculated in accordance with SFAS No. 128 (Earnings per Share) using the two-class method based upon the

weighted average number of ordinary and preference shares outstanding. Basic earnings per ordinary share are computed by dividing net income less preference amounts by the weighted average number of ordinary shares and preference shares outstanding during the year. For the purposes of computing earnings per preference share, the additional amount payable on preference shares is added to earnings per ordinary share. Diluted earnings per share include the effect of all potentially dilutive instruments on ordinary shares and preference shares that would have been outstanding during the year. The awards granted under the Fresenius' and Fresenius Medical Care's stock incentive plans (see Note 28, Stock options), are potentially dilutive equity instruments.

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 by Fresenius Group, to determine whether there have been any divergences to previous payment history.

l) Inventories

Inventories are stated at the lower of cost (acquisition or manufacturing cost determined by using the average or first-in, first-out method) or market value. Manufacturing cost comprises direct costs, production and material overheads and depreciation.

m) Property, plant and equipment

Property, plant and equipment are stated at acquisition and manufacturing 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 19 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 SFAS No. 142 (Goodwill and Other Intangible Assets), intangible assets with definite useful lives are amortized over their respective useful lives and reviewed for impairment in accordance with SFAS No. 144 (Accounting for Impairment or Disposal of Long-Lived Assets) (see Note 1. IV. f, Impairment).

Purchased 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.

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 SFAS No. 141 (Business Combinations). They are recorded at acquisition costs.

Goodwill and intangible assets with indefinite lives are not amortized, but tested for impairment annually or when an event becomes known that could trigger an impairment.

To evaluate the recoverability of goodwill, the Fresenius Group identified reporting units in accordance with SFAS No. 142 and determined the carrying value of each reporting unit by assigning the assets and liabilities, including existing goodwill and intangible assets, to those reporting units. At least once a year the company compares the fair value of each reporting unit to the reporting unit's carrying amount. The fair value of a reporting unit is determined using a discounted cash flow approach. In the case that 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 the carrying value, the difference is recorded as an impairment.

To evaluate the recoverability of separable intangible assets with indefinite useful lives, the Fresenius Group compares the fair values of intangible assets with their carrying values. An intangible asset's fair value is determined using a discounted cash flow approach 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. Thereof 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.

p) Leases

Leased assets, assigned to Fresenius Group based on chances and risks (i.e. finance leases) are recognized as property, plant and equipment in accordance with SFAS No. 13 (Accounting for Leases) and measured on receipt date at their present values of lease payments as long as their fair values are not lower. Leased assets are depreciated in straight-line over their useful lives. If there is doubt as to whether 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.

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

Property, plant and equipment, which is rented 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.

q) Derivative financial instruments

In accordance with SFAS No. 133 (Accounting for Derivative Instruments and Hedging Activities) derivative financial instruments which primarily include foreign currency forward contracts and interest rate swaps are recognized as assets or liabilities at fair value in the balance sheet. Changes in fair value of derivative financial instruments are recognized periodically either in earnings or, in the case of cash flow hedges, as other comprehensive income (loss) in shareholders' equity.

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 25, Financial Instruments).

r) Liabilities

Liabilities are stated generally at present value which normally corresponds to the value of products or services which are delivered. Short time liabilities are measured as a general rule at their repayment 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 SFAS No. 5 (Accounting for Contingencies), 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.

u) Pension accruals and similar obligations

Pension accruals for post-employment benefits are measured using the projected unit credit method in accordance with SFAS No. 87 (Employers' Accounting for Pensions), 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.

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 Fresenius Group accounts for its stock option plans in accordance with the provisions of APB No. 25 (Accounting for Stock Issued to Employees) and related interpretations. As such, compensation expense is recorded only if the current market price of the underlying stock exceeds the exercise price on the measurement date.

Fair Value of Stock Options

In electing to continue to follow APB Opinion No. 25 for expense recognition purposes, the Fresenius Group is obliged to provide the expanded disclosures required under SFAS No. 123 (Accounting for Stock-Based Compensation) for stock-based compensation granted, including disclosure of proforma net earnings and earnings per share had compensation expense relating to grants been measured under the fair value recognition provisions of SFAS No. 123 (Accounting for Stock-Based Compensation).

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 years

The following table illustrates the effect on net income and earnings per share if the Fresenius Group had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

in million €, except the amounts per share (€)	2005	2004
Net income		
as reported	222	168
Net income as reported less preference on preference shares	221	167
plus share-based employee compensation expense according to APB No. 25, net of tax	3	–
less share-based employee compensation expense according to SFAS No. 123, net of tax	-9	-8
Pro-forma less preference on preference shares	215	159
Pro-forma	216	160
Basic earnings per ordinary share		
As reported	5.28	4.08
Pro-forma	5.14	3.88
Basic earnings per preference share		
As reported	5.31	4.11
Pro-forma	5.17	3.91
Fully-diluted earnings per ordinary share		
As reported	5.24	4.07
Pro-forma	5.10	3.87
Fully-diluted earnings per preference share		
As reported	5.27	4.10
Pro-forma	5.13	3.90

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 worker's 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 SFAS No. 52 (Foreign Currency Translation). Substantially all assets and liabilities of the foreign subsidiaries are translated at year-end exchange rates, while revenues and expenses are translated at average exchange rate. Adjustments for foreign currency translation fluctuations are excluded from net earnings and are reported 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

z) Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP 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

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151 (Inventory Costs – an amendment of ARB No. 43, Chapter 4 (FAS 151)) which is the result of its efforts to converge US accounting standards for inventories with International Financial Reporting Standards. This statement requires abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. As of January 1, 2006, the Fresenius Group will adopt SFAS No. 151, which is not expected to have a material impact on its consolidated financial statements.

