PERSPECTIVES

Annual Report 2004

Fresenius Group in Figures

in million €	2004 US GAAP	2003 US GAAP	2002 US GAAP	2001 US GAAP	2000 HGB
Earnings					
Sales	**7,271**	7,064	7,507	7,307	6,099
EBIT [1]	**845**	781	837	762	756
Net income [2]	**168**	115	134	93	266
Depreciation and amortization	**315**	325	341	494	389
Operating cash flow [2]	**851**	776	697	509	463
Operating cash flow in % of sales	**11.7 %**	11.0 %	9.3 %	7.0 %	7.6 %
Earnings per ordinary share in € [1][2]	**4.08**	2.79	3.25	2.27	3.03
Earnings per preference share in € [1][2]	**4.11**	2.82	3.28	2.30	3.06
Balance sheet					
Total assets	**8,188**	8,347	8,915	9,867	6,473
Non-current assets	**5,433**	5,603	6,172	6,837	3,999
Equity [3]	**3,347**	3,214	3,369	3,689	2,810
Equity ratio [3]	**41 %**	39 %	38 %	37 %	43 %
Investments [4]	**421**	430	507	1,233	769
Profitability					
EBIT margin [1]	**11.6 %**	11.1 %	11.1 %	10.4 %	12.4 %
Return on equity after taxes (ROE)	**10.5 %**	7.5 %	8.3 %	5.3 %	9.5 %
Return on operating assets (ROOA)	**11.1 %**	9.8 %	9.7 %	9.0 %	12.7 %
Return on invested capital (ROIC)	**7.4 %**	6.3 %	6.5 %	7.5 %	10.9 %
Dividend per ordinary share in €	**1.35** [5]	1.23	1.14	1.03	0.93
Dividend per preference share in €	**1.38** [5]	1.26	1.17	1.06	0.96
Employees (December 31)	**68,494**	66,264	63,638	60,667	49,974

[1] 2001: before special charge for US legal matters of Fresenius Medical Care
[2] Accounting according to German GAAP (HGB): Net income before minority interests
[3] Accounting according to US GAAP: Equity including minority interests
[4] Property, plant and equipment and intangible assets, acquisitions
[5] Proposal

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

Fresenius Medical Care

Key figures of the business segments

Fresenius is a health care Group with products and services for dialysis, the hospital and the medical care of patients at home. In addition, Fresenius focuses on hospital management as well as on engineering and services for hospitals and the pharmaceutical industry. More than 68,000 employees work with dedication on the service of health in around 100 countries of the globe.

Dialysis products,
Dialysis care,
Extracorporeal therapies

in million US$	**2004**	2003	Change
Sales	**6,228**	5,528	13 %
EBIT	**852**	757	13 %
Net income	**402**	331	21 %
Operating cash flow	**828**	754	10 %
Capital expenditure/acquisitions	**399**	392	2 %
R+D expenses	**51**	50	2 %
Employees (December 31)	**46,949**	43,445	8 %

Fresenius
health care worldwide

Fresenius Kabi

Infusion therapy,
Clinical nutrition,
Transfusion technology

in million €	2004	2003	Change
Sales	**1,491**	1,463	2 %
EBIT	**176**	147	20 %
Net income	**79**	65	22 %
Operating cash flow	**170**	133	28 %
Capital expenditure/acquisitions	**68**	59	15 %
R+D expenses	**56**	49	14 %
Employees (December 31)	**11,577**	11,470	1 %

fresenius proServe

Hospital management,
Hospital engineering and services,
Engineering and services for the
pharmaceutical industry

in million €	2004	2003	Change
Sales	**813**	742	10 %
EBIT	**9**	-19	147 %
Net income	**-10**	-34	–
Operating cash flow	**23**	-3	–
Capital expenditure/acquisitions	**29**	35	-17 %
Order intake	**244**	278	-12 %
Employees (December 31)	**9,398**	10,815	-13 %

PERSPECTIVES

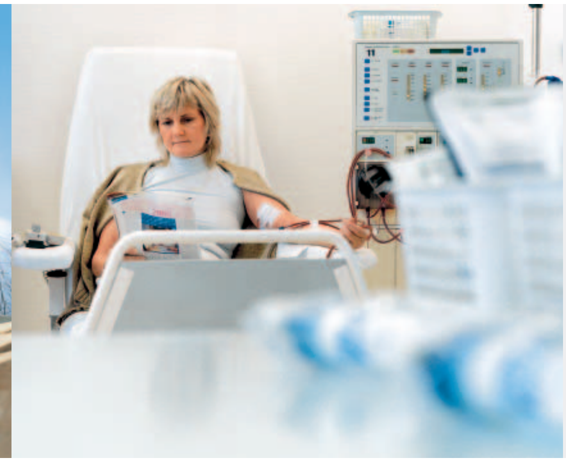
Preserving life, giving life a future, improving the quality of life – this is our mission.

Our products and services offer severely ill people the perspective of a better life: Through life-saving dialysis treatment, blood volume substitutes used in emergency situations, or nutrition therapy for patients who can no longer eat the normal way, or through specialized treatment in our hospitals.

Medical progress also allows us to create new perspectives – through continuous innovation, steady improvement of products and patient-specific solutions. This is the focus of all our activities.

This also creates new perspectives for Fresenius – for our employees as much as for our shareholders – and ensures sustainable growth.

This report describes a few examples of the perspectives we provide.



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To our Shareholders:

We met our ambitious targets for 2004. With constant-currency sales growth of 8 % to 7.3 billion euros and an even stronger 46 % increase in net income to 168 million euros the year was a success. Fresenius Medical Care and Fresenius Kabi, our two main business segments, significantly increased earnings. Fresenius ProServe's strategic realignment and restructuring paved the way for improved profitability. For these accomplishments I would like to acknowledge and thank our employees and their representatives.

Looking ahead, a company's perspectives are crucial for its success. Our perspectives are based on constant innovation and a global approach to business in combination with entrepreneurship and commercial prudence. They are the platform for sustained profitable growth. I would like to comment on some of our perspectives in more detail.

Fresenius Medical Care has a strong track record in anticipating market changes and benefiting from them, whether it was the consolidation of the dialysis care sector in the mid-nineties or the introduction of single-use dialyzers in the United States. The international expansion of dialysis care offers Fresenius Medical Care a perspective for future profitable growth. Eastern Europe is a key growth market. The privatization of dialysis clinics is gaining speed as demand for dialysis care accelerates and health care systems evolve. We have been present in the region for many years and in 2004 expanded our activities into countries such as Poland and Romania.

Fresenius Kabi successfully pursues a global growth strategy. In addition to organic growth, which was the focus in previous years, we are now strengthening our geographic presence and broadening our product portfolio through acquisitions. Continued regional expansion as well as a stronger product focus on intravenously administered drugs provide new perspectives. At the same time, we can further increase our profitability not only in manufacturing but also by leveraging our sales and marketing organization and through continued cost discipline.

At Fresenius ProServe we have simplified the organizational structure and focused the business on three core activities – hospital management in Germany, international hospital engineering and services as well as engineering and services for the pharmaceutical industry. These activities will see targeted development. We plan to expand our position as a service and engineering specialist in health care and aim to be a leading private hospital operator in Germany with high-quality medical care for our patients and strong financial results.

Technological innovation also provides new growth perspectives. Fresenius Biotech develops cutting-edge antibody and immune therapies for patients with life-threatening diseases. One major activity is the treatment of cancer. We have already achieved promising results and started new clinical studies for various indications in Europe and the United States. Fresenius Biotech expects to introduce these innovative products to the market at the end of 2007.

Our attractive strategic perspectives translate into demanding mid-term financial goals. In addition to organic sales growth of 5 to 6 % we will target further expansion through selected acquisitions. Net income is expected to increase at a significantly stronger rate than sales. Continued focus on operating cash flow expands our flexibility for investments and will result in improved balance sheet ratios.

With our entrepreneurial spirit we will turn these perspectives step by step into reality. Our vision is to build Fresenius into a leading global provider of life-saving medical products and therapies.

I am grateful for your continued trust and support as we pursue this vision.

Dr. Ulf M. Schneider
Chairman of the Management Board

PERSPECTIVE
LIFE

It is just two liters. But when they suddenly disappear, the body cannot function properly. Five or six liters, that is the average blood volume of an adult. A loss of more than 30 percent of that volume can lead to a drop in blood pressure, a detoriation in the oxygen supply, and organ failure. Without fast medical intervention, a sudden loss of more than 50 percent is fatal.

An example of a typical emergency medicine situation: A woman loses a significant amount of blood after a car accident. Since the body cannot replace the blood itself, a substitute must be immediately provided. At the site of the accident, emergency doctors inject a so-called colloid solution to replace the blood loss. Colloids are a plasma substitute and can be used regardless of blood type. They replenish the blood volume in the veins and arteries, improving the oxygen and nutrient supply in the body. The victim’s condition stabilizes. Because of proper initial treatment, the patient survives a severe accident.

The use of colloids in surgery and emergency medicine has become commonplace. In the past, whole blood was used as a blood-volume replacement. Nowadays, doctors have grown more cautious due to the risk of confusing blood types and bacterial infections beeing transmitted.

OUR PRODUCTS ...


... PROVIDE SAFETY AND OFFER LIFE

IMPRESSIVE PRODUCT BENEFITS …

For decades, Fresenius Kabi has been active in the field of blood volume replacement. Our product development focuses on patient safety as well as on a quick and stable increase in blood volume. For this reason, our volume replacement solutions contain hydroxyethyl starch (HES), which is based on waxy maize starch. HES molecules bind with water and ensure that the volume remains in blood vessels rather than being quickly absorbed into nearby cells and tissue. Our HES products have established themselves as an alternative to whole blood.

HES products are artificial colloids: Therefore, the risk of allergic reactions in patients is much lower with HES products than with all other colloids, since compared to albumin and gelantin no substances made from human blood or animal tissue are infused.

With Voluven® we have created a new generation of colloids and a product that is now setting international standards in the field of blood volume replacement. Unlike previous generations of colloids, Voluven® does not accumulate in the plasma, even during repeated use. This gives it a significantly improved safety profile. Voluven® is the first hydroxyethyl starch approved in Europe for use in high dosages of 50 ml/kg of bodyweight per day and is the only hydroxyethyl starch preparation approved for use in children.

The benefits of artificial colloids are being welcomed all over the world. In Europe alone, the market for artificial colloids rose 8 percent in 2003. In the Asia-Pacific and Latin American regions artificial colloids are gaining increased acceptance.

Scientific experience and competence: Fresenius Kabi plays a leading role in the artificial colloid market and is No. 1 in Europe, Asia-Pacific and Latin America. We sold 1.9 million units in China alone in 2004. Our own GMP-certified production sites in these regions allow quick delivery to hospitals.

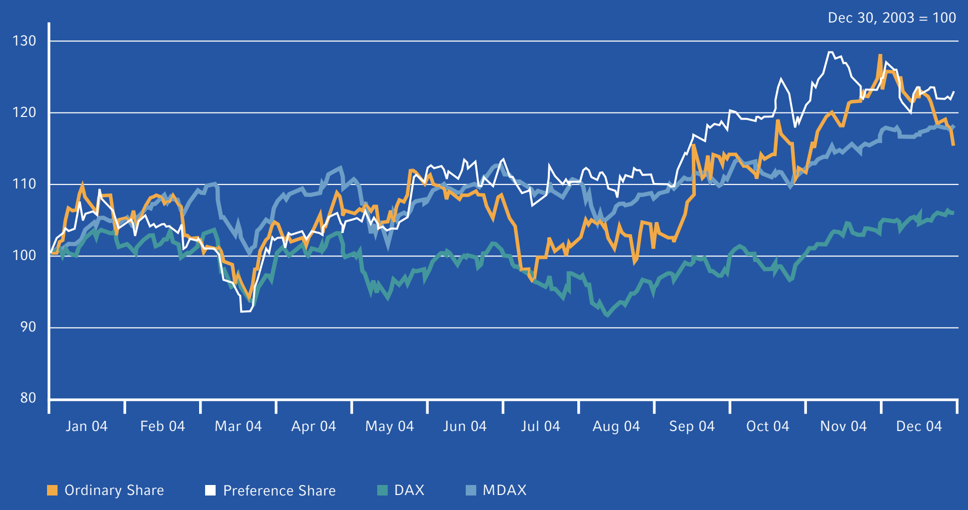
The medical benefits and the high patient safety of our HES products create strong growth opportunities. As the health care systems in the Asia-Pacific and Latin American markets are improved the demand for better treatment methods increases. Our strong local presence in these regions will allow us to play a significant future role in the medical treatment of severely ill patients.

… MEET WORLDWIDE DEMAND

FRESENIUS SHARES AND CORPORATE GOVERNANCE

- With regard to market capitalization, Fresenius is one of the 50 largest publicly-traded companies in Germany.
- “Buy” ratings prevailed among financial analysts.
- The Fresenius shares again showed a strong performance.
- Another dividend increase is proposed.

RELATIVE SHARE PRICE PERFORMANCE



The good business development of Fresenius led to another solid gain in our share prices in 2004. The ordinary share increased 16 % and the preference share 24 %. The dividend proposed for 2004 will mark the twelfth consecutive increase.

STOCK MARKETS

After strong share price increases in 2003, the indices showed more moderate growth in 2004. The DAX grew 7.3 % over the previous year, the Dow Jones STOXX 50 4.3 % and the Dow Jones Industrial Average 3.2 %. The outperformers among the German indices were those representing small and mid-size companies – the MDAX and SDAX increased 20.3 % and 21.6 %, respectively. The DAX reached its low for the year in August with 3,647 points before starting a relatively constant upward trend in the final months of the year, peaking on December 28, 2004 at 4,262 points. The MDAX reached its lowest point of the year in March with 4,524 points. After a few setbacks, the index closed the last trading day of 2004 at a 52-week high of 5,376 points.

The biggest gainers in the European sectors of the Dow Jones STOXX 600 index were utilities (+24.8 %), construction (+22.3 %) and financial services (+22.0 %). The technology sector was the only industry to end 2004 with a loss (-1.7 %).

The strong euro (+7.9 %) and high oil prices (+32 %) slowed the growth of the European stock markets. The euro reached record levels of over 1.36 US dollars at the end of 2004.

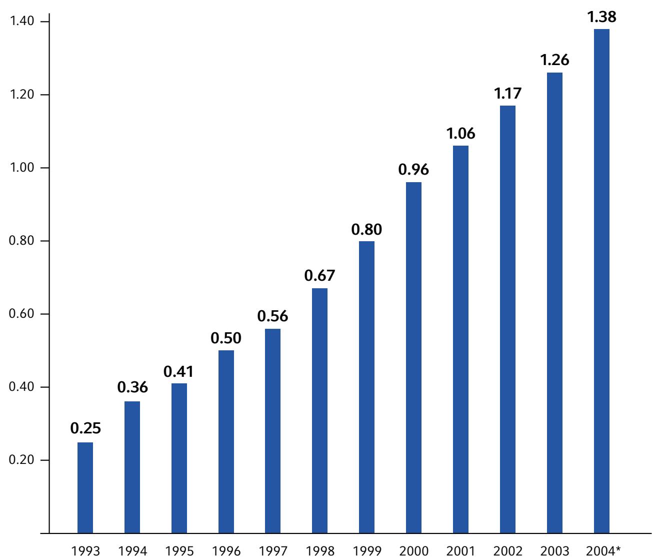
For 2005, a continued improvement in the global stock markets can generally be expected. A positive development would be the third consecutive year of growth after a difficult start to the century. Further improvements in the stock markets will rely strongly on the development of several factors such as global economic growth, oil price, valuation of the US dollar and geopolitical risks.

THE FRESENIUS SHARES

The development of the Fresenius shares in 2004 was supported by the good results of the two largest business segments, Fresenius Medical Care and Fresenius Kabi. The ordinary shares rose 16 % in the course of the year while the preference shares achieved growth of 24 %. Both share classes significantly outperformed the DAX index. The preference shares were also able to beat the performance of the relative index, the MDAX. We were also able to significantly outpace the European Dow Jones STOXX Healthcare index (+1.9 %) and the Prime Pharma & Healthcare index (+19.5 %) which was outperformed by the preference shares.

The ordinary shares reached their highest point of the year on November 30, 2004 with € 83.49, the preference shares on November 10, 2004 at € 72.27. Both share classes had their year-low on March 22, 2004 with the ordinary shares at € 60.29 and the preference shares at € 50.87. The ordinary shares ended the year at € 74.65 and the preference shares at € 68.83. Since the beginning of 2004, the Fresenius Group has increased its market capitalization by about half a billion euros to € 2.94 billion (December 31, 2004).

DIVIDEND PREFERENCE SHARE IN €



* proposal

The average daily trading volume of the ordinary shares in 2004 was about 4,400 shares and of the preference shares about 48,500 shares.

DIVIDEND

For the twelfth consecutive year we propose a dividend increase to our shareholders. The good profit development in 2004 justifies this increase and underlines our commitment to an earnings-linked dividend policy. The dividend per ordinary share will be increased from € 1.23 to € 1.35 and the dividend per preference share from € 1.26 to € 1.38. This is an increase of 10 % compared to 2003. The total dividend distribution will be € 55.9 million, representing a dividend pay-out ratio of 33.3 %.

Based on the proposed dividends and the Fresenius share prices at the end of the year 2004, the dividend yield amounts to 1.8 % per ordinary share and to 2.0 % per preference share.

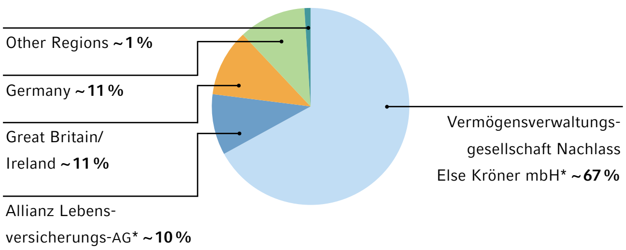
SHARE RETURN

In a long-term comparison of returns, the Fresenius shares were once again able to beat the MDAX: An investor who spent € 10,000 on Fresenius preference shares when they were issued in 1986 had a securities account worth € 110,532.46 at the end of 2004. This calculation assumes the reinvestment of dividends paid (without tax credit) and exercise of subscription rights for Fresenius preference shares. The average annual return amounts to 14.3 %. The retrospectively calculated MDAX achieved an average annual return of about 10.4 %.

