Fresenius
health care worldwide

COMPETENCE

Annual Report 2006

FRESENIUS GROUP IN FIGURES

in million €	**2006 US GAAP**	2005 US GAAP	2004 US GAAP	2003 US GAAP	2002 US GAAP
Earnings					
Sales	**10,777**	7,889	7,271	7,064	7,507
EBIT	**1,444**	969	845	781	837
Net income	**330**	222	168	115	134
Depreciation and amortization	**399**	320	315	325	341
Operating cash flow	**1,052**	780	851	776	697
Operating cash flow in % of sales	**9.8 %**	9.9 %	11.7 %	11.0 %	9.3 %
Earnings per ordinary share in € [1]	**2.15**	1.76	1.36	0.93	1.08
Earnings per preference share in € [1]	**2.16**	1.77	1.37	0.94	1.09
Balance sheet					
Total assets	**15,024**	11,594	8,188	8,347	8,915
Non-current assets	**10,918**	8,063	5,433	5,603	6,172
Equity [2]	**5,728**	5,130	3,347	3,214	3,369
Equity ratio [2]	**38 %**	44 %	41 %	39 %	38 %
Investments [3]	**4,314**	2,247	421	430	507
Profitability					
EBIT margin	**13.4 %**	12.3 %	11.6 %	11.1 %	11.1 %
Return on equity after taxes (ROE) [4] [6]	**10.4 %**	11.4 %	10.5 %	7.5 %	8.3 %
Return on operating assets (ROOA) [4] [5]	**10.4 %**	11.7 %	11.1 %	9.8 %	9.7 %
Return on invested capital (ROIC) [4] [5]	**7.4 %**	8.0 %	7.4 %	6.3 %	6.5 %
Dividend per ordinary share in €	**0.57 [7]**	0.49 [1]	0.45 [1]	0.41 [1]	0.38 [1]
Dividend per preference share in €	**0,58 [7]**	0.50 [1]	0.46 [1]	0.42 [1]	0.39 [1]
Employees (December 31)	**104,872**	91,971	68,494	66,264	63,638

[1] Adjusted for share split in February 2007
[2] Equity including minority interests
[3] Investments in property, plant and equipment and intangible assets, acquisitions
[4] 2005: balance sheet adjusted for acquisition of HELIOS Kliniken
[5] 2006 pro forma Renal Care Group, excluding earnings from the divestiture of US dialysis clinics as well as their first quarter 2006 earnings
[6] 2006 pro forma Renal Care Group, excluding first quarter 2006 earnings of divested US dialysis clinics
[7] Proposal

You will find a 10-year overview on our website: www.fresenius-ag.com/Investor Relations

FRESENIUS 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

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 management as well as on engineering and services for hospitals. Nearly 105,000 employees work with dedication in the service of health in around 100 countries of the globe.

Fresenius Medical Care

Dialysis products,
Dialysis care,
Extracorporeal therapies

in million US$	**2006**	2005	Change
Sales	**8,499**	6,772	26 %
EBIT	**1,318**	939	40 %
Net income	**537**	455	18 %
Operating cash flow	**908**	670	36 %
Capital expenditure/acquisitions	**4,783**	449	--
R+D expenses	**51**	51	0 %
Employees (December 31)	**59,996**	50,250	19 %

Fresenius
health care worldwide

Fresenius Kabi

Infusion therapy,
Clinical nutrition,
Transfusion technology

in million €	2006	2005	Change
Sales	**1,893**	1,681	13 %
EBIT	**291**	234	24 %
Net income	**143**	111	29 %
Operating cash flow	**202**	237	-15 %
Capital expenditure/acquisitions	**127**	351	-64 %
R+D expenses	**77**	64	20 %
Employees (December 31)	**15,591**	14,453	8 %

fresenius proServe

Hospital operation,
Engineering and Services
for hospitals

in million €	2006	2005*	Change
Sales	**2,155**	2,009	7 %
EBIT	**154**	125	23 %
Net income	**75**	46	63 %
Operating cash flow	**176**	180	-2 %
Capital expenditure/acquisitions	**245**	1,634	-85 %
Order intake	**407**	341	19 %
Employees (December 31)	**28,615**	26,664	7 %

* includes HELIOS Kliniken

COMPETENCE

OUR MANY YEARS OF EXPERIENCE ARE THE SOUND BASIS FOR THE HIGHEST LEVEL OF PATIENT CARE, AND FOR SUSTAINABLE GROWTH, TODAY AND IN THE FUTURE.

Specialized know-how and its practical application, innovation based on research and development, the highest quality standards, and efficiency are the components of our success. Our competence translates into tangible outcomes.

Some examples of this competence are highlighted in this Annual Report.

COMPETENCE IN INNOVATIONS

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COMPETENCE IN EFFICIENCY

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COMPETENCE IN QUALITY

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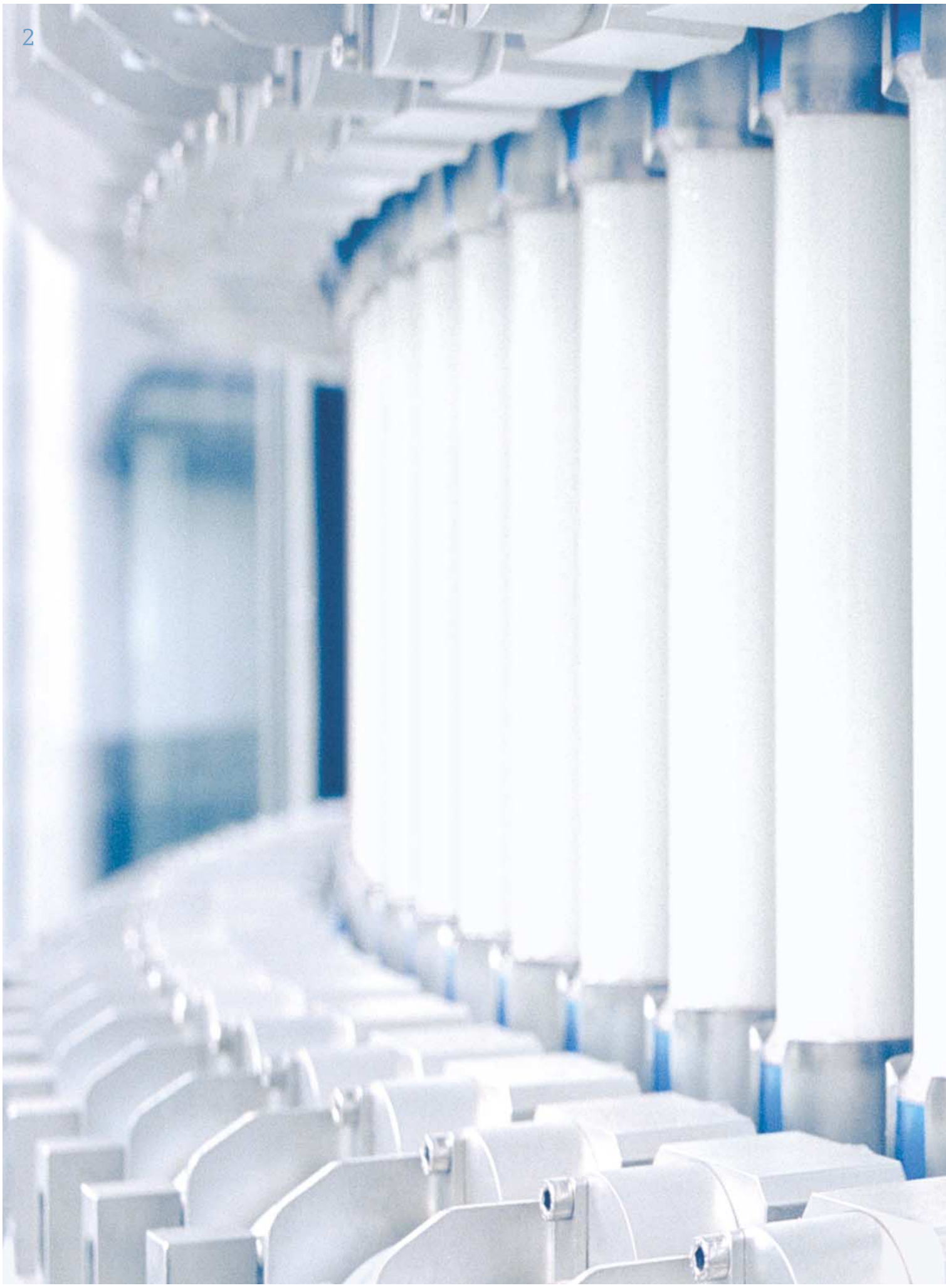
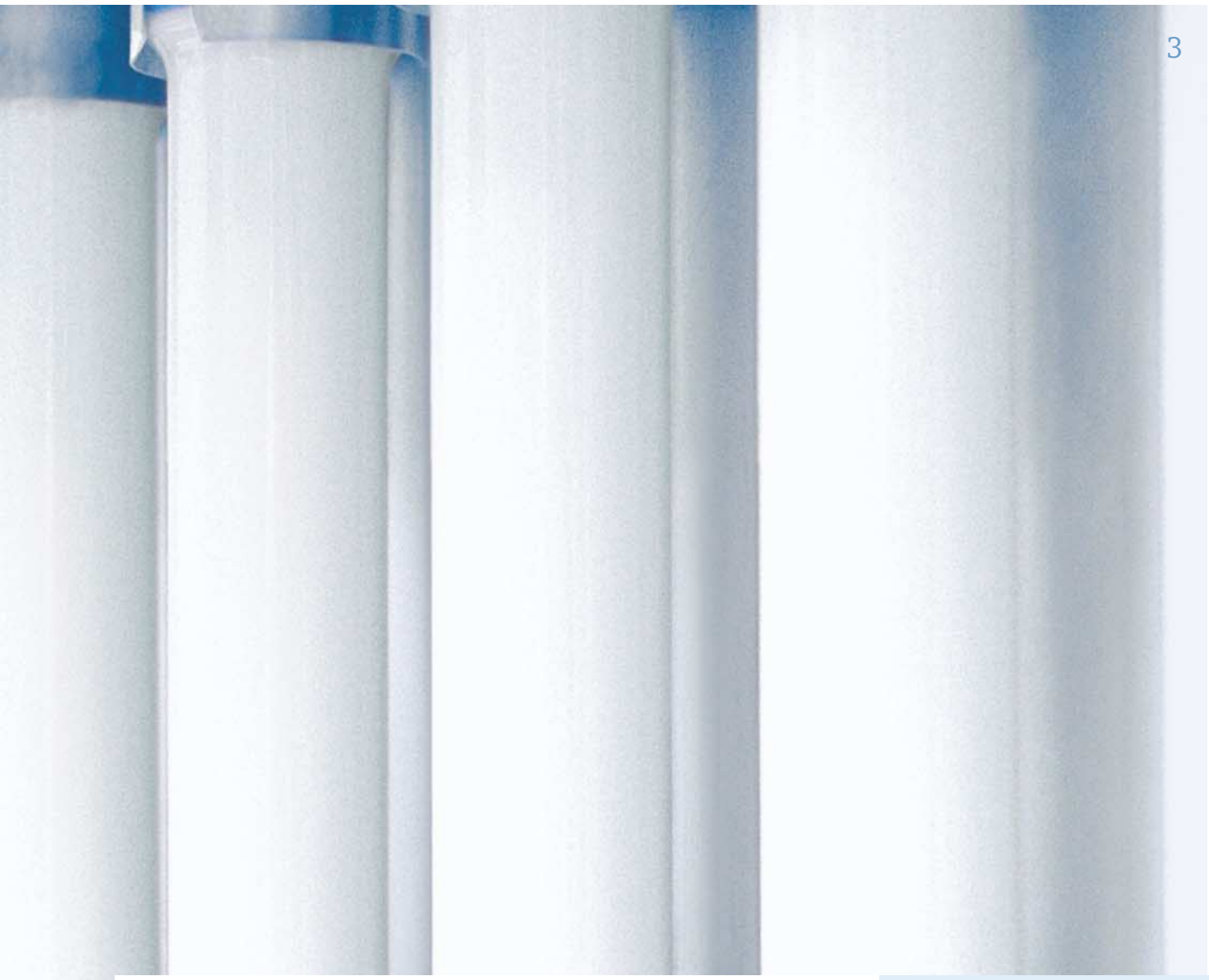
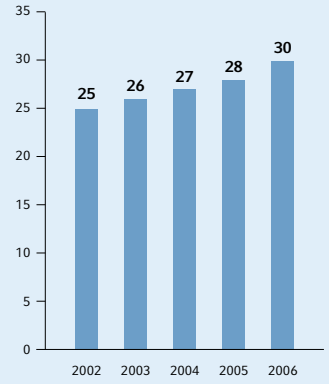




COMPETENCE IN INNOVATIONS

WE PUT OUR COMPETENCE TO GOOD USE IN RESEARCH AND DEVELOPMENT. PATIENTS WITH CHRONIC KIDNEY FAILURE CAN THEREFORE FACE THE FUTURE WITH EVEN GREATER CONFIDENCE: ROBUST RESEARCH, CREATIVITY, AND THE ABILITY TO TURN RESEARCH RESULTS INTO PRODUCTS ARE OUR ASSETS AND PERSPECTIVES. THE ACCEPTANCE OF OUR PRODUCTS IS DEMONSTRATED IN OUR WORLDWIDE MARKET SHARE IN DIALYSIS PRODUCTS OF 30%.

WORLDWIDE MARKET SHARE
IN DIALYSIS PRODUCTS (%)



EFFICIENCY AND SAFETY IN DIALYSIS TRANSLATE INTO QUALITY OF LIFE FOR OUR PATIENTS. WE ARE WELL AWARE OF THIS RESPONSIBILITY.

A core strategic goal of Fresenius Medical Care is to be a worldwide leader in innovation. More than 350 highly qualified researchers and developers are generating new ideas and implementing new discoveries to continually improve the treatment of patients with chronic kidney failure. On an ongoing basis they keep in touch with practice and cooperate closely with their colleagues in production. Best practice medical standards are their benchmark.

The 5008 dialysis therapy system is currently the most innovative dialysis machine on the market. At the beginning of 2006, it won the German Business Innovation Award. For the first time, the best and most efficient therapy for dialysis patients at present – Online Hemodiafiltration (HDF) – became a standard feature. A number of scientific studies published in 2006 confirm that Online HDF can reduce the risk of cardiovascular diseases, which are still the most common cause of death for dialysis patients. In a large-scale study, European nephrologists demonstrated that patients treated with Online HDF have a 35 percent better chance of survival than patients receiving conventional hemodialysis treatment.

Online HDF cleanses the blood in a particularly gentle and efficient way. Using this treatment, a broad spectrum of harmful substances can be filtered out of the blood. Experts consider this to be the main reason for the improved survival rate. Furthermore, Online HDF uses an ultrapure dialysis solution (dialysate) and specially developed biocompatible filters (dialysis membranes) which minimize the risk of inflammation. Another study showed that Online HDF also removes phosphate more effectively. Too much phosphate in the blood can result in bone disease, thyroid problems, and vascular calcification. In addition, Online HDF helps to stabilize blood pressure and prevent anemia, resulting in fewer side effects and accompanying disorders. This explains why more and more physicians favor Online HDF, which is particularly easy and effective as a part of the 5008 therapy system.

In comparison to conventional hemodialysis treatments, with the 5008 therapy system additional costs are not inevitably associated with Online HDF. Furthermore, the 5008 uses up to

30 % percent less electricity and water than conventional dialysis machines.

OUR EMPLOYEES RECOGNIZE THE NEEDS OF PHYSICIANS, NURSING STAFF, AND PATIENTS: FRESENIUS MEDICAL CARE TREATS 163,517 PATIENTS IN 2,108 DIALYSIS CLINICS WORLDWIDE.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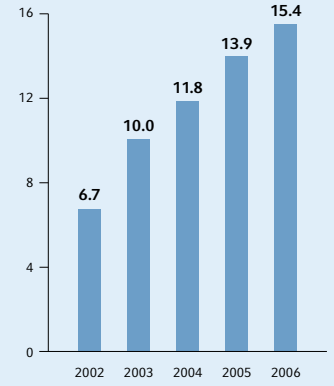
HES 130/0,4

COMPETENCE IN EFFICIENCY

OUR COMPETENCE IN EMPLOYING NEW TECHNOLOGIES TO UPGRADE OUR MANUFACTURING PROCESSES HAS CONTRIBUTED TO FRESENIUS KABI'S EBIT MARGIN IMPROVEMENT FROM 6.7 % IN 2002 TO

15.4 % IN 2006.

FRESENIUS KABI: EBIT MARGIN
(%)



FRESENIUS KABI COVERS ALL THE PROCESSES ALONG THE VALUE CHAIN: FROM DEVELOPING THE PRODUCTS AND MANUFACTURING TECHNOLOGIES THROUGH TO PRODUCTION AND MARKETING. COVERING ALL THESE MAKES US EFFICIENT.

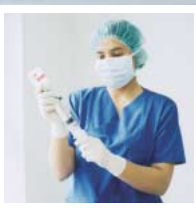
We are one of the few companies in our industry that develops its own manufacturing technologies in-house. This is the key to our efficiency and allows us to develop platform technologies and to use them at our various production locations around the world.

These technologies cover every manufacturing step: e.g. from the bag production through to its filling, sealing, and packing. The result is a uniformly high quality standard at our plants along with a simultaneous increase in efficiency. This is very important given our high production volumes: We produced more than 850 million units of infusion solutions in 2006 alone.

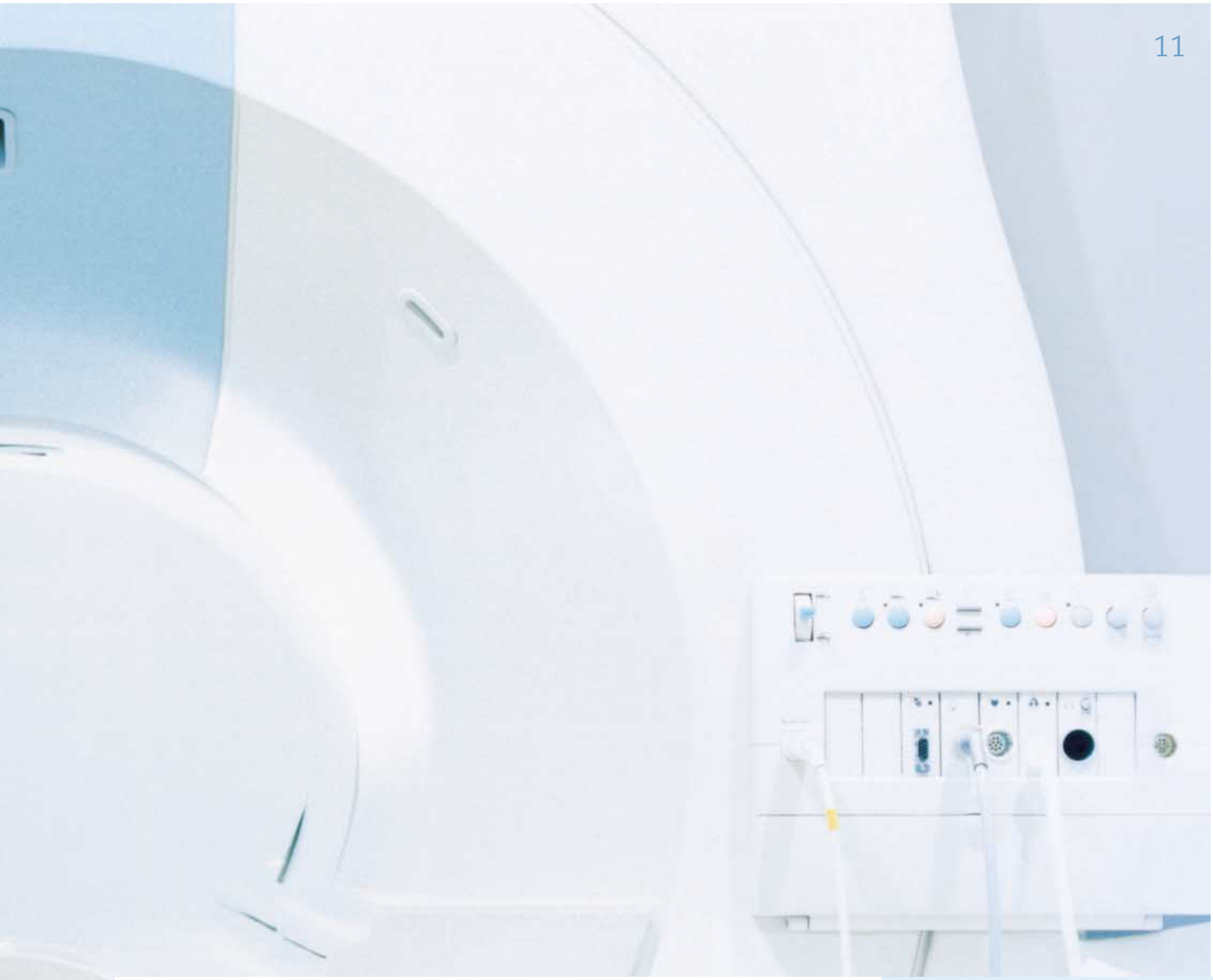
Here are two examples: For the manufacture of pharmaceuticals in our PVC-free freeflex® infusion bag we developed a production line which enables us to produce larger volumes at higher speed and at lower cost. We installed this line first in Germany and subsequently in other plants in Europe and Latin America. At the same time, we were able to use a number of innovative components from the freeflex® technology in the newly developed production line for our three-chamber bags for clinical nutrition. This innovation enabled us to substantially improve the efficiency of this production line.

We also rely on platform technologies in our product development. We use innovations in pharmaceutical primary containers – e.g. for port and connector systems – as platform technologies for products in infusion therapy as well as in clinical nutrition. This also creates savings – both in production and in materials.

In 2006, we increased the efficiency of various production lines in our European plants by up to **30 %**. For example, with a new filling and sealing technology for our infusion bags we significantly improved the production speed.



OUR COMPETENCE ALONG THE ENTIRE VALUE CHAIN IS AN IMPORTANT COMPETITIVE ADVANTAGE. IT ENABLES US TO PROVIDE BEST THERAPIES AND OFFER FIRST-RATE SERVICE AND QUALITY FOR THE CRITICALLY AND CHRONICALLY ILL.

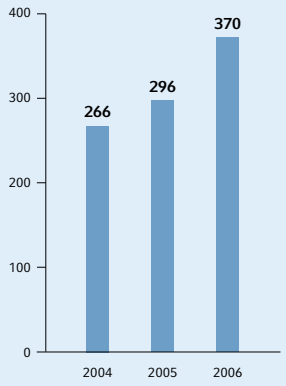


COMPETENCE IN QUALITY

TOP-QUALITY TREATMENT IS ESSENTIAL FOR A CLINIC'S FINANCIAL SUCCESS. ONE EXAMPLE IS THE PERFORMANCE OF THE HELIOS CLINIC IN AUE, GERMANY:

A 25% STROKE PATIENT REFERRAL INCREASE IN 2006 PROVES THE LOCAL PHYSICIANS' TRUST IN THE CLINIC'S STROKE TREATMENT EXPERTISE.

NUMBER OF STROKE PATIENTS TREATED AT THE AUE CLINIC



OUR PATIENTS BENEFIT SIGNIFICANTLY FROM OUR QUALITY AND PERFORMANCE INDICATORS. THESE FORM THE BASIS FOR THE HELIOS CLINIC'S RESULTS-DRIVEN QUALITY CONTROL.

The HELIOS quality management system is unique in Europe for its transparency and the value of the information it provides. A standardized reporting system and a systematic benchmarking enables the ready identification of any improvement potential in the Group's clinics. The constant exchange of information with management and staff at each clinic means that timely treatment progress can be taken to improve performance quality – for instance by investing in technology or through selective staff training. Thanks to the continuous measurement of performance quality the successes are soon apparent.

The HELIOS Aue Clinic is one example of such a success story. After the HELIOS quality management system was introduced in 2002, data analysis showed an increased mortality rate for stroke patients there. The treatment processes were analyzed in a peer review process, in which senior physicians from other HELIOS clinics shared their experience and know-how. Then, appropriate measures were implemented swiftly. A new neurology department with a modern stroke unit was set up under new management. Technical and staffing standards were also established for high-quality, best-practice diagnostics, therapy and care for stroke patients.

A specially trained team provides 24-hour neurological, neuroradiological, and other diagnostics, guaranteeing rapid decisions about the therapeutic measures that need to be taken. Mortality rates and the frequency of complications have been decisively reduced: Since the measures were introduced, the mortality rate among stroke patients at the HELIOS Aue Clinic has fallen continuously. The Group's goal (actual mortality below Germany's average rate, adjusted to the risk structure of Aue's patient population) has been achieved. At the same time, the number of patients treated has risen continuously, insuring the clinic's financial as well as medical success.

The mortality rate for stroke patients at the Aue Clinic was reduced to

7.8 % in 2006.

This represents a significant improvement compared to the expected mortality rate of 10.9 % (the overall German mortality rate for stroke patients in 2004 was 11.4 %). It is HELIOS' goal to achieve better results than the German average and if possible to achieve best-in-class outcomes.

CONSTANTLY IN FOCUS: OUR MEASUREMENTS OF TREATMENT QUALITY. WE RESPOND IMMEDIATELY. OUR GOALS: TO OPTIMIZE QUALITY, TO INCREASE PATIENT SATISFACTION.

Read more about Innovations on page 2

Read more about Efficiency on page 6

Read more about Quality on page 10

To our Shareholders:

I am pleased to present to you our financial results for 2006. Fresenius has fully achieved its ambitious objectives. We increased sales by 37 percent to € 10.8 billion and operating income by 49 percent to € 1,444 million. For the first time in our history, operating income exceeded the 1 billion euro mark. Net income also increased by 49 percent to € 330 million.

Fresenius has thus reached a new dimension in the financial year 2006. Due to the large acquisitions of HELIOS Kliniken and Renal Care Group and driven by organic growth, sales increased by the extraordinary amount of approx. € 3 billion. We have integrated both acquisitions swiftly and successfully into the Group. At the same time, we successfully expanded our existing business with excellent organic growth of 9 percent and further significant margin improvements. We are proud of these accomplishments and I would like to sincerely thank our associates for their outstanding commitment, energy and enthusiasm in making these results happen.

Fresenius has always concentrated on a few selected areas of health care. In these areas we have built a global presence for our products and services. Due to this well-defined focus, we have been able to develop unique competencies over many years. Innovation and quality, combined with global thinking and cost leadership have made the company successful. Fresenius has preserved the flexibility of small units by its decentralized organization while at the same time benefiting from the full range and scale of competencies in the Group. We will present some of these competencies to you in this Annual Report.

In the coming years we will continue to pursue our long-term strategy, focusing on profitable growth. Our goals are:

- Continued expansion of our regional presence: The fast-growing markets in Asia and Latin America present great opportunities. We are also striving for continued expansion in Europe, particularly in the Eastern European countries. The proposed conversion of Fresenius AG's legal form to a European Company (Societas Europaea – SE) will reflect this international orientation in our Corporate Governance as well and promote a global and open corporate culture.
- Development of innovative products and therapies: Here, we benefit from our wide-ranging expertise in a number of health care segments – from the production of pharmaceutical substances and medical devices to direct patient care. Specifically, we plan to expand our business in renal drugs and generic I.V. drugs. At Fresenius Biotech, we also work on new treatment options for cancer involving trifunctional antibodies.
- Expansion of our service business: Thanks to early investments in this area, we rank among the leading global health care providers. From operating dialysis clinics to the management of an entire hospital – the privatization of patient care is one of the mega trends in health care. We will continue to strive for market and quality leadership in the segments that we address.
- Selective acquisitions: In addition to pursuing organic growth, we continue to seek targeted acquisitions to strengthen our global presence as well as our product portfolio.

We will continue to manage Fresenius with a strong focus on operational excellence and commercial prudence. At the same time, the continuously expanding health care market offers us attractive growth opportunities.

Fresenius has accomplished a lot in 2006 and we have ambitious targets for 2007: We expect to increase sales by 8 to 10 percent in constant currency and net income by 20 to 25 percent in constant currency.

I am grateful for your continued trust and support as we strive to advance the quality of health care worldwide and to increase the value of our company.

Dr. Ulf M. Schneider

Chairman of the Management Board

SUMMARY OF THE FISCAL YEAR

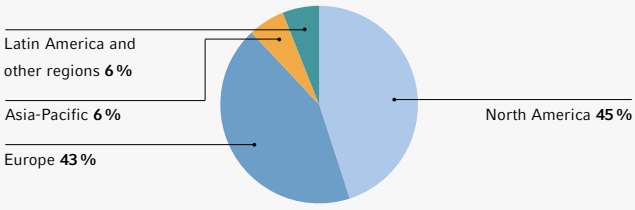
SALES

Consolidated sales increased by 37 % to € 10,777 million. Excellent organic growth of 9 % was achieved, while acquisitions, mainly the consolidation of Renal Care Group and HELIOS Kliniken Group, contributed 29 % of the sales growth. Divestments had an effect of -1 %.

EARNINGS

The growth in operating income (EBIT) to € 1,444 million was driven by an excellent operating performance in all business segments and by acquisitions. EBIT includes an amount of € -12 million from the divestitures of dialysis clinics in the USA set off by one-time expenses at Fresenius Medical Care as well as by expenses related to the stock option accounting change.

SALES BY REGION



2006: € 10.8 billion

in million €	2006	2005	Change	Change in constant currency
EBIT	**1,444**	969	49 %	50 %
Net interest	**-395**	-203	-95 %	-96 %
Income taxes	**-414**	-298	-39 %	-40 %
Minority interest	**-305**	-246	-24 %	-25 %
Net income	**330**	222	49 %	49 %

- In North America, the consolidation of Renal Care Group had a considerable impact on growth. However, very good organic growth of 9 % was also achieved.
- In Europe, much of the growth was attributable to the consolidation of HELIOS Kliniken Group. Good organic growth of 5 % was reached here, too.
- Excellent growth rates of 25 % were realized in the Asia-Pacific region, in Latin America 28 %, and in Africa 16 %.
- The EBIT margin rose in 2006 by 110 basis points to 13.4 %.
- Net interest was € -395 million, primarily as a result of the debt financing of the Renal Care Group acquisition (2005: € -203 million). Net interest, however, also includes one-time expenses of € 30 million associated with the early refinancing of debt.
- Net income grew by 49 % to € 330 million. Due to the higher number of shares outstanding following the capital increase in December 2005, earnings per share rose by 22 %.

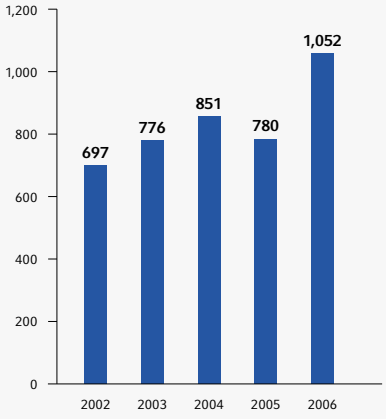
CASHFLOW

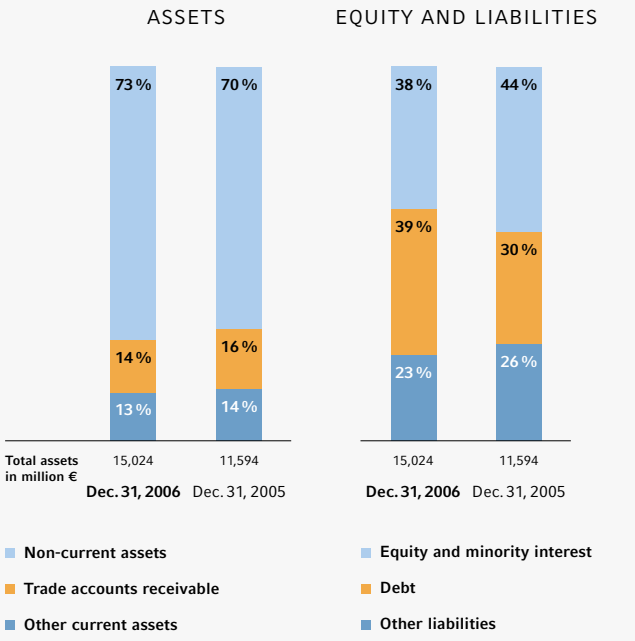
Fresenius again generated a high operating cash flow of € 1,052 million in 2006. This was 35 % above the previous year's level of € 780 million. The cash flow rate was 9.8 %. The high cash flow was achieved mainly due to a good earnings performance.

BALANCE SHEET

The balance sheet is solid. Total assets rose by 30 % to € 15,024 million. In constant currency, the increase was 38 %. Much of this growth is attributable to the acquisition of Renal Care Group.

OPERATING CASH FLOW, IN MILLION €





- Cash flow before acquisitions and dividends was € 481 million (2005: € 449 million). The Renal Care Group acquisition was financed through bank debt.

- Including minority interest, shareholders' equity increased by 12 % to € 5,728 million. This was mainly due to the very good earnings performance.
- As a result of the debt financing of the Renal Care Group acquisition, the equity ratio including minority interest declined from 44.2 % at the end of 2005 to 38.1 % at the end of 2006.
- Debt rose to € 5,872 million (December 3,1 2005: € 3,502 million).

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 43 % and the preference share 42 % in 2006.
- Both classes of shares significantly outperformed the DAX and the MDAX.
- We propose another dividend increase.

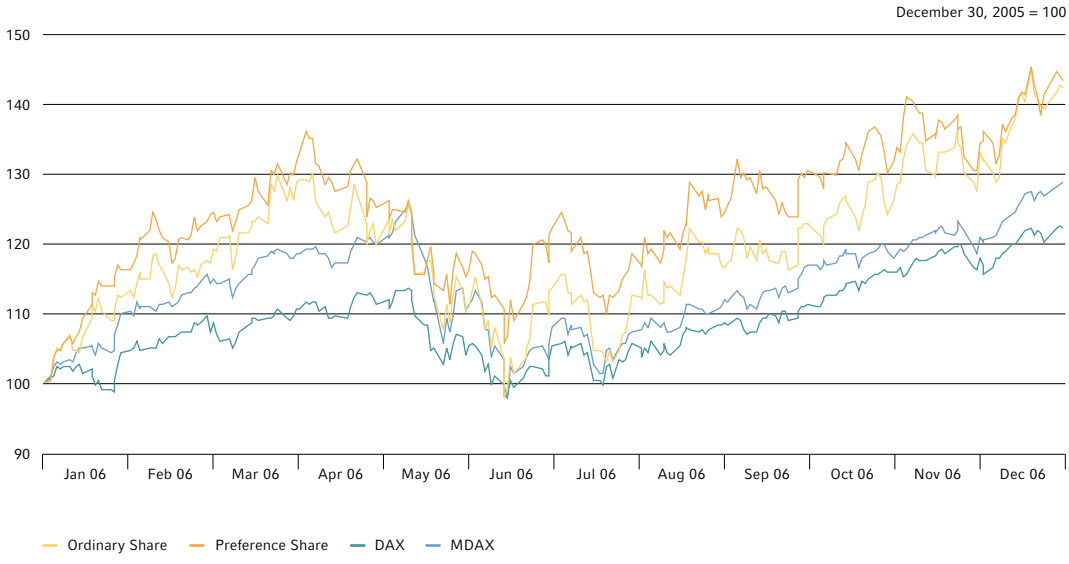
2006 was a very successful year for the equity markets. In an improved economic climate many companies were able to achieve strong earnings growth, which drove up share prices. The Fresenius shares profited from our excellent operating performance and the positive stock market environment, and developed outstandingly in 2006.

STOCK MARKETS

The positive trend on the international stock markets continued in 2006. In April, the DAX moved above the 6,000 mark for the first time since autumn 2001, and the MDAX reached 9,000 points for the first time since the index was introduced. However, the upward trend came to a halt midway through the year and price corrections occurred. This was triggered by the strong surge in oil prices, growing concerns over inflation in the US and first indications of firmer capital market rates in the US and Euroland in combination with a strong depreciation of the US dollar versus the euro. The resulting uncertainty among investors took the DAX and the MDAX to their lows for the year of 5,292 points and 7,152 points respectively in mid-June. Stock market sentiment brightened again with the announcement of good corporate earnings results together with optimistic business forecasts, and easing crude oil prices. In December, both indices touched their highs for the year of 6,612 points for the DAX and 9,405 points for the MDAX.

Closing at 6,597 points at the end of 2006, the DAX gained 22 % over the year. The MDAX closed the year at 9,405 points, a gain of 29 %. On international comparison, only Spain's IBEX beat the good performance of the two German indices with a gain of 31 %, while the European blue chip index EuroStoxx 50 increased by only 11 %. Looking at the European sectors in the Dow Jones STOXX 600, the best performers were Commodities (+76 %), Financial Services (+49 %) and Construction (+38 %). The worst performers were Oil & Gas (+7 %), Healthcare (+6 %) and Technology (+3 %).

RELATIVE SHARE PRICE PERFORMANCE



The leading US indices also performed well. The S&P 500 closed 2006 with a gain of 13%, while the Dow Jones Industrial Average was up 17%.

Financial experts expect the growth in corporate earnings to slow down slightly in 2007. The gains on the equity markets could therefore be lower in 2007 than in 2006.

FRESENIUS SHARES

In 2006, the ordinary share rose 43% and the preference share 42%. Both classes of shares again outperformed the DAX and the MDAX. They also exceeded or were in line with the performance of the European Dow Jones Stoxx Healthcare Index (3%) and the German Prime Pharma & Healthcare Index (42%).

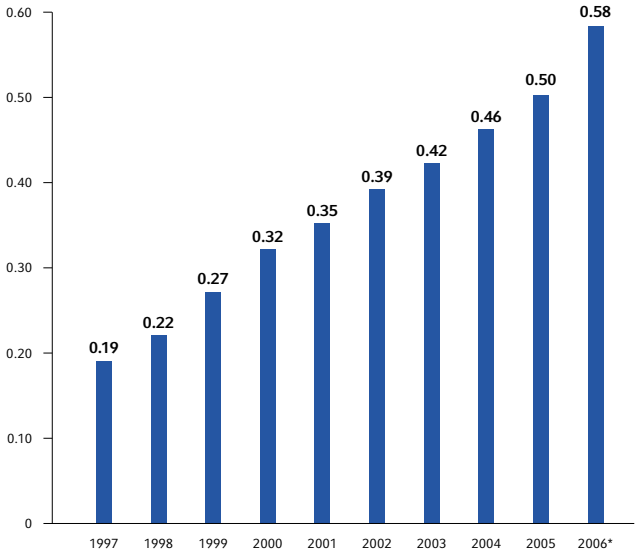
The ordinary share's low for the year of € 106.42 was registered on the first trading day of the year. The price rose to € 151.71 at the end of the year. The ordinary share reached its high for the year of € 153.97 on December 18, 2006. The preference share touched its low for the year of € 112.24 on June 13, 2006 and its high for the year of € 165.95 on December 18, 2006. It closed the year at € 162.81.

Fresenius AG's market capitalization rose over the year by 45% to € 8.1 billion.

The average Xetra daily trading volume in the Fresenius shares increased substantially:

Number of shares	Average trading volume 2006	Average trading volume 2005	Change in %
Ordinary share	20,341	14,300	42
Preference share	120,865	81,400	48

DIVIDEND PREFERENCE SHARE IN €

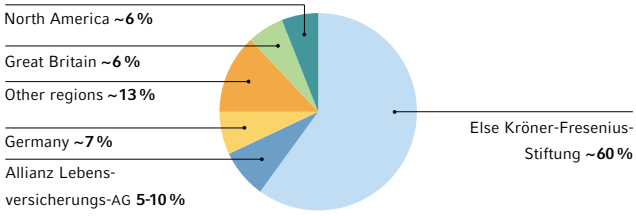


* Proposal
1997 – 2005: adjusted for share split

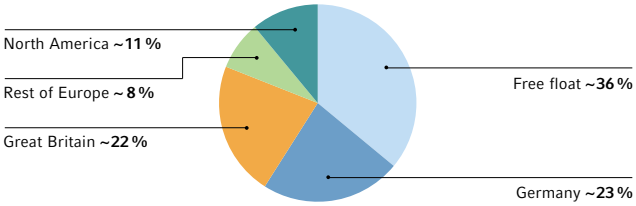
SHARE SPLIT AND CAPITAL INCREASE FROM COMPANY FUNDS

As a result of the good performance over the last years, the Fresenius share has become one of the highest in the HDAX. Therefore, in order to increase the liquidity and attractiveness of the Fresenius shares, the Extraordinary General Meeting of December 4, 2006 adopted a resolution authorizing a share split with a capital increase from company funds. Subscribed capital was increased by € 22.6 million to € 154.4 million and was subsequently divided into 77,176,938 ordinary shares and 77,176,938 preference shares. Every ordinary shareholder now has three ordinary shares for each ordinary share previously held, and every preference shareholder now has three preference shares for each preference share previously held. The share split has led to an arithmetical reduction of the price level of the shares without affecting the overall value for the shareholders. The share split was carried out on February 2, 2007.

SHAREHOLDER STRUCTURE ORDINARY SHARES



SHAREHOLDER STRUCTURE PREFERENCE SHARES



DIVIDEND

Based on our good earnings performance, we are pleased to increase the dividend for 2006. We are proposing to our shareholders a dividend per ordinary share of € 0.57 (2005 adjusted to share split: € 0.49) and per preference share of € 0.58 (2005 adjusted to share split: € 0.50). This is an increase of 15 %. The total proposed dividend distribution will be € 88.8 million, equivalent to 27 % of Group net income. We are therefore continuing to pursue our profit-driven dividend policy.

SHAREHOLDER STRUCTURE

The Else Kröner-Fresenius Foundation is Fresenius' largest shareholder with approximately 60 % of the voting shares. According to Allianz Lebensversicherungs-AG the company holds between 5 and 10 % of the voting shares.

At the beginning of 2007, we conducted a shareholder survey covering 80 % of subscribed capital. 95 % of the ordinary shares and 65 % of the preference shares were identified.

According to this survey, a total of 258 institutional investors hold about 65.9 million shares. This is split into 18.8 million ordinary shares and 47.1 million preference shares. 2.0 million ordinary shares and 2.9 million preference shares were identified as retail holdings.

The top ten investors hold approximately 8 % of the ordinary share capital and approximately 23 % of the preference share capital. Both classes of shares are mainly held by investors in Germany and Great Britain.

INVESTOR RELATIONS

Our Investor Relations activities are aligned to the transparency rules of the German Corporate Governance Code. We pursue comprehensive, timely and open communication.

In 2006, we again intensified our dialogue with the capital market in order to enable investors and analysts to make a fair assessment of Fresenius Group's business situation and market conditions. In addition to the regular analyst conferences held three times each year, the Management Board of Fresenius AG also made presentations in important financial markets in Europe and in the United States. The regular contacts with institutional investors and analysts were further extended. We participated in nine international investor conferences and held numerous one-on-one meetings. We also continued our contacts with private investors. Here, the Internet is an important instrument. Our private shareholders can follow live webcasts of the analyst conferences and download presentations at www.fresenius-ag.com/Investor Relations/Presentations. We intend to make further improve-

ments in our contacts with private shareholders, and welcome any suggestions you may like to make. We also plan to further extend the information content on our website in 2007.

In 2006, Fresenius was again commended for the standard of its financial communication. In the competition for the best annual report conducted by the German business magazine "manager magazin", which analyzed more than 200 annual reports published by German and European companies, we came second in the MDAX category and tenth in the overall ranking. In the Handelsblatt's annual reports survey "Geschäftsberichte im Test" (annual report test) we were placed fourth out of all the companies covered. The survey examined the annual reports of altogether 130 companies. We also received the Platinum Award in the category "Health Care – Equipment & Supplies" from the League of American Communications Professionals (LACP), USA. In the overall ranking for all categories, Fresenius achieved a very good 23rd place. About 1,900 companies from 16 countries took part in this contest.