In December 2004, the Financial Accounting Standards Board issued its final standard on accounting for share-based payments, SFAS No. 123R (Share-Based Payment (SBP) (revised)), that requires companies to expense the cost of employee stock options and similar awards. SFAS No. 123R requires determining the cost that will be measured at fair value on the date of the SBP awards based upon an estimate of the number of awards expected to vest. There will be no right of reversal of cost if the awards expire without being exercised. Fair value of the SBP awards will be estimated using an option-pricing model that appropriately reflects the specific circumstances and economics of the awards. Compensation cost for the SBP awards, which are not deductible according to German tax law, will be recognized as they vest. The Fresenius Group will have two alternative transition methods, each having a different reporting implication. The effective date is for interim and annual periods beginning after June 15, 2005. The Fresenius Group adopted SFAS No. 123R as of January 1, 2006 and is in the process of determining the transition method it is going to adopt and the potential impact on its consolidated financial statement.

In May 2005, the FASB issued SFAS No. 154 (Accounting Changes and Error Corrections) – a replacement of APB No. 20 (Accounting Changes) and FASB Statement No. 3 (Reporting Accounting Changes in Interim Financial Statements). This Statement changes the requirements for the accounting for and reporting of a change in accounting principle. It applies to all voluntary changes in accounting principle, error corrections and required changes due to new accounting pronouncements which do not specify a certain transition method. SFAS No. 154 generally requires retrospective application to

prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. This Statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for on a prospective basis. This Statement also carries forward without change the guidance contained in APB No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. The effective date is for all fiscal years beginning after December 15, 2005. The Fresenius Group adopted this standard as of January 1, 2006 and will report future accounting changes and error corrections, if any, in accordance with this standard.

In June 2005, the FASB ratified EITF No. 05-5 (Accounting for Early Retirement or Postemployment Programs with Specific Features (such as Terms Specified in Altersteilzeit Early Retirement Arrangements)). EITF No. 05-5 provides guidance on the accounting for the German early retirement program providing an incentive for employees, within a certain age group, to transition from full or part-time employment into retirement before their legal retirement age. The program provides the employee with a bonus as salary or social security which is reimbursed by subsidies from the German government if certain conditions are met. According to EITF No. 05-5, the bonuses provided by the employer should be accounted for as postemployment benefits under SFAS No. 112 (Employer's Accounting for Postretirement Benefits), with compensation cost recognized over the remaining service period beginning when the individual agreement is signed by the employee and ending when the active service period ends. The government subsidy should be recognized when the employer meets the necessary criteria and is entitled to the subsidy. The effect of applying EITF No. 05-5 should be recognized prospectively as a change in accounting estimate in fiscal years beginning after December 15, 2005. The first time adoption has to be recorded as a change in accounting estimate. The Fresenius Group is in compliance with EITF 05-5

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 Group's 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 € 5,069 million and € 3,244 million, respectively, which represented 44 % and 40 %, respectively, of total assets.

In accordance with SFAS No. 142 (Goodwill and Other Intangible Assets) an 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 SFAS No. 142 and determine possible impairments of these assets, the fair value of the reporting unit is compared to the reporting units 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 several legal matters arising from the ordinary course of Fresenius Groups 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 24, 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 been 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. More than one third 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 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.

Deterioration 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.

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 € 1,493 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 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 € 1,190 million. The acquisitions of the HELIOS Kliniken GmbH and of the business of Clinico GmbH were financed by a share capital increase (see Note 22, Shareholders equity) and a bond (see Note 32, 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 18, 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 acquired 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 €2,466 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	1,289	1,424
EBIT	969	1,073
Net interest	-203	-239
Net income	222	265

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

3. SALES

Sales by activity are as follows:

in million €	2005	2004
Sales of services	4,462	4,167
Sales of products and related goods	3,113	2,786
Sales from long-term production contracts	314	318
Other sales	-	-
Sales	7,889	7,217

An analysis of sales by business segment and region is shown in the segment information on pages 106 to 109.

4. COST OF SALES

Cost of sales comprises the following:

in million €	2005	2004
Costs of services	3,277	3,109
Manufacturing cost of products and related goods	1,670	1,519
Cost of long-term production contracts	253	267
Other cost of sales	-	-
Cost of sales	5,200	4,895

5. PERSONNEL EXPENSES

Cost of goods sold, selling, general and administrative expenses and expenditure on research and development, include personnel expenses amounting to €2,482 million and €2,318 million in 2005 and 2004, respectively. Personnel expenses comprise the following:

in million €	2005	2004
Wages and salaries	1,990	1,851
Social security contributions and cost of retirement pensions and social assistance	492	467
thereof amount for retirement pensions	58	52
Personnel expenses	2,482	2,318

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 € 1,169 million (2004: € 1,007 million) and related to expenditure for administrative functions not attributable to development, production or selling.

