



Fresenius SE

Bad Homburg v.d.H.

2007

- ◆ Financial Statements
- ◆ Management Report
- ◆ Report of the Supervisory Board

Fresenius Societas Europaea
 (until July 13, 2007: Fresenius Aktiengesellschaft)
 Bad Homburg v. d. Höhe

Balance Sheet as of December 31, 2007

Assets

	Note	December 31, 2007		December 31, 2006	
		TEUR	TEUR	TEUR	TEUR
A. Fixed assets	(4)				
I. Intangible assets			93		73
II. Property, plant and equipment			74,263		76,605
III. Long-term investments and loans			2,812,458		2,953,034
			<u>2,886,814</u>		<u>3,029,712</u>
B. Current assets					
I. Accounts receivable and other assets					
1. Accounts receivable due from affiliated companies	(5)	788,046		565,900	
2. Other assets	(5)	37,705	825,751	46,722	612,622
II. Other securities	(6)		5,467		5,948
III. Cash and cash equivalents	(8)		31		191
			<u>831,249</u>		<u>618,761</u>
C. Deferred income	(9)		1,121		1,859
			<u>3,719,184</u>		<u>3,650,332</u>

Liabilities and shareholders' equity

	Note	December 31, 2007		December 31, 2006	
		TEUR	TEUR	TEUR	TEUR
A. Shareholders' equity					
I. Subscribed capital	(10, 11, 12, 13)				
1. Ordinary shares		77,582.5		65,858	
conditional capital I TEUR 768; prev. yr. TEUR 841)					
conditional capital II TEUR 2,365; prev. yr. TEUR 2,178)					
2. Preference shares		77,582.5	155,165	65,858	131,716
conditional capital I TEUR 768; prev. yr. TEUR 841)					
conditional capital II TEUR 2,365; prev. yr. TEUR 2,178)					
II. Capital reserves	(14)		1,532,772		1,535,798
III. Other reserves	(15)		440,245		404,245
IV. Retained earnings	(16)		103,256		89,084
			2,231,438		2,160,843
B. Special reserve for investment government grants					
	(17)		17		18
C. Accrued expenses					
	(18)				
1. Pensions and similar obligations			17,989		15,872
2. Accruals for income taxes			27,169		30,969
3. Other accruals			26,709		20,079
			71,867		66,920
D. Liabilities					
	(19)				
1. Convertible bonds			595		498
2. Bank loans			200,085		111,486
3. Trade accounts payable			569		2,453
4. Liabilities from affiliated companies			1,204,215		1,301,421
5. Other liabilities			10,398		6,693
			1,415,862		1,422,551
			3,719,184		3,650,332

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Statement of Income
January 1 to December 31

	Note	2007	2006
		TEUR	TEUR
1. Income from participations	(22)	193,583	173,603
2. Other operating income	(23)	51,761	51,060
3. Personnel expenses	(24)	-25,608	-21,949
4. Depreciation and amortization on intangible assets and on property, plant and equipment	(25)	-4,028	-4,438
5. Other operating expenses	(26)	-43,707	-40,913
6. Net interest	(28)	-30,748	-48,266
7. Profit from ordinary operations		141,253	109,097
8. Income taxes	(29)	-2,117	-13,039
9. Other taxes		-211	-697
10. Net income		138,925	95,361
11. Retained earnings brought forward		331	223
12. Increase in other reserves		-36,000	-6,500
13. Retained earnings		103,256	89,084

Notes Fresenius SE

(1) 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 became effective on July 13, 2007 upon the registration in the commercial register after the successful completion of the procedure for the involvement of the employees. Fresenius AG's name after the conversion is Fresenius SE. The conversion of Fresenius AG into a SE neither lead to a liquidation of the Company nor to 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 Articles of Association of Fresenius SE, the existing two-tier system consisting of Management Board and Supervisory Board will remain unchanged. The Supervisory Board of Fresenius SE continues 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. Before the registration in the commercial register, the subscribed capital of Fresenius AG amounted to € 131,715,307.52 and was divided in 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 in 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is €1,00 per share. Following the share split, every holder of an ordinary share holds three ordinary shares and every holder of a preference share holds three preference shares.

(2) Structure

The Fresenius Group is as of December 31, 2007 divided into three legally independent business segments:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

As of January 1, 2008, Fresenius ProServe was replaced by two new business segments – Fresenius Helios and Fresenius Vamed, which so far have formed Fresenius ProServe.

Fresenius SE owns the stakes in the management companies and functions as a operating holding.

The reporting currency of Fresenius SE is the euro. In order to make the presentation clearer, amounts are shown in thousand euros. Amounts that are due to rounding reasons less than one thousand euros are marked with „-“.

The list of Fresenius SE's investments will be filed at the electronic German Federal Bulletin and deposited at the Business Register.

(3) Accounting principles and standards of valuation

The accounting principles and standards of valuation remained unchanged in comparison to prior year.

Acquired **intangible assets** are valued at purchase cost less regular depreciation. The useful life is normally between 2 and 5 years, for personal computer auxiliary programs the useful life is 2 years, and for know-how up to 5 years.

The value of **investments in property, plant and equipment** is given as the cost of the assets less regular linear or – if allowed by tax regulations – degressive depreciation.

The following useful lives were used for calculating amortization:

Office and factory buildings	10 - 40 years
Technical equipment and machinery	5 - 10 years
Other fixtures and fittings, tools and equipment	3 - 10 years

Fixed assets of low value are fully written off in the year of their purchase.

Extraordinary depreciation is carried out, provided that a lower value has to be assigned to the assets on balance sheet date.

Financial assets are valued at purchase price or the lower market value.

Accounts receivable and other assets are valued according to their nominal amount reduced by individual allowance if necessary.

Securities are valued at purchase price or the lower market value.

Pension obligations are calculated using reference tables established by Dr. Klaus Heubeck 2005 (RT 2005 G) as well as interest of 6 % in accordance with section 6a of the German Income Tax Law.

Tax accruals and other accruals are set aside for recognizable risks and uncertain liabilities on basis of a reasonable commercial assessment.

Provisions for employees' anniversaries are calculated using the "Teilwertverfahren" with an annual interest of 5.5%.

Liabilities are valued at repayment amount.

Foreign currency items are translated at the mean rate at the time of origin or the hedging rate for hedging transactions. Exchange-rate losses on the closing date are included.

Notes on balance sheet

(4) Fixed Assets

The following is a breakdown of fixed assets and their development:

	<u>Acquisition and Manufacturing Costs</u>					As of December 31, 2007
	As of January 1, 2007	Additions	transfer affil. Comp. +/-	Disposals	Reclassifications	
<i>in thousand €</i>						
<u>Intangible Assets</u>						
Concessions, industrial and similar rights and assets, licenses	1,847	77	0	2	0	1,922
	<u>1,847</u>	<u>77</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>1,922</u>
<u>Tangible Assets</u>						
Land, leasehold and buildings including buildings on third party property	111,467	690	0	27	314	112,444
Plant and machinery	320	13	0	1	0	332
Other fixtures and fittings, tools and equipment	6,543	712	524	801	192	7,170
Payments on account and tangible assets in course of construction	506	245	0	0	-506	245
	<u>118,836</u>	<u>1,660</u>	<u>524</u>	<u>829</u>	<u>0</u>	<u>120,191</u>
<u>Financial assets</u>						
Shares in affiliated companies	2,515,822	0	0	0	0	2,515,822
Loans to related companies	436,759	0	0	141,095	0	295,664
Securities	245	179	0	0	0	424
Other loans	1,000	0	0	0	0	1,000
	<u>2,953,826</u>	<u>179</u>	<u>0</u>	<u>141,095</u>	<u>0</u>	<u>2,812,910</u>
Non-current Assets	<u>3,074,509</u>	<u>1,916</u>	<u>524</u>	<u>141,926</u>	<u>0</u>	<u>2,935,023</u>

	Depreciation					Carrying Amount		
	Cumulated Depreciation as of January 1, 2007	Additions	transfer affil. Comp. +/-	Disposals	Write-up	Cumulated Depreciation as of December 31, 2007	December 31, 2007	December 31, 2006
<i>in thousand €</i>								
<u>Intangible Assets</u>								
Concessions, industrial and similar rights and assets, licenses	1,774	57	0	2	0	1,829	93	73
	<u>1,774</u>	<u>57</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>1,829</u>	<u>93</u>	<u>73</u>
<u>Tangible Assets</u>								
Land, leasehold and buildings including buildings on third party property	36,689	3,108	0	27	0	39,770	72,674	74,778
Plant and machinery	169	33	0	1	0	201	131	151
Other fixtures and fittings, tools and equipment	5,373	830	521	767	0	5,957	1,213	1,170
Payments on account and tangible assets in course of construction	0	0	0	0	0	0	245	506
	<u>42,231</u>	<u>3,971</u>	<u>521</u>	<u>795</u>	<u>0</u>	<u>45,928</u>	<u>74,263</u>	<u>76,605</u>
<u>Financial assets</u>								
Shares in affiliated companies	188	0	0	0	0	188	2,515,634	2,515,634
Loans to related companies	604	0	0	340	0	264	295,400	436,155
Securities	0	0	0	0	0	0	424	245
Other loans	0	0	0	0	0	0	1,000	1,000
	<u>792</u>	<u>0</u>	<u>0</u>	<u>340</u>	<u>0</u>	<u>452</u>	<u>2,812,458</u>	<u>2,953,034</u>
Non-current Assets	<u>44,797</u>	<u>4,028</u>	<u>521</u>	<u>1,137</u>	<u>0</u>	<u>48,209</u>	<u>2,886,814</u>	<u>3,029,712</u>

Financial Assets

As of December 31, 2007 Fresenius SE owns stakes in the following domestic management companies for business segments:

- Fresenius Medical Care AG & Co. KGaA, Hof an der Saale
- Fresenius Kabi AG, Frankfurt am Main
- Fresenius ProServe GmbH, Bad Homburg v.d.Höhe

The percentage of Fresenius Medical Care AG & Co. KGaA's ("FMC-AG & Co. KGaA") total subscribed capital (ordinary and preference shares) held by Fresenius SE at the end of fiscal year 2007 was 35.95% (previous year 36.12 %).

On December 31, 2007, Fresenius SE continued to hold all of the subscribed capital of the management companies of the business segment Fresenius Kabi (Fresenius Kabi AG) and Fresenius ProServe (Fresenius ProServe GmbH).

Fresenius SE holds 100% in Fresenius Biotech Beteiligungs GmbH.

In addition, Fresenius SE holds all of the stakes of the following domestic property management and service companies and also holds a stake in a foreign financial company:

- Fresenius Immobilien-Verwaltungs-GmbH
- Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt Schweinfurt KG
- Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt St. Wendel KG
- Hygieneplan GmbH
- Fresenius Versicherungsvermittlungs GmbH
- Fresenius Finance B.V.

All of the subscribed capital of Fresenius Netcare GmbH is indirectly held via Fresenius Versicherungsvermittlungs GmbH.

Loans to affiliated companies

The loans to affiliated companies decreased compared to 2006 (€ 436,155 thousand) by € 140,755 thousand to € 295,400 thousand. Reason was the reclassification of loans into accounts receivable because their character changed to short-term.

Insolvency Insurance

In accordance with legal regulations the credit balances of partial retirement agreements are secured against insolvency. Therefore the company buys shares of an investment fund close to money market in an amount of the cumulated credit balances. The collateral is done via pledging the investment fund shares to a trustee. The amount of the bought investment fund shares as of December 31, 2007 was € 424 thousand.

(5) Accounts receivable and Other Assets

	Dec 31, 2006	Dec 31, 2007
<i>in thousand €</i>		
Accounts receivable		
from related parties	565,900	788,046
(amount with a remaining term of more than 1 year)	(38,416)	(36,387)
Other assets	46,722	37,705
(amount with a remaining term of more than 1 year)	-	-
	612,622	825,751

The Accounts receivable to affiliated companies are composed of loans and finance-related accounts of € 787,724 thousand (previous year € 565,764 thousand) and trade accounts receivable of € 322 thousand (previous year € 136 thousand).

The main reason for the increase of the accounts receivable to affiliated companies by € 222,146 thousand is the reclassification of loans from financial assets because their character changed to short-term.

The Other Assets mainly contain tax receivables. Furthermore receivables for social security reasons are comprised of € 27 thousand (previous year € 23 thousand).

(6) Other Securities

Fresenius SE holds trust preferred securities from the Fresenius Medical Care Trust IV at a nominal value of US\$ 8.0 million and an issue price of 98.295 %.

(7) Own Shares

Fresenius SE purchased own preference shares during the year for distribution to employees entitled to the profit-sharing program.

The agreement reached between the Works Council and the Management Board in June 2004 is used as the basis for distributing the shares. The agreement awards € 1,444 of profit-sharing to each full-time employee for 2006 as well as an employer contribution for social security payments. Shares were used for about two-thirds of the profit-sharing payment and employees are given a choice of cash or additional shares for the remaining third. Employees that opt for additional shares are awarded one additional share. The distribution of the shares and bonus shares in the profit-sharing program was made on May 17, 2007.

To be eligible for the program, employees must have had three years of continuous full-time employment on December 31, 2006 with Fresenius AG, its direct affiliated companies or affiliated companies of Fresenius Kabi and Fresenius ProServe as identified in the Works Council agreement. Eligible employees must have not been under notice or in an executive position, as defined by Fresenius, on December 31, 2006. Intercompany transfers are counted in full.

The following preference shares were purchased and distributed or re-sold as part of the Fresenius AG profit-sharing program for 2006:

	Date	Number	price in € per share
Purchase	May 18, 2007	37,500	58.02
Issuance	December 3, 2007	-36,400	58.03
Sale	December 22, 2007	-1,100	57.26

Shares with a nominal value of € 37,500.00 were purchased and shares committed with a nominal value of € 36,400.00 each represented 0.024 % of the subscribed capital.