CAPITAL STRUCTURE

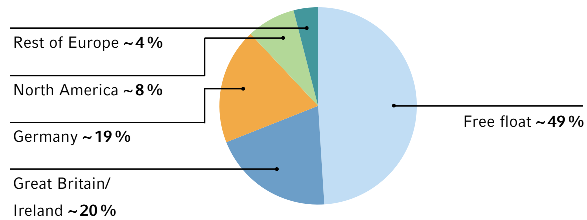
Only a limited number of stock options were exercised in 2004 for ordinary and preference shares as part of the 1998 stock option plan. This increased the number of bearer ordinary and bearer preference shares by 677 shares each. The number of shares amounted to 20,485,519 bearer ordinary shares and 20,485,519 bearer preference shares at the end of 2004. The subscribed capital of Fresenius AG was € 104,885,857.28 on December 31, 2004.

HOLDERS OF ORDINARY SHARES



* based on the last notification published in accordance with the German Securities Trading Act (WpHG)

HOLDERS OF PREFERENCE SHARES



Please see number 19 of the Notes for further information on the stock option program.

SHAREHOLDER STRUCTURE

The largest holders of voting shares are:

- Vermögensverwaltungsgesellschaft Nachlass Else Kröner mbH, Frankfurt am Main: 67.35 % (as at November 19, 2002)
- Allianz Lebensversicherungs-AG, Stuttgart: 9.74 % (as at December 23, 2002)

At the beginning of 2005, we conducted a shareholder identification which reviewed around 37 % of our outstanding shares. The identified shares are held by 94 institutional investors. The top 10 investors of both share classes held approximately 28 % of the total shares outstanding.

Most of our ordinary shares identified are held by German shareholders as well as investors in Great Britain/Ireland. In contrast, 19 % of the identified preference shares are held by German investors. The largest group of foreign preference share owners is located in Great Britain/Ireland with around 20 % of the identified preference shares. 8 % of the identified preference shares are held in the United States and 4 % in the rest of Europe.

FRESENIUS AG RATINGS

	Rating	Outlook
Standard & Poors	BB+	stable
Moody's	Ba1	stable

EARNINGS PER SHARE

In 2004, the Fresenius Group achieved earnings per ordinary share of € 4.08 and earnings per preference share of € 4.11 (2003: ordinary share € 2.79, preference share € 2.82). Further details on our earnings per share are provided on page 66 of the Management Report and on page 136 of the Notes.

ANALYST RECOMMENDATIONS

The recommendations of financial analysts are an important factor for both institutional as well as private investors when making investment decisions. Statistics from the sector service I/B/E/S and our own surveys through February 22, 2005 show that "buy" ratings prevailed with 12 buy, 5 hold and 1 sell ratings. This reflects the positive belief in the long-term earnings power of the Fresenius Group and the potential of our shares.

EARNINGS PER SHARE

	2004	2003
Net income (€ million)	**168**	115
Earnings per ordinary share (€)	**4.08**	2.79
Earnings per preference share (€)	**4.11**	2.82
Fully diluted earnings per ordinary share (€)	**4.07**	2.79
Fully diluted earnings per preference share (€)	**4.10**	2.82
Average number of shares outstanding	**40,969,910**	40,969,684
Average number of shares outstanding fully diluted	**41,093,404**	41,034,344

BASIC INFORMATION

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

ANALYST RECOMMENDATIONS

Bankhaus Metzler	December 2004	Buy
BHF-Bank	January 2005	Buy
Cazenove	January 2005	Outperform
Commerzbank	February 2005	Hold
Deutsche Bank	February 2005	Buy
DZ Bank	February 2005	Buy
equinet	February 2005	Accumulate
Goldman Sachs	January 2005	Outperform
Helaba Trust	November 2004	Hold
HypoVereinsbank	January 2005	Underperform
Landesbank Baden-Württemberg	November 2004	Hold
Landesbank Rheinland-Pfalz	January 2005	Outperform
Main First Bank	December 2004	Buy
Merrill Lynch	February 2005	Neutral
M.M. Warburg	January 2005	Buy
Sal. Oppenheim	January 2005	Buy
SEB	May 2004	Hold
WestLB	February 2005	Outperform

INVESTOR RELATIONS

Our Investor Relations efforts focus on comprehensive, open and timely communication with private shareholders, institutional investors and financial analysts. We offer a broad spectrum of information to allow a realistic assessment of the company's situation and its market conditions.

Our annual, half-yearly and quarterly reports are noted for their detailed segment reporting and comprehensive notes. The financial reports are published within the time frames defined by the German Corporate Governance Code.

During 2004, we once again expanded the range of information available on our website. We now broadcast the three annual analyst conferences live over the Internet and maintain recordings of the meetings online for permanent access. Shareholders can also follow telephone conferences via the Internet and listen to the recordings available on our website.

In addition to the analyst conferences, we held two full-day analyst and investor events at our headquarters in Bad Homburg in 2004. The main goal of these Capital Market Days was to provide more details about our Fresenius Kabi and Fresenius Biotech business segments. We gave in-depth information on the business activities, current projects, products and markets as well as on the strategy and future outlook of the businesses. These events were also broadcast live over the Internet and are available as video-on-demand on our website.

As part of our dialogue with the financial markets, we took part in four international investor conferences and held five roadshows in several European countries to provide more information on the Group. In addition to the conferences, we held numerous individual meetings with financial analysts and institutional investors during 2004.

Maintaining contact with our private investors is of major importance. About 400 shareholders attended the Annual General Meeting on May 28, 2004 in Frankfurt/Main, representing about 85 % of the ordinary and 9 % of the preference share capital. As in the previous year, we broadcast the speech of the Chairman of the Management Board live over the Internet for those shareholders who were not able to attend the Meeting.

Our Internet Info Service was once again heavily used in 2004. It provides current company news, offers the opportunity to ask questions or order information material. We hope to further expand the online dialogue in the future and are grateful for suggestions on how we can better meet your information needs.

In 2004, Fresenius once again won a prize for its financial communications efforts. In a competition for the best annual report held by "manager magazin", about 120 annual reports from publicly traded German and European companies were analyzed. We won the third prize in the MDAX category.

CORPORATE GOVERNANCE

According to § 161 German Stock Corporation Law (AktG) the Management and the Supervisory Board of a publicly listed company must annually declare which recommendations of the Government Commission on the German Corporate Governance Code published in the official section of the electronic German Federal Gazette by the Federal Ministry of Justice the company does and does not comply with. The aim of the German Corporate Governance Code is to provide more transparency for investors on regulations regarding the management and monitoring of companies. It is also intended to increase the trust of customers, employees and the public in the management of publicly listed stock companies.

The majority of the guidelines, recommendations and proposals regarding responsible company management have been a firm component of Fresenius' activities for many years.

On December 2, 2004, the Management Board and Supervisory Board of Fresenius AG issued their third Declaration of Compliance in accordance with § 161 German Stock Corporation Law. Herein it is stated that the recommendations of the Government Commission on the German Corporate Governance Code as amended on May 21, 2003 have been and are being met. The Management Board and the Supervisory Board also intend to follow the recommendations of the German Corporate Governance Code in future.

The following recommendations are the only ones not been or being applied:

- Individual disclosure of compensation for each member of the Management Board according to clause 4.2.4., sentence 2 limits in our view the possibility of structuring compensation so that it is differentiated by individual performance and entrepreneurial responsibility.
- Clause 4.2.3. paragraph 2, sentence 2 recommends that stock options and similar instruments should be linked to demanding and relevant benchmarks – this is uncommon internationally. Fresenius as a global active company competes for highly qualified staff. Therefore, in the current stock option plan it is possible to abstain from a success target.

In the United States, the Sarbanes-Oxley Act (SOA) took effect in July 2002 and set a number of new guidelines for corporate governance. Foreign companies with listings on US stock markets are subject to American law and are also largely subject to the guidelines in the SOA. The law increases the requirements of the internal control systems and defines the content of financial reporting. Fresenius Medical Care, our subsidiary that is also listed on the New York Stock Exchange, was one of the first international companies to declare that it will recognize and implement the SOA. In the future, we will remain open to the changing demands of the international financial markets and will strive to satisfy them.

KEY DATA OF THE FRESENIUS SHARES

	2004	2003	2002	2001	2000
Number of shares	**40,971,038**	40,969,684	40,969,684	40,969,548	20,015,048
Ordinary shares	**20,485,519**	20,484,842	20,484,842	20,484,774	10,007,524
Preference shares	**20,485,519**	20,484,842	20,484,842	20,484,774	10,007,524
Stock exchange quotation ordinary share[1] (€)					
High	**83.49**	68.50	80.50	113.75	125.50
Low	**60.29**	32.50	20.45	76.98	67.00
Year-end quotation	**74.65**	64.50	36.05	81.00	109.50
Stock exchange quotation preference share[1] (€)					
High	**72.27**	57.55	91.25	143.00	160.00
Low	**50.87**	36.01	21.48	86.70	88.50
Year-end quotation	**68.83**	54.55	36.45	91.30	141.50
Market capitalization[2] (million €)	**2,939**	2,437	1,485	3,530	5,024
Total dividend distribution (million €)	**55.9**[4]	51.0	47.3	42.8	43.8[3]
Per share in €					
Dividend ordinary share	**1.35**[4]	1.23	1.14	1.03	0.93
Dividend preference share	**1.38**[4]	1.26	1.17	1.06	0.96
Earnings ordinary share[5]	**4.08**	2.79	3.25	2.27	3.03
Earnings preference share[5]	**4.11**	2.82	3.28	2.30	3.06

[1] Final Xetra quotations on the Frankfurt Stock Exchange
[2] Total number of ordinary and preference shares multiplied by the respective Xetra year-end quotations on the Frankfurt Stock Exchange
[3] Including special dividend of € 0.15 per ordinary and preference share
[4] Proposal
[5] 2000: Figures according to HGB (German Commercial Law)

BUSINESS SUMMARY OF THE FISCAL YEAR

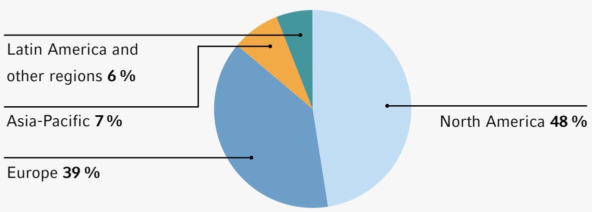
- 2004 was a very successful year for Fresenius: Group sales increased 8 % in constant currency and net income 46 %.
- Cash flow again reached new records.
- The balance sheet remains solid. The equity ratio including minority interests amounts to 40.9 %.
- The financial statements of the Group were influenced by the effects of currency translation, especially from the US dollar to the euro.

SALES

Group sales increased 3 % to € 7,271 million. In constant currency, sales rose 8 %.

Organic growth was 6 %, while acquisitions contributed 2 % to the increase in sales. Currency translation effects had a -5 % impact. This was mainly due to the strong euro against the US dollar.

SALES BY REGION



2004: € 7.27 billion

- In our largest markets, North America and Europe, we expanded our business currency-adjusted by 9 % and 4 %, respectively.
- In Latin America, we achieved an excellent currency-adjusted growth of 19 %.
- In the Asia-Pacific region, sales increased 12 % in constant currency.

EARNINGS

In 2004, earnings growth was driven by the excellent financial results of Fresenius Medical Care and Fresenius Kabi. In addition, lower one-time expenses at Fresenius ProServe as well as lower Group interest expenses had a positive effect.

in million €	**2004**	2003	Change	Change in constant currency
EBIT	**845**	781	8 %	15 %
Net interest	**-209**	-249	16 %	12 %
Income taxes	**-253**	-223	-13 %	-20 %
Minority interests	**-215**	-194	-11 %	-20 %
Net income	**168**	115	46 %	55 %

- Operating income (EBIT) rose 15 % in constant currency.
- The net interest continued to improve to € -209 million below the previous year's € -249 million.
- Net income rose 55 % in constant currency and 46 % at actual exchange rates to € 168 million.

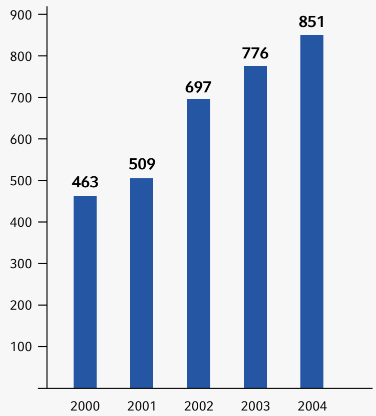
CASH FLOW

Group operating and free cash flow reached new records in 2004.

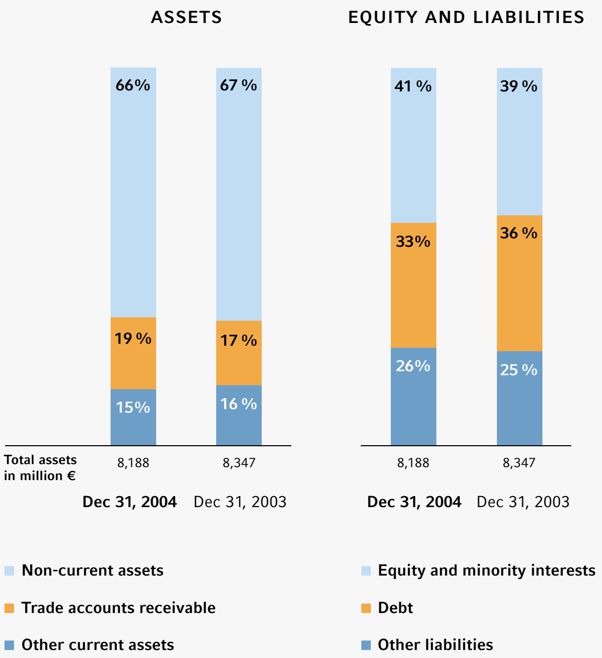
BALANCE SHEET

The balance sheet structure remains healthy: The equity ratio including minority interests improved to 40.9 %.

OPERATING CASH FLOW IN € MILLION



as of 2001 US GAAP



- The operating cash flow increased 10 % to € 851 million, mainly due to the Group net income growth and improved working capital management.
- Free cash flow after acquisitions and dividends rose 31 % to € 353 million despite increased spending on acquisitions (€ -90 million, net) and dividends (€ -122 million).

- Total assets decreased 2 % to € 8,188 million. In constant currency, assets grew by 2 %.
- Equity including minority interests covers 62 % of non-current assets (2003: 57 %).
- Debt decreased by € 413 million to € 2,735 million (2003 including receivables securitization program: € 3,148 million).

PERSPECTIVE
QUALITY OF LIFE

INDIVIDUAL THERAPIES ...

"The word 'privatization' hasn't always enjoyed a good reputation in Hungary", said Dr. Klára Berta, Medical Director of the dialysis clinic at Semmelweis University in Budapest. "But if you ask dialysis patients and doctors, privatization has been a success." The clinic is just one of 22 run by Fresenius Medical Care in Hungary. The nephrologist addresses most of her 140 patients by their first name and knows much about their private lives – not surprising given that they are treated for several hours three or four times a week to have their blood filtered.

Among the clinic's regulars are 45-year-old housewife and mother Éva Jánosa as well as 42-year-old meteorologist Attila Nadrai. They have been dialysis patients for over ten years. A diagnosis of chronic kidney failure is life-altering, but the illness is not apparent in either of the two. Attila Nadrai's face and voice are well-known throughout Hungary – for several years he was the weatherman for a state-run television station and today he predicts highs and lows for several radio stations. He watches calmly as a nurse places a needle in a vein in his lower arm and connects him to a dialysis machine. "After ten years of dialysis, this no longer bothers me," he says. Much has happened during this time.

... ENHANCE THE QUALITY OF LIFE

INNOVATIVE PRODUCTS ...

Improved technologies have significantly enhanced patients' quality of life in the recent years. The introduction of modern hemodiafiltration treatment by Fresenius Medical Care means that Attila Nadrai and Éva Jánosa now suffer almost no side effects. In addition, Fresenius Medical Care has made substantial investments. The company installed modern equipment and a new water treatment system, and renovated the treatment rooms. Dr. Berta is proud of her center. Treatment results match those of Western Europe and the clinic adheres to the strictest safety standards. The certificate of the German group TÜV is displayed in the center.

"If my physical condition in the past had been as good as it is today, I probably wouldn't have had to give up my job," says Éva Jánosa. When she became unhappy with her treatment four years ago, she switched to Fresenius Medical Care on the recommendation of her doctor. The public health insurance program allows all patients to use private dialysis centers. The clinic at the Semmelweis University Hospital has become so popular that it can accept few additional patients. To meet the demand, Fresenius Medical Care will soon open a new clinic with additional dialysis stations. Fresenius Medical Care is the market leader in Hungary and treats more than 1,800 hemodialysis patients in its own clinics. Patient growth is expected to continue. The increase in reimbursement is constantly discussed with the authorities in Hungary due to challenging budget restrictions. But communication between payors and providers is based on mutual recognition of the respective roles and allows quality providers to address their concerns. Hungary was one of the first east European countries to open its market to private dialysis providers at the beginning of the nineties.

Further growth. Now, Fresenius Medical Care treats more than 7,000 patients in Poland, Hungary, Slovenia, the Czech Republic, Estonia, Romania, Slovakia and Turkey, and in this region achieves the highest growth rates on the continent. Above-average increases in the number of dialysis patients are seen in the countries of Eastern and Southeastern Europe as living conditions change and medical care improves. This fact will allow further above-average growth in the region for private providers even when excluding large countries such as Russia and Ukraine where the market has yet to be liberalized. A global network of production sites and sales subsidiaries allows Fresenius Medical Care to offer high-quality treatment according to international standards. We are a sought-after partner in Eastern and Southeastern Europe and offer patients the right perspective to improve their quality of life.


... GIVE MORE FREEDOM IN DAILY LIFE

FRESENIUS MEDICAL CARE

- Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care.
- The company treats about 124,400 patients in 1,610 dialysis clinics.
- We increased the number of treatments in 2004 by 5 % to 18.8 million (2003: 17.8 million).