EARNINGS PER SHARE

In 2006, the Fresenius Group achieved earnings per ordinary share of € 2.15 and per preference share of € 2.16 (2005 adjusted for share split: € 1.76 per ordinary share, € 1.77 per preference share). This is an increase of 22 % per share. Further details on earnings performance and earnings per share are provided on page 73 of the Management Report and on page 141 of the Notes.

ANALYST RECOMMENDATIONS

The recommendations published by financial analysts are an important guide for institutional as well as private investors when making investment decisions. According to our survey, we were rated with 15 "buy" recommendations and 2 "hold" recommendations as at February 22, 2007. This reflects analysts' confidence in the long-term earnings power of the Fresenius Group and in the potential for our shares. The table below lists the institutions which provide analyst coverage on Fresenius and their latest recommendations:

ANALYST RECOMMENDATIONS

Bankhaus Metzler	February 2007	Buy
Cheuvreux	January 2007	Outperform
Credit Suisse	February 2007	Outperform
Deutsche Bank	February 2007	Buy
DZ Bank	February 2007	Buy
equinet	February 2007	Accumulate
Euromobiliare	February 2007	Buy
Goldman Sachs	February 2007	Buy
HypoVereinsbank	February 2007	Hold
Landesbank Baden-Württemberg	February 2007	Buy
Lehman Brothers	February 2007	Overweight
Main First Bank	February 2007	Buy
Merrill Lynch	February 2007	Buy
NordLB	February 2007	Hold
Sal. Oppenheim	February 2007	Buy
UBS	February 2007	Buy
WestLB	February 2007	Buy

KEY DATA OF THE FRESENIUS SHARES

	2006	2005	2004	2003	2002
Number of shares	**51,451,292**	50,722,280	40,971,038	40,969,684	40,969,684
Ordinary shares	**25,725,646**	25,361,140	20,485,519	20,484,842	20,484,842
Preference shares	**25,725,646**	25,361,140	20,485,519	20,484,842	20,484,842
Stock exchange quotation ordinary share[1] (€)					
High	**153.97**	109.15	83.49	68.50	80.50
Low	**106.42**	75.58	60.29	32.50	20.45
Year-end quotation	**151.71**	106.00	74.65	64.50	36.05
Stock exchange quotation preference share[1] (€)					
High	**165.95**	119.50	72.27	57.55	91.25
Low	**112.24**	68.94	50.87	36.01	21.48
Year-end quotation	**162.81**	114.65	68.83	54.55	36.45
Market capitalization[2] (million €)	**8,091**	5,596	2,939	2,437	1,485
Beta factor[3]	**0.88**	0.75	0.33	1.10	1.35
Total dividend distribution (million €)	**88.8**[5]	75.8	55.9	51.0	47.3
Per share in €					
Dividend ordinary share	**0.57**[5]	0.49[4]	0.45[4]	0.41[4]	0.38[4]
Dividend preference share	**0.58**[5]	0.50[4]	0.46[4]	0.42[4]	0.39[4]
Earnings per ordinary share[4]	**2.15**	1.76	1.36	0.93	1.08
Earnings per preference share[4]	**2.16**	1.77	1.37	0.94	1.09

[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] Fresenius preference share (source: Bloomberg)
[4] Adjusted for share split
[5] Proposal

CORPORATE GOVERNANCE REPORT

The German Corporate Governance Code was established to increase confidence in the corporate management of publicly traded companies. It aims to provide more transparency for investors on existing regulations concerning 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 on 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 communication is a further commitment. Good corporate governance was 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.

SHAREHOLDERS

The shareholders execute their rights at the General Meeting and exercise their voting rights there. Each ordinary share of Fresenius AG confers one vote. Preference shares of Fresenius AG basically confer no voting right. In return, holders of preference shares have a right of precedence in the distribution of earnings and are entitled to a higher dividend. None of the shares have multiple or preferential voting rights.

ANNUAL GENERAL MEETING

Our last Annual General Meeting (AGM) was held on May 10, 2006 in Frankfurt am Main. Approximately 82 % of the ordinary share capital and approximately 38 % of the preference share capital was present at the meeting. As in the previous year, we broadcast the speech of the Chairman of the Management Board over the Internet for those shareholders unable to attend the AGM. In addition, shareholders were able to have their voting rights exercised by proxy or by a voting representative appointed by Fresenius AG. As well as voting on the appropriation of the disposable profit, the ratification of the Management and Supervisory Board's act and the appointment of the auditors, the AGM also adopted a resolution on the creation of new Approved Capital. This authorized the Management Board to increase subscribed capital by May 9, 2011 by € 12,800,000 (Approved Capital I) through one or more issues of new bearer ordinary shares and/or bearer preference shares against cash contribution and by € 6,400,000 (Approved Capital II) against cash contribution and/or contribution in kind. The Approved Capital II was partly utilized in 2006 to finance part of the HUMAINE acquisition. Following the AGM, a separate General Meeting for preference shareholders was held.

In addition, an Extraordinary General Meeting took place on December 4, 2006, at which less than 80 % of the ordinary share capital and approximately 12 % of the preference share capital was present. The ordinary shareholders voted by a large majority in favor of the conversion of Fresenius AG into a European Company (Societas Europaea, SE) and a share split in association with a capital increase from company funds.

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 Company's interests. The Management Board consists of five members. They are listed on page 208 of this Annual Report.

SUPERVISORY BOARD

The Supervisory Board of Fresenius AG consist of 12 members. Six are elected by the AGM 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 Super-visory Board members will probably end in the third quarter of 2007 when Fresenius SE is registered in the Commercial Register, and at the latest at the close of the 2008 AGM. The members of the Supervisory Board are listed on page 209 of this Annual Report. One Supervisory Board member is a partner in a law firm that provides legal advice to the Group. The Supervisory Board has 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 notify the Supervisory Board promptly should such conflicts arise.

The Supervisory Board appoints the members of the Management Board, and supervises and advises the Management Board in its management of the Company. The Supervisory Board has established rules of procedure in accordance with Clause 5.1.3. of the Corporate Governance Code. The Chairman of the Supervisory Board is responsible for coordinating the activities of the Supervisory Board, chairing its meetings and representing its interests externally. By communicating regularly with the Management Board, the Supervisory Board is well informed at all times about the company's operating performance, corporate development and strategy. It approves the corporate planning and gives its assent to the Group's annual financial statements taking into account the auditor's reports. Another important part of the Supervisory Board's activities is the work conducted within committees formed in accordance with the requirements of the German Stock Corporation Act (Aktiengesetz) and the Code.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board of Fresenius AG has formed three committees: the Mediation Committee, the Audit Committee and the Personnel Committee. 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 accordance with Clauses 5.2 and 5.3.2 of the German Corporate Governance Code. The members of the committees are listed on page 209 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 statements, review the quarterly reports and – following discussion with the Management Board – appoint the auditor for the financial statements and agree on the auditor's fees. The Personnel Committee is responsible for approving the employment terms of members of the Management Board. The Mediation Committee performs the duties as set out in § 31 (3) sentence 1 of the German Co-determination Act (Mitbestimmungsgesetz) 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 the two boards.

COOPERATION BETWEEN THE MANAGEMENT AND SUPERVISORY BOARDS

The Management and Supervisory Boards work closely together in the interests of the Company. The Management Board informs the Supervisory Board regularly, promptly, and comprehensively on the Group's and the business segment's 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

Details about the Management and Supervisory Board members' compensation and disclosures on the stock option plans as well as on Directors & Officers insurances (D & O) may be found on pages 197 to 201 of the Notes.

TRANSPARENCY AND COMMUNICATION

Fresenius adheres to all recommendations of Clause 6 of the German Corporate Governance Code. Transparency is guaranteed by a continuous communication with the public. Therewith we want to validate and extend the trust given to us. Of particular importance to us is the equal treatment of all recipients. In order that all market recipients receive the same information at the same time, we post all important publications on our website www.fresenius-ag.com/Investor Relations. This includes among other things financial reports and director's dealings in accordance with § 15a of the German Securities Trading Act (Wertpapierhandelsgesetz).

RISK MANAGEMENT

We consider that the responsible handling of risks is an element of good corporate governance. Fresenius practises 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 on pages 84 to 90 of the Management Report.

COMPLIANCE

Compliance with legal and ethical principles is an integral part of Fresenius' corporate culture. This includes principles such as professionalism, honesty and integrity in relations with our patients, customers, suppliers, governments, employees, shareholders and the general public.

FINANCIAL ACCOUNTING AND REPORTING

Fresenius prepares its consolidated 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 consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) pursuant to § 315a of the German Commercial Code (HGB). Our largest subsidiary, Fresenius Medical Care, prepares its financial statements in accordance with US GAAP. Therefore, we publish our consolidated financial statement in accordance with US GAAP along with our statutory consolidated financial statements in accordance with IFRS. Thus we illustrate Fresenius' business situation to our shareholders in a comparable and transparent manner.

CONVERSION OF FRESENIUS AG INTO A EUROPEAN COMPANY (SOCIETAS EUROPAEA, SE)

On December 4, 2006, the Extraordinary General Meeting of Fresenius AG adopted a resolution in favor of the conversion of Fresenius AG into a European Company (Societas Europaea, SE). Fresenius AG will therefore adopt the legal form of a European Company and will henceforth operate under the name Fresenius SE.

The conversion does not have any effect on the Company's corporate structure and management organization. Under its statutes the future Fresenius SE will continue to have a two-tier system consisting of Management Board and Supervisory Board. As is the case with Fresenius AG today, the Supervisory Board will continue to have twelve members with parity representation of shareholder and employee representatives.

When the conversion of Fresenius AG into an SE becomes effective, the terms of office of the Supervisory Board members will end. The rules of the German Co-determination Act (Mitbestimmungsgesetz) of 1976 concerning employee representation on the Supervisory Board of Fresenius AG will be replaced by the rules and procedures of the SE Employee Participation Act and its regulations. The shareholder repre-

sentatives in the new Supervisory Board of Fresenius SE have already been appointed in the Fresenius SE statutes. The employee representatives cannot be appointed until the employee involvement procedure has been concluded. This procedure was not yet completed at the time of the Extraordinary General Meeting, so it was not possible to include their appointment in the Fresenius SE statutes. The employee representatives will therefore be appointed by a court resolution after the employee participation involvement procedure has been completed and after the conversion of the corporate form.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE GUIDELINES

The Management and Supervisory Boards of Fresenius AG have made a Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz), in accordance with the German Corporate Governance Code as of June 12, 2006 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 in our website at www.fresenius-ag.com/Investor Relations/Corporate Governance.

On November 28, 2006, the Management Board and the Supervisory Board of Fresenius AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been and are being met. The Management Board and the Supervisory Board of Fresenius AG also intend to follow the recommendations of the German Corporate Governance Code in future. The following recommendations are the only ones not been or being applied:

- Disclosure of individual compensation for each member of the Management Board, according to clause 4.2.4, in our view limits the structuring of compensation so that it is differentiated by individual performance and responsibility. Therefore, no disclosure was made in the past. Nonetheless, as from 2006 Fresenius will follow the legal requirements and the Code's recommendations and will disclose the individual compensation for each member of the Management Board.
- Clause 4.2.3 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. Clause 4.2.3 further recommends that for extraordinary, unforeseen developments a possibility of limitation (Cap) for stock options and comparable instruments should be agreed on by the Supervisory Board. The stock option plan currently valid contains no corresponding regulation.
- According to clause 5.4.1 an age limit shall be specified for the members of the Supervisory Board. According to clause 5.1.2, the same shall apply for members of the Management Board. As in the past, Fresenius will refrain from introducing an age limit for members of the Management and Supervisory Boards since this would limit the selection of qualified candidates.
- According to clause 5.4.3 elections to the Supervisory Board shall be made on an individual basis. For purposes of the conversion into an SE, Fresenius has decided to appoint the six representatives of the shareholders of the first Supervisory Board of Fresenius SE by the statutes. This corresponds to the option for appointing members of the first Supervisory Board of an SE specified in the law (Art. 40, paragraph 2 sentence 2 of the SE Regulation). Hence, this deviation only concerns the appointment of the first Supervisory Board of the future Fresenius SE. No further statement regarding the future is linked to this decision.

FRESENIUS MEDICAL CARE

- Strong growth continued.
- Renal Care Group successfully integrated.
- Further horizontal integration with renal drugs.
- In 2006, Fresenius Medical Care treated 163,517 patients in 2,108 dialysis clinics, the number of treatments increased by 20 % to 23.7 million.

Fresenius Medical Care – the world's leading provider of dialysis products and dialysis care – achieved an excellent performance in 2006 and further strengthened its market position. Sales increased to US$ 8.5 billion. Operating performance in dialysis care was outstanding, and also dialysis product sales reached a record growth.

BUSINESS DEVELOPMENT

In 2006, sales rose 26 % to US$ 8,499 million (2005: US$ 6,772 million), driven by excellent organic growth of 10 % and the consolidation of the Renal Care Group. In constant currency, sales increased 25 %. North America contributed 71 % to Fresenius Medical Care's sales, Europe 21 %, and the rest of the world 8 %.

Dialysis care accounted for 75 % of sales and dialysis products for 25 %. Fresenius Medical Care achieved excellent growth in dialysis care of 31 % to US$ 6,377 million (2005: US$ 4,867 million). In dialysis products, sales rose by 11 % to US$ 2,122 million (2005: US$ 1,905 million). The growth in dialysis care was largely driven by the positive development in the existing business and the successful integration of the Renal Care Group. The excellent growth in dialysis products was achieved by the strong operating performance in all regions.

Fresenius Medical Care increased EBIT by 40 % to US$ 1,318 million (2005: US$ 939 million). EBIT includes a gain of US$ 40 million from the divestitures of US dialysis clinics. The sale was a condition of the US Federal Trade Commission for the approval of the Renal Care Group acquisition. EBIT also includes a total of US$ 51 million for one-time expenses, mainly for the integration of the Renal Care Group, as well as for expenses related to the stock option accounting change.

Net income increased by 18 % to US$ 537 million (2005: US$ 455 million). This includes one-time expenses of US$ 47 million, primarily for debt refinancing and the integration of the Renal Care Group, and expenses related to the stock option accounting change, as well as for the after-tax loss on the divestiture of the dialysis clinics in the United States. This after-tax loss occurred as the goodwill attributable to the divested clinics is not considered for tax purposes. Without these effects, and on the basis of the previous year's figure adjusted for one-time expenses, net income was up 24 % to US$ 584 million.

FRESENIUS MEDICAL CARE BY REGIONS

	North America	Europe	Latin America	Asia-Pacific	Total
Sales (in million US$)	6,025	1,770	327	377	8,499
Dialysis patients (December 31)	117,855	25,078	16,924	3,660	163,517
Dialysis clinics (December 31)	1,560	342	166	40	2,108
Treatments (in millions)	16.9	3.8	2.5	0.5	23.7

INTEGRATION OF RENAL CARE GROUP

Renal Care Group is Fresenius Medical Care's largest acquisition since the company's foundation in 1996. At the time of its acquisition, Renal Care Group was the third largest provider of dialysis care in the United States. At the end of the first quarter of 2006, the acquisition was completed and Fresenius Medical Care started the integration process. The preparations had already been initiated in the preceding months. With integration, the key success factors of both companies were combined: Renal Care Group's leading position with private health insurers and Fresenius Medical Care's cost leadership in products. We have also laid the groundwork for realizing valuable synergies. While Fresenius Medical Care as an integrated provider covers the entire value chain, Renal Care Group operates solely in dialysis care, thus strengthening the growth potential of Fresenius Medical Care in dialysis machines, dialyzers, and disposables. First synergies of around US$ 30 million were achieved in 2006. These were realized primarily in administration and purchasing and by Fresenius Medical Care's increased supply of products to Renal Care Group clinics. We expect synergies to be around US$ 40 to 50 million in 2007 and subsequent years. Renal Care Group is an ideal fit for Fresenius Medical Care, not only geographically and strategically but also in terms of corporate culture and goals. We will continue to strive for our joint goal, delivering the highest possible quality of treatment. Both companies have recognized quality criteria, embracing the highest medical standards. Under the slogan "Becoming One," the two companies have combined their resources and expertise. Integration events were organized for more than 7,000 Renal Care Group employees. Information was distributed to more than 25,000 patients of the Renal Care Group clinics welcoming them to Fresenius Medical Care.

DIALYSIS CARE

Fresenius Medical Care is the leader in dialysis care in North America and internationally. In North America, Fresenius Medical Care treated 34 % of all dialysis patients in 2006.

DIALYSIS CARE NORTH AMERICA

	2006	2005	Change
Sales (in million US$)	**5,464**	4,054	35 %
Dialysis patients (December 31)	**117,855**	89,300	32 %
Dialysis clinics (December 31)	**1,560**	1,157	35 %
Treatments (in millions)	**16.9**	13.5	25 %

The strong business performance in dialysis care in North America was driven by an excellent operating performance by our existing activities as well as by the consolidation of Renal Care Group and by a higher average reimbursement per dialysis treatment. Average revenue per dialysis treatment in the United States was US$ 321 in 2006; these are US$ 24 more than in 2005. The main reason was a higher number of patients covered by private payors. Private payors provide a higher reimbursement rate than public health insurance plans. In 2006, the percentage of sales attributable to private payors rose to 42 %, from 40 % in 2005. Furthermore, we were able to achieve a higher reimbursement rate from private payors. In addition, the public health insurance plans increased their reimbursement rate per dialysis treatment (composite rate) by 1.6 % in 2006.

In the International segment the dialysis care business also performed excellently. Here, Fresenius Medical Care treated in total 45,662 patients, an increase of 8 % year on year. Sales rose by 12 % (17 % in constant currency).

DIALYSIS CARE INTERNATIONAL

	2006	2005	Change
Sales (in million US$)	**913**	813	12 %
Dialysis patients (December 31)	**45,662**	42,172	8 %
Dialysis clinics (December 31)	**548**	523	5 %
Treatments (in millions)	**6.9**	6.3	10 %

In the International segment, the dialysis care business is highly fragmented. Fresenius Medical Care is the leading provider in more than 25 countries. Reimbursement policies and market access differ considerably from country to country. In some countries private companies are not permitted to operate dialysis clinics. However, clinic privatizations, especially in Eastern Europe, offer additional growth opportunities. Our business performance in Latin America was very successful since the reimbursement rates for dialysis treatments were increased in some countries.

DIALYSIS PRODUCTS

Our dialysis products business grew strongly in 2006. Sales were up 11 %, with growth of 13 % in the International segment and 7 % in North America.

SALES DIALYSIS PRODUCTS

	2006	2005	Change
Sales (in million US$)	**2,122**	1,905	11 %
Sales North America (in million US$)	**561**	523	7 %
Sales International (in million US$)	**1,561**	1,382	13 %

Fresenius Medical Care is the world's market leader for dialysis products, with a market share of about 30 %.

The main dialysis products are dialyzers, hemodialysis machines, concentrates and dialysis solutions, as well as products for peritoneal dialysis. Dialyzers are the biggest product group in terms of units produced: About 160 million units were sold worldwide in 2006, with Fresenius Medical Care producing over 65 million, or approximately 40 %. In the United States alone we sold around 27 million Optiflux dialyzers, a record for the US market.

At the end of 2006, about 60 % of all hemodialysis patients in the United States were being treated with single-use dialyzers made by Fresenius Medical Care.

As a result of the sustained increase in global demand for Fresenius Medical Care dialyzers, capacity at our production plants has been stretched to the limit. In Germany and Japan we have therefore initiated projects to expand our production capability for the FX-class dialyzers. At the St. Wendel plant in Germany we plan to increase annual production by 10 million to reach 35 million dialyzers by 2008. In coming years we will also significantly expand dialyzer production in the United States. We will add two new production lines at our plant in Ogden, Utah, increasing the production capacity from 27 million dialyzers to about 34 million units annually.

Dialysis machines are another important product group. We are the market leader in this segment: Fresenius Medical Care supplied over 50 % of the more than 50,000 dialysis machines sold worldwide in 2006. Continued successful international introduction of our 5008 therapy system has been a contributing factor. This new generation of dialysis machines has met with strong market acceptance and demand especially among our customers in Europe and Latin America. In the US market the 2008K-series dialysis machines continued to be in strong demand. Altogether, we sold more than 13,000 of these machines in the United States in 2006. Our share in the net available external market, i. e. dialysis clinics that are not part of a chain, for both dialyzers and dialysis machines is over 70 % in the United States. Over the same period, our share of the US market for peritoneal dialysis products was 31 %.

RENAL DRUG INITIATIVE

In November 2006, Fresenius Medical Care completed the acquisition of Nabi Biopharmaceutical's global phosphate binder business (PhosLo). With this acquisition, Fresenius Medical Care further expands its market position in the field of renal drugs. PhosLo is a calcium acetate phosphate binder for oral application in patients with chronic kidney failure. The company achieved approximately US$ 40 million in sales in the United States. Excess phosphate consumed with food is normally removed by the kidneys in a process that can only partially be replaced by dialysis in patients with chronic kidney failure. Too much phosphate in the blood can result in a number of adverse events, including bone disease, thyroid problems, and vascular calcification. The risk of such damage in end-stage renal disease patients can be lowered by regularly taking phosphate binders. We estimate that the total market for renal drugs is worth about US$ 1.5 billion. With the "Renal Drug Initiative" Fresenius Medical Care plans to expand its product portfolio with further dialysis-related drugs.

SUPPLY AGREEMENT WITH AMGEN IN THE UNITED STATES

In addition to drugs for controlling iron, vitamin D and phosphate levels, another renal drug is erythropoetin. In 2006, Fresenius Medical Care entered into an agreement with Amgen, the world's largest biotechnology company, for the supply of EPOGEN and Aranesp in the United States and Puerto Rico. Amgen is the sole supplier of these two products in the United States. The new agreement runs from October 1, 2006 to December 31, 2011 and replaces the previous product purchase agreement. In addition, the companies will explore collaborations to develop new product formulations to further improve the quality of dialysis treatment.

LABORATORY SERVICES

Laboratory tests are a decisive factor for nephrologists when deciding on the dialysis therapy for their patients. The quality of the test results is important for the quality of the treatment and thus the patient's quality of life. Our subsidiary Spectra Laboratories performs these laboratory services for about 146,000 dialysis patients. That is 17 % more patients than in 2005. Spectra Laboratories is the largest clinical laboratory for dialysis-related services in North America, with a market share of around 47 % and 45 million tests in 2006 (2005: 42 million). We introduced an Internet-based ordering system for laboratory tests in 2006 to simplify the process for our customers and to set a new standard for laboratory services.

DISEASE MANAGEMENT

Fresenius Medical Care operates the largest disease management program for privately insured kidney patients in the United States. Disease Management is more than conventional dialysis therapy, since it takes a holistic approach to patient treatment. It includes preventive measures, the coordination of health care services, and an active treatment of other, so-called co-morbid diseases, to avoid unnecessary hospital stays. Together with its partner Renaissance Health Care, Fresenius Medical Care has been active in Disease Management in the United States for several years. In 2006, we won Health Management Corporation as a new customer in this area. Health Management Corporation is a subsidiary of Wellpoint, whose 34 million members make it one of the largest private health insurers in the United States. In future, we will be treating Wellpoint patients with chronic kidney failure under our Disease Management program. Altogether we cared for approximately 4,000 patients in the United States under our Disease Management program by the end of 2006.

Since January 2006, our subsidiary Fresenius Medical Care Health Plan has been operating a demonstration project for patients with chronic kidney failure. This contract was awarded by the Center for Medicare and Medicaid Services (CMS). CMS oversees the public US health insurance programs Medicare and Medicaid. Under this project, Fresenius Medical Care receives a monthly per-patient fee rather than billing for each individual service. The agreed fee covers all health care services for patients included in the program. We are convinced that with this comprehensive care program we can achieve even better treatment results for our patients. As a vertically integrated provider of dialysis care and products, Fresenius Medical Care considers that it is well positioned to profit from the trend towards Disease Management programs.

CLINICAL DATABASES

Clinical databases are an important instrument for quality control in dialysis treatment. We use such databases to record the treatment data of dialysis patients. At the same time, this enables us to effectively compare the treatment quality of different dialysis clinics. Weak points can be identified more quickly and any remedial action that might be necessary can be taken immediately.

Our European database EuCliD (European Clinical Database) is therefore a central part of our integrated quality management system and also assists nephrologists with patient treatment. Over 280 dialysis clinics entered data into this system in 2006. Through EuCliD we now track the treatment data of around 24,000 dialysis patients. This means that about 80 % of our European dialysis clinics used the database last year.

In the United States, we are currently introducing an improved clinical information and billing system. This Internet-based system standardizes procedures and makes them more transparent. The comprehensive database simplifies the analysis of treatment quality and supplies clinic staff and physicians with the relevant information swiftly. In 2006, we introduced the necessary infrastructure for this system to over 1,000 dialysis clinics.

For further information, please see Fresenius Medical Care's Annual Report 2006 or www.fmc-ag.com.

FRESENIUS KABI

- Strong sales growth in all regions.
- Excellent growth rates in operating profit.
- Globally unique, integrated portfolio of infusion therapies and clinical nutrition.

2006 was an excellent year for Fresenius Kabi. Strong sales growth was again achieved in all regions. Earnings reached a new record level. In addition, the company continued its growth initiatives in the fields of intravenously administered drugs and medical devices.

Fresenius Kabi is one of the few companies to offer infusion therapy, clinical nutrition, and related medical devices worldwide. Our products are used for the treatment and care of critically and chronically ill patients. Our portfolio covers all the main therapy areas for these patients.

In infusion therapy we offer products for fluid and blood volume replacement as well as generic intravenously administered (I.V.) drugs, infusion technologies, and infusion disposables.

In transfusion technology we have a range of products mainly used by blood banks and blood donation units to produce blood products.

In clinical nutrition we provide parenteral nutrition (administered intravenously) and enteral nutrition (administered as sip or tube feed via the gastrointestinal tract) as well as nutrition pumps and infusion disposables.

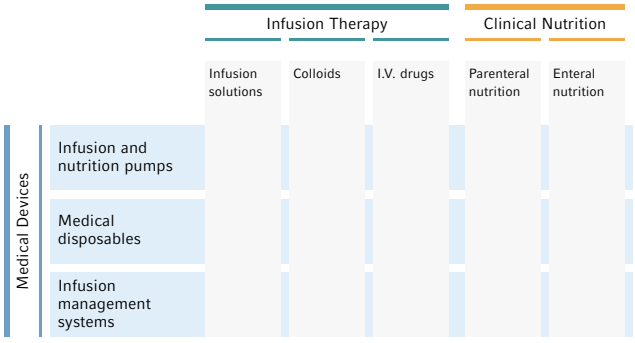
Our products encompass the entire patient process chain of medical care: in emergency cases, during operations, in intensive care, in hospital wards as well as in outpatient care.

In Europe we are the market leader in infusion therapy and clinical nutrition. In the growth regions of Asia-Pacific and Latin America we have a leading position in nearly all of our markets.

BUSINESS DEVELOPMENT

In 2006, Fresenius Kabi increased sales by 13 % to € 1,893 million (2005: € 1,681 million). Strong organic growth of 8 % was achieved. Acquisitions increased sales by 4 %. This is mainly attributable to the first-time consolidation of Clinico, a manufacturer of medical devices, and to our Australian joint venture Pharmatel Fresenius Kabi. We increased our stake in this joint venture to 50.1 % with effect from January 1, 2006. Currency translation had a positive effect on sales, contributing 1 %.

FRESENIUS KABI – INTEGRATED PRODUCT PORTFOLIO



The table shows the sales development by region:

in million €	**2006**	2005	Change
Germany	**427**	405	5 %
Europe (ex Germany)	**877**	819	7 %
Asia-Pacific	**258**	183	41 %
Latin America	**128**	101	27 %
Other regions	**203**	173	17 %
Total	**1,893**	1,681	13 %

In Europe (ex Germany) we considerably increased sales by 7 %. In Germany, sales grew by 5 %.

In the dynamic regions of Asia-Pacific and Latin America we achieved excellent growth, and were able to sustain the high growth rates of the previous years. In the other regions we also achieved strong growth, especially in South Africa.

Sales by product segment were as follows:

in million €	**2006**	2005	Change
Infusion therapy	**1,023**	895	14 %
Clinical nutrition	**753**	674	12 %
Transfusion technology	**117**	112	4 %

We achieved excellent growth rates in earnings: EBIT rose by 24 % to € 291 million (2005: € 234 million). The EBIT margin reached a new record level of 15.4 % (2005: 13.9 %). Our EBIT margin target of 15.0 to 15.5 % for 2006 was therefore fully achieved.

All regions contributed to this excellent performance. In Europe we achieved an EBIT of € 256 million (2005: € 216 million). This corresponds to an increase of 19 % and an EBIT margin of 19.6 % (2005: 17.6 %). Outside Europe, in the international segment, EBIT rose by 35 % to € 100 million (2005: € 74 million). The EBIT margin increased to 17.0 % (2005: 16.2 %). Corporate costs and corporate research and development expenses were € 65 million (2005: € 56 million).

Fresenius Kabi's net income rose by 29 % to € 143 million (2005: € 111 million). This already includes one-time expenses of € 11 million for the early redemption of the 2003 Euro Bond.

ACQUISITIONS

In September 2006, we signed an agreement to acquire the Argentinean pharmaceutical company Filaxis. Filaxis specializes in the development, production, and distribution of intravenously administered generic drugs. The company offers cytostatics, which are used to treat cancer. These are marketed mainly in Latin America. Filaxis achieved sales of € 12 million in 2006. It is planned to market the Filaxis products outside Latin America through our existing sales and distribution organization once the respective registration processes have been completed. The acquisition still has to be approved by Argentina's antitrust authorities.

This acquisition is another step forward in expanding our portfolio of intravenously administered generics for hospitals. With Filaxis' oncology products we now offer intravenously administered drugs for all main therapy areas: anesthesia, bacterial infections, pain therapy, gastrointestinal diseases, and oncology.

The integration of medical device manufacturer Clinico, acquired at the end of 2005, was successfully completed in 2006. Bad Hersfeld in Germany is now our centre of competence for the development of disposables for infusion therapy and clinical nutrition. The products are manufactured at the plants in Germany, Poland, and China.

INFUSION THERAPY

In the field of blood volume replacement we supply replacement solutions on the basis of hydroxyethyl starch (HES), which is made from maize starch. HES products are artificial colloids that can be used with any blood group. We are the world's largest producer of hydroxyethyl starch and are the international market leader in artificial colloids. The safety of the HES solutions is a key driver behind this success. While whole blood was used for volume replacement in the past, artificial colloids are mostly used today because blood products bear, for example, the risk of mixing up blood groups or of infection.

In 2006, we continued to extend the international distribution of our blood volume replacement solution Voluven® and, for example, introduced the product on the markets in Taiwan and Canada. Voluven® is currently available in more than 80 countries.

We supply our blood volume replacement products and infusion solutions – which are used to compensate for fluid loss and to stabilize blood circulation – in glass and plastic bottles as well as in infusion bags. It is our particular concern to insure the safety of the products in everyday hospital use. We therefore develop our container and port technologies ourselves. For instance, a sterile membrane in the port protects the pharmaceutical solution against bacterial contamination when a syringe is inserted. This insures maximum safety for patients. In 2006, we introduced our freeflex® bag with the new infusion and injection port technology in Belgium, Germany, Great Britain, France, Austria, and Switzerland.

KabiPac is a new container for infusion solutions that we also introduced in 2006. Safety in use was also a key priority for this new development. The cap on the infusion bottle features our proprietary DuoCap system. This consists of two separate, easily distinguishable ports for infusion and injection. The sterility of these ports is assured by an appropriately designed closure. With the new design, the bottle collapses and empties completely insuring that the patient receives the full amount of fluid.

In the field of intravenously administered generic drugs we continued the expansion strategy of our product portfolio and its further internationalization, and extended our market position in the hospital segment:

- We introduced our new product Ciprofloxacin Kabi in the Netherlands, Austria, and Germany. Ciprofloxacin Kabi is an antibiotic for severe and moderately severe infections. In 2006, in the Netherlands alone we achieved a market share of about 40 % in this product segment.
- We launched Ondansetron Kabi in Germany and Austria. This new product is mainly used in oncology, especially in association with chemotherapy or radiotherapy, to prevent sickness, nausea, and vomiting.
- Flumazenil Kabi is another new product. One of its uses is as an antidote for tranquillizer overdose. In 2006, we introduced this product in Great Britain, Portugal, the Netherlands, and Germany.

We continued the internationalization of our I.V. drugs already on the market, such as the anesthetic Propofol Fresenius. We now sell this anesthetic agent in more than 90 countries. We achieved high growth rates with this product in the Asia-Pacific region, where we became the second largest supplier in this product segment. The market roll-out of our new Propofol variety with medium-chain and long-chain fatty acids was also successfully continued in 2006.

In the medical devices segment our extensive product portfolio enables us to supply medical specialists with individual/single products as well as system solutions. Syringe pumps are used for the high-precision administration of medication even in minute quantities (0.1 ml to 200 ml per hour), while volumetric infusion pumps are used for the precise administration of larger quantities (1 ml to 1,500 ml per hour). Infusion management systems are primarily used in intensive care units. For example, patients who have undergone heart surgery can be connected up to 15 of these pumps simultaneously, each of which injects the precise quantity of a given medication into the vein.

In Europe we are one of the leading suppliers of syringe pumps, and we have been able to expand our market position. In 2006, we successfully launched our Injectomat Agilia pump in numerous countries in Asia-Pacific (including South Korea, China, India, Thailand, and Taiwan) and in Europe (Italy, Poland, Hungary, the Czech Republic, the Netherlands, and Austria, among others). Patient-specific data entered into the machine during the infusion can be transferred directly to the hospital's data processing systems, for example patient data management systems. We strengthened our Agilia

product family with a new product: the Volumat Agilia volumetric pump, for use both in the hospital and in outpatient care. It features a precise volumetric delivery rate and has a simple user interface. With the Injectomat MC and the Injectomat TIVA we have developed two new syringe pumps: the Injectomat MC has been designed for use in intensive care, while the Injectomat TIVA acts as an infusion manager for total intravenous anesthesia during surgery.

We presented the Volumat Agilia, Injectomat MC, and Injectomat TIVA at MEDICA in Düsseldorf, the world's largest trade fair for medical technology. We will start marketing them in 2007.

We have an extensive range of sterile disposable devices for administering infusions and medication, including products such as catheters as well as infusion systems and accessories. We have strengthened our distribution activities for these products and have been introducing them on the market in France, Spain, Denmark, Finland, and the Czech Republic. Our advantage is that we can offer our customers not only pharmaceutical products but also all the relevant medical devices for administering them. This has made us a full-line supplier for infusion therapies.

TRANSFUSION TECHNOLOGY

In transfusion technology, we offer disposable systems and medical devices for collecting, processing, and transporting blood products. In 2006, we enhanced our position as a leading supplier of blood bag systems with integrated leukocyte depletion filters in numerous markets in Europe. In Latin America, we are the market leader in Brazil, the biggest market for blood bag systems in that region. In addition, we increased our international distribution activities by employing our own sales organizations to push the further internationalization of this business. This will lead to a stronger market presence, especially in the growth regions of Asia-Pacific, Latin America, and the emerging markets in Eastern Europe. In 2006, success was already apparent in Asia: We achieved double-digit growth rates in China with our COM.TEC cell separator.

In the product area of therapeutic and preparative apheresis we have been able to win market share in Europe and Latin America with our improved stem cell collection therapy. Apheresis is a method for the extracorporeal collection of cells and plasma (e.g. stem cells) from the blood of a patient or donor. Our new process allows a faster collection of high-purity stem cell preparations.

CLINICAL NUTRITION

Fresenius Kabi has been a leading supplier of clinical nutrition worldwide for several decades and is one of the few companies to offer both forms of clinical nutrition – parenteral and enteral – internationally.

Parenteral nutrition is necessary if the stomach or intestine can no longer perform their functions as a result of illness or surgery. With parenteral nutrition, all the vital nutrients enter the blood stream directly via the veins in the form of their molecular constituents.

An enteral nutrition therapy is required if a patient's digestive system functions adequately but who cannot eat, or cannot eat properly (e.g. difficulty in chewing or swallowing, loss of appetite, weakness, neurological disorders, unconsciousness, or gastrointestinal diseases).

Clinical nutrition can improve the patient's general condition and accelerate the recovery process. In the case of critical diseases and chronic ailments that limit food intake, clinical nutrition can prolong life or even be life-saving.

In the segment of three-chamber bags for parenteral nutrition, we are a leading supplier in our markets. Our three-chamber bag contains all the vital nutrients – amino acids, lipids, glucose, and electrolytes – and therefore covers a patient's entire daily nutritional requirements. Immediately before infusion all vital nutrients are mixed in the bag simply by opening individual chambers. This reduces the risk of contamination and saves time when preparing the infusions.

In 2006, we launched a new three-chamber bag. Maximum convenience in everyday hospital use, combined with high hygiene and safety standards, were priorities in its development. For instance, arrow flags on the caps of the two ports instantly identify which is the infusion port and which is the injection port. Additives, such as vitamins, can be injected into the bag through the injection port. The infusion set is connected to the infusion port for administering the parenteral nutrition directly into the intravenous access. After removing the caps and prior to first use it is not necessary to disinfect the infusion and injection ports because their membranes are sterile. We have introduced the new three-chamber bag in Germany, Sweden, Great Britain, and other countries.

We continued further internationalization of our three-chamber bags already on the market: Kabiven® was introduced for instance in Kenya, New Zealand, and Russia. We introduced Kabiven® peripheral in countries such as Mexico, Brazil, Russia and Indonesia, and StructoKabiven® in Slovakia.

Lipid emulsions are not only an ingredient of our multi-chamber bags but are also infused as individual components. In this market our Intralipid® product is the world's foremost lipid emulsion. In 2006, we introduced SMOFlipid®, an innovative lipid emulsion consisting of four different lipid components, in South Korea, Brazil, Great Britain, and other countries.

In the area of enteral nutrition we offer tube and sip feed nutrition products for severely and chronically ill patients as well as medical devices for their application. We further strengthened our strong market position for these products in Europe and Latin America in 2006. About three years ago, we introduced the first enteral products in China; today we have become one of the leading suppliers in this market.

The ongoing advances in the methods of diagnosis and therapy, especially for severe and chronic diseases, are leading to improved therapy results and a better quality of life for patients. With Intestamin® we offer a tube feed nutrition product for the early enteral nutrition therapy of critically ill intensive care patients. It contains high doses of nutrients that act on the immune system. A study shows that early enteral nutrition with the key substrates contained in Intestamin®, such as glutamine and antioxidants, leads to a more rapid improvement of organ functions in critically ill intensive care patients. In 2006, we started distributing Intestamin® in our EasyBag® nutrition bag. In doing so, we are replacing the glass bottle as the form of delivery and following the trend toward the increasing use of bags for nutrition therapy solutions.

We have enlarged our Fresubin® family of enteral products and broadened its international marketing. We launched the first Fresubin® product on the market in the 1970s; at that time using enteral nutrition in the treatment of severely ill patients was a groundbreaking development. Today, with the Fresubin® family, we have a range of tube and sip feed nutrition products, covering all the main therapeutic applications for the critically and chronically ill. In 2006, using the EasyBag®, we launched Fresubin® soya fibre, a tube feed enteral nutrition product especially for patients with milk protein intolerance.

In the medical devices segment for enteral nutrition we expanded our market leadership in Europe. The Applix Smart and Applix Vision enteral nutrition pumps and the related application systems contributed especially to this successful development. We are continuing successfully with our work to obtain regulatory approval for these pumps in Asia-Pacific and in Latin America. In addition, we have equipped our Applix pumps with new software. This software sets standards for maximum safety in the delivery of enteral nutrition. Alarm functions have been integrated that indicate blockages in the application systems even under mobile conditions. This insures that any deficiency in the supply of enteral nutrition to the patient can be prevented in time.

FRESENIUS PROSERVE

- Integration of HELIOS Kliniken successfully completed.
- Growth strategy continued with the acquisition of HUMAINE Kliniken.
- Focus on hospital business following the divestiture of Pharmaplan.
- Excellent order intake in the engineering and services business.

2006 was a successful year for Fresenius ProServe in both our hospital operations business and our engineering and services arm. For the first time, the company achieved sales of more than € 2 billion. The divestiture of Pharmaplan was a further step toward focusing on our business with hospitals and other health care facilities.

BUSINESS DEVELOPMENT

In 2006, Fresenius ProServe increased sales by 7 % to € 2,155 million (2005 including HELIOS Kliniken: € 2,009 million). Organic growth was 3 %. EBIT rose by 23 % to € 154 million (2005 including HELIOS Kliniken: € 125 million). Net income amounted to € 75 million (2005 including HELIOS Kliniken: € 46 million).

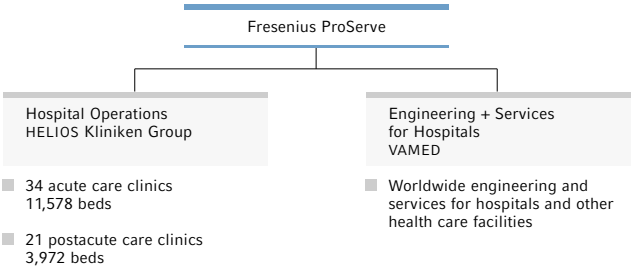
In the hospital operations business (HELIOS Kliniken Group) sales increased by 8 % to € 1,673 million (2005: € 1,550 million). The growth was mainly driven by the acquisition of HUMAINE Kliniken, which was consolidated as from July 1, 2006. Organic growth was 3 %. In 2006, HELIOS Kliniken Group achieved an EBIT of € 133 million. This corresponds to an EBIT margin of 7.9 % (2005: € 107 million; EBIT margin: 6.9 %).

In engineering and services for hospitals and the pharmaceutical industry (VAMED, Pharmaplan) sales grew by 5 % to € 482 million (2005: € 459 million). EBIT increased to € 25 million (2005: € 22 million). Order intake and order backlog continued to develop very positively: Order intake rose by 19 % to € 407 million (2005: € 341 million). Order backlog increased by 19 % to € 428 million as of December 31, 2006 (December 31, 2005: € 360 million).

In December 2006, Fresenius ProServe signed an agreement for the divestiture of Pharmaplan to NNE A/S, a subsidiary of Novo Nordisk A/S, Denmark. Pharmaplan provides services such as the planning, construction, and supervision of pharmaceutical and medical-technical production plants.

The closing of the transaction is expected in the first quarter of 2007 after approval by the antitrust authorities. In 2006, the company had sales of € 64 million (2005: € 49 million). The Pharmaplan subsidiary Pharmatec was not included in the transaction and will be divested at a later date. Pharmatec manufactures equipment for the production of high quality pure steam and pure water as well as sterilization systems for the pharmaceutical industry. In 2006, the company achieved sales of € 27 million.

FRESENIUS PROSERVE: MANAGEMENT AND TECHNICAL SERVICES IN HEALTH CARE



HELIOS KLINIKEN GROUP – ACUTE AND POSTACUTE CARE HOSPITALS

HOSPITAL OPERATIONS

HELIOS Kliniken Group owns 55 hospitals in Germany, including four maximum care hospitals in Erfurt, Berlin-Buch, Wuppertal and Schwerin. The company is one of the largest private hospital operators in Germany. The Group currently has about 26,200 employees. Within HELIOS Kliniken Group, the HELIOS clinics focus on acute care and the Wittgensteiner clinics on postacute care. In December 2006, we moved HELIOS Kliniken Group's headquarters from Fulda to Berlin.

2006 was a year of integration. First, we successfully completed the integration of HELIOS Kliniken GmbH. Second, the Wittgensteiner Group clinics were placed under HELIOS management and integrated into HELIOS' regional structure. The decentralized regional management structure guaran-

tees fast, local action at all Group clinics. Furthermore, the Wittgensteiner clinics were integrated into the HELIOS medical structures. The close cooperation between the physicians, for instance in Group-wide specialist teams, is unique in Germany. This insures that quality control of medical treatment at the Group's own clinics is closely monitored and can be continuously optimized.