(8) Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash on banks.

(9) Deferred income

The Deferred income mainly concerns the prepayment of the D&O-Insurance for top managers.

(10) Subscribed Capital

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 (see Note (1), Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital). The new proportionate amount of the subscribed capital is € 1.00 per share.

During the fiscal year 2007, 810,894 stock options were exercised.

Accordingly, at December 31, 2007, the subscribed capital of Fresenius SE was divided into 77,582,385 bearer ordinary shares and 77,582,385 non-voting bearer preference shares. The shares are issued as non-par value shares.

The subscribed capital developed as follows:

	2007
<i>in thousand €</i>	
As of January 1	131,716
Increase from corporate funds	22,638
Increase due to exercise of stock options	811
As of December 31	155,165

(11) Notification by share holders

The Else Kröner-Fresenius-Stiftung notified Fresenius SE on December 28, 2007, that the Else Kröner-Fresenius-Stiftung holds 46,582,692 ordinary shares of Fresenius SE representing 60.04 % of the voting rights.

Fidelity International, with its registered office in Great Britain, Tadworth, has notified Fresenius SE in the name of and on behalf of FIL Limited, Hamilton, Bermuda, which changed its name from Fidelity International Limited to FIL Limited with effect from February 1, 2008, pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) of the following: On February 4, 2008 FIL Limited exceeded the thresholds of 3% and 5% of the voting rights in Fresenius SE, Else-Kröner-Strasse 1, 61352 Bad Homburg v. d.H., Germany. On that date, FIL Limited held 6.03% of the voting rights in Fresenius SE arising from 4,675,538 voting rights. All voting rights in

Fresenius SE were attributed to FIL Limited pursuant to section 22 (1) sentence 1 No. 6 WpHG.

Fidelity International, with its registered office in Great Britain, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, notified Fresenius SE in the name of and on behalf of Fidelity Investment Trust, Boston, Massachusetts, USA, pursuant to Section 21 (1) WpHG of the following: On 22 January 2008, Fidelity Investment Trust exceeded the threshold of 3 % of voting rights in Fresenius SE, Else-Kröner-Strasse 1, 61352 Bad Homburg v. d.H., Germany. On that date, Fidelity Investment Trust held 3.02% of the voting rights in Fresenius SE arising from 2,341,614 voting rights.

Fidelity International, with its registered office in Great Britain, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, notified Fresenius SE in the name of and on behalf of Fidelity Management&Research Company, Boston, Massachusetts, United States, retroactively pursuant to Section 21 (1) WpHG of the following: On 4 December 2007, Fidelity Management&Research Company exceeded the threshold of 3% of the voting rights in Fresenius SE, Else-Kröner-Strasse 1, 61352 Bad Homburg v. d.H., Germany. On that date, Fidelity Management&Research Company held 3.03% of the voting rights in Fresenius SE arising from 2,346,900 voting rights. All voting rights in Fresenius SE were attributed to Fidelity Management&Research Company pursuant to Section 22 (1) sentence 1 No. 6 WpHG.

Fidelity International, with its registered office in Great Britain, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, notified Fresenius SE that as a result of an internal merger reorganisation effective from October 1, 2007, FMR LLC. (a Delaware limited liability company with its principal place of business in Boston, Massachusetts, United States) became the successor entity to FMR Corp. and has assumed all its rights and obligations. As of October 1, 2007, FMR LLC. held 3.43% of the voting rights (voting rights arising of 2,658,121 shares in Fresenius SE) and therefore exceeded the threshold of 3%. All of the voting rights of FMR LLC. are attributed to it pursuant to Section 22 (1) sentence 1 No. 6 and sentence 2 WpHG.

Fidelity International, with its registered office in Great Britain, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, notified Fresenius AG on June 25, 2007 in accordance with Section 21 (1) WpHG that, as of June 20, 2007, the voting rights of FMR Corp., 82 Devonshire Street, Boston, Massachusetts 02109, United States, in Fresenius AG, Else-Kröner-Strasse 1, Bad Homburg v.d.H., Germany, have exceeded the threshold of 3% and amounted to 3.44% (exact number of voting rights: 2,657,416 shares). The voting rights are entirely attributable to FMR Corp. pursuant to Section 22 (1) sentence 2 WpHG in connection with Section 22 (1) sentence 1 No. 6 WpHG.

Julius Baer Investment Management LLC, with registered offices in New York, 330 Madison Avenue, United States, notified Fresenius AG in accordance with Section 21 (1) of the German Securities Trading Act (WpHG) that its voting rights in Fresenius AG, Else-Kröner-Strasse 1, Bad Homburg v.d.H., Germany, exceeded the

threshold of 3 % on February 22, 2007 and amounted to 3,03 % (exact number of voting rights: 2,342,190 shares) both in relation to the total number of voting rights of the issuer and in relation to all voting shares of the same share class. The voting rights are entirely attributable to Julius Baer Investment Management LLC, 330 Madison Avenue, NY 10017 New York, United States, pursuant to Section 22 (1) sentence 1 No. 6 of the German Securities Trading Act (WpHG).

WestLB AG, with its registered office in Germany, 40217 Düsseldorf, Herzogstraße 15, notified Fresenius AG on June 22, 2007 in accordance with Section 21 (1) of the German Securities Trading Act (WpHG) that, as of June 22, 2007, its voting rights in Fresenius AG, Else-Kröner-Strasse 1, Bad Homburg v.d.H., Germany, have fallen below the threshold of 3 % and now amount to 0 %. All voting rights were held by RWS Securities Services Gesellschaft für Wertpapiervermittlung mbH and were attributed to WestLB in accordance to Section 22 (1) sentence 1 No. 1 of the German Securities Trading Act (WpHG).

(12) 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 SE was authorized, with the approval of the Supervisory Board, until May 9, 2011,

- to increase Fresenius SE'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 SE'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 of the 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 acquisition of HUMAINE.

The approved capitals have developed in 2007 as follows:

Approved capital I <i>in thousand €</i>	2006	2007
As of January 1	0	12,800
Increase by resolution of the Annual General Meeting	12,800	0
As of December 31	12,800	12,800

Approved capital II <i>in thousand €</i>	2006	2007
As of January 1	6,656	5,496
Cancellation by resolution of the Annual General Meeting	-6,656	0
Increase by resolution of the Annual General Meeting	6,400	0
Purchase of shares in Humaine Kliniken GmbH	-904	0
As of December 31	5,496	5,496

(13) Conditional capital

Corresponding to the stock option plans, the Conditional Capital of Fresenius SE is divided into Conditional Capital I and Conditional Capital II. Both exist to secure the subscription rights in connection with already issued stock options on bearer ordinary shares and bearer preference shares of the stock option plans of 1998 and 2003 (see Note 13, Stock options plans).

Due to the capital increase from the Company's funds (see Note (1), Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital), the Conditional Capital increased in the same proportion as the subscribed capital by operation of law (cf. Section 218 sentence 1 of the German Stock Corporation Act (AktG)). After the registration of the share split in the commercial register on January 24, 2007, the Conditional Capital I amounted to € 1,971,966.00 (as of December 31, 2006: € 1,682,744.32), divided into 985,983 bearer ordinary and bearer preference shares, and the Conditional Capital II amounted to € 5,104,962.00 (as of December 31, 2006: € 4,356,234.24), divided into 2,552,481 bearer ordinary and bearer preference shares.

The conditional capital I for the Fresenius SE stock option plan 1998 has developed as follows:

	ordinary shares	preference shares
	€	€
As of January 1, 2007	841,372	841,372
Increase from corporate funds	144,611	144,611
Decrease due to exercise of stock options	-217,677	-217,677
As of December 31, 2007	768,306	768,306

The conditional capital I for the Fresenius SE stock option plan 2003 has developed as follows:

	ordinary shares	preference shares
	€	€
As of January 1, 2007	2,178,117	2,178,117
Increase from corporate funds	374,364	374,364
Decrease due to exercise of stock options	-187,770	-187,770
As of December 31, 2007	2,364,711	2,364,711

Stock option plans

On December 31, 2007, Fresenius SE has two stock option plans in place; the stock option based plan of 1998 (1998 Plan) and the currently active plan from the year 2003 which is based on convertible bonds (2003 Plan). The latter is the only plan under which options in the form of convertible bonds have been granted during 2007.

Under the 2003 Plan, 1,440,000 convertible bonds with a par value of € 2.56 each could be granted in total until the entry of the stock split on January 24, 2007 (see Note (1), Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital). After the share split (ratio 1 (old) : 3 (in the future)) 1,080,000 convertible bonds with a par value of € 1.00 each could be granted in total during 2007. The bonds were granted exclusively to the members of the Management Board of Fresenius SE, to members of the management of affiliated companies, to employees of Fresenius SE and to employees of its affiliated companies.

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 were excluded. The convertible bonds entitle to the subscription of up to 1,260,000 bearer ordinary shares and up to 1,260,000 non-voting bearer preference shares of Fresenius SE. Members of the Management Board of Fresenius SE were entitled, in total, up to 560,000 convertible bonds giving the right to subscribe up to 280,000 bearer ordinary shares and the same number of non-voting bearer preference shares. Employees were entitled, in total, up to 1,960,000 convertible bonds giving the right to subscribe up to 980,000 bearer ordinary shares and the same number of non-voting bearer preference shares.

The convertible bonds 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 SE 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 SE and are not reflected in the consolidated financial statements. The bonds expire in ten years and one third of them can be exercised beginning after two, three and four years, respectively. Bonds which were not financed by a note to Fresenius SE 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 (after the share split 1/3 of the initial value) by at least 25 %. If converted after the share split the conversion price which entitles to three ordinary shares or preference shares, respectively, is equal to the triple of one third of the initial value. 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 convertible bond granted after the share split entitles to subscribe one ordinary or preference share, subject to payment of the conversion price. Bonds granted and converted prior to the share split were entitled to subscribe one ordinary or preference share, conversion after the share split entitles to three ordinary or preference shares. Up to 20 % of the total amount available for the issuance of awards under the 2003 Plan could be issued each year.

During 1998, Fresenius AG adopted the 1998 Plan for 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 SE. Options granted under this plan have a ten-year term, and one third of them vest on each of the second, third and fourth anniversary of the grant date. Prior to the share split one ordinary or one preference share could be acquired for each option. After the

share split each option entitles to acquire three ordinary or preference shares. The maximum number of ordinary or preference shares to be issued to the members of the Management Board or senior employees has been adjusted accordingly.

Transactions during the fiscal year

In 2007, the Fresenius SE awarded 913,420 stock options, including 131,580 options to members of the Management Board of Fresenius SE, at a weighted-average exercise price of € 56.74, a weighted-average fair value of € 19.22 each and a total fair value of € 18 million.

During the year 2007, Fresenius SE received € 21 million from the exercise of 810,894 stock options. The average stock price was € 54.61 for ordinary shares and € 55.78 for preference shares at exercise date. The intrinsic value of options exercised in the year 2007 was € 24 million.

At December 31, 2007, out of 856,908 outstanding and exercisable options issued under the 1998 Plan, 25,800 were held by the members of the Fresenius SE Management Board. The number of outstanding stock options issued under the 2003 Plan was 3,387,084, of which 787,280 were exercisable. The members of the Fresenius SE Management Board held 541,320 options.

Stock option transactions are summarized as follows:

	ordinary shares number	preference shares number
Number as of December 31, 2006	696,802	696,802
adjustment due to share split	1,393,604	1,393,604
plus new issues	456,710	456,710
less forfeited options	-19,673	-19,673
less exercises	-405,447	-405,447
Number as of December 31, 2007	2,121,996	2,121,996

(14) Capital Reserves

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

In 2006, the capital reserve increased by € 41 million in connection with the acquisition of HUMAINE.

The capital reserves have developed during the fiscal year as follows:

	2006	2007
<i>in thousand €</i>		
As of January 1	1,463,871	1,535,798
Increase due to exercise of stock options	30,831	19,612
Decrease due to stock split	0	-22,638
Increase due to purchase of shares in Humaine Kliniken GmbH	41,096	0
As of December 31	1,535,798	1,532,772

The capital reserve corresponds by 10% of the subscribed capital to the legal reserve according to section 150 (1) and (2) of the German Stock Corporation Act.

(15) Other reserves

The other reserves developed as follows:

	2006	2007
<i>in thousand €</i>		
As of January 1	397,745	404,245
Increase in other reserves	6,500	36,000
As of December 31	404,245	440,245

(16) Retained earnings

Accumulated profits from the prior year of € 331 thousand are included in the retained earnings in accordance with a decision taken at the Annual General Meeting on May 16, 2007.

(17) Special reserve for investment government grants

Special reserves are primarily comprised of investment government grants according to sections 1, 4 and 4b of the German Investment Subsidy Code (InvZulG). Dissolution of grants is included for the useful life of the subsidized assets. The yearly dissolution (€ 1 thousand) is included in the profit and loss statement under other operating income.

(18) Accrued expenses

Pension obligations are established according to actuarial regulations and generation tables RT 2005.

Accruals for income taxes include estimated amounts for outstanding tax payments from the prior years.

Other accruals are primarily established to cover personnel costs, insurance fees, process risks, indemnity claims and interest on higher tax payments established by audits as well as outstanding invoice liabilities.