DIALYSIS CLINICS AND NUMBER OF PATIENTS TREATED

As at December 31, 2004

Fresenius Medical Care achieved strong growth in both sales and earnings in 2004. In the United States, the excellent development of dialysis care is especially worth noting. Internationally, we were able to successfully continue our dialysis products business and further strengthen our dialysis care activities.

In 2004, Fresenius Medical Care achieved a significant increase in sales of 13 % to $ 6,228 million (2003: $ 5,528 million). The weak US dollar had a positive currency-exchange effect with sales gaining 10 % in constant currency.

Sales of Fresenius Medical Care's dialysis care rose 13 % to $ 4,501 million (2003: $ 3,978 million). Dialysis products sales grew 11 % to $ 1,727 million (2003: $ 1,549 million). Especially good growth rates were seen outside North America despite price pressure in Japan where reimbursement rates are lowered every two years.

Fresenius Medical Care increased EBIT 13 % to $ 852 million (2003: $ 757 million). The Group increased net income to $ 402 million (2003: $ 331 million), a gain of 21 %.

NORTH AMERICA

Excellent sales growth of 9 % to $ 4,216 million (2003: $ 3,855 million) was achieved in North America, which accounts for 68 % of total sales and is Fresenius Medical Care's largest market. Fresenius Medical Care treated 85,500 patients in North America through a network of 1,130 dialysis clinics (2003: 1,110). In 2004, the number of patients treated in Fresenius Medical Care clinics grew faster than the overall market. We performed about 12.9 million dialysis treatments last year, 4 % more than a year earlier. Fresenius Medical Care treats about 27 % of all dialysis patients in North America. Dialysis care sales rose by 11 % to $ 3,795 million (2003: $ 3,429 million). This positive growth shows that we made the right decision by introducing the *Ultra*Care™ therapy in 2002.

This treatment concept is a combination of innovative technologies and exemplary service with the single-use dialyzer Optiflux™ at its core. A team of Fresenius Medical Care scientists conducted an exhaustive review of data gathered during the conversion of our patients from re-use to single-use dialyzers. They concluded that the single-use of dialyzers can lead to a mid to long-term decrease in treatment risks and thus to a lower mortality rate for patients receiving *Ultra*Care™ treatment. The peer-reviewed results of the analysis were published in November 2004 in the renowned publication "Nephrology Dialysis Transplantation." In the year under report we observed a growing interest by patients to receive dialysis treatment in our clinics. The increase in the number of treatments performed in 2004 outpaced the additional capacity of newly-opened Fresenius Medical Care clinics, further improving utilization rates at our centers.

Our continual goal is to achieve the best clinical outcomes and increase the quality of life of our patients. Last year, nearly all our US dialysis clinics were able to complete a training program and were awarded the *Ultra*Care™ certificate. These internal standards are designed to ensure consistent and high treatment quality with a significant effect on our patients' quality of life. At the same time, we launched the marketing campaign "*Ultra*Care. Experience Excellence" to raise awareness of the treatment concept within the medical community and to highlight its advantages.

Dialysis products sales increased by 1 % to $ 793 million (including sales to our own dialysis clinics). Fresenius Medical Care was also able to affirm and partially expand its leading position with the most important hemodialysis products such as dialysis machines and dialyzers, and now boasts an external market share of more than 60 %.

Our 2008K dialysis machine remains the dominant system, accounting for around 70 % of all dialysis machines sold last year in the United States. The DiaSafe™ filter, the On-line Clearance Monitor, which is used to monitor the vascular access and the Twister™ also developed very successfully. DiaSafe™ is used to produce ultrapure dialysis fluid during hemodialysis and minimizes the risk of infection through dialysis. Twister™ offers simple, time-saving blood-flow monitoring during treatment.

A continued move toward the Optiflux™ series of single-use dialyzers was confirmed and we adjusted our production in the US accordingly. More than 85 % of the dialyzers we produce belong to the Optiflux™ family and demand is not only growing in our own clinics, but also in those of other dialysis providers. These single-use dialyzers are used in the treatment of about half of all hemodialysis patients in the United States.

We increased our market share in peritoneal dialysis from 26 % in 2003 to about 27 %. In 2004, the introduction of our stay•safe peritoneal dialysis system played a key role in this growth. stay•safe already enjoys exceptional success in Europe and is an especially user-friendly, biocompatible product. Also playing an important role were initiatives such as Kidney Options, which helps patients with their treatment choice.

The relatively small home hemodialysis market responded exceptionally well to our 2008K@Home hemodialysis system that was designed especially for this application. The system combines the necessary components for treatment at home: the 2008K@Home dialysis machine with a simplified control panel, the internet-based monitoring system iCare Monitoring and a modern water treatment system.

To expand our market leadership in home hemodialysis, we also established the Fresenius WellCome treatment concept in 2004. This concept goes far beyond simply providing high-quality dialysis products: it links products with services for the holistic care of patients at home. Among the services are, for example, the iCare Monitoring System which allows Fresenius Medical Care to centrally monitor nightly dialysis treatments and compare actual patient information with prescribed data. Patients are immediately notified of any deviations and provided with stored emergency information.

For years, Fresenius Medical Care has been active in the development of innovative models that combine the highest treatment quality with the demands of new reimbursement systems. The Company runs Disease State Management (DSM) programs together with two partners – Optimal Renal Care and Renaissance Health Care. In DSM, dialysis companies no longer charge per medical service but instead receive a fixed fee per patient that covers all costs related to the disease, including hospital stays. Proactive care and the quality of dialysis treatment are the main parameters in this model as they are the key to improving medical results and avoiding cost-intensive hospital stays. Nearly 4,000 patients were treated within the DSM program up to the end of 2004.

Laboratory tests are important in selecting the individual dialysis treatment for a patient and therefore the results of these tests play a significant part in a patient's treatment and quality of life. Our subsidiary Spectra Renal Management performs these laboratory services for about 125,000 dialysis patients and is the biggest clinical laboratory for dialysis-related services in North America with a market share of around 40 % and 41 million tests performed in 2004 (2003: 37 million).

EUROPE

Our European business progressed very successfully and we were able to grow faster than the market in many countries. This is confirmed by our sales growth: In 2004 we achieved an increase of 22 % to $ 1,458 million (currency-adjusted: 11 %) with sales of dialysis care rising 30 % to $ 477 million. At the end of 2004, we treated about 20,250 patients in 285 dialysis clinics, 8 % more than in the previous year. Sales of dialysis products rose 19 % to $ 981 million.

Europe is a very diverse market. We are active in more than 35 individual markets with fundamental differences in their reimbursement structures and market access. Some countries – including Germany – prohibit private companies from operating dialysis clinics while in Eastern Europe there is a strong trend towards privatization that creates additional growth opportunities for Fresenius Medical Care. We adapt our business activities to the individual needs and conditions of the markets and successfully apply our global strategy locally.

In Central Europe we are primarily active in dialysis products and were able, despite continuing price pressure, to further expand our market share. A contract to supply dialyzers to one of our biggest customers in Germany made a major contribution to this growth. The supply contract involves an annual volume in the single-digit millions and means that more than half of all dialyzers used in Germany come from Fresenius Medical Care.

We also made clear advances in our acute dialysis business. The Genius System above all is enjoying more widespread use. In peritoneal dialysis, our position was improved not only by the well-established peritoneal dialysis solutions bicaVera™ and *balance* but also by our software program PatientOnline. It administers patient information and helps to evaluate treatments with the goal of finding the best possible mode of treatment for the patient.

In west and southwest Europe, Fresenius Medical Care provides both dialysis products and dialysis care. We further expanded our dialysis products market share and increased our patient numbers. In Portugal, we treated about 3,700 patients – an increase of 8 %. The number also increased significantly in France (1,350 patients, +30 %). In Spain, Fresenius Medical Care was able to grow quickly over the last years and continued as the clear market leader in dialysis care with a market share of 22 %.

Fresenius Medical Care is traditionally strong in dialysis products and has reached, for example, a 40 % dialyzer market share in Spain. As in Central Europe, we were able to especially grow our product business in acute and peritoneal dialysis. In France, the number of patients using our peritoneal dialysis products rose 10 % to nearly 600.

In Great Britain we continued to develop positively, with the number of patients we treated rising by around 20 % to 1,850. We see further opportunities for growth here. In hemodialysis products we expanded our market share to 50 % and have become the most important partner of the national health system (NHS) for this treatment.

In 2004, the highest growth rates were achieved in east and southeast Europe as the privatization of health services in these countries offers above average growth opportunities. Fresenius Medical Care has been active here for years. In Hungary, we operate 22 dialysis clinics and treat about 40 % of all hemodialysis patients. More than half of Hungary's peritoneal dialysis patients use our products. By moving early, we have also reached a leading position in countries such as Estonia, Slovenia, Slovakia, Romania and Poland. In the current year we are planning to enter the Russian market. Turkey is one of the most important countries in this region and we were once again able to grow faster there than the market. As the leading company, we care for nearly 3,750 patients in Turkey. We are also the number one in this market with our products.

ASIA-PACIFIC

Development in the Asia-Pacific region varied: While we were able to complete 2004 with growth in most regions, we were unable to fully compensate for the price pressure in Japan, our biggest market. We achieved sales growth of 6 % to $ 314 million in the region (currency-adjusted: 1 %). In dialysis products, we achieved an increase of 5 % to $ 237 million, while sales of dialysis care rose 9 % to $ 77 million.

About 250,000 dialysis patients receive treatment in Japan, or about one-fifth of all patients worldwide. Fresenius Medical Care primarily offers dialysis products in this market since private companies currently are not allowed to provide dialysis care. Business development in Japan failed to meet expectations due to price pressure after reimbursement rates were lowered and as a result of strong competition from international and domestic providers. We have adapted to this situation and, last year, optimized organizational and sales processes. We expect these changes to yield an improvement in sales and earnings in the future. We took a significant step in 2004 with the signing of a new cooperation and supply agreement with our Japanese partner Kawasumi Laboratories. The contract ensures that the Fresenius Medical Care plant in Inukai can remain at full capacity and allows further growth in hemodialysis. Demand for our polysulfone dialyzers remains strong: We were able to increase the market share for our most important product group from 15 % to 16 % in 2004. We were also able to build on our market share in peritoneal dialysis products. A sales and marketing agreement signed at the end of 2004 with Fujisawa Pharmaceuticals, a leading Japanese drug manufacturer, offers good opportunities to further strengthen our position in peritoneal dialysis.

The development of dialysis care sales in China, Taiwan and Hong Kong was especially rewarding. We opened our first dialysis clinic in China in the year under report and offer 120 patients our dialysis care. At the moment, the prevalence of chronic kidney failure in China is lower than average at 40 patients per million population. Because of its large population, China will become a key Asian market in the long term and we are preparing for this now. In Hong Kong we already treat more than 1,000 peritoneal dialysis patients.

The purchase of a local provider's hemodialysis business allowed us to significantly expand our patient numbers in Taiwan to over 1,300 patients, an increase of 3 % over 2003. In the current year we are also expecting strong growth rates in peritoneal dialysis as well as in hemodialysis. In addition to dialysis care, we will add products for acute dialysis to our portfolio.

In South Korea, the positive development continued and Fresenius Medical Care outpaced market growth. At the end of 2004, we provided dialysis care for more than 1,900 peritoneal patients. Twelve months earlier that figure was just 1,500. In the hemodialysis products business we were also able to further expand our market leadership thanks to our FX-class dialyzers.

In our South Asia-Pacific region, comprising Australia, New Zealand, Malaysia, Indonesia, Singapore and Oceania, we grew significantly faster than the market. In addition to our strong hemodialysis business, we were also able to show a strong increase in products for peritoneal dialysis. This is clearly reflected in the growing number of patients using our peritoneal dialysis products and this figure grew at double-digit rates for the second consecutive year. Our position as a vertical provider of dialysis products and care offers substantial opportunities for us in these markets. For example, we won a tender for the care of all dialysis patients in and around the Australian capital of Canberra.

LATIN AMERICA

In Latin America we were able to further expand our business in both dialysis products and dialysis care, as well as increase our market share in individual countries. Sales in the region rose 30 % to $ 240 million (currency-adjusted: 27 %). In dialysis care we achieved sales of $ 153 million, an increase of 35 %, while dialysis products had sales of $ 87 million, a gain of 21 %. Fresenius Medical Care treats 15,650 patients in 160 dialysis clinics. This is a 3 % increase compared to 2003.

Argentina is our largest market in Latin America with 80 clinics. The number of patients cared for by Fresenius Medical Care rose by 6 % to 6,600 patients. Our treatment quality and holistic approach allowed us to win two private health insurers as partners. We signed DSM agreements with the insurers, establishing ourselves as the leading provider of holistic dialysis care in Argentina. We expanded our Buenos Aires production site for blood lines and dry concentrates to meet growing domestic demand and strengthen exports to neighboring countries.

The conditions in Brazil remained difficult and the reimbursement for dialysis treatment stagnated at a low level. We were able to maintain our market share in dialysis care last year and treated some 4,000 patients through our partner clinics, as international companies are not allowed to operate dialysis clinics.

Patients in Mexico are treated primarily with peritoneal dialysis. We therefore focused our activities on this treatment form and were able to increase our market share from 7 % in 2003 to 12 % in 2004. We now supply 2,800 patients with peritoneal dialysis products in Mexico. We were also successful in hemodialysis and, as the leading provider with a market share of more than 40 %. We were able to treat 800 patients in 2004, 30 % more than a year earlier. Mexico remains a strong growth market for Fresenius Medical Care.

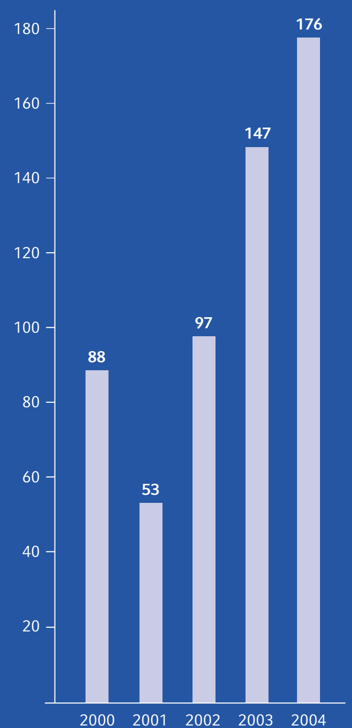
Our successful efforts in Latin America are also apparent in other countries: The number of patients treated in Colombia increased 10 % to 2,800 and in Venezuela we were able to expand our business, especially in peritoneal dialysis. In Peru and Chile we achieved high growth rates, were able to significantly increase our peritoneal dialysis market share and grew faster than the market in hemodialysis.

If you would like to know more, please ask for the Fresenius Medical Care Annual Report at www.fmc-ag.com or phone +49 6172 / 609-2525.

FRESENIUS KABI

- Fresenius Kabi significantly increased its profitability.
- The company continued to expand strongly in the growth markets Asia-Pacific and Latin America.
- We selectively strengthened our international presence and expanded our product portfolio through acquisitions.

DEVELOPMENT OF OPERATING INCOME (EBIT) IN MILLION €



since 2001: US GAAP

2004 was an exceptional year for Fresenius Kabi with significant growth in earnings. Sales in Europe were influenced by decreases in Germany. High growth rates were reached in the Asia-Pacific region, and especially in China. The same is true for Latin America and South Africa.

With our products, we make a significant contribution to the treatment and care of critically and chronically ill people. Our portfolio comprises three business units:

- **Infusion therapy**
  Products for fluid and blood-volume replacement as well as intravenously administered drugs, such as anesthetics for general anesthesia as well as medical devices for the administration of infusion therapies and for infusion management.
- **Clinical nutrition**
  Parenteral (intravenous) and enteral (via sip and tube feeds) nutrition for patients who are unable or not allowed to eat any or sufficient normal food, as well as medical devices for the administration of nutrition therapies.
- **Transfusion technology**
  A range of products for blood banks and blood-donation organizations for the production of blood products.

Our products are used in hospitals as well as in out-patient medical care. We are the market leader in infusion therapy and clinical nutrition in Europe, in most countries of Latin America and in our markets in the Asia-Pacific region.

BUSINESS DEVELOPMENT

In 2004 Fresenius Kabi adjusted its financial reporting to provide more transparency for investors: Sales are now reported according to region and product segment while EBIT is divided into the segments Europe and International. This new reporting structure reflects the development of the Group regionally as well as in individual product markets.

Sales of Fresenius Kabi rose to € 1,491 million in 2004 (2003: € 1,463 million). Organic growth reached 5 %, currency translation effects reduced sales by 1 %, divestments had a -2 % effect.

The following figures show the regional development: In Europe we achieved sales of € 1,113 million (2003: € 1,122 million). Organic growth was 1 %. Cost-saving measures in the German health care sector created significant price pressure and led to a change in our product mix. Sales here fell to € 401 million (2003: € 427 million). Excluding the German market, we achieved European sales of € 712 million (2003: € 695 million) and a good increase in organic sales of 6 % compared to the previous year.

Outside Europe, in the International segment, we achieved sales of € 378 million (2003: € 341 million), an increase of 11 %. In the Asia-Pacific Region, sales rose 14 % to € 157 million (2003: € 138 million) while in Latin America sales totaled € 79 million (2003: € 80 million). The remaining regions, primarily South Africa and Canada, reached sales of € 142 million (2003: € 123 million). Our international activities realized excellent organic sales growth rates. In Asia-Pacific, our sales grew 22 %, in Latin America 11 % and in the remaining regions 12 %.

The following highlights sales according to product segment:

in million €	**2004**	2003	Organic growth
Infusion therapy	**759**	745	6 %
Clinical nutrition	**624**	620	2 %
Transfusion technology	**108**	98	11 %

The Clinical nutrition segment was particularly affected by lower prices in the German market as well as by divestments made during 2004.

We were able to significantly increase earnings in 2004. EBIT rose 20 % to € 176 Mio (2003: € 147 million). The excellent development of the operating business and further measures to increase profitability had a positive effect. The EBIT margin climbed to 11.8 %, an increase of 180 basis points over the 10.0 % of 2003.

In Europe we achieved EBIT of € 172 million (2003: € 157 million) while international EBIT amounted to € 55 million (2003: € 36 million). Corporate and corporate research and development costs amounted to € 51 million (2003: € 46 million).