7. 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.

8. INCOME TAXES

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

in million €	2005	2004
Germany	90	25
Abroad	676	611
Total	766	636

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

in million €	2005		2004	
	Germany	Abroad	Germany	Abroad
Current taxes	37	251	44	180
Deferred taxes	-12	22	-5	34
Income taxes	25	273	39	214

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	286	238
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
Changes in valuation allowances on deferred tax assets	17	28
Other	-18	-20
Income taxes	298	253
Effective tax rate	38.9%	39.8%

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	27
Inventories	40	33
Other current assets	7	2
Other non-current assets	32	55
Accrued expenses	175	137
Other short-term liabilities	14	12
Other liabilities	10	6
Pension obligations	25	16
Losses carried forward from previous years	157	151
Deferred tax assets, before valuation allowance	485	439
Less valuation allowance	112	95
Deferred tax assets	373	344
Deferred tax liabilities		
Accounts receivable	10	10
Inventories	12	12
Other current assets	2	3
Other non-current assets	270	225
Accrued expenses	22	36
Other short-term liabilities	47	15
Other liabilities	25	20
Deferred tax liabilities	388	321
Accumulated deferred taxes	-15	23

in million €	2005		2004	
	thereof long-term		thereof long-term	
Deferred tax assets	315	127	286	118
Deferred tax liabilities	330	303	263	245
Accumulated deferred taxes	-15	-176	23	-127

As of December 31, 2005 the valuation allowance on deferred tax assets in an amount of € 112 million increased by € 17 million compared to the prior year amount of € 95 million as a result of the increase in the volume of tax losses which the Fresenius Group anticipates will not be recovered.

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.

9. 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	222	168
less preference on preference shares	1	1
Income available to all class of shares	221	167
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	5.28	4.08
Preference per preference share	0.03	0.03
Basic earnings per preference share	5.31	4.11
Fully diluted earnings per ordinary share	5.24	4.07
Preference per preference share	0.03	0.03
Fully diluted earnings per preference share	5.27	4.10

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

10. 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

11. 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.

12. 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

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.

13. 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	69	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	844	484	525	288
less allowances	7	6	8	5
Prepaid expenses and other assets, net	837	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.

14. 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	97	2	69	1	0	3	166
Buildings and improvements	1,144	71	350	58	27	33	1,617
Machinery and equipment	1,743	94	167	152	34	108	2,082
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	3,250	171	683	348	0	157	4,295

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	423	28	92	74	4	23	598
Machinery and equipment	1,061	42	77	188	-4	99	1,265
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	1,554	73	169	275	0	132	1,939

Carrying amounts

in million €	December 31, 2005	December 31, 2004
Land and land facilities	166	97
Buildings and improvements	1,019	721
Machinery and equipment	817	682
Machinery, equipment and rental equipment under capitalized leases	98	98
Construction in progress	256	98
Property, plant and equipment	2,356	1,696

The depreciation expense for 2005 and 2004 amounted to € 275 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 cyclor 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 18, 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

15. GOODWILL AND OTHER INTANGIBLE ASSETS

As of December 31, 2005, the acquisition cost and accumulated amortization of intangible assets consist of the following:

Acquisition 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	2,909	349	107	1,328	0	9	4,684
Patient relationships	202	24	12	1	1	103	137
Tradenames and patents	223	26	0	1	1	1	250
Distribution rights	20	0	3	1	0	0	24
Other	346	43	12	13	-2	25	387
Goodwill and other intangible assets	3,700	442	134	1,344	0	138	5,482

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	19	0	14	0	103	96
Tradenames and patents	31	0	0	4	0	2	33
Distribution rights	7	0	2	5	0	0	14
Other	107	7	7	19	0	26	114
Goodwill and other intangible assets	315	26	9	42	0	131	261

Carrying amounts

in million €	December 31, 2005	December 31, 2004
Goodwill	4,680	2,905
Patient relationships	41	36
Tradenames and patents	217	192
Distribution rights	10	13
Other	273	239
Goodwill and other intangible assets	5,221	3,385

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

Regularly amortizable intangible assets

in million €	December 31, 2005			December 31, 2004		
	Acquisition cost	Accumulated amortization	Carrying amounts	Acquisition cost	Accumulated amortization	Carrying amounts
Patient relationships	137	96	41	202	166	36
Patents	46	33	13	44	31	13
Distribution rights	24	14	10	20	7	13
Other	202	114	88	186	107	79
Total	409	257	152	452	311	141

Non-amortizable intangible assets

in million €	December 31, 2005			December 31, 2004		
	Acquisition cost	Accumulated amortization	Carrying amounts	Acquisition 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	4,684	4	4,680	2,909	4	2,905
Total	5,073	4	5,069	3,248	4	3,244

Since the implementation of SFAS No. 142, the accumulated amortization of non-amortizable intangible assets is due to impairments.