(19) Liabilities

	2006		2007			
	Total	thereof with a remaining term of up to 1 year	Total	thereof with a remaining term of up to 1 year	1 year up to 5 years	over 5 years
<i>in thousand €</i>						
Convertible bonds	498	240	595	328	267	0
Bank loans (thereof amount secured)	111,486 (0)	46,740 (0)	200,085 (0)	143,722 (0)	16,363 (0)	40,000 (0)
Trade accounts payable	2,453	2,453	569	569	0	0
Accounts payable to related parties	1,301,421	176,941	1,204,215	231,351	141,071	831,793
Other liabilities	6,693	6,693	10,398	10,398	0	0
	1,422,551	233,067	1,415,862	386,368	157,701	871,793
(thereof amount secured)	(0)	(0)	(0)	(0)	(0)	(0)

Convertible Bonds

Liabilities result from the issuance of convertible bonds worth € 595 thousand as part of the Fresenius SE 2003 stock option plan.

Bank loans**European Investment Bank Agreement**

Fresenius SE has available a revolving credit facility with the European Investment Bank (EIB) of € 96 Mio. with a maturity until June 2013. As of December 31, 2007 this credit facility was used in an amount of € 40 Mio.

The credit facility has a variable interest rate, which is quarterly adjusted. As of December 31, 2007 the portion used by Fresenius SE had an interest rate of 4.93 %. The drawings on the credit facility are secured by bank guarantees. Furthermore the facility contains the common obligations and commitments. EIB is the non-profit-oriented financing institution of the European Union which provides long-term

financing for specific invest- and research-projects with advantageous conditions – usually up to 50 % of the project-volume.

Revolving credit facility

On October 13, 2006 Fresenius SE signed a syndicated credit agreement of € 350 Mio. with a group of banks. Therewith a revolving credit facility with a maturity of five years is available, which was not used in the fiscal year.

Liabilities from affiliated companies

Liabilities from affiliated companies comprise loans and financing accounts with affiliated companies in an amount of € 1,203,948 thousand (previous year € 1,301,421 thousand) and trade accounts payable amounting € 267 thousand (previous year € 0 thousand).

Other liabilities

Other liabilities include, above all, liabilities from taxes, interest liabilities as well as payroll liabilities.

Tax liabilities amount to € 3,724 thousand (previous year € 2,885 thousand).

(20) Contingent Liabilities

	2006	2007
<i>in thousand €</i>		
Contingencies from indemnity agreements and guarantees	1,323,640	1,372,577
(thereof amount in favor of and from affiliated companies)	(1,323,640)	(1,372,577)

Fresenius SE has undertaken to exempt on certain preconditions various members of the managing boards of foreign affiliates from claims, in case such claims should be made due to their function as members of the managing board of the affiliated concerned, and these claims are based on the lay of the respective country.

Fresenius SE 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.

Fresenius SE guarantees the main liabilities of its wholly-owned subsidiary Fresenius Finance B.V. The following table shows these Fresenius Finance B.V.'s liabilities as of December 31, 2007:

	Issuer	Nominal Value	Maturity Date	Nominal Interest
Loan Notes				
	Fresenius Finance B.V. 2004/2008	40 Mio €	May 18, 08	variable
	Fresenius Finance B.V. 2007/2012	26 Mio €	Jul 02, 12	5.51 %
	Fresenius Finance B.V. 2007/2012	74 Mio €	Jul 02, 12	variable
	Fresenius Finance B.V. 2007/2014	38 Mio €	Jul 02, 14	5.75 %
	Fresenius Finance B.V. 2007/2014	62 Mio €	Jul 02, 14	variable
Senior Notes				
	Fresenius Finance B.V. 2003/2009	100 Mio €	Apr 30, 09	7.50 %
	Fresenius Finance B.V. 2006/2013	500 Mio €	Jan 31, 13	5.00 %
	Fresenius Finance B.V. 2006/2016	500 Mio €	Jan 31, 16	5.50 %

In 2007, Fresenius Finance B.V., a wholly-owned subsidiary of Fresenius SE, issued Euro Notes of € 200 million. The Euro Notes were issued on July 2, 2007 and have five and seven year terms. They are guaranteed by Fresenius SE. The proceeds from the issuance of the Euro Notes were mainly utilized to refinance Euro Notes of € 126 million that were due in 2007 and for repayment of short-term debt.

All Senior Notes of Fresenius Finance B.V. are guaranteed by Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius SE 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 SE 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 Fresenius SE reaches investment grade. In the event of non-compliance with the terms of the Senior Notes, the bondholders (owning in aggregate more than 25 % of the outstanding Euro Bonds) are entitled to call the Senior Notes and demand immediate repayments plus interest. As of December 31, 2007, the Fresenius Group was in compliance with all of its covenants

(21) Other financial commitments

	2006	2007
<i>in thousand €</i>		
Commitments from building leases, and leasing commitments		
due 2008 (prior year: 2007)	439	409
due 2009-2012 (prior year 2008-2011)	62	76
due nach 2012 (prior year: after 2011)	-	-
	501	485
Commitments from ongoing capital expenditures (thereof amount to affiliated companies)	4,311 (-)	634 (-)
Other Commitments (thereof amount to affiliated companies)	13,915 (13,915)	14,140 (14,140)
	18,727	15,259

Other financial commitments comprise commitments from the transfer of pension obligations from operating divisions of the business segments and future payment-obligations from subsidiaries resulting from acquisitions. The decrease of purchase commitments results from the completion of the headquarter's enhancement in Bad Homburg.

Notes on the profit and loss statement**(22) Income from participations**

The increase in income from participations mainly results from the profit and loss transfer agreement with Fresenius Kabi AG.

	2006	2007
<i>in thousand €</i>		
Income from profit transfer agreements	166,324	185,637
Income from participations (thereof amount from affiliated companies)	52,601 (52,601)	56,836 (56,836)
Expenses from loss transfer agreements	-45,322	-48,890
	<hr/> 173,603	<hr/> 193,583

(23) Other operating income

Other operating income of a total € 51,761 thousand (previous year € 51,060 thousand) are comprised primarily of reimbursements, service contracts with other subsidiaries, sales of property, plant and equipment from other accounting periods as well as other income from other accounting periods, mainly income from the dissolution of short-term accruals in the amount of € 1,132 thousand (previous year € 1,033 thousand).

The total income from other accounting periods was € 2,395 thousand in the fiscal year (previous year € 2,320 thousand).

(24) Personnel expenses

	2006	2007
<i>in thousand €</i>		
Salaries and wages	18,357	20,404
Social securities and costs of retirement pensions and social assistance	3,592	5,204
(thereof amount fo retirement pensions)	(1,502)	(2,892)
	21,949	25,608

On an annual average basis Fresenius SE's employees are divided into the following groups:

	2006	2007
Wage earners	15	14
Salaried employees	147	170
Apprentices	60	66
	222	250

(25) Depreciation and amortization of intangible assets and property, plant and equipment

Depreciation of intangible assets and property, plant and equipment of € 4,028 thousand (previous year € 4,438 thousand) is regular depreciation.

(26) Other operating expenses

Other operating expenses of a total € 43,707 thousand (previous year € 40,913 thousand) were primarily IT-related expenses, insurance premiums and consulting expenses.

The total expenses from other accounting periods were € 101 thousand in the fiscal year (previous year € 11 thousand).

In 2007 and 2006, fees for the auditor were expensed as follows:

	2006	2007
<i>in thousand €</i>		
Audit fees	365	431
Tax consulting fees	0	0
Other fees	57	0
	422	431

(27) Earnings before interest and taxes (EBIT)

	2006	2007
<i>in thousand €</i>		
Profit on ordinary activities	109,097	141,253
Net interest	48,266	30,748
Other taxes	-697	-211
EBIT	156,666	171,790

(28) Net interest

	2006	2007
<i>in thousand €</i>		
Interest income from long-term loans (thereof amount from affiliated companies)	29,244 (29,244)	19,971 (19,964)
Other interest and similar income (thereof amount from affiliated companies)	36,734 (31,502)	30,091 (20,666)
Interest and similar expenses (thereof amount from affiliated companies)	-114,244 (86,944)	-80,810 (62,488)
	<u>-48,266</u>	<u>-30,748</u>

Previous year's net interest was burdened by cost in relation with the Euro-Bond. In 2007 we could decrease debt and achieved more favourable conditions which improved net interest.

(29) Income taxes

Income taxes resulted primarily from current tax expenses in an amount of € 2,117 thousand (previous year primarily income taxes from other accounting periods € 13,039 thousand).

(30) Derivatives

Fresenius SE uses derivative financial instruments to hedge against existing or highly probable future interest and currency risks. On the closing date, the Company had derivatives with a nominal value of € 25,286 thousand (previous year: € 45,326 thousand) and a fair value of € - 78 thousand with a maximum maturity of 12 months and euro interest rate swaps with a nominal value of € 40,000 thousand (previous year € 166,000 thousand) and a fair value of € - 467 thousand (previous year € 904 thousand) with a maximum maturity of 45 months. This includes currency-related derivatives with a nominal value of € 3,749 thousand (previous year € 27,381 thousand) and a fair value of € - 36 thousand (previous year € 1 thousand) that Fresenius SE, as parent, took out and transferred on behalf of subsidiaries. The fair value is based on the market value of a derivative financial instrument that was negotiated in a single transaction between two parties but does not include forced sales or liquidation sales.

On balance sheet date the negative market value of currency derivatives not transferred to subsidiaries of € 254 thousand (previous year € 53 thousand) were accounted for under other accruals.

(31) Compensation report

The compensation report of Fresenius SE summarizes the principles applied for the determination of the compensation of the members of the Management Board of Fresenius SE and explains the amounts and structure of the Management Board compensation. The compensation report is based on the recommendations of the German Corporate Governance Code and also includes the disclosures in accordance with the German Commercial Code extended by the German Act on the Disclosure of Management Board Compensation.

Compensation of the Management Board of Fresenius SE

The basis for the compensation of the Management Board was determined by the Supervisory Board of Fresenius SE, its structure and amount by the personnel committee of the Supervisory Board of Fresenius SE. The personnel committee is composed of the Supervisory Board members Dr. Gerd Krick, Dr. Karl Schneider and Wilhelm Sachs.

The objective of the compensation system is to enable the members of the Management Board to participate in the development of the business relative to their duties and performance and the successes in managing the economic and the financial position of the Company taking into account its comparable environment.

The compensation of the Management Board is, as a whole, performance oriented and consisted of three elements in the fiscal year 2007:

- non-performance-related compensation (basic salary)
- performance-related compensation (variable bonus)
- long-term incentive elements (stock options, convertible bonds)

Furthermore, one member of the Management Board had a pension commitment in the reporting period.

The design of the individual components is based on the following criteria:

The non-performance-related compensation was paid in twelve monthly installments as basic salary in the fiscal year 2007. 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 also be granted for the fiscal year 2007 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 years 2007 and 2006, the amount of cash payment to the Management Board of Fresenius SE consisted of the following:

	Non-performance related compensation				Performance related Compensation Bonus		Cash compensation (without long-term incentive components)	
	Salary 2006	Salary 2007	Other* 2006	Other* 2007	2006	2007	2006	2007
<i>in thousand €</i>								
Dr. Ulf M. Schneider	600	800	41	41	954	952	1,595	1,793
Rainer Baule	425	425	43	38	825	801	1,293	1,264
Andreas Gaddum	325	325	86	86	498	501	909	912
Dr. Jürgen Götz (ab 1. Juli 2007)		162		10		157		329
Dr. Ben Lipps**	836	766	150	230	1,627	1,647	2,613	2,643
Stephan Sturm	425	425	87	86	756	701	1,268	1,212
	2,611	2,903	407	491	4,660	4,759	7,678	8,153

* Includes insurance premiums, private use of company cars, contributions to pension and health insurance and other benefits.

** Dr. Ben Lipps receives his compensation only by Fresenius Medical Care, of which Fresenius SE held 35.95 % of the total subscribed capital.

As Dr. Ben Lipps is a member of the Management Board of Fresenius SE, his compensation has to be included in the compensation report of the Fresenius SE.

In the fiscal year 2007, convertible bonds and stock options based on the Fresenius AG Stock Option Plan 2003 and the Fresenius Medical Care AG&Co. KGaA Stock Option Plan 2006 were granted as components with long-term incentive effects. The principles of both plans are described in more detail in Note 13, Stock options.

For the fiscal years 2007 and 2006, the number and value of convertible bonds and stock options issued is shown in the following table. The data contained therein take into account the changes that resulted from the share split of Fresenius SE resolved by the Extraordinary General Meeting on December 4, 2006 and implemented by the Company with effect as of January 24, 2007.

	Components with long-term incentive effects			
	Convertible Bonds*		Value in € thousand	
	Number 2006	Number 2007	2006	2007
Dr. Ulf M. Schneider	43,860	43,860	700	838
Rainer Baule	21,930	21,930	350	419
Andreas Gaddum	21,930	21,930	350	419
Dr. Jürgen Götz (since July 1, 2007)		21,930		419
Dr. Ben Lipps**	99,600	99,600	985	967
Stephan Sturm	21,930	21,930	350	419
	209,250	231,180	2,735	3,481

* Convertible Bonds, that were issued in the years 2007 and 2006 from the stock option plans of Fresenius SE

** Dr. Ben Lipps receives his compensation only by Fresenius Medical Care

The stated values of the convertible bonds and stock options granted to members of the Management Board in the fiscal year 2007 correspond to their fair value at the time of grant, namely a value of € 19.11 (2006: € 15.97) per convertible bond of Fresenius SE and € 9.71 (2006: € 9.89) per stock option of FMC-AG&Co. KGaA. The exercise price for the granted convertible bonds of Fresenius SE is € 56.27 (2006: € 40.13) and for the granted stock options of FMC-AG&Co. KGaA is € 33.91 (2006: € 30.49).