ACQUISITIONS

Fresenius Kabi completed a number of acquisitions, further strengthening its presence in international markets and expanding its product portfolio:

In May 2004, we acquired Isotec Nutrition from the South African pharmaceutical group Alliance Pharmaceuticals. Isotec Nutrition specializes in the compounding and marketing of infusion solutions for parenteral nutrition and has worked together with our South African subsidiary in marketing and sales for several years. Isotech Nutrition achieved sales of about € 10 million in 2003. The acquisition has strengthened our leading market position in parenteral nutrition and that as a full-service provider for nutrition and infusion therapy not only in South Africa but also in the entire southern region of the continent. With a total population of about 200 million, the area is one of the key international growth markets for Fresenius Kabi.

In September 2004, we launched a joint venture with the Australian pharmaceutical group Pharmatel to market our products and those of Pharmatel in Australia. Fresenius Kabi owns 25.1 % of the new company while Pharmatel holds 74.9 %. We will increase our stake to 50.1 % by 2006. Pharmatel is one of the market leaders in the compounding of intravenously administered drugs for cancer patients in Australia. The company had sales of around € 18 million in 2003. The company's two compounding facilities, located in Melbourne and Sydney, as well as its excellent reputation provide an opportunity for us to quickly gain access to the Australian compounding market for parenteral nutrition.

In January 2005, we bought Infusia, a company based in the Czech Republic. Infusia produces a comprehensive infusion therapy product program for the Czech Republic, Slovakia and other east European countries. The company posted sales of around € 10 million in 2003. Through the acquisition, Fresenius Kabi has become a leading infusion solution and clinical nutrition provider in the Czech Republic and Slovakia.

In January 2005, Fresenius Kabi signed an agreement to acquire the Portuguese company Labesfal – Laboratório de Especialidades Farmacêuticas Almiro S.A. Labesfal produces and sells intravenously administered generic drugs on the domestic market, such as antibiotics, analgesics and local anesthetics as well as drugs for treating gastrointestinal diseases. Labesfal holds an excellent position on the Portuguese hospital market and had sales of € 56 million in 2004. The purchase of Labesfal offers excellent growth opportunities in this highly attractive product segment. Fresenius Kabi plans to introduce Labesfal's products throughout Europe. The existing sales and marketing network of Fresenius Kabi allows for a fast market entry. The products are expected to receive European regulatory approval within the next two years.

INFUSION THERAPY

In 2004, we further consolidated our European market leadership and expanded our market presence in the growth markets Asia-Pacific and Latin America. The introduction of our key products in additional countries played a significant role.

Voluven® sets standards in the field of blood volume replacement and is sold in about 70 countries. Last year, we successfully introduced Voluven® to China, Malaysia and Singapore.

HyperHAES® is used predominantly in emergency medicine to quickly offset massive blood loss. We currently market HyperHAES® in Europe and were able to expand our market presence there with the introduction of HyperHAES® in Great Britain in 2004.

Our business with infusion solutions in the PVC-free freeflex® bag also developed positively last year. The bag offers excellent drug compatibility and is safe and easy to use. Last year we made progress in expanding the international presence of this product and now offer infusion solutions in this packaging in about 15 countries. We opened new markets for this packaging concept by introducing Voluven® in the freeflex® bag in China and New Zealand.

Propofol Fresenius is an anesthetic drug. The product is used in more than 80 countries and we are the market leader in injectable anesthetics in several European countries. Last year, we continued with the internationalization of our business in Asia with emphasis on Hong Kong and South Korea. In 2003, we broadened the Fresenius Propofol product program by introducing a variety with medium- and long-chain fatty acids. This product is currently sold in Germany, and regulatory approval procedures are under way in all European Union member countries as well as Switzerland. Approval is expected in 2005.

The internationalization of our medical devices for infusion therapy continued. After the successful introduction of Base Primea, an infusion platform for use by anesthetists, in some European countries in 2003, last year we introduced it to markets such as the Scandinavian countries, Italy, China, India and South Korea.

We consider it important to pass on new advances in infusion therapy. In 2004 we held our scientific symposium FRACTA (Fresenius Kabi Advanced Course on Transfusion Alternatives) in Beijing and Seville. We use scientific websites such as www.haes-info.de and interactive training programs such as "Volume Therapy from A to Z" to make new discoveries in the use of infusion therapies available to the medical community.

CLINICAL NUTRITION

Fresenius Kabi is one of the few companies worldwide that offers parenteral and enteral products for critically and chronically ill patients in hospitals as well as out-patient treatment. Both forms of clinical nutrition can, among other benefits, improve the immune function of patients, increasing their chances of recovery. Severely ill patients in intensive care are not the only ones who can suffer from a lack of vital nutrients – those requiring nursing care or patients with congenital metabolic diseases, such as cystic fibrosis, can also be affected. Clinical nutrition helps to strengthen the immune system and maintain bodily functions.

In 2004, we improved our European market position in the field of clinical nutrition and were able to expand our strong market position in the key growth regions Asia-Pacific and Latin America.

In parenteral nutrition, we introduced a new generation of lipid emulsions last year. SMOFlipid® contains lipid components from four different oils, all of which have individual effects: Soy bean oil is a reliable source of essential fatty acids. Medium-chain triglyceride is won from filtered coconut oil and offers a quick energy source. Olive oil, with its simple unsaturated fatty acids, provides a balanced fatty acid content while fish oil contains omega-3 fatty acids that have anti-inflammatory effects. SMOFlipid® also contains Vitamin E as an antioxidant. This combination is especially important for patients in intensive care, and studies show that the use of SMOFlipid® can reduce a patient's hospital stay. Last year we successfully began the introduction of this innovative product in Germany, Denmark and Sweden.

Our 3-chamber bag is a trendsetting packaging concept for parenteral nutrition and contains all the daily nutritional requirements of a patient. By simply opening the chambers, all vital nutrients are mixed in the bag shortly before infusion without threat of contamination.

The StructoKabiven® 3-chamber bag contains both medium- and long-chain fatty acids, glucose and a special amino acid profile to provide a quick energy source for critically ill patients. Last year we significantly expanded the market presence of this product in most of Europe by launching it in France, Great Britain, Greece, the Netherlands, Austria, Scandinavia and Spain.

We introduced the Kabiven® 3-chamber bag in Italy, China, Taiwan and Australia in 2004 to extend the internationalization of the product.

In enteral nutrition we offer standard and special diets for sip and tube feeding and were able to once again strengthen our European market position and gain market shares in Asia-Pacific and Latin America. Last year, we successfully launched the new Fresubin® protein energy drink. Diseases can lead to an increase in the need for proteins which then raises the risk of protein deficiency. We developed this new protein and energy drink to counteract the shortfall and have already begun introducing the product in various countries in Europe such as Belgium, France, Austria and Switzerland.

Our Intestamin® is used as a supplement in the early enteral feeding of severely ill patients. Often the intestinal tolerance of a patient is limited during the first few days of critical illness, limiting the availability of essential substances. The full potential of traditional immunonutrition therapy concepts cannot be realized because of the patient's limited intestinal tolerance. The early enteral administration of nutrients has been shown by numerous studies to maintain the intestinal structure and function and reduce the risk of infection and complications. Just 500 ml Intestamin® provide a complete dose of key nutrients that support the intestines while helping to protect against deficiencies that could negatively impact the course of the disease. We introduced Intestamin® in 2002 and now market it in more than 20 countries. Last year we continued the internationalization of the product through launches in further countries such as Denmark, Norway and the Czech Republic.

In the area of medical devices for the application of enteral feeding products, we were able to enter additional countries with the Freka® Pexact enteral feeding tube which was first introduced at the end of 2003 and is used for long-term enteral feeding. Freka® Pexact is now available in various countries including Norway, Sweden, Denmark and Switzerland.

The development of innovative application technologies is very important to us. In the mid-eighties we introduced the first percutaneous gastric feeding tube to the market. Percutaneous endoscopic gastrostomy (PEG) is a method of placing a feeding tube in the stomach through the abdominal wall with the help of an endoscope. Widespread out-patient nutrition therapy was first made possible by the discovery of this method. The percutaneous gastric feeding tube has become the method of choice, especially in mid- and long-term enteral nutrition therapy. The PEG feeding tube is only a minor discomfort to patients as it can remain in the body for long periods without having to be replaced. In Germany alone, about 120,000 percutaneous endoscopic gastric feeding tubes were placed in 2004.

Increasing awareness of clinical nutrition's role in treatment success is a key challenge for us. Our scientific symposium "Fresenius Kabi Advanced Nutrition Course" was held last year in Europe and Asia-Pacific.

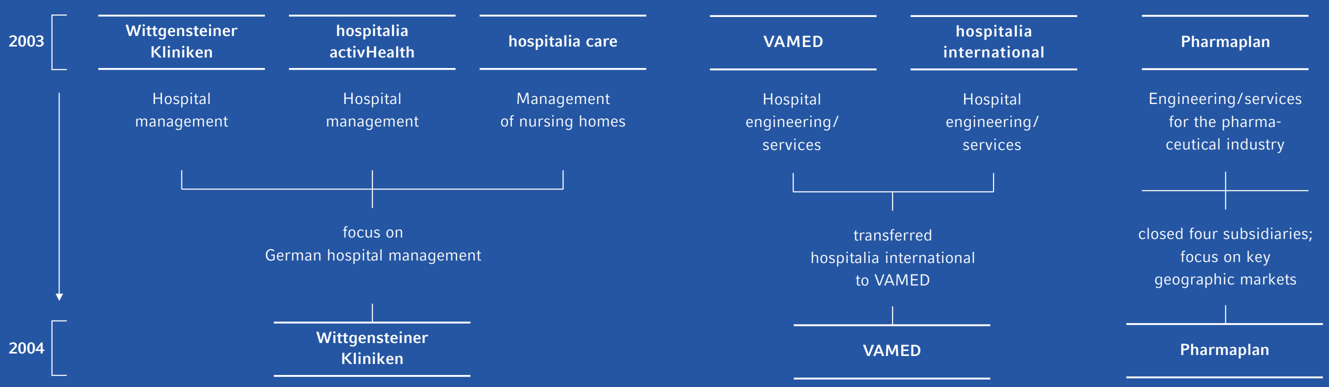
TRANSFUSION TECHNOLOGY

Our transfusion technology segment offers products for the production of blood products. The market is characterized by continued consolidation of blood donation organizations and a stagnation of donor numbers. Last year we expanded our market position in Germany and France and strengthened our European position in in-line filter blood bag systems.

FRESENIUS PROSERVE

- Fresenius ProServe successfully streamlined its operations with a clear focus on three core business areas.
- The company made further progress in linking acute and post acute hospitals.
- We continued with the program to reduce costs and increase profitability.

SIMPLIFIED STRUCTURE WITH A CLEAR FOCUS ON CORE BUSINESSES



Fresenius ProServe's new strategic focus points the way to a strong position in the German hospital market and in the international engineering business. The company's business environment continued to be marked by low hospital bed utilization rates as well as general investment caution of the pharmaceutical industry. The hospital engineering and services business continued to develop favorably.

Fresenius ProServe offers services for international health care systems. The portfolio includes hospital management as well as engineering and services for hospitals and the pharmaceutical industry. The company simplified its organizational structure during 2004 and is now focused on the following three core businesses:

- Hospital management in Germany (Wittgensteiner Kliniken AG),
- Hospital engineering and services (VAMED AG),
- Engineering and services for the pharmaceutical industry (Pharmaplan GmbH).

The strategic focusing began in 2003 when the activities of hospitalia international were merged into VAMED and four international subsidiaries of Pharmaplan were closed. In 2004, the nursing home business hospitalia care was sold and the international hospital management subsidiary hospitalia activHealth closed. Fresenius ProServe's new structure now allows the company to offer services adapted to the market requirements.

In the coming years, the main area of Fresenius ProServe will be the German hospital management business. By linking the acute with the post acute hospitals more closely, patient care will be better organized and, at the same time, individual facilities will become more competitive through specialization. Our aim is to position Wittgensteiner Kliniken (WKA) as one of the leading private hospital operators in Germany. Strengthening the hospital engineering and services business will be the focus of the international activities.

BUSINESS DEVELOPMENT

In 2004, Fresenius ProServe's sales increased 10 % to € 813 million (2003: € 742 million). This increase was solely achieved through organic growth and resulted from the positive development of the hospital engineering and services business. This business increased sales by 30 % to € 352 million (2003: € 270 million). Sales of the hospital management business reached € 343 million (2003: € 348 million), down 1 % due to the closure of a hospital in 2003; moreover, sales were marked by a continued low bed utilization rate in the German hospital business. The engineering and services business for the pharmaceutical industry had sales of € 79 million and was affected by the worldwide low investment levels in the pharmaceutical industry (2003: € 90 million). Sales of the nursing home business and the international hospital management activities totaled € 39 million in 2004.

EBIT of Fresenius ProServe was € 9 million, significantly above the € -19 million of 2003 which was considerably affected by € 34 million one-time expenses resulting from the program to optimize costs and increase profitability. The EBIT result for 2004 included € 8 million one-time expenses. Operating income before one-time expenses was € 17 million in 2004 (2003: € 15 million).

Key figures for the engineering business are order intake and order backlog. In 2004, order intake was at € 244 million (2003: € 278 million). This decrease is mainly due to delayed closing of new project contracts as well as a continued investment caution in the pharmaceutical industry. Order backlog was at € 335 million as of December 31, 2004 (December 31, 2003: € 435 million).

HOSPITAL MANAGEMENT

The hospital management business comprises the activities of the Fresenius ProServe subsidiary Wittgensteiner Kliniken (WKA).

WKA is one of the largest private hospital operators in Germany. At the end of 2004, the company operated and managed 13 acute and 19 post acute hospitals in Germany and the Czech Republic with a total of around 6,100 beds.

In the past year, WKA continued its program to optimize costs and increase profitability. The company undertook sizable efforts to reduce material costs and optimize operations in the hospitals as well as in administration. The adjustment of personnel costs was also largely completed in 2004.

WKA adjusted to the new conditions in the hospital market and exploited new opportunities in patient care. The hospital group entered into various integrated care contracts with health insurers and individual care providers and has taken a leading role in Germany with this new business model.

WKA made broad investments in its hospitals last year to support future growth. An example is the construction of a new intensive care unit and a new surgery wing at Seehospital Sahlenburg. In addition, an intermediate care ward was added to the Herbolzheim hospital. An intermediate care ward is used for former intensive care patients who still require intensive monitoring and medical care before they are transferred to a normal ward. In the Reichenbach Hospital we invested in a new emergency out-patient unit while the maternity ward of the Wittgenstein County Hospital was renovated. A new, modern hospital ward was completed for the Bergisch-Land Oncology Clinic.

WKA developed a new organizational structure in 2004 with four regional directorships. The new structure also shifted economic responsibility to the regional level. The company expects that the new structure will allow for faster decision making, increased market awareness and the optimization of synergies within the hospital network. The efficiency of the marketing of medical services is also expected to increase.

HOSPITAL ENGINEERING AND SERVICES

The subsidiary VAMED specializes in international hospital projects. This includes not only the development, planning and construction of health care facilities around the globe but also supplying equipment, maintenance and facility management.

In the international project business, VAMED won contracts for the modernization and replacement of medical-technical equipment of six hospitals in China last year. Another major contract was acquired in Vietnam for the modernization of nine hospitals with a total of 3,300 beds. In Africa, VAMED began with a follow-up project for the modernization of eight university hospitals in Nigeria. Moreover, two contracts were completed on time and handed over to the owners: A new 60-bed regional hospital was constructed in Begoro, Ghana, while in Gabun the central hospital in Libreville received a new dialysis unit.

In 2004, VAMED won a contract for a pilot project in its home market Austria to build the country's first hospital for psychosomatic illnesses. The hospital will be built in Eggenburg in Lower Austria where VAMED also secured a follow-up contract for the expansion of the thermal spa in Laa/Thaya. In addition, one of the most modern hospitals in Europe, the Vöcklabruck Hospital, was completed on time and within the budget.

VAMED is a leading provider of technical hospital management in Europe. 2004 was another successful year for the company. In its nearly 20-year partnership with the city of Vienna, VAMED reached a new milestone for the Vienna General Hospital (AKH) with recertification according to ISO 9001:2000 and certification under ISO 13485:2003. With about 2,200 beds the hospital is one of the largest in Europe. The 13485:2003 certification makes AKH the first Austrian hospital to establish a norm for the production, maintenance and repair of medical-technical equipment and sets new standards in quality management.

In Germany, VAMED was able to win a contract for the technical management and facility management of the University Hospital in Eppendorf, one of the largest German hospitals with around 1,500 beds. The contract is a key reference project for further expansion in the German market.

VAMED launched a series of project-acquisition efforts in 2004, especially in Asia. In Europe, public private partnerships will play a key role in VAMED's project business in 2005. Such partnerships are cooperations between governmental and private sectors for projects or services. The partners plan, construct, finance and manage the venture through a joint company. In such projects, VAMED can contribute its core competencies, hospital engineering and hospital services, and provide significant cost and quality benefits for both partners. VAMED's focus on these competencies makes the company an ideal strategic partner for hospitals, especially publicly-owned institutions.

ENGINEERING AND SERVICES FOR THE PHARMACEUTICAL INDUSTRY

Fresenius ProServe's Pharmaplan unit provides services such as planning, construction and supervision of pharmaceutical and medical-technical production plants.

Continued low manufacturing investments by the pharmaceutical industry impacted the economic development of Pharmaplan in 2004. New contracts were won in the field of modular production plants. Pharmaplan secured, for example, a contract for the modular construction of a bio-pharmaceutical plant in Malaysia, set to be completed in 2006. Pharmaplan gained a key contract in Puerto Rico for its validation business from a large international biotech company. An initial engineering contract in Hungary was completed in 2004 as part of the construction of a new pharmaceutical plant for tablets. The order included GMP upgrades of the production and warehousing areas. Pharmaplan was also able to secure two follow-on contracts.

The Pharmaplan subsidiary Pharmatec Group constructs processing, purified water and sterilization systems for the pharmaceutical industry. To improve its position on the Swiss market, Pharmatec opened a new office near Basle. Going forward, Pharmatec will focus its activities on the markets of Central and Eastern Europe.