At the same time, we continued our expansion in the German hospital market with the acquisition of HUMAINE Kliniken. HUMAINE operates six acute and postacute care hospitals in the fields of neurology, oncology, and traumatology with a total of 1,850 beds, of which 1,530 are for acute care. The Group owns two advanced care hospitals with about 600 beds each. In 2005, HUMAINE had approximately 2,900 employees, and achieved sales of € 197 million and EBIT of € 14 million. HUMAINE ideally complements the HELIOS network geographically and in terms of medical orientation. In the context of the acquisition, the 195-bed clinic in Reichenbach was sold as of September 30, 2006.

Due to excess capacity in the region and difficult business conditions, we returned our 74 % stake in the 135-bed hospital in Herbolzheim to the local government authority.

The construction of the new maximum care hospital in Berlin-Buch is progressing as planned. The building shell was finished in the first half of 2006. The interior work has now almost been completed. We expect to bring Berlin-Buch into operation in mid-2007. A modern clinic will then be available for our patients and staff, equipped with innovative technologies and allowing close interdisciplinary cooperation between all teams working at the hospital. The new building was necessary in order to improve operational efficiency since the clinic is currently spread over five different locations.

HELIOS Kliniken Group's overall goal is to provide the best care for its patients. To insure this, the company has developed a quality management system that is unique in Germany and that is being continuously refined. On the basis of a set of standardized ratings for 30 disease patterns and surgical procedures, with a total of 78 subgroups, physicians and patients can now inform themselves in detail about the quality of the results achieved at the HELIOS clinics. At the same time, the results obtained from the routine data serve as the basis for quality competition between the individual clinics in the Group. About 30 % of all hospital cases can be measured on the basis of these ratings, and can be analyzed and compared with defined Group targets – significantly more than in any other quality management system currently used in Germany. In addition, the entire performance record is presented in the form of a catalogue that includes the mortality rates for each DRG (Diagnosis Related Group). By using the billing categories of the DRGs, 100 % of the performance record becomes visible. Furthermore, all the cases treated are listed in the structured quality report published each year. A multiyear summary shows the treatment results in the form of specific performance ratings and mortality rates per DRG on a Germany-wide comparison. HELIOS Kliniken Group is currently the only hospital group in Germany which provides full transparency on performance ratings and results quality.

HELIOS Kliniken was the first private hospital group to negotiate an agreement with the Marburger Bund in December 2006. In January 2007, the negotiations with ver.di, the German services industry trade union, led to the conclusion of a Group-wide wage tariff agreement for approximately 14,000 employees at 24 clinics. Both new Group tariffs apply as from January 1, 2007.

In 2007, we will continue to focus on strengthening medical competence, improving processes, and developing efficient infrastructures in the hospital operations business. We expect these measure to improve our performance. HELIOS Kliniken Group is well placed to participate in the privatization of the German hospital market, and prepared for changing competitive conditions.

Further information on HELIOS Kliniken Group can be found on pages 10 to 13 of this Annual Report. Information on the hospital market in Germany is available on pages 68 to 69 and 94 in the Management Report.

HOSPITAL ENGINEERING AND SERVICES

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

The hospital engineering business achieved an excellent operating performance in 2006. VAMED received several follow-on contracts in Gabon, on the west coast of Africa, such as the turnkey construction of three regional hospitals. In Nigeria, VAMED won the contract for extending six university hospitals. In Malaysia the Prince Court Medical Center in Kuala Lumpur, built and equipped by VAMED, is due to be completed shortly. The Prince Court Medical Center is one of the most modern hospitals in Southeast Asia. In Vietnam, VAMED was commissioned to provide a cardio center. In China, where VAMED has been operating successfully for many years, the company is currently working on a number of joint venture projects. In El Salvador work began on the construction of one hospital. In Bosnia and Herzegovina, VAMED was contracted to undertake the extensive modernization of the university hospital in Tuzla and the construction of a new medical center in Banja Luka.

In VAMED's home market Austria, the focus was on public private partnership (PPP) projects. Two psychosomatic model clinics realized by VAMED on a PPP basis began operation. VAMED also won additional projects under existing PPP partnerships, such as the construction of a radiation center in Upper Austria. A number of other PPP projects are currently being developed in Central Europe.

A very good operating performance was also achieved in the hospital services business. We successfully continued our more than 20-year partnership with the Vienna General Hospital (AKH), one of Europe's largest hospitals with about 2,200 beds. VAMED is responsible for the hospital's technical management and to a smaller extent also for construction work. In addition to the AKH, the services contract with Berlin's Charité university hospital is currently VAMED's largest and most demanding. The consortium headed by VAMED is responsible for all the hospital's non-medical services. At the Eppendorf university hospital in Hamburg, VAMED continued to be responsible for the technical management and also executed several follow-on contracts through PPP projects as planned. These innovative partnership models are acquiring growing importance in VAMED's services portfolio.

In Gabon, VAMED continued to be responsible for the overall management of three regional hospitals and the technical management of a hospital in Libreville. In Libya the Medical Center in Tripoli and a number of hospitals in Benghazi are among the company's technical management reference projects. In Kuala Lumpur VAMED, together with the Vienna University of Medicine, will be responsible for the overall management of the Prince Court Medical Center.

VAMED GROUP – ACTIVE IN APPROXIMATELY 80 COUNTRIES

In 2007, VAMED's main focus in Europe will be on fully integrated turnkey projects and Public Private Partnerships.

VAMED will be positioning itself more strongly along the entire value chain – from project development, the turnkey realization of health care facilities, to the full provision of services. 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.

In its key market, Europe, Pharmaplan successfully handled contracts for the construction of production plants for biotechnology, the manufacture of sterile products, and the production of radiopharmaceuticals.

The joint venture established in Prague in 2005 won contracts in the Czech Republic and in Serbia.

In Kuala Lumpur, Malaysia, the modular construction of a biopharmaceutical production plant was completed. Further projects were won in Indonesia and Korea.

ADDITIONAL INFORMATION ON THE FISCAL YEAR

- Employees – Demanding jobs make Fresenius an attractive employer.
- Research & Development – We are developing promising products and therapies for the critically and chronically ill.
- Environmental Management – We are continuously improving our environmental management.

EMPLOYEES

As a global health care group, we face new opportunities and challenges. In a fast-growing and changing company, the employees are the constant. Without their commitment and motivation success would not be possible. Growth brings new, interesting, and demanding tasks. This is what makes Fresenius an attractive employer, a view shared by many qualified specialists, national and international graduates, school leavers, and also by trainees and interns. Enabling employees to approach new tasks confidently and competently is an important element of our human resources endeavor.

VOCATIONAL TRAINING

At a time of high youth unemployment, Fresenius is intensifying its training initiatives in order to improve career prospects for young people through selective qualification measures. To attract talented applicants, in 2006 Fresenius, using its own billboard posters, was the first company to take part in the training campaign launched by the State of Hesse's Ministry of Economics, the Federal Employment Agency, and the industry's associations. "Offer Training – Seek Enthusiasm" was Fresenius' answer to the slogans in vogue at that time, which showed faces of young people accompanied by texts like "Seek Training – Offer Future" or "Seek Training – Offer Pension". In 2006, we trained a total of more than 1,300 young people, increasing our number of apprenticeships once again by about 10 %.

EMPLOYEE DEVELOPMENT AND PERSONNEL MARKETING

For us, the development of our employees is an ongoing mission. We are not only continuing our development program for top executives but are also creating special measures for other management levels and for specialists without managerial responsibilities. In past years, for instance, we have been deliberately fostering a Group-wide exchange of specialists and executives. In this context, training schemes have been organized for employees who represent us abroad and for employees of international subsidiaries who come to Germany. The themes covered are wide-ranging and are concerned particularly with leadership culture. Our own development measures are supplemented by training courses and coaching for various employee groups at international business schools such as INSEAD in Fontainebleau and in Singapore. We have also extended the range of professional and personal skill development measures we offer in various countries.

Top positions for highly qualified, experienced specialists are not easy to fill, especially in a company with traditionally flat hierarchies. Developing career paths for specialists and project managers, in addition to traditional management careers, remains an important focus of our human resources agenda. We intend to intensify our efforts in order to compete for much sought-after specialists.

We have widened our reputation as an attractive employer nationally and internationally through our presence in the press and, not least, through our heavily used, redesigned website pages.

PROFIT-SHARING SCHEME AND STOCK OPTION PLAN

Value-based performance incentives are a long established tradition at Fresenius. We are committed not only to fostering a spirit of entrepreneurial responsibility among our employees but also to allowing them to share in the Company's success. We have a stock option plan for selected executives and for the members of the Management Board. Non-executive employees participate in the Company's financial success via profit-sharing schemes. Both plans are directly linked to the price performance of our shares.

In 2006, 300,920 convertible bonds were issued to executives and the members of the Management Board of Fresenius AG and its subsidiaries. The executives and the members of the Management Board of Fresenius Medical Care and its affiliated companies receive stock options under their own separate stock option plan.

The profit-sharing scheme for non-executive employees is based on Group EBIT. For 2006, employees receive € 1,444 on a full-time equivalent basis. Employees can either invest the full amount in Fresenius shares or they can receive two-thirds in shares and the rest in cash. In 2006, more than half of the employees once again chose to have the entire bonus paid in shares. This clearly indicates the strong confidence that Fresenius employees have in their company.

TEAM@WORK — THE FRESENIUS EMPLOYEE AWARD

In light of the excellent response in 2005, we again invited entries for the team@work Award in 2006 with a reward of € 50,000. The award has been created to foster team spirit and strengthen cooperation. At the same time, the aim is to optimize work processes and to identify and realize potential for cost savings. If employees pool their knowledge, experience, and technologies, this creates a win-win situation for everyone – those with the ideas, those who use them, and Fresenius. Improvements developed by teams can deliver the decisive edge that will enable us to maintain our market leadership in future. In 2005, the winner was the Fresenius Kabi/Fresenius Medical Care team in South Africa which shares buildings and infrastructure at the Port Elizabeth and Johannesburg sites. Fresenius Kabi deals with the logistics for nearly all of Fresenius Medical Care's products and also dispatches them. In addition, Fresenius Kabi produces solutions for hemodialysis and peritoneal dialysis. In return, Fresenius Medical Care services enteral nutrition pumps for Fresenius Kabi. This allows considerable cost savings. In 2006, 16 Fresenius teams, involving 100 employees from all over the world, entered for the team@work Award.

Information on personnel numbers can be found on pages 81 of the Management Report.

RESEARCH AND DEVELOPMENT

We place great importance on research and development. It is cornerstone of our corporate strategy. Innovation is essential to help the severely ill through our products and therapies. Our goal is to provide patients with optimal care so that they can enjoy a higher quality of life. At the same time, our constant striving to launch new products and therapies on to the market is crucial for Fresenius' long-term success.

DIALYSIS

Research and development at Fresenius Medical Care is focused on products and therapies for dialysis and other extracorporeal blood therapies. Fresenius Medical Care benefits from its unique position as a vertically integrated company, covering both dialysis products and dialysis care. The experience we gain daily from treating over 160,000 patients provides important insights for the development of new products and therapies, and is therefore of enormous value. It also fosters the development of holistic therapies.

Hemodialysis and peritoneal dialysis

In 2006, much of our development work was linked to the launch of the 5008 hemodialysis machine. Feedback from the clinics led to a number of market-specific adaptations. Thanks to timely and extensive practical testing during the development and trial phases, the usual refinements necessary after a product's launch were kept to a minimum, and we were able to focus on market-specific requirements.

The extremely positive response from our customers to the 5008 machine provides an excellent basis for its further marketing and our future development work. The 5008 is an outstanding platform for the further development of therapies

we can offer. Nevertheless, efforts are being made to further improve current reliability and safety. Production processes, for example, must make sure that quality is maintained as volumes increase. Close collaboration was therefore required between the developers and the various areas of production and customer support in 2006.

In addition, the development department focused on the central therapeutic element of the 5008 – the hemodiafiltration (HDF), with online preparation of the substitution solution required (Online HDF). HDF achieves high elimination rates of toxic substances of both low and high molecular weight by provoking a high convective fraction (effective for small molecules) in addition to the solute exchange by diffusion (effective for small molecules). Online HDF is a standard feature of the 5008 dialysis machine. Previously, this form of dialysis therapy was available only as an selected treatment process. However, we are continuing to develop this technology since we expect it to improve the quality of life for patients. Growing use of Online HDF in the last two years has resulted in the publication of a number of scientific studies. These indicate a substantially reduced mortality rate for patients treated with the highly effective Online HDF when compared to conventional dialysis treatment. These results have raised interest in Online HDF. We are therefore looking intensively into further modifications which will allow broader applications of Online HDF.

The success of hemodialysis depends not only on the right choice of the dialysis machine but also to a decisive extent on the dialyzers and membrane types. Our various types of polysulphone membrane have made Fresenius Medical Care a market leader for many years. While the modern hollow-fibre dialyzers available today are highly effective and safe, we are striving to further improve their effectiveness.

Today's dialyzers and membranes remove the dissolved substances from the patient's blood non-specifically, in other words, all substances up to a defined molecular weight pass through the membrane. In 2006, we intensified our research on dialyzer membranes that can function selectively. For instance, we are working on membranes that will selectively remove specific substances from a patient's blood. We are also developing membranes that can discharge active pharmaceutical substances into the patient's blood. Special characteristics can also be achieved by attaching appropriate ligands – special molecules – to the surface of the membrane. This research is still at an early stage, and its general medical application is still to be investigated. However, we are confident that tomorrow's membranes will incorporate such functional properties. In our search for promising future developments, we benefit from our expertise as the leading membrane developer and manufacturer.

In peritoneal dialysis our portfolio of individually tailored, biocompatible solutions traditionally covers a broad spectrum of products for all applications. We also have a range of different types of high-performance machines for automated peritoneal dialysis (APD) – so-called cyclers. APD is a machine-assisted form of peritoneal dialysis. In 2006, a main focus of our global development teams was the "Global Cycler" project, whose goal is to offer high-quality APD at optimized cost. Developing a global technical platform for this cycler is an important step along this path.

In our research projects we are cooperating successfully with the Renal Research Institute (RRI) in the United States, which, in turn, works closely with reputable academic medical institutions in the United States. RRI is an institute founded jointly with the Beth Israel Medical Center in New York. In 2006, it continued a project begun in 2005 that is investigating the advantages of daily hemodialysis treatment for patients with chronic kidney failure. Patients undergo dialysis six days a week instead of every two days. The project is due to run until 2008.

In addition, a technology has been developed together with RRI which can measure the fluid balance of patients with chronic kidney disease. In such patients fluid balance is massively disrupted due to the partial or complete absence of diuresis (urination). This situation frequently leads to chronic excess water levels, which is a main cause of mortality for these patients. The new technology enables the condition to be identified and counteracted in good time.

Cardiovascular diseases are a central cause of the high rate of mortality among kidney patients. A 30 to 40-year-old dialysis patient has the same cardiovascular mortality risk as an 80 to 85-year-old without kidney disease. The reasons for this are the subject of intensive research at Fresenius Medical Care. In response to these risks, we have developed our "cardio-protective dialysis" treatment concept, where patients are treated with methods and single-use products that are known to have a beneficial influence on the development or incidence of cardiovascular diseases. The investigation of this issue and the evaluation of the results require extensive cooperation among a wide range of medical disciplines.

Acute dialysis

The development of machines and methods for the treatment of acute kidney failure and more extensive forms of organ failure is another focus of our development work.

In 2006, we continued our research activities in the area of acute dialysis. Still greater efforts are needed here in view of the large numbers of hospital cases with this life-threatening disease and the general lack of satisfactory treatment options. As with chronic kidney replacement methods, potential therapies in the acute area suffer from the drawback that not enough is known as yet about the pathology of the processes involved in these diseases. And even where these complex processes can be understood, it is difficult to influence them positively with any success. We are currently working on concepts which will allow selectively targeted intervention in the course of a disease such as multiple organ failure. This includes apheresis techniques and the use of specific adsorbers.

Technology trends

General trends in medical technology are also being followed in the field of dialysis. New technologies and materials enable individual components to be made more compact, thus reducing the overall size, weight, and energy consumption of the devices. In addition, it will also be possible for completely new functionalities to be integrated into medical devices. Fresenius Medical Care is incorporating these advances into its development of new products and product enhancements. One such development could be a portable artificial kidney; so far, only prototypes have been developed.

INFUSION THERAPY AND CLINICAL NUTRITION

Fresenius Kabi's research and development efforts are focused on its core activities of infusion therapy and clinical nutrition. This focus enables it to launch products of the highest quality and achieve medical advancements for improving the treatment of critically and chronically ill patients.

Fresenius Kabi's research and development strategy is built on two pillars:

- The development of new innovative products in product segments where we hold a leading position, such as blood volume replacement and clinical nutrition.
- Continuous improvement of our pharmaceutical products and medical devices.

Our development competence spans all product-relevant components: primary packaging, pharmaceutical solutions for infusion therapy and clinical nutrition, medical devices for application, and the manufacturing technology for their production. Clinical research plays a particularly important role.

Infusion therapy

In the area of artificial colloids we are the world's leading manufacturer of hydroxyethyl starch (HES) products. We are continuously developing new and therapeutically highly effective products for blood volume replacement that contribute to the care of patients in emergency and intensive care medicine. In 2006, we reached a further milestone with the development of a new variety of our Voluven® product: Our files have been submitted for European approval.

Moreover, we have entered into a partnership with the Swiss company Sandoz to develop a modified form of a biopharmaceutical drug. Under this agreement we have licensed our proprietary HESylation technology to Sandoz. This technology platform is based on hydroxyethyl starch (HES) and enables the targeted modification of a drug by coupling HES to an active ingredient. The objective is to decisively improve the drug's profile. This type of modification may be used to extend a drug's half-life and improve its safety profile.

In partnership with Sandoz, we will be employing the HESylation technology to develop an improved, second-generation biopharmaceutical drug based on a recombinant protein from the Sandoz product line. Recombinant proteins are proteins that have been produced using genetically modified organisms. Fresenius Kabi is responsible for adapting and developing the appropriate HES derivative while Sandoz is responsible for the preclinical and clinical development of the drug. Fresenius Kabi will receive milestone payments from Sandoz for the protein-specific licensing of the HESylation technology.

Fresenius Kabi has a broad portfolio of patents and patent applications covering coupling chemistries, so-called special linkers, and HESylated drugs on a target-by-target basis. We plan to exploit the technology's potential by further partnering with leading pharmaceutical and biotechnology companies.

We have intensified our development activities in the area of intravenously administered generic drugs (IV drugs). In 2006, we continued successfully with the international roll-out of the drugs that we acquired with the Labesfal acquisition. The certification documents for the first products have been submitted to the relevant regulatory authorities. We expect to begin the market introduction in Europe in 2007 as planned. The first product will be a diuretic. Diuretics are used in order to flush out water from the body. This is necessary for instance in the case of cardiac insufficiency and the threat of kidney failure. We also plan to launch various antibiotics in 2007.

Our production site in Campo de Besteiros in Portugal is our center of competence for the production of IV drugs because of its level of technology and manufacturing capacity. In 2006, we began work on the construction of an additional production line for antibiotics. The start of operation of this sterile production unit is expected in autumn 2007. We are bundling our production competence in IV drugs with the expansion.

Parallel with the international roll-out of our Labesfal product portfolio, we also continued to work on broadening our portfolio of IV drugs in 2006. We focused on the further development of proven substances for the therapeutic areas of anesthesia, bacterial infections, pain therapy, gastrointestinal diseases and oncology. Our aim is to offer high-quality IV generics for use in the treatment of critically and chronically ill patients.

Clinical nutrition

In parenteral nutrition we are supporting a clinical study with our product Dipeptiven®. The aim of this study is to demonstrate the therapeutic benefit of high doses of glutamine

dipeptide for patients. Dipeptiven® is a concentrate of the dipeptide alanyl glutamine that can be added to all parenteral nutrition regimes according to compatibility. The amino acid glutamine is conditionally essential, in other words not vital for healthy people but necessary for severely ill patients in a catabolic metabolic condition – for instance following trauma, surgery, or with sepsis. Glutamine is required in large amounts as a source of energy and nitrogen by the intestinal and immune cells of these patients, and serves to maintain the structure and functioning of the intestine. If these patients are not supplied with glutamine, this can quickly lead to a glutamine deficiency and associated functional disorders.

Our product SMOFlipid® is used specifically for the parenteral nutrition therapy of intensive care patients. The product has established itself in many markets as the innovative lipid emulsion. SMOFlipid® contains four lipid components of various types of oil, each with its own individual effect:

- soybean oil serves as a reliable source of essential fatty acids
- medium-chain triglycerides – produced from purified coconut oil – insure a rapid supply of energy
- olive oil supplies monosaturated fatty acids for a balanced fatty acid pattern
- fish oil supplies omega 3 fatty acids, which have an anti-inflammatory effect.

SMOFlipid® also contains vitamin E for antioxidative protection.

The high therapeutic relevance of SMOFlipid® can also play an important role in parenteral nutrition for critically ill children. In 2006, we successfully completed two more clinical studies of this product in pediatric care, and will be submitting the registration files in 2007. In 2006, we also submitted the regulatory approval documentation for SMOFlipid® as a lipid component in three-chamber bags. The launch of the three-chamber bag with the new lipid element is planned for 2007. We have also defined the design of a clinical study for the long-term parenteral therapy of chronically ill patients with SMOFlipid®. The study is expected to start in 2007.

In enteral nutrition we have completed the clinical phase of our second study on Diben. It is now being statistically evaluated. Diben is a tube feed nutrition which improves the blood sugar level of diabetes patients in long-term enteral-nutrition. The aim of the study is to confirm the high therapeutic effect of this product – for patients with diabetes and those with an indication for long-term tube feed nutrition, for instance after a stroke resulting in permanent paralysis of swallowing.

Patients with chronic inflammatory disease and those who have undergone surgery have a particular need for nutrients to combat oxidative stress and to maintain intestinal functions. The amino acid glutamine as well as antioxidants are important active substances in these situations. For them we have completed the development work on our new product Glutamine Plus. It contains glutamine and antioxidants, and supplements enteral nutrition. It is a drink supplement in powder form, and is simply stirred into liquid, for instance into water. The oral enteral supplement Glutamine Plus complements our tube feed pharmaconutrition Intestamin®.

On the enteral nutrition manufacturing technology side, we have successfully completed our work on the development of a new filling and sealing technology for our EasyBag®. We have developed EasyBag® for the delivery of enteral tube feed nutrition. This technology increases our in-house value added and significantly increases our production efficiency. A base part for the port is welded onto the flat, empty bag shortly before the filling process starts. The bag is then filled through this port by a continuous filling machine, similar to the way a bottle is filled. By means of a snap-on connection and valve, the packaging is then sealed with the upper part of the port. This new, closed filling system enables much higher volumes in shorter production times.

Compared with rigid packaging such as glass bottles, the EasyBag® is lighter and the bag can empty more easily without ventilation – benefits which have led to high market acceptance.

ANTIBODIES 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.

Antibody therapies

In cancer therapy, we announced encouraging first results for our antibody removab® (INN: catumaxomab), used in the treatment of patients with ovarian cancer. Designed to assess the relative safety and efficacy of two different dose regimens, this European phase IIa trial involved 44 patients with advanced ovarian cancer. The antibody was well tolerated, even at higher doses. The higher dose regimen clearly provided superior antitumor efficacy. The primary endpoint of the trial – the relationship between dose regimen and tumor response – was therefore reached. Based on these encouraging results, Fresenius Biotech plans to start a European phase II study during the first half of 2007 to investigate the efficacy of removab® in the treatment of ovarian cancer.

In a phase II/III pivotal study of malignant ascites in patients with ovarian cancer, also using the trifunctional antibody removab® (INN: catumaxomab), the antibody showed a clear advantage over a therapy that only employed puncture. The median puncture-free survival period (primary endpoint) in the group of patients treated with removab® was significantly longer compared to the control group and clinically relevant. Positive results were also achieved for key secondary endpoints. Moreover, removab® showed a very high safety profile. The results of this trial include treatment data for 129 ovarian cancer patients with ascites.

The current phase II/III study for treating malignant ascites included a total of 258 patients. The results for the second group (129 patients) with tumour diseases other than ovarian cancer (e.g. gastric cancer) are expected to be available in the first quarter of 2007.

Data on overall survival in connection with the study are expected in the second quarter of 2007 due to the longer follow-up period.

All the measures required for an EU authorization for removab® for malignant ascites by the EMEA (European Medicines Agency), London have been initiated.

The results of the phase I/II study for treating patients with malignant pleural effusion were presented at the American Society of Clinical Oncology (ASCO) Annual Meeting. The data demonstrate that the intrapleural administration of removab® is safe and results in a depletion of the tumor cells. Data was also presented on a phase I study on non-small-cell lung cancer (NSCLC). These results show that the antibody removab® is safe when applied intravenously with a dosage of 5 µg. Although this study was not designed to investigate the efficacy of the antibody, the survival data obtained after the end of the study are impressive and suggest a possible clinical efficacy of the therapy.

At the conference we also presented promising data on patients who developed peritoneal carcinomatos caused by gastrointestinal tumor. These patients achieved a significantly longer median survival time when treated with removab® than patients treated conventionally. This was shown by a matched-pair analysis of 22 patients from a phase I study.

Further clinical development of removab® for treating patients with gastric cancer was strengthened in 2006, above all by the orphan drug status granted by the EMEA. Among other things, orphan drug designation entitles Fresenius Biotech to up to 10 years of market exclusivity in the European Union upon marketing approval.

In a European phase II clinical trial to treat advanced gastric cancer, begun in June 2006, the antibody is being used as additional therapy to surgery. Another study that has been submitted for regulatory approval investigates the use of removab® in combination with chemotherapy. Future treatment of gastric cancer envisions a larger role for chemotherapy.

The development program for the antibody rexomun® (INN: ertumaxomab) is continuing as planned with a phase II clinical trial. We have been recruiting patients with metastatic or advanced breast cancer since March 2006. This study investigates the effect of rexomun® on patients who, after failure of a hormone therapy, are not eligible for other antibody therapies and for whom there is no standard therapy.

The clinical development for removab® was also extended in 2006 to the United States, following the Food and Drug Administration's (FDA) approval of two phase II trials where patients with malignant ascites and ovarian cancer are now being treated.

Further information on the clinical trials is available at http://www.fresenius-ag.com/Fresenius Biotech

Immunosuppressive agent ATG-Fresenius S

In the field of polyclonal antibodies, sales of ATG-Fresenius S increased by 6 % to € 19 million in 2006. Although competition has increased, we were able to extend our position in key European markets. Against this background we are continuing the clinical development of ATG-Fresenius S for other applications and its sale in new markets:

A important project is the clinical trial for the use of ATG-Fresenius S in stem cell transplantation. The study examines the effect of ATG-Fresenius S on the prophylaxis of acute Graft-versus-Host Disease. The standard therapy (i.e. Cyclosporin A and methotrexate) is being compared with the standard therapy plus additional administration of ATG-Fresenius S. The recruitment of patients will be completed in the first quarter of 2007. Two intermediate analyses have confirmed that ATG-Fresenius S is safe at the selected dosage within the patient universe. A final report will be published in 2009, at the end of the two-year observation period.

Cell therapies

In the field of transplantation immunology, observation of patients in a pilot study of immunotolerance following post-mortal organ transplantation is still in progress. At the same time, a phase I/II study with liver donors is being conducted. This development approach will seek to demonstrate that immunotolerance of the implanted organ can be achieved by modifying cells of the organ donor.

The genetic technology project for the treatment of HIV patients who have become resistant to standard therapies was discontinued. The targeted endpoints of a phase I/II study were not reached.

R & D financial figures can be found on page 63 and 64 of the Management Report.

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 environment protection, occupational health and technical safety, product responsibility and logistics, and to comply with legal requirements.

The international ISO Standard 14001:2004 provides the benchmark for environmental protection in the corporate sector. Among other things, it highlights the need for continuous assessment of a production site's impact on the environment, for instance with regard to emissions and waste. These international standards are implemented at our various production plants and dialysis clinics.

Active environmental protection at our production sites means that we are constantly striving to make our processes more environmentally-friendly. This monitoring has often produced the additional benefit of cost savings. For example, at our plant in St. Wendel, Germany, we have achieved a further significant reduction in our consumption of steam through the use of heat recovery systems, and lowered our annual consumption of natural gas by 4 %. At our plant in Italy we have cut energy consumption by 15 % simply by optimizing the lighting and air-conditioning systems.

In our North American dialysis clinics we have reduced the volume of residual waste substantially through sort-clean separation. This program now covers more than 900 clinics. Thus, we recycled close to 3,500 metric tons of paper and cardboard packaging in 2006. Over 80 water treatment systems for the preparation of ultra-pure water installed in 2006 are another important environmental measure. These can prepare about three quarters of industrial water and save nearly 26 gallons (100 liters) of fresh water per dialysis treatment. Ultra-pure water is a key quality criterion not only in dialysis treatment but also in the production of dialyzers. In view of the large quantities used, small adjustments in consumption can lead to substantial savings. In North America, we are also using advanced, environmentally friendly technologies to save energy. For instance, in 2006 we increased the use of heat exchangers. These use the residual heat from industrial water to heat fresh water for dialysis treatment. By using heat exchangers we can recover about three fourths of the heat that was previously wasted, substantially lowering energy consumption and costs at our clinics.

In 2006, we also introduced our Eco Controlling system, already implemented at various dialysis clinics in Europe, at a number of dialysis centers in South Africa and Latin America. The Eco Controlling system makes it easier to identify weak points and to initiate more effectively improvements aimed at conserving resources.

The materials recycling system at our plant in Friedberg, Germany was further optimized in 2006. We installed a compacting machine for cardboard waste. Compression reduces the volume of waste by 50 %, cutting transport costs for its disposal. Some 5,800 metric tons of materials were recycled in 2006. The recycling rate was about 94 %, as in 2005.

At our plant in Graz, Austria, the focus in 2006 was on optimizing the use of cleaning materials in production. In addition, a sort-clean separation system was installed for a total of 26 metric tons of plastic film, all of which can be recycled externally. For the ninth year running, Fresenius Kabi in Graz was commended 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.

An objective at our plant in Uppsala, Sweden has been to reduce emissions of greenhouse gases. One project here was the conversion of a boiler to burn ethanol instead of heavy oil. Another aim is to cut transport capacities by half by making more effective use of truck space. The Uppsala plant is continuously working on its environmental impact by reducing energy consumption. In 2006, for example, old cooling systems were replaced with new environmentally friendly systems. Through additional measures, electricity consumption for the cooling systems was lowered by 30 %.

MANAGEMENT REPORT

- Sales up 37 %, net income up 49 %.
- At € 1,444 million, EBIT exceeds the one billion mark for the first time.
- Operating cash flow of € 1,052 million achieved.
- Outlook 2007: Strong sales and earnings increase expected.

The Fresenius Group had an excellent year 2006. We not only achieved record levels in sales and earnings but also improved our profitability. The two major acquisitions – HELIOS Kliniken and Renal Care Group – have been successfully integrated. At the same time, our existing business expanded strongly and margins further improved. Acquisition spending, mainly financed through debt, remained at a high level.

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 and offers engineering and services for hospitals.

The operating business comprises the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe, which are all legally independent entities and managed by the operating parent company, Fresenius AG. The corporate structure remained unchanged in 2006.

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 operates hospitals and provides management services for hospitals and other health care facilities. The segment Corporate/Other comprises the holding activities of Fresenius AG, the IT service provider Fresenius Netcare and Fresenius Biotech. Fresenius Biotech is active in research and development in the field of antibody and cell therapies. Corporate/Other also includes the consolidation measures conducted between the business segments.

Fresenius operates internationally and all 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 orientated and target-linked compensation system.

Fresenius has an international marketing and production network with more than 60 production sites worldwide. Key production sites are located in the United States, Japan, Germany and Sweden. Fresenius also has production 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 requirements. The decentralized structure of the production sites also substantially 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 is allowed to be a member of both organs simultaneously.

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 their own 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 significance for the Company's profitability and liquidity.

The Supervisory Board appoints the members of the Management Board and advises and supervises the Management Board in its management of the Company. The Management Board's rules of procedure require it to obtain the Supervisory Board's approval for specific activities, however, the Supervisory Board is fundamentally prohibited from managing the Company. The Supervisory Board is comprised of 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 half-year.

The appointment and dismissal of the members of the Management Board is regulated in accordance with Sections 84 and 85 of the German Stock Corporation Act (AktG). The articles of association of Fresenius AG also provide that deputy members of the Management Board may be appointed.

For information on compensation, please see pages 197 to 200 of the Notes.

Key products, services and business processes

Fresenius Medical Care 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 Group clinics as well as to external dialysis care providers. Fresenius Kabi is one of the few companies to offer a comprehensive portfolio of enteral and parenteral nutrition therapies. The company also offers a broad spectrum of products for fluid and blood volume replacement as well as a portfolio of intravenously administered (IV) generic drugs. Fresenius Kabi sells its products mainly to hospitals. Fresenius ProServe is active as a hospital operator, primarily in Germany, through HELIOS Kliniken Group. The HELIOS Kliniken Group consists of HELIOS Kliniken GmbH, Wittgensteiner Kliniken GmbH and HUMAINE Kliniken GmbH. Fresenius ProServe also provides engineering and services for hospitals and health care facilities through VAMED.

Important markets and competitive position

Fresenius operates in more than 60 countries through its subsidiaries. The main markets are North America and Europe where Fresenius generates 45 % and 43 % 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. Fresenius ProServe is a leading private hospital operator in Germany through HELIOS Kliniken Group.

Legal and economic factors

The markets of the Fresenius Group are fundamentally stable and relatively independent of economic cycles because of the central importance of the life-saving and life-sustaining products and treatments that the Group offers. Furthermore, the markets in which we offer products and services are expanding mainly for two reasons: demographics and the demand for innovative therapies in the industrialized countries and the increasing availability of high-quality health care in the developing and newly industrializing 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 element had only a small effect on our statement of income in 2006 since the average annual exchange rate between these currencies was little changed: 1.2558 in 2006 versus 1.2442 in 2005. Our balance sheet, however, was significantly affected because the closing rate as of December 31, 2006 was 1.3170, compared to 1.1797 as of December 31, 2005.

There were no legal aspects that significantly impacted the business performance in 2006.

Capital, shareholders, articles of association

The summary below shows the subscribed capital of Fresenius AG. On December 4, 2006 the Extraordinary General Meeting of Fresenius AG approved a share split with capital increase from the Company's funds. These resolutions were entered in the Commercial Register on January 24, 2007. As a result, the Company's subscribed capital increased by € 22.6 million and the number of shares outstanding tripled. The share split does not affect the preference dividend or the minimum dividend payable on preference shares. Three preference shares now represent the preference that one preference share previously denoted.

The shares of Fresenius AG are no-par-value bearer shares. The subscribed capital is divided into an equal number of ordinary and preference shares. Shareholders' rights are regulated by the German Stock Corporation Act (AktG). Additionally, as of December 4, 2006, the articles of association of Fresenius AG contain the following three rules for the holders of non-voting preference shares: First, from retained earnings for the year they will receive a dividend of at least € 0.02 per preference share and higher by € 0.01 per preference share than that for an ordinary share. Second, the minimum dividend payable on preference shares takes precedence over payment of a dividend on ordinary shares. Third, if the retained earnings of one or more fiscal years is not sufficient to pay a dividend of € 0.02 per preference share, the amounts not distributed will be paid in arrears without interest from the retained earnings in subsequent fiscal years, after distributing the minimum preference dividend for those fiscal years and before payment of a dividend on the ordinary shares. The deferred payment right is a constituent of the share of profits from retained earnings of that fiscal year for which the deferred payment is made.

The Management Board is authorized, with the consent of the Supervisory Board, to increase the subscribed capital of Fresenius AG in accordance with the Annual General Meeting's resolutions on approved capital. This involves two authorizations:

- Authorization to increase the subscribed capital by a maximum nominal amount of € 12,800,000 by May 9, 2011 through one or more issues of bearer ordinary shares and/or nonvoting bearer preference shares against cash contribution (Approved Capital I).
- Authorization to increase the subscribed capital by a maximum nominal amount of € 5,496,115.20 by May 9, 2011 through one or more issues of ordinary bearer shares and/or nonvoting preference bearer shares against cash contribution and/or assets in kind (Approved Capital II). Shareholders' preemptive rights of subscription can be excluded.

In addition, there is the following conditional capital:

- The subscribed capital is increased conditionally by a maximum nominal amount of € 1,971,966.00 by the issuance of new bearer ordinary shares and nonvoting bearer preference shares (Conditional Capital I). The conditional capital increase will be executed only to the extent that subscription rights to ordinary and preference shares are issued under the 1998 Stock Option Plan and the holders of these subscription rights exercise these rights.

	January 24, 2007			December 31, 2006		December 31, 2005	
	Number of shares (million)	Subscribed capital (€ million)	% of Subscribed capital	Number of shares (million)	Subscribed capital (€ million)	Number of shares (million)	Subscribed capital (€ million)
Ordinary shares/capital	77.18	77.18	50 %	25.73	65.86	25.36	64.92
Preference shares/capital	77.18	77.18	50 %	25.73	65.86	25.36	64.92
Total	154.36	154.36	100 %	51.46	131.72	50.72	129.84

- The subscribed capital is increased conditionally by a maximum nominal amount of € 5,104,962.00 by the issuance of new bearer ordinary shares and nonvoting bearer preference shares (Conditional Capital II). The conditional capital increase will be executed only to the extent that bonds convertible into ordinary and preference shares are issued under the 2003 Stock Option Plan and the holders of these convertible bonds exercise their conversion rights.

Fresenius AG does not have a share buyback program.

Direct and indirect ownership interests in Fresenius AG are listed on pages 167 and 168 of the Notes. The Else Kröner-Fresenius-Stiftung notified the Company in May 2005 that an ownership interest in Fresenius AG is attributable to it pursuant to Section 22 (2) sentence 1, first half-sentence of the German Securities Trading Act (WpHG). In addition, the executors of the will of Ms. Else Kröner notified the Company in January 2007 that an ownership interest in Fresenius AG is attributable to them pursuant to Section 22 (1) No. 6 of the WpHG and Section 22 (2) of the WpHG.

Changes to the articles of association are made in accordance with Sections 133 and 179 of the German Stock Corporation Act (AktG). The articles of association of Fresenius AG authorize the Supervisory Board to make changes to the Company's articles of association in its respective relevant version that relate to their wording without a resolution by the Annual General Meeting.

Material agreements embodying contingent conditions in the event of a change of control as the result of a takeover bid exist in respect of some of our long-term financing agreements. These agreements contain customary change of control clauses that grant creditors the right of premature call in the event of a change of control, whereby, generally, the change of control has to be followed by a downgrading of the Company's rating.

CORPORATE PERFORMANCE CRITERIA, 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 a key indicator. Operating income (EBIT – earnings before interest and taxes) is another useful yardstick for measuring the profitability of the business segments.

The Management Board believes that, in addition to operating income, EBITDA (earnings before interest and taxes, depreciation and amortization) is a good indicator of the business segments' ability to achieve positive financial results and to service their financial commitments. The operating cash flow contributions of our business segments are controlled on the basis of days sales outstanding (DSO) and inventory turnover.

Financing is a central Group function over which the business segments have no control. Therefore, interest expenses resulting from financing activities are not included in the financial targets for the business segments. The same applies to tax expenses. 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 the value of the Group.

ROIC decreased slightly to 7.4 % from 8.0 % in 2005 due to the strong acquisition activity. Same was true for ROOA, which was 10.4 % in 2006 (2005: 11.7 %). The decrease is attributable to the acquisition of Renal Care Group. For the future we expect to see a continuous improvement in ROIC and ROOA.

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 and to improve its market position. Fresenius Medical Care is the largest dialysis company in the world. The acquisition of Renal Care Group as of

March 31, 2006 has further strengthened our position in the United States. Future opportunities in dialysis will arise from international expansion in dialysis care and in dialysis-related drugs. Fresenius Kabi is the European market leader in infusion therapy and clinical nutrition. The company plans to roll out more products from its portfolio in growth markets in order to strengthen this position. The company is also aiming to win further market share through the launch of new products in the field of intravenously administered generic drugs and new medical devices for infusion therapy and clinical nutrition. Through HELIOS Kliniken Group, Fresenius ProServe is in a strong position to take advantage of further growth opportunities as the privatization process in the German hospital market continues.

- To extend our global presence: In addition to sustained organic growth in markets where Fresenius is already established, our strategy is to diversify into new growth markets worldwide, 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 further selective acquisitions to improve the Company's market position and to diversify its business geographically.
- To strengthen innovation in the development of new products and technologies: Fresenius' strategy is to continue building on its strong position in technology, its competence in patient care and its ability to manufacture cost-effectively. We are convinced that we can leverage our competence in research and development to develop products and systems that can be tailored to individual patient needs at the same time providing a high level of safety and user-friendliness. We intend to continue to meet the requirements of best-in-class medical standards by developing and producing more effective products and treatment methods for the critically ill. Fresenius ProServe's goal is to widen brand recognition for its health care services and innovative therapies.
- To enhance profitability: Our goal is to continue to improve Group profitability. On the costs side, we are concentrating particularly on making our production plants 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 making investments and improve our balance sheet ratios. Another goal is to optimize our weighted cost of capital by deliberately employing a balanced mix of equity and debt funding.

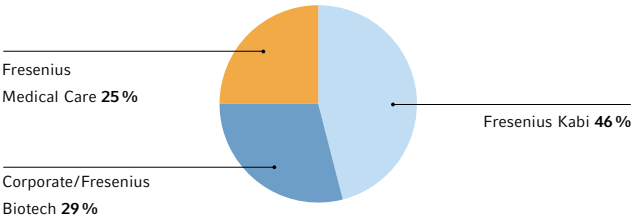
RESEARCH AND DEVELOPMENT

Fresenius focuses its R&D efforts on its core activities. These are:

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

Apart from products, we are concentrating on developing optimized or completely new therapies, treatment methods and services. In 2006, we successfully continued numerous projects and several new products were launched.

R & D EXPENSES BY SEGMENT



2006: € 167 million

Fresenius Medical Care continued to work hard to improve dialysis therapies. Our projects' main focus was on the further development of dialyzers and market-specific adaptations to our new 5008 hemodialysis machine. Another important area was peritoneal dialysis and extracorporeal liver support. Fresenius Kabi focused on developing new products and product enhancements in its core areas of infusion therapy, clinical nutrition and medical devices. Main areas included the development work on a novel product for blood volume substitution and on intravenously administered drugs.

Important projects at Fresenius Biotech involved trifunctional antibody therapies: In 2006, phase II clinical studies on the treatment of patients with breast and gastric cancer were started. A phase II/III study in the indication of malignant ascites on patients with ovarian cancer was completed, with positive results.

Expenditure on research and development was € 167 million in 2006, 12 % more than the € 149 million spent the previous year. In 2006, we invested about 5 % of our product sales in R & D. The pie chart shows the R & D expenses by business segment. Increases were at Fresenius Kabi, from € 64 million in 2005 to € 77 million in 2006, and in the segment Corporate/Others from € 43 million to € 48 million. The latter increase was mainly for the clinical development of the trifunctional antibody at Fresenius Biotech.

As of December 31, 2006, 911 people were employed in research and development in the Group (December 31, 2005: 856). Of that number, 356 were employed at Fresenius Medical Care (2005: 353), 467 at Fresenius Kabi (2005: 432) and 88 at Fresenius Biotech (2005: 71). The table shows a historical comparison of R & D expenses and the number of employees working in R & D.

	2006	2005	2004	2003	2002
R & D-expenses (in million €)	**167**	149	133	121	138
R & D employees	**911**	856	819	790	711

Our main research sites are in Europe. Production-related research is also carried out in the United States and China. Our research and development projects are mainly conducted in-house. External research is commissioned only on a limited scale.