As the financial targets of the year 2007 were achieved, Dr. Ben Lipps is entitled to a stock-based compensation in an amount of € 910 thousand (2006: € 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 2007, the members of the Management Board held a total of 567,120 (2006: 446,340) stock options and convertible bonds of Fresenius SE and 824,280 (2006: 760,149) stock options and convertible bonds of FMC-AG&Co. KGaA.

The following table shows the total compensation for the years 2007 and 2006:

	Cash compensation (without long-term incentive components)		Long-term incentive components		Total compensation (including long-term incentive components)	
	2006	2007	2006	2007	2006*	2007
<i>In € thousand</i>						
Dr. Ulf M. Schneider	1,595	1,793	700	838	2,295	2,631
Rainer Baule	1,293	1,264	350	419	1,643	1,683
Andreas Gaddum	909	912	350	419	1,259	1,331
Dr. Jürgen Götz (since July 1, 2007)		329		419		748
Dr. Ben Lipps	2,613	2,643	1,776	1,877	4,389	4,520
Stephen Sturm	1,268	1,212	350	419	1,618	1,631
	7,678	8,153	3,526	4,391	11,204	12,544

* The amounts of previous year 2006 were adjusted at the disclosure of the year 2007 which corresponds to the amount at the time of giving. In 2006 was the booked expenses from the fiscal year in the total amount included.

The components with long-term incentive effect can be exercised only after the expiry of the specified vesting period. The value is recognized over the vesting period as expense in the respective fiscal year. The expenses attributable to the fiscal years 2007 and 2006 are stated in the following table:

	Expenses for long-term incentive components	
	2006	2007
Dr. Ulf M. Schneider	444	597
Rainer Baule	224	298
Andreas Gaddum	233	334
Dr. Jürgen Götz (since July 1, 2007)		75
Dr. Ben Lipps*	385	837
Stephen Sturm	233	334
	1,519	2,475

The non-performance related compensation components and the basic structures of the performance-related compensation components are agreed in the service agreements with the individual Management Board members. The convertible bonds and stock options are granted annually by the personnel committee of the Supervisory Board.

Commitments to members of the Management Board for the event of the termination of their appointment

There are individual contractual pension commitments for the Management Board members Rainer Baule and Stephan Sturm (since 2008). With regard to these pension commitments, the Fresenius Group had pension obligations of € 2,028 thousand as of December 31, 2007 (2006: € 1,753 thousand). The addition to pension liability in the fiscal year 2007 amounted to € 275 thousand (2006: € 319 thousand). Each of the pension commitments provides a pension and survivor benefit, depending on the amount of the most recent basic salary, from the 63rd year of life, or, in the case of termination because of professional or occupational incapacity, from the time of ending active work. The starting percentage of 30% increases with every year of service by 1.5 percentage points, 45% being the attainable maximum. 30% of the gross amount of any later income from an occupation of the Management Board member is set-off against the pension.

With the Management Board member Dr. Ben Lipps, there is an individual agreement, 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 annually by Fresenius Medical Care Management AG in return would amount to approximately 46% of the non-performance related compensation components paid to him in the fiscal year 2007.

At December 31, 2007, Andreas Gaddum resigned from the Management Board of Fresenius SE. Until the expiration of his service agreement on June 30, 2008, he will receive his stipulated non-performance-related compensation in an amount of € 162.500 as well as related benefits and a performance-related compensation on a pro rata basis according to the service agreement. For the period from July 1, 2008 to June 30, 2009, Andreas Gaddum will obtain a waiting allowance of € 262.500 for the agreed non-competition clause.

The service agreements of the members of the Management board 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 2007, no loans or advance payments of future compensation components were made to members of the Management Board of Fresenius SE.

As far as legally permitted, Fresenius SE undertook 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 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 € 483 thousand and € 588 thousand was paid in the years 2007 and 2006, respectively. The benefit obligation for these persons amounted to € 9,870 thousand in 2007 (2006: € 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 compensation of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in Section 14 of the Articles of Association of Fresenius SE. Compensation for the time after the conversion into a SE at July 13, 2007 is pending on the approval at the Annual General Meeting in May 2008. Each member of the Supervisory Board shall receive a fixed compensation of € 13 thousand. 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 a further € 10 thousand. For each full fiscal year, the remuneration increases by 10% for each percentage point that the dividend paid on each ordinary share for that year (gross dividend according to the resolution of the Annual General Meeting) exceeds 3.6% of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. The Chairman receives twice this amount and the deputies to the Chairman one and a half times the amount of a Supervisory Board member. 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. Fresenius SE provides to the members of the Supervisory Board insurance coverage in an adequate amount (relating to their function) and on an adequate excess amount basis.

For the years 2007 and 2006, the compensation for the members of the Supervisory Board of Fresenius SE were as follows:

	Fixed compensation		Compensation for committee services		Variable compensation		Total compensation*	
	2006	2007	2006	2007	2006	2007	2006	2007
<i>in thousand €</i>								
Dr. Gerd Krick	26	14	30	16	139	89	195	119
Dr. Dieter Schenk	13	7	0	0	69	45	82	52
Niko Stumpfögger (since 16.07.2007)		0		0		0		0
Gerhard Herres (until 13.07.2007)	13	7	0	0	69	45	82	52
Dario Iossi (since 16.07.2007)		0		0		0		0
Konrad Kölbl (since 16.07.2007)		0		0		0		0
Dr. Gabriele Kröner	13	7	0	0	69	45	82	52
Dr. Bernd Mathieu (until 13.07.2007)	13	7	0	0	69	45	82	52
Christel Neumann (until 13. 07. 2007)	13	7	0	0	69	45	82	52
Ilona Oesterle (until 13.07.2007)	13	7	0	0	69	45	82	52
Dr. Gerhard Rupprecht	13	7	0	0	69	45	82	52
Wilhelm Sachs	13	7	0	0	69	45	82	52
Dr. Karl Schneider	13	7	10	5	69	45	92	57
Stefan Schubert (since 16.07.2007)		0		0		0		0
Rainer Stein (since 16.07.2007)		0		0		0		0
Volker Weber (until 13.07.2007)	19	10	20	11	105	67	144	88
Dr. Bernhard Wunderlin	13	7	20	11	69	45	102	63
	175	94	80	43	934	606	1,189	743

*Parts of the compensation for 2007 relates to the time before the conversion into a SE at July 13, 2007. The remaining compensation of 2007 is pending on the approval at the Annual General Meeting in May 2008.

A roster of all Management and Supervisory Board members is included in these notes.

(33) D&O Insurance

Fresenius SE 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 SE 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 2008. 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) Corporate Governance

The members of the Management Boards and the Supervisory Boards of Fresenius SE and FMC-AG&Co. KGaA have submitted the Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) in accordance with the German Corporate Governance Code dated June 14, 2007 and made this permanently available to the shareholders.

(35) Proposal for the distribution of earnings

The Management Board of Fresenius SE proposes to the Annual General Meeting that the earnings for 2007 of Fresenius SE be distributed as follows:

Payment of a dividend of 0.66 € per bearer ordinary share on the 77,582,385 ordinary shares entitled to dividend	€ 51,204,374.10
Payment of a dividend of 0.67 € per bearer preference share on the 77,582,385 preference shares entitled to dividend	€ 51,980,197.95
Balance to be carried forward	<u>71,422.23</u>
	<u>€ 103,255,994.28</u>

(36) Responsibility Statement

“To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.”

Bad Homburg v. d. H., February 22, 2008

Dr. U. M. Schneider

R. Baule

Dr. F. De Meo

Dr. J. Götz

Dr. B. Lipps

S. Sturm

Dr. E. Wastler

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

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
Board of Directors
FHC (Holdings), Ltd., Great Britain
Labesfal - Laboratórios Almiro, S.A., Portugal

Dr. Francesco De Meo

(since January 1, 2008)
Petersberg
Business Segment Fresenius Helios

Corporate Offices
Supervisory Board
HELIOS Klinikum Bad Saarow GmbH (Chairman, since July 4, 2007)
HELIOS Klinikum Emil von Behring GmbH (Chairman, since January 1, 2008)
HELIOS Kliniken Schwerin GmbH (Chairman, since November 24, 2007)

Andreas Gaddum

(until December 31, 2007)
Mainz
Business Segment Fresenius
ProServe

Corporate Offices
Supervisory Board
HELIOS Kliniken GmbH (until December 31, 2007)
Vamed AG, Austria
Wittgensteiner Kliniken GmbH (Chairman, until November 8, 2007)

Dr. Jürgen Götz

(since July 1, 2007)
Bad Soden am Taunus
Chief Legal and Compliance Officer,
and Labor Relations Director

Corporate Offices
Supervisory Board
Wittgensteiner Kliniken GmbH (Chairman, since November 8, 2007)
HELIOS Kliniken GmbH (since May 11, 2007)
Eufets AG (until September 15, 2007)

Dr. Ben Lipps

Boston, Massachusetts (USA)
Business Segment Fresenius
Medical Care

Corporate Offices
Management Board
Fresenius Medical Care Management AG (Chairman)

Stephan Sturm

Hofheim am Taunus
Chief Financial Officer

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
Labesfal - Laboratórios Almiro, S.A., Portugal
Fresenius Kabi España S.A., Spain

Dr. Ernst Wastler

(since January 1, 2008)
Linz, Austria
Business Segment Fresenius Vamed

Corporate Offices
Supervisory Board
Vamed-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H. (Chairman)
Charité CFM Facility Management GmbH (Deputy Chairman)

SUPERVISORY BOARD

Dr. Gerd Krick

Königstein

Former Chairman of the Management Board of Fresenius AG
Chairman

Chairman of the Personnel Committee
Chairman of the Nomination Committee (since October 16, 2007)
Member of the Audit Committee
Member of the Mediation Committee (until July 13, 2007)

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 (until December 31, 2007)

Gerhard Herres

(until July 13, 2007)

Beckingen-Haustadt
Member of the Trade Union Deutscher Handels- und Industrieangestellten Verband im CGB
Member of the Works Council
St. Wendel plant

Dario Anselmo Iossi

(since July 16, 2007)

Rome, Italy
Trade Union Officer FEMCA Cisl – Energy, Fashion and Chemicals

Konrad Kölbl

(since July 16, 2007)

Hof am Leithagebirge, Austria
Member of the Manual Workers' Works Council VAMED-KMB
Krankenhausmanagement und Betriebsführungsges. m. b. H.
Chairman of the Group Works Council Vamed AG
Member of the SE-Works Council of Fresenius SE

Member of the Audit Committee (since September 15, 2007)

Corporate Offices
Supervisory Board
VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m. b. H., Austria

Dr. Gabriele Kröner

Berg

Doctor

Offices
Management Board
Else Kröner-Fresenius-Stiftung (until December 31, 2007)

Dr. rer. nat. Bernd Mathieu

(until July 13, 2007)

Spiesen-Elversberg
Graduate chemist

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

Christel Neumann

(until July 13, 2007)

Schonungen
Chairlady of the Fresenius European Employee Forum (until July 13, 2007)
Chairlady of the Works Council Schweinfurt plant
Member of the General Works Council
Member of the SE-Works Council of Fresenius SE

Ilona Oesterle

(until July 13, 2007)

Waldsolms
Member of the Works Council
Bad Homburg v. d. H.

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
ThyssenKrupp Automotive AG (until December 8, 2006)
Allianz Lebensversicherungs-AG (Chairman)
Allianz Versicherungs-AG (Chairman)
Allianz Private Krankenversicherungs-AG (Chairman)
Allianz Beratungs- und Vertriebs-AG (Chairman)
Allianz First Life Insurance Co. Ltd., Korea

Wilhelm Sachs

Friedrichsdorf

Chairman of the General Works Council
Deputy Chairman of the Works Council
Friedberg plant
Member of the Joint Works Council
Fresenius SE/Friedberg plant
Member of the SE-Works Council of
Fresenius SE

Member of the Personnel Committee (since September 15, 2007)
Member of the Mediation Committee (until July 13, 2007)

Dr. Dieter Schenk

Munich

Lawyer and tax consultant

Deputy Chairman

Member of the Nomination Committee
(since October 16, 2007)
Member of the Mediation Committee
(until July 13, 2007)

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)
NSL Consulting AG (Chairman)
TOPTICA Photonics AG (Chairman)
Administrative Board
Else Kröner-Fresenius-Stiftung (Chairman)

Dr. Karl Schneider

Mannheim

Former Spokesman Südzucker AG

Member of the Personnel Committee
Member of the Nomination Committee
(since October 16, 2007)
Member of the Audit Committee
(since September 15, 2007)
Member of the Mediation Committee
(until July 13, 2007)

Offices

Administrative Board
Else Kröner-Fresenius-Stiftung (Deputy Chairman)

Stefan Schubert

(since July 16, 2007)

Limburg-Staffel

Chairman of the Works Councils of

HELIOS Klinik Bad Schwalbach,

HELIOS Klinik Idstein and of

Kreisaltenzentrum Bad Schwalbach

Chairman of the Group Works Council

of Wittgensteiner Kliniken GmbH

Member of the SE-Works Council of

Fresenius SE

Corporate Offices

Supervisory Board
Wittgensteiner Kliniken GmbH

Rainer Stein

(since July 16, 2007)

Berlin

Chairman of the Group Works Council

HELIOS Kliniken GmbH

Chairman of the SE-Works Council of

Fresenius SE

Member of the Audit Committee
(since September 15, 2007)

Corporate Offices

Supervisory Board
HELIOS Kliniken GmbH

Niko Stumpfögger

(since July 16, 2007)

Zeuthen

Secretary of the Trade Union ver.di,

Betriebs- und Branchenpolitik im

Bereich Gesundheit und Soziales

Deputy Chairman

Offices

Supervisory Board
HELIOS Kliniken GmbH

Volker Weber

(until July 13, 2007)

Löhnberg

Deputy Chairman (until July 13, 2007)

Full-time Secretary of the Trade Union

IG Bergbau, Chemie, Energie

Member of the Personnel Committee (until July 13, 2007)
Member of the Audit Committee (until July 13, 2007)
Member of the Mediation Committee (until July 13, 2007)

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
Advisory Board
Harald Quandt Holding GmbH (until June 30, 2007)
Marsh & McLennan Deutschland GmbH
Von Rautenkranz Nachfolger GbR

Management Report for Fresenius SE**Operations and Business Environment****Group Structure and Business Environment**

Fresenius is an international health care group with products and services for dialysis, hospitals, and outpatient medical care. In addition, Fresenius focuses on hospital operations and offers engineering and services for hospitals and other health care facilities.