ADDITIONAL INFORMATION ON THE FISCAL YEAR

- Employees – Success for Fresenius is also success at Fresenius
- Research and development – Innovative products and therapies for severely ill patients
- Environmental protection and quality management – Efficient use of operating materials
- Social activities – Caring for health

EMPLOYEES

Our objective within human resources management is to continuously support our employees by identifying and developing their strengths and skills. Dedicated employees assume responsibility, develop and implement new ideas and identify themselves with their work. To support our employees in these efforts, we offer a variety of programs to acquire the necessary qualifications and we create demanding perspectives. Success for Fresenius is also success at Fresenius.

Training and education

About two-thirds of secondary school graduates in Germany choose two-tiered occupational training programs that combine training and education at school with practical experience in a company. Fresenius trains dedicated young people with a variety of school backgrounds as apprentices in technical, scientific, business and IT occupations. We not only offer the common two-tier system but also cooperate with vocational and technical schools. New to our educational program is an engineering collaboration with the University of Applied Science in Friedberg/Giessen. In 2004, Fresenius trained approximately 450 apprentices.

Fresenius offers a broad range of high quality training programs to ensure that apprentices will be qualified for their future jobs. This also allows us to establish a solid base of qualified professionals and executives who have a feel for business and teamwork. They enable us to remain at the forefront of international competition.

We fulfilled our obligation to create new apprenticeships in accordance with the German “Future through Training” education and training labor agreement.

Employee development and personnel marketing

A variety of activities were organized last year specifically for Fresenius’ top management. Our long-term cooperation with INSEAD (Fontainebleau) promoting international management development was expanded by a follow-up event focusing on special business topics. We completed a demanding audit of our personnel’s potential in various divisions to better identify the capabilities of our management staff and offer targeted advancement opportunities. Following the audit, we implemented personal development measures where necessary.

At the same time, we continued a program initiated in 2003 aimed at adapting personnel measures to better meet individual needs. This program is designed to empower our management and specialist staff to actively fuel changes in our markets. We feel that acquiring the necessary professional and social skills is the responsibility of both the company and the employees themselves.

Fresenius continued to enhance its reputation as an attractive employer in the international job market. This is reflected by the large number of applications received from all over Europe in response to jobs posted on our international online platforms. These platforms are operated in cooperation with partners and alumni networks. At the same time, we have continued our proven activities on the Internet as well as our university programs to establish an attractive employer branding for Fresenius.

The online recruitment sites of Fresenius were once again recognized for an award. We were placed second in a survey conducted by the German business magazine “Wirtschaftswoche”. Some 1,500 students, graduates and first-time employees were surveyed to find the best online sites for job seekers. The group of testers visited 165 websites of various German companies.

Expansion of the corporate headquarters in Bad Homburg

Fresenius is an attractive employer in Germany and benefits from the excellent infrastructure of the Rhine-Main region. The extension of our headquarters in Bad Homburg providing office space for an additional 200 employees is a sign of the dynamic development of the company and our commitment to Germany. The new building will be completed next year.

Profit-sharing scheme and stock option plan

Strong financial results can only be realized with motivated employees. Participating in the company's success is a vital component. Fresenius has always placed significant value on the fact that non-managerial employees can also participate in the company's financial success. When the previous five-year profit-sharing program ended in 2002, a new value-oriented incentive program was implemented. This program will run until 2006. The company's EBIT determines the share of profits in the new program. Of the amount awarded, two-thirds is paid in preference shares of Fresenius AG or Fresenius Medical Care AG. Entitled employees can opt to take the remaining third in cash or in additional shares. Those who choose the share option receive additional bonus shares. In 2004, the profit sharing payment per full-time employee was € 1,000 before taxes. About 54 % of all entitled employees opted for the all-share option.

In the year under report, 262,452 convertible bonds of the Fresenius AG stock option plan of 2003 were issued to members of the Management Board and selected managerial staff of Fresenius AG and its affiliated companies. Since the managerial staff of Fresenius Medical Care AG and its affiliated companies have their own stock option plan, these employees are not entitled to participate in the Fresenius AG program.

Please see page 137 of the Notes for further information on the stock option plan.

RESEARCH AND DEVELOPMENT

We place great importance on our research and development. Innovation is essential to help severely ill people and is indispensable in achieving continuous medical advances. We develop products and therapies for extracorporeal blood treatment, for infusion and nutrition therapy and in biotechnology. Our objective is to provide patients with optimal care, enabling them to enjoy a higher quality of life. For Fresenius, innovation is a cornerstone of corporate strategy.

Dialysis

Research and development at Fresenius Medical Care is focused on products and therapies for dialysis and other extracorporeal treatments that enhance patients' quality of life and increase their life expectancy. The quality and safety of our systems are also a central focus of our efforts. One of our major achievements in 2004 was the completion of a new generation of hemodialysis machines. These machines should gradually follow the 4008 series in the coming years – an ambitious project considering that the 4008 is the most successful machine internationally and the most widely used in hemodialysis. Overall, more than 200,000 machines have been produced. This figure includes the 4008 series as well as the 2008 series for the North American market which is built on the same platform.

The new machine has a large number of newly developed technical components and improved processes. The features are a modern, ergonomic design as well as a large, user-friendly touch screen. Major advances in electronics and interfaces have made controlling the highly complex processes involved in performing and monitoring treatment safe and easy. The machine underwent extensive tests in both the laboratory and under actual dialysis conditions. By the end of 2004, 35,000 dialysis treatments were performed in selected centers in various European countries. These comprehensive field tests allowed our researchers to make precise adjustments to all operating parameters. This resulted in the internal approval of the series and we are now preparing for the market launch of the new machine.

The dialyzer is extremely important in hemodialysis treatment as it filters toxic substances and excess water from the blood. In 2004, we focused on the development of a new series of dialyzers that offer a highly diffusive and convective removal of substances from the patient's blood. Moreover, these dialyzers allow for the optimum use of treatment options provided by our new dialysis machine generation. Using harmonizing products in one system makes it possible to provide both high quality and cost-effective treatment.

The new dialyzer series is based on further advances in the production technology for our Fresenius Polysulfone membrane. The technology allows the production of all membrane components – which are ultimately responsible for the performance of the dialyzer – at a level of precision previously not possible. As a result, the membranes can be adapted to individual treatment modes. A refined production process and tight quality control guarantee that each of our dialyzers will cleanse the patients' blood according to specifications.

Fresenius Medical Care sees this development as a move toward dialyzers that can influence the treatment process to meet individual requirements. At present, the dialyzer membrane does not function very selectively. In the future, it could either have specific adsorption properties or contain substances for targeted release.

Another field of development is anticoagulants. These are essential for all medical procedures that involve extracorporeal treatment of blood. In chronic hemodialysis, the systematic and extracorporeal administration of the drug heparin currently is the procedure of choice. Heparin can be used in most treatments without complications. The fact that it reduces the coagulability of the blood within the patient's circulatory system for a certain period is acceptable, with only minor exceptions. Among these exceptions are patients who have recently undergone surgery or patients with bleeding abscesses. For intensive care patients who are suffering from acute kidney or liver failure it is a big advantage if the anticoagulation of the blood is limited to the extracorporeal circulation. This procedure is known as "regional anticoagulation" for which citrate has become the anticoagulant of choice in recent years. A solution containing citrate is introduced to the blood of the patient as it enters the extracorporeal circulation. Through complexation of the calcium ions in the blood, it effectively interrupts the clotting cascade. The controlled addition of a calcium solution at the end of the extracorporeal circulation reinstates the original coagulability. The correct dosing of both solutions requires appropriate pumping units as well as computer-aided calculations and broad practical experience with the kinetics of these solutions in extracorporeal circulation. In 2004, our research and development made the necessary modules for our systems available to treat acute kidney failure and acute liver failure.

In peritoneal dialysis, a number of factors determine whether this treatment type is appropriate for a patient. Many of these factors are directly linked to the products used for the treatment. Special design details and the simple and safe handling of the tubes and connectors used in transfering the peritoneal dialysis solution into the abdominal cavity reduce the risk of bacterial contamination which could, for example, lead to peritonitis. Peritonitis can restrict the effectiveness of the peritoneum, the body's own membrane used in peritoneal dialysis treatment, or render it unsuitable for use in further treatments. The composition of the solutions themselves as well as the buffer systems used can also influence the long-term success of peritoneal dialysis treatment. Fresenius Medical Care's research and development is active in these areas and can build on broad technological experience.

Extracorporeal therapies for the treatment of liver disease are another focus of our research and development activities. In many cases, these therapies are able to provide the time until liver transplantation is possible or the liver uses its regenerative abilities and heals itself. Fresenius Medical Care offers the Prometheus® system for this important aspect of intensive care medicine. Clinical studies in 2004 showed that detoxification with this system is considerably more effective than with competing systems. Our research and development will continue to work on further increasing the already remarkable effectiveness of the detoxification process for specific toxic substances.

Liver cells that continue to function in a so-called bioreactor will undoubtedly offer an alternative method for the treatment of liver failure one day. Fresenius Medical Care is investigating the complexity of such bioreactors. This includes harvesting the necessary cells, ensuring their optimum function and refining the design of the devices.

Infusion and nutrition therapies

In 2004, Fresenius Kabi focused its research and development activities on further product enhancements and on the development of new products in its core activities: clinical nutrition, infusion therapy and medical devices.

Fresenius Kabi is one of the few companies worldwide that develops products for both enteral and parenteral nutrition of severely and chronically ill people. Both types of nutrition aim to prevent malnutrition as early as possible. The economic and physical effects of malnutrition are often ignored or underestimated. Malnutrition can arise when patients consume fewer nutrients than they actually require over a long period, leading to an overall lack of nourishment and energy. However, malnutrition can also be a deficiency of just a few, essential nutrients. Many critically ill patients are malnourished as they are very often in a stress situation. This can lead to a metabolic change and an increase in the body's consumption of nutrients. If malnutrition is undiscovered and untreated, it can lead to a weakened immune system or increase the risk of complications.

Last year, Fresenius Kabi continued the development of a tool to measure body composition using the electrical resistance of the body that allows patients' nutritional status to be quickly and simply determined. The bioelectric impedance spectroscopy (BIS) device measures the fatty and fat-free body mass as well as intracellular and extracellular water. Electrodes on the wrist and ankle of the patient conduct a low electrical current through the body. 50 frequencies are measured to provide an exact body composition analysis. Results are obtained within seconds using the measured resistance (bioelectric impedance) and patient-specific information such as age and height. The market launch of this new product is expected in 2005.

In 2004, we introduced the innovative lipid emulsion SMOFlipid® for parenteral nutrition in Europe. SMOFlipid® is administered intravenously to intensive care patients and will be offered in various primary packaging systems. In addition to the glass bottle currently sold, we will also offer SMOFlipid® in our innovative 3-chamber bag. This was one of our last year's projects.

Scientific studies have shown that omega-3 fatty acids contained in fish oil have a positive effect in enteral nutrition therapy. We are currently developing a new enteral nutrition product that takes these findings into account.

One of Fresenius Kabi's core competencies is the development of blood volume substitutes. These are mainly used in emergency and intensive care medicine or during surgery. In 2004, we primarily focused on expanding our product portfolio and received regulatory approval for the use of our Voluven® product with children. The basis for administering this product to children was a multicenter study. Voluven® is now the only hydroxyethyl starch approved for the use in pediatric medicine.

After intensive research, we have successfully developed a novel technology platform based on our hydroxyethyl starch (HES) which is used in the field of blood volume substitution. The technology allows a targeted modification of drugs using the so-called HESylation procedure, which couples drug substances with HES derivatives in order to modify the drug characteristics. Important parameters are absorption, decomposition, half-life and water solubility of a drug in the body. One of the benefits of HESylation is that drugs can extend circulating life, thus prolonging their effects. In addition, the safety profile of drugs can be improved by reducing side effects or allergic reactions. In contrast to traditional methods, the advantage of HESylation is that the hydroxyethyl starch is derived from maize starch and breaks down in the body through the body's own enzymes. The development of HESylation as a new technology platform is in the preclinical stage.

In infusion technology we worked on a new product program consisting of syringe and volumetric pumps. The goal was to develop infusion pumps with a technical design and easy handling appropriate for hospitals in growth markets. The new products can be used individually or in combination with other infusion pumps in a specially developed rack system, allowing for many uses from the general hospital wards to intensive care units. The infusion pumps are compatible with different types of information transmission systems, for example patient data management systems or systems to prevent medication errors. The first product will be introduced to the market in 2005.

The technical optimization of the EasyLab MF analyzer, a new device for fast blood analysis, continued last year. The market launch is expected in 2005. A fast blood analysis is necessary where immediate therapeutic steps are required such as in intensive care units. The analyzer and EasyPackMF measuring cartridge allow a simple and quick analysis as well as the monitoring and documentation of blood counts.

Our primary packaging technology center is based at the Friedberg plant in Germany. The innovative freeflex® bag was developed here. Last year we worked on a new port system for this primary packaging to develop a cost-efficient system while further increasing product safety. We have applied for a patent for the new product and expect the market launch this year.

We provide enteral tube feeds in specially designed EasyBag® feeding bags. The bag is designed for simple, safe and, most importantly, hygienic handling. In 2004, we worked on a new filling technology for this primary packaging. A newly developed port system allows filling directly through the port, increasing production efficiency. In addition, the port contains a membrane which prevents spillage when opening the bag. This increases safety for the user in hospital and out-patient environments. Serial production of these new technologies is planned for 2005.

Antibody and cell therapies

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

In cancer therapy, we continued the cooperation with our partner TRION Pharma in 2004. We were able to start a regulatory approval study and conclude several dose determination and safety studies with the trifunctional antibodies removab® and rexomun®.

In Europe, we have started a phase II/III study in malignant ascites with the antibody removab® which is expected to be the base for the European approval of this antibody by the end of 2007. The final study report is expected in the second half of 2006.

In addition, a dose determination study in malignant pleural effusion was started in mid 2004.

Since the middle of 2004, patients with advanced ovarian cancer have been recruited for a phase IIa study. In addition, last year the European Commission granted Orphan Drug Designation for the trifunctional antibody removab® to treat patients with ovarian cancer. This designation secures Fresenius the exclusive marketing rights for removab® for the treatment of this indication within the European Union over a period of up to 10 years after marketing approval. Orphan drugs are medicinal products used for the treatment of patients with rare, life-threatening or chronic diseases where no other or no effective therapy exists.

Also last year, a phase I study in non-small cell lung cancer using the antibody removab® in intravenous application was completed. In order to achieve a higher dose (MTD), a switch to the antibody rexomun® is under investigation.

In addition, preliminary results are available of a phase I study to determine dosage, safety and tolerability of the antibody removab® in peritoneal carcinomatosis, as well as of a phase I study for the treatment of metastatic breast cancer using the antibody rexomun®. The final reports of these two studies will be published at the ASCO (American Society of Clinical Oncology) Annual Meeting in May 2005. Based on the encouraging results, Fresenius Biotech is planning two phase II studies to treat breast cancer with the anibody rexomun® and a study for the treatment of gastric cancer in the current year.

In the area of polyclonal antibodies, we took further steps to introduce our immunosuppressant ATG-Fresenius S to the North American market. Our American partner ENZON Pharmaceuticals has started a randomized, double-blind study in the United States with ATG-Fresenius S. The objective is to reduce the rate of organ rejection reactions after lung transplantations. The US Food and Drug Administration (FDA) granted Fast Track Status in the approval process for use in lung transplantation. The Fast Track process provides a particularly close working relationship with the FDA in order to accelerate the development and approval of pharmaceuticals that are suitable for the treatment of critically ill patients where adequate therapeutic modalities are not available. In addition, a study for ATG-Fresenius S in renal transplant patients is currently being prepared. The market launch of this product in North America is expected in 2007.

A second project with ATG-Fresenius S is a randomized, multi-center phase III study for the prophylaxis of acute-Graft-versus-Host Disease after stem cell transplantation. In this study, the standard therapy (i. e. Cyclosporin A and methotrexate) is being compared against the standard therapy with additional administration of ATG-Fresenius S. As planned, we were able to add further study centers in Europe and recruit patients during 2004.

In cell-based immune therapy, ten patients for whom the standard therapy was no longer effective were recruited for a phase I study using genetically modified cells for the treatment of HIV infections. All the patients were treated. The interim report shows that the therapy is well-tolerated and safe. Therefore, it is anticipated that the primary endpoints – safety and tolerability of the tested drug – will be met. The clinical development program is planned to continue in the current year.

In the area of cell-based transplantation immunology, the recruitment and treatment of ten patients for a pilot study of immunotolerance following organ transplantation was completed. This development approach is aimed at achieving an immunotolerance against the implanted organ by modifying cells of the organ donor. The results in terms of safety and tolerability are promising.

Financial figures for research and development can be found in the Management Report on page 73.

ENVIRONMENTAL PROTECTION AND QUALITY MANAGEMENT

Fresenius is committed to protecting nature and using its resources responsibly in accordance with our motto "In the service of health". It is our obligation to constantly improve our performance in the field of environmental protection, occupational health and technical safety, product responsibility and logistics and to comply with legal requirements.

Environmental management in accordance with ISO 14001:1996 is carried out at various production plants and dialysis clinics. This allows us to act responsibly in the use of natural resources.

The environmentally-conscious use of production materials in our plants and clinics once again received special attention.

In 2004, Fresenius Medical Care focused on reducing the amount of water used in its production sites. The optimization processes implemented at the largest European production site in St. Wendel, Germany, allowed us to save more than 12,000 cubic meters of water. In our largest North American plant in Ogden, Utah, we installed a new reverse osmosis system to obtain ultra-pure water. This allowed us to increase efficiency in water processing by 25 % while, at the same time, reducing our energy consumption for this purpose by a quarter. The use of ultra-pure water is a quality requirement during the production of dialyzers as well as during dialysis treatment. Due to the great demand of this resource, even small improvements can lead to immense savings. At our plant for dialysis machines in Schweinfurt, we have implemented an electronic document management system in certain areas, significantly reducing the amount of paper used.

We also introduced the sort-clean separation of waste to our North American dialysis clinics in 2004, leading to a reduction in residual waste. This program was launched at 640 Fresenius Medical Care clinics and allowed us to recycle more than 1,700 tons of paper and cardboard packaging.