OVERALL BUSINESS DEVELOPMENT

Economic environment

The upward trend in the global economy continued in 2006. With growth of 5.0 % in global gross domestic product (GDP), the dynamic of the global economy well exceeded expectations at the beginning of the year, and marked the second highest growth rate, after 2000, of the last 15 years. International trade was again a key growth driver. The world economy benefited from continued favorable monetary conditions in the main economic areas, despite increases in interest rates by a number of central banks. Record high levels of oil and industrial commodity prices had especially negative impacts on the economy. In addition to the dynamic economies of Asia and the United States, the Eurozone also witnessed a marked upturn in 2006.

- Europe

  With a rate of 2.7 %, GDP growth in the Eurozone exceeded the 2.0 % mark for the first time in six years (2005: 1.5 %). At the same time, the differences in the rates of

growth among the larger member states narrowed. Spain for instance posted GDP growth of 3.8 % (2005: 3.5 %), Germany and France 2.5 % and 2.0 % respectively (2005: 0.9 % and 1.2 %) and Italy 1.8 % (2005: 0.0 %). Private consumption in the Eurozone picked up much more strongly than in the previous years. This is mainly due to the positive trend of the labor market. Higher property values and the associated wealth effects contributed in large part to the growth in consumption, especially in France, Spain and Italy. Exports were buoyant thanks to the robustness of the global economy. Companies' positive earnings accelerated investment activity in the corporate sector. Prime rate increases by the European Central Bank (ECB) scarcely dampened economic development in 2006.

Germany witnessed its strongest GDP growth since 2000. Unlike the past, the upswing was not driven solely by exports but also by a positive development at home. The momentum came from a largely consolidated economic basis – and benefited from a number of atypical occurrences (such as the anticipated impact of the value added tax increase as from January 1, 2007).

The economic dynamic of the new EU member states continued undiminished, with an aggregate GDP growth of 5.5 % (2005: 4.3 %).

- United States

GDP grew by 3.3 % in 2006 (2005: 3.2 %). Private consumer spending, at about 70 % the largest component of GDP in the United States, lost momentum as an economic growth driver in the course of the year. Purchasing power slowed, mainly as a result of sharply increased energy prices. The property market also clouded over, with the result that the wealth effects which had previously bolstered private consumption faded. Once more, the current account deficit increased slightly, also due to the oil price, and reached a new record level in relation to nominal gross domestic product.

- Asia

Asia (excluding Japan) was once again the world's fastest growing region with GDP growth of 8.8 % (2005: 8.5 %). China sustained its impressive pace of expansion, with GDP growth of 10.6 % in 2006 (2005: 10.4 %). Exports continued to play an important role. In India, the services sector was again the strongest part of the economy. With GDP growth of 9.0 % in 2006 (2005: 8.4 %), India continues to be one of the main growth centers of the world. The growth momentum in Southeast Asia slowed a little, mainly due to high commodity prices. Here, too, the countries profited from the strength of the world economy, but mainly from the stimulus emanating from China. Exports are also likely to have benefited from currency weakness in some of these countries. Japan's economy saw its fifth year of continued growth. However, its economic dynamic slowed down in the course of the year, leading to a GDP growth of 2.1 %, roughly on a par with the previous year (1.9 %). The main drivers were exports and domestic and foreign investment.

- Latin America

Economic growth in Latin America remained robust in 2006, with GDP growth of 4.9 % (2005: 4.5 %). Argentina posted GDP growth of 8.5 % (2005: 9.2 %), Brazil 2.7 % (2005: 2.3 %) and Mexico 4.6 % (2005: 3.0 %). Domestic growth was bolstered by global economic growth and the sustained demand for raw materials, from which the commodity-exporting countries of Latin America profited. As a whole, exports and domestic demand were the main drivers. In Brazil and Mexico, interest rate cuts boosted investment activity and consumption, while inflation remained moderate. Argentina faced higher inflation as a result of its dynamic economic development.

Source: German Council of Economic Exports Annual Report 2006/2007, bank research

Health care industry

The health care sector is one of the world's most stable industries and, compared with other sectors, 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 emerging markets 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 8.9 % in 2004. In 2004, the United States had the highest health care spending relative to GDP of 15.3 % (2003: 15.0 %), followed by Switzerland with 11.6 % (2003: 11.5 %) and Germany with 10.9 % (2003: 11.1 %). The decline in expenditure relative to GDP in Germany is the result of cost dampening effects of the health care reform which came into force on January 1, 2004.

Reforms and cost-control measures are the main reactions to the explosion in costs in the health care systems. The main concern is to make patient care more efficient and improve the quality of medical services, and at the same time insuring that the health care system can be financed. The quality of treatment is a crucial factor in improving medical results and reducing treatment costs. Against this background, ever greater importance is being attached to disease prevention programs and innovative reimbursement models where the quality of treatment is the key parameter.

Our most important markets developed as follows:

▶ The dialysis market

The number of dialysis patients worldwide increased by about 6 % in 2006. At the end of the year approximately 1.53 million patients worldwide receive regular dialysis treatment. More than 89 % of these are treated with hemodialysis, while about 11 % choose peritoneal dialysis. Kidney failure has a number of causes. Diseases such as diabetes and high blood pressure are the leading causes of terminal kidney failure. Aging populations, improved treatments and higher living standards in the industrialized countries 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 widely from region to region. 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 per million population. In countries with lower economic success, 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 figures show that the economic situation of a country has a significant impact on access to life-saving dialysis treatment.

In 2006, about 22 % of the world's dialysis patients were treated in the United States, 18 % each in Japan and the European Union and the remaining 42 % in various other regions of the world. The majority of hemodialysis patients are treated in dialysis clinics. There are about 25,000 dialysis centers worldwide with an average of 55 hemodialysis patients per clinic. In the United States, most of the approximately 5,000 clinics are run privately, with fewer than 1 % publicly operated. By contrast, some 60 % of the approximately 5,000 dialysis clinics in the

European Union are publicly owned. In Japan, about 80 % of the dialysis clinics are run by private nephrologists.

In 2006, the global dialysis market grew by about 5 % and was worth approximately US$ 55 billion. Dialysis products accounted for about US$ 9 billion of the total market. The most important products are dialyzers, hemodialysis machines, concentrates and dialysis solutions and products for peritoneal dialysis. Fresenius Medical Care is the world leader in dialysis care as well as in dialysis products. In dialysis products the company has a market share of about 30 %. With the acquisition of Renal Care Group, Fresenius Medical Care further expanded its market leadership in dialysis care in the United States, to a market share of 34 %. Together, Fresenius Medical Care and the second largest dialysis care provider DaVita operate about two-thirds of all the dialysis clinics in the United States. Outside the United States, the markets for dialysis care are significantly more fragmented.

Because treatment costs in the United States are covered primarily by public health insurers, providers mainly compete on quality and availability. In most countries outside the United States, Fresenius Medical Care competes mainly with independent clinics and clinics that are affiliated to hospitals.

Changes in the reimbursement system came into force in the United States in 2006. Among other things, the reimbursement rate per dialysis treatment (Composite Rate) was increased by 1.6 % and the reimbursement procedure for dialysis-related drugs that have to be billed separately was changed. New rules for the treatment of anemia in dialysis patients also apply as from April 2006. Overall, these changes had a slightly positive effect on Fresenius Medical Care's operating performance.

▶ The market for infusion therapy and clinical nutrition

In Fresenius Kabi's 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. 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 affecting the public health systems. Therapies that lead to better clinical results while reducing the length of hospital stays are gaining in importance in these countries. At the same time, cost pressure in hospitals, budget caps and health care cost-containment schemes are leading to a shift away from inpatient treatment to more outpatient care.

In Central and Western Europe the total market for infusion therapy and clinical nutrition is growing at a low single-digit rate. The market for intravenously administered generic drugs for the hospital is growing at a mid single-digit rate. The increasing use of generic drugs and the expiration of patents for many original drugs will further accelerate this growth in the future.

The overall market for medical devices for infusion therapy and clinical nutrition in Europe is continuing to grow at mid single-digit rates. Here, the main growth drivers are technical innovations that focus on treatment safety and efficiency of therapies.

In the growth regions of Asia-Pacific, Latin America, and Eastern Europe, the main focus is on the provision of primary health care to the population. This leads to increasing demand for life-saving and live-prolonging health care services. Growth rates in our products markets here are in the high single to double digits.

The German hospital market

Annual health care expenditure in Germany is in the range of € 240 billion. The hospital market is the biggest segment, accounting for more than € 60 billion, or about one quarter of the total. In 2005, the German hospital market consisted of 2,139 hospitals, with a total of 523,824 beds and treating about 16.9 million inpatients a year. As in the other OECD countries, the number of hospital beds per capita is declining in Germany. In 2004, there were 6.4 acute care beds per 1,000 population. This was still well above the OECD average of 4.1 (United States: 2.8). The average stay of a patient in an acute care clinic (excluding specialized psychiatric clinics) has dropped by about one day between 2000 and 2005 and was 8.6 days at the end of 2005. The average length of stay at the HELIOS acute care clinics in 2005 was only 7.1 days, a result of its efficient processes.

For acute care hospitals, 2006 was marked by continued activities for the switch to the DRG (Diagnosis Related Groups) reimbursement system. This reimbursement system which in future will be applied on a standardized basis in each federal state, will lead to an increase in competition among hospitals. Medical quality will become a key criterion. Moreover, clinics with unfavorable cost structures and that operate inefficiently will be at a disadvantage.

According to a study published by Steria Mummert Consulting, almost half of the German hospitals have restructured their business. Clinics also hope to unlock additional cost-cutting potential by setting up interdisciplinary medical centers. One in every two clinics plans to merge previously separate faculties and departments and expand them into specialized interdisciplinary units. By merging operating units, processes can be made more efficient and patient care optimized. Synergies can be realized, for instance, by sharing infrastructure, medical equipment, or laboratories. At the same time, hospitals will be seeking to strengthen their market position externally to make themselves more attractive to patients and those who refer them.

The demand for medical staff is rising despite the financial constraints faced by hospitals. The trend toward the recruitment of new staff is largely due to the new agreements on working hours for hospital doctors now that standby duty is to be counted as normal working hours.

The annual survey by the German Hospital Institute showed that the number of inpatient cases in 2005 remained more or less unchanged compared to 2004. Hospitals with less than 100 beds registered fewer cases than in 2004 (a decrease of 6 %). Case numbers also tended to decline at hospitals with 100 to under 300 beds. In contrast, larger hospitals generally reported higher case numbers, indicating that as a whole there has been a shift towards larger institutions. In 2005, case numbers at the HELIOS acute care clinics were slightly below previous years' figures (not taking Wittgensteiner Kliniken into account). These numbers were achieved despite stiffer competition and the growing pressure from health insurers to provide more health care services on an outpatient basis.

Quality is the key competitive factor in the hospital market. 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 data on hospital operations, such as the type and number of treatments and information on quality management. Patients can find out on the Internet which hospital in their area specializes in the treatment of a given disease, how often a hospital has performed specific operations and which had a particularly low rate of complications. HELIOS Kliniken has been publishing quality reports since 1999 and also publishes figures for mortality rates.

Source: German Federal Ministry of Health, German Federal Statistics Office, OECD Indicators – 2006 Edition, Krankenhaus-Barometer Survey 2006, Steria Mummert Consulting Survey (July 2006)

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 the mature and the growth markets – developed positively for Fresenius in 2006. While these factors were responsible for much of the Group's growth, strong demand for its products and services enabled Fresenius to outpace the growth of the health care industry as a whole.

Significant factors affecting operating performance

In 2006, the Group statement of income was affected to a large extent by the consolidation of HELIOS Kliniken as of December 31, 2005 and the consolidation of Renal Care Group as of April 1, 2006. In addition, Clinico Group was consolidated as of December 31, 2005, the Australian company Pharmatel as of January 1, 2006, and HUMAINE Kliniken as of July 1, 2006. Our positive development was also driven by very good performance from the business segments' existing activities, where significant increases in sales as well as in earnings were achieved. The balance sheet of the Fresenius Group as of December 31, 2006 was mainly affected by the first-time consolidation of Renal Care Group and HUMAINE Kliniken and their financing.

The Management Board's assessment of the business results

The Management Board is of the opinion that the economic development of the Fresenius Group in 2006 was excellent. The two business segments Fresenius Medical Care and Fresenius Kabi especially profited from the continued strong demand for products and services and generally outperformed the market. This was reflected in sustained strong organic growth and higher profitability. Fresenius ProServe also performed well, achieving improved earnings. Moreover, the two major acquisitions, HELIOS Kliniken and Renal Care Group, were successfully integrated. We consider it to be an exceptional achievement to have swiftly integrated these two companies and, at the same time, to have expanded our existing business strongly, with organic growth of 9 % and further margin improvements.

Comparison of the actual business results with the forecasts

As the summary below shows, all the targets set by Fresenius for 2006 were either achieved or exceeded.

Group	Targets for 2006 announced in February 2006	Raised targets announced in August 2006	Raised targets announced in October 2006	**Achieved in 2006**
Sales (in constant currency)	€ ~10.5 billion	€ ~10.7 billion	€ > 10.7 billion	**€ 10.8 billion**
Net income (growth, in constant currency)	> 30 %	~40 %	40-45 %	**49 %**
Capital expenditure	€ 550-600 million			**€ 600 million**
Net debt/EBITDA	~3.5			**3.0**

With sales of approximately € 10.8 billion, Fresenius fully achieved its forecast of growth to more than € 10.7 billion. The guidance for net income growth, which had been raised again at the end of October to 40 to 45 % in constant currency, was exceeded with 49 %. This was mainly attributable to the even better than expected performance of Fresenius Medical Care and Fresenius Kabi. At 3.0 as at December 31, 2006, the net debt/EBITDA ratio was below the targeted 3.5. The balance sheet as of December 31, 2006 includes the debt for the acquisition of Renal Care Group, however, this business is only included in the statement of income as from April 1, 2006. We have therefore included Renal Care Group's EBITDA in the net debt/EBITDA calculation on a full-year basis. Please see page 80 of the Management Report and page 134 of the Notes for more details.

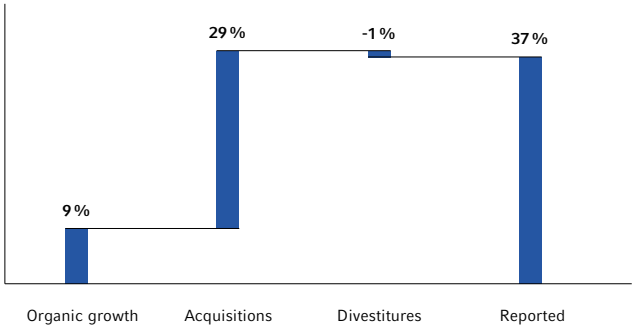
RESULTS OF OPERATIONS, FINANCIAL POSITION, ASSETS AND LIABILITIES

Fresenius completed the following significant acquisitions in 2006:

Effective March 31, 2006, Fresenius Medical Care acquired Renal Care Group, Inc., Nashville, Tennessee, one of the leading private dialysis care providers in the United States. Renal Care Group achieved revenues of US$ 1.57 billion and net income of US$ 130 million in 2005. The purchase price for all the outstanding shares of Renal Care Group was US$ 3.5 billion plus the company's indebtedness. The acquisition was entirely debt financed.

The expansion in the German hospital market continued in 2006 with the acquisition of a 60 % interest in HUMAINE Kliniken GmbH. HUMAINE operates six acute and post-acute care hospitals in the areas of neurology, oncology and traumatology, with a total of 1,850 beds, 1,530 of these for acute care. HUMAINE achieved revenues of € 197 million and an EBIT of € 14 million in 2005.

SALES GROWTH ANALYSIS



RESULTS OF OPERATIONS

Sales

In 2006, we increased Group sales by 37 % to € 10,777 million (2005: € 7,889 million). Organic growth reached an excellent 9 %, while acquisitions contributed 29 % to the growth in sales. This growth was mainly attributable to the consolidation of Renal Care Group and HELIOS Kliniken. Divestitures had an effect of -1 %. Currency translation in total had no impact. The table shows the different influences on Fresenius Group sales. There were no significant consequences from changes in product mix. Price effects in the dialysis care business contributed positively. In the foreseeable future no significant changes of these items are expected.

The largest regions in the Group were North America, which contributed 45 % of total sales and Europe with a contribution of 43 %. These were followed by Asia-Pacific with 6 %, Latin America with 4 % and Africa with 2 %. Germany contributed 22 % to Group sales.

We increased sales in all regions of the world. The consolidation of Renal Care Group had a considerable influence on sales growth in North America. Very good organic growth of 9 % was achieved in this region. In Europe, the consolidation of HELIOS Kliniken Group was responsible for much of the growth. However, Fresenius also achieved very good organic growth of 5 %. Excellent growth rates of 25 % were reached in the Asia-Pacific region, 28 % in Latin America and 16 % in Africa.

Sales performance by business segment was as follows:

- Fresenius Medical Care achieved a substantial sales increase of 24 % to € 6,768 million (2005: € 5,443 million) in 2006. This was driven by high organic growth of 10 % and the consolidation of Renal Care Group. Currency translation effects had an impact of -1 %. Fresenius Medical Care achieved strong growth especially in dialysis care, driven also by the first-time consolidation of Renal Care Group. In dialysis products, Fresenius Medical Care also achieved a remarkable increase of 11 %.
- Fresenius Kabi increased its sales by 13 % to € 1,893 million (2005: € 1,681 million). The company achieved strong organic growth of 8 %. Acquisitions added another 4 % to sales. Most of this was attributable to the consolidation of the Clinico Group and the Australian company Pharmatel. Currency translation had a positive effect, contributing 1 %. Performance in Asia-Pacific and in Latin America was excellent. Here, Fresenius Kabi achieved strong growth of 41 % and 27 %, respectively.
- Fresenius ProServe achieved sales of € 2,155 million in 2006 (2005: € 809 million). On a comparable basis (2005 including HELIOS Kliniken: € 2,009 million), this was an increase of 7 %. The growth was driven partly by the acquisition of HUMAINE Kliniken, which was consolidated as from July 1, 2006. Fresenius ProServe achieved organic growth of 3 %.

Order intake and order backlog were well above the previous year's levels. Order intake in Fresenius ProServe's engineering business rose 19 % to € 407 million (2005: € 341 million), while order backlog at year-end was also up 19 % to € 428 million (December 31, 2005: € 360 million).

SALES BY REGION

in million €	**2006**	2005	Change	Organic growth	Currency translation effects	Acquisitions/ Divestitures	% of total sales
Europe	**4,536**	3,032	50 %	5 %	0 %	45 %	43 %
North America	**4,862**	3,746	30 %	9 %	-1 %	22 %	45 %
Asia-Pacific	**696**	557	25 %	19 %	0 %	6 %	6 %
Latin America	**452**	354	28 %	22 %	3 %	3 %	4 %
Africa	**231**	200	16 %	18 %	-3 %	1 %	2 %
Total	**10,777**	7,889	37 %	9 %	0 %	28 %	100 %

SALES BY BUSINESS SEGMENT

in million €	**2006**	2005	Change	Organic growth	Currency translation effects	Acquisitions/ Divestitures	% of total sales
Fresenius Medical Care	**6,768**	5,443	24 %	10 %	-1 %	15 %	63 %
Fresenius Kabi	**1,893**	1,681	13 %	8 %	1 %	4 %	17 %
Fresenius ProServe*	**2,155**	2,009	7 %	3 %	-	4 %	20 %

* 2005: including HELIOS Kliniken

Earnings structure

We achieved excellent growth rates in net income in 2006. Group net income rose 49 % to € 330 million. All business segments contributed to this success. Group net income includes a total of € 29 million for one-time expenses as well as for expenses related to the stock option accounting change. Currency translation had in total no impact. Inflation had no significant effect on results of operations in 2006.

Group earnings before interest, taxes, depreciation and amortization (EBITDA) increased 43 % to € 1,843 million (2005: € 1,289 million). Group EBIT rose 50 % in constant currency and 49 % at actual exchange rates to € 1,444 million (2005: € 969 million). EBIT includes a gain of € 32 million from the divestitures of dialysis clinics in the United States. The sale was a condition of the US Federal Trade Commission for approval of the Renal Care Group acquisition. EBIT also includes a total of € 44 million for one-time expenses at Fresenius Medical Care, as well as for expenses related to the stock option accounting change.

EBIT of the business segments developed as follows:

in million €	**2006**	2005	Change
Fresenius Medical Care	**1,050**	755	39 %
Fresenius Kabi	**291**	234	24 %
Fresenius ProServe	**154**	20	--

- Fresenius Medical Care increased EBIT by 39 % to € 1,050 million from € 755 million in 2005. The EBIT margin was 15.5 % (2005: 13.9 %). EBIT includes a gain of € 32 million from the divestitures of dialysis clinics in the United States. EBIT also includes a total of € 40 million for one-time expenses, e. g. for the integration of Renal Care Group, as well as for expenses related to the stock option accounting change. The strong increase in operating profit was driven mainly by the performance of the dialysis care business in the United States as well as significant improvements in the international business.
- In 2006, Fresenius Kabi sustained the excellent earnings performance achieved in 2005. EBIT increased by 24 % to € 291 million (2005: € 234 million). The EBIT margin improved to 15.4 %, from 13.9 % in 2005. The growth was driven by a good operating performance in all regions and by cost optimization and efficiency improvement measures, especially in production.
- Fresenius ProServe achieved a good EBIT performance, too. This business segment closed 2006 with EBIT of € 154 million (2005: € 20 million). Including HELIOS Kliniken in the figure for 2005, this corresponds to a strong increase of 23 % (2005 including HELIOS Kliniken: € 125 million).

Development of other major items in the statement of income

Gross profit increased to € 3,426 million, exceeding the € 2,589 million in 2005 by 32 % (33 % in constant currency). The gross profit margin was 31.8 % (2005: 32.8 %). The lower margin compared to 2005 is a result of the first-time consolidation of HELIOS Kliniken and is due to the different structure of this business. The cost of sales rose 39 % to € 7,351 million. This is 67.2 % of Group sales, compared to 68.2 % in 2005. Selling, general and administrative expenses consist primarily of personnel costs, marketing and distribution costs and depreciation and amortization. These

STATEMENT OF INCOME (SUMMARY)

in million €	2006	2005	Change	Change in constant currency
Sales	**10,777**	7,889	37 %	37 %
Cost of sales	**-7,351**	-5,300	-39 %	-39 %
Gross profit	**3,426**	2,589	32 %	33 %
Operating expenses	**-1,982**	-1,620	-22 %	-23 %
EBIT	**1,444**	969	49 %	50 %
Net interest	**-395**	-203	-95 %	-96 %
Income taxes	**-414**	-298	-39 %	-40 %
Minority interest	**-305**	-246	-24 %	-25 %
Net income	**330**	222	49 %	49 %
Earnings per ordinary share (in €)	**2.15**	1.76	22 %	22 %
Earnings per preference share (in €)	**2.16**	1.77	22 %	22 %
EBITDA	**1,843**	1,289	43 %	44 %
Depreciation and amortization	**399**	320	25 %	25 %

expenses rose by 23 % to € 1,815 million in 2006 (2005: € 1,471 million). Depreciation and amortization were € 399 million (2005: € 320 million). As a percentage of sales, depreciation and amortization dipped slightly from 4.1 % in 2005 to 3.7 % in 2006.

Group net interest expense was € -395 million. This is € 192 million more than the figure of € -203 million in 2005. This change is mainly due to the debt financing of the acquisitions of Renal Care Group and HELIOS Kliniken. Net interest, however, also includes one-time expenses of € 30 million associated with the early refinancing of Group debt.

The tax rate was 39.5 % in 2006 (2005: 38.9 %). It was substantially influenced by the tax expense associated with the divestiture of the dialysis clinics in the United States because the goodwill attributable to the divested clinics is not considered for tax purposes. Excluding this effect, the tax rate was 37.2 %.

Minority interest increased from € 246 million in 2005 to € 305 million in 2006, mainly due to the excellent earnings situation of Fresenius Medical Care. Of this, 93 % was attributable to the minority interest in Fresenius Medical Care.

Earnings per ordinary share rose to € 2.15 from € 1.76 in 2005 and earnings per preference share to € 2.16 from € 1.77. This is an increase of 22 % for both share classes and is lower than the growth in net income due to the higher average number of shares outstanding. The number of shares had risen mainly as a result of the capital increases to finance the acquisitions of HELIOS Kliniken and HUMAINE Kliniken. Moreover, the number of shares outstanding has tripled because of the share split executed in February 2007. Previous year's numbers were adjusted accordingly.

Profitability also improved significantly in 2006, as the table below shows:

in %	2006	2005
EBITDA margin	**17.1**	16.3
EBIT margin	**13.4**	12.3
Return on sales (before taxes and minority interest)	**9.7**	9.7

Value added

The value added statement shows Fresenius' total output in 2006 less goods and services purchased and less depreciation and amortization. The value added of the Fresenius Group amounted to € 5,486 million in 2006 (2005: € 3,523 million). This is an increase of 56 %. The distribution statement shows that, at € 3,954 million or 72 %, the largest portion of our value added went to our employees. Governments and lenders came next with € 502 million and € 395 million, or 9 % and 7 % respectively. Shareholders received € 89 million and minority interest € 305 million. The Company retained € 241 million for reinvestment.

FINANCIAL POSITION

Financial management policies and goals

Ensuring financial flexibility is key to the financing strategy of the Fresenius Group. We achieve this flexibility through a broad spectrum of financing 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.

Sufficient financial cushion is assured for the Fresenius Group by the revolving syndicated credit lines that are only partly drawn and the unused bilateral credit lines at our disposal. Market capacity, investor diversification, flexibility, qualification requirements and the current maturity profile are all taken into consideration when selecting financing 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 rest of the Fresenius Group 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 in order to avoid any structural subordination.

VALUE ADDED STATEMENT

in million €	2006	%	2005	%
Creation				
Company output	**10,799**	**100**	7,907	100
- Materials and services purchased	**4,914**	**45**	4,064	51
Gross value added	**5,885**	**55**	3,843	49
- Depreciation and amortization	**399**	**4**	320	4
Net value added	**5,486**	**51**	3,523	45
Distribution				
Employees	**3,954**	**72**	2,482	70
Governments	**502**	**9**	370	11
Lenders	**395**	**7**	203	6
Shareholders	**89**	**2**	76	2
Company and minority interest	**546**	**10**	392	11
Net value added	**5,486**	**100**	3,523	100

Financing

Fresenius meets its financing needs through a combination of operating cash flows generated in the business segments and short, mid and long-term debt. In addition to conventional bank loans, important financing instruments include the issuance of bonds, trust preferred securities and the commercial paper program.

The main Group financing activities in 2006 were to refinance the bridge loan for the HELIOS acquisition at the end of 2005 and to finance the Renal Care Group acquisition completed on March 31, 2006. Financing commitments from banks had already been in place when the acquisitions were announced. The positive acceptance of our business strategy in the financial market and the financing mix enabled us to secure advantageous conditions for the individual financing measures. Our good business performance and sustained cash flows also had a positive effect on the financing conditions. The significant reduction in debt in recent years and the much improved financial ratios have strengthened investor confidence in Fresenius. The generally positive environment in the banking and bond markets was also beneficial.

In May 2005, Fresenius Medical Care received financing commitments from Bank of America and from Deutsche Bank for the Renal Care Group acquisition for a credit line to be provided by a syndicate of banks as well as a loan from a syndicate of banks and institutional investors. Under the new credit agreement concluded on March 31, 2006 senior credit facilities of US$ 4.6 billion were then made available to pay the purchase price of Renal Care Group, to refinance existing loans under Fresenius Medical Care's 2003 credit agreement, to service certain liabilities of Renal Care Group, and for general corporate purposes.

The new senior credit facilities comprise a US$ 1 billion revolving credit line with a maturity of 5 years, a loan (Term Loan A) of US$ 1.85 billion with a maturity of 5 years, and a loan (Term Loan B) of US$ 1.75 billion with a maturity of 7 years.

The interest payable on the new senior bank loans is based on the prevailing market reference rates plus a spread. The 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 through appropriate interest hedging instruments. 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, levels of capital expenditure, dividend payments, etc.

Fresenius Medical Care, Fresenius AG and HELIOS Kliniken have long-term credit facilities with the European Investment Bank (EIB). The agreements on the loans and credit lines were concluded in 2005 and 2006. Under these facilities Fresenius Medical Care has a credit line of € 221 million and Fresenius AG a credit line of € 96 million until 2013. The HELIOS Kliniken facility provides a credit line of € 100 million and is due for repayment in 2019. The credit lines, which are still only partly drawn, provide additional room for maneuver and, because of their structure, allow greater financing flexibility.

In January 2006, a bond was issued to partially finance the HELIOS acquisition. This bond generated gross proceeds of € 1 billion. The size of the issue was initially € 700 million but was increased in order 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 in January 2006. This offer was accepted by bondholders representing 71 %, or about € 212 million of the issue. We exercised our call option on the remaining € 88 million, enabling us to redeem the outstanding volume 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 the usual conditions. These limit certain payments, such as dividends and share buybacks and place restrictions on increasing debt beyond refinancing and on 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.

The HUMAINE Kliniken acquisition was partly financed by a capital increase against assets in kind. 176,540 ordinary shares and 176,540 preference shares were issued. The capital increase was recorded in the Commercial Register on November 17, 2006.

Fresenius AG has a commercial paper program under which up to € 250 million in short-term notes can be issued. No commercial papers were outstanding as of December 31, 2006 (December 31, 2005: € 22 million).

On October 13, 2006 Fresenius AG signed a syndicated credit agreement in an amount of € 350 million with a group of banks. This is a revolving credit line with a tenor of five years. It was not utilized in 2006. This credit line replaces a € 100 million syndicated credit facility of Fresenius AG and a € 115 million syndicated credit line of HELIOS Kliniken GmbH.

The Fresenius Group has drawn about € 3.4 billion of bilateral and syndicated credit lines. In addition, on December 31, 2006 the Group had more than € 1.9 billion in unused credit lines at its disposal (including confirmed credit lines of € 1.4 billion). These credit facilities are generally used for covering corporate purposes and are – except the Fresenius Medical Care credit agreement – usually unsecured.

As of December 31, 2006, both Fresenius AG and Fresenius Medical Care AG, including all subsidiaries, complied with the covenants under all the credit agreements.

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

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

Liquidity analysis

In 2006, key sources of liquidity were operating cash flow and short, medium and long-term debt. 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. Medium and long-term funding is provided by the revolving credit facilities of Fresenius Medical Care, the revolving credit facilities of Fresenius AG, bonds

issued by Fresenius AG, bilateral 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 foreseeable liquidity needs.

Dividend

The Management and Supervisory Boards will propose a dividend increase to the Annual General Meeting. For 2006, a dividend of € 0.57 per ordinary share and € 0.58 per preference share is proposed. This is an increase of about 15 % on the basis of the dividend of € 0.49 per ordinary share and € 0.50 per preference share for 2005 adjusted for the share split. The total dividend distribution will be € 88.8 million (2005: € 75.8 million).

Cash flow analysis

The Group cash flow statement shows a positive development. Group cash flow increased by 32 % to € 1,045 million in 2006 (2005: € 789 million) due to the excellent growth in net income. The change in working capital was € 7 million (2005: € -9 million). This was mainly due to improvements in working capital management whereas net tax payments and other payments related to the divestiture of dialysis clinics and the Renal Care Group acquisition, as well as by an US tax payment for the years 2000 and 2001 had a negative effect.

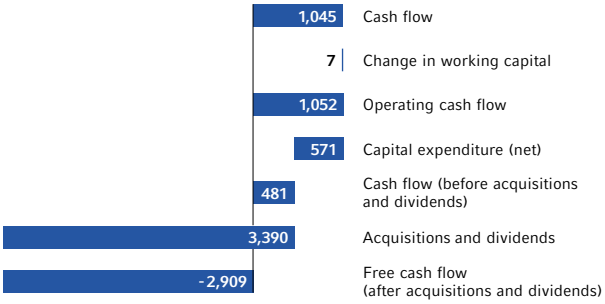
Operating cash flow was € 1,052 million in 2006 (2005: € 780 million). It was more than sufficient to meet all the financing needs for investing activities, excluding acquisitions. Cash used for capital expenditure totaled € 589 million, while proceeds from the sale of property, plant and

CASH FLOW STATEMENT (SUMMARY)

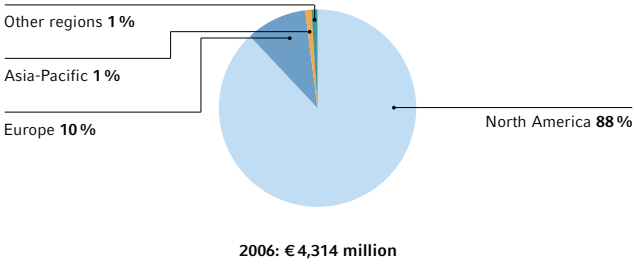
in million €	**2006**	2005
Net income before minority interest	**635**	468
Depreciation and amortization	**399**	320
Change in pension provisions	**11**	1
Cash flow	**1,045**	789
Change in working capital	**7**	-9
Operating cash flow	**1,052**	780
Property, plant and equipment	**-589**	-353
Proceeds from the sale of property, plant and equipment	**18**	22
Cash flow before acquisitions and dividends	**481**	449
Cash used for acquisitions/proceeds from disposals	**-3,219**	-1,606
Dividends	**-171**	-132
Free cash flow after acquisitions and dividends	**-2,909**	-1,289
Cash provided by/used for financing activities (without dividends paid)	**2,931**	1,388
Effect of exchange rate changes on cash and cash equivalents	**-13**	13
Change in cash and cash equivalents	**9**	112

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

CASH FLOW STATEMENT IN MILLION €



INVESTMENTS BY REGION



2006: € 4,314 million

equipment amounted to € 18 million (2005: € 353 million and € 22 million, respectively). Cash flow before acquisitions and dividends came to € 481 million (2005: € 449 million), sufficient to finance all Group dividends of € 171 million and 10 % of the net acquisitions in 2006. The remaining balance was financed with debt.

Cash from financing activities (including dividend payments) amounted to € 2,760 million in 2006 (2005: € 1,256 million). In 2006, these were primarily influenced by the financing related to the acquisition of Renal Care Group. In addition to the acquisition spending, Group dividend payments led to a cash outflow of € 171 million in 2006 (2005: € 132 million), with the Fresenius AG dividend accounting for € 76 million (2005: € 56 million). Cash and cash equivalents amounted to € 261 million on December 31, 2006 (December 31, 2005: € 252 million).

Investments and acquisitions

The Fresenius Group invested € 4,314 million in 2006 (2005: € 2,247 million). Investment in property, plant and equipment and in intangible assets amounted to € 600 million (2005: € 353 million). Acquisitions accounted for € 3,714 million (2005: € 1,894 million). Of the total investment volume in 2006, 14 % was invested in property, plant and equipment and in intangible assets. 86 % was invested in acquisitions.

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

The high cash outflow for acquisitions related mainly to the acquisition of Renal Care Group. Funds were also invested for the expansion of our global dialysis care business and in dialysis-related drugs at Fresenius Medical Care. At Fresenius ProServe, the expenditure was primarily for the acquisition of HUMAINE Kliniken.

INVESTMENTS BY BUSINESS SEGMENT

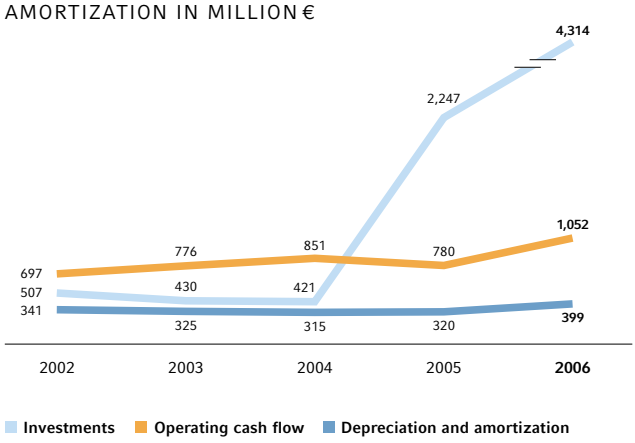
in million €	2006	2005	Thereof property, plant and equipment and intangible assets	Thereof acquisitions	Change	% of total
Fresenius Medical Care	**3,933**	361	372	3,561	-	91 %
Fresenius Kabi	**127**	351	113	14	-64 %	3 %
Fresenius ProServe	**245**	1,519	106	139	-84 %	6 %
Corporate/Other	**9**	16	9	0	-44 %	0 %
Total	**4,314**	2,247	600	3,714	92 %	100 %

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

- Start-up of new dialysis clinics, primarily in the United States, and expansion and modernization of existing clinics
- Expansion and modernization of production sites at Fresenius Medical Care and Fresenius Kabi
- Hospital modernization at Fresenius ProServe. The largest single investment is the construction of the new clinic in Berlin-Buch.

Investments in property, plant and equipment of € 149 million will be made in 2007 to continue with major investment projects that were already underway on the reporting date. These are chiefly investment obligations for hospitals at Fresenius ProServe as well as investments to expand and optimize production plants. These projects will be financed from operating cash flow.

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



ASSETS AND LIABILITIES

Asset and liability structure

The total assets of the Group rose by € 3,430 million (30 %) to € 15,024 million (December 31, 2005: € 11,594 million). At constant exchange rates, this was an increase of 38 %. Of this strong growth, 33 % is attributable to the acquisitions of 2006, especially Renal Care Group. The expansion of existing business activities accounted for 5 % of the increase in total assets. Inflation had no significant impact on the assets of Fresenius.

Non-current assets were € 10,918 million (2005: € 8,063 million). Based on the exchange rates as of December 31, 2005, this was an increase of 45 %, and was driven mainly by additions to property, plant and equipment as well as goodwill. Goodwill from acquisitions in 2006 was € 2,817 million as at December 31, 2006, of which € 2,693 million resulted from the acquisition of Renal Care Group.

Current assets rose by 16 % to € 4,106 million (2005: € 3,531 million). At constant exchange rates this is an increase of 22 %. Within current assets, trade accounts receivable rose to € 2,088 million, primarily due to business expansion resulting from acquisitions (2005: € 1,871 million). Adjusted for currency effects, receivables grew by 18 %. Benefits resulted from more efficient receivables management. Days sales outstanding improved further to 71 days (2005: 79 days). Scope of inventory was also improved in 2006 to 38 days (2005: 48 days). These improvements were mainly driven by the consolidation of the Renal Care Group and HELIOS Kliniken.

Shareholders' equity including minority interest rose by 12 % to € 5,728 million (2005: € 5,130 million). Adjusted for currency effects, the increase was 20 %. Group net income increased shareholders' equity by € 330 million. The capital increase against assets in kind in the fourth quarter of 2006 to partly finance the HUMAINE Kliniken acquisition had an effect of € 42 million. The equity ratio, including minority interest decreased from 44.2 % as of December 31, 2005 to 38.1 % at the end of 2006.

The liabilities and equity side of the balance sheet shows a solid financing structure. Shareholders' equity of the Group including minority interest covers 52 % of non-current assets (2005: 64 %). The change versus 2005 is due to the debt financing of the Renal Care Group acquisition. Shareholders' equity, minority interest and long-term liabilities encompass all non-current assets and inventories.

Long-term liabilities amounted to € 6,238 million as of December 31, 2006, an increase of € 2,271 million or 57 % compared with the previous year's figure of € 3,967 million (see pages 75 and 76 – Financing). In constant currency, the increase was 67 %. Short-term liabilities were € 3,058 million, an increase of 22 % versus the previous year's figure of € 2,497 million (30 % in constant currency).

The Group has no significant accruals. The largest single accrual is to cover the settlement of fraudulent conveyance claims and all other legal matters relating to the National Medical Care 1996 transaction resulting from the bankruptcy of W.R. Grace. This accrual amounts to US$ 115 million (€ 87 million). Please see page 172 of the Notes for details.

Bank loans, Eurobonds, Euro Notes and trust preferred securities of the Group increased, primarily as a result of the acquisition of Renal Care Group, to € 5,872 million (December 31, 2005: € 3,502 million); in constant currency: € 6,286 million. Of the Group's financial liabilities, 60 % are in US dollars. Liabilities due in less than one year amounted to € 596 million (December 31, 2005: € 447 million), while liabilities with a remaining tenor of one to five years and over five years amounted to € 5,276 million (December 31, 2005: € 3,055 million).

The net debt to equity ratio including minority interest (gearing) now stands at 98.0 % due to the debt financing of the Renal Care Group acquisition (2005: 63.4 %). The return on equity after taxes reached 10.4 % (2005: 11.4 %). The return on total assets after taxes and before minority interest was 4.3 % in 2006 (2005: 4.9 %). In calculating the profitability ratios, Renal Care Group business was included in the respective items of the statement of income on a full-year basis.

The table below shows other key asset and capital ratios:

	Dec 31, 2006	Dec 31, 2005
Debt/EBITDA*	**3.1**	2.5
Net debt/EBITDA*	**3.0**	2.3
EBITDA*/interest ratio**	**4.6**	6.3

* includes EBITDA of Renal Care Group for the full year 2006, excluding EBITDA and proceeds from the sale of the US dialysis clinics
** before one-time refinancing expenses

Currency and interest risk management

On December 31, 2006, the nominal value of all foreign currency hedging contracts was € 1,186 million. These contracts had a market value of € 4 million. The nominal value of interest rate hedging contracts was € 2,911 million. These contracts had a market value of € 35 million. Please see the Risk Report on page 88 and the Notes on pages 176 to 181 for further details.

NON-FINANCIAL PERFORMANCE INDICATORS AND OTHER SUCCESS FACTORS

EMPLOYEES

The Fresenius Group had 104,872 employees worldwide at the end of 2006, an increase of 12,901 or 14 % (December 31, 2005: 91,971). This is mainly due to the Renal Care Group acquisition.

The numbers of employees in the business segments were as follows:

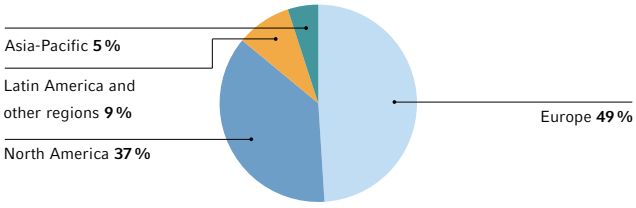
Number of employees	**Dec 31, 2006**	Dec 31, 2005	Change
Fresenius Medical Care	**59,996**	50,250	19 %
Fresenius Kabi	**15,591**	14,453	8 %
Fresenius ProServe	**28,615**	26,664	7 %
Corporate/Other	**670**	604	11 %
Total	**104,872**	91,971	14 %

In the segment Corporate/Other the increase was attributable to e. g. Fresenius Netcare and Fresenius Biotech.

The chart shows the distribution of our employees by region. These percentages roughly correspond to the sales contributions of the respective continents. In Germany, 31,955 people are employed (2005: 29,975). The increase in Germany is mainly due to the acquisition of HUMAINE Kliniken.

Personnel expenses for the Fresenius Group came to € 3,954 million in 2006 (2005: € 2,482 million). Personnel expenses per employee were € 39,700 (2005: € 34,700).

EMPLOYEES BY REGION



2006: 104,872

HELIOS Kliniken was the first private hospital group to negotiate a group wage tariff agreement with the trade union Marburger Bund in December 2006 and with the trade union ver.di in January 2007 for all employees of the clinics covered so far. Otherwise, there were no significant changes to compensation or employment agreements in 2006.

PROCUREMENT

The efficient procurement of goods and services is important for Group profitability since the health care sector faces cost containment pressure from health insurers as well as price pressure. We are constantly striving to optimize our purchasing processes, to tap new procurement sources and to achieve the best possible pricing structures while remaining flexible and maintaining our strict quality and safety standards. Fresenius coordinates global procurement centrally enabling us to bundle similar requirements and negotiate global framework agreements. These central coordinating offices organize purchasing for the production sites and arrange comprehensive quality and safety checks of purchased goods. Current market and price developments are analyzed on an ongoing basis. We are also endeavoring to optimize our procurement logistics.