Fresenius AG was converted into a European Company (Societas Europaea) following the shareholder resolution of December 4, 2006. The change of legal form came into effect as from July 13, 2007, with its entry in the Commercial Register. Since then, Fresenius AG has been operating under the name Fresenius SE. After the successful expansion of the Group's international business and the strong growth in recent years, the conversion into a European Company was a consistent step in the Company's development. The SE is a modern legal form based on European law which will underline the Group's international focus and facilitate an open and international corporate culture at Fresenius. The conversion did not lead to a liquidation of the Company or to the formation of a new legal entity. Since there was no change in its legal identity, the Company's corporate structure and governance, and all shareholders' stakes in the Company remained unchanged.

As of December 31, 2007, the operating business comprised the business segments Fresenius Medical Care, Fresenius Kabi, and Fresenius ProServe, all legally independent entities managed by the operating parent company, Fresenius SE. The corporate structure remained unchanged in 2007. As from January 1, 2008, the former Fresenius ProServe business segment has been replaced by two new business segments — Fresenius Helios and Fresenius Vamed which so far have formed Fresenius ProServe. This step underlines the growing importance of the hospital operations business (HELIOS) and the engineering and services business for hospitals (VAMED). The two business segments will now be run independently and be directly represented in Fresenius SE's Management Board. The Fresenius Group is therefore now organized into four business segments: Fresenius Medical Care, Fresenius Kabi, Fresenius Helios and Fresenius Vamed.

- 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 Helios operates hospitals and had a network of 60 clinics, mainly in Germany, as of December 31, 2007.
- Fresenius Vamed provides engineering and services for hospitals and other health care facilities on an international basis.
- The segment Corporate/Other comprises the holding activities of Fresenius SE, 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 of about 70 production sites worldwide. Key production sites are located in the United States, China, Japan, Germany and Sweden. Production plants are also located in other European countries, Latin America, Asia and South Africa. This 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

Fresenius AG's conversion into an SE has had no effect on the governance structure, apart from the change in the composition of the Supervisory Board.

The corporate organs of the Group are the Management Board, the Supervisory Board and the Annual General Meeting. Fresenius SE has a two-tier management and control system consisting of the Management Board and the Supervisory Board. This is in accordance with Regulation No. 2157/2001 concerning the Statutes of the European Company (SE). The two boards work independently of each other. No one is allowed to be a member of both organs simultaneously.

The Management Board of Fresenius SE conducts the business and represents the Company in dealings with third parties. As from January 1, 2008, the Management Board has seven 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, business profitability, 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. It is prohibited from managing the Company directly. However, the Management Board's rules of procedure require it to obtain the Supervisory Board's approval for specific activities.

The Supervisory Board of Fresenius SE is comprised of six shareholders' representatives and six employees' representatives. All twelve members of the Supervisory Board are appointed by the Annual General Meeting. Six of the twelve members must be appointed on the basis of a proposal put forward by the employees; the Supervisory Board is bound to the employee's proposal. In accordance with the legal form of an SE, the employee representatives may come from various European countries. The Supervisory Board must meet at least twice per calendar half-year.

The appointment and dismissal of the members of the Management Board is in accordance with Article 39 of the SE Regulation. The articles of association of Fresenius SE also provide that deputy members of the Management Board may be appointed.

For information on compensation, please see under (31) and (32) 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 in over 25 countries. Dialysis products are sold to Group clinics as well as to external dialysis care providers in more than 100 countries. 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 range of intravenously administered (IV) generic drugs. Fresenius Kabi sells its products mainly to hospitals in approximately 100 countries. Fresenius Helios operates hospitals mainly in Germany. Fresenius Vamed provides engineering and services for hospitals and other health care facilities internationally.

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 43 % of its sales in each country.

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 Helios is a leading private hospital operator in Germany. Fresenius Vamed is one of the internationally leading companies in the field of health care engineering.

Legal and Economic Factors

The markets of the Fresenius Group are fundamentally stable and relatively independent of economic cycles due to the intrinsic importance of the life-saving and life-sustaining products and treatments that the Group offers. Furthermore, these markets are expanding, mainly for three reasons: demographics, 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.

There were no legal aspects that significantly impacted the business performance in 2007.

Capital, Shareholders, Articles of Association

The summary below shows the subscribed capital of Fresenius SE. On December 4, 2006, the Extraordinary General Meeting 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 approximately € 22.6 million and the number of shares outstanding tripled. The share split did not affect the preference dividend or the minimum dividend payable on the preference shares. Three preference shares now represent the preference that one preference share previously denoted. The change became effective as of February 2, 2007.

	December 31, 2007			December 31, 2006	
	Number of shares	Subscribed capital in €	% of Subscribed capital	Number of shares	Subscribed capital in €
Ordinary shares/ capital	77,582,385	77,582,385.00	50 %	25,725,646	65,857,653.76
Preference shares/capital	77,582,385	77,582,385.00	50 %	25,725,646	65,857,653.76
Total	155,164,770	155,164,770.00	100 %	51,451,292	131,715,307.52

The shares of Fresenius SE 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, the articles of association of Fresenius SE contain the following three provisions for the holders of non-voting preference shares:

1. From retained earnings for the year they will receive a dividend of least € 0.02 per preference share and higher by € 0.01 per preference share than that for an ordinary share.
2. The minimum dividend payable on preference shares takes precedence over payment of a dividend on ordinary shares.
3. 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 SE 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 and/or assets in kind (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 bearer ordinary shares and/or nonvoting bearer preference 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 € 1,536,612.00 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 rights exercise these rights.
- The subscribed capital is increased conditionally by a maximum nominal amount of € 4,729,422.00 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 SE does not have a share buyback program.

Direct and indirect ownership interests in Fresenius SE are listed on pages 9 to 11 of the Notes. The Else Kröner-Fresenius-Stiftung notified the Company on December 28, 2007 that they have an ownership interest in Fresenius SE of 46,582,692 ordinary shares representing 60.04 % of the voting rights.

Changes to the articles of association are made in accordance with Article 59 of the SE Regulation in accordance with Section 18 (3) of the articles of association. Unless mandatory legal provisions require otherwise, amendments of the statutes require a majority of two thirds of these votes cast or, if at least half of the subscribed capital is represented, the simple majority of votes cast. If, for the effectiveness of the passing of resolutions, mandatory legal provisions require that, in addition, a majority of the subscribed capital be represented when the resolution is passed, the simple majority of the subscribed capital represented shall be sufficient, to the extent that this is permitted by law. If the voting results in a tie, a motion shall be deemed rejected. The articles of association of Fresenius SE authorize the Supervisory Board to make changes to these that relate to their wording in its respective relevant version without a resolution by the 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.

Goals and Strategy

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 grow its market share. Fresenius Medical Care is the largest dialysis company in the world with an especially strong market position in the United States. Future opportunities in dialysis will arise from international expansion in dialysis care and in renal pharmaceuticals. Fresenius Kabi is the European market leader in infusion therapy and clinical nutrition. To strengthen this position, more products in its portfolio will be rolled-out to growth markets. Further market share is also anticipated from the launch of new products in the field of intravenously administered generic drugs and new medical devices for infusion therapy and clinical nutrition. Fresenius Helios is in a strong position to take advantage of the further growth opportunities offered by the continuing privatization process in the German hospital market. Fresenius Vamed will be further strengthening its position as a specialist provider of engineering and services to hospitals and other health care facilities.
- 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 and quality 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 but also provide 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 and chronically ill. Fresenius Helios' 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. To contain costs, 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. By focusing on our operating cash flow and with efficient working capital management, we will increase our investment flexibility and improve our balance sheet ratios. Another goal is to optimize our weighted cost of capital (WACC) by deliberately employing a balanced mix of equity and debt funding.

We report on our goals in detail in the Outlook section of the Management Report on pages 31 to 36.

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 related medical devices
- Antibody therapies.

Apart from products, we are concentrating on developing optimized or completely new therapies, treatment methods, and services. In 2007, we successfully continued numerous projects and several new products were launched.

Fresenius Medical Care continued to work hard to improve dialysis therapies. Our projects' main focus was on the further development of dialyzers and on market-specific adaptations for our new 5008 hemodialysis machine. Other R&D efforts were directed toward development of a global cyclor for peritoneal dialysis and extracorporeal liver support.

Fresenius Kabi concentrated on developing new products and product enhancements in its core areas of infusion therapy, clinical nutrition, and medical devices. Main developments included a new product variant for blood volume substitution and advances in intravenously administered drugs. There was also a further enhancement of three-chamber bags for parenteral nutrition and patient-specific developments for enteral nutrition.

Important projects at Fresenius Biotech involved trifunctional antibody therapies: phase II clinical studies to treat patients with breast and gastric cancer were continued. A phase II study in the indication of ovarian cancer was started. Following the successful completion of the phase II/III pivotal study in the indication of malignant ascites, the marketing authorization application was dispatched to the EMEA, the European Medicines Agency, at the end of December 2007.

Our main research sites are in Europe. Production-related research is also carried out in the United States and in 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 strong upward trend in the global economy since 2004 subsided slightly during 2007. The trigger was the financial market crisis that emerged in the second half of the year, sparked by defaults on subprime mortgage loans in the United States. This led to a liquidity squeeze in the international financial markets and temporary sharp falls in share prices in the stock markets.

The growth in global gross domestic product (GDP) was slightly weaker than in 2006 at 5.2 % (2006: 5.4 %). The emerging economies, such as China, India and Russia, gained weight over the past years, while the importance of the two largest economies, the United States and Japan, has declined. World economic growth was mainly driven by the continued strong demand from the emerging markets.

The oil price rose steeply in 2007, reaching new record levels of almost US\$ 100 per barrel. The euro firmed against the US dollar, driven by the good economic development in the Eurozone and the expectation of further interest rate hikes by the European Central Bank.

Europe

In 2007, economic development in the Eurozone was again robust, with GDP growth of 2.6 % (2006: 2.8 %). Strong growth rates of over 3.0 % were achieved in Ireland (4.5 %), Finland (4.3 %), Greece (4.0 %), Spain (3.8 %), and Austria (3.3 %). Good economic growth in Germany contributed significantly to the economic upturn in the Eurozone. In France (1.9 %), Italy (1.8 %) and Portugal (1.8 %) growth was more modest. Driven by the dynamic momentum of expansion of the world's economy, exports rose strongly in almost all member states despite the strength of the euro. Corporate investment also was an important support for economic enterprise in the Eurozone. Private consumption was buoyant, bolstered by an impressive decline in unemployment in 2007 and the two previous years. Thanks to the encouraging economic development, the European budget scenario improved, prompting the European Union's Economic and Financial Affairs Council to drop the excessive deficit procedure pending against Germany, Greece, and Malta.

Economic development in Germany was again positive, with GDP growth of 2.6 % (2006: 2.9 %), despite the fact that the country had to assimilate its biggest ever increase in value-added tax since it was first introduced in 1968. Nonetheless, thanks to increasing incomes and the improving situation in the labor market, private consumption was only marginally below the previous year's level. Exports were again the main growth driver in 2007. Weaker demand from the United States in the wake of the U.S. subprime crisis was more than offset by strong export sales to Asian and Central and Eastern European markets. Business confidence among German companies remained positive in 2007, reflecting their strong profitability and healthy financial situation.

The EU member states in Eastern Europe again witnessed strong growth. The highest GDP growth was in Lithuania with 10.5 % (2006: 11.9 %), followed by Estonia with 8.5 % (2006: 11.2 %), and Slovakia with 9.0 % (2006: 8.5 %).

United States

The economic situation in the United States cooled in 2007. After a modest start to the year sentiment remained optimistic, anticipating that the crisis in the private housing market would be overcome. Instead, rising interest rates and falling property prices led to the subprime mortgage market crisis later in the year. High energy prices also dampened the economy. GDP grew by 2.2 %, well below the IMF's forecast of almost 3.0 %. Private consumption continued to provide the greatest support for the economy despite increased restraint in consumer spending. Overall, domestic demand was moderate. Exports grew, buoyed by the weakness of the US dollar. In the second half of the year monetary policy focused on stabilizing the financial system. However, as a result of the uncertainties, the Federal Reserve rate was lowered from 5.25 % to 4.25 %. In 2008, the Federal Reserve rate was lowered further to currently 3.0 %.

Asia

Asia (excluding Japan) was once again the world's fastest growing region, with GDP growth of 9.5 % (2006: 9.3 %). The vigorous economic development in China was reflected in its GDP growth of 11.4 % - above 10 % for the fifth year running. The main drivers were investment in machinery and equipment and private consumption. Exports once again played an important role. India's GDP grew by 9.0 %, the main drivers being the capital goods industry as well as information technology and processing. Japan's economy lost momentum in 2007. Despite a weaker yen and a strong world economy, the Japanese economy failed to extricate itself from a near deflationary situation. Its GDP growth decreased to 1.6 % (2006: 2.2 %). The emerging economies of Southeast Asia took advantage of the favorable export conditions and continued to expand, proving relatively robust to the crisis in the international financial markets.