There is also significant potential to reduce the need for natural resources in the shipping of goods and products between production facilities, warehouses and dialysis clinics. We further extended the use of double-decker trucks in 2004, enabling the saving of approximately 87,000 liters of diesel fuel, which is equal to around 250,000 transport kilometers.

In our plant in Friedberg, we were able to keep our waste recycling rate at 94 %, approximately the same level as last year. The use of a shredder with a closed garbage container allowed us to save about € 20,000 in disposal and transport costs last year. By bundling our waste into large loads, we were able to ship directly to waste and recycling facilities and reduce handling costs. A trial with cardboard packaging will determine whether the use of a compacting machine can reduce transport costs here by about 50 %. In our facility in Uppsala, where we produce parenteral nutrition products, we have launched various initiatives: the amount of production waste will be reduced and the efficiency of energy consumption improved. By optimizing processes, we can also reduce the amount of water used in production.

For years, Fresenius has focused on the use of PVC-free packaging for its products. In 2004, we once again increased the volume of this primary packaging. These containers can be disposed of with minimum toxicity and emissions. We are also continually working to reduce the amount of packaging materials and thus the amount of waste.

Our process-oriented quality management fulfills ISO 9001:2000 standards and is designed to meet the demands of our customers. This covers not only the quality of our products but also all business processes and additional services we provide. The quality management system integrates all product groups, such as drugs, medical products as well as nutrition and it also includes clinics. Through continuous reviews and improvements in production and treatment processes, we further optimized the quality of our products and therapies in 2004.

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

We have established quality assurance systems in all our production facilities. In addition to the controlled use of raw materials, validated production procedures as well as ambience and in-process controls, each batch also undergoes final controls and a formal release procedure. Our production facilities are regularly inspected by regulatory authorities or other independent institutions for conformance to current quality norms and respective guidelines. Following every audit or inspection, the respective manufacturing authorization or the certification has been extended.

Audits according to EN ISO 9001:2000 and EN 13485 were conducted at various locations in 2004. In these independent surveys, the effectiveness of our systems was demonstrated. The certification according to ISO 9001 of Fresenius Kabi AG in 2004 is worth mentioning.

Sales and marketing are also an integral part of the quality management system. For example, the system monitors distribution and can – at any time – trace the location of a particular batch with a particular client. Fresenius Kabi's Ambulatory Care division in Germany has been certified according to ISO 9001. The demands of patients, doctors and health insurances for the best-possible and most cost-effective care at home were the focus of this certification. A carefully planned and early discharge of patients from the hospital is decisive for safe, high-quality out-patient care. This is particularly important for critically and chronically ill patients with demanding therapeutic needs. Fresenius Kabi is the only company in Germany that has included transition management in its certified quality management system. Thus, Fresenius Kabi has set uniform standards to further enhance the quality of care.

ACTIVITIES IN SOCIAL AREAS

As an economically successful company, Fresenius feels the need to make a contribution beyond its ordinary business activities and supports charitable and social projects. It is not only a duty but also a desire of our company to make our knowledge and resources available for charitable purposes. Medical progress and the well-being of people are the focus of our social contributions.

The tsunami disaster in Southeast Asia deeply moved people throughout the world. In order to offer quick and unbureaucratic assistance, Fresenius assembled an immediate-aid package worth more than US$ 1.1 billion that included cash donations as well as vital medical products and construction assistance for medical facilities. Some of the aid was distributed directly by our subsidiaries in the affected countries. In addition, Fresenius employees also spontaneously initiated relief action and donation collections in many countries, including one fund-raising program in India where employees agreed to donate a day's pay for victims in the disaster region.

In 2004 Fresenius organized its eighth Inventors' Fair, an event that is held every two years. The fair assists independent researchers and university research teams to raise interest in their inventions among industry representatives and doctors – all too often hundreds of medical research efforts, inventions and ideas disappear into archives. About 40 exhibitors were able to present their inventions to the medical community and media representatives from all over the world during the world's largest medical fair, Medica, in Düsseldorf. An independent jury of doctors, journalists and patent specialists rewarded the three most promising ideas with the Fresenius Inventors' Prize.

Fresenius supported other research projects in 2004: We donated the Prize for Surgery in Intensive Medicine 2004 which is awarded annually by the German Association of Surgery. A researcher in the field of analgesics was also awarded a Fresenius research grant through the German Association of Anesthesiology and Intensive Medicine.

Supporting and educating young people about health is important to us. In addition to a joint project with the Humboldt School in Bad Homburg, where health education is provided to children in grades 5 through 13, Fresenius is also involved in other activities to support young people along the path of career discovery. Fresenius invited students from the 12th grade of the Humboldt School to a one-day "Politics and Economy" course. In addition, Fresenius offers students a view into corporate life – they can come to our offices after school for about two hours a week to learn about different careers. In March 2004, Fresenius and other institutions offered a two-day applicant training class for students in the 9th grade at Maria Ward School in Bad Homburg.

One of our projects is a charitable association which was founded by Fresenius and the city of Bad Homburg in 1989. The association offers support to people who are in need due to illness or other twists of fate. In 2004, we were able to quickly and unbureaucratically offer assistance in 105 cases. We support the association both financially and with manpower.

Fresenius employees also make a broad social contribution and set an example. Fresenius has established a special fund to promote and support these many private voluntary and charitable initiatives.

PERSPECTIVE
SPIRIT OF LIFE

SPECIALIZED SERVICES ...

Free. When Daniela Schulz returned home, she "immediately threw the corset away". The 16-year-old student just "didn't want to be reminded of it anymore." The rigid shell that she was forced to squeeze into for years literally restricted her life. But now, that is history. Surgery at the Seehospital Sahlenburg successfully treated Daniela's scoliosis. The orthopedic clinic belongs to Wittgensteiner Kliniken AG and is one of the few German centers that performs a noteworthy number of scoliosis operations. The disease results in a sideways bend or curvature of the spine and is incurable. It advances in stages and creates a humped back as well as a tilted pelvis in patients. In extreme cases, patients' bodies are so severely curved that they can no longer sit or walk properly, impairing their motor functions and handicapping their everyday lives.


... PROVIDE STABILITY AND INCREASE
THE SPIRIT OF LIFE

COMPETENCE AND EXPERIENCE ...

The procedure itself is complex and requires skill and technical precision. To straighten the spine, surgeons must first expose a previously designated region. Two long, stable metal rods are then placed parallel to the spine and attached to each vertebra using screws or hooks. When the screws are tightened, the rods straighten the spine. However, should the surgeon attach the screws just a millimeter in the wrong direction and injure the spinal cord, the results can be devastating. The operation usually lasts three hours. Patients normally leave the hospital ten to fourteen days later – an indication of the impressive progress of medicine. Previously, patients had to wait as long as six months before leaving the hospital after such an operation, and the surgery lasted a whole day. Better technology has also reduced the rate of complications, which now arise in only 0.5 percent of all cases, making the scoliosis operation a notably safe procedure. Seehospital Sahlenburg will operate on spinal curvatures of as much as 160 or 170 degrees.

Currently about 120 scoliosis operations a year are performed at Seehospital Sahlenburg. The large number of operations is an advantage to Seehospital because of the experience it affords the surgeons. But the hospital also has a broad team of doctors, all of whom are qualified to perform this demanding surgery. This creates an excellent perspective to further strengthen this treatment segment.

Well prepared. With the construction of a new surgical center as well as an intensive and intermediate care unit in 2004, Seehospital Sahlenburg is well equipped for the future. The Commercial Director of the hospital, Michael Feldmann, is optimistic: “Competition among clinics is intense but because of our treatment successes, we have the best qualifications and opportunities to further increase the number of scoliosis operations.”

… TRANSLATE INTO PATIENTS' SAFETY

MANAGEMENT REPORT

- Successful business performance in 2004: sales increased 8 % in constant currency, net income grew 46 %.
- Fresenius Medical Care and Fresenius Kabi enjoyed excellent earnings growth. Fresenius ProServe's earnings were within expectations.
- Free cash flow (after acquisitions and dividends) increased by 31 % to € 353 million.
- 2005 outlook: sales growth of 6 to 9 % in constant currency expected, net income is projected to grow by 15 to 20 %.

The business of the Fresenius Group developed very positively in 2004. The good worldwide market acceptance of our products and services led to new records in sales and earnings and we further improved our profitability. However, the fluctuations in currencies once again had a negative impact on our consolidated financial statements.

Fresenius is an international health care group with products and services for dialysis, hospitals and out-patient medical care. In addition, Fresenius focuses on hospital management and on engineering and services for hospitals and the pharmaceutical industry.

The Fresenius Group includes the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe. Furthermore, the segment Corporate/Other comprises the holding activities of Fresenius AG, the IT company Fresenius Netcare as well as Fresenius Biotech.

The business segments are legally independent entities that are managed by the operating parent company, Fresenius AG. Since Fresenius is an internationally-operating group, the business segments have a regional and decentralized structure. Responsibilities are clearly defined along the "Entrepreneur in the enterprise" management principle. In addition, an earnings and target-oriented compensation system reinforces the responsibility of management.

ECONOMIC ENVIRONMENT

2004 was marked by broad growth in the global economy. Production and trading volumes increased in a wide majority of countries and allowed all key regions to take part in the recovery. The key interest rates in the money markets and capital markets of leading industrialized countries remained at very low levels – in some cases historically low levels. Despite the overall positive general economic development there was no noticeable improvement in the condition of governmental budgets. The continued increase in public debt of leading industrialized countries and the devaluation of the US dollar over the euro were significant economic risks in 2004 and remain such in 2005. The biggest risk factors for the global economy were and continue to be the strong increase in oil prices and shortages on the international raw materials markets. So far, the rise in oil prices has had a limited impact on inflation but has affected companies and partially slowed private spending.

► Europe

In 2004, the European economy was largely able to accelerate for the first time since 2000. The average gross domestic product (GDP) growth in the euro countries was 1.8 %, significantly above the previous year's figure of 0.5 %. Every country in the euro zone posted positive growth rates, with the majority even showing significant increases over 2003. However, the overall economic development among the euro countries lagged behind that of other regions of the world in 2004, and even that of the other European countries. Germany, Europe's biggest single market, was in line with the average growth rate of the euro countries of 1.8 %. The development in Germany was marked by continued low domestic demand and by a strong export economy. Other major

European economies such as France (2.4 %) and Spain (2.7 %), however, showed better increases in their GDP. The ten new EU countries achieved average GDP growth of 5.1 %. The economic recovery in 2004 was boosted by the strong global demand while domestic demand also made a significant contribution in some countries. With the recovery still taking time to firm, there was barely any improvement on the labor market in 2004.

▶ United States

The economic development of the United States proved robust last year with an overall GDP growth of 4.4 %. The increase in private spending on consumer goods and housing made the biggest contribution to the economic recovery. A further increase in imports highlighted the positive domestic economic environment. However, exports could not keep pace, resulting in a further increase in the trade deficit. The high private and public debt levels remained unsolved problems. An increase in the prime rate to 2.25 % slightly reined in the expansive monetary policy of the United States.

▶ Asia

Asia (excluding Japan) was once again the highest-growth region in the world with 7.2 % growth. At 9 % growth in GDP, China enjoyed the strongest expansion in the region while South Korea grew at the slowest rate. Private spending in South Korea continues to suffer from the effects of excessive consumer financing through credit cards two years ago. In comparison, consumer demand in China gained further momentum. A potential overheating of the economy was prevented through governmental intervention that has already shown initial signs of success. However, this does not mean that the economic drivers in China have significantly lost momentum. In 2004, Japan was able to free itself from the economic downward trend of the past decade. Japanese GDP growth was 4.2 % in 2004.

▶ Latin America

After a hesitant recovery in the Latin American economy in 2003, the turnaround gradually improved in 2004. At 5 %, the region achieved the highest GDP growth since 1997 and also significantly outpaced the previous year's figure of 1.5 %. The healthy global economic growth, historically low interest rates and rising raw material prices, which on balance had a positive impact on this raw material-exporting region, contributed to the expansion. This led to increasing export revenue, broad direct investments, a reduction in foreign debt and a higher macroeconomic stability in the region. Domestic demand was also able to grow again. Mexico increased its GDP last year 3.9 %, Brazil 4.9 % and Argentina 7.5 %, although public debt continues to be a problem, especially in Argentina.*

* Source: research of banks, ifo Institute (Institute for Economic Research), German Council of Economic Experts (Annual Report 2004/05)

HEALTH CARE INDUSTRY

The health care sector is one of the world's most stable industries and has set itself apart through years of continuous growth and by demonstrating a relative independence to economic fluctuations when compared to other industries. Aging populations, demand for innovative medicine especially in industrialized nations, and the demand for basic care in developing countries are the major contributors to this development.

In Germany, the Statutory Health Insurance Modernization Act (GMG) took effect on January 1, 2004. On the one hand, this led to an increase in co-payments for patients and the pharmaceutical industry was obliged to grant mandatory discounts on drugs. On the other hand, it allows hospitals to broaden their out-patient services and improves the link between hospital care, out-patient treatment and rehabilitation. The establishment of medical care centers is aimed at minimizing the economic risks for young doctors starting up their own practices while offering hospitals the chance to provide integrated services rather than in-patient treatment alone in their own facilities. Disease State Management programs, which maintain treatment guidelines for widespread diseases, aim to ensure that patients with these common and cost-intensive illnesses are treated according to evidence-based, cost-effective medical practices.

The development of our most important markets is described in the following section.

► The dialysis market

About 1.4 million people worldwide suffer from chronic kidney failure and regularly receive dialysis treatment. More than 89 % of dialysis patients receive hemodialysis while about 11 % choose peritoneal dialysis. The causes of kidney failure vary – for the most part they are related to illnesses such as diabetes, high blood pressure and various forms of infections in the kidney tissue. The prevalence, or the proportion of patients treated within the population, differs substantially. The 20 economically strongest countries, which include the two largest dialysis markets – the United States and Japan – have an average prevalence of 1,200 patients per million population. In countries with lower economic output the prevalence rate is about 600 patients per million population and in countries with weak economies about 80 patients per million population. These numbers show how limited the access to dialysis treatment remains in many parts of the world.

The majority of hemodialysis patients are treated in dialysis clinics. In more than 22,500 dialysis centers worldwide an average of 55 hemodialysis patients receive treatments. In the United States, most of the centers are run privately and less than 5 % are public centers. By comparison, some 60 % of dialysis clinics in Western Europe are public. Overall, the number of patients grew about 6 % in 2004. As they increase their level of health care coverage, economically weak regions show double-digit growth rates well above those in the United States, Japan and Europe where moderate increases are the norm. In 2004, the global product market reached a volume of US$ 8 billion. All this underlines the enormous demand for dialysis products and services.

The market for infusion therapy and clinical nutrition

Significant growth factors in these markets are the increasing demand for medical treatment, the rise in the average age of population and the demand for innovative treatment concepts.

Against a backdrop of general cost pressure, treatments that achieve better clinical results and reduce the length of hospital stay will gain in importance in the future. In its report on the nutritional situation in Europe*, the European Council noted that about 30 % of all patients in European hospitals are malnourished from a medical point of view. The health and economic consequences of this malnourishment are significant – studies on malnourished patients show that treatment costs increase by US$ 3,000 to US$ 6,000 per patient compared to patients with normal nutritional conditions; and also the length of hospital stay increases by about 40 %.

Out-patient nutrition therapy will continue to gain in importance in the future as tight budgets fuel a movement away from in-patient treatment to more cost-effective out-patient treatment.

The overall market for infusion therapy and clinical nutrition is growing in Central and Western Europe at low single-digit rates. The difficult budget situation of the public sector is leading to cost cuts in the health systems. The result is continuing price pressure on providers. An entirely different picture is taking shape in Latin America and Asia-Pacific where the basic medical care of the population is the focus. In these countries the increase in health care spending is substantially higher than the GDP growth rate. The growth rates in our product markets are in the high single-digit or even double-digit range.

The German hospital market

Expenditures on hospital treatment account for one quarter of all health care spending in Germany, according to the Federal Statistical Office. Efforts by the government to reduce hospital costs led to a new hospital financing system based on diagnosis related groups (DRGs) which went into effect on January 1, 2004. The system should lead to a stronger service orientation and intensified competition in the hospital market. Originally, the transition phase of the new reimbursement system was to last through 2007 but it has become evident that a majority of the German hospitals need more time to adjust their individual cost and service structures to the new system. In November 2004, the transition phase was extended to 2009.

The initial reactions of German hospitals to the DRG system were analyzed by the German Hospital Federation in a survey. This showed that in a number of hospitals personnel has been reduced. Only a small proportion of hospitals has participated up to now in integrated care programs although the numbers are rapidly growing. Only a minority of hospitals are contractually committed to new treatment models such as Disease State Management and only a handful have set up a medical care center or become part of one. The number of outpatient surgical operations has increased substantially. About one third of hospitals want to expand their outpatient activities while another quarter aims to introduce new out-patient treatments. Many hospitals expect a reduction in cases, a lower number of treatment days and also a drop in bed utilization. The report shows that the reforms are just the beginning of a long-term restructuring of the German hospital sector.

* Report of the Committee of Experts on Nutrition, Food Safety and Consumer Protection/ Council of Europe, November 2002

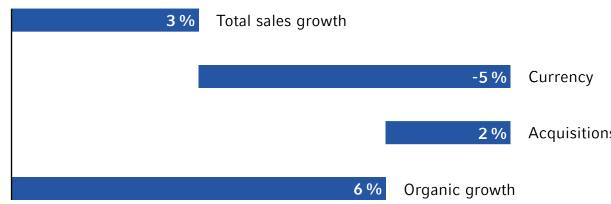
SALES

In 2004, Group sales increased 8 % in constant currency. Organic growth was 6 % while acquisitions contributed 2 %. Currency translation effects had an impact of -5 %. At actual exchange rates, sales rose 3 % to € 7,271 million (2003: € 7,064 million). The average 10 % devaluation of the US dollar against the euro had a significant negative impact in the currency translation as a large portion of our business is in North America. The diagramm shows the influences on the sales growth of the Fresenius Group.

The regions with the highest sales of the Group were North America contributing 48 % to sales and Europe 39 %, followed by Asia-Pacific with 7 % as well as Latin America 4 %, and Africa 2 %. Germany contributed 14 % to Group sales.