Since the supply agreements for electricity and gas at Fresenius Medical Care had been concluded when market prices were still low, purchasing prices were held stable in 2006. Oil price rises prevented savings in our sourcing of plastics even at higher volumes and bundling effects. We were similarly impacted with regard to various types of foil used in product packaging.

In 2006, Fresenius Medical Care concluded a five-year agreement with the biotechnology firm Amgen for the supply of EPOGEN and Aranesp in the United States and Puerto Rico. Amgen is the only supplier of these two products in the United States. The new agreement replaces the previous supply agreement and runs from October 1, 2006 to December 31, 2011.

At Fresenius Kabi, too, sharply increased prices for heating oil, gas and electricity were a central focus of negotiations in 2006. Through sourcing projects it was possible to conclude supply contracts for 2006 at prices well below the market level. Energy prices were also a key issue for products requiring a high energy input, such as glass for packaging and aluminum for fastenings. By bundling requirements we were able to keep the rise in prices at a moderate level.

Products derived directly from crude oil were also heavily affected by the increase in oil prices. Here, a supply contract concluded in 2005 for certain plastics allowed prices to be adjusted to market levels on a quarterly basis during the year 2006. However, this still led to much higher prices than in 2005.

Marked benefits have been felt from a multiyear supply agreement concluded at the end of 2003 for cardboard boxes. The agreement prevented a number of increases in paper prices implemented in the past, leading to a moderate price rise only in 2006.

Various projects for the strategic sourcing of active substances used in our drugs are producing very good results. We have been able to bundle requirements and now procure a number of goods directly from the manufacturer, achieving substantial price reductions. Tapping new sources has also had a positive effect.

The synergy project for starch derivatives implemented worldwide between Fresenius Kabi and Fresenius Medical Care has been very successful. Since we had already fixed the prices back in 2004, some of our purchasing prices in 2006 were partly well below the prevailing market level despite the rise in energy and grain prices. Further synergy projects were initiated within the Fresenius Group in 2006.

QUALITY MANAGEMENT

Our process-oriented quality management fulfills ISO 9001: 2000 standards and is designed to meet the demands of our customers. The quality of our products as well as the business processes and additional services and therapies that we provide are all covered. The quality management system integrates all product groups, such as drugs, medical products and nutrition, and also includes clinics. The system is regularly evaluated through internal quality audits and external certification bodies. Its effectiveness was again confirmed in 2006.

Our products are closely controlled already at the development stage. Our drugs are subject to regulatory approval, so that appropriate documentation has to be submitted to the regulatory authorities for scrutiny. Medical devices undergo a conformity assessment procedure that documents compliance with the appropriate norms. 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, at any given time we are able to trace which batch was supplied to which customer.

ISO 9001:2000 quality management standards were introduced in about 40 more European dialysis clinics in 2006. Approximately 65 % of Fresenius Medical Care's clinics in Europe are now certified – compared to about 55 % in 2005.

To assess quality in dialysis care, we use the generally accepted quality parameters customary in dialysis, such as the hemoglobin values. Hemoglobin mainly serves to transport oxygen from the respiratory organs to the body tissues that use oxygen. Our patients should have a hemoglobin level of at least 11 grams per deciliter of blood. The average hemoglobin value for healthy people is only slightly above that. Other indicators we use to assess treatment quality include phosphate level and the so-called Kt/V value, which measures the effectiveness of the dialysis treatment on the basis of the filtration rates for certain given toxic molecules in relation to the length of the treatment. Another important indicator for treatment quality is the number of days which the dialysis patients have to spend in the hospital.

At Fresenius Kabi, the Clinico sites acquired at the end of 2005 were integrated into the quality management system. All processes at the four locations were reviewed in an internal quality audit. In addition, all of Fresenius Kabi's European sales organizations were included in the ISO 9001:2000 certification process.

In India, our production site in Ranjangaon, which already manufactures according to local and WHO-GMP standards, was certified to European Good Manufacturing Practice (EU-GMP) standards. This plant is the third production facility in the Asia-Pacific region to receive this certification. Among other things, Ranjangaon produces intravenously administered drugs. The Chinese plants in Wuxi and Beijing already have this certification.

The plant in Graz, Austria, which specializes in the production of parenteral nutrition and intravenously administered drugs, is already certified to EU-GMP, WHO-GMP, ISO 9001:2000 and ISO 13485:2003 standards. In 2006, this production site was also inspected successfully by the US Food and Drug Administration (FDA). The FDA examines whether the manufacturing facilities and procedures for a given product comply with US standards. When this "pre-approval" inspection and the regulatory approval process have been completed, the product can be exported to the United States. This inspection took place in 2006 and we expect to receive an official approval of the production facility in 2007.

SALES, MARKETING AND LOGISTICS

Long-term, trustful cooperation with our customers is an essential basis for sustainable growth. We strive to guarantee to our customers top quality and top service together with reliable logistics and product availability. Thanks to its broad product portfolio and long experience, Fresenius has been able to build and maintain close relationships with its customers worldwide. Close cooperation between Sales and Research and Development enables the Company to integrate concepts and ideas generated by the sales force regarding the development of products. Fresenius has its own sales organizations with trained salespersons. The sales teams coordinate direct sales promotion measures, including visits to doctors, medical specialists, hospitals and clinics. The Company also employs external distributors in countries where we do not have our own sales force.

Fresenius' products are shipped by the production plants to central warehouses, which are mostly located not far from the production sites. These central warehouses dispatch the products to the regional warehouses which then distribute them to the clinics and other customers, or directly to a patient's home.

The business segments offer after-sales services, training in the local language, technical support, servicing & maintenance and warranty arrangements in every country in which Fresenius sells its products. Product training is also provided at the Company's production sites. Regional service centers are operated, which are responsible for day-to-day international service support.

The business segments have the following customer structure:

Dialysis clinics and hospitals are Fresenius Medical Care's main customers in its products business. In dialysis care, approximately 38 % of Fresenius Medical Care's revenues are derived from the US Government's Medicare/Medicaid programs, about 62 % from private and other heath care payors and from hospitals.

Fresenius Kabi has a broadly diversified customer base. This includes hospitals, wholesalers, purchasing associations, medical and similar institutions, hospital operators and home care patients. There is no significant dependence on one source of revenue.

In the hospital operations business, Fresenius ProServe's customers are social security institutions, health insurers and private patients. In the engineering and services business, customers include public and private hospitals and other health care facilities.

OVERALL ASSESSMENT OF THE BUSINESS SITUATION

At the time this Group Management Report was prepared, the Management Board continued to assess the development of the Fresenius Group as positive. Our products and services are in strong demand around the world. Operating performance in the first weeks of 2007 has been fully in line with our expectations, with further increases in sales and earnings.

OPPORTUNITIES AND RISK REPORT

Through the expansion, especially in international markets, and the 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 accommodated if opportunities are to be exploited.

As a provider of often life-saving products and services for the severely and chronically ill, we are relatively independent of economic cycles. Our experience in the development and manufacture of products as well as in our markets serves as a solid basis for a reliable assessment of risks. At the same time, the health care market offers the Fresenius Group wide-ranging opportunities for sustainable growth and expansion of which we will continue to take advantage of.

OPPORTUNITIES MANAGEMENT

Managing opportunities is an ongoing, integral part of corporate activity aimed at securing the Company's long-term success. In this way we can tap new potential and consolidate and improve on what we have already achieved. Opportunities management is linked to the Fresenius Group's long-term strategy and medium-term planning. The Group's decentralized and regional management structure enables early identification of trends and requirements in our often fragmented markets, and we can respond to them flexibly and in line with local market needs. Furthermore, we maintain regular con-

tact and dialogue with research groups and institutions, and keep a close watch on markets and competitors in order to identify opportunities. Within the Group, opportunities and synergies can be tapped through continuous communication involving the exchange of information and know-how between the various business segments.

We will continue to exploit all available opportunities. Anticipated future opportunities for the Fresenius Group are discussed in the Outlook starting at page 91.

RISK MANAGEMENT

Like opportunities management, risk management is a continuous process. Identifying, analyzing and controlling risks are key tools of Group management. The Fresenius risk management system is closely linked to the 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. Responsibilities for the processes and for monitoring risks in the individual business segments have been assigned as follows:

- Risk situations are evaluated regularly using standardized processes and compared with given requirements. Responses can be initiated at an early stage should negative developments emerge.
- The managers responsible are required to report any relevant changes in the risk profile without delay to the Management Board.
- Markets are kept under constant observation and close contacts maintained with customers, suppliers and institutions. These practices 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 measures as well as our management information system. Based on detailed monthly and quarterly financial reports, deviations in earnings and assets from budget figures can be 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, if necessary, adjusted to allow prompt reaction to changes in the markets. This system has proved 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 possible negative impacts of these risks. However, we limit ourselves to non-exchange traded, marketable instruments, used exclusively to hedge our operations and not for trading or speculative purposes.

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 policy 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 for 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 2007, we expect overall economic growth to continue. For the Fresenius Group, we therefore expect continued strong demand for our life-saving and life-sustaining products and services.
- Risks in the general operating framework
  The risk situation for each business segment depends on the development of its markets. Therefore, political, legal and financial conditions are monitored and evaluated carefully. In addition, the growing internationalization of our markets requires us to keep abreast of country-specific risks.
- Risks in the health care sector
  Risks related to changes in the health care market 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 applies especially in the United States, where a large portion of our sales are generated, and where e.g. changes in the reimbursement system could have an impact on our business. The same is true for the hospital market in Germany. Hospitals will have to contribute with a lump-sum toward improving the finances of the German public health insurance system. The introduction of Diagnosis Related Groups is intended to increase the efficiency of hospitals while reducing expenditure in the health care system. Patients are largely assigned to hospitals by the public health and pension insurers. It is therefore especially important for the Company that the contracts between its hospitals and the insurers and health care institutions are maintained. For this reason, we not only continually monitor legislative changes but proactively 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, in our quality and work procedure manuals. Regular audits are carried out by quality management officers at the Group's production sites and dialysis clinics in order 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 Manufac-

turing Practice" (GMP) guidelines and other internationally and nationally 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 procedures. Internal and external audits review the legality and efficiency of our operations and 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 hospitals and postacute care clinics presents inherent risks; at the same time operational risks, e.g. the need for strict hygiene and sterile conditions can arise. We counteract these risks with strict 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. For instance, changes in the United States in the regulations concerning the reimbursement of erythropoetin (EPO), or a change in the dosage, could have a significant impact on the sales and earnings of Fresenius. EPO is a hormone used in dialysis that stimulates the production of red blood cells. An interruption in supply or worsening procurement conditions for EPO could also reduce revenues and significantly increase Fresenius' costs. Fresenius Medical Care has entered an agreement with Amgen for the supply of EPO in the United States and Puerto Rico. Amgen is the sole supplier of EPO in the United States. The agreement runs until December 31, 2011. Reimbursement and revenues from the administration of EPO accounted for approximately 9 % of total sales of the Fresenius Group in 2006.

- 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 preclinical 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, the 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 expected.

- Personnel 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 to recruit a qualified and dedicated workforce, and thus ensure the high standards of treatment quality. At the same time, young people should become qualified and be committed to the Company. At the end of 2006 for instance, HELIOS Kliniken signed the first-ever group wage tariff agreement in Germany that pays medical students a monthly compensation during their one-year internship. This has put HELIOS at a considerable competitive advantage over other hospital operators in recruiting staff.

- Financial risks
  Potential financial risks can arise from exposure to foreign currencies and interest rates. Controlling and limiting these risks is an integral part of our risk management. We also use derivative financial instruments to hedge against interest rate and foreign currency risks. However, these instruments are used solely for hedging current operations and are not used for trading or speculative purposes. Please see pages 176 to 181 of the Notes for further details.

  The Fresenius Group is protected to a large extent against currency and interest rate risks. As at December 31, 2006, 79 % of the Fresenius Group's debt is protected against increases in interest rates either by fixed-rate financing arrangements or by interest rate hedges. Only 21 % or € 1,245 million is exposed to an interest rate risk. A rise of 0.5 % in the reference rates relevant for Fresenius would have a less than 1 % impact on Group net income. As a globally active company, Fresenius has production facilities in all the main currency areas. Consequently, the increase in exposure to currency risks arising from increased business activities is far lower than the growth rate in sales.

  Potential financial risks that could arise from acquisitions and investments in property, plant and equipment and intangible assets are assessed in advance. We perform careful and in-depth reviews of the projects, 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 exchange rate of the US dollar to the euro is of particular importance due to our extensive operations in the United States.

  Fresenius' debt could limit its ability to pay dividends or to 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 has to comply with general rules of law, which differ from country to country. There could be far-reaching legal repercussions if Fresenius fails to comply with any of these laws or regulations. A large part of Group revenue derives from government reimbursement programs such as the federal dialysis reimbursement programs in the United States under Medicare and Medicaid. Changes in law, or changes in the reimbursement method, could affect the amounts of these payments and could 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 & Co. Under the settlement agreement, Fresenius Medical Care will pay a total of US$ 115 million into 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 court. Also, subject to the confirmation of the W.R. Grace & Co settlement agreement, claims made out of court by certain private US health insurers were also settled by an agreement. Consequently, all legal issues resulting from the NMC transaction have been concluded subject to plan confirmation. Please see pages 172 and 173 of the Notes for details.

  In October 2004, Fresenius Medical Care Holdings, Inc., and its subsidiaries, received subpoenas from the U.S. 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 U.S. 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 pages 174 and 175 of the Notes for further details.

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

- Other risks

  Other risks, including those involving our IT systems, are 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.

ASSESSMENT OF 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 immediately within its control, such as operating risks, which the Company anticipates and reacts to appropriately. Currently, 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 acquisition of Renal Care Group, Inc., which was financed entirely with debt, led to a downgrade in the ratings of Fresenius Medical Care and Fresenius AG. Standard & Poors revised the ratings from BB+ to BB with "negative outlook". Moody's lowered the ratings of Fresenius Medical Care and Fresenius AG before the closing of the acquisition from Ba1 to Ba2. The outlook is "stable". Given our intention to finance the acquisition with debt, we had anticipated these downgrades.

RATING OF FRESENIUS AG

	Rating	Outlook
Standard & Poors	BB	negative
Moody's	Ba2	stable

SUBSEQUENT EVENTS

CONVERSION OF FRESENIUS AG INTO A EUROPEAN COMPANY (SOCIETAS EUROPAEA, SE)

The Extraordinary General Meeting on December 4, 2006 approved the Management and Supervisory Boards' proposal to convert Fresenius AG into a European Company (SE). An SE is a public limited company under European law.

After the successful expansion of the Group's international business and the strong growth in recent years, the conversion is a consistent step in the Company's development. The SE is a modern legal form which underlines the Group's international business focus and facilitates the development of an open and international corporate culture. The conversion does not have any effect on the Company's corporate structure and management organization. The two-tier system consisting of Management Board and Supervisory Board will remain unchanged. The future Fresenius SE will continue to have a Supervisory Board with twelve members and parity representation just like Fresenius AG today. However, the legal form of an SE allows representatives of the employees from various European countries to be represented on the Supervisory Board. Retaining the present size of the Supervisory Board will ensure that the efficiency and flexibility of the Company's corporate governance is preserved. Without the conversion to an SE, the number of Supervisory Board members of Fresenius AG would have had to be increased by eight to twenty because of the increased number of employees in Germany. The change of legal form will therefore enable Fresenius to continue its well-proven corporate governance.

Fresenius will continue to be based and have its registered office in Germany. Fresenius AG's conversion to an SE will not lead to the Company's liquidation nor to the formation of a new legal entity. The Company's legal and economic identity will be preserved. All shareholder's stakes in Fresenius will remain unchanged.

It is expected that the SE will be registered in the Commercial Register in the third quarter of 2007, following the conclusion of the employee participation procedure.

SHARE SPLIT WITH CAPITAL INCREASE FROM THE COMPANY'S FUNDS

The Extraordinary General Meeting on December 4, 2006 approved a share split with capital increase from the Company's funds, tripling the number of shares outstanding. This measure was registered in the Commercial Register on January 24, 2007, and the conversion of the stock quotation took place on February 2, 2007. See page 61 of the Management Report for further details. The share split is intended to promote trading activity in Fresenius shares and to increase the shares' attractiveness for a broader group of investors. The share split arithmetically reduces the share price without affecting the overall value for shareholders.

SALE OF PHARMAPLAN GMBH

In December 2006, Fresenius ProServe signed an agreement for the sale of its subsidiary Pharmaplan GmbH to NNE A/S, a subsidiary of Novo Nordisk A/S, Copenhagen. Pharmaplan provides consulting, engineering and qualification/validation services for production plants for the pharmaceutical industry worldwide. The transaction is expected to be completed in the first quarter of 2007 after approval by the antitrust authorities.

The Pharmaplan subsidiary Pharmatec, which is not part of the transaction, is to be sold at a later date. Pharmatec manufactures high quality pure steam, pure water and sterilization equipment for the pharmaceutical industry.

With this divestitures, Fresenius ProServe is focusing on its business with hospitals and other health care facilities through HELIOS Kliniken Group and VAMED.

FRESENIUS MEDICAL CARE EXPANDS IN ASIA

Fresenius Medical Care has acquired a 51 % stake in the dialysis services provider Jiate Excelsior Co. Ltd. (Excelsior), Taiwan. Excelsior is the leading provider of dialysis care in Taiwan, with a market share of about 14 %, and currently treats over 6,500 patients in 90 dialysis clinics. Fresenius Medical Care expects Excelsior to contribute about US$ 80 million to sales in 2007 and to be accretive to earnings. The price of the 51 % stake is US$ 38 million. The acquisition still has to be approved by the antitrust authorities in Taiwan.

Otherwise, no major changes in the situation of the Company or our sector have occurred since the beginning of 2007. There are also no plans for major changes to the structure and administration 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 regarding events that 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 therefore differ materially – positively or negatively – from those expressly or implicitly assumed or described in these statements. For further information, please see our Risk Report on pages 84 f.

GENERAL OUTLOOK

The outlook for the Fresenius Group for the coming years continues to be very positive. Going forward, we expect sales growth of 6 to 8 % in constant currency. Earnings are expected to rise at a higher rate, with further improvements in profitability.

Acquisitions have led to a much higher level of debt within the Group, with related effects on net interest. Our goal is to improve the Group's debt ratios.

Excellent growth opportunities for Fresenius are presented above all by

- the sustained growth of the markets in which we operate
- the development of innovative products and therapies
- the expansion of our regional presence
- the broadening of our services business, and
- selective acquisitions to strengthen our product portfolio and regional presence.

ECONOMIC OUTLOOK

The present dynamic of the world economy is likely to weaken slightly in 2007. However, the expansion in Europe and in the emerging countries of Asia should continue, despite slightly slower growth rates, and largely compensate for the more pronounced downturn in the United States and Japan. The relatively strong growth dynamic in countries such as China and India should help to keep the expected dip in growth in the industrial countries fairly short. Inflation rates should remain low in 2007. With the slowdown expected in the United States, the US dollar will probably depreciate both against the euro and against the Asian currencies.

- Europe

  The economic trend in the Eurozone will remain robust in 2007, but growth will be more moderate than in 2006. A slight dip is expected at the beginning of 2007. However, this should be overcome again in the second half of the year at the latest. GDP growth of about 2 % should be within reach for the full year. A weakening global economy and a further appreciation of the euro could be factors leading to the expected slower economic growth in the Eurozone. As a result of the more restrictive fiscal policy, the upturn in domestic demand is also expected to be damped down. Economists predict GDP growth of 1.5 % for Germany. The main reasons for the lower growth as compared with 2006 are seen in the economic slowdown in the United States and the VAT increase in Germany.

- United States

  Growth in private consumer spending should be somewhat more moderate in 2007 due to static property prices and slower growth in employment. Consumer spending is also likely to be curbed by a rise in the savings ratio. Since weaker growth should dampen inflation, the Federal Reserve will probably lower rates in the course of the year. The budget deficit should stabilize in 2007, helped not least by the slightly higher savings ratio expected. All in all, GDP growth of about 2.0 % is forecast for 2007.

- Asia

  GDP growth in Asia is expected to be about 8 % in 2007 (without Japan). China's growth will continue in 2007 at an only marginally slower pace. Despite declining demand from the United States, the country's export dynamic will barely weaken thanks to its highly competitive export industry. Growth of 9.5 % is forecast for China. Japan's

economy could see a temporary dip in growth. Less stimulus from monetary policy and budget consolidation efforts in the form of lower government spending will have a dampening effect. GDP growth of about 1.8 % is forecast for Japan.

- Latin America

Economic growth in Latin America should continue at a slightly weaker pace in 2007. On the one hand, commodity and energy prices are not expected to rise further. On the other, the stimulus from the world economy, especially from the United States, are expected to weaken. GDP growth should be about 4.0 %. The strong demand for commodities and the resulting stable price trend should continue to support Brazil's economy. In Mexico, a continued strong export dynamic could have a positive effect on domestic demand. In Argentina, on the other hand, the pace of GDP growth is expected to slacken a little.

HEALTH CARE SECTOR AND MARKETS

- The dialysis market

We expect the number of dialysis patients to rise 5 to 7 % in the coming years, although significant regional differences are anticipated. In the industrialized nations such as the United States, Japan and the countries of Central and Western Europe where people already have broad access to dialysis treatment, we expect below-average patient growth. In many developing nations, where the needs of patients with chronic kidney failure are still not met sufficiently, we expect above-average growth rates of up to 10 % in these markets. That about 80 % of the world's population lives in these growth countries highlights the enormous potential of the dialysis market in the developing countries.

The reimbursement schemes for dialysis treatment vary from country to country. They may depend for instance on regional specifics, the method of treatment, regulatory aspects or the status of the dialysis care provider. The reimbursement of dialysis treatment according to quality-based criteria, defined individually for each patient, also remains a central issue. In this reimbursement model, the quality of treatment should increase while the total cost of treating a dialysis patient should 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 58 % of Fresenius Medical Care's dialysis care revenues.

A bill was introduced toward the end of 2006 in which the US Congress and Senate proposed a 1.6 % increase in the reimbursement rate as from April 1, 2007. This bill already became law in 2006.

Source: German Council of Economic Experts Annual Report 2006/2007, bank research

▶ The market for infusion therapy and clinical nutrition

Demographic developments, medical advances and the often still insufficient availability of medical care in developing countries will continue to be the growth drivers in this market.

We expect further cost containment pressure and health care reforms, especially in Central and Western Europe. Despite these trends, we believe that there will be continued growing demand for innovative and cost-effective therapies and products. We expect growth in the low single digits for the infusion therapy and clinical nutrition market in Central and Western Europe. The market for intravenously administered drugs generic in Europe should see growth rates in the mid single digits in the coming years. For Eastern Europe we expect market growth rates in the high single digits.

There continues to be high growth potential in Latin America and in Asia-Pacific, especially in China. In China, Fresenius Kabi has been growing at double-digit rates for years. China is Fresenius Kabi's third largest single market in terms of sales. The rising demand for primary care in hospitals and thus for high-quality therapies, will result in continued strong growth rates in many countries in these regions in the coming years. We expect the markets of Asia-Pacific and Latin America to continue growing at high single to double-digit rates. We also expect a rising demand for medical devices in these growth regions.

▶ The German hospital market

The German health care reform will continue to be a foremost topic in early 2007. The main aim of the reform is to place the financing of the German health care system on a sustainable basis. Among other things, the hospitals have to contribute toward improving the finances of the public health insurance system, mainly by deducting 0.5 % from bills issued to the public health insurers. Apart from the impact of the health care reform, in 2007 German hospitals will also have to cope with pay rises for hospital doctors and an increase in VAT from 16 % to 19 %.

Whatever concrete shape the future reform measures take, one thing is already clear. Crucial for a clinic's survival will be excellent medical standards, well-trained staff, well-organized processes and a well-structured treatment spectrum with a focus on high quality, complex medical services.

Private hospital chains and alliances will tend to be able to respond to the pressure to improve efficiency better than public hospitals. Given their traditional orientation to profitability, they often have more experience in creating efficient structures and processes and achieving cost benefits in procurement. In addition, they are generally better placed to finance the necessary investments. The process of concentration and privatization, especially among public hospitals, is therefore expected to further accelerate. Overall, experts expect the market share of private operators in terms of beds to rise from about 11 % at present to nearly 30 to 40 % over the next ten years.

Source: Economic Research Allianz Group (July 2005), A.T. Kearney, Study on Health Care Financing (September 2005)

GROUP SALES AND GROUP EARNINGS

With its international production and sales platform and its market-oriented products and services the Fresenius Group is excellently positioned for continued growth. At the same time, opportunities for profitable growth are indicated by the developments described in the chapter "Health Care Sector and Markets."

In 2007, we therefore expect to increase Group sales by 8 to 10 % at 2006 exchange rates. The growth in sales will be influenced by the consolidation of Renal Care Group and HUMAINE Kliniken for the full year.

While our traditional markets in Europe and North America are growing at average low to mid single-digit rates, we see far stronger growth potential in the Asia-Pacific and Latin America regions. Here, the demand for our life-saving and life-sustaining products continues to be very high due to the still very limited access to medical care. 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.

We plan to increase Group net income significantly again in 2007. We aim to achieve this through sustained sales growth and ongoing cost-reduction measures, especially in production. Despite a market environment which continues to be marked by cost containment and price pressure, we expect to be able to increase net income by 20 to 25 % in constant currency.

SUMMARY OF GROUP TARGETS FOR 2007

	Targets 2007	Fiscal year 2006
Sales, growth (in constant currency)	8 - 10 %	€ 10.8 billion
Net income, growth (in constant currency)	20 - 25 %	€ 330 million
Capital expenditure	€ 600 - 700 million	€ 600 million
Net debt/EBITDA (December 31)	2.8 - 3.0	3.0
Dividend	Continued profit-driven dividend policy	Proposed: ~15 % per ordinary and preference share

SALES AND EARNINGS BY BUSINESS SEGMENT

Overall, we expect good improvements in sales and earnings in 2007 in each of our business segments. The table below gives an overview:

The number of dialysis patients should rise by about 5 to 7 % again in 2007, leading to a continued growth in demand for dialysis products and a higher number of treatments. In 2007, Fresenius Medical Care expects sales to grow to about 9.4 billion in US dollars, its reporting currency. For net income Fresenius Medical Care forecasts US$ 675 to 695 million.

Fresenius Kabi expects its positive operating performance to continue in 2007. The company estimates an organic sales growth of about 6 to 8 %. Good growth potential is expected again in Asia-Pacific and Latin America. Based on the positive sales projection and further cost optimizations, especially in production, Fresenius Kabi expects further significant earnings improvement in 2007. The EBIT margin should rise in the 16.0 to 16.5 % range.

Fresenius ProServe expects a continued good performance in the hospital operations business. A good performance is also expected in the engineering and services business given the excellent order situation. Sales will be influenced on the one hand by the full-year consolidation of HUMAINE Kliniken and on the other by the sale of Pharmaplan GmbH. In 2007, Fresenius ProServe projects organic sales growth of about 2 to 3 %. EBIT is expected to increase to € 160 to 170 million. Future growth potential is expected from further hospital privatizations in Germany.

Fresenius Biotech will continue its clinical study program. We expect that the expenditures for our biotechnology projects will lead to negative EBIT of about € -50 million in 2007. This increase is largely due to higher expenditures for clinical studies.

FINANCING

In 2006, we generated an excellent operating cash flow of € 1,052 million. The key drivers were the strong increase in earnings and further improvements in working capital management. The cash flow margin was 9.8 %. Judged from today's point of view, we estimate that this margin will again be in the high single-digit rate in 2007, especially through further earnings improvements.

A key performance target figure for the Fresenius Group is the net debt/EBITDA ratio. On December 31, 2006 this ratio was at 3.0. Our goal in 2007 is to reach a ratio of 2.8 to 3.0. To achieve this, we focus on increasing earnings and on a further positive cash flow development.

2007 FINANCIAL TARGETS BY BUSINESS SEGMENT

	Targets 2007	Fiscal year 2006
Fresenius Medical Care		
Sales	US$ ~9.4 billion	US$ 8,499 million
Net income	US$ 675 - 695 million	US$ 537 million
Fresenius Kabi		
Sales growth (organic)	6 - 8 %	€ 1,893 million
EBIT margin	16.0 - 16.5 %	15.4 %
Fresenius ProServe		
Sales growth (organic)	2 - 3 %	€ 2,155 million
EBIT	€ 160 - 170 million	€ 154 million
Fresenius Biotech		
EBIT	€ ~ -50 million	€ -45 million

Overall, we have a sufficient financial cushion with substantial unused credit lines under syndicated or bilateral credit facilities from banks. On December 31, 2006 the receivables securitization program at Fresenius Medical Care was only partially utilized and Fresenius Groups' commercial paper program of € 250 million had not been utilized at all. (Please see page 76 of the Management Report for details.)

INVESTMENTS

Fresenius plans to invest in further growth and to increase capital expenditure in property, plant and equipment. In 2007, we expect to invest about € 600 to 700 million (2006: € 600 million) in property, plant and equipment and in intangible assets. The strong increase will mainly be in the Fresenius Medical Care and Fresenius ProServe business segments. About 60 % of the capital expenditure budgeted will be invested at Fresenius Medical Care, over 20 % at Fresenius ProServe and about 15 % at Fresenius Kabi. The focus of the investments at Fresenius Medical Care will be on the construction and expansion of dialysis clinics, and on the expansion and maintenance of production plants. As an example, we are expanding our dialyzer production plant in Germany. This will increase the annual production capacity of this plant from 25 million at present to 35 million dialyzers. Fresenius Kabi will invest in expanding and maintaining production facilities and in introducing new manufacturing technologies. These developments will enable further improvements in production efficiency. At Fresenius ProServe we will be investing primarily in modernizing hospitals and in hospital equipment. The regional focus of the investments will be on Europe and North America, accounting for about 50 % and 40 %. 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 are also focusing on optimizing the procurement process as well as the cooperation between individual sites. Procurement alliances across various sectors allow us to increase purchasing volumes and secure better conditions from our suppliers.

The situation regarding prices of energy and oil-based products is unlikely to ease much. This is mainly because of the continued strong demand for oil and gas, which will probably be even greater given the rising demand in growth regions such as China. We therefore do not expect any reduction in the prices of energy and oil-based products in 2007.

Cost savings can be achieved especially through the further standardization of products, packaging and packaging materials. This standardization will also simplify logistics since transport can be better coordinated, allowing a more efficient use of loading capacities.

Fresenius Medical Care plans to optimize its purchasing of chemicals. From 2007, it intends to bundle demands and procure products directly from the manufacturers. It plans to counter rising pallet prices due to timber shortages by switching to special pallets that contain less wood. Fresenius Kabi and Fresenius Medical Care are likely to face higher prices for starch-based products after they had been held significantly below the market level in 2006 as a result of a multi-year supply agreement.

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. The emphasis will be on dialysis membranes, dialysis machines and other products. We are also focusing on other extracorporeal therapies, such as those used in the treatment of patients with liver disease, as well as our main research areas of infusion and nutrition therapies. We are also concentrating on targeted development in the biotechnology sector, mainly in the field of antibody therapies. Biotechnology research opens up possibilities for treating diseases which cannot be cured today, and offers Fresenius potential for further growth with innovative cancer therapies. Results of a phase II/III study in the indication malignant ascites for patients with other than ovarian cancer are expected to be published in the first quarter of 2007. The phase II study in the indication breast cancer and the phase II study in gastric cancer are ongoing. Documentation for the registration of the antibody removab® for the indication malignant ascites is due to be submitted to the EMEA (European Medicines Agency), the European drug approval agency, in the second half of 2007.

We are planning to invest more in research and development in 2007. The increase should be higher than the forecast organic growth rate in sales. The number of employees in research and development will also be increased.

Market-oriented research and development 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 market-leading products in the future.

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 the 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.

On December 4, 2006, the Extraordinary General Meeting of Fresenius AG approved the conversion of the Company's legal form from a public limited company incorporated under German law into a European Company (SE) (see "Subsequent Events" on page 90 for more details).

PLANNED CHANGES IN HUMAN RESOURCES AND THE SOCIAL AREA

The number of employees in the Group will continue to rise in the future as a result of strong organic expansion. However, the growth in the number of employees will be held below the expected rate of organic sales growth. The regional distribution of our employees will not change significantly – about 50 % will be located in Europe (with about 30 % in Germany), about 35 % in North America and about 15 % in Asia-Pacific, Latin America and Africa.

DIVIDEND

Continuity in our dividend policy remains an important priority. This has been demonstrated impressively by steady dividend increases over the last 13 years. We want to remain true to this policy in the 2007 fiscal year 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 2006 in million US$	Profit/Loss[1] 2006 in million US$	Equity Dec 31, 2006 in million US$	Employees Dec 31, 2006
Europe						
1	Fresenius Medical Care AG & Co. KGaA Hof an der Saale, Germany (sub-group/US GAAP)	36	8.499	537	4,870.2	59,996

	Company	Held by Fresenius in %	Sales 2006 in million €	Profit/Loss[1] 2006 in million €	Equity Dec 31, 2006 in million €	Employees Dec 31, 2006
Europe						
2	Fresenius Kabi Deutschland GmbH Bad Homburg v.d.H., Germany (with profit transfer agreement)	100	625.7	–	309.8	1,875
3	Fresenius HemoCare GmbH Bad Homburg v.d.H., Germany (with profit transfer agreement)	100	35.2	–	0.0	48
4	Pharmaplan Group Bad Homburg v.d.H., Germany	100	91.0	2.0	14.3[2]	474
5	HELIOS Group Berlin, Germany	98	1,672.8	82.6	521.4[3]	26,368
6	Fresenius Kabi France S.A.S. Sèvres, France	100	125.8	1.5	26.9	597
7	Fresenius Vial S.A.S. Brézins, France	100	63.1	5.0	21.8	275
8	Fresenius Kabi Italia S.p.A. Verona, Italy	100	66.2	0.3	45.6	277
9	Fresenius HemoCare Italia S.r.l. Medolla/Modena, Italy	100	38.9	1.2	10.5	166
10	Fresenius Kabi España S.A. Barcelona, Spain	100	52.7	3.0	22.7	185
11	Labesfal – Laboratórios Almiro, S.A. Campo de Besteiros, Portugal	100	63	13.5	54.5	375
12	Fresenius Kabi Ltd. Basingstoke/Hampshire, Great Britain	100	110.7	3.0	5.4	304
13	Fresenius Kabi Austria GmbH Graz, Austria	100	176.6	26.9	64.3	558
14	VAMED Gruppe Vienna, Austria	77	391.6	20.4	93.0	1,768
15	Fresenius Kabi (Schweiz) AG Stans, Switzerland	100	20.8	0.2	4.2	49

	Company	Held by Fresenius in %	Sales 2006 in million €	Profit/Loss[1] 2006 in million €	Equity Dec 31, 2006 in million €	Employees Dec 31, 2006
Europe						
16	Fresenius HemoCare Netherlands B.V. Emmen, The Netherlands	100	111.0	2.2	27.5	1,027
17	Fresenius Kabi Netherlands B.V. ´s-Hertogenbosch, The Netherlands	100	23.0	2.0	2.1	15
18	Fresenius Kabi N.V. Schelle, Belgium	100	27.3	0.7	3.0	38
19	Fresenius Kabi Norge A/S Halden, Norway	100	65.7	10.6	22.6	437
20	Fresenius Kabi AB Stockholm, Sweden	100	192.2	28.0	210.3	889
21	Fresenius Kabi Polska Sp. z o.o. Warsaw, Poland	100	24.3	0.4	15.1	230
America						
22	Calea Ltd. Toronto, Canada	100	81.9	6.6	11.3	295
23	Grupo Fresenius México S.A. de C.V. Guadalajara, Mexico	100	34.1	1.3	24.8	519
24	Fresenius Kabi Brasil Ltda. Campinas/São Paulo, Brazil	100	51.8	-0.1	17.8	1,064
Asia						
25	Sino-Swed Pharmaceutical Corp. Ltd. Wuxi, China	51	71.8	13.4	49.3	1,092
26	Beijing Fresenius Pharmaceutical Co., Ltd. Beijing, China	100	59.7	6.9	26.5	529
27	Fresenius Kabi Korea Ltd. ChunAn, Korea	100	28.1	0.7	6.6	107
28	Pharmatel Fresenius Kabi Pty Ltd. Sydney, Australia	50	36.5	-0.5	-1.2	111
Africa						
29	Fresenius Kabi South Africa (Pty) Ltd. Midrand, South Africa	100	72.6	8.9	33.6	514

[1] net income (loss)
[2] after transfer of € 3.5 million according to profit and loss transfer agreement
[3] after transfer of € 52.5 million 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	2006	2005
Sales	3	**10,777**	7,889
Cost of sales	4	**-7,351**	-5,300
Gross profit		**3,426**	2,589
Selling, general and administrative expenses	6	**-1,815**	-1,471
Research and development expenses		**-167**	-149
Operating income (EBIT)		**1,444**	969
Interest income	7	**23**	20
Interest expenses	7	**-418**	-223
Earnings before income taxes and minority interest		**1,049**	766
Income taxes	8	**-414**	-298
Minority interest	21	**-305**	-246
Net income		**330**	222
Basic earnings per ordinary share in €	9	**2.15**	1.76
Fully diluted earnings per ordinary share in €	9	**2.12**	1.75
Basic earnings per preference share in €	9	**2.16**	1.77
Fully diluted earnings per preference share in €	9	**2.13**	1.76

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

CONSOLIDATED BALANCE SHEET

ASSETS

as of December 31, in million €	Note	2006	2005
Cash and cash equivalents	10	**261**	252
Trade accounts receivable, less allowance for doubtful accounts	11	**2,088**	1,871
Accounts receivable from and loans to related parties		**8**	15
Inventories	12	**761**	727
Prepaid expenses and other current assets	13	**730**	478
Deferred taxes	8	**258**	188
I. Total current assets		**4,106**	3,531
Property, plant and equipment	14	**2,712**	2,356
Goodwill	15	**7,107**	4,680
Other intangible assets	15	**548**	541
Other non-current assets	13	**378**	359
Deferred taxes	8	**173**	127
II. Total non-current assets		**10,918**	8,063
Total assets		**15,024**	11,594

LIABILITIES AND SHAREHOLDERS' EQUITY

as of December 31, in million €	Note	2006	2005
Trade accounts payable		**464**	353
Short-term accounts payable to related parties		**2**	2
Short-term accrued expenses and other short-term liabilities	16, 17	**1,808**	1,522
Short-term borrowings	18	**330**	224
Short-term loans from related parties		**1**	1
Current portion of long-term debt and liabilities from capital lease obligations	18	**265**	222
Accruals for income taxes		**159**	146
Deferred taxes	8	**29**	27
A. Total short-term liabilities		**3,058**	2,497
Long-term debt and liabilities from capital lease obligations, less current portion	18	**4,330**	2,055
Long-term liabilities and loans from related parties		**–**	–
Long-term accrued expenses and other long-term liabilities	16, 17	**300**	304
Pension liabilities	19	**310**	305
Deferred taxes	8	**352**	303
Trust preferred securities of Fresenius Medical Care Capital Trusts	20	**946**	1,000
B. Total long-term liabilities		**6,238**	3,967
I. Total liabilities		**9,296**	6,464
II. Minority interest	21	**2,560**	2,289
Subscribed capital	22	**132**	130
Capital reserve	22	**1,724**	1,546
Other reserves	22	**1,315**	1,061
Accumulated other comprehensive income (loss)	23	**-3**	104
III. Total shareholders' equity		**3,168**	2,841
Total liabilities and shareholders' equity		**15,024**	11,594

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

CONSOLIDATED CASH FLOW STATEMENT

January 1 to December 31, in million €	Note	2006	2005
Cash provided by/used for operating activities			
Net income		**330**	222
Minority interest	21	**305**	246
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities			
Cash inflow from hedging		**9**	0
Depreciation and amortization	27	**399**	320
Loss on sale of investments		**2**	0
Change in deferred taxes	8	**77**	10
Loss on sale of fixed assets		**14**	7
Change in assets and liabilities, net of amounts from businesses acquired or disposed of			
Change in trade accounts receivable, net	11	**-86**	-42
Change in inventories	12	**-49**	-12
Change in prepaid expenses and other current and non-current assets	13	**-101**	-101
Change in accounts receivable from/payable to related parties		**4**	6
Change in trade accounts payable, accruals and other short-term and long-term liabilities		**187**	195
Change in accruals for income taxes		**13**	-71
Tax payments related to divestitures and acquisitions		**-52**	0
Cash provided by operating activities		**1,052**	780
Cash provided by/used for investing activities			
Purchase of property, plant and equipment		**-589**	-353
Proceeds from the sale of property, plant and equipment		**18**	22
Acquisitions and investments, net of cash acquired	2, 26	**-3,657**	-1,608
Proceeds from divestitures	2	**438**	2
Cash used for investing activities		**-3,790**	-1,937

January 1 to December 31, in million €	Note	2006	2005
Cash provided by/used for financing activities			
Proceeds from short-term borrowings	18	**54**	37
Repayments of short-term borrowings	18	**-70**	-70
Repayments of borrowings from related parties		**-1**	-4
Proceeds from long-term debt and liabilities from capital lease obligations	18	**4,301**	945
Repayments of long-term debt and liabilities from capital lease obligations	18	**-1,828**	-310
Changes of accounts receivable facility	18	**137**	-194
Proceeds from the exercise of stock options	28	**75**	90
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares	1	**258**	0
Dividends paid		**-171**	-132
Proceeds from the issuance of bearer ordinary shares	22	**0**	438
Proceeds from the issuance of bearer preference shares	22	**0**	481
Payments of additional costs of capital increase	22	**0**	-22
Change in minority interest	21	**1**	-1
Exchange rate effect due to corporate financing		**4**	-2
Cash provided by financing activities		**2,760**	1,256
Effect of exchange rate changes on cash and cash equivalents		**-13**	13
Net increase in cash and cash equivalents		**9**	112
Cash and cash equivalents at the beginning of the year	10	**252**	140
Cash and cash equivalents at the end of the year	10	**261**	252

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	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, 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						
Adjustments relating to pension obligation	19, 23						
Comprehensive income (loss)							
As of December 31, 2005		25,361	64,924	25,361	64,924	129,848	130
Issuance of bearer ordinary and bearer preference shares	22	177	453	177	453	906	1
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares	1						
Proceeds from the exercise of stock options	28	188	481	188	481	962	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						
Adjustments relating to pension obligation	19, 23						
Comprehensive income (loss)							
As of December 31, 2006		25,726	65,858	25,726	65,858	131,716	132

	Note	Reserves		Other comprehensive income (loss)			
		Capital reserve (million €)	Other reserves (million €)	Foreign currency translation (million €)	Cash flow hedges (million €)	Pensions (million €)	Total (million €)
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
Adjustments relating to pension obligation	19, 23					-27	-27
Comprehensive income (loss)			222	141	32	-27	368
As of December 31, 2005		1,546	1,061	161	14	-71	2,841
Issuance of bearer ordinary and bearer preference shares	22	41					42
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares	1	94					94
Proceeds from the exercise of stock options	28	31					32
Compensation expense related to stock options	28	12					12
Dividends paid	22		-76				-76
Comprehensive income (loss)							
Net income			330				330
Other comprehensive income (loss) related to							
Cash flow hedges	23, 25				16		16
Foreign currency translation	23			-127			-127
Adjustments relating to pension obligation	19, 23					4	4
Comprehensive income (loss)			330	-127	16	4	223
As of December 31, 2006		1,724	1,315	34	30	-67	3,168

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

SEGMENT REPORTING

by business segment

	Fresenius Medical Care			Fresenius Kabi		
in million €	**2006**	2005	Change	**2006**	2005	Change
Sales	**6,768**	5,443	24 %	**1,893**	1,681	13 %
thereof contribution to consolidated sales	**6,763**	5,418	25 %	**1,853**	1,651	12 %
thereof intercompany sales	**5**	25	-80 %	**40**	30	33 %
contribution to consolidated sales	**63 %**	69 %		**17 %**	21 %	
EBITDA	**1,295**	957	35 %	**370**	318	16 %
Depreciation and amortization	**245**	202	21 %	**79**	84	-6 %
EBIT	**1,050**	755	39 %	**291**	234	24 %
Net interest	**-280**	-139	-101 %	**-70**	-51	-37 %
Net income	**427**	366	17 %	**143**	111	29 %
Operating cash flow	**723**	539	34 %	**202**	237	-15 %
Cash flow before acquisitions and dividends	**365**	300	22 %	**101**	167	-40 %
Debt	**4,236**	1,857	128 %	**880**	903	-3 %
Total assets	**9,905**	6,767	46 %	**1,965**	1,867	5 %
Capital expenditure	**372**	253	47 %	**113**	77	47 %
Acquisitions	**3,561**	108	--	**14**	274	-95 %
Research and development expenses	**41**	41	0 %	**77**	64	20 %
Employees (per capita on balance sheet date)	**59,996**	50,250	19 %	**15,591**	14,453	8 %
Key figures						
EBITDA margin	**19.1 %**	17.6 %		**19.5 %**	18.9 %	
EBIT margin	**15.5 %**	13.9 %		**15.4 %**	13.9 %	
ROOA	**11.3 %**[1]	12.6 %		**17.3 %**	14.5 %	
Depreciation and amortization in % of sales	**3.6 %**	3.7 %		**4.2 %**	5.0 %	

[1] Calculation is based on the pro forma EBIT excluding the gain on the sale of Fresenius Medical Care's dialysis clinics (see Note 2, Acquisitions and divestitures)
[2] Operating assets excluding HELIOS Kliniken

Fresenius ProServe			Corporate/Other			Fresenius Group		
2006	2005	Change	**2006**	2005	Change	**2006**	2005	Change
2,155	809	166 %	**-39**	-44	11 %	**10,777**	7,889	37 %
2,145	804	167 %	**16**	16	0 %	**10,777**	7,889	37 %
10	5	100 %	**-55**	-60	8 %	**0**	0	0 %
20 %	10 %		**0 %**	0 %		**100 %**	100 %	
218	45	--	**-40**	-31	-29 %	**1,843**	1,289	43 %
64	25	156 %	**11**	9	22 %	**399**	320	25 %
154	20	--	**-51**	-40	-28 %	**1,444**	969	49 %
-40	-10	--	**-5**	-3	-67 %	**-395**	-203	-95 %
75	2	--	**-315**	-257	-23 %	**330**	222	49 %
176	19	--	**-49**	-15	--	**1,052**	780	35 %
73	7	--	**-58**	-25	-132 %	**481**	449	7 %
932	229	--	**-176**	513	-134 %	**5,872**	3,502	68 %
3,108	2,859	9 %	**46**	101	-54 %	**15,024**	11,594	30 %
106	12	--	**9**	11	-18 %	**600**	353	70 %
139	1,507	-91 %	**0**	5	-100 %	**3,714**	1,894	96 %
1	1	0 %	**48**	43	12 %	**167**	149	12 %
28,615	26,664	7 %	**670**	604	11 %	**104,872**	91,971	14 %
10.1 %	5.6 %					**17.1 %**	16.3 %	
7.1 %	2.5 %					**13.4 %**	12.3 %	
6.9 %	3.6 % [2]					**10.4 %** [1]	11.7 % [2]	
3.0 %	3.1 %					**3.7 %**	4.1 %	

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

SEGMENT REPORTING

by region

	Europe			North America		
in million €	**2006**	2005	Change	**2006**	2005	Change
Sales	**4,536**	3,032	50 %	**4,862**	3,746	30 %
contribution to consolidated sales	**43 %**	38 %		**45 %**	47 %	
EBIT	**497**	337	47 %	**772**	522	48 %
Depreciation and amortization	**213**	170	25 %	**147**	112	31 %
Total assets	**6,256**	5,784	8 %	**7,691**	4,747	62 %
Capital expenditure	**288**	179	61 %	**245**	141	74 %
Acquisitions	**150**	1,791	-92 %	**3,544**	62	--
Employees (per capita on balance sheet date)	**52,062**	48,169	8 %	**38,597**	31,031	24 %

	Asia-Pacific			Latin America			Africa			Fresenius Group		
	2006	2005	Change	**2006**	2005	Change	**2006**	2005	Change	**2006**	2005	Change
	696	557	25 %	**452**	354	28 %	**231**	200	16 %	**10,777**	7,889	37 %
	6 %	7 %		**4 %**	5 %		**2 %**	3 %		**100 %**	100 %	
	103	59	75 %	**48**	31	55 %	**24**	20	20 %	**1,444**	969	49 %
	20	22	-9 %	**16**	14	14 %	**3**	2	50 %	**399**	320	25 %
	573	556	3 %	**446**	431	3 %	**58**	76	-24 %	**15,024**	11,594	30 %
	25	14	79 %	**38**	17	124 %	**4**	2	100 %	**600**	353	70 %
	4	33	-88 %	**13**	7	86 %	**3**	1	200 %	**3,714**	1,894	96 %
	4,968	4,296	16 %	**8,499**	7,772	9 %	**746**	703	6 %	**104,872**	91,971	14 %

The segment reporting is an 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 worldwide operating 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. 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, 2006:

- 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 163,517 patients in its 2,108 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. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe is a leading German hospital operator. Moreover, the company offers engineering and services for hospitals and other health care facilities.