Latin America

The economic upswing in Latin America continued in 2007. GDP growth remained robust at an average rate of 5.0 % (2006: 5.2 %). The growth was dampened, however, especially in Mexico, by the downturn in the US economy. The region's resource and food exporting countries continued to profit from undiminished strong demand in 2007, despite high price levels. GDP growth was 8.1 % in Argentina (2006: 8.5 %), 5.3 % in Brazil (2006: 3.8 %), and 3.1 % in Mexico (2006: 4.8 %). Exports were the main growth driver. In Brazil, investments made a substantial contribution to the positive economic development. In the year of presidential elections, public consumption was high in Argentina. Private consumption remained buoyant in both countries.

Health Care Industry

The health care sector is one of the world's major industries and, compared with other sectors, has set itself apart through years of continuous growth and its relative insensitivity to economic fluctuations. Its main drivers in the industrialized countries are aging populations, the demand for innovative therapies and advances in medical technology. Growing health consciousness is also increasing the demand for health care services and facilities. In the emerging countries, the main growth driver is the increasing availability of primary health care.

At the same time, the cost of health care is rising and is claiming an ever increasing share of national income. Average per capita health care spending in the OECD countries increased more than 80 % between 1990 and 2005, heavily outpacing the 37 % growth in GDP. Today, one in four OECD countries spends over 10 % of its GDP on health care. In 2005, relative to GDP, the United States spent the highest percentage on health care, followed by Switzerland, France, and Germany.

Reforms and cost-containment measures are the main reactions to the steadily rising expenditures. In the past, the focus was mostly on short-term changes in the financing of medical services. Increasingly, outdated health care structures are being reviewed and market-driven elements introduced into health care systems. The goal is to create new incentives for cost-conscious as well as quality-conscious performance. The quality of treatment is a crucial factor in optimizing medical results and reducing overall treatment costs. Against this background, ever greater emphasis is being placed on disease prevention and innovative reimbursement models where the quality of treatment is the key parameter.

Our most important markets developed as follows:

The Dialysis Market

In 2007, the global dialysis market grew by approximately 5 % to a volume of about US\$ 58 billion. 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.

In more than 140 countries, patients with terminal kidney failure receive kidney replacement therapy in the form of dialysis or a transplant. The prevalence differs widely from region to region. The overwhelming majority of the patients (95 %) are treated in just 60 countries. If these 60 countries are grouped according to their economic strength in terms of per capita gross domestic product, they can be divided into three categories: the 20 strongest economies, which include the two largest dialysis markets the United States and Japan, have an average prevalence of well over 1,000 patients 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 approximately 100 patients per million population. These figures show that the economic situation of a country has a significant influence on access to life-saving dialysis treatment.

The number of dialysis patients worldwide increased by about 6 % in 2007. At the end of the year there were approximately 1.64 million patients receiving regular dialysis treatment. More than 89 % of these are treated with hemodialysis, while about 11 % choose peritoneal dialysis.

The majority of hemodialysis patients are treated in dialysis clinics. There are about 26,500 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 about 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 the dialysis products market, the most important products are dialyzers, hemodialysis machines, dialysis solutions and products for peritoneal dialysis. Dialyzers are by far the biggest product segment in the dialysis market. Approximately 165 million units were sold in 2007, of which about 75 million were produced by Fresenius Medical Care. Dialysis machines are another important segment in the products business. Of the approximately 55,000 new dialysis machines that were brought onto the market in 2007, over 50 % were from Fresenius Medical Care. The top three manufacturers have a share of almost 70 % of the global market for dialysis products. Fresenius Medical Care is the market leader with a share of about 30 %.

Fresenius Medical Care is also the world leader in dialysis care. The company has further expanded its leadership in dialysis care in the United States to a market share of about 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, Fresenius Medical Care competes mainly with independent clinics and clinics that are affiliated to hospitals; the markets for dialysis care are much more fragmented.

Terminal kidney failure is one of the few chronic diseases whose treatment is covered by the public health insurers in the United States. The two public health care programs Medicare und Medicaid cover the medical services for more than 80 % of all dialysis patients in the United States, and providers mainly compete on quality and availability. Changes in the reimbursement rates or in the method of reimbursement therefore have special relevance for our North America business.

The following changes in the reimbursement system came into force in the United States in 2007:

- As from April 1, 2007, the Medicare reimbursement rate per dialysis treatment (Composite Rate) was increased by 1.6 % over the previous year.
- The level of reimbursement for renal pharmaceuticals such as erythropoietin (EPO) that have to be billed separately, decreased in 2007. The average sale price (ASP) plus 6 % serves as the basis for reimbursement. A fall in the ASP for this drug resulted in a decrease in the reimbursement for EPO in 2007.

In 2007, there was extensive discussion in the United States about the treatment of anemia in dialysis patients. Hemoglobin levels are measured frequently to ensure adequate medical treatment with erythropoiesis stimulating agents (ESA) like EPO. For dialysis patients the recommended hemoglobin level is in the range 10 to 12 g/dl of blood; this was also assessed as adequate by several US authorities in 2007.

There were also intensive discussions about a possible extension of a so-called Medicare Secondary Payor extension (MSP). The key issue is whether private health insurers will have to bear the costs of their dialysis patients for longer than the present period of 30 months. After this, the public health programs take over the costs. Since no decision had yet been reached by the end of 2007, there have been no changes in this regard.

The Market for Infusion Therapy and Clinical Nutrition

Demographic changes, the resulting increased need for medical services, and the demand for innovative therapies are the main growth drivers for this market. In the emerging economies, the growth in national incomes is the trigger for higher health care spending. However, market conditions for infusion therapy and clinical nutrition products vary widely from region to region:

In Central and Western Europe, cost-containment measures and health care reforms are the key factors affecting the public health systems. Therapies that lead to better clinical outcomes while reducing the length of hospital stays are increasingly gaining importance in these countries. Patients with nutritional deficiencies have poorer chances of recovery than patients with a normal nutritional status. These deficiencies can lead to higher treatment costs and longer hospital stays. Nutritional therapy measures are therefore becoming increasingly important, not only on health grounds but also for economic reasons. At the same time, cost pressures in hospitals, budget caps, and health care cost-containment schemes are continuing the shift away from inpatient care to more outpatient care. Outpatient clinical nutrition therapies should therefore gain in importance.

In Central and Western Europe, the total market for infusion therapy and clinical nutrition is currently growing at a low single-digit rate. The market for intravenously administered generic drugs for hospitals is growing at a mid single-digit rate. More and more generic drugs are being used as a result of the cost pressure. The expiration of patents for many original drugs will further accelerate this growth. Proven off-patent substances will then be used in generic products.

The 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 therapy efficiency.

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

Based on its own surveys, Fresenius Kabi assumed its relevant market for infusion solutions and clinical nutrition to be in the range of € 9 billion.

The German Hospital Market

The total volume for hospital treatment (excluding research and teaching) in Germany was about € 65 billion in 2006. Personnel costs accounted for about 63 % and material costs for about 37 %. Cost increases were largely driven by 5.9 % higher material costs. Personnel costs only rose 0.6 %.

For over 15 years the number of hospitals, the number of available beds, and the length of stay have been steadily declining in Germany due to overcapacity. Nonetheless, with 6.4 beds per 1,000 population in 2005, Germany is still well above the OECD average of 3.9.

The average stay of a patient in an acute care clinic (excluding specialized psychiatric clinics) in Germany was 8.5 days at the end of 2006. The average length of stay at the HELIOS acute care clinics in 2006 was 7.1 days, a result of their efficient processes.

After reaching a peak of 17.4 million in 2002, the number of inpatient cases in Germany declined in the following three years. Among other things, this was due to the introduction of DRG (Diagnosis Related Groups)-based reimbursement which led to an increased reduction in unnecessary referrals and to a growing number of outpatient treatments. In 2006, the number of hospital admissions rose slightly. While the number of admissions in the area of advanced medicine is expected to rise as a result of demographic changes, the shift toward outpatient treatment for less acute cases is likely to continue. Germany registered 204 inpatient hospital admissions per 1,000 population in 2006, a much higher figure in comparison to other countries. In the United States, for instance, it was 117 admissions in 2005. Other countries, rank well below the German level with figures in the range of 150 admissions per 1,000 population. The pressure on inpatient hospital capacities in Germany is therefore likely to persist. The HELIOS Kliniken nonetheless managed to increase their number of cases. HELIOS plans to strengthen inpatient care by widening its range of medically complex treatments that have to be provided on an inpatient basis and by enhancing the quality of the care provided, especially in the area of advanced medicine.

The rising number of hospital admissions at the HELIOS Kliniken and patient surveys show that patients also regard the selective, medically justified reduction of length of stay through optimized processes as positive.

The necessary structural adjustments in Germany in terms of the number of hospitals and available beds are aggravated by the difficult financial and economic situation found at many hospitals. The main factors here are rising investment needs in response to higher quality requirements and technological advances, and an increasingly competitive environment as reimbursement is standardized. It is estimated that the current annual investment backlog is approximately € 5 billion. Hospital competitiveness is therefore also dependant on their ability to self-finance these investments. In 2007, HELIOS Kliniken added € 149 million from their own funds to the grant-financed investments received from the federal states, thereby further improving its competitive position.

The German hospital market faced considerable burdens in 2007 including: the need to deduct 0.5 % from bills issued to public health insurers to implement the hospitals' contribution toward improving the finances of the public health insurance system; an increase in VAT; a wage tariff increase for hospital doctors; and additional costs resulting from EU legislation on working hours. It is expected that only about 40 % of hospitals will make a net profit in 2007.

The privatization trend in the German hospital market continued in 2007. However, the process slightly slowed down.

Quality continues to be a key competitive factor in the hospital market. The structured quality reports, which all acute care hospitals in Germany have been required to publish since 2005, provide information on the type and number of treatments and their quality. The transparency and comparability of the treatments for the patients and their doctors will play an increasingly decisive role.

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 2007. 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 2007, the positive development was driven to a large extent by the excellent performance of the business segments, where significant increases in sales and in earnings were achieved. Currency changes, especially in the US dollar/euro exchange rate, had an important impact. The Group statement of income was also affected by a number of acquisitions and divestitures, partly from 2006. The principal acquisitions were: Renal Care Group; the Taiwanese dialysis provider Jiate Excelsior; Renal Solutions in the United States; and HUMAINE Kliniken, as well as two hospitals in the state of North Rhine-Westphalia and one near Lake Constance. Städtische Kliniken Krefeld was consolidated in the balance sheet as of December 31, 2007. Fresenius Kabi acquired Nestlé's enteral nutrition business in France (Novartis Nutrition S.A.S.) and Spain (Nestlé Espana) in 2007. The perfusion business of the subsidiary Fresenius Medical Care Extracorporeal Alliance and the engineering companies Pharmaplan and Pharmatec were divested. However, the impact of these acquisitions and divestitures in the Group balance sheet as of December 31, 2007, was not significant.

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 2007 was again excellent – with sales, earnings and margin improvements in all business segments. The two business segments Fresenius Medical Care and Fresenius Kabi profited from the continued strong demand for their products and services and generally outperformed the market. This was reflected in sustained strong organic growth and higher profitability. Fresenius Helios also achieved very good organic growth and further improved its operating margin. As expected, Fresenius Vamed was able to report good sales and earnings growth in 2007.

Results of Operations, Financial Position, Assets and Liabilities**Results of Operations**

Net income in the fiscal year 2007 was € 138.9 million (2006: € 95.4 million) resulting from, as in the previous year, income from participations and the transfer of profits accounted almost entirely for the raising of result by € 43.5 million.

All the following companies have profit and loss transfer agreements with Fresenius SE: Fresenius Kabi AG, Fresenius ProServe GmbH, Fresenius Biotech Beteiligungs GmbH, Fresenius Versicherungsvermittlungs GmbH and Hygieneplan GmbH.

The profit and loss transfer agreement with Fresenius Kabi AG yielded earnings of € 115.6 million (2006: € 70.3 million).

Fresenius ProServe GmbH contributed with earnings of € 65.6 million (2006: € 88.8 million) to the net income from participations.

Fresenius Biotech Beteiligungs GmbH contributed with a loss of € 48.8 million (2006: € 45.3 million) to the net income from participations, which results from research and development-work done by its subsidiary Fresenius Biotech GmbH.

Other significant income from participations came from a € 50.1 million Fresenius Medical Care AG & Co. KGaA dividend (2006: € 43.7 million).

In addition to dividend payments and earnings from the profit and loss transfer agreement, Fresenius SE also receives income from rent and by providing services.

Previous year's net interest was burdened by cost in relation with the Euro-Bond. In 2007 we could decrease debt and achieved more favourable conditions which improved net interest.

The Management Board and Supervisory Board propose shareholders to approve a dividend increase at the Annual General Meeting. A dividend of € 0.66 per ordinary share and € 0.67 per preference share should be distributed from retained earnings, an increase of about 16 % in comparison to 2006 for both the ordinary and preference shares.

Cash Flow Statement

	2006	2007
	million €	million €
Net Income	95	139
Depreciation and amortization	5	4
Change in pension liabilities	1	2
Cash flow	101	145
Earnings on sale of fixed assets	-	-
Other non-cash income	-	-
Change in accruals for income taxes and other accrued expenses	15	-2
Change in trade accounts payable	-1	-2
Change in other operating assets and liabilities	1	14
Change in working capital	15	10
Operating cash flow (Cash provided by operating activities)	116	155
Acquisitions and capital increase of subsidiaries	-25	0
Earnings on sale of participations	67	0
Purchase of intangible assets and property, plant and equipment	-8	-2
Cash provided by/used for investing activities	34	-2
Dividends paid	-76	-89
Proceeds from bank loans	47	97
Repayment of bank loans	-629	-8
Change in financing activities with related parties	476	-173
Proceeds from exercise of stock options	32	20
Cash used for financing activities	-150	-153
Change of cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

Financial situation

Group assets are comprised primarily of shares in and loans to domestic and foreign subsidiaries as well as receivables from related parties.