In all regions of the world we increased sales in constant currency. The highest growth rates were achieved in Asia-Pacific with 12 %, Latin America with 19 % and Africa with 38 %. North America performed strongly with constant currency growth of 9 %. This was primarily driven by the good development in the dialysis care segment of Fresenius Medical Care. Sales in Europe increased 4 % despite the influence of a 6 % decline in Fresenius Kabi's sales in Germany. Outside of Germany, we achieved remarkable growth in Europe of 7 %.

SALES ANALYSIS



Revenue development of our three business segments was as follows:

- Fresenius Medical Care achieved a 2 % increase in sales to € 5,007 million (2003: € 4,886 million). Organic growth contributed 6 %, acquisitions and first-time consolidations 4 %. Currency translation reduced sales by 8 %. In constant currency, sales growth was 10 %. In particular, dialysis care in North America and dialysis products and dialysis care in Europe showed good sales increases.

in million €	2004	2003	Change	Organic growth	Currency translation effects	Acquisitions	% of total sales 2004
Europe	**2,802**	2,692	4 %	4 %	0 %	0 %	39 %
North America	**3,478**	3,496	-1 %	6 %	-10 %	3 %	48 %
Asia-Pacific	**547**	509	7 %	11 %	-5 %	1 %	7 %
Latin America	**272**	246	11 %	11 %	-8 %	8 %	4 %
Africa	**172**	121	42 %	32 %	4 %	6 %	2 %
Total	**7,271**	7,064	3 %	6 %	-5 %	2 %	100 %

- Sales at Fresenius Kabi rose 2 % to € 1,491 million in 2004 (2003: € 1,463 million). The company achieved strong organic growth of 5 %. Currency translation reduced sales by 1 % while divestments had a -2 % effect. In Europe, organic growth of 1 % was impacted by a 6 % decline in Germany as cost-cutting measures in the health care system led to price pressure. Remarkably strong organic growth rates were achieved in Asia-Pacific (22 %) and Latin America (11 %).
- Fresenius ProServe increased sales in 2004 to € 813 million (2003: € 742 million). This 10 % rise was solely achieved through organic growth. The hospital engineering and services business of VAMED drove the sales increase. Sales in the hospital management business of Wittgensteiner Kliniken AG were slightly below the previous year's level due to the closure of a hospital in 2003. In 2004, Fresenius ProServe sold its subsidiary hospitalia care that operates nursing homes in Germany and closed the international hospital management business at hospitalia activHealth. hospitalia care and hospitalia activHealth contributed € 39 million in sales in 2004 (2003: € 34 million).

Order intake and order backlog were below the previous year. Order intake in the project business of Fresenius ProServe was € 244 million (2003: € 278 million) while order backlog reached € 335 million (December 31, 2003: € 435 million). Continued investment caution of the pharmaceutical industry resulted in a decrease in order intake. In the hospital engineering business delays in the closing of contracts also had a negative effect.

EARNINGS

We were able to achieve excellent growth rates in Group earnings in 2004 due to the strong financial results of the two largest business segments Fresenius Medical Care and Fresenius Kabi. In addition, lower one-time expenses at Fresenius ProServe as well as significantly lower Group interest expenses had a positive impact. Currency translation had a negative effect, especially the decline of the US dollar to the euro.

Gross profit was € 2,376 million, exceeding the € 2,276 million in gross profit in 2003 by 4 % (9 % in constant currency). The gross profit margin rose to 32.7 % (2003: 32.2 %). Operating expenses rose 2 % to € 1,531 million. Depreciation and amortization amounted to € 315 million (2003: € 325 million). This is a decrease of 3 % over 2003 chiefly due to currency translation effects. Depreciation and amortization as percentage of sales decreased from 4.6 % in 2003 to 4.3 % in 2004.

in million €	**2004**	2003	Change	% of total sales 2004
Fresenius Medical Care	**5,007**	4,886	2 %	69 %
Fresenius Kabi	**1,491**	1,463	2 %	20 %
Fresenius ProServe	**813**	742	10 %	11 %

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose 11 % in constant currency over the previous year. At actual rates, EBITDA was € 1,160 million or 5 % above the previous year's figure of € 1,106 million. Group EBIT rose 15 % in constant currency and 8 % at actual rates to € 845 million (2003: € 781 million).

in million €	2004	2003	Change
Fresenius Medical Care	**685**	670	2 %
Fresenius Kabi	**176**	147	20 %
Fresenius ProServe	**9**	-19	–

The EBIT contribution of the three business segments:

- Fresenius Medical Care's EBIT increased by 2 % to € 685 million (2003: € 670 million). The increase was driven primarily by the strong performance of the dialysis care business in the United States as well as significant improvements in the international business.
- Fresenius Kabi significantly improved earnings in 2004: EBIT rose 20 % to € 176 million (2003: € 147 million). In addition to the excellent progress in the markets, further steps to optimize costs and increase efficiency especially in production had a positive effect.

KEY FIGURES OF THE STATEMENT OF INCOME

in million €	2004	2003	Change	Change in constant currency
Sales	**7,271**	7,064	3 %	8 %
Cost of goods sold	**-4,895**	-4,788	-2 %	-8 %
Gross profit	**2,376**	2,276	4 %	9 %
Operating expenses	**-1,531**	-1,495	-2 %	-6 %
EBIT	**845**	781	8 %	15 %
Net interest	**-209**	-249	16 %	12 %
Income taxes	**-253**	-223	-13 %	-20 %
Minority interests	**-215**	-194	-11 %	-20 %
Net income	**168**	115	46 %	55 %
Earnings per ordinary share (in €)	**4.08**	2.79	46 %	55 %
Earnings per preference share (in €)	**4.11**	2.82	46 %	55 %
EBITDA	**1,160**	1,106	5 %	11 %
Depreciation and amortization	**315**	325	-3 %	1 %
EBITDA margin	**16.0 %**	15.7 %		
EBIT margin	**11.6 %**	11.1 %		

- Fresenius ProServe closed 2004 with EBIT of € 9 million (2003: € -19 million). This includes one-time expenses of € 8 million (2003: € 34 million) for cost-cutting and profitability improvement. Fresenius ProServe has adapted its fixed cost structure to the new market environment through organizational and cost optimization as well as through a reduction in the workforce.

Net interest for the Group further improved to € -209 million, € 40 million below last year's € -249 million. This was the result of the lower debt level as well as improved refinancing terms at Fresenius Medical Care. Currency translation effects also had a positive impact as a large portion of bank loans are in US dollars. The currency effect was € 11 million.

In 2004, the tax rate decreased to 39.8 % (2003: 41.9 %). The high tax rate of 2003 was largely due to one-time expenses at Fresenius ProServe in connection with its reorganization as these expenses were not tax deductible or, due to the current loss carry-forward structure in Germany, only partially tax-deductible.

Minority interests rose to € 215 million (2003: € 194 million) primarily due to Fresenius Medical Care's good earnings growth. Minority shareholders in Fresenius Medical Care account for 95 % of the minority interests.

Group net income rose 46 % to € 168 million (55 % in constant currency). In addition to the successful operating earnings growth at Fresenius Medical Care and Fresenius Kabi and significantly lower one-time expenses at Fresenius ProServe, lower interest expenses also had a positive effect on the Group's net income.

Earnings per ordinary share rose to € 4.08 (2003: € 2.79). Earnings per preference share rose to € 4.11 (2003: € 2.82). This is an increase of 46 % in both share classes.

In summary, Fresenius was able to improve Group profitability in 2004. The EBITDA margin increased to 16.0 % (2003: 15.7 %) and EBIT margin rose to 11.6 % (2003: 11.1 %). The return on sales before taxes and minority interests was 8.7 % (2003: 7.5 %).

VALUE ADDED

The value added statement shows the output of Fresenius in 2004 less materials and services purchased and less depreciation and amortization. The value added of the Fresenius Group reached € 3,228 million in 2004 (2003: € 3,157 million). This is an increase of 2 %.

The distribution statement shows that the largest portion of our value added, € 2,318 million or 72 %, went to our employees. Governments came next with € 318 million or 10 %, followed by lenders with € 209 million or 6 %. Shareholders receive € 56 million, minority interests € 215 million. The company retained € 112 million for reinvestments.

DIVIDEND

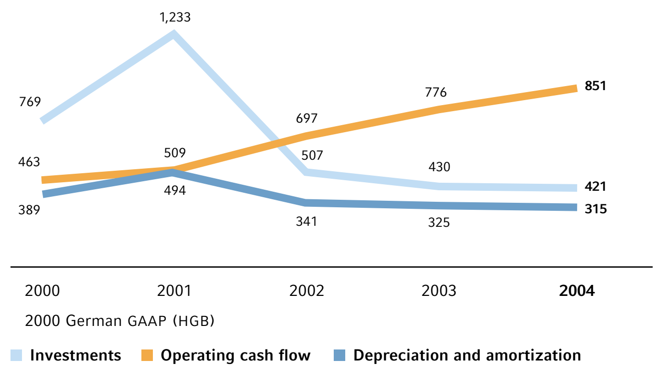
The Management and Supervisory Boards will propose a 10 % dividend increase to the Annual General Meeting. For 2004, a dividend of € 1.35 per ordinary share (2003: € 1.23) and € 1.38 (2003: € 1.26) per preference share will be proposed. The total distribution would be € 55.9 million (2003: € 51.0 million).

INVESTMENTS

In 2004, the Fresenius Group invested € 421 million (2003: € 430 million). This represents 5.8 % of sales (2003: 6.1 %). The investments in property, plant and equipment and intangible assets were € 308 million (2003: € 339 million) while funds of € 113 million used for acquisitions were above the previous year's € 91 million. Of the total investment volume, 73 % was invested in property, plant and equipment and intangible assets. 27 % was invested in acquisitions.

Acquisition spending focused on our global dialysis care business through the purchase of dialysis clinics by Fresenius Medical Care. Fresenius Kabi strengthened the regional market presence – in Australia and South Africa. In Korea our share in the subsidiary was expanded to 100 % from 80 %.

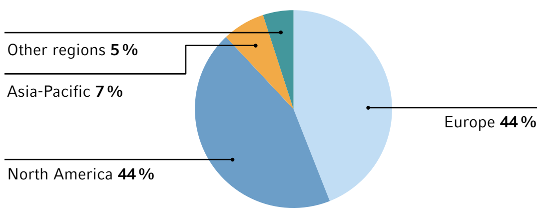
DEVELOPMENT OF INVESTMENTS, OPERATING CASH FLOW, DEPRECIATION AND AMORTIZATION IN MILLION €



VALUE ADDED STATEMENT

in million €	2004	%	2003	%
Creation				
Company output	**7,278**	**100**	7,108	100
- Materials and services purchased	**3,735**	**52**	3,626	51
Gross value added	**3,543**	**48**	3,482	49
- Depreciation and amortization	**315**	**4**	325	5
Net value added	**3,228**	**44**	3,157	44
Distribution				
Employees	**2,318**	**72**	2,313	73
Governments	**318**	**10**	286	9
Lenders	**209**	**6**	249	8
Shareholders	**56**	**2**	51	2
Company and minority interests	**327**	**10**	258	8
Net value added	**3,228**	**100**	3,157	100

INVESTMENTS BY REGION



2004: € 421 million

Major investments in property, plant and equipment and intangible assets included the following projects:

- Starting up new dialysis clinics, primarily in the United States, as well as the expansion and modernization of existing clinics.
- Lease buy-out of dialysis machines.
- Expansion and optimization of production sites at Fresenius Medical Care and Fresenius Kabi.
- Modernization of hospitals and investments in IT at Fresenius ProServe.

The graph shows the regional breakdown of investments. 44 % of the total investments were made in Europe, 44 % in North America, 7 % in the in Asia-Pacific region and 5 % in other regions.

FINANCIAL POSITION AND CASH FLOW

The Group cash flow statement shows a positive development. Operating cash flow and free cash flow exceeded the excellent results of 2003.

Group cash flow increased 15 % to € 718 million in 2004 (2003: € 627 million) due to the strong increase in net income. The change in working capital was € +133 million.

Operating cash flow rose by 10 % to € 851 million in 2004 (2003: € 776 million). This operating cash flow exceeded all the financing needs from investments excluding acquisitions. Cash used for investments in the Group totaled € 308 million, while proceeds from the sale of property, plant and equipment were € 22 million. Free cash flow before acquisitions and dividends increased by 24 % to € 565 million (2003: € 454 million). We were able to finance all acquisitions and the dividends for 2004 from free cash flow. After acquisitions and dividends free cash flow reached € 353 million (2003: € 269 million).

Cash used for financing activities was € 336 million in 2004 (2003: € 297 million) and was primarily used to repay

INVESTMENTS BY BUSINESS SEGMENT

in million €	**2004**	2003	Change	Share of total
Fresenius Medical Care	**320**	347	-8 %	76 %
Fresenius Kabi	**68**	59	15 %	16 %
Fresenius ProServe	**29**	35	-17 %	7 %
Corporate/Other	**4**	-11	–	1 %
Total	**421**	430	-2 %	100 %

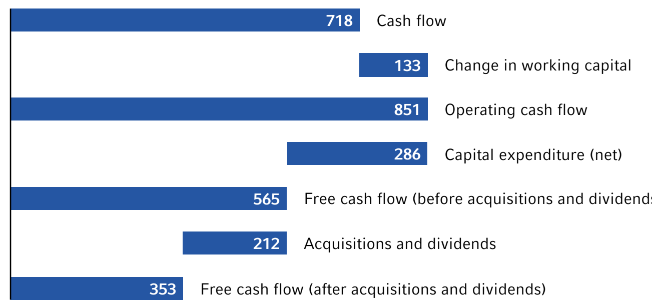
bank debt. Dividend payments in 2004 resulted in a total payout of € 122 million (2003: € 114 million). Cash and cash equivalents amounted to € 140 million on December 31, 2004 (2003: € 125 million).

The total assets of the Group decreased by € 159 million (2 %) to € 8,188 million (December 31, 2003: € 8,347 million). In constant currency, assets grew by 2 %.

Non-current assets were € 5,433 million (2003: € 5,603 million). In constant currency, non-current assets increased by 1 %.

Current assets amounted to € 2,755 million (2003: € 2,744 million). In constant currency they would have increased by 3 %. Trade accounts receivable rose to € 1,528 million (2003: € 1,415 million). Currency-adjusted receivables would have grown by 11 %. This increase is mainly due to the fact that

CASH FLOW STATEMENT IN MILLION €



receivables from the Fresenius Medical Care receivables securitization program are recorded in the balance sheet, effective January 1, 2004 following an amendment of the program

CASH FLOW STATEMENT (SUMMARY)

in million €	2004	2003
Net income before minority interests	**383**	309
Depreciation and amortization	**315**	325
Change in pension provisions	**20**	-7
Cash flow	**718**	627
Change in working capital	**133**	149
Operating cash flow	**851**	776
Property, plant and equipment and intangible assets	**-308**	-339
Proceeds from the sale of property, plant and equipment	**22**	17
Free cash flow before acquisitions and dividends	**565**	454
Cash used for acquisitions / proceeds from disposals	**-90**	-71
Dividends	**-122**	-114
Free cash flow after acquisitions and dividends	**353**	269
Cash provided from financing activities (without dividends paid)	**-336**	-297
Currency-adjusted change in cash and cash equivalents	**-2**	-10
Change in cash and cash equivalents	**15**	-38

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

(December 31, 2004: US$ 336 million; December 31, 2003: US$ 158 million). More details can be found on page 124 of the Notes. Efficient receivables management somewhat offset this. Average days sales outstanding improved to 80 days (2003: 84 days). The scope of inventories improved in 2004 to 46 days (2003: 49 days). These improved key figures led to lower committed capital within the Group.

The liabilities and equity side of the balance sheet shows an increase in equity including minority interests of 4 % to € 3,347 million (2003: € 3,214 million). Group earnings had a positive effect while currency translation had an effect of -5 %. The equity ratio including minority interests rose from 38.5 % on December 31, 2003 to 40.9 % at the end of 2004.

The liabilities and equity side of the balance sheet reflects our solid financing structure. Our equity including minority interests covers 62 % of non-current assets (2003: 57 %). Equity, minority interests and long-term liabilities cover all the non-current assets as well as all inventories (2003: 96 % of inventories).

The long-term liabilities of € 2,785 million on December 31, 2004 were € 221 million or 7 % below the € 3,006 million of the previous year (4 % in constant currency). The short-term liabilities were € 2,056 million or 3 % below the previous year's figure (€ 2,127 million). In constant currency, the short-term liabilities would have been 1 % below 2003.

Bank loans, Eurobonds, commercial papers and trust preferred securities of the Group decreased to € 2,735 million (December 31, 2003: € 3,023 million; including receivables securitization program: € 3,148 million). This decrease was accomplished through a reduction in liabilities, and through the effects from changes in currency exchange rates in the translation of US dollar-denominated financial liabilities into euros (in constant currency: € 2,824 million). Of the financial liabilities, 40 % are in US dollars. Financial liabilities of € 324 million were repaid in 2004. Liabilities with a remaining term of up to one year were € 583 million (December 31, 2003: € 630 million), and with a remaining term of one to five years and over five years were € 2,152 million (December 31, 2003: € 2,393 million).

Our credit ratings did not change in 2004: Standard & Poor's rates Fresenius AG with a BB+, stable outlook and Moody's with a Ba1, stable outlook.

The return on equity after taxes reached 10.5 % (2003: 7.5 %). The return on total assets after taxes and excluding minority interests was 4.7 % in 2004 (2003: 3.6 %).

The following table is a breakdown of additional key figures related to the asset and equity structure:

	Dec 31, 2004	Dec 31, 2003
Debt/EBITDA ratio	**2.4**	2.8
Net debt/EBITDA ratio	**2.2**	2.7
EBITDA/interest ratio	**5.6**	4.4

These key figures further significantly improved over the prior year and are important to Fresenius as they are used to measure and regulate the leverage of the Group in relation to its financial strength. The ratio of net debt compared to EBITDA was 2.2 on December 31, 2004. This is below our 2005 target of 2.5 and primarily a consequence of the excellent cash flow development.

In 2004, the market for raising debt developed very positively. By improving the credit quality, Fresenius strengthened its excellent relationship with banks and investors. There was high demand for Fresenius bonds, and credit offers from banks were strong.