Amortization on intangible assets amounted to €42 million and €43 million for 2005 and 2004, respectively.

The regularly amortizable intangible assets have an average useful life of 15 years (patient relationships an average of 12 years, patents an average of 11 years, distribution rights an average of 4 years, other intangible assets an average of 19 years).

In 2002, in connection with an acquisition, the Group acquired research results which have an alternative future use. The 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	37	30	22	17	13

The carrying amount of goodwill has developed as follows:

in million €	
Carrying amount as of January 1, 2005	2,905
Additions/disposals, net	1,426
Impairment	0
Reclassifications	0
Foreing currency translation	349
Carrying amount as of December 31, 2005	4,680

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.

16. OTHER ACCRUED EXPENSES

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

in million €		2005 thereof short-term		2004 thereof short-term
Personnel expenses	242	242	198	198
Special charge for legal matters	100	100	90	90
Advances received	85	85	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	262	193	126	101
Other accrued expenses	873	804	622	597

Other accrued expenses develop in the fiscal year as follows:

in million €	As of January 1, 2005	Changes in entities consolidated	Additions	Reclassifications	Utilized	Reversed	Foreign currency translation	As of December 31, 2005
Personnel expenses	198	21	107	0	71	12	-1	242
Special charge for								
legal matters	90	0	0	0	4	0	14	100
Advances received	58	15	93	1	68	12	-2	85
Self-insurance programs	42	0	16	0	0	0	6	64
Bonuses and discounts	34	3	29	-2	24	3	1	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	92	137	0	74	8	-11	262
Total	622	134	433	0	279	45	8	873

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 24, 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 24, 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 24, 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).

17. OTHER LIABILITIES

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

in million €	2005		2004	
	thereof short-term		thereof short-term	
Accounts receivable resulting from German "Krankenhausgesetz"	172	127	5	5
Personnel liabilities	113	110	66	49
Advance payments from customers	87	82	66	66
Tax liabilities	80	77	53	51
Accounts receivable credit balance	44	13	33	9
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	389	265	181	149
Other liabilities	953	718	524	390

Of the total amount of other non-current liabilities amounting to € 235 million at December 31, 2005 € 158 million are due in between one and five years and € 77 million are due later than five years. The caption long-term accrued expenses and other long-term liabilities in an amount of € 304 million includes also long-term accrued expenses in an amount of € 69 million as of December 2005.

18. DEBT AND CAPITAL LEASE OBLIGATIONS

Short-term borrowings

Lines of credit and short-term borrowings

Short-term borrowings of € 224 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 4.7 % 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.

Accounts 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.

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 million €	2005	2004
Bridge loan facility	600	0
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	2,277	1,409
less current portion	222	190
Long-term debt and capital lease obligations, less current portion	2,055	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 20, Trust preferred securities) are:

for the fiscal years	in million €
2006	222
2007	260
2008	163
2009	766
2010	113
Subsequent years	753
Total	2,277

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	6.1	6.7
Capital lease obligations	5.7	5.6

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 32, 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 22, 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 32, Subsequent events). The bridge financing facility is shown under the balance sheet caption long-term debt as of December 31, 2005, as it belongs to this long-term Note.

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 32, 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:

in US\$ million	Maximum amount available		Balance outstanding	
	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

19. 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 € 305 million relate to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1988, which applies for most of the German entities of

the Group. Approximately one tenth of the pension obligations relates to the Fresenius Medical Care Retention Plan in the United States and a further third relates to individual pension plans, mostly for 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: € 427 million) includes € 232 million (2004: € 178 million) which is funded by plan assets and € 339 million (2004: € 249 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	427	388
Changes in entities consolidated	40	0
Foreign currency translation	26	-13
Current service costs	13	11
Interest cost	24	22
Other changes	1	-2
Transfer of plan participants	1	1
Change in amendments	-6	0
Actuarial losses	56	30
Benefits paid	-11	-10
Defined benefit obligations at the end of the year	571	427
thereof vested	478	351

Pension obligations amounting to € 571 million (2004: € 427 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
Employee contribution	25	24
Benefits paid	-5	-5
Fair value of plan assets at the end of the year	232	178

The pension provision is derived as follows:

in million €	2005	2004
Funded status	339	249
Unrecognized actuarial gain/loss	-148	-87
Unrecognized service costs of prior years	6	3
Unrecognized transition obligation	-2	-2
Net amount recognized	195	163

The additional minimum pension liability* is calculated as follows:

in million €	2005	2004
Fair value of plan assets	232	178
Accumulated benefit obligation (ABO)	532	347
Minimum pension liability*	300	169
Accrued benefit costs*	190	104
Additional minimum pension liability*	110	65
thereof intangible assets	2	1
thereof accumulated other comprehensive income (loss)	108	64
Increase of the minimum pension liability included in other comprehensive income (loss)	44	13

* This calculation refers only to companies with an ABO in excess of plan assets.