Fresenius AG owned 36.6 % of the ordinary voting shares of Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) and Fresenius AG's share of the total subscribed capital of FMC-AG & Co. KGaA continued to be 36.1 % at the end of the fiscal year 2006. Fresenius Medical Care Management AG (FMC Management AG), the general partner of FMC-AG & Co. KGaA, is a wholly-owned subsidiary of Fresenius AG. Due to this structure, FMC-AG & Co. KGaA is fully consolidated in the consolidated financial statements of the Fresenius Group. Fresenius AG continued to hold 100 % of the management companies of business segments Fresenius Kabi (Fresenius Kabi AG) and Fresenius ProServe (Fresenius ProServe GmbH) on December 31, 2006. 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. CONVERSION OF FRESENIUS AG INTO A EUROPEAN COMPANY (SE) AND NEW DIVISION OF THE SUBSCRIBED CAPITAL

On December 4, 2006, at the Extraordinary General Meeting Fresenius AG's shareholders approved the proposal to convert the Company's legal form from a German stock corporation (Aktiengesellschaft) into a European Company (Societas Europaea – SE). The conversion becomes effective upon the registration in the commercial register. This is scheduled for the third quarter of 2007 after the completion of the procedure for the involvement of the employees. Fresenius AG's name after the conversion will be Fresenius SE. The conversion of Fresenius AG into an SE does neither lead to a liquidation of the company nor the formation of a new legal entity. The Company's corporate structure and management organization as well as the interests of the shareholders in the company continue to exist unchanged because of the identity of the legal entity. In the statutes of the future Fresenius SE the existing two-tier system consisting of Management Board and Supervisory Board will remain unchanged. The Supervisory Board of Fresenius SE will continue to have twelve members.

Furthermore, Fresenius AG's shareholders approved at the Extraordinary General Meeting to conduct a new division of the subscribed capital of Fresenius AG (share split) in connection with a capital increase from the company's funds without the issuance of new shares. As a result, the number of ordinary shares and preference shares issued tripled. The share split in connection with an increase of the subscribed capital became effective upon the registration in the commercial register on January 24, 2007. The subscribed capital of Fresenius AG amounted to € 131,715,307.52 before the registration in the commercial register and was divided into 25,725,646 ordinary shares and 25,725,646 preference shares. Through a conversion of capital reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided into 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is € 1,00 per share. After the share split, every holder of an ordinary share holds three ordinary shares and every holder of a preference share holds three preference shares.

III. TRANSFORMATION OF FRESENIUS MEDICAL CARE AG'S LEGAL FORM AND CONVERSION OF ITS PREFERENCE SHARES

On February 10, 2006, Fresenius Medical Care completed and registered in the commercial register of the local court in Hof an der Saale, the transformation of its legal form under German law 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). The transformation was approved by its shareholders during an Extraordinary General Meeting held on August 30, 2005 (EGM). Fresenius Medical Care as a KGaA is the same legal entity under German law, rather than a successor to the AG. FMC Management AG, a wholly-owned 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. FMC Management AG assumed the management of Fresenius Medical Care through its position as general partner. FMC Management AG was formed for the sole purpose

of serving as the general partner of FMC-AG & Co. KGaA and managing the business of FMC-AG & Co. KGaA. FMC Management AG has the same duty to FMC-AG & Co. KGaA as the Management Board of a stock corporation has to the corporation. The Management Board of FMC Management AG must carefully conduct the business of FMC-AG & Co. KGaA and is liable for any breaches of its obligations. The Supervisory Board of FMC Management AG, elected by Fresenius AG, must carefully supervise the Management Board of FMC Management AG in the conduct of the business of FMC-AG & Co. KGaA. The Supervisory Board of FMC-AG & Co. KGaA, which is elected by Fresenius Medical Care's shareholders (other than Fresenius AG), oversees the management of the business of Fresenius Medical Care, but has less power and scope for influence than the supervisory board of a stock corporation. 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 the company in its new legal form.

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

Prior to registration of 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. Fresenius Medical Care received a total of € 258 million in premiums from the holders upon the conversion of their preference shares, net of costs of € 2 million.

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 FMC Management AG, and all proceedings were terminated. Fresenius Medical Care agreed to bear court fees and shareholder legal expenses in connection with the settlement. The total costs of the settlement were estimated to be € 5.9 million. A further part of the settlement agreement and German law require that these costs be borne by Fresenius AG and FMC Management AG. Under accounting principles, however, these costs must be reflected by the entity benefiting from the actions of its controlling shareholder. The actual total costs of all ex gratia payments and all payments to shareholders who voted against the conversion proposal and who filed written claims in a timely fashion incurred in the settlement were € 5.2 million. The difference of € 0.7 million was recorded as a reduction of selling, general and administrative expense and additional paid in capital within shareholders' equity in the year 2006.

IV. BASIS OF PRESENTATION

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

Since January 1, 2005, Fresenius AG as a stock exchange listed company with a domicile in a member state of the European Union has the obligation to prepare and 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 simultaneously.

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 liquidity of assets and liabilities; the consolidated statement of income is classified using the cost-of-sales accounting format.

V. 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 date of acquisition. The identifiable assets and liabilities of subsidiaries are recognized 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 comprises 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 in which Fresenius Medical Care is the primary beneficiary, generated approximately € 61 million (US$ 77 million) and € 48 million (US$ 59 million) in revenue in 2006 and 2005, respectively. The interest held by the other shareholders in these consolidated VIEs is reported as minority interest in the consolidated balance sheet at December 31, 2006.

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 generated approximately € 31 million in annual revenue in the year 2006. 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 2006 include, in addition to Fresenius AG, 123 (2005: 117) German and 838 (2005: 634) foreign companies.

The composition of the Group changed as follows:

	Germany	Abroad	Total
December 31, 2005	**117**	**634**	**751**
Additions	16	246	262
of which newly founded	2	4	6
of which acquired	9	235	244
Disposals	10	42	52
of which no longer consolidated	4	36	40
of which merged	6	6	12
December 31, 2006	**123**	**838**	**961**

13 companies (2005: 17) 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 prior year's consolidated financial statements have been reclassified to conform with the current year's presentation. In the year 2005, the reclassification includes € 100 million relating to rents for clinics of Fresenius Medical Care which were removed from selling, general and administrative expenses and included in its cost of sales. The calculation of earnings per share (see Note 9, Earnings per share) has been adjusted due to the share split of Fresenius AG recorded in the commercial register of January 24, 2007, for the increased number of shares in the fiscal years 2006 and 2005.

d) Sales recognition policy

Sales from services are recognized at amounts estimated to be received under reimbursement arrangements with third party payors. Sales are recognized on the date services and related products are provided and the payor is obligated to pay.

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

In the business segment Fresenius ProServe, sales are recognized for long-term production contracts 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 costs are incurred in conjunction with original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the technical and commercial implementation of research findings. Research and development expenses are expensed as incurred.

f) Impairment

The Fresenius Group reviews the carrying amount of its property, plant and equipment, its intangible assets with definite useful lives as well as other non-current assets for impairment whenever events or changes in circumstances indicate that the carrying amount 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 by a comparison of the carrying amount 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 amount 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 amount 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 capitalized interest as part of the cost of the asset if they 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 2006 and 2005, interest of € 5 million and € 2 million, based on an average interest rate of 7.9 % and 7.2 %, respectively, was recognized as a component of the cost of assets.

h) Deferred 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 is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is 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. The reduction is 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 ordinary share and preference 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 is computed by dividing net income less preference amounts by the weighted-average number of ordinary shares and preference shares outstanding during the year. Basic earnings per preference share is derived by adding the preference per preference share to the basic 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 Fresenius' and Fresenius Medical Care's stock incentive plans (see Note 28, Stock options) can result in a dilutive effect.

j) Cash and cash equivalents

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

k) Trade accounts receivable

Trade accounts receivable are stated at their nominal value less allowance for doubtful accounts. Allowances are estimated individually and 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 the Fresenius Group, to determine whether there have been any divergences to previous payment history.

l) Inventories

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

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

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 expense 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 15 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, for example technology, patents and distribution rights, are amortized over their respective useful lives to their residual values and reviewed for impairment in accordance with SFAS No. 144 (Accounting for Impairment or Disposal of Long-Lived Assets) (see Note 1.V.f, Impairment). Non-compete agreements have useful lives ranging from 7 to 25 years with an average useful life of 8 years. Technology has a useful live of 15 years. All other intangible assets are amortized over their individual estimated useful lives between 3 and 40 years.

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 certain qualified 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 useful lives are not amortized but tested for impairment annually or when an event becomes known that could trigger an impairment (impairment test).

To perform the annual impairment test of goodwill, the Fresenius Group identified several reporting units in accordance with SFAS No. 142 and determined the carrying amount of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. A reporting unit is usually defined one level below the segment level according to regions or legal entities. At least once a year, the Fresenius Group 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 based upon the cash flow expected to be generated by the reporting unit. In case that the fair value of the reporting unit is less than its carrying amount the difference is at first recorded as an impairment of the fair value of the goodwill.

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

The recoverability of goodwill and other separable intangible assets with indefinite useful lives recorded in the Group's consolidated balance sheet was verified. As a result, the Fresenius Group did not record any impairment losses in 2006 and 2005.

p) Leases

Leased assets assigned to the Fresenius Group based on the risk and rewards approach (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 the 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 the fair value of derivative financial instruments classified as fair value hedges and in the corresponding underlyings are recognized periodically in earnings. The effective portion of changes in fair value of cash flow hedges is recognized in accumulated other comprehensive income (loss) in shareholders' equity (see Note 25, Financial instruments). The non-effective portion of cash flow hedges is recognized in earnings immediately.

r) Liabilities

Liabilities are stated generally at present value which normally corresponds to the value of products or services which are delivered. As a general rule, short-term liabilities are measured at their repayment amount.

s) Legal contingencies

From time to time, during the ordinary course of Fresenius Group's operations, the Fresenius Group is party to litigation and arbitration and is subject to investigations relating to various aspects of its business. The Fresenius Group regularly analyzes current information about such claims for probable losses and provides accruals for such matters, including the estimated legal expenses, as appropriate. The Fresenius Group utilizes its internal legal department as well as external resources for these assessments. In making the decision regarding the need for loss accrual, the Fresenius Group considers the degree of probability of an unfavorable outcome and its ability to make a reasonable estimate of the amount of loss. These accruals include expenses for legal and consulting services in connection with these legal issues.

The filing of a suit or formal assertion of a claim or assessment, or the disclosure of any such suit or assertion, does not necessarily indicate that accrual of a loss is appropriate.

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 prior periods.

u) Pension liabilities and similar obligations

Pension obligations for post-employment benefits are measured using the projected unit credit method, taking into account future salary and trends for pension increase. 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 of the employees participating in the plans, adjusted for fluctuation. As of December 31, 2006, the Fresenius Group adopted FASB Statement No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R) (see Note 19, Pensions and similar obligations).

v) Debt issuance costs

Debt issuance costs are amortized over the term of the related obligation.

w) Stock option plans

Effective January 1, 2006, the Fresenius Group adopted the provisions of SFAS No. 123(R) (Share-Based Payment (SBP) (revised 2004)) using the modified prospective transition method (see Note 28, Stock options).

SFAS No. 123(R) requires companies to recognize the cost in its financial statements resulting from the exchange of its equity shares, equity share options or other equity instruments in return for goods or services from suppliers or employees, a SBP, at fair value on the grant date of SBP awards. 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 will be recognized over the vesting period based on an estimate of the number of awards expected to vest. Under this method, unvested SBP awards granted prior to the effective date of the new statement are accounted for under SFAS No. 123(R), and related costs are recognized in the income statement. Before January 1, 2006, awards were accounted for under the recognition and measurement provisions of APB No. 25 (Accounting for Stock Issued to Employees), and related Interpretations. Under APB No. 25, compensation cost, if any, is measured based on the excess of the quoted market price at grant date over the amount an employee must pay to acquire the stock.

The following table illustrates the effect on net income and earnings per share retroactively considering the share split of Fresenius AG entered into the commercial register on January 24, 2007, if the Fresenius Group had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation in the year 2005:

in million €, except amounts per share (€)	2005
Net income	
as reported	222
as reported less preference on preference shares	221
plus share-based employee compensation cost according to APB No. 25	3
less share-based employee compensation cost according to SFAS No. 123	-9
pro forma less preference on preference shares	215
pro forma	216
Basic earnings per ordinary share	
as reported	1.76
pro forma	1.71
Basic earnings per preference share	
as reported	1.77
pro forma	1.72
Fully diluted earnings per ordinary share	
as reported	1.75
pro forma	1.70
Fully diluted earnings per preference share	
as reported	1.76
pro forma	1.71

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 Fresenius Group 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 rates. Adjustments due to 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 also reported in accumulated other comprehensive income (loss).

Gains and losses arising from the translation of foreign currency positions as well as those arising from the elimination of foreign currency intercompany loans are recorded as selling, general and administrative expenses, as far as they are not considered foreign equity instruments. Out of this transaction only immaterial gains resulted in the fiscal year 2006.

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

	Year-end exchange rate* Dec 31, 2006	Year-end exchange rate* Dec 31, 2005	**Average exchange rate 2006**	Average exchange rate 2005
US dollar per €	**1.3170**	1.1797	**1.2558**	1.2442
Pound sterling per €	**0.6715**	0.6853	**0.6817**	0.6839
Swedish krona per €	**9.0404**	9.3885	**9.2530**	9.2816
Chinese renminbi per €	**10.2793**	9.5204	**10.0099**	10.1639
Japanese yen per €	**156.93**	138.90	**146.06**	136.86

* mid-closing 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 date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

aa) Receivables management

The entities 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 24 % and 25 % of the sales of the Fresenius Group were earned and subject to the regulations under governmental health care programs, primarily Medicare and Medicaid, administered by the United States government in 2006 and 2005, respectively.

bb) Recent pronouncements

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No. 109, Accounting for Income Taxes. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold of more-likely-than-not and a measurement attribute for the financial statement recognition and measurement of all tax position taken or expected to be taken in a tax return. The enterprise must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. If the threshold is met, the tax position is then measured to determine the amount of benefit to recognize in the financial statements.

The recognition threshold of more-likely-than-not must continue to be met in each subsequent reporting period to support continued recognition of the tax benefit. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 is effective for all fiscal years beginning after December 15, 2006. The Fresenius Group is in the process of determining the potential impact of FIN 48, if any, on the Group's consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS No. 157), which establishes a framework for reporting fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Fresenius Group is currently evaluating the impact of this standard on its consolidated financial statements.

IV. CRITICAL ACCOUNTING POLICIES

In the opinion of the Management of the Fresenius Group, 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 of the Fresenius Group.

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, 2006 and December 31, 2005, the carrying amount of goodwill and non-amortizable intangible assets with indefinite useful lives amounted to € 7,457 million and € 5,069 million, respectively, which represented 50 % and 44 %, 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 with indefinite useful lives is performed at least once a year, or if events occur or circumstances change that would indicate the carrying amount might be impaired (impairment test).

To comply with the regulations of SFAS No. 142 and determine possible impairments of these assets, the fair value of the reporting unit determined in accordance with SFAS No. 142 is compared to the reporting unit's carrying amount. The fair value of each reporting unit is estimated using estimated future cash flows for the unit discounted by a weighted-average cost of capital (WACC) specific to that reporting unit. Estimating the discounted future cash flows involves significant assumptions, especially regarding future reimbursement rates and sales prices, number of treatments, sales volumes and costs. In determining discounted cash flows, the Fresenius Group utilizes for every reporting unit its three-year budget, projections for years 4 to 10 and a corresponding growth rate for all remaining years. These growth rates are for Fresenius Medical Care between 0 % and 4 %, for Fresenius Kabi 2 % and for Fresenius ProServe 1 %. This discount factor is determined by the WACC of the respective reporting unit. The Fresenius Medical Care's WACC consists of a basic rate of 6.83 % for 2006. This basic rate is then adjusted by a country specific risk rate within each reporting unit for determining the reporting unit's fair value. In 2006, this rate ranged from 0 % to 9 %. In the business segments Fresenius ProServe and Fresenius Kabi the WACC amounts to 6.75 %, country specific adjustments did not occur. In case that the fair value of the reporting unit is less than its carrying amount the difference is at first recorded as an impairment of the fair value of the goodwill.

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 unit`s 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 Group's business. For details, please see Note 24, Commitments and contingent liabilities.

The Fresenius Group regularly analyses current information including 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.

The filing of a suit or formal assertion of a claim or assessment, or the disclosure of any such suit or assertion, does not necessarily indicate that accrual of a loss is appropriate.

c) Allowance for doubtful accounts

Trade accounts receivable are a significant asset and the allowance for doubtful accounts is a significant estimate made by the Management. Trade accounts receivable were € 2,088 million and € 1,871 million in 2006 and 2005, respectively, net of allowance. More than two thirds 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 € 218 million and € 200 million as of December 31, 2006 and December 31, 2005, 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 worker's compensation claims under which the Fresenius Group 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 amounting to € 3,714 million and € 1,894 million in 2006 and 2005, respectively. Of this amount, € 3,657 million were paid in cash and € 17 million were assumed obligations in the year 2006. Futhermore, € 42 million were paid in stocks, and a purchase price in an amount of € 7 million is still outstanding. In connection with an acquisition in the first quarter of 2005, purchase price considerations in an amount of € 30 million were due in subsequent years, whereof € 9 million were paid in 2006.

All acquisitions have been accounted for applying the purchase method and accordingly have been consolidated starting with the date of acquisition. The excess of the total acquisition costs over the fair value of the net assets acquired amounted to € 2.8 billion and € 1.5 billion in 2006 and 2005, respectively.

Acquisitions of Fresenius Medical Care in the year 2006 in an amount of € 3,561 million related mainly to the purchase of Renal Care Group, Inc. (RCG).

On March 31, 2006, Fresenius Medical Care completed the acquisition of RCG, a Delaware corporation with principal offices in Nashville, Tennessee, for an all cash purchase price, net of cash acquired, of US$ 4,158 million for all of the outstanding common stock and the retirement of RCG stock options. The purchase price included the concurrent repayment of US$ 658 million indebtedness of RCG.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition. This preliminary allocation of the purchase price is based upon the best information available to the Management. Any adjustments to the preliminary allocation, net of related income tax effects, will be recorded with a corresponding adjustment to goodwill.

The preliminary purchase price allocation is as follows:

in million US$

Assets held for sale	330
Other current assets	414
Property, plant and equipment	301
Intangible assets and other assets	150
Goodwill	3,382
Trade accounts payable, accrued expenses and other current liabilities	-276
Income tax payable and deferred taxes	-64
Long-term debt and liabilities from capital lease obligations	-4
Other liabilities	-75
Total allocation of acquisition cost	**4,158**

The purchase price for the acquisition of RCG amounted to US$ 4,158 million plus US$ 57 million for net cash. The purchase price includes additional expenses in amount of US$ 48 million. The balance sheet total according to US GAAP prior to the acquisition of US$ 1,754 million has been reduced by US$ 859 million. This effect primarily results from redemption of goodwill and intangible assets amounting to US$ 922 million, which was partly offset by the revaluation of assets in the amount of US$ 63 million. In addition, liabilities increased by US$ 178 million. These liabilities were not recorded in the balance sheet of RCG. Due to the revaluation of the assets and liabilities, the equity (before minority interest) in an amount of US$ 751 million prior to the acquisition has been reduced by US$ 1,037 million to US$ -286 million. The difference between the purchase price including additional expenses and net cash and the proportional equity in an amount of US$ 4,501 million results from reimbursement of acquired indebtedness (US$ 655 million) and acquired liabilities in connection with stock options (US$ 203 million). The remaining difference corresponds to the capitalized intangible assets (US$ 70 million), the capitalized goodwill (US$ 3,382 million) and assets which were sold in connection with the divestiture of clinics of RCG (US$ 191 million) in the second quarter of 2006.

On November 14, 2006, Fresenius Medical Care acquired the worldwide rights to the PhosLo® phosphate binder product business and its related assets of Nabi Biopharmaceuticals, Inc. PhosLo® is an oral application calcium acetate phosphate binder for treatment of hyperphosphatemia primarily in end-stage renal disease patients. Fresenius Medical Care paid cash of US$ 65.3 million including related direct costs of US$ 0.3 million plus a US$ 8 million milestone payment in December 2006 and

a US$ 2.5 million milestone payment in 2007. An additional milestone payment of US$ 10.5 million will be paid over the next two to three years, contingent upon the achievement of certain performance criteria. The purchase price was allocated to technology with an estimated useful live of 15 years (US$ 64.8 million), and in-process research and development project (US$ 2.8 million) which is immediately expensed, goodwill (US$ 7.3 million) and other net assets (US$ 0.9 million).

In connection with the transaction, Fresenius Medical Care also acquired worldwide rights to a new product formulation currently under development, which Fresenius Medical Care expects will be submitted for approval in the United States during 2007. Following the successful launch of this new product formulation, Fresenius Medical Care will pay Nabi Biopharmaceuticals, Inc. royalties on sales of the new product formulation commencing upon the first commercialization of the new product and continuing until November 13, 2016. Total consideration, consisting of initial payment, milestone payments and royalties will not exceed US$ 150 million.

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

In 2006, Fresenius Kabi made acquisitions of € 14 million, referring mainly to subsequent costs for the acquisition of Endomed Laboratório Farmacéutico Ltda., Brazil, as well as the taking over of a distributor in South Africa. In September 2006, Fresenius Kabi has agreed to acquire all stakes in Filaxis, Argentina, and made a down payment. The acquisition still requires approval by the antitrust authorities.

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).

Fresenius ProServe made acquisitions in an amount of € 139 million, which mainly refers to the acquisition of stakes in the HUMAINE Kliniken GmbH (HUMAINE) by HELIOS Kliniken GmbH (HELIOS) and additional stakes in HELIOS in 2006. Initially, 60 % of the shares of HUMAINE were acquired, for the remaining 40 % HELIOS received an option. Since the beginning of the third quarter of 2006, HUMAINE has been consolidated.

In 2005, Fresenius ProServe made acquisitions of € 1,507 million, referring mainly to the acquisition of HELIOS. In December 2005, Fresenius AG first acquired HELIOS and then assigned its share in HELIOS to Fresenius ProServe GmbH. The purchase price for 100 % of the HELIOS shares was € 1.5 billion plus € 100 million for the net cash position. Fresenius AG acquired 94 % of the HELIOS shares.

In the last quarter of 2006, Fresenius Biotech signed a contract to acquire additional shares of Trion Pharma GmbH, Germany in an amount of € 9 million. Contingent upon the achievement of certain performance criteria, additional contractual milestone payments in a maximum amount of € 14 million have been agreed. The acquisition was closed in the first quarter of 2007. In 2005, Fresenius Biotech paid additional costs in an amount of € 4 million for the shares of Trion Pharma GmbH acquired in 2002.

IMPACTS ON THE FRESENIUS GROUP RESULTING FROM ACQUISITIONS

The acquisitions completed in 2006, or which were included in the consolidated statements for the first full year, contributed the following amounts to the development of sales and earnings:

in million €	2006
Sales	2,203
EBITDA	400
EBIT	332
Net interest	-186
Net income	77

The acquisitions increased the total assets of the Fresenius Group by € 3.9 billion mainly due to the acquisition of RCG (€ 3.5 billion).

The following unaudited financial information, on a pro forma basis, reflects the consolidated results of operations as if the acquisition of RCG, the main acquisition in the year 2006, and the divestitures of the clinics described below had been consummated at the beginning of 2006. The pro forma information includes adjustments mainly for interest expense on acquisition debt and income taxes. The pro forma financial information is not necessarily indicative of the results of operations as it would have been had the acquisition of RCG been consummated at the beginning of the respective period.

in million €	as reported	pro forma
Sales	10,777	11,024
Net income	330	330
Basic earnings per ordinary share in €	2.15	2.15
Fully diluted earnings per ordinary share in €	2.12	2.12
Basic earnings per preference share in €	2.16	2.16
Fully diluted earnings per preference share in €	2.13	2.13

DIVESTITURES

Fresenius Medical Care was required to divest a total of 105 renal dialysis centers, consisting of both former Fresenius Medical Care clinics (legacy clinics) and former RCG clinics, in order to complete the RCG acquisition in accordance with a consent order issued by the United States Federal Trade Commission (FTC) on March 31, 2006. Fresenius Medical Care sold 96 of such centers on April 7, 2006 to a wholly-owned subsidiary of DSI Holding Company, Inc. (DSI) and sold DSI the remaining 9 centers effective as of June 30, 2006. Separately, in December 2006, Fresenius Medical Care also sold the former laboratory business acquired in the RCG acquisition receiving cash consideration of US$ 9 million. Fresenius Medical Care received cash consideration of US$ 516 million, net of related expenses, for all centers divested and for the divested laboratory, subject to customary post-closing adjustments. Pre-tax income of US$ 40 million on the sale of the legacy clinics was recorded in income from operations. Due to basis differences, tax expense of US$ 44 million was recorded, resulting in a net loss on sale of US$ 4 million.

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

3. SALES

Sales by activity are as follows:

in million €	**2006**	2005
Sales of services	**7,018**	4,462
Sales of products and related goods	**3,426**	3,113
Sales from long-term production contracts	**333**	314
Other sales	**–**	–
Sales	**10,777**	7,889

An analysis of sales by business segment and region is shown in the segment information on pages 110 to 113.

4. COST OF SALES

Cost of sales comprises the following:

in million €	**2006**	2005
Costs of services	**5,249**	3,377
Manufacturing cost of products and related goods	**1,835**	1,670
Cost of long-term production contracts	**267**	253
Other cost of sales	**–**	–
Cost of sales	**7,351**	5,300

5. PERSONNEL EXPENSES

Cost of sales, selling, general and administrative expenses and expenditure on research and development include personnel expenses amounting to € 3,954 million and € 2,482 million in the year 2006 and 2005, respectively.

Personnel expenses comprise the following:

in million €	2006	2005
Wages and salaries	**3,206**	1,990
Social security contributions and cost of retirement pensions and social assistance	**748**	492
thereof amount for retirement pensions	**96**	58
Personnel expenses	**3,954**	2,482

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

	2006	2005
Production and service	**79,025**	53,334
Administration	**12,922**	11,084
Sales and marketing	**6,852**	6,340
Research and development	**888**	853
Total employees	**99,687**	71,611

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses amount to € 433 million (2005: € 402 million) and mainly include expenditure for sales personnel amounting to € 209 million (2005: € 184 million).

General and administrative expenses amounted to € 1,382 million (2005: € 1,069 million) and are related to expenditure for administrative functions not attributable to research and development, production or selling.

7. NET INTEREST

The negative net interest in an amount of € 395 million, resulting from interest income of € 23 million and interest expenses of € 418 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 €	**2006**	2005
Germany	**192**	90
Abroad	**857**	676
Total	**1,049**	766

Income tax expense (benefit) for the years 2006 and 2005 consists of the following:

in million €	**Germany**	**Abroad**	**2006 Total**	Germany	Abroad	2005 Total
Current taxes	**119**	**218**	**337**	37	251	288
Deferred taxes	**-26**	**103**	**77**	-12	22	10
Income taxes	**93**	**321**	**414**	25	273	298

In the years 2006 and 2005, 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 37.36 % for the fiscal year 2006 and 37.31 % for the fiscal year 2005.

in million €	**2006**	2005
Computed “expected” income tax expense	**392**	286
Increase (reduction) in income taxes resulting from:		
Items not recognized for tax purposes	**18**	31
Foreign tax rate differential	**-25**	-23
Tax-free income	**-26**	-18
Taxes for prior years	**47**	23
Taxes in connection with divestitures	**23**	0
Changes in valuation allowances on deferred tax assets	**-9**	17
Other	**-6**	-18
Income tax	**414**	298
Effective tax rate	**39.5 %**	38.9 %

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

in million €	**2006**	2005
Deferred tax assets		
Accounts receivable	**36**	25
Inventories	**39**	40
Other current assets	**4**	7
Other non-current assets	**30**	32
Accrued expenses	**241**	175
Other short-term liabilities	**17**	14
Other liabilities	**20**	10
Pension obligations	**28**	25
Losses carried forward from prior years	**127**	157
Deferred tax assets, before valuation allowance	**542**	485
less valuation allowance	**73**	112
Deferred tax assets	**469**	373
Deferred tax liabilities		
Accounts receivable	**10**	10
Inventories	**12**	12
Other current assets	**0**	2
Other non-current assets	**283**	270
Accrued expenses	**43**	22
Other short-term liabilities	**33**	47
Other liabilities	**38**	25
Deferred tax liabilities	**419**	388
Accumulated deferred taxes	**50**	-15

in million €	**2006**	**thereof long-term**	2005	thereof long-term
Deferred tax assets	**431**	**173**	315	127
Deferred tax liabilities	**381**	**352**	330	303
Accumulated deferred taxes	**50**	**-179**	-15	-176

The valuation allowance on deferred tax assets as of December 31, 2006 and December 31, 2005 are € 73 million and € 112 million, respectively.

The expiration of net operating losses is as follows:

for the fiscal years	in million €
2007	12
2008	6
2009	5
2010	10
2011	10
2012	5
2013	2
2014	1
2015	0
2016	0
Subsequent years	12
Total	**63**

The total remaining operating losses of € 357 million can mainly be carried forward for an unlimited period.

In assessing the realizability of deferred tax assets, the 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. The 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 for future taxable income over the periods in which the deferred tax assets are deductible, the Management of Fresenius Group 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, 2006.

Provision has not been made for additional taxes on approximately € 846 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 and shows the basic and fully diluted earnings per ordinary and preference share, retroactively considering the share split of Fresenius AG entered into the commercial register on January 24, 2007, for the years ending December 31.

in million €, except amounts per share (€)	**2006**	2005
Numerators		
Net income	**330**	222
less preference on preference shares	**1**	1
less effect from dilution due to Fresenius Medical Care shares	**1**	–
Income available to all classes of shares	**328**	221
Denominators (number of shares)		
Weighted-average number of ordinary shares outstanding	**76,503,006**	60,820,624
Weighted-average number of preference shares outstanding	**76,503,006**	62,820,624
Weighted-average number of shares outstanding of all classes	**153,006,012**	125,641,248
Potentially dilutive ordinary shares	**758,400**	488,247
Potentially dilutive preference shares	**758,400**	488,247
Weighted-average number of shares outstanding of all classes assuming dilution	**154,522,812**	126,617,742
Weighted-average number of ordinary shares outstanding assuming dilution	**77,261,406**	63,308,871
Weighted-average number of preference shares outstanding assuming dilution	**77,261,406**	63,308,871
Basic earnings per ordinary share	**2.15**	1.76
Preference per preference share	**0.01**	0.01
Basic earnings per preference share	**2.16**	1.77
Fully diluted earnings per ordinary share	**2.12**	1.75
Preference per preference share	**0.01**	0.01
Fully diluted earnings per preference share	**2.13**	1.76

The owners of preference shares are entitled to a preference of € 0.01 per bearer preference share per fiscal year.

NOTES ON THE CONSOLIDATED BALANCE SHEET

10. CASH AND CASH EQUIVALENTS

As of December 31, cash and cash equivalents are as follows:

in million €	2006	2005
Cash	**259**	209
Securities (with a maturity of up to 90 days)	**2**	43
Cash and cash equivalents	**261**	252

11. TRADE ACCOUNTS RECEIVABLE

As of December 31, trade accounts receivable are as follows:

in million €	2006	2005
Trade accounts receivable	**2,306**	2,071
less allowance for doubtful accounts	**218**	200
Trade accounts receivable, net	**2,088**	1,871

All trade accounts receivable are due within one year.

12. INVENTORIES

As of December 31, inventories consist of the following:

in million €	2006	2005
Raw materials and purchased components	**191**	176
Work in process	**103**	117
Finished goods	**512**	465
less reserves	**45**	31
Inventories, net	**761**	727

The companies of the Fresenius Group are obligated to purchase approximately € 260 million of raw materials and purchased components under fixed terms, of which € 172 million is committed at December 31, 2006 for 2007. The terms of these agreements run one to eight years. Advance payments from customers of € 27 million have been offset against inventories.

Inventories as of December 31, 2006 and December 31, 2005 include approximately € 35 million and approximately € 23 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. In October 2006, Fresenius Medical Care entered into a five-year exclusive sourcing and supply agreement with its EPO supplier. Revenues from EPO accounted for approximately 9 % and 10 % of total sales of the Fresenius Group for 2006 and 2005, 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 €	**2006** **thereof short-term**		2005 thereof short-term	
Accounts receivable resulting from German "Krankenhausfinanzierungsgesetz"	**220**	**160**	175	105
Tax receivables	**126**	**124**	118	115
Investments and long-term loans	**51**	**0**	69	0
Derivative financial instruments	**64**	**10**	52	9
Advances made	**17**	**17**	43	22
Prepaid expenses	**74**	**13**	39	10
Re-insurance claims	**23**	**0**	24	0
Accounts receivable from management contracts in clinics	**10**	**10**	18	18
Other assets	**531**	**403**	306	205
Prepaid expenses and other assets, gross	**1,116**	**737**	844	484
less allowances	**8**	**7**	7	6
Prepaid expenses and other assets, net	**1,108**	**730**	837	478

The receivables resulting from the German "Krankenhausfinanzierungsgesetz" primarily contain approved but not yet received earmarked subsidies of Fresenius ProServe's hospital operations. The approval is evidenced in a letter written by the granting authorities.

Depreciations of € 6 million and € 3 million were recognized on other non-current assets in the fiscal years 2006 and 2005, respectively. In the year 2006 as well as in the year 2005, there were no reclassifications to other non-current assets.

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, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	**As of December 31, 2006**
Land and land facilities	166	-3	9	3	-1	3	**171**
Buildings and improvements	1,617	-66	212	90	50	66	**1,837**
Machinery and equipment	2,120	-82	243	229	41	146	**2,405**
Machinery, equipment and rental equipment under capital leases	135	-1	9	5	-4	9	**135**
Construction in progress	257	-14	13	263	-98	9	**412**
Property, plant and equipment	4,295	-166	486	590	-12	233	**4,960**

DEPRECIATION

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	**As of December 31, 2006**
Land and land facilities	0	0	0	0	0	0	**0**
Buildings and improvements	598	-28	63	112	2	38	**709**
Machinery and equipment	1,288	-39	147	231	-6	138	**1,483**
Machinery, equipment and rental equipment under capital leases	52	0	3	8	-2	6	**55**
Construction in progress	1	0	0	0	0	0	**1**
Property, plant and equipment	1,939	-67	213	351	-6	182	**2,248**

CARRYING AMOUNTS

in million €	**December 31, 2006**	December 31, 2005
Land and land facilities	**171**	166
Buildings and improvements	**1,128**	1,019
Machinery and equipment	**922**	832
Machinery, equipment and rental equipment under capital leases	**80**	83
Construction in progress	**411**	256
Property, plant and equipment	**2,712**	2,356

Depreciation on property, plant and equipment for the years 2006 and 2005 amounted to € 351 million and € 275 million, respectively.

LEASING

Included in property, plant and equipment as of December 31, 2006 and 2005 were € 142 million and € 111 million, respectively, of peritoneal dialysis cycler machines which Fresenius Medical Care leases to customers with end-stage renal disease on a month-to-month basis and hemodialysis machines which Fresenius Medical Care leases to physicians under operating leases.

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

Depreciation on machinery, equipment and rental equipment under capital leases amounted to € 8 million and € 13 million in the years 2006 and 2005, respectively.

For details of minimum lease payments see Note 18, Debt and liabilities from capital lease obligations.

15. GOODWILL AND OTHER INTANGIBLE ASSETS

In connection with the acquisition of RCG (see Note 2, Acquisitions and divestitures), Fresenius Medical Care and the Fresenius Group performed a detailed review of the identification of intangible assets related to Fresenius Medical Care's dialysis clinic operations in the United States. As part of this review, Fresenius Medical Care and the Fresenius Group considered the conditions for recognition as an intangible asset apart from goodwill and practices in the dialysis care industry. The amortizable intangible assets acquired included US$ 64 million for non-compete agreements, US$ 4 million for acute care agreements and US$ 2 million for lease agreements.

As a result of the detailed review of the identification of intangible assets related to the RCG acquisition, Fresenius Medical Care and the Fresenius Group concluded that their past practice to identify certain intangible assets separate from goodwill should be revisited and adjusted certain amounts, primarily with respect to patient relationships that had been identified as separate intangible assets in prior business combinations. Additionally, Fresenius Medical Care and the Fresenius Group identified non-compete agreements as separate intangible assets. In connection with the adjustments, the carrying amount of goodwill increased by US$ 35 million, other intangible assets and deferred tax liabilities decreased by US$ 37 million and US$ 2 million, respectively, as of the beginning of the current year.

This accounting treatment did not result in a material understatement of Fresenius Medical Care's and Fresenius Group's results of operations or shareholders' equity in prior years.

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

ACQUISITION COST

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2006**
Goodwill	4,684	-406	2,782	129	16	94	**7,111**
Tradenames	204	-19	0	0	0	0	**185**
Non-compete agreements	0	-7	57	0	107	3	**154**
Technology	0	-3	52	0	0	0	**49**
Patient relationships	137	-8	0	0	-129	0	**0**
Other	457	-32	101	10	-5	35	**496**
Goodwill and other intangible assets	5,482	-475	2,992	139	-11	132	**7,995**

AMORTIZATION

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2006**
Goodwill	4	0	0	0	0	0	**4**
Tradenames	0	0	0	0	0	0	**0**
Non-compete agreements	0	-5	0	13	85	3	**90**
Technology	0	0	0	0	0	0	**0**
Patient relationships	96	-6	0	0	-90	0	**0**
Other	161	-7	83	29	3	23	**246**
Goodwill and other intangible assets	261	-18	83	42	-2	26	**340**

CARRYING AMOUNTS

in million €	December 31, 2006	December 31, 2005
Goodwill	**7,107**	4,680
Tradenames	**185**	204
Non-compete agreements	**64**	0
Technology	**49**	0
Patient relationships	**0**	41
Other	**250**	296
Goodwill and other intangible assets	**7,655**	5,221

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

REGULARLY AMORTIZABLE INTANGIBLE ASSETS

	December 31, 2006			December 31, 2005		
in million €	Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated amortization	Carrying amount
Non-compete agreements	**154**	**90**	**64**	0	0	0
Technology	**49**	**0**	**49**	0	0	0
Patient relationships	**0**	**0**	**0**	137	96	41
Other	**331**	**246**	**85**	272	161	111
Total	**534**	**336**	**198**	409	257	152

NON-REGULARLY AMORTIZABLE INTANGIBLE ASSETS

	December 31, 2006			December 31, 2005		
in million €	Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated amortization	Carrying amount
Tradenames	**185**	**0**	**185**	204	0	204
Management contracts	**165**	**0**	**165**	185	0	185
Subtotal	**350**	**0**	**350**	389	0	389
Goodwill	**7,111**	**4**	**7,107**	4,684	4	4,680
Total	**7,461**	**4**	**7,457**	5,073	4	5,069

Since the implementation of SFAS No. 142 (Goodwill and Other Intangible Assets), the accumulated amortization of non-regularly amortizable intangible assets is due to impairments.