Financial liabilities

The following capital market transaction was undertaken and was successfully completed before the conditions on the debt markets deteriorated sharply in the third quarter of 2007 in the wake of the subprime mortgage crisis in the United States and the difficulties experienced in the syndication of banks' extensive loan commitments for financing large debt-leveraged takeover deals:

On July 2, 2007, a € 200 million private placement with European investors was completed. A syndicated senior unsecured loan note was offered in four tranches. The placement was divided into two tranches of € 100 million, with maturities of five and seven years respectively, with a fixed-rate tranche and floating rate tranche. The loan note was raised by Fresenius Finance B.V. and guaranteed by Fresenius SE. The proceeds were used, among other things, to refinance a € 126 million loan note raised in 2004. The very positive response in the capital market and strong interest among investors led to the originally planned volume being several times oversubscribed. Therefore, we were able to place a slightly higher volume on very attractive terms.

Fresenius SE 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, 2007 and as of December 31, 2006.

Total assets of Fresenius SE increased slightly by € 69 million up to € 3,719 million (2006: € 3,650 million).

Equity ratio was with 60.0% marginally higher than previous year (59.2%).

Investments and acquisitions

Total investments in property, plant and equipment and intangible assets were € 1.7 million in 2007.

Fresenius SE did not realize any acquisitions in 2007.

Human resources

Fresenius SE had 294 employees on December 31, 2007 (December 31, 2006: 259). The increase in employees is chiefly due to expansion of administration by taking over new functions.

Profit-sharing

The high demands we place on our employees require equivalent compensation. For identifying with the Company, employees must take part in its successes and understand the opportunities and risks of entrepreneurial thinking. Fresenius uses the following models:

- Profit-sharing for our employees in Germany
- Stock option plans

These programs support the entrepreneurial focus of our employees to continually increase the value of the company and safeguard the interests of our shareholders.

Training

We can only stay ahead of the competition if our employees have the best-possible training.

University graduates attend an 18-month "Graduate Development Program" to become familiar with the relevant business areas and their future position and to gain an overview on the Group. Executive programs and leadership seminars are also a fixed component of our management training.

There were no significant changes to compensation or employment agreements in 2007.

Opportunities and Risk Report

Through the expansion, especially in international markets, and the complexity and dynamics of our business, the Fresenius Group is naturally 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, we will continue to take advantage of the wide-ranging opportunities for sustainable growth and expansion that the health care market offers to the Fresenius Group

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 potentials and consolidate and improve on what we have already achieved. Opportunities management is closely linked to the Fresenius Group's long-term strategy and medium-term planning. The Group's decentralized and regional organizational and management structure enables the early identification and analysis of trends and requirements, and the opportunities in our often fragmented markets; and we can respond to them flexibly and in line with local market needs. Furthermore, we maintain regular contact 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 exploited through continuous communication involving the exchange of information and know-how between the various business segments. Anticipated future opportunities for the Fresenius Group are discussed in the Outlook starting on page 30.

Risk Management

Like opportunities management, risk management is a continuous process. Identifying, analyzing and controlling risks are key tools of solid 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 procedures, and an early-warning system derived from our risk management system, we can identify and counteract at an early stage those developments that might 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 without delay any relevant changes in the risk profile to the Management Board.
- Markets are kept under constant observation and close contacts maintained with customers, suppliers and institutions. These practices allow us to identify and react to changes in our business environment swiftly.

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 in assets and liabilities 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, the organization and the 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. Thus, 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 2008, on the whole 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. The latter 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. In 2008, hospitals will again have to contribute a lump sum toward improving the finances of the German public health insurance system. The introduction of the DRG system (Diagnosis Related Groups) is intended to increase the efficiency of hospitals while reducing expenditure in the health care system. The Company constantly monitors further legislative developments of the DRG system. Discussions about an end to dual financing in the hospital sector are also being followed. 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. Generally, the aim is to counter possible regulatory risks through cost reductions and enhanced performance. In addition, 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 enables 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.

These audits test compliance with all regulations in all areas — from management and administration to production and clinical services and patient satisfaction. Our production facilities comply with the international "Good Manufacturing Practice" (GMP) guidelines and other internationally and nationally recognized standards. In addition, the quality management and compliance programs document and insure that business is carried out in line with high e-

thical 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 post acute care clinics presents inherent risks; at the same time operational risks, for example 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 for erythropoietin (EPO), or a change in the dosage, could have a significant impact on the revenues 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. To counter this risk, Fresenius Medical Care has entered into 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 8 % of total sales of the Fresenius Group in 2007.

On the procurement side, we counter risks, which mainly involve possible price increases, by appropriately selecting and working together with our suppliers through long-term framework agreements in certain purchasing segments and by bundling volumes within the Group.

We counter the risks associated with the engineering and hospital services business through professional project management and control, and with a proven system tailored to each business activity for identifying, evaluating and minimizing these risks. This system consists of organizational measures (such as standards for pricing-in risks when preparing quotations, risk assessment before accepting orders, regular project controlling and continual risk assessment updates), quality assurance measures and financial measures (such as checking creditworthiness, securing payment in advance through deposits, letters of credit and secured credits).

- **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 may prove to be more difficult and cost-intensive or last longer than expected. Risks can arise from the operations of the newly acquired company that Fresenius regarded as 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 insure the high standards of treatment quality. At the same time, we assist in the training of young people and thereby seek to commit them to the Company. Fresenius Helios, for instance, pays a monthly compensation to medical students during their one-year internship. This practice puts 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 25 and 26 of the Notes for further details.

The Fresenius Group is protected to a large extent against currency and interest rate risks. As of December 31, 2007, 82 % 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 18 %, or € 1,046 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 exposure to currency risks arising from our business activities does not rise to the same extent as sales.

Potential financial risks that could arise from acquisitions and investments in property, plant and equipment, and in 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 should Fresenius fail 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 the law, or changes in the reimbursement method, could affect the amounts of these payments and consequently 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. In 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 to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the court, upon plan confirmation. The settlement agreement has now been approved by the pertinent court. Also, subject to the confirmation of the W.R. Grace & Co settlement agreement, claims made out of court by certain private U.S. health insurers were also settled by agreement. Consequently, all legal issues resulting from the NMC transaction have been concluded subject to plan confirmation.

In October 2004, Fresenius Medical Care Holdings, Inc. and its subsidiaries, including Renal Care Group (RCG; before RCG was acquired) 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.

Furthermore, FMCH and its subsidiaries, including RCG (before its acquisition by Fresenius Medical Care) received in April 2005 (RCG in August 2005) 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 anemia treatment therapies, RCG's suppliers, pharmaceutical and other services which RCG has provided for patients, RCG's relations to companies in the pharmaceutical industry and RCG's procurement of dialysis machines from FMCH. The Inspector General of the U.S. Department of Health and the Attorney General for the Eastern District of Texas confirmed their involvement in the review of the anemia management program.

In July 2007, the U.S. Attorney's office filed a civil complaint against RCG and FMCH, in its capacity as RCG's current corporate parent, in the U.S. district court, Eastern District of Missouri. The complaint seeks monetary damages and penalties in respect of the business activities of the RCG Method II supply company in 2005, before RCG was acquired by FMCH.

In August 2007, the Sheet Metal Workers National Pensions Fund filed a complaint in the U.S. district court of California alleging that Amgen, Inc., Fresenius Medical Care, and DaVita, Inc. had marketed Amgen's products Epopgen and Aranesp to hemodialysis patients for uses not approved by the FDA and thereby caused a putative class of commercial insurers to pay for unnecessary prescriptions of these products.

Motions have been filed to consolidate this case with others against Amgen alone in a single case under the federal rules for multidistrict litigation.

Furthermore, the Fresenius Group is involved in various legal issues resulting from business operations and, although it is not possible to predict the precise 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, such as tax risks, environmental risks, and risks involving management and control systems or 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 know-how.

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 beyond 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 considerations needed to quickly alert us to emerging risk situations.

Corporate Rating

Fresenius' credit quality is assessed and regularly reviewed by the two leading rating agencies Moody's and Standard & Poor's. The Standard & Poor's overall rating for Fresenius SE is BB and the Moody's rating is Ba2.

In 2007, Standard & Poor's changed the rating outlook from "negative" to "stable". Moody's revised its outlook from "stable" to "positive".

The rating agencies justify the current ratings and the improved outlook as a result of, among other factors, improved financial ratios and the successful integration of the Renal Care Group and HELIOS Kliniken acquisitions. Further, the rating decisions are based on the expectation that Fresenius can sustain its positive earnings trend and will continue to generate stable cash flows in future.

Subsequent Events

Fresenius has reorganized its hospital business as of January 1, 2008. The former business segment Fresenius ProServe has been replaced by two new business segments - Fresenius Helios and Fresenius Vamed. As part of the new organizational structure, Dr. Francesco De Meo and Dr. Ernst Wastler joined the Management Board of Fresenius SE as from January 1, 2008. Dr. De Meo is responsible for the Fresenius Helios business segment. Dr. Wastler is in charge of the Fresenius Vamed business segment.

Apart from that, there have been no significant changes in the Fresenius Group's corporate position or operating environment since the beginning of 2008. At present, the Fresenius Group is not planning to carry out any significant changes in its structure, administration, or in the area of personnel. No other events of material importance have occurred following the end 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 based on the expectations and assessments of the Management Board regarding events that could affect the Company in the future. Such forward-looking statements are, as a matter of course, subject to risks, uncertainties, assumptions and other factors. Consequently, 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 21 f.

General and Mid-Term Outlook

The outlook for the Fresenius Group for the coming years continues to be very positive. Excellent growth opportunities for Fresenius are provided above all by:

- The sustained growth of the markets in which we operate. Here, Fresenius sees very good opportunities to profit from the considerable health care needs, primarily in the developing and emerging countries.
- The development of innovative products and therapies. This creates the potential to further expand our market position in the regions. In addition to innovation, best-in-class quality and the reliability of our products and therapies is key to being able to exploit opportunities for expansion.
- The expansion of our regional presence. The fast-growing markets in Asia-Pacific and Latin America especially offer further potential to increase our market shares. Besides strengthening our business regionally through market entries by our own, we plan to roll-out products and therapies from our existing portfolio successively in countries where we do not yet offer a comprehensive range.
- The broadening of our service business. Here, Fresenius Helios has concrete opportunities in the German hospital market to profit from the further privatization of public hospitals. Changes in the law could present new opportunities for Fresenius Medical Care. For instance, changes in the framework conditions for the operation of dialysis clinics for private commercial enterprises in Japan could open up new sales potential for Fresenius, since Japan is one of the world's biggest dialysis markets.
- Selective acquisitions: We will continue to seize opportunities to grow via acquisitions that extend our product portfolio and strengthen our regional presence.

We are also exploiting the opportunities to tap the potential in our internal operations for cost management and efficiency and profitability enhancement measures. These include plans for a further optimized procurement process and cost-efficient production.

Given sustained market growth and a long-term strategy oriented to profitable growth, Fresenius has set itself a mid-term goal under the slogan "15/15". Fresenius aims to reach the following in 2010:

1. Group sales of € 15 billion. Based on the sales of € 11,358 million generated in 2007, this represents a compounded annual growth rate of about 10 %. It is to be achieved through strong organic growth flanked by acquisitions.
2. An EBIT margin of 15 %. Earnings are therefore expected to grow at a significantly higher rate than sales.

Acquisitions have led to higher Group financial liabilities with a corresponding impact on net interest expense. The aim is therefore to further improve the Group's leverage ratios.

This forecast takes account of all events known at the time the annual financial statements were prepared that could influence our operating performance in 2008 and beyond. Significant risks are discussed in the Risk Report. As in the past, we will do our utmost to achieve and - if possible - exceed our targets.

Future Markets

As an international company, we offer our products and services in more than 100 countries. We expect that the consolidation process among competitors in our markets in Europe, Asia-Pacific and Latin America will continue. We therefore assume generally that there will be opportunities for Fresenius to penetrate new markets both by expanding its regional presence and by extending its product portfolio. In the United States, since Fresenius Medical Care and its competitor DaVita already have a share of about two-thirds of the market, acquisitions are likely to be fairly small, potential antitrust restrictions are an additional factor. New markets will open up for Fresenius as it successively rolls out its existing product portfolio in other regions.

Economic Outlook

The forecasts for 2008 paint a favorable picture for the global economic outlook. Growth is expected to slow but not drastically. This scenario depends on the central banks and the big financial institutions keeping the negative spillover from the financial crisis involving banks' liquidity within limits. There is still the risk that the turbulence on the financial markets will grow again and that the risk premiums in all segments of the credit market will increase more than temporarily. Global GDP growth of 4.6 % is estimated for 2008. Growth will slow most of all in the developed countries. The emerging economies, especially in Asia, will increasingly assume the role of locomotive for the world economy. Commodity prices will remain at a high level in 2008. The U.S. dollar's weakness against the euro is not expected to change significantly.

- Europe

Economic growth in the Eurozone will probably slow from 2.6 % to 1.6 % in 2008 as a result of a weaker world economy and a firmer euro. Despite these burdens thanks to an upturn in private consumption growth is unlikely to halt. This growth hinges on a further fall in unemployment, rising incomes and tax cuts, for instance in France. If the euro continues to firm against the U.S. dollar, this outcome would probably be an additional burden for industry in the Eurozone and especially for Germany with its strong export bias.