As of 31 December, the pension liability is calculated as follows:

in million €	2005	2004
Net amount recognized	195	163
Additional minimum pension liability	110	65
Pension liability, at December 31	305	228

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	5.4
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 €28 million (2004: €27 million) for the Fresenius Group, comprising the following components:

in million €	2005	2004
Components of net periodic benefit cost		
Service costs	13	11
Interest cost	24	22
Expected return on plan assets	-14	-11
Amortization of transition obligations	1	1
Amortization of prior service costs	1	0
Amortization of unrealized losses, net	3	4
Net periodic benefit cost	28	27

Net periodic 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	5.4	5.5
Expected return on plan assets	7.1	7.1
Rate of compensation increase	3.7	3.6

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 € 148 million (2004: € 87 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	229	139
Europe (excluding Germany)	49	51
North America	27	36
Asia-Pacific	0	2
Latin America	0	–
Africa	0	0
Total pension obligations	305	228

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

20. 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. FMC-AG & Co. KGaA, 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

21. 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	2,144	1,684
Minority interest in the business segments		
Fresenius Medical Care	12	13
Fresenius Kabi	25	27
Fresenius ProServe	108	19
Corporate/Other	-	1
Total minority interest	2,289	1,744

Minority interest increased in 2005 by € 545 million to € 2,289 million. The change resulted on the one hand from the minorities' share of profit for 2005 (€ 246 million), and from the minorities' share of dividend payments (€ 76 million), first-time consolidations and positive currency effects (€ 375 million) on the other.

22. 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 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.

23. 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 as well as the change in the minimum pension liability.

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

in million €	Amount before taxes	Tax effect	2005 Amount after taxes	Amount before taxes	Tax effect	2004 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
Minimum pension liability	-44	17	-27	-13	4	-9
Foreign currency translation adjustment	141	0	141	-20	0	-20
Other comprehensive income (loss)	152	-6	146	-69	18	-51

OTHER NOTES

24. COMMITMENTS AND CONTINGENT LIABILITIES

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 commitments 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 infringe 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.

25. 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 noted 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 €	Carrying amount	2005 Fair value	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)	1,417	1,417	620	620
Short-term loans (including related parties)	225	225	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

	Balance sheet date	Cash flow hedges of forecasted product purchases		Cash flow hedges associated with foreign currency denominated inter-company financing transaction	
		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.

26. 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 102 to 103.

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	2,695	137
Liabilities assumed	-602	-11
Minority interest	-61	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).

27. NOTES ON SEGMENT REPORTING

General

The segment reporting tables shown on pages 106 to 109 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 key data disclosed in conjunction with segment reporting correspond to the 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 SFAS No. 131 (Disclosures about Segments of an Enterprise and Related Information), 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	1,320	1,169
Depreciation and amortization	-320	-315
General corporate expenses Corporate/Other	-31	-9
Interest expenses	-223	-224
Interest income	20	15
Total earnings before income taxes and minority interest	766	636
Total EBIT of reporting segments	1,009	870
General corporate expenses Corporate/Other	-40	-25
Interest expenses	-223	-224
Interest income	20	15
Total earnings before income taxes and minority interest	766	636
Depreciation and amortization of reporting segments	311	299
Depreciation and amortization Corporate/Other	9	16
Total depreciation and amortization	320	315

Reconciliation of net debt

in million €	December 31, 2005	December 31, 2004
Short-term borrowings	224	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	2,055	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	2,154	813
Europe (excluding Germany)	1,592	969
North America	3,684	3,125
Asia-Pacific	168	209
Latin America	262	130
Africa	33	29
Total non-current assets*	7,893	5,275

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

28. 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 per share and for preference shares € 2.05 per share.

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	
Exercised	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	
Exercised	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 applies APB Opinion No. 25 in accounting for stock compensation and, accordingly, recognized compensation expenses of € 4 million in 2005 and € 1 million in 2004 for stock options granted since 1998. The tax effect of differences between compensation expense for financial statement and income tax purposes is recorded in income. Additional tax credits available upon exercise of non-qualified stock options are recognized as a credit to additional paid-in capital.

29. 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.

30. 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.

31. FEES FOR THE AUDITOR

In 2005 and 2004 fees 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

32. 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.

33. 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.

34. 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 €

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 in accordance with Accounting Principles Generally Accepted in the United States of America (US-GAAP) and the group management report 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 Accounting Principles Generally Accepted in the United States of America (US-GAAP) 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 Accounting Principles Generally Accepted in the United States of America (US-GAAP) 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

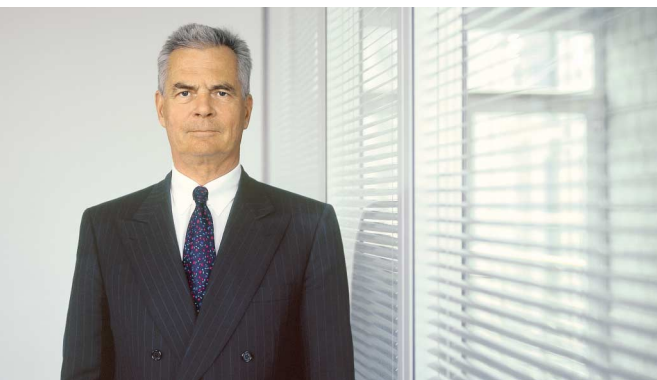
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Hölzl
German Public Auditor



Steckhan
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 operations 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 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 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

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
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

GLOSSARY

Health care terms

Antibodies

Antibodies are proteins that bind specifically to a particular substance, its antigen. Antibodies are known collectively as immunoglobulins. Antibodies are produced by B-lymphocytes and plasma cells in response to infection or immunization, and bind to and neutralize pathogens thus preparing them for uptake and destruction of phagocytes.