Amortization on intangible assets amounted to € 42 million for the years 2006 and 2005 each.

In 2002, in connection with an acquisition, the Fresenius 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.

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

in million €	2007	2008	2009	2010	2011
Estimated amortization expenses for the next five fiscal years	39	36	32	30	28

The carrying amount of goodwill has developed as follows:

in million €	
Carrying amount as of January 1, 2006	**4,680**
Additions/disposals, net	2,817
Reclassifications	16
Foreign currency translation	-406
Carrying amount as of December 31, 2006	**7,107**

The increase in the carrying amount mainly results from the addition of the goodwill due to the RCG acquisition of approximately € 2.7 billion.

16. OTHER ACCRUED EXPENSES

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

in million €	**2006** **thereof short-term**		2005 thereof short-term	
Personnel expenses	**295**	**291**	242	242
Advances received	**96**	**96**	85	85
Self-insurance programs	**94**	**94**	64	64
Special charge for legal matters	**87**	**87**	100	100
Legal matters, advisory and audit fees	**49**	**49**	23	23
Bonuses and discounts	**47**	**47**	38	38
Warranties and complaints	**26**	**22**	21	21
Commissions	**20**	**20**	20	20
Physician compensation	**14**	**14**	18	18
All other accrued expenses	**281**	**213**	262	193
Other accrued expenses	**1,009**	**933**	873	804

The following table shows the development of other accrued expenses in the fiscal year:

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Utilized	Reversed	**As of December 31, 2006**
Personnel expenses	242	-14	-3	184	-3	-100	11	**295**
Advances received	85	0	-1	78	-4	-50	12	**96**
Self-insurance programs	64	-9	0	40	0	-1	0	**94**
Special charge for legal matters	100	-10	0	0	0	-3	0	**87**
Legal matters, advisory and audit fees	23	-1	0	43	-2	-12	2	**49**
Bonuses and discounts	38	0	0	41	0	-29	3	**47**
Warranties and complaints	21	1	1	20	0	-14	3	**26**
Commissions	20	1	0	15	0	-14	2	**20**
Physician compensation	18	-2	0	0	-2	0	0	**14**
All other accrued expenses	262	-7	-3	116	3	-66	24	**281**
Total	873	-41	-6	537	-8	-289	57	**1,009**

Accruals for personnel expenses mainly refer to bonus, severance payments, contribution of partial retirement as well as holiday entitlements.

In 2001, Fresenius Medical Care recorded a US$ 258 million special charge to address legal matters relating to transactions pursuant to the Agreement and Plan of Reorganization dated as of February 4, 1996 by and between W.R. Grace & Co. and Fresenius AG (Merger), 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. During the second quarter of 2003, the court supervising the Grace Chapter 11 Proceedings approved a definitive settlement agreement entered into among Fresenius Medical Care, the committee representing the asbestos creditors and W.R. Grace & Co. Under the settlement agreement, Fresenius Medical Care will pay US$ 115 million (€ 87 million) upon plan confirmation (see Note 24, Commitments and contingent liabilities). With the exception of the proposed US$ 115 million settlement payment, all other matters included in the special charge have been resolved.

17. OTHER LIABILITIES

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

in million €	**2006** **thereof short-term**		2005 thereof short-term	
Accounts payable resulting from German "Krankenhausfinanzierungsgesetz"	**194**	**168**	174	129
Personnel liabilities	**95**	**91**	113	110
Tax liabilities	**89**	**86**	80	77
Interest liabilities	**64**	**64**	27	27
Advance payments from customers	**63**	**58**	87	82
Accounts receivable credit balance	**59**	**18**	44	13
Derivative financial instruments	**25**	**13**	39	15
All other liabilities	**510**	**377**	389	265
Other liabilities	**1,099**	**875**	953	718

The liabilities resulting from the German "Krankenhausfinanzierungsgesetz" primarily contain earmarked subsidies received but not yet spent by Fresenius ProServe´s hospital operations. This unspent amount is classified as liability.

Of the total amount of other non-current liabilities amounting to € 224 million at December 31, 2006, € 180 million are due in between one and five years and € 44 million are due later than five years. The balance sheet line item "long-term accrued expenses and other long-term liabilities" of € 300 million also includes long-term accrued expenses of € 76 million as of December 31, 2006.

18. DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

SHORT-TERM BORROWINGS

Lines of credit and short-term borrowings

Short-term borrowings of € 330 million and € 224 million at December 31, 2006, and 2005, respectively, consisted of the accounts receivable facility described below and € 128 million borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks. The average interest rates on these borrowings (excluding the accounts receivable facility) at December 31, 2006 and 2005 were 4.45 % and 4.66 %, respectively.

Excluding amounts available under the Fresenius Medical Care 2006 Senior Credit Agreement (as described below), the Fresenius Group had additional approximately € 1 billion available under such commercial bank agreements, which were unused at December 31, 2006. This includes a syndicated credit facility in an amount of € 350 million with a tenor of five years which Fresenius AG concluded with a group of banks on October 13, 2006. In some instances, lines of credit are secured by assets of the Fresenius Group's subsidiary that is party to the agreement or may require the guarantee of the holding company of the respective business segment. In exceptional circumstances, the subsidiary may be required to meet certain covenants. In addition, Fresenius AG has a commercial paper program under which up to € 250 million in short-term notes can be issued. No commercial papers were outstanding as of December 31, 2006.

Accounts receivable facility

Fresenius Medical Care has an asset securitization facility (accounts receivable facility), which is typically renewed in October of each year and was most recently renewed and increased in October 2006. The accounts receivable facility currently provides borrowings up to a maximum of US$ 650 million (€ 494 million) (US$ 460 million (€ 349 million) through October 18, 2006). Under the accounts receivable facility, certain receivables are sold to NMC Funding Corp. (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, 2006, there are outstanding short-term borrowings under the accounts receivable facility of US$ 266 million (€ 202 million). NMC Funding pays interest to the bank investors, calculated based on the commercial paper rates for the particular tranches selected. The average interest rate at December 31, 2006 was 5.31 %. Annual refinancing fees, which include legal costs and bank fees (if any), are amortized over the term of the facility.

LONG-TERM DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

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

in million €	**2006**	2005
Fresenius Medical Care 2006 Senior Credit Agreement	**2,707**	0
Euro Bonds	**1,100**	400
Euro Notes	**366**	460
European Investment Bank Agreements	**169**	41
Capital lease obligations	**39**	40
Bridge loan facility	**0**	600
Fresenius Medical Care 2003 Senior Credit Agreement	**0**	399
Other	**214**	337
Subtotal	**4,595**	2,277
less current portion	**265**	222
Long-term debt and liabilities from capital lease obligations, less current portion	**4,330**	2,055

Aggregate annual repayments applicable to the above listed long-term debt and liabilities from capital lease obligations for the five years subsequent to December 31, 2006 are:

for the fiscal years	in million €
2007	265
2008	175
2009	451
2010	143
2011	1,054
Subsequent years	2,507
Total	**4,595**

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

in %	**2006**	2005
Liabilities to banks	**6.1**	6.1
Capital lease obligations	**5.9**	5.7

Interest rate risks in connection with liabilities mentioned above are generally hedged with interest rate swaps (for details on interest rate hedges see Note 25, Financial instruments).

Fresenius Medical Care 2006 Senior Credit Agreement

Fresenius Medical Care entered into a new US$ 4.6 billion syndicated credit agreement (Fresenius Medical Care 2006 Senior Credit Agreement) with Bank of America, N.A. (BofA); Deutsche Bank AG New York Branch; The Bank of Nova Scotia; Credit Suisse, Cayman Islands Branch; JP Morgan Chase Bank, National Association; and certain other lenders (collectively the Lenders) on March 31, 2006 which replaced the existing credit agreement (Fresenius Medical Care 2003 Senior Credit Agreement).

The following table shows the available and outstanding amounts under the Fresenius Medical Care 2006 Senior Credit Agreement at December 31, 2006 and under the Fresenius Medical Care 2003 Senior Credit Agreement at December 31, 2005:

	Maximum Amount Available		Balance Outstanding	
in million US$	**2006**	2005	**2006**	2005
Revolving Credit	**1,000**	750	**68**	46
Term Loan A / A-1	**1,760**	425	**1,760**	425
Term Loan B	**1,737**	0	**1,737**	0
Total	**4,497**	1,175	**3,565**	471

In addition, at December 31, 2006, US$ 85 million and at December 31, 2005, US$ 80 million were utilized as letters of credit which are not included as part of the balances outstanding at those dates.

The Fresenius Medical Care 2006 Senior Credit Agreement consists of:

- A 5-year US$ 1 billion revolving credit facility (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$ 150 million is available as swing line loans 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 loans in certain non-US currencies, the total of which cannot exceed US$ 1 billion) which will be due and payable on March 31, 2011.
- A 5-year term loan facility (Loan A) of US$ 1,850 million, also scheduled to mature on March 31, 2011. The Fresenius Medical Care 2006 Senior Credit Agreement requires 19 quarterly payments on Loan A of US$ 30 million each that permanently reduce the term loan facility which began June 30, 2006 and continue through December 31, 2010. The remaining amount outstanding is due on March 31, 2011.
- A 7-year term loan facility (Loan B) of US$ 1,750 million scheduled to mature on March 31, 2013. The terms of the Fresenius Medical Care 2006 Senior Credit Agreement require 28 quarterly payments on Loan B that permanently reduce the term loan facility. The repayment began June 30, 2006. The first 24 quarterly payments will be equal to one quarter of one percent (0.25 %) of the

original principal balance outstanding, payments 25 through 28 will be equal to twenty-three and one half percent (23.5 %) of the original principal balance outstanding with the final payment due on March 31, 2013, subject to an early repayment requirement on March 1, 2011 if the Trust Preferred Securities due June 15, 2011 are not repaid or refinanced or their maturity is not extended prior to that date.

Interest on these facilities will be, at Fresenius Medical Care's option, depending on the interest periods chosen, at a rate equal to either LIBOR plus an applicable margin or the higher of (a) BofA's prime rate or (b) the Federal Funds rate plus 0.5 %, plus an applicable margin.

The applicable margin is variable and depends on Fresenius Medical Care's consolidated leverage ratio which is a ratio of its consolidated funded debt less up to US$ 30 million cash and cash equivalents to consolidated EBITDA (as these terms are defined in the Fresenius Medical Care 2006 Senior Credit Agreement).

In addition to scheduled principal payments, indebtedness outstanding under the Fresenius Medical Care 2006 Senior Credit Agreement will be reduced by mandatory prepayments utilizing portions of the net cash proceeds from certain sales of assets, securitization transactions other than Fresenius Medical Care's existing accounts receivable facility, the issuance of subordinated debt other than certain intercompany transactions, certain issuances of equity and excess cash flow.

The obligations under the Fresenius Medical Care 2006 Senior Credit Agreement are secured by pledges of capital stock of certain material subsidiaries in favor of the lenders.

The Fresenius Medical Care 2006 Senior Credit Agreement contains affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Certain of the covenants limit indebtedness of Fresenius Medical Care and investments by Fresenius Medical Care, and require Fresenius Medical Care to maintain certain financial ratios defined in the agreement. Additionally, the Fresenius Medical Care 2006 Senior Credit Agreement provides for a limitation on dividends and other restricted payments which is US$ 240 million for dividends paid in 2007, and increases in subsequent years. Fresenius Medical Care paid dividends of US$ 154 million (€ 120 million) in May of 2006 which was in compliance with the restrictions set forth in the Fresenius Medical Care 2006 Senior Credit Agreement. In default, the outstanding balance under the Fresenius Medical Care 2006 Senior Credit Agreement becomes immediately due and payable at the option of the Lenders. As of December 31, 2006, Fresenius Medical Care is in compliance with all financial covenants under the Fresenius Medical Care 2006 Senior Credit Agreement.

Fresenius Medical Care incurred fees of approximately US$ 86 million in conjunction with the Fresenius Medical Care 2006 Senior Credit Agreement which will be amortized over the life of this agreement and wrote off approximately US$ 15 million in unamortized fees related to its prior Fresenius Medical Care 2003 Senior Credit Agreement in the year 2006.

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 tenor of six years. The first tranche of € 300 million bore interest at 7.75 % p. a. and was callable by the issuer for the first time on April 30, 2006. The redemption prices were fixed at the date of issue. The Fresenius Group issued a tender offer to repurchase the bonds in January 2006 and 71 % of the volume of the first tranche were actually repurchased. At the end of March, Fresenius Finance B.V. has exercised its option to redeem the remaining outstanding amount. The redemption price was 103.875 % or € 1,038.75 per € 1,000 nominal value of the Notes, plus accrued interest. The redemption was effective on April 30, 2006 and payment was made on May 2, 2006. The second tranche of € 100 million bears interest at 7.5 % p. a. and is not callable before maturity.

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 a bond. 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 bond. 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 placed at the end of 2005 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 payment of the purchase prices of the acquisitions, and was repaid at the end of January 2006 using the proceeds of the bond issuance.

In January 2006, Fresenius issued a bond with a total value of € 1 billion through its wholly-owned subsidiary Fresenius Finance B.V. The new bond comprises one tranche with a nominal value of € 500 million, a tenor of seven years and an annual coupon of 5.0 % and a second tranche with a nominal value of € 500 million, a tenor of ten years and an annual coupon of 5.5 % as well as a call option for the issuer after five years. The above mentioned bridge loan facility was repaid by the proceeds of this bond issuance.

The Euro Bonds of Fresenius Finance B.V. are guaranteed by Fresenius AG, Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius AG has agreed to a number of covenants 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 its subsidiaries). These covenants 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, 2006, the Fresenius Group is in compliance with all of its covenants.

Euro Notes

The Euro Notes (Schuldscheindarlehen) issued by Fresenius Finance B.V. amounting to € 166 million will mature in 2007 and 2008. The Euro Notes bear variable interest rates and are fully hedged by means of interest rate swaps (for further information on interest rate swaps see Note 25, Financial instruments).

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 interest rate of 5.49 % at December 31, 2006. 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.

European Investment Bank Agreements

Fresenius Medical Care entered into various credit agreements with the European Investment Bank (EIB) in July 2005 and December 2006 amounting to € 131 million and € 90 million. The July 2005 agreements consist of a term loan of € 41 million (US$ 49 million) and a revolving facility of € 90 million (US$ 116 million). Both agreements have a maturity of 8 years. The December 2006 term loan allows distribution of proceeds for up to 6 separate tranches until June 2008. Each tranche will mature 6 years after the disbursement of proceeds for the respective tranche. Fresenius Medical Care had borrowings under the July 2005 agreements of € 41 million (US$49 million) and € 28 million (US$ 36 million) under the term loan and the revolving facility, respectively at December 31, 2006. All advances under these agreements can be denominated in certain foreign currencies including US dollars.

As of December 31, 2006, a subsidiary of Fresenius ProServe had borrowings of € 60 million under a term loan agreement with the EIB. The total amount of this term loan agreement is € 100 million which can be drawn down in several tranches. The term loan will mature in December 2019 and will be permanently reduced with constant half-yearly payments starting in December 2007. In addition, Fresenius AG has a revolving credit line of € 96 million provided by the EIB which had been utilized as of December 31, 2006 with € 40 million. This revolving credit facility is available until June 2013.

The above mentioned loans bear variable interest rates that change quarterly. The US dollar borrowings of Fresenius Medical Care had an interest rate of 5.29 % as of December 31, 2006, the euro borrowings of Fresenius AG and of the subsidiary of Fresenius ProServe bore an interest rate of 3.65 % as of December 31, 2006. The borrowers have options to convert those interest rates into fixed rates. The loans under these EIB Agreements are secured by bank guarantees and have customary covenants. The EIB is a not-for-profit long-term lending institution of the European Union and loans funds at favorable rates for the purpose of capital investment and R & D projects, normally for up to half of the funds required for such projects. The facilities were granted to refinance certain R & D projects, to make investments in expansion and optimization of existing production facilities in Germany and for the construction of a hospital.

Capital lease obligations

Details of capital lease obligations are given below:

in million €	2006
Capital lease obligations (minimum lease payments)	**47**
due within one year	7
due between one and five years	22
due later than five years	18
Interest component included in future minimum lease payments	**8**
due within one year	1
due between one and five years	4
due later than five years	3
Present value of capital lease obligations (minimum lease payments)	**39**
due within one year	6
due between one and five years	18
due later than five years	15

19. PENSIONS AND SIMILAR OBLIGATIONS

GENERAL

The Fresenius Group recognizes pension costs and related pension liabilities for current and future benefits to current and former employees of the Fresenius Group. Fresenius Group's pension plans are structured differently according to the legal, economic and financial circumstances in each country. The Fresenius Group currently has two types of plans, defined benefit and defined contribution plans. In general, plan benefits in defined benefit plans are based on all or a portion of the employees' years of services and final salary. Plan benefits in defined contribution plans are usually determined by the employer but may be limited by legislation.

Upon retirement under defined benefit plans, the Fresenius Group is required to pay defined benefits to former employees when the defined benefits become due. Defined benefit plans may be funded or unfunded. The Fresenius Group has funded defined benefit plans in particular in the United States, Norway, the United Kingdom, the Netherlands and Austria.

Actuarial assumptions generally determine benefit obligations under defined benefit plans. The actuarial calculations require the use of estimates. The main factors used in the actuarial calculations affecting the level of the benefit obligations are: assumptions on life expectancy, the discount rate, salary and pension level trends. Under Fresenius Group's funded plans, assets are set aside to meet future payment obligations. An estimated return on the plan assets is recognized as income in the respective period. Actuarial gains and losses are generated when there are variations in the actuarial assumptions and differences between the actual and the estimated return on plan assets for that year. A company's pension liability is impacted by these actuarial gains or losses.

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

Under defined contribution plans, the Fresenius Group pays defined contributions during the employee's service life which satisfies all obligations of the Fresenius Group to the employee. The Fresenius Group has a defined contribution plan in North America.

As of December 31, 2006, the Fresenius Group adopted the recognition provisions of FASB Statement of Financial Accounting Standards No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158). The Fresenius Group recognized the underfunded status of its defined benefit plans, measured as the difference between plan assets at fair value and the benefit obligation, as a liability as of December 31, 2006. Changes in the funded status of a plan, net of tax, resulting from actuarial gains or losses and prior service costs or credits that are not recognized as components of the net periodic benefit cost will be recognized through accumulated other comprehensive income (loss) in the year in which they occur. In addition, SFAS No. 158 requires measurement of the funded status of all plans as of year-end balance sheet date no later than 2008. The Fresenius Group already uses December 31 as the measurement date when measuring the funded status of all plans.

DEFINED BENEFIT PENSION PLANS

One half of the pension obligations totaling € 318 million relates to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1988, which applies for most of the German entities of the Fresenius Group. The other half of the benefit obligations relates to individual plans from mostly non-German Group entities.

As of December 31, 2006, the current portion of the pension liability in an amount of € 8 million is recognized as a current liability in the line item "short-term accrued expenses and other current liabilities" in the balance sheet. The non-current portion of € 310 million is recorded as non-current pension liability in the balance sheet.

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's North America subsidiary, Fresenius Medical Care Holdings, Inc. (FMCH), curtailed its defined benefit and supplemental executive retirement plans. Under the curtailment amendment for substantially all employees eligible to participate in the plan, benefits have been frozen as of the curtailment date and no additional defined benefits for future services will be earned. FMCH has retained all employee benefit obligations as of the curtailment date. Each year FMCH contributes at least the minimum amount 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 the year 2006. FMCH voluntarily contributed US$ 11 million (€ 9 million) during the year 2006.

The benefit obligation (PBO) of the Fresenius Group amounting to € 553 million (2005: € 571 million) includes € 235 million (2005: € 232 million) which is funded by plan assets and € 318 million (2005: € 339 million) which is covered by pension provisions. At December 31, 2006, in all plans of the Fresenius Group, the benefit obligation and the accumulated benefit obligation exceed the fair value of plan assets.

The pension liabilities in an amount of € 318 million as of December 31, 2006 correspond to the funded status resulting from the difference between the pension obligations and the fair value of the plan assets.

The following table shows the changes in benefit obligations, the changes in plan assets and the funded status of the pension plans. Benefits paid as shown in the changes in benefit obligations represent payments made from both the funded and unfunded plans while the benefits paid as shown in the changes in plan assets include only benefit payments from Fresenius Group's funded benefit plans.

The funded status has developed as follows:

in million €	**2006**	2005
Benefit obligations at the beginning of the year	**571**	427
Changes in entities consolidated	**2**	40
Foreign currency translation	**-20**	26
Service cost	**18**	13
Interest cost	**26**	24
Other changes in plans	**1**	1
Transfer of plan participants	**–**	1
Change in amendments	**-6**	-6
Actuarial losses	**-19**	56
Benefits paid	**-13**	-11
Divestitures	**-7**	0
Benefit obligations at the end of the year	**553**	571
thereof vested	**481**	478
Fair value of plan assets at the beginning of the year	**232**	178
Changes in entities consolidated	**0**	-1
Foreign currency translation	**-18**	21
Actual return on plan assets	**19**	14
Employer contribution	**13**	25
Transfers	**-6**	0
Benefits paid	**-5**	-5
Fair value of plan assets at the end of the year	**235**	232
Funded status as of December 31	**318**	339

The pension liability recognized as of December 31, before application of SFAS No. 158, was calculated as follows:

in million €	**2006**	2005
Funded status	**318**	339
Unrecognized actuarial loss	**-112**	-148
Unrecognized prior service cost	**6**	6
Unrecognized transition obligation	**-1**	-2
Net amount recognized	**211**	195

The additional minimum pension liability* is calculated as follows:

in million €	**2006**	2005
Fair value of plan assets	**235**	232
Accumulated benefit obligation (ABO)	**506**	532
Minimum pension liability*	**271**	300
Accrued benefit costs*	**193**	190
Additional minimum pension liability*	**78**	110
thereof intangible assets	**1**	2
thereof accumulated other comprehensive income (loss)	**77**	108
Increase of the minimum pension liability included in other comprehensive income (loss)	**-31**	44

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

As of 31 December, the pension liability before and after adoption of SFAS No. 158 is calculated as follows:

in million €	**2006**	2005
Net amount recognized	**211**	195
Additional minimum pension liability	**78**	110
Pension liability at December 31, before adoption of SFAS No. 158	**289**	305
Adjustment to initially apply SFAS No. 158	**29**	0
Pension liability at December 31, after adoption of SFAS No. 158	**318**	305

The discount rates for all plans are derived from an analysis and comparison of yields of portfolios of highly rated equity and debt instruments with maturities that mirror the plan's benefit obligation. Fresenius Group's discount rate is the weighted-average of these plans based upon their benefit obligation at December 31, 2006.

The following weighted-average assumptions were utilized in determining benefit obligations as of December 31:

in %	**2006**	2005
Discount rate	**5.0**	4.7
Rate of compensation increase	**3.8**	3.5
Rate of pension increase	**1.6**	1.4

The pre-tax changes of other comprehensive income (loss) relating to pension liabilities during the year 2006 are provided in the following table:

in million €	As of January 1, 2006	Additions/ Releases	Adjustments SFAS No. 158	Foreign currency translation	As of December 31, 2006
Additional minimum pension liability	-108	25	77	6	0
Actuarial gains and losses	0	0	-112	0	-112
Prior service cost	0	0	6	0	6
Transition obligation	0	0	-1	0	-1
Adjustments related to pension liabilities[1)]	-108	25	-30	6	-107

[1)] See Note 23, Other comprehensive income (loss) for the tax effects on other comprehensive income at December 31, 2006.

In the year 2007, the Fresenius Group expects the following amounts to be amortized from other comprehensive income into net periodic pension cost:

in million €	2007
Actuarial gains and losses	5
Prior service cost	–
Transition obligation	–

The first-time adoption of SFAS No. 158 at December 31, 2006, results in the following adjustments of the consolidated blance sheet line items:

in million €	Before adoption of SFAS No. 158	Adjustments	After adoption of SFAS No. 158
Other assets	1	-1	0
Deferred taxes	29	11	40
Short-term accrued expenses and other short-term liabilities	0	8	8
Pension liabilities	289	21	310
Accumulated other comprehensive income (loss)	-48	-19	-67

Defined benefit pension plans gave rise to a net periodic benefit cost of € 37 million (2005: € 28 million) for the Fresenius Group, comprising the following components:

in million €	**2006**	2005
Components of net periodic benefit cost		
Service cost	**18**	13
Interest cost	**26**	24
Expected return on plan assets	**-16**	-14
Amortization of unrealized actuarial losses, net	**9**	3
Amortization of prior service costs	**–**	1
Amortization of transition obligations	**–**	1
Settlement loss	**–**	–
Net periodic benefit cost	**37**	28

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

The following weighted-average assumptions were used in determining net periodic benefit cost for the year ended December 31:

in %	**2006**	2005
Discount rate	**4.7**	5.4
Expected return of plan assets	**7.1**	7.1
Rate of compensation increase	**3.5**	3.7

Changes in the discount factor, inflation and mortality assumptions used for the actuarial computation resulted in actuarial losses in the year 2006 which increased the fair value of the defined benefit obligation. Unrecognized actuarial losses outside the 10 % corridor for each defined benefit plan amounted to € 112 million (2005: € 148 million).

The following table shows the expected future benefit payments:

for the fiscal years	in million €
2007	14
2008	15
2009	16
2010	18
2011	19
2012 to 2016	124
Total expected benefit payments for the next 10 years	**206**

The Fresenius Group uses December 31 as the measurement date in determining the funded status of all plans.

Pension liabilities at December 31, 2006 and 2005 relate to the following geographical regions:

in million €	**2006**	2005
Germany	**260**	229
Europe (excluding Germany)	**53**	49
North America	**5**	27
Asia-Pacific	**0**	0
Latin America	**0**	0
Africa	**0**	0
Total pension liabilities	**318**	305

The pension liabilities relate mainly to Europe and North America, with approximately 82 % relating specifically to Germany, 16 % relating to the rest of Europe and 2 % 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

For the North America funded plan, Fresenius Group periodically reviews the assumptions for long-term expected return on pension plan assets. As part of the assumptions review, independent consulting actuaries determine a range of reasonable expected investment returns for the pension plan as a whole based on their analysis of expected future returns for each asset class weighted by the allocation of the assets. The range of returns developed relies both on forecasts, which include the actuarial firm's expected long-term rates of return for each significant asset class or economic indicator, and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class. As a result, the expected rate of return on pension plan assets was 7.5 % for the year 2006.

The investment policy, utilizing a target investment allocation of 36 % equity and 64 % long-term US bonds, considers that there will be a time horizon for invested funds of more than five 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 securities. 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 Fresenius Group expects to contribute US$ 1 million (€ 0.8 million) to plan assets during 2007.

The following schedule describes Fresenius Group´s allocation of its funded plans.

in %	**Allocation 2006**	Allocation 2005	Target allocation
Categories of plan assets			
Equity securities	**40**	43	39
Debt securities	**57**	55	59
Real estate	**1**	1	1
Other	**2**	1	1
Total	**100**	100	100

The overall expected long-term rate of return on assets of the Fresenius Group amounts to 7.0 % compounded annually. Contributions to plan assets for the fiscal year 2007 are expected to amount to € 6 million.

DEFINED CONTRIBUTION PLANS

Fresenius Group's total expense under defined contribution plans for the years 2006 was € 18 million (2005: € 14 million). The main part relates to the 401(k) savings plan, which most employees of FMCH are eligible to join. Employees can deposit up to 75 % of their pay up to a maximum of US$ 15,500 if under 50 years old (US$ 20,500 if 50 or over) under this savings plan. Fresenius Medical Care will match 50 % of the employee deposit up to a maximum Company contribution of 3 % of the employee's pay. Fresenius Medical Care's total expense under this defined contribution plan for the years ended December 31, 2006 and 2005 was € 16 million and € 12 million, respectively.

20. TRUST PREFERRED SECURITIES

Fresenius Medical Care issued trust preferred securities through Fresenius Medical Care Capital Trusts, statutory trusts organized under the laws of the State of Delaware/USA. FMC-AG & Co. KGaA owns all of the common securities of these trusts. The sole asset of each trust is a senior subordinated note of FMC-AG & Co. KGaA or a wholly-owned subsidiary of FMC-AG & Co. KGaA. FMC-AG & Co. KGaA, Fresenius Medical Care Deutschland GmbH and Fresenius Medical Care Holdings, Inc. 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 FMC-AG & Co. KGaA through a series of undertakings by Fresenius Medical Care and Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Deutschland GmbH.

The trust preferred securities entitle the holders to distributions at a fixed annual rate of the stated amount and are mandatorily redeemable after ten 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 indentures governing the notes held by the Fresenius Medical Care Capital Trusts contain affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Some of the covenants limit Fresenius Medical Care's indebtedness and its investments, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. As of December 31, 2006, 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, 2006 and 2005 are as follows:

	Year issued	Stated amount	Interest rate	Mandatory redemption date	**2006 in million €**	2005 in million €
Fresenius Medical Care Capital Trust II	1998	US$ 450 million	7 7/8 %	Feb 1, 2008	**330**	366
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	**165**	183
Fresenius Medical Care Capital Trust V	2001	€ 300 million	7 3/8 %	Jun 15, 2011	**297**	297
Trust preferred securities					**946**	1,000

21. MINORITY INTEREST

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

in million €	**2006**	2005
Minority interest in FMC-AG & Co. KGaA	**2,362**	2,144
Minority interest in the business segments		
Fresenius Medical Care	**57**	12
Fresenius Kabi	**23**	25
Fresenius ProServe	**119**	108
Corporate/Other	**-1**	–
Total minority interest	**2,560**	2,289

Minority interest increased in the year 2006 by € 271 million to € 2,560 million. The change resulted from the minorities' share of profit of € 305 million, dividend payments of € 95 million and from negative currency effects, capital measures as well as first-time consolidations in a total amount of € 61 million.

22. SHAREHOLDERS' EQUITY

SUBSCRIBED CAPITAL

Development of 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.

In the course of the acquisition of HUMAINE Kliniken GmbH in the third quarter of 2006, the subscribed capital was increased against contribution in kind in an amount of € 903,884.80 by issuing 176,540 bearer ordinary shares and 176,540 bearer preference shares in the fourth quarter of 2006. The registration of the capital increase with the commercial register took place on November 17, 2006.

During the fiscal year 2006, 375,932 stock options were exercised.

Accordingly, at December 31, 2006, the subscribed capital of Fresenius AG is divided into 25,725,646 bearer ordinary shares and 25,725,646 non-voting bearer preference shares. The shares are issued as non-par value shares with a proportionate amount of the subscribed capital of € 2.56.

Notification in accordance with § 25 of the German Securities Trading Act (WpHG)

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 (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 (2) sentence 1, 1st half-sentence of the German Securities Trading Act (WpHG).

In a letter dated November 21, 2005, Allianz AG, Munich, notified Fresenius AG in accordance with § 21 (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 – exceeds 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 (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 does not require notification.

Dipl.-Kfm. Winfried Baranowski, Germany, has assumed the office as co-executor of the will of Else Kröner and, performing that office, has, on January 4, 2007, exceeded the 5 %, 10 %, 25 % and 50 % thresholds of the voting rights of Fresenius AG. Acting as co-executor, 60.359 % of the voting rights are allocated to Mr. Baranowski in accordance with § 22 (1) No. 6 of the German Securities Trading Act and 3.769 % are allocated to him in accordance with § 22 (2) of the German Securities Trading Act – in total 64.128 % of the voting rights of Fresenius AG.

APPROVED CAPITAL

By resolution of the Annual General Meeting on May 10, 2006, the previous Approved Capital II was revoked. The Management Board of Fresenius AG was authorized, with the approval of the Supervisory Board, until May 9, 2011,

- to increase Fresenius AG's subscribed capital by a nominal total amount of up to € 12,800,000.00 through a single or multiple issue of new bearer ordinary shares and/or non-voting bearer preference shares against cash contributions (Approved Capital I). A subscription right must be granted to shareholders.
- to increase Fresenius AG's subscribed capital by a nominal total amount of up to € 6,400,000.00 through a single or multiple issue of new bearer ordinary shares and/or non-voting bearer preference shares against cash contributions and/or contributions in kind (Approved Capital II). The Management Board is authorized, with the consent of the Supervisory Board, to decide on the exclusion of the shareholders' subscription right (§§ 203 (2), 186 (3) sentence 4 German Stock Corporation Act (AktG)).

As of December 31, 2006, the Approved Capital II decreased by € 903,884.80 to € 5,496,115.20 due to the payment in shares in connection with the aquisition of HUMAINE.

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 Fresenius AG 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.

The following table shows the development of the conditional capital:

in €	Ordinary shares	Preference shares	Total
Conditional Capital I Fresenius AG Stock Option Plan 1998	1,246,248.96	1,246,248.96	2,492,497.92
Conditional Capital II Fresenius AG Stock Option Plan 2003	2,254,433.28	2,254,433.28	4,508,866.56
Total conditional capital as of January 1, 2006	**3,500,682.24**	**3,500,682.24**	**7,001,364.48**
Fresenius AG Stock Option Plan 1998 – options exercised	-404,876.80	-404,876.80	-809,753.60
Fresenius AG Stock Option Plan 2003 – options exercised	-76,316.16	-76,316.16	-152,632.32
Total conditional capital as of December 31, 2006	**3,019,489.28**	**3,019,489.28**	**6,038,978.56**

CAPITAL RESERVES

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

In the year 2006, the capital reserve increased by € 41 million in connection with the aquisition of HUMAINE. The costs of the share capital increase 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 prior years to the extent that they have not been distributed.

CHANGE IN SHAREHOLDERS' EQUITY AFTER THE BALANCE SHEET DATE

On December 4, 2006, at the Extraordinary General Meeting, Fresenius AG's shareholders approved a new division of the subscribed capital in connection with a capital increase from the company's funds. The registration in the commercial register took place on January 24, 2007. Through a conversion of capital reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided into 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is € 1.00 per share. The conditional capital increased in the same proportion as the subscribed capital by operation of law (cf. § 218 sentence 1 of German Stock Corporation Act (AktG)) and is divided into Conditional Capital I in an amount of € 1,971,966.00 and Conditional Capital II in an amount of € 5,104,962.00 after the share split (see Note 1.II, Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital).

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 10, 2006, a resolution was passed to pay a dividend of € 1.48 per bearer ordinary share and € 1.51 per bearer preference share, i. e. a total dividend of € 76 million was resolved.

23. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) comprises all amounts recognized directly in equity resulting from the currency translation of foreign subsidiaries' financial statements and the effects (net of tax) of measuring financial instruments at their fair value as well as the change in pension obligation.

Changes in the components of other comprehensive income (loss) in the years 2006 and 2005 were as follows:

in million €	**2006 Amount before taxes**	**Tax effect**	**2006 Amount after taxes**	2005 Amount before taxes	Tax effect	2005 Amount after taxes
Unrealized gains/losses on securities	**–**	**–**	**–**	–	–	–
Change in unrealized gains/losses	**–**	**–**	**–**	–	–	–
Realized gains/losses due to reclassifications	**–**	**–**	**–**	–	–	–
Changes in unrealized gains/losses on derivative financial instruments	**24**	**-8**	**16**	55	-23	32
Change in unrealized gains/losses	**21**	**-7**	**14**	56	-23	33
Realized gains/losses due to reclassifications	**3**	**-1**	**2**	-1	–	-1
Pension obligation adjustment	**1**	**3**	**4**	-44	17	-27
Foreign currency translation adjustment	**-127**	**0**	**-127**	141	0	141
Other comprehensive income (loss)	**-102**	**-5**	**-107**	152	-6	146

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, 2006 and 2005 was € 369 million and € 297 million, respectively.

Future minimum rental payments under non-cancellable operating leases for the five years succeeding December 31, 2006 and thereafter are:

for the fiscal years	in million €
2007	267
2008	232
2009	202
2010	167
2011	140
Subsequent years	496
Total	**1,504**

As of December 31, 2006, reconstruction obligations exist up to the year 2010 from the acquisition contracts for hospitals at projected costs of up to € 99 million. Thereof € 79 million relate to the year 2007.

Besides the above mentioned contingent liabilities, the amount of other commitments is immaterial.

LEGAL PROCEEDINGS

Commercial litigation

Fresenius Medical Care was originally formed as a result of a series of transactions it completed pursuant to the Merger. 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.

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 (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 filed counterclaims against FMCH seeking monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. On July 17, 2006, the court entered judgement in favor of FMCH finding that all the asserted claims of the Baxter patents are invalid as obvious and/or anticipated in light of prior art. On February 13, 2007, the court granted Baxter's motion to set aside the jury's verdict in favor of FMCH and retry certain aspects of the case. Fresenius Medical Care will appeal the court's rulings. An adverse judgment in any new trial could have a material adverse impact on the business, financial condition and results of operations of Fresenius Medical Care.

Fresenius Medical Care AG & Co. KGaA's Australian subsidiary, Fresenius Medical Care Australia Pty Limited (hereinafter referred to as Fresenius Medical Care Australia) and Gambro Pty Limited and Gambro AB (hereinafter referred to as the Gambro Group) are in litigation regarding infringement and damages with respect to the Gambro AB patent protecting intellectual property in relation to a system for preparation of dialysis or replacement fluid, the Gambro bicart device in Australia (Gambro Patent). As a result of the commercialisation of a system for the preparation of dialysis fluid based on the Fresenius Medical Care Bibag device in Australia, the Australian courts concluded that Fresenius Medical Care Australia infringed the Gambro Patent. The parties are still in legal dispute with respect to the issue of potential damages related to the patent infringement. As the infringement proceedings have solely been brought in the Australian jurisdiction any potential damages to be paid by Fresenius Medical Care Australia will be limited to the potential losses of the Gambro Group caused by the patent infringement in Australia.

Other litigation and potential exposures

RCG has been named as a nominal defendant in a second amended complaint filed September 13, 2006, in the Chancery Court for the State of Tennessee Twentieth Judicial District at Nashville against former officers and directors of RCG which purports to constitute a class action and derivative action relating to alleged unlawful actions and breaches of fiduciary duty in connection with the RCG Acquisition and in connection with alleged improper backdating and/or timing of stock option grants. The amended complaint is styled Indiana State District Council of Laborers and Hod Carriers Pension Fund, on behalf of itself and all others similarly situated and derivatively on behalf of RCG, Plaintiff, vs. RCG, Gary Brukardt, William P. Johnston, Harry R. Jacobson, Joseph C. Hutts, William V. Lapham, Thomas A. Lowery, Stephen D. McMurray, Peter J. Grua, C. Thomas Smith, Ronald Hinds, Raymond Hakim, and R. Dirk Allison, Defendants. The complaint seeks damages against former officers and directors and does not state a claim for money damages directly against RCG. Fresenius Medical Care anticipates that the individual defendants may seek to claim indemnification from RCG. Fresenius Medical Care is unable at this time to assess the merits of any such claim for indemnification.

FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. FMCH received its subpoena in April 2005. RCG received its subpoena in August 2005. The subpoenas require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relationships, joint ventures, anemia management programs, RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, and RCG's purchase of dialysis equipment from FMCH. 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.

In October 2004, FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), 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 FMCH's and RCG'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 May 2006, RCG received a subpoena from the U.S. Department of Justice, Southern District of New York, in connection with an investigation into RCG's administration of its stock option programs and practices, including the procedure under which the exercise price was established for certain of the option grants. The subpoena requires production of a broad range of documents relating to the RCG stock option program prior to the RCG acquisition. Fresenius Medical Care is cooperating with the government's requests for information. The outcome and impact of this investigation cannot be predicted at this time.

Accrued special charge of Fresenius Medical Care for legal matters

At December 31, 2001, Fresenius Medical Care recorded a pre-tax special charge of US$ 258 million 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. With the exception of the proposed US$ 115 million (€ 87 million) payment under the Settlement Agreement, all other matters included in the special charge have been resolved. While Fresenius Medical Care believes that its remaining accrual reasonably estimates its currently anticipated costs related to the continued defense and resolution of this matter, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual (see Note 16, Other accrued expenses).

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, the Fresenius Group does 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 bearing 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 hedging strategies are determined and implemented as scheduled.

As of December 31, 2006, the notional amounts of Fresenius Group's foreign exchange derivatives amounted to € 1,186 million and the notional amounts of interest rate derivatives amounted to € 2,911 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 those amounts by the parties. Therefore, a potential risk resulting from the use of interest rate derivatives cannot be measured solely on the bases of the notional amounts of the contracts.

The after tax losses of € 14 million deferred in accumulated other comprehensive income (loss) at December 31, 2005 had a low negative currency impact.

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 €	2006 Carrying amount	2006 Fair value	2005 Carrying amount	2005 fair value
Non-derivatives				
Assets				
Cash and cash equivalents	**261**	**261**	252	252
Accounts receivable	**2,088**	**2,088**	1,871	1,871
Liabilities				
Trade accounts payable (including related parties)	**466**	**466**	355	355
Income taxes payable	**159**	**159**	146	146
Long-term loans (excluding trust preferred securities, notes and bonds)	**3,129**	**3,129**	1,417	1,417
Short-term loans (including related parties)	**331**	**331**	225	225
Trust preferred securities	**946**	**1,005**	1,000	1,082
Euro Notes	**366**	**368**	460	460
Bonds	**1,100**	**1,124**	400	427
Derivatives				
Foreign exchange contracts	**4**	**4**	-3	-3
thereof short-term	**4**	**4**	-2	-2
Dollar interest rate hedges	**34**	**34**	19	19
thereof short-term	**–**	**–**	–	–
Euro interest rate hedges	**1**	**1**	-1	-1
thereof short-term	**–**	**–**	–	–
Other interest rate hedges	**–**	**–**	–	–
thereof short-term	**–**	**–**	–	–

The carrying amounts in the table (except derivatives), are included in the consolidated balance sheet under their corresponding line item. Derivatives were recognized at gross values as other current assets in an amount of € 64 million and other liabilities in an amount of € 25 million.

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 Fresenius Medical Care 2006 Senior Credit Agreement 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 2006 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 at which the instrument could be exchanged between willing parties. Market 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 positions reported in the consolidated financial statements.

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 in Fresenius Group's worldwide production sites are mainly denominated in the local currency of the respective manufacturer and are delivered worldwide to various Fresenius Group

entities. These intragroup sales are mainly denominated 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 existing and foreseeable foreign exchange transaction exposures, 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, 2006, the Fresenius Group had 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 is reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of cost of sales, of selling, general and administrative expenses or as interest income or expenses in the same period in which the hedged transaction affects earnings.

Recognition in equity

		Cash flow hedges of forecasted product purchases		Cash flow hedges associated with foreign currency denominated intercompany financing transaction	
	Balance sheet date	in million €	affecting net income probably in	in million €	affecting net income probably in
Income/loss before tax	December 31, 2006	2.9	2007	–	–
	December 31, 2005	-6.7	2006-2009	–	–
Income/loss after tax	December 31, 2006	1.7	2007	–	–
	December 31, 2005	-5.0	2006-2009	–	–

Recognition in the consolidated statement of income

		Cash flow hedges of forecasted product purchases	Cash flow hedges associated with foreign currency denominated intercompany financing transaction
	Fiscal year	in million €	in million €
Income/loss before tax	2006	1.0	–
	2005	0.7	–
Income/loss after tax	2006	0.7	–
	2005	0.6	–

As of December 31, 2006, the notional volume and fair value of foreign exchange contracts relating to foreign currency intercompany loans amounted to € 654 million and € 0 million, respectively. Hedge accounting is not applied to these foreign exchange contracts. Accordingly, the respective foreign exchange contracts are recognized as assets or liabilities and changes in fair values are recognized against earnings, thus offsetting with changes in fair values of the underlying foreign currency denominated intercompany loans.