In Germany, GDP should grow by 1.7 %, driven mainly by exports and investment. However, private consumption, should pick up again. A positive development in the labor market and pay increases should boost households' real disposable incomes. Since there will not be the negative effect of a VAT increase in 2008, private consumption should be responsible for about half of the economic growth in 2008.

- United States

GDP growth in the United States should be around 1.6 % in 2008, which is below the growth of 2.2 % in 2007. Observers expect the property crisis in the United States to continue in 2008. This will affect the property market insofar as there will be a wave of rate adjustments, especially in subprime mortgages. Property prices have already fallen in response to the continued decline in demand for residential properties. Falling property prices will hurt consumption owing to their wealth effect. In this scenario, the Federal Reserve is likely to make further rate cuts.

- Asia

Experts forecast GDP growth of 8.6 % for Asia (excluding Japan). In China, concerns about the economy overheating are gaining ground. It is expected that China's central bank will take further steps to counter this. China's economy could receive a slight dampener as a result of the downturn in the United States, which accounts for about 20 % of China's exports. However, the economy's dynamic will remain strong, with an expected growth rate of 10.4 %. GDP growth in Japan, which has profited less strongly from the global dynamic in recent years, should be modest at an estimated 1.6 % in 2008. Domestic demand is expanding only moderately; export demand continues to be the driver.

- Latin America

Economic expansion in Latin America should continue at a slightly slower pace in 2008, mainly as a result of the slowdown in the U.S. economy and to a lesser extent that in Europe. GDP is therefore likely to grow by 4.4 %. Mexico will be hardest hit because of its strong trade relations with the United States. Mexico's GDP should grow by 3.4 %. Argentina and Brazil are the region's two countries that are the least vulnerable to the risks that could arise from an economic slowdown in the United States and Europe and an easing in commodity prices. Their economies are more highly developed and more diversified, for instance, they are not dependent on just one export commodity. GDP growth of 5.1 % is forecast for Argentina and 4.6 % for Brazil.

Health Sector and Markets

The Dialysis Market

We expect the number of dialysis patients to rise by 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 slight below-average patient growth. In many developing countries, however, 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 regions highlights the enormous potential of the dialysis market there.

We expect the number of patients with terminal kidney failure to increase worldwide to approximately 2 million by the year 2010. The global dialysis market will probably grow to US\$ 67 billion.

Reimbursement schemes for dialysis treatment vary from country to country. The reimbursement structures may also differ within individual countries. They may depend for instance on regional factors, the method of treatment, regulatory aspects, or the status of the dialysis care provider. The reimbursement of dialysis treatment according to quality-based criteria 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 has been active for many years in numerous countries with a variety of health care systems and reimbursement schemes. Thanks to our international experience we are able to bolster the activities of the national health care systems, to adjust our business to the local environment, and to generate profitable growth. In the United States, our largest market, patients covered by the public health insurers Medicare and Medicaid account for about 53 % of Fresenius Medical Care's dialysis care revenues.

The Market for Infusion Therapies 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 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 generic drugs 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. 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 the coming years.

The German Hospital Market

Hospitals face further economic pressure in 2008. The German government has increased the hospital budget for 2008 by 0.64 %, while maintaining the 0.5 % contribution hospitals are required to make towards improving the finances of public health insurers. Consequently, there is little scope for absorbing cost increases. According to a recent survey conducted by the German Hospital Institute, 42 % of the clinics expect their situation to deteriorate compared to 2007.

The DRG system has entered the last year of the convergence phase in 2008. As the legal situation stands at present, the convergence phase will be over for the most part as from the beginning of 2009. This means that as from then all hospitals will have to bill on the basis of standardized base rates valid throughout the respective state. The new system introduces more market-driven principles and performance transparency in the area of acute care. It will also encourage further competition since it enables the budgets agreed with the health insurers to be increased if performance is enhanced because additional services will no longer have to be provided at a small marginal revenue rate.

A further reform of hospital financing is currently in preparation for the year 2009. Under discussion is the introduction of so-called selective contracting, i.e. the negotiation of volumes, prices and quality standards for certain services directly with the individual health insurers. At present, the services are negotiated jointly and uniformly with all health insurers. HELIOS Kliniken would be very well positioned should the proposals be implemented.

The rationalization trend in the German hospital market will continue in 2008 and beyond. According to a study by management consultants Ernst & Young, by the year 2020 there will be only 1,500 hospitals operating in Germany. 2.9 beds will be available per 1,000 population, and the average length of stay will fall to 4.0 days (2006: 6.2 beds, 8.5 days).

Private hospital chains and clinic alliances will tend to be able to respond to the pressure to improve efficiency better than public hospitals. They often have more experience in operating commercially and creating efficient structures. They have the potential to secure cost advantages in procurement and generally have more advantageous financing possibilities. Finally, private operators have more experience with the process know-how in acquiring and integrating new facilities and quickly adjusting their cost structures.

Against this background, we expect the concentration and privatization process to accelerate further, especially among public hospitals. Overall, experts expect the market share of private operators in terms of beds to rise from approximately 14 % at present to about 35 to 40 % until 2015. Crucial factors 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.

Difficult pay negotiations are likely again in 2008 in the public sector, i.e. at the level of local government employers (as operators of municipal hospitals) and the German federal states (as operators of university clinics). The trade union ver.di and the Marburger Bund have both announced high pay demands for the professions they represent considering the economic and financing situation of the hospitals. Even a settlement on a much lower basis than the present demands would further accentuate the strained financial situation of many public hospitals. This will lead to further job cuts and privatizations.

Dividend

Continuity in our dividend policy remains an important priority, clearly demonstrated by steady dividend increases over the last 14 years. We want to remain true to this policy in the 2008 fiscal year and offer our shareholders a dividend in line with our positive earnings forecasts.

Bad Homburg v.d.H., February 22, 2008



REPORT OF THE SUPERVISORY BOARD

In 2007, 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 overall 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 compliance, and important business events. In all, the Supervisory Board convened seven times in 2007. The Supervisory Board of Fresenius AG held meetings in March and May. The constitutive meeting of the Supervisory Board of Fresenius SE also took place in May. A telephone conference was held in June. An extraordinary meeting of the Fresenius SE Supervisory Board took place in September. Two regular Supervisory Board meetings were then held in October and December 2007. 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 each of its regular meetings the Supervisory Board used the Management Board's reports as the basis for its extensive 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 relevant documents, and after detailed consultation with the Management Board, the Supervisory Board was able to give its approval regarding 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 proceedings. In addition, the chairman of the Management Board informed in individual meetings 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 Board meetings in 2007.

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, and any related financing.

The Supervisory Board also closely pursued the conversion of Fresenius AG into a European Company (SE), which was listed in the Commercial Register on July 13, 2007, after the successful completion of the employee involvement procedure. The Supervisory Board was kept fully informed by the Management Board about the negotiations relating to this procedure.

The Supervisory Board also thoroughly reviewed and discussed all other significant business activities with the Management Board. It approved the budget for 2008 and the Group's medium-term planning, following a detailed review and discussions with the Management Board. At its regular meetings and those of the Audit Committee, the Supervisory Board also kept itself informed about the Group's risk situation and risk management activities as well as compliance.

CORPORATE GOVERNANCE

The further development of the corporate governance at Fresenius was reviewed by the Supervisory Board. On December 6, 2007, the Management Board and the Supervisory Board jointly issued a Declaration of Conformity in accordance with the German Corporate Governance Code in its version as of June 14, 2007.

For further information on corporate governance at Fresenius, please see the Corporate Governance Report issued jointly by the Management and Supervisory Boards on pages 30 to 33 of this Annual Report.

In the course of the conversion of Fresenius AG into a European Company (SE) the newly constituted Supervisory Board of Fresenius SE adopted new rules of procedure at its extraordinary meeting in September. These new rules of procedure take account of the changed legal framework applying to Fresenius SE.

The Supervisory Board also issued new rules of procedure for the Management Board of Fresenius SE. In addition to the necessary adjustments associated with the change of legal form to a SE, these rules of procedure also take account of the changes in the business distribution plan resulting from the reorganization of the Group's hospital operations. The former business segment Fresenius ProServe has been replaced by two new business segments, Fresenius Helios and Fresenius Vamed which previously formed Fresenius ProServe.

WORK OF THE 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 three meetings and one conference call.

The Audit Committee held four meetings. The main focus of its activities was on the preliminary audit of the financial statements and the consolidated financial statements for 2006 and discussions with the auditors about their report and the terms of reference of the audit.

The Audit Committee also reviewed the 2007 quarterly reports and the risk management system.

After their own meetings, the committee chairmen reported regularly to the following Supervisory Board meeting on the work of their committees.

The Nomination Committee convened a number of times and deliberated on the Supervisory Board's proposals to the Annual General Meeting regarding the nomination of the Supervisory Board.

The Mediation Committee has ceased to exist since the German Co-determination Act (MitbestG), which provided for this committee, no longer applies to Fresenius SE.

Information on the present composition of the committees can be found on pages 224 and 225 of this Annual Report.

PERSONNEL – NOMINATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The mandates of the members of the Supervisory Board ended with Fresenius AG's conversion to a SE. We thank the members who left the Supervisory Board for their dedication to Fresenius.

The conversion of Fresenius AG to a SE has not altered the size of the Supervisory Board. It continues to have twelve members, with six shareholder representatives and six employee representatives.

The six shareholder representatives on the first Supervisory Board of Fresenius SE were appointed according to the Fresenius SE statutes. These formed an integral part of the conversion plan agreed by the General Meeting on December 4, 2006. The shareholder representatives on the first Supervisory Board of Fresenius SE are Dr. Gabriele Kröner, Dr. Gerd Krick, Dr. Gerhard Rupprecht, Dr. Dieter Schenk, Dr. Karl Schneider and Dr. Bernhard Wunderlin; there have been no changes with respect to the composition of the former Supervisory Board of Fresenius AG.

The employee representatives on the first Supervisory Board of Fresenius SE were named in the Agreement for Employee Involvement in Fresenius SE of July 13, 2007, and were officially appointed by the Municipal Court of Bad Homburg v.d.H. on July 16, 2007. The employee representatives on the first Supervisory Board of Fresenius SE are Mr. Dario Ilossi, Mr. Konrad Kölbl, Mr. Wilhelm Sachs, Mr. Stefan Schubert, Mr. Rainer Stein and Mr. Niko Stumpfögger.

For the first time, employee representatives in EU member states outside Germany have become members of the Supervisory Board of Fresenius SE, namely Mr. Ilossi from Italy and Mr. Kölbl from Austria.

At its constitutive meeting in May 2007 the Supervisory Board elected Dr. Gerd Krick as its chairman. Dr. Dieter Schenk, who was nominated by the shareholder representatives, was elected as deputy chairman. The employee representatives did not attend the constitutive meeting in May 2007, as they were only appointed in July 2007. Mr. Niko Stumpfögger, nominated by the employee representatives, was then elected as a further deputy chairman in the extraordinary meeting in September.

The Supervisory Board of Fresenius AG appointed Dr. Jürgen Götz as a member of the Management Board as from July 1, 2007 with the responsibility for legal, compliance and personnel affairs. He took over the responsibility for personnel affairs from Mr. Stephan Sturm, who continues to serve as Chief Financial Officer of Fresenius SE.

The mandates of the members of the Management Board of Fresenius AG also ended with the change of legal form to a SE. All the members of the Management Board of Fresenius AG in office at the time the conversion took effect on July 13, 2007, were reappointed by the newly constituted Supervisory Board of Fresenius SE.

Further, with the reorganization of the Group's hospital operations, the Supervisory Board of Fresenius SE appointed Dr. Francesco De Meo, responsible for the business segment Fresenius Helios, and Dr. Ernst Wastler, responsible for the business segment Fresenius Vamed, as members of the Management Board of Fresenius SE as from January 1, 2008. As a result of the reorganization, Mr. Andreas Gaddum, the member of the Management Board responsible for the former business segment Fresenius ProServe, resigned from the Company as of December 31, 2007.

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The accounting records, the financial statements prepared according to the German Commercial Code (HGB) and the Management Report of Fresenius SE (formerly Fresenius AG) for 2007 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. They were elected as auditors at Fresenius AG's Annual General Meeting on May 16, 2007 and were subsequently commissioned by the Supervisory Board. The auditors issued their unqualified audit opinion for these statements. The same applies to the consolidated financial statements of Fresenius SE (formerly Fresenius AG), 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, the consolidated financial statements, the Management Reports and the auditors' reports

were submitted to each member of the Supervisory Board of Fresenius SE within the required time. The Supervisory Board noted and approved the auditors' findings. The Supervisory Board's own review found no objections to the financial statements of Fresenius SE (formerly Fresenius AG) or the consolidated financial statements. The Supervisory Board agrees with the Management Reports and the statements contained therein with respect to future development.

At its meeting on March 10, 2008, the Supervisory Board approved the financial statements of Fresenius SE (formerly Fresenius AG) for the fiscal year 2007 as presented by the Management Board, thereby adopting them as official. The Supervisory Board also approved the consolidated financial statements of Fresenius SE (formerly Fresenius AG) prepared according to IFRS standards and the consolidated financial statements prepared voluntarily according to US GAAP for 2007.

The auditors delivered a detailed report on the results of the audit during this meeting. The auditors attended all four regular meetings of the Supervisory Board and all meetings of the Audit Committee.

The Supervisory Board concurs with the proposal by the Management Board on the appropriation of the 2007 retained earnings.

The Supervisory Board would like to thank the Management Board and all employees for their achievements and commitment during the fiscal year 2007.

Bad Homburg v.d.H., March 10, 2008

The Supervisory Board

Dr. Gerd Krick

Chairman