Apheresis

Process of obtaining blood from a donor or patient to separate or remove certain components (thrombocytes plasma) before re-infusing the remainder.

Ascites

Accumulation of excess fluid due to disturbed balance of influx and efflux as a result of a malignant disease.

Blood volume replacement

Infusion solution to compensate blood loss.

Biocompatibility

Quality and compatibility of the material, the system or the solution which prevent negative reactions by the organism of the patient.

Citrate

Salt of the citric acid. By infusing citrate into the arterial limb of the extracorporeal blood circulation, blood clotting is avoided.

Compounding

Mixing of different solutions or components for I.V. or parenteral nutrition therapy.

Colloids

Blood- and plasma substitutes.

Dialysis

A type of renal replacement therapy where a semi-permeable membrane – in peritoneal dialysis the peritoneum of the patient, and in hemodialysis the membrane of the dialyzer – is used for selective solute removal.

Dialysis machine

The hemodialysis process is controlled by a dialysis machine which pumps blood, adds anti-coagulants, regulates the cleansing process, and controls the mixture of dialysate and its flow rate through the system.

Dialyzer

Special filter used in hemodialysis for removing toxic substances and excess water from the blood.

Disease Management

Holistic concept of patient treatment taking into account all medical aspects associated with the disease.

Enteral nutrition

Application of liquid nutrition as tube or sip feed via the gastrointestinal tract.

Extracorporeal

Taking place outside the body.

Graft-versus-Host-Disease (aGvHD)

Phase of Graft-versus-Host-Disease, caused by T-cells in the donor graft that attack the host organism.

Hemodiafiltration (HDF)

Special mode of ESRD (end-stage renal disease) treatment, combining advantages of hemodialysis and hemofiltration, i. e. high elimination rates for small and large molecular weight substances via diffusive and convective mechanisms, respectively.

Hemodialysis (HD)

A treatment method for dialysis patients where the blood of the patient is cleansed by a dialyzer. The solute exchange between blood and dialysate is dominated by diffusive processes.

Hemoperfusion

Extracorporeal blood cleansing process to remove toxic substances from the blood using adsorbants.

HES (hydroxyethyl starch)

Derived from waxy maize starch, HES solutions can substitute deficient blood volume and improve the viscosity of the blood.

Immunosuppressive agent

Drug that artificially suppresses or weakens the immune reaction of the organism. It is used in the treatment of autoimmune diseases or to prevent transplanted organs being rejected.

Intraperitoneal

Administration of a drug directly into the peritoneal cavity.

Lipid emulsions

Lipid emulsions are elements of parenteral nutrition and primarily provide energy and essential fatty acids.

Mesothelial cells

Cells of the mesothelium (layer of cells lining the peritoneal cavity).

Parenteral nutrition

Application of nutrients directly into the bloodstream of the patient (intravenously).

Peritoneal dialysis (PD)

Dialysis treatment method using the patient's peritoneum as a "filter" to cleanse his blood.

Peritoneal dialysis solution

Solution introduced into the abdominal cavity of the patient to adsorb toxins and excess water.

Polyclonal antibodies

Antibodies that recognize one specific structure, but are produced by different cell clones.

Port

A fully implantable subcutaneous small port housing with membrane and catheter for chemotherapy, infusion therapy, parenteral nutrition etc.

Single-use dialyzer

Dialyzer which is not used several times (reuse) but only one single time.

Transnasal

Via the nose.

Trifunctional Antibodies

Antibodies that bind to three different cell types in parallel (e. g. tumor cells, T-cells and accessory cells) resulting in a tumor-specific immune reaction.

Vascular access

Mode of connecting the patient's blood circulation to the dialyzer. The vascular access must allow sufficient blood flow and connections as often as necessary.

Volumetric pumps

Electronic pumps for intravenous infusion of fluids and drugs for parenteral nutrition with high accuracy (volumetric-based).

Financial terms

EBIT

Earnings before interest and income taxes.

EBITDA

Earnings before interest, income taxes, depreciation and amortization.

I/B/E/S

Institutional Broker Estimate System.

Investment rate

Investments in property, plant and equipment : Amount of property, plant and equipment at the beginning of the period.

ROIC (Return on Invested Capital)

Calculated by:

$(EBIT - \text{taxes}) : \text{Invested capital}$

Invested capital = total assets + amortization of goodwill (accumulated) - deferred tax assets - cash and cash equivalents - trade accounts payable - accruals (without pension accruals) - other liabilities not bearing interest.