As of December 31, 2006, the notional amounts of foreign exchange forward contracts in place to hedge risks from operational business totalled € 532 million with a fair value of € 4 million.

As of December 31, 2006, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 36 months.

Interest rate risk management

Fresenius Group's interest rate risks mainly arise from money market and capital market transactions of Fresenius Group for financing its business activities. Interest rate hedging transactions are 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 or to hedge against changes of the fair value of the underlying fixed rate financial liabilities.

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$ 3,165 million expire at various dates between 2007 and 2012. The Euro interest rate swaps with a notional volume of € 166 million expire in 2007 and 2008. The US dollar interest rate swaps bear an average interest rate of 4.50 % and the Euro interest rate swaps bear an average interest rate of 3.06 %, plus an applicable margin each.

At December 31, 2006, after-tax gains of € 28.0 million (pre-tax € 44.7 million) were recognized in accumulated other comprehensive income (loss). At December 31, 2005, the equivalent amounts were € 18.8 million and € 30.6 million. Interest payables and interest receivables 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 rate 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 expected to be highly effective and no ineffectiveness affects 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, 2006, the notional volume of these swaps at Fresenius Medical Care was US$ 450 million (€ 342 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 counterparty to fail to meet its obligations as the counterparties are highly rated financial institutions. In the opinion of Fresenius Group's Management, all other credit risks are covered by the allowance for doubtful accounts in an amount of € 218 million (see Note 11, Trade accounts receivable).

26. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

The cash flow statements of the Fresenius Group for the fiscal years 2006 and 2005 are shown on pages 106 to 107.

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 €	**2006**	2005
Interest paid	**393**	208
Income taxes paid	**401**	360

The increase in interest paid related mainly to higher interest payments in connection with the acquisition of RCG, payments in connection with the issuance of the Eurobond 2006, the repurchase of the Eurobond 2003 as well as interest payments for the financing of the acquisition of HELIOS Kliniken.

The increase in income taxes paid mainly referred to one-time effects. In 2006, Fresenius Medical Care made a single tax payment of € 52 million (US$ 64 million) related to the acquisition of RCG as well as tax payments of € 79 million (US$ 99 million) for tax audit adjustments related to Fresenius Medical Care's 2000 and 2001 US tax filings. In the previous year, Fresenius Medical Care made a single tax payment of € 96 million (US$ 119 million). Without these one-time effects, the income taxes paid were nearly unchanged.

Cash paid for acquisitions consists of the following:

in million €	**2006**	2005
Assets acquired	**4,196**	2,695
Liabilities assumed	**-402**	-602
Minority interest	**-45**	-61
Notes assumed in connection with acquisitions	**-24**	-193
Cash paid	**3,725**	1,839
Cash acquired	**-68**	-231
Cash paid for acquisitions, net	**3,657**	1,608

27. NOTES ON SEGMENT REPORTING

GENERAL

The segment reporting tables shown on pages 110 to 113 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, 2006.

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 163,517 patients in its 2,108 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. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe is a leading German hospital operator. Moreover, the company offers engineering and services for hospitals and other health care facilities.

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 2006 Senior Credit Agreement and other obligations concerning trust preferred securities, the credit agreement with the European Investment Bank and that of Fresenius AG in conjunction with the Eurobonds.

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, liabilities from 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 shown 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 less deferred tax assets, 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 €	**2006**	2005
Total EBITDA of reporting segments	**1,883**	1,320
Depreciation and amortization	**-399**	-320
General corporate expenses Corporate/Other	**-40**	-31
Interest expenses	**-418**	-223
Interest income	**23**	20
Total earnings before income taxes and minority interest	**1,049**	766
Total EBIT of reporting segments	**1,495**	1,009
General corporate expenses Corporate/Other	**-51**	-40
Interest expenses	**-418**	-223
Interest income	**23**	20
Total earnings before income taxes and minority interest	**1,049**	766
Depreciation and amortization of reporting segments	**388**	311
Depreciation and amortization Corporate/Other	**11**	9
Total depreciation and amortization	**399**	320

Reconciliation of net debt

in million €	December 31, 2006	December 31, 2005
Short-term borrowings	**330**	224
Short-term liabilities and loans from related parties	**1**	1
Current portion of long-term debt and liabilities from capital lease obligations	**265**	222
Long-term debt and liabilities from capital lease obligations, less current portion	**4,330**	2,055
Trust preferred securities of Fresenius Medical Care Capital Trusts	**946**	1,000
Debt	**5,872**	3,502
less cash and cash equivalents	**261**	252
Net debt	**5,611**	3,250

Non-current assets by geographical region

in million €	December 31, 2006	December 31, 2005
Germany	**2,282**	2,154
Europe (excluding Germany)	**1,653**	1,592
North America	**6,297**	3,684
Asia-Pacific	**265**	168
Latin America	**162**	262
Africa	**32**	33
Total non-current assets*	**10,691**	7,893

* 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

CHANGE IN ACCOUNTING FOR STOCK OPTIONS

Effective January 1, 2006, the Fresenius Group adopted the provisions of SFAS No. 123(R) (revised 2004) (Share-Based Payment), using the modified prospective transition method. Under this transition method, compensation cost recognized in 2006 includes applicable amounts of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 and previously presented in Fresenius Group's pro forma footnote disclosures), and (b) compensation cost for all stock-based payments subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123(R)).

COMPENSATION COST IN CONNECTION WITH STOCK OPTION PLANS OF THE FRESENIUS GROUP

The Fresenius Group recognized compensation cost in an amount of € 20 million for stock options granted since 1998. For stock incentive plans which are performance based, the Fresenius Group recognizes compensation cost over the vesting periods, based on the then current market values of the underlying stock.

FAIR VALUE OF STOCK OPTIONS

The Fresenius Group elected to adopt SFAS No. 123(R) prospectively. Compensation cost in the year 2005 has been recognized in accordance with the provisions of Accounting Principles Board Opinion No. 25 (Accounting for Stock Issued to Employee) (APB No. 25).

Fresenius Group's determination of the fair value of grants is based on the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair values of options that have no vesting restrictions. Option valuation models require the input of highly subjective assumptions including expected stock price volatility. Fresenius Group's assumptions are based upon its past experiences, market trends and the experiences of other entities of the same size and in similar industries. Fresenius Group's stock options have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option.

The weighted-average assumptions for the calculation of the fair value of grants made during the year ending December 31, 2006 are as follows:

Weighted-average assumptions of Fresenius AG	2006
Expected dividend yield	1.50 %
Risk-free interest rate	3.80 %
Expected volatility	35.50 %
Expected life of options	5.3 years
Exercise price per option in €	121.36

Weighted-average assumptions of Fresenius Medical Care	2006
Expected dividend yield	1.64 %
Risk-free interest rate	3.78 %
Expected volatility	30.03 %
Expected life of options	7 years
Exercise price per option in €	91.63

The weighted-average assumptions for the calculation of the fair value of grants made during the year ending December 31, 2005 are as follows:

Weighted-average assumptions of Fresenius AG	2005
Expected dividend yield	2.10 %
Risk-free interest rate	2.50 %
Expected volatility	40.00 %
Expected life of options	5.3 years
Exercise price per option in €	92.26

Weighted-average assumptions of Fresenius Medical Care	2005
Expected dividend yield	2.88 %
Risk-free interest rate	2.76 %
Expected volatility	40.00 %
Expected life of options	5.3 years
Exercise price per option in €	62.36

The expected volatility results from the historical volatility calculated over the expected live of options. The volatility was determined when the fair value of stock options was calculated for the first time and since then has been controlled every year upon issuance of a new tranche.

FRESENIUS AG STOCK OPTION PLANS

Description of the Fresenius AG stock option plans in place

On December 31, 2006, Fresenius AG has two stock option plans in place; the stock option based plan of 1998 and the currently active plan from the year 2003 which 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 Fresenius AG Stock Option Plan 2003 (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 convertible 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 and four years, respectively. Bonds issued to members of the Management Board, to members of the management of affiliated companies, to employees of Fresenius AG and to employees of its affiliated companies who did not issue a note to Fresenius AG 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 corresponds to 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 2003 Plan may be issued each year. At December 31, 2006, the number of outstanding stock options issued under the 2003 Plan was 962,850, thereof 139,886 were exercisable.

During 1998, Fresenius AG adopted a stock incentive plan (1998 Plan) for Fresenius AG's key management and executive employees. This stock incentive plan was replaced by the 2003 Plan and no options have been granted since 2003. Under the 1998 Plan, eligible employees have 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, 2006, the number of outstanding and exercisable stock options issued under the 1998 Plan was 430,754.

Changes due to capital measures

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 were reduced in line with the provisions of both stock option plans. The amount of reduction corresponded 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 meant a reduction of the exercise or conversion price of € 1.90 per share and for preference shares of € 2.05 per share.

At December 4, 2006, the Extraordinary General Meeting of Fresenius AG resolved to newly divide the subscribed capital of Fresenius AG at a ratio of 1 (previously) : 3 (in the future) (share split). Furthermore, the General Meeting agreed to a capital increase from Fresenius AG's funds in order to attain, after the share split, a proportionate nominal value of € 1.00 per ordinary and preference share to the subscribed capital. The entry of both measures into the commercial register on January 24, 2007 resulted in the following consequences for the two stock option plans:

Under the 1998 Plan, upon exercise, one granted option now entitles to receipt of three instead of one ordinary or preference share of Fresenius AG, respectively. The maximum number of ordinary or preference shares to be issued to the members of the Management Board or senior employees of Fresenius AG is adjusted accordingly. The calculation of the exercise price remains unaffected.

Under the 2003 Plan, a convertible bond granted prior to entry of the share split in the commercial register but converted after the commercial registration, now entitles to receipt of three instead of one ordinary or preference share of Fresenius AG, respectively. The calculation of the conversion price remains unaffected for all convertible bonds without stock price target.

Regarding convertible bonds with stock price target, the stock price target is reached if the applicable stock price target has been reached prior to the commercial register entry of the share split, or if, after the commercial registration, the stock exchange quoted average price of the ordinary and preference shares reaches on one day a 25 % increase against one third of the average stock exchange rate of the ordinary and preference shares on the grant date. The calculation of the conversion price remains unaffected if the stock price target has been reached prior to the date of entry into the commercial register. If the stock price target is reached for the first time after the commercial registration the conversion price for receipt of three ordinary shares or preference shares, respectively, per each convertible bond, shall be the triple of one third of the initial value.

After entry of the share split into the commercial register, each convertible bond granted has a nominal value of € 1.00, instead of previously € 2.56. The number of convertible bonds with a nominal value of € 1.00 each, still to be issued under the 2003 Plan, increases to 1,080,000, of which 240,000 are attributable to the members of the Management Board and 840,000 to the senior employees.

Transactions during the year 2006

In the year 2006, the Fresenius Group awarded 300,920 stock options, including 36,550 to members of the Management Board of Fresenius AG, at a weighted-average exercise price of € 121.36, a weighted-average fair value of € 47.99 each and a total fair value of € 14 million, one third of which will be amortized evenly over two, three and four years, respectively.

At December 31, 2006, of 430,754 outstanding options issued under the 1998 Plan, 17,200 were held by the members of the Fresenius AG Management Board. The number of outstanding stock options issued under the 2003 Plan was 962,850, of which 131,580 were held by the members of the Fresenius AG Management Board.

During the year 2006, Fresenius AG received € 32 million from the exercise of 375,932 stock options. The intrinsic value of options exercised in the year 2006 was € 19 million.

Stock option transactions are summarized as follows:

Ordinary shares December 31	Number of options	Weighted-average exercise price in €	Number of options exercisable
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
Granted	150,460	119.93	
Exercised	187,966	77.61	
Forfeited	30,987	73.25	
Balance 2006	696,802	83.90	285,320

Preference shares December 31	Number of options	Weighted-average exercise price in €	Number of options exercisable
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
Granted	150,460	122.78	
Exercised	187,966	90.72	
Forfeited	30,987	73.16	
Balance 2006	696,802	87.64	285,320

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at December 31, 2006:

	Number of options in thousand	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Aggregate intrinsic value in million €
Options for ordinary shares	285,320	4.73	72.28	23
Options for preference shares	285,320	4.73	81.21	23

At December 31, 2006, there was € 14 million of total unrecognized compensation costs related to non-vested options granted under the Fresenius AG plans. These costs are expected to be recognized over a weighted-average period of 2.2 years.

FRESENIUS MEDICAL CARE STOCK OPTION PLANS

Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006

On May 9, 2006, the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 (2006 Plan) was established by resolution of FMC-AG & Co. KGaA's annual general meeting with a conditional capital increase up to € 13 million subject to the issue of up to five million no par value bearer ordinary shares with a nominal value of € 2.56 each. Under the 2006 Plan, up to five million options can be issued, each of which can be exercised to obtain one ordinary share, with up to one million options designated for members of the Management Board of FMC Management AG, FMC-AG & Co. KGaA's General Partner, up to one million options designated for members of management boards of direct or indirect subsidiaries of FMC-AG & Co. KGaA and up to three million options designated for managerial staff members of FMC-AG & Co. KGaA and such affiliates. With respect to participants who are members of FMC Management AG's Management Board, its Supervisory Board has sole authority to grant stock options and exercise other decision making powers under the 2006 Plan (including decisions regarding certain adjustments and forfeitures). FMC Management AG has such authority with respect to all other participants in the 2006 Plan.

Options under the 2006 Plan can be granted the last Monday in July and/or the first Monday in December. The exercise price of options granted under the 2006 Plan shall be the average closing price on the Frankfurt Stock Exchange of FMC-AG & Co. KGaA's ordinary shares during the 30 calendar days immediately prior to each grant date. Options granted under the 2006 Plan have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is subject to satisfaction of success targets measured over a three-year period from the grant date. For each such year, the success target is achieved if FMC-AG & Co. KGaA's adjusted basic income per ordinary share (EPS), as calculated in accordance with the 2006 Plan, increases by at least 8 % year over year during the vesting period, beginning with EPS for the year of grant as compared to EPS for the year preceding such grant. Calculation of EPS under the 2006 Plan excludes, among other items, the costs of the transformation of Fresenius Medical Care's legal form and the conversion of preference shares into ordinary shares. For each grant, one-third of the options granted are forfeited for each year in which EPS does not meet or exceed the 8 % target. The success target for the year 2006 was met. Vesting of the portion or portions of a grant for a year or years in which the success target is met does not occur until completion of the entire three-year vesting period. Upon exercise of vested options, FMC-AG & Co. KGaA has the right to issue ordinary shares it owns or that it purchases in the market in place of increasing capital by the issuance of new shares.

Options granted under the 2006 Plan to US participants are non-qualified stock options under the United States Internal Revenue Code of 1986, as amended. Options under the 2006 Plan are not transferable by a participant or a participant's heirs, and may not be pledged, assigned, or otherwise disposed of.

Fresenius Medical Care 2001 International Stock Option Plan

Under the Fresenius Medical Care 2001 International Stock Incentive Plan (2001 Plan), options in the form of convertible bonds with a principal of up to € 10 million were issued to the members of the Management Board and other employees of FMC-AG & Co. KGaA representing grants for up to four 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. FMC-AG & Co. KGaA 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 FMC-AG & Co. KGaA and are not reflected in the consolidated financial statements. The options expire ten years from issuance and can be exercised beginning two, three or four years after issuance. Compensation costs related to awards granted under this plan are amortized on a straight-line basis over the vesting period for each separately vesting portion of the awards. Bonds issued to Management Board members who did not issue a note to FMC-AG & Co. KGaA are recognized as a liability on Fresenius Group's balance sheet.

Upon issuance of the option, the employees had the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target corresponds to 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 of the respective conversion price, to acquire one preference share. Effective May 2006, no further grants can be issued under the 2001 Plan and no options were granted under the 2001 Plan during the year 2006.

Transactions during the year 2006

During the year 2006, Fresenius Medical Care awarded 772,280 options, including 132,800 to members of the Management Board of FMC Management AG, at a weighted-average exercise price of € 91.63, a weighted-average fair value of € 29.65 each and a total fair value of € 23 million, which will be amortized on a straight line basis over the three year vesting period.

At December 31, 2006, the Management Board members of FMC Management AG held 548,197 stock options for ordinary shares and employees of FMC-AG & Co. KGaA held 2,525,659 stock options for ordinary shares and 122,697 stock options for preference shares.

During the year 2006, FMC-AG & Co. KGaA received € 37 million from the exercise of stock options and € 6 million from a related tax benefit. The intrinsic value of options exercised in the year 2006 was € 22 million.

In connection with the conversion of FMC-AG & Co. KGaA'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 3,863,470 options converted resulting in 2,849,318 options for ordinary shares (see Note 1.III, Transformation of Fresenius Medical Care AG's legal form and conversion of its preference shares). Holders of 234,311 options elected not to convert.

The table below provides reconciliations for options outstanding at December 31, 2006, as compared to December 31, 2005 taking in consideration the conversion, options exercised and forfeited.

	Number of options in thousand	Weighted-average exercise price in €
Balance at December 31, 2005 (options for preference shares)	**4,103**	**47.88**
Forfeited prior to conversion	5	41.00
Eligible for conversion	4,098	47.94
Options not converted	235	49.18
Options converted	3,863	
Reduction due to impact of conversion ratios	1,014	
Balance of options outstanding after conversion into options for ordinary shares as of February 10, 2006	2,849	64.22
Granted	772	91.63
Exercised	520	61.39
Forfeited	27	68.94
Balance at December 31, 2006 (options for ordinary shares)	**3,074**	**61.18**
Balance of options not converted as of February 10, 2006	**235**	**49.18**
Exercised	104	49.82
Forfeited	8	50.61
Balance at December 31, 2006 (options for preference shares)	**123**	**48.56**

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at December 31, 2006:

	Number of options in thousand	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Aggregate intrinsic value in million €
Options for ordinary shares	959	4.86	59.10	40
Options for preference shares	71	3.63	43.37	4

At December 31, 2006, there was € 29 million of total unrecognized compensation costs related to non-vested options granted under all plans. These costs are expected to be recognized over a weighted-average period of 1.7 years.

29. RELATED PARTY TRANSACTIONS

Dr. Gerhard Rupprecht, a member of the Supervisory Board of Fresenius AG, is the Chief Executive Officer of Allianz Deutschland AG. Dr. Gerd Krick, chairman of the Supervisory Board of Fresenius AG, is a member of the Supervisory Board of Allianz Private Krankenversicherungs-AG. In the year 2006, the Fresenius Group paid € 2.1 million for insurance premiums to the Allianz Group. Furthermore, the Allianz Group received € 2.15 million for services mainly in connection with the commitment relating to the new Fresenius Medical Care 2006 Senior Credit Agreement and the issuance of a corporate bond.

Dr. Gerd Krick is also a member of the Advisory Board of HDI Haftpflichtverband der deutschen Industrie V. a. G. In the year 2006, this insurance company received € 6.3 million for insurance premiums.

Dr. Dieter Schenk is a member of the Supervisory Board of Fresenius AG and a partner in the law firm Nörr Stiefenhofer Lutz that provides legal services to the Fresenius Group. In the year 2006, the Fresenius Group paid this law firm € 1.9 million.

30. SUBSEQUENT EVENTS

There have been no significant changes in the group position or environment sector since the end of the year of 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.

NOTES IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

31. COMPENSATION REPORT

COMPENSATION OF THE MANAGEMENT BOARD OF FRESENIUS AG

The compensation report of Fresenius AG summarizes the principles applied to the determination of the compensation of the Management Board members of Fresenius AG and explains the amount and structure of the Management Board compensation. The compensation report is based mainly on the recommendations of the German Corporate Governance Code and also provides the information which is part of the notes (§ 285 German Commercial Code) and the consolidated notes (§ 314 German Commercial Code) or the management report (§ 289 German Commercial Code) and the consolidated management report (§ 315 German Commercial Code) according to the German Act on the Disclosure of Management Board Compensation.

The principles for the compensation of the Management Board were determined by the Supervisory Board of Fresenius AG, its structure and amount by the personnel committee of the Supervisory Board of Fresenius AG. The personnel committee is composed of the Supervisory Board members Dr. Gerd Krick, Dr. Karl Schneider and Volker Weber.

The objective of the compensation system is to enable the members of the Management Board to participate in the development of the business in accordance with their tasks and performance and the successes in the structuring of the economic and financial situation of the company taking account of its comparable environment.

The compensation of the Management Board is, as a whole, performance oriented and consists in the fiscal year 2006 of three elements:

- non-performance-related compensation (basic salary)
- performance-related compensation (variable bonus)
- long-term incentive elements (stock options, convertible bonds)

Furthermore, in the period under report, there is a valid pension commitment applicable to one member of the Management Board.

The composition of the individual elements is as follows:

The non-performance-related compensation was paid in fiscal year 2006 in twelve monthly installments as non-performance-related basic salary. In addition, the members of the Management Board received additional benefits consisting mainly of insurance premiums, the private use of company cars, special payments such as rent supplements and refunds of charges and contributions to pension and health insurance.

The performance-related compensation will be granted for the fiscal year 2006 as a variable bonus. The amount of the bonus in each case depends on the achievement of the individual targets relating to the net income of the Fresenius Group and its segments. For the total performance-related compensation, the maximum achievable bonus is fixed.

For the fiscal year 2006, the amount of cash payment of the Management Board of Fresenius AG consists of the following:

	Non-performance related compensation		Performance related compensation	Cash compensation (without long-term incentive components)
	Salary € thousand	Other[1] € thousand	Bonus € thousand	€ thousand
Dr. Ulf M. Schneider	600	41	954	**1,595**
Rainer Baule	425	43	825	**1,293**
Andreas Gaddum	325	86	498	**909**
Dr. Ben Lipps[2]	836	150	1,627	**2,613**
Stephan Sturm	425	87	756	**1,268**
Total	2,611	407	4,660	**7,678**

[1] Includes insurance premiums, private use of company cars, contributions to pension and health insurance and other benefits.
[2] Dr. Ben Lipps receives his compensation only by Fresenius Medical Care, of which Fresenius AG held 36.1% of the total subscribed capital. As Dr. Ben Lipps is a member of the Management Board of Fresenius AG, his compensation has to be included in the compensation report of the Fresenius Group.

As elements of long-term incentives in the fiscal year 2006, convertible bonds and stock options on the basis of the Fresenius AG Stock Option Plan 2003 and the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 were granted. The principles of both plans are described in Note 28, Stock options.

For the fiscal year 2006, the number and value of convertible bonds and stock options issued and the value of the share price-related compensation is shown in the following table:

	Components with long-term incentive effects	
	Number	Value in € thousand
Dr. Ulf M. Schneider	14,620	700
Rainer Baule	7,310	350
Andreas Gaddum	7,310	350
Dr. Ben Lipps[1]	33,200	985
Stephan Sturm	7,310	350
Total	**69,750**	**2,735**

[1] Dr. Ben Lipps received stock options under the Fresenius Medical Care stock option plan.

The values of convertible bonds and stock options granted to members of the Management Board in the fiscal year 2006 stated above correspond to their fair value at the time of their having been granted, namely a value of € 47.90 per convertible bond of Fresenius AG and € 29.67 per stock option of FMC-AG & Co. KGaA. The exercise price for the granted convertible bonds of Fresenius AG is € 120.38 and for the granted stock options of FMC-AG & Co. KGaA is € 91.48.

On the basis of the financial targets achieved in the fiscal year 2006, Dr. Ben Lipps, in connection with a bonus agreement of Fresenius Medical Care, earned rights to share price-related compensation at a value of € 791 thousand. The entitlement is based on the development of the ordinary share of Fresenius Medical Care and has a three years vesting period.

At the end of the fiscal year 2006, the members of the Management Board held a total of 148,780 stock options and convertible bonds of Fresenius AG and 253,383 stock options and convertible bonds of FMC-AG & Co. KGaA.

The components with long-term incentive effect can be exercised only after the expiry of the vesting period. The value is recognized over the vesting period as expense in the respective fiscal year. The expenses attributable to the fiscal year 2006 are stated in the following table and are included in the overall compensation of the Management Board of Fresenius AG.

	Cash compensation (without long-term incentive components) € thousand	Expenses 2006 for long-term incentive components € thousand	Compensation (including long-term incentive components) Total € thousand
Dr. Ulf M. Schneider	1,595	444	**2,039**
Rainer Baule	1,293	224	**1,517**
Andreas Gaddum	909	233	**1,142**
Dr. Ben Lipps [1]	2,613	385	**2,998**
Stephan Sturm	1,268	233	**1,501**
Total	7,678	1,519	**9,197**

[1] Dr. Ben Lipps received stock options under the Fresenius Medical Care stock option plan.

The non-performance related compensation elements and the basic structures of the performance-related compensation elements are agreed in the service agreements with the individual Management Board members. The convertible bonds and stock options are granted by the personnel committee of the Supervisory Board on a yearly basis.

Commitments to Members of the Management Board for the event of the ending of their appointment

There is an individual contractual pension commitment for the Management Board member Rainer Baule. With regard to this pension commitment, the Fresenius Group had pension obligations of € 1,753 thousand as of December 31, 2006. The addition to pension liability in the year under report amounts to € 319 thousand. The pension commitment provides a pension and survivor benefit, depending on the amount of the basic salary, from the 63rd year of life, or, in the case of leaving because of professional or occupational incapacity, from the time of leaving active work. The starting percentage of 30 % increases with every year of service by 1.5 percentage points, whereby the maximum attainable amount is 45 %. 30 % of the gross amount of any later income from an occupation of the Management Board member is credited against the pension.

With the Management Board member Dr. Ben Lipps an individual agreement exists instead of a pension provision, to the effect that, taking account of a competitive restriction after the ending of the service agreement between him and Fresenius Medical Care Management AG, he can, for a period of ten years, act in a consultative capacity for the company. The consideration to be granted by Fresenius Medical Care Management AG in return would amount per annum in value to approximately 46 % of the non-performance related compensation elements paid to him in the fiscal year 2006.

The service agreements of the Management board members contain no express provisions for the case of a change of control and for the event of the ending of their service agreement.

Miscellaneous

In the fiscal year 2006, no loans or advance payments of future compensation components were made to members of the Management Board of Fresenius AG. No member of the Management Board received in the fiscal year 2006 payments or commitments from third parties in relation to his work as Management Board member.

Fresenius AG undertook, to the extent legally admissible, to indemnify the members of the Management Board against claims against them arising out of their work for the company and its affiliates, if such claims exceed their responsibilities under German law. To secure such obligations, the company concluded a Directors' & Officers' insurance (D & O insurance) with an appropriate excess. The indemnity applies for the time in which each member of the Management Board is in office and for claims in this connection after the ending of the membership of the Management Board in each case.

To former members of the Management Board and their surviving dependents € 588 thousand was paid in the year 2006. The pension obligation for these persons amounts to € 9,696 thousand.

32. INFORMATION ON THE 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 members of the Supervisory Board of Fresenius AG in 2006 was € 1,127 thousand. This included € 253 thousand relating to fixed and € 874 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 fiscal year, the variable 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 € 73 thousand for the year 2006. 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 € 11 thousand to the surviving dependents of a former Supervisory Board member.

33. 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 2007. 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.

34. FEES FOR THE AUDITOR

In 2006 and 2005, fees for the auditor in Germany were expensed as follows:

in million €	**2006**	2005
Audit fees	**4**	4
Tax consulting fees	**–**	–
Audit-related fees	**–**	–
Other fees	**–**	1
Total auditor fees	**4**	5

35. CORPORATE GOVERNANCE

The members of 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 12, 2006 and made this permanently available to the shareholders.

36. PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The Management Board of Fresenius AG proposes to the Annual General Meeting that the earnings for 2006 of Fresenius AG be distributed as follows:

in €

Payment of a dividend of € 0.57 per bearer ordinary share on the 77,176,938 ordinary shares entitled to dividend	**43,990,854.66**
Payment of a dividend of € 0.58 per bearer preference share on the 77,176,938 preference shares entitled to dividend	**44,762,624.04**
Balance to be carried forward	**330,806.07**
	89,084,284.77

Bad Homburg v. d. H., February 27, 2007

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, the statements of changes in shareholders' equity, cash flows and notes to the consolidated financial statements together with the group management report for the business year from January 1 to December 31, 2006. 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 in accordance with German commercial law are the responsibility of the 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 § 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 the 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 the 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 27, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Hölzl
German Public Auditor

Hommel
German Public Auditor

REPORT OF THE SUPERVISORY BOARD

In 2006, 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.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Carrying out its monitoring and advisory activities, the Supervisory Board was kept regularly informed by the Management Board – in a timely manner and comprehensively, both in writing and orally – about the business development, the economic and financial position, and the profitability of the Company and the Group, the corporate strategy and planning, the risk situation, and important business events. Before each of the Supervisory Board's four regular meetings, detailed Management Board reports and comprehensive approval documents concerning the agenda were distributed to its members. At its meetings the Supervisory Board used the Management Board's reports as the basis for its comprehensive discussions about business development and important corporate decisions. All matters requiring Supervisory Board approval were submitted with sufficient time for proper scrutiny. After reviewing the related approval documents and after detailed consultation with the Management Board, the Supervisory Board was able to give its approval in all matters submitted to it. The Supervisory Board was also informed about any important business events occurring between meetings and, in urgent cases, was requested to pass resolutions by written proceeding in lieu of a meeting. In addition, the chairman of the Management Board informed in individual discussions the chairman of the Supervisory Board regularly about the latest business developments and forthcoming decisions. Every member of the Supervisory Board attended more than half of the Supervisory Board meetings in 2006.

MAIN FOCUS OF THE SUPERVISORY BOARD'S ACTIVITIES

The Supervisory Board's monitoring and advisory activities were mainly focused on overall business operations as well as on business segment investments and acquisitions, or acquisition plans, and any related financing. The Supervisory Board carefully examined the opportunities and risks relating to acquisitions, such as HUMAINE Kliniken, and was kept informed by the Management Board about the integration of the strategically important acquisitions, Renal Care Group and HELIOS Kliniken.

At a special joint meeting with the Management Board on September 22, 2006 the Supervisory Board discussed in detail the conversion of Fresenius AG into a European Company (SE) and the new division of the subscribed capital (share split) with a capital increase from Company's funds. In particular, the effect of the conversion on corporate governance, especially on employee co-determination in the Supervisory Board, was discussed intensively. The Supervisory Board approved both measures unanimously on October 11, 2006. They were passed by the General Meeting on December 4, 2006.

The Supervisory Board also thoroughly reviewed and discussed all other significant business activities with the Management Board. It approved the budget for 2007 and the Group's medium-term planning, following a detailed review and discussions with the Management Board. At its regular meetings and within the Audit Committee, the Supervisory Board also kept itself informed about the Group's risk management activities.

The German Commercial Code (HGB), in pursuant of section 289 (4) and section 315 (4), requires disclosures, among other things, about the capital of Fresenius AG, voting rights, and ownership interests. Please see pages 60 to 62 of the Management Report for this information, which was reviewed and approved by the Supervisory Board.

CORPORATE GOVERNANCE

The further development of the corporate governance at Fresenius was reviewed by the Supervisory Board with regard to the conversion of Fresenius AG into an SE. This matter was also examined within the framework of the review of amendments to the rules of procedure of the Management Board and amendments to the Articles of Association that were proposed for adoption to the Annual General Meeting of Fresenius AG on May 10, 2006. In accordance with the German Corporate Governance Code, the Management Board and the Supervisory Board jointly issued a Declaration of Conformity on November 28, 2006. For further information on corporate governance at Fresenius, see the Corporate Governance Report issued jointly by the Management and Supervisory Boards on pages 26 to 29 of this Annual Report.

WORK OF THE COMMITTEES

In addition to the Mediation Committee, as required by section 27 (3) of the German Co-determination Act (MitbestG), the Supervisory Board also formed an Audit Committee and a Personnel Committee as permanent committees.

The Personnel Committee, which is responsible, among other things, for concluding, amending, and terminating employment contracts with the members of the Management Board, held two meetings and one conference call.

The Audit Committee held four meetings. The main focus of its activities was on the preliminary audit of the annual financial statements of Fresenius AG and the Group for 2005 and discussions with the auditors about their report and the terms of reference of the audit. The Audit Committee also reviewed the 2006 quarterly reports and the risk management system.

Following their own meetings, the chairmen of the committees reported regularly to the next Supervisory Board meeting on the work of the committees.

The Mediation Committee did not meet in 2006.

The Supervisory Board formed an additional committee, "Capital Increase 2006", on March 17, 2006 in order to insure timely authorization by the Supervisory Board for utilization of the approved capital in connection with the financing of the HUMAINE Kliniken acquisition. The Supervisory Board delegated approval of the Management Board's decisions on share rights and conditions of issue to this committee. The "Capital Increase 2006" Committee passed the necessary resolutions by means of a telephone vote. The functions and activities of the "Capital Increase 2006" Committee ceased with the entry in the Commercial Register of the capital increase from approved capital on November 17, 2006.

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The accounting records, the Fresenius AG financial statements prepared according to the German Commercial Code (HGB), and the Fresenius AG Management Report for 2006 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 10, 2006 and were 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 each Supervisory Board member within the required time. The Supervisory Board noted and approved the auditors' findings. The Supervisory Board's own review found

no objections to the Fresenius AG financial statements or the consolidated financial statements. The Supervisory Board equally agrees with the Management Reports and the statements contained therein with respect to future development.

At its meeting on March 16, 2007 the Supervisory Board approved Fresenius AG's financial statements for the fiscal year 2006 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 2006. The auditors delivered a detailed report on the results of the audit during this meeting. The auditors attended all four Supervisory Board meetings and all four meetings of the Audit Committee. The Supervisory Board concurs with the proposal by the Management Board on the appropriation of the 2006 retained earnings.

PERSONNEL

No changes took place within the Supervisory Board or the Management Board in 2006.

The Supervisory Board, the Management Board, and the employees of Fresenius sadly mourn the passing of the former Chairman of the Management Board and Honorary Chairman of the Supervisory Board, Dr. h.c. Hans Kröner, who died on June 27, 2006 at the age of 96. Before he retired in 1992, Dr. h.c. Hans Kröner had been with Fresenius for more than 40 years. His commitment was instrumental to the development of the Company. Under his leadership, Fresenius grew from a medium size firm into a global group, with about 7,000 employees and sales of approximately DM 1.5 billion in 1992. We are deeply indebted to Dr. h.c. Hans Kröner for his enormous services to the Company.

The Supervisory Board would like to thank the Management Board and all employees for their achievements and commitment during the fiscal year 2006.

Bad Homburg v. d. H., March 16, 2007

The Supervisory Board

Dr. Gerd Krick
Chairman

MANAGEMENT BOARD

Dr. Ulf M. Schneider

Frankfurt am Main

Chairman

Corporate Offices
Supervisory Board
Fresenius Kabi AG (Chairman)
Fresenius Medical Care Management AG (Chairman)
HELIOS Kliniken GmbH (Chairman)
Eufets AG (Chairman)
Fresenius Kabi Austria GmbH, Austria
Fresenius Kabi España S.A., Spain
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

Mainz

Business Segment Fresenius ProServe

Corporate Offices
Supervisory Board
HELIOS Kliniken GmbH
VAMED AG, Austria
Wittgensteiner Kliniken GmbH (Chairman)

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)

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 España S.A., Spain
Calea Ltd., Canada
Administrative Board
Fresenius Kabi Groupe France S.A., France (Chairman)
Board of Directors
FHC (Holdings), Ltd., Great Britain

Stephan Sturm

Hofheim am Taunus

Chief Financial Officer and

Labor Relations Director

Corporate Offices
Supervisory Board
Fresenius Kabi AG
HELIOS Kliniken GmbH
Wittgensteiner Kliniken GmbH
Fresenius HemoCare Netherlands B.V., Netherlands
Board of Directors
FHC (Holdings), Ltd., Great Britain

SUPERVISORY BOARD

Dr. h. c. Hans Kröner

(† June 27, 2006)
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
Member of the Mediation Committee

Offices
Supervisory Board
Fresenius Medical Care AG & Co. KGaA (Chairman)
Fresenius Medical Care Management AG
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 (until April 30, 2006)

Gerhard Herres

Beckingen-Haustadt
Member of the Trade Union Deutscher Handels- und Industrie-angestellten Verband im CGB
Member of the Works Council
St. Wendel plant
(Chairman until April 24, 2006)
Member of the General Works Council
(until April 24, 2006)
Spokesman of the Standing Committee on Industry and Trade
(until April 24, 2006)

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
Member of the Works Council
Bad Homburg v. d. H.
(Deputy Chairlady until April 23, 2006)

Dr. Gerhard Rupprecht

Gerlingen
Member of the Management Board
Allianz SE
Chairman of the Management Board
Allianz Deutschland AG

Offices
Supervisory Board
Heidelberger Druckmaschinen AG
Quelle GmbH (until March 20, 2006)
ThyssenKrupp Automotive AG
Allianz Lebensversicherungs-AG (Chairman)
Allianz Versicherungs-AG (Chairman)
Allianz Private Krankenversicherungs-AG (Chairman)
Allianz Beratungs- und Vertriebs-AG
(since February 24, 2006) (Chairman since March 18, 2006)
Allianz Elementar Lebensversicherungs-AG, Austria
(Chairman) (until January 16, 2006)
Allianz Elementar Versicherungs-AG, Austria
(until January 16, 2006)
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
(until July 5, 2006)

Member of the Mediation Committee

Dr. Dieter Schenk

Munich
Lawyer and tax consultant

Member of the Mediation Committee

Offices
Supervisory Board
Fresenius Medical Care AG & Co. KGaA (Deputy Chairman)
Fresenius Medical Care Management AG
(Deputy Chairman)
Gabor Shoes AG (Chairman)
Greiffenberger AG (Deputy Chairman)
TOPTICA Photonics AG (Deputy Chairman)
Administrative Board
Else Kröner-Fresenius-Stiftung

Dr. Karl Schneider

Mannheim
Former Spokesman
Südzucker AG

Member of the Personnel Committee

Offices
Administrative Board
Else Kröner-Fresenius-Stiftung (Deputy Chairman)

Volker Weber

Löhnberg
Deputy Chairman
Full-time Secretary of the Trade Union IG Bergbau, Chemie, Energie

Member of the Personnel Committee
Member of the Audit Committee
Member of the Mediation Committee

Offices
Supervisory Board
SV Deutschland GmbH (until December 12, 2006)

Dr. Bernhard Wunderlin

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

Chairman of the Audit Committee

Offices
Supervisory Board
Equita Management GmbH (since November 15, 2006)
Hertie School of Governance
Augsburger Aktienbank AG (until March 14, 2006)
Advisory Board
Harald Quandt Holding GmbH (since May 17, 2006)
Von Rautenkranz Nachfolger GbR
Marsh & McLennan Deutschland GmbH
Administrative Board
Senckenbergische Naturforschende Gesellschaft
Management Board
Gemeinnützige Hertie-Stiftung (Deputy Chairman)
Foundation Council
PwC-Stiftung0

GLOSSARY

Health care terms

Albumin
A protein that can be used to monitor a patient's nutritional condition.

Antibodies
Antibodies are proteins that bind specifically to a particular substance, its antigen. Antibodies are known collectively as immunoglobulins. They 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.

Antiemetics
Drugs used for the prevention and treatment of nausea and vomiting induced by cytotoxic chemotherapy and radiotherapy, and for the prevention and treatment of post-operative nausea and vomiting.

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

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

Benzodiazepines
Drugs with sedative, hypnotic, anxiolytic and muscle relaxant properties. Benzodiazepine antagonists are drugs used for the complete or partial reversal of the central sedative effects of benzodiazepines, such as sedatives or anesthetics.

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.

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 anticoagulants, 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.

Diffusion
An exchange in the chemical concentration of two fluids that are divided by a semi-permeable membrane. The transfer of metabolic toxins through the membrane into the dialysate is based on this physical transport law.

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

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

Extracorporeal
Taking place outside the body.

Graft-versus-Host-Disease (aGvHD)
Rejection of a transplanted organ, caused by T-cells in the donor graft that attack the host organism.

HACCP Concept (Hazard Analysis Critical Control Point)
A process that proves conformity with valid norms.

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.

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.

INN (International non-proprietary name)
Official non-proprietary or generic name given to a pharmaceutical substance, as designated by the World Health Organization (WHO).

Intraperitoneal
Administration of a drug directly into the peritoneal cavity.

Intrapleural
Within the pleura (thoracic cavity).

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

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 housing with membrane and catheter for chemotherapy, infusion therapy, parenteral nutrition etc.

Single-use dialyzer
Dialyzer which is not used several times (re-use) but only one single time.

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.

Financial terms

Beta-Faktor
The beta factor shows the correlation of a share to a specific index.
ß > 1 means: the share is fluctuating more than the index.
ß = 1 means: the share movements are in line with the index.
ß < 1 means: the share is fluctuating less than the index.

EBIT
Earnings before interest and income taxes.

EBITDA
Earnings before interest, income taxes, depreciation and amortization.

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 - taxes) : 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 x 100 : 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.

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

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.

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.

INDEX

Fresenius Medical Care

HEMODIALYSIS

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

ACUTE DIALYSIS

- Machines for acute dialysis
- Hemofilter
- Hemofiltration solutions
- Dialysis fluid concentrates
- Dialysis catheters
- Blood lines
- Plasmafilters
- Citrate calcium anticoagulation

PERITONEAL DIALYSIS

- Machines and tubing systems for Automated Peritoneal Dialysis (APD)
- CAPD systems
- Peritoneal dialysis solutions
- Peritoneal dialysis catheters
- Accessories
- Data Management Systems (PatientOnLine)
- Paediatric Peritoneal Dialysis Systems

DIALYSIS CARE

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

SPECTRA LABORATORIES

- 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

THERAPEUTICAL APHERESIS

LDL-apheresis:

- DALI®

Immunoadsorption:

- PROSORBA®
- Immunosorba
- GLOBAFFIN

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. anesthetics
- I.V. antibiotics
- I.V. antiemetics
- I.V. benzodiazepineantagonists
- I.V. catecholamines
- I.V. analgesics
- Innovative packaging systems for I.V. products
- Patient individual cytostatic infusion therapies
- Medical devices
  - Volumetric infusion pumps and syringe pumps
  - Infusion and clinical fluid management systems
  - Disposable infusion pump
  - 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
- 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 out-patient 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 out-patient 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 care hospitals for all medical disciplines
  - High quality medical treatment of patients at all levels of care, up to maximum care
- Wittgensteiner Kliniken GmbH:
  - Operation and management of postacute care hospitals

The clinics of HUMAINE Kliniken GmbH were integrated under the brand of HELIOS Kliniken.

VAMED GROUP

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/packages
- Medical-technical maintenance
- Building technology planning
- Facility management
- Project development and management
- Turn-key projects
- Financial engineering
- PPP projects
- General and technical management of health facilities

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 1st quarter 2007	
Conference call	May 2, 2007
Annual General Meeting, Frankfurt am Main (Germany)	May 16, 2007
Payment of dividend*	May 17, 2007
Report on 1st half 2007	
Analysts' meeting, Bad Homburg v. d. H.	
Live webcast	August 2, 2007
Report on 1st-3rd quarters 2007	
Analysts' meeting, Bad Homburg v. d. H.	
Live webcast	
Press conference, Bad Homburg v. d. H.	
Live webcast	October 31, 2007

* subject to the prior approval by the Annual General Meeting

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Commercial Register: AG Bad Homburg v. d. H.; HRB 2617
Management Board: Dr. Ulf M. Schneider (Chairman), Rainer Baule, Andreas Gaddum, Dr. Ben Lipps, Stephan Sturm
Chairman of the Supervisory Board: Dr. Gerd Krick

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.

You will find further information and current news about our company 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 on 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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