ROOA (Return on Operating Assets)

Calculated by:

$EBIT \times 100 : \text{operating assets (average)}$

Operating assets = total assets - deferred tax assets - trade accounts payable - payments received on account.

US GAAP

United States Generally Accepted Accounting Principles.

Working Capital

Current assets (including deferred assets) - accruals - trade accounts payable - other liabilities - deferred charges.

Products and services

ATG-Fresenius (anti T-lymphocyte globulin)

Protein which suppresses T-lymphocytes.

balance

Lactate-buffered peritoneal dialysis solution in a double-chamber bag. When the contents of the two bags are mixed, the ready-to-use solution has a neutral pH value and a lower content of glucose degradation products.

bicaVera

Pure bicarbonate-buffered peritoneal dialysis solution in a double-chamber bag. After mixing of the two compartments, the ready-to-use solution has a physiological pH and a highly reduced amount of glucose degradation products.

DiaSafe™

Filter to obtain ultra-pure dialysis solution during hemodialysis.

Diben

Fiber-rich standard tube feeding for patients with impaired glucose tolerance.

EasyLab

Blood gas analyzer for the analysis and the control of blood parameters, e. g. electrolytes and pH.

FX-class dialyzer

A new generation of dialyzers with increased performance and outstanding biocompatibility. Helixone® capillaries with their special three-dimensional microwave structure are built in high capillary density into a specifically-designed housing which, among other benefits, leads to an optimized flow distribution within the dialyzer.

GENIUS

Innovative hemodialysis therapy system based on a single-pass batch system. The dialysate is prepared as one batch individually for each treatment.

In-line filter blood bag system

Blood bag system with integrated filter for leukocyte filtration.

Intestamin®

Enteral supplement containing a high dose of glutamine for the treatment of critically ill patients.

On-line Clearance Monitor

Optional component of a hemodialysis machine to measure online the effective in-vivo dialyzer clearance for quality assurance purposes.

Optiflux™ dialyzer

A new Fresenius Polysulfon® dialyzer generation featuring improved clearance rates and outstanding biocompatibility.

Prometheus®

Novel extracorporeal blood purification system, used for patients with liver disease to support the liver in its detoxification function.

stay-safe®

Biocompatible, safe and environmentally-friendly peritoneal dialysis system using Biofine® as well as PIN and DISC technology, which eliminates the need for clamps and breaking cones.

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Fresenius Medical Care

HEMODIALYSIS

- ▶ Machines for
 - Hemodialysis
 - Hemodiafiltration
 - Hemofiltration
- ▶ High- and Low-flux dialyzers (Fresenius Polysulfone®)
- ▶ FX-class dialyzers (Helixone®)
- ▶ Heparin syringes
- ▶ Dialysis fluid filters
- ▶ Blood lines
- ▶ Dialysis cannulae
- ▶ Hemodiafilters
- ▶ Dialysis concentrates (liiquid, dry)
- ▶ Rinsing solutions
- ▶ Disinfectants
- ▶ Water treatment systems
- ▶ Analysis devices
- ▶ Data management systems

ACUTE DIALYSIS

- ▶ Machines for acute dialysis
- ▶ Hemofilters
- ▶ Hemofiltration solutions
- ▶ Dialysis fluid concentrates
- ▶ Dialysis catheters
- ▶ Blood lines
- ▶ Plasma filters

PERITONEAL DIALYSIS

- ▶ Machines and tubing systems for Automated Peritoneal Dialysis (APD)
- ▶ Peritoneal dialysis solutions
- ▶ CAPD systems
- ▶ CAPD double chamber systems
- ▶ Peritoneal dialysis catheters
- ▶ Accessories
- ▶ Data Management Systems (Patient OnLine)

DIALYSIS CARE

- ▶ Dialysis clinics for chronic hemodialysis treatment
- ▶ Acute inpatient dialysis treatment
- ▶ Training (hemodialysis and peritoneal dialysis)
- ▶ Planning and installation of water treatment systems for hemodialysis
- ▶ Planning of hemodialysis centers

SPECTRA RENAL

MANAGEMENT

- ▶ Laboratory and diagnostic dialysis-related services
- ▶ Data management
- ▶ Managed care services for dialysis patients

LIVER SUPPORT THERAPY

- ▶ Machines for liver support therapy
- ▶ Albumin filters
- ▶ Anion exchanger
- ▶ Neutral resin adsorber
- ▶ Citrate calcium anticoagulation

THERAPEUTICAL APHERESIS

LDL apheresis:

- ▶ DALI®
- ▶ Immunoadsorption:
 - ▶ PROSORBA®
 - ▶ Immunosorba
 - ▶ GLOBAFFIN
 - ▶ CORAFFIN

Fresenius Kabi

INFUSION THERAPY

- ▶ Basic solutions
- ▶ Infusion solutions for osmotic therapy
- ▶ Irrigation solutions/urology
- ▶ Infusion solutions for blood volume replacement and hemodilution therapy
- ▶ I.V. anaesthetics
- ▶ I.V. anti-infective drugs
- ▶ I.V. catecholamines
- ▶ I.V. analgesics
- ▶ Innovative packaging systems for I.V. products
- ▶ Patient individual cytostatic infusion therapies
- ▶ Medical devices
 - PDMS – Patient data management systems
 - Volumetric infusion pumps and syringe pumps
 - Infusion and clinical fluid management systems
 - I.V. disposables and accessories
 - I.V. anaesthesia and analgesia systems
 - Clinical medical systems for wound drainage
 - Technical equipment for irrigation solutions
 - Suprapubic drainage systems
 - In-dwelling venous cannulae
 - Implantable port systems
 - Portable drug pumps
 - Autotransfusion systems
 - Blood gas and electrolytes analyzer for point of care
- ▶ Disinfectants

CLINICAL NUTRITION

Parenteral nutrition

- ▶ Industrially compounded admixtures (2 and 3 chamber bags, all in one bags)
- ▶ Standard and special amino acid solutions
- ▶ Lipid emulsions
- ▶ Additives
- ▶ Compounding systems including empty bags and calculation software for nutrition therapy
- ▶ Patient-individual concept for outpatient parenteral nutrition
- ▶ Scientific support and information
- ▶ Training and education
- ▶ Medical devices
 - Devices for parenteral nutrition and its application
 - Volumetric infusion pumps
 - Disposables and accessories

Enteral nutrition

- ▶ Sip and tube feeds
 - Standard diets
 - Disease-specific diets
 - Nutritional supplements
- ▶ Oral amino acids/Keto acids
- ▶ Scientific support and information
- ▶ Training and education
- ▶ Management and provision of outpatient therapies
- ▶ Medical devices
 - Feeding tubes
 - Transnasal tubes
 - Percutaneous tubes
 - Application technology
 - Feeding pumps
 - Giving sets
 - Accessories

Fresenius ProServe

TRANSFUSION TECHNOLOGY

- ▶ Blood bags
- ▶ Blood bag systems with in-line filters
- ▶ Leukocyte filters
- ▶ Mixing devices
- ▶ Cooling and transportation systems
- ▶ Automatic blood component processing systems
- ▶ Sealing devices
- ▶ Sterile docking devices
- ▶ Blood cell separators for
 - Hemapheresis
 - Therapeutic apheresis
- ▶ Stem cell bags
- ▶ Solutions

HELIOS KLINIKEN GROUP

The HELIOS Kliniken Group

consists of:

- ▶ HELIOS Kliniken GmbH:
 - Group of clinics with acute hospitals for all medical disciplines
 - High quality medical treatment of patients at all levels of care, up to maximum care
- ▶ Wittgensteiner Kliniken AG (WKA):
 - Operation and management of post acute hospitals

VAMED

Worldwide projects and services for health facilities:

- ▶ Feasibility studies
- ▶ Operational and organisational planning
- ▶ IT planning
- ▶ Architectural planning
- ▶ Planning of medical-technical equipment
- ▶ Complete medical and technical equipment for hospitals/packages
- ▶ Medical-technical maintenance
- ▶ Building technology planning
- ▶ Facility management
- ▶ Project development and management
- ▶ Turn-key projects
- ▶ Financial engineering
- ▶ General and technical management of health facilities

VAMED is also responsible for the projects of hospitalia international.

PHARMAPLAN

Engineering and plant design for the pharmaceutical and medical device industry:

- ▶ Feasibility studies
- ▶ Consulting and engineering
- ▶ Turn-key projects
- ▶ Validation and quality management
- ▶ Logistics and warehousing
- ▶ Services for pharmaceutical production
- ▶ Training
- ▶ Facility management for pharmaceutical companies
- ▶ Supply, installation and maintenance of water systems/preparation systems for the pharmaceutical industry (Pharmatec)

Fresenius Biotech

BIOTECHNOLOGY

- ▶ Immunosuppressive agent ATG-Fresenius S
- ▶ Fluids and disposables for organ perfusion and preservation
- ▶ Cell products for research and clinical application
- ▶ Vector production gene therapy

Financial calendar

Report on 1 st 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 1 st half 2006	
Analysts' meeting, Bad Homburg v. d. H.	
Live webcast	August 4, 2006
Report on 1 st -3 rd 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 of the Annual General Meeting

Corporate Head Office	Postal address	Contact for shareholders	Contact for journalists
Eise-Kröner-Strasse 1	Fresenius AG	Investor Relations	Corporate Communications
Bad Homburg v. d. H.	61346 Bad Homburg v. d. H.	Telephone: ++49 61 72 608-24 85 ++49 61 72 608-24 86 ++49 61 72 608-24 87	Telephone: ++49 61 72 608-23 02 Telefax: ++49 61 72 608-22 94 e-mail: pr-fre@fresenius-ag.com
		Telefax: ++49 61 72 608-24 88 e-mail: ir-fre@fresenius-ag.com	

The German version of this Annual Report is legally binding.

The financial statements of Fresenius AG and the consolidated statements in accordance with IFRS accounting principles are available on our website and may be obtained upon request.

Further information and current news about our company are available on our website at: <http://www.fresenius-ag.com>

Forward-looking statements:

This Annual 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 report – the actual results could differ materially from the results currently expected.

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