Our financing activities focused mainly on the refinancing of the € 400 million bond issued in 1999 that was due in May 2004. A cost-effective mix of financial instruments was used for the refinancing, with maturities predominantly between two and four years. By means of private placements senior notes totaling € 260 million were issued. A group of selected international banks agreed to a syndicated loan worth € 100 million with a maturity of two and a half years. Of that amount, € 50 million was used as at December 31, 2004. In addition, we increased the utilization of our € 250 million Commercial Paper Program during 2004. By December 31, 2004, € 10 million was issued and outstanding.

The favorable market conditions for bank loans and the improved performance of Fresenius Medical Care in 2004 allowed for a complete refinancing of the syndicated loan in the amount of US$ 1.5 billion closed in February 2003 at significantly improved terms and conditions. In December 2004 the refinancing of US$ 1.2 billion was completed after a successful syndication. The two tranches – a US$ 750 million revolving facility and a US$ 450 million term loan – have now been extended to February 28, 2010 at improved terms and conditions. Based on the favorable cash flow of Fresenius Medical Care and other advantageous financing opportunities, the refinancing volume was further reduced in 2004. On December 31, 2004, only US$ 485 million was borrowed under the credit line.

CURRENCY AND INTEREST RISK MANAGEMENT

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

The Fresenius Group’s currency and interest rate risk management activities are based on a policy approved by the Management Board that defines the targets, organization and handling of the risk-management processes. In particular, the guideline clearly assigns responsibilities for risk determination, the execution of hedging transactions and for the regular reporting of risk management activities. These responsibilities are coordinated with the management structures in the other business areas of the Group. Hedging transactions using derivatives are carried out solely by the

Corporate Treasury Department of the Fresenius Group, apart from a few exceptions to adhere to currency regulations, and are subject to stringent internal controls. This ensures that the Management Board is fully informed of all significant risks and current hedging activities.

On December 31, 2004, the nominal value of all foreign currency hedging contracts was € 1,283 million. These contracts had a market value of € 17 million. The nominal value of interest rate hedging contracts was € 1,145 million with a market value of € -38 million. Further information is available on page 152 of the Notes.

EMPLOYEES

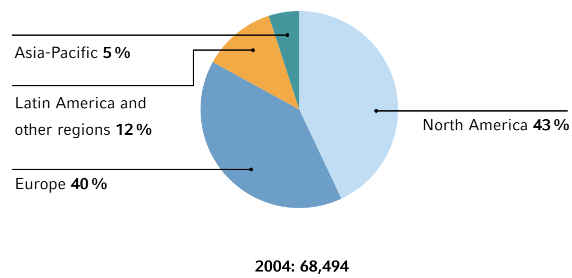
At the end of 2004, the Fresenius Group employed 68,494 people worldwide. The number of employees has increased by 2,230 people or 3 % (December 21, 2003: 66,264).

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

Number of employees	Dec 31, 2004	Dec 31, 2003	Change
Fresenius Medical Care	**46,949**	43,445	8 %
Fresenius Kabi	**11,577**	11,470	1 %
Fresenius ProServe	**9,398**	10,815	-13 %
Corporate / Other	**570**	534	7 %
Total	**68,494**	66,264	3 %

The reduction in employees of Fresenius ProServe is mainly due to the sale of the nursing home business. In the segment Corporate / Other the increase was largely attributable to Fresenius Biotech.

EMPLOYEES BY REGION



The diagram shows the regions where our employees work: On December 31, 2004, 43 % of our workforce were employed in North America, 40 % in Europe, 12 % in Latin America and other regions and 5 % in Asia-Pacific. These percentages roughly correspond to the sales contributions of the relative continents.

In 2004, the personnel expenses of the Fresenius Group were € 2,318 million, about the same as the previous year's figure of € 2,313 million. Currency translation effects, especially from US dollars into euros, reduced costs. In constant currency, personnel expenses would have increased 5 %.

Sales per employee rose to € 113,000 in constant currency in 2004 (2003: € 108,000). Personnel expenses per employee were € 34,000 (2003: € 36,000) or € 36,000 in constant currency.

RESEARCH AND DEVELOPMENT

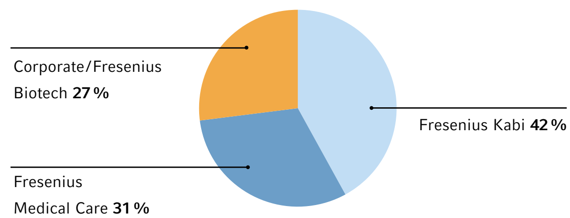
Fresenius focused its research and development activities on the core competences of the respective business segments, which are:

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

In addition to the development of products, we concentrated on optimized or completely new therapies, treatment procedures and services. In 2004, we made good progress on a number of projects. A series of products was introduced to the market.

Fresenius Medical Care continued to put considerable effort into improving treatment therapies. The focus of the projects was on the further development of dialyzers and on a new generation of dialysis machines for hemodialysis. Furthermore, development was also concentrated on peritoneal dialysis and other extracorporeal therapies. Fresenius Kabi focused its research and development activities on the development of new products and product enhancements in its core areas of clinical nutrition, infusion therapy and medical devices. In parenteral nutrition, for example, we introduced our lipid emulsion SMOFlipid® to the market and are currently developing an enteral product based on the positive effects shown by omega-3 fatty acids in nutrition therapy. In blood volume replacement, we primarily focused on further developing our product portfolio. Development efforts at Fresenius Biotech were concentrated on antibody and cell therapies. Further clinical studies for the treatment of cancer with antibody therapies were initiated during the year under report.

RESEARCH AND DEVELOPMENT SPENDING BY BUSINESS SEGMENT



2004: € 133 million

Research and development expenses were € 133 million last year, 10 % above the € 121 in 2003. We invested 5 % of our product sales in research and development. Spending by business segment is illustrated in the diagram. Fresenius Kabi enjoyed significant increases, with expenses rising to € 56 million in 2004 from € 49 million in 2003. Spending in the Corporate segment increased to € 36 million in 2004 from € 27 million in 2003. This was mainly driven by Fresenius Biotech.

As at December 31, 2004, 819 people were employed in research and development, 29 more than in 2003. Of that figure, 382 people were employed at Fresenius Medical Care, 365 at Fresenius Kabi and 72 at Fresenius Biotech and Fresenius ProServe.

Our main research sites are in Europe, while the US and China also carry out production-related research.

PROCUREMENT

The efficient procurement of goods and services plays an important role in the profitability of the Group since the health care sector has continually to cope with cost cuts in the public health systems as well as price pressure. We are steadily working to optimize our purchasing processes and establish pricing structures that allow flexibility within our strict quality and safety standards.

The Purchasing Consulting Center (PCC) of Fresenius Medical Care and the Strategic Purchasing of Fresenius Kabi act as key coordinators in the procurement process. They bundle similar requirements and negotiate global master supply agreements. They organize purchasing for the production sites and carry out comprehensive quality and safety checks of purchased goods. Current market and price developments are analyzed on an ongoing basis.

In 2004, savings in dialysis were achieved by bundling the Europe-wide volume of plastic granulates. This raw material is important in the production of dialyzers, blood lines and products used in peritoneal dialysis.

We also benefited from ongoing competition between suppliers of bicarbonate for peritoneal dialysis, dry concentrates and CAPD solutions as well as semi-finished products such as canisters and empty bags, which allowed us to buy some of these products at prices below those of the previous year.

By bundling demand and following a new negotiation strategy, the Strategic Purchasing of Fresenius Kabi was able to enter agreements at the end of 2003 that led to significant savings in amino acids as well as cardboard packaging and other production materials in 2004. Natural raw material prices, especially those of starch, rose significantly in European markets after the bad harvest in 2003. EU policy for agricultural products also led to 2004 prices that were well above those on the global market. The same was true for derivatives of milk, primarily proteins and caseinates used in enteral nutrition products. A decrease in capacity by the world's largest provider as well as a further reduction in EU subsidies has resulted in significant price increases. Supply contracts covering the whole year reduced the impact of the price increases. For Fresenius Kabi the average price increase was well below the average market level.

Multi-year contracts cushioned the effects of the price increases for plastics, that were caused by the strong rise in oil prices. For some plastics we were able to maintain stable prices.

Mid to long-term supply agreements for raw materials and semi-finished goods with fixed prices are important and successful components of the procurement activities of the Group. We were able to effectively offset the general price increase in oil through supply contracts agreed in preceding years.

RISKS OF FUTURE DEVELOPMENT

Through its continuous expansion, especially in international markets, and the increasing complexity and dynamics of our business, the Fresenius Group is exposed to a number of risks. These risks are directly related to entrepreneurial activities, and accepting these risks is a necessary step in exploiting opportunities. As a provider of often life-saving products and services for severely and chronically ill people, we are relatively independent of economic cycles. Our experience in the development and manufacturing of products as well as in our markets is a solid base from which we can safely assess risks.

Risk management

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

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

- Risk situations are evaluated regularly and compared with existing requirements and standards. Responses can be initiated at an early stage when negative developments emerge.
- Responsible managers are obliged to quickly report relevant changes in the risk profile to the Management Board.
- Constant observation of the markets as well as close contact to customers, suppliers and institutions allow us to swiftly identify and react to changes in our business environment.

Risk management measures are supported both at Group level and in individual business segments by our risk controlling as well as our management information system. Detailed monthly financial reports identify and analyze deviations in earnings and assets from budget figures. 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 continuously evaluated and adjusted to allow us to react early to changes in the markets, and the current system has so far been deemed to be effective.

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 and are part of the continuous development of our risk management system.

Risk areas

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

- Overall economic risks

  In 2005, we expect overall economic growth to slow slightly in comparison to 2004. However, for the Fresenius Group we expect continued strong demand for life-saving and life-sustaining products and services. From today's point of view, the development of the global economy presents no significant risk to the Fresenius Group.

Risks in the economic environment

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

Risks in the health care sector

Risks related to changes in health care market conditions are of major importance to the Fresenius Group. The main risks are the development of new products and therapies by competitors, the financing of health care systems and reimbursement in the health care sector. This is especially true in the United States, where a large portion of our sales are generated, and where changes in the reimbursement system could have an impact on our business. For this reason, we not only continually monitor legislative changes but actively work together with governmental health care institutions. Our close ties with the medical and scientific communities allow us to identify and support technological innovations and keep us up to date on current developments in alternative treatment methods. This allows us to evaluate and adjust our entrepreneurial strategy if necessary.

Consolidation in the dialysis industry continued in 2004. In December 2004, DaVita announced the acquisition of the US dialysis services business of Gambro. The acquisition still needs the approval of competition regulators in the United States. This would make DaVita the world's second-largest provider in dialysis care. DaVita and Gambro plan to complete a ten-year contract for the supply of dialysis products in North America. This could result in a situation where current supply contracts between Fresenius Medical Care and DaVita will not be extended. We consider the related risk to be small as DaVita currently contributes only about 1 % to Fresenius Medical Care's overall sales.

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 by our quality and work procedure manuals. Regular audits are carried out by quality management officers at each of the Group's production sites and dialysis clinics to test compliance with all regulations in everything from management and administration to production and clinical services and patient satisfaction. Our production sites comply with the international "Good Manufacturing Practice" (GMP) guideline or other nationally and internationally recognized standards. In addition, the Quality Management and Compliance Programs document and ensure that business is performed in line with high ethical standards, and in accordance with official guidelines. Internal and external audits review the legality and efficiency of our operations as well as the effectiveness of our internal monitoring systems. Potential risks, such as those arising from the start-up of a new production site or the introduction of new technologies, are countered through careful planning, regular analysis and continual progress reviews. Performing medical procedures on patients in our hospitals and post acute care clinics presents inherent risks; operational risks include the need for hygiene and sterile conditions. We counteract these risks by using strict operating procedures, continuous personnel training and patient-oriented working methods. Risks can also arise through increasing price pressure on our products, e. g., from hospital purchasing alliances. Furthermore, we are exposed to risks from price increases in procurement.

- ▶ Research and development
The development of new products and therapies always carries the risk that the development target is not achieved. Comprehensive, cost-intensive pre-clinical and clinical studies are necessary before a new product can receive regulatory approval. The Fresenius Group spreads its risk widely by conducting development activities in various product segments. We 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.

- ▶ Other risks
Other risks, including those in our IT systems or in personnel marketing due to intense competition in the recruitment of specialist and managerial staff, are not considered to be significant. Nevertheless, it will remain difficult in the future to find qualified employees for long-term employment within the Group. Risks in IT are countered through constant investment in hardware and software as well as continually improving our know-how in IT systems.

- ▶ Financial risks
Potential financial risks that arise from exposure to foreign currencies and interest rates are countered with a special risk management program. Derivative financial instruments are used to hedge against interest rate and foreign currency fluctuations. These instruments are used solely for hedging current operations and are not allowed for trading or speculative purposes. Further details are available on page 152 of the Notes. Potential financial risks that could arise from acquisitions and investments in property, plant and equipment and intangible assets are assessed in advance by performing careful and in-depth reviews, sometimes with the support of external consultants. As a globally active company, Fresenius is widely exposed to translation effects due to foreign exchange rate fluctuations. Especially the relation of the US dollar to the euro is of importance due to our extensive US operations.

- Legal risks

  At the beginning of 2003, a definitive agreement was signed regarding the settlement of fraudulent conveyance claims and all other legal matters in connection with the National Medical Care transaction in 1996 which arise out of the bankruptcy of W.R. Grace & Co. This becomes effective when W.R. Grace is released from the Chapter 11 proceedings. Also, the claims which were made out of court by certain private US health insurers were settled by an agreement. Consequently, all legal issues resulting from the NMC transaction have been concluded. Please see page 149 of the Notes for details.

  In October 2004, Fresenius Medical Care Holdings, Inc., and its subsidiary Spectra Renal Management, received subpoenas from the US Department of Justice, Eastern District of New York. The subpoenas require production of a broad range of documents relating to the companies' operations, with specific attention to documents relating to a certain hormone test and vitamin D therapies for dialysis patients. Please see page 151 of the Notes for further details.

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

- Overall risk

  At the current time, there are no recognizable risks regarding future performance that appear to present long-term and material damage to the assets and liabilities, financial position and results of operations of the Group. We have created organizational structures that include all the conditions needed to quickly alert us about developing risk situations.

SUBSEQUENT EVENTS

In January 2005 Fresenius Kabi signed an agreement to acquire the Portuguese company Labesfal – Laboratório de Especialidades Farmacêuticas Almiro S.A. Labesfal produces and sells intravenously administered generic drugs on the domestic market. In 2004, the company achieved sales of € 56 million.

Otherwise, no major changes in our sector or the situation of the company have occurred since the beginning of 2005. There are also no plans for major changes to the structure, administration or legal form of the Group or in human resources. No other events of material importance have occurred since the close of the fiscal year.

OUTLOOK

Economic outlook

Global economy

For the year 2005, continued growth in the global economy is expected, albeit at a slightly lower level than 2004. The factors that could have a significant effect on the development of the global economy are a continued high oil price, a further devaluation of the US dollar and weakening economic activity in China. However, due to the fairly stable domestic demand in most countries the momentum of the global economy is expected to slow down only slightly compared to 2004.

Europe

Europe is expected to see only insignificant economic growth in 2005. Lower export demand from North America and the developing nations of Asia is expected to result in weaker export growth in 2005. Since imports are expected to increase at the same time, the GDP trade balance should not see a noticeable increase. On the other hand, experts expect an increase in consumer demand. This will be the result of an improvement in employment levels leading to a slight increase in disposable personal income as well as less insecurity over upcoming structural and socio-political reforms. Corporate earnings are also expected to improve. However, a significant decline in unemployment figures is also not expected for 2005.

For 2005, overall GDP growth of about 2 % in the euro countries is expected, a slight increase over 2004. Slower economic growth of 4.3 % is expected in the new EU countries, primarily due to flatter economic growth in Poland. The remaining countries should maintain generally stable growth rates, with the Baltic states forecast to retain their high rates of expansion.

United States

The US economy is expected to continue to expand in 2005 leading to a moderate increase in capacity utilization. The growth is likely to be supported by the positive monetary conditions despite further interest rate increases by the Federal Reserve Bank. The high debt levels of private households, climbing interest rates and the lack of further tax relief will probably slow down the growth rate in private spending. Budget and trade deficits remain a burden, offsetting stable private investment activity and leading to forecasts of weaker economic growth in 2005 compared to 2004.

Asia

Overall GDP growth in the developing nations of Asia (excluding Japan) should slow to about 6 % in 2005. In the light of an expected economic slowdown in the industrialized nations, the Asian export industry is also forecast to lose some steam, with high oil prices putting a further damper on domestic demand. China is expected to post economic growth of about 8 %. With this high forecasted growth rate, China is once again anticipated to have a noticable positive impact on the global economy in 2005. In Japan, GDP growth of 1.8 % is expected for 2005. The consequences of the Asian tsunami disaster in December 2004 are not entirely predictable at the current time.

Latin America

Growth in Latin America should continue to remain solid as the economic drivers appear to have stabilized. However, the economic growth of the region in 2005 could decrease to 3.6 %, significantly lower than in 2004. This forecast can also be further affected by global economic developments. Two main factors could slow down growth: Firstly, weaker economic activity in China could lead to lower raw material prices with a negative effect on the raw material-exporting countries of Latin America. Secondly, an unexpectedly sharp increase in international interest rates. In many countries of Latin America, sustained economic recovery could be further threatened by potential political unrest, the return of inflation, capital drain and continued high public debt. Following adjustments in recent years, the region should be better prepared for economic downturns than in the past.*

Health care sector and markets

A number of developments in the health care market indicate further growth: new, innovative treatment modes and medical advances allow people to live longer. The increasing number of sick people, often chronically ill, will support significant demand for our products and services in the future. Strong growth is foreseen in Asia-Pacific and Latin America where growth in health care spending is expected to outpace growth in GDP. In these regions, demand for basic care is strong, leading us to forecast high single-digit to double-digit growth rates in our markets. However, the essentially positive outlook for corporate growth in the health care sector will still be dampened by governmental reform measures.

In the following sections we describe our forecasts for the future development of the individual markets that are of major importance to Fresenius:

The dialysis market

We expect the number of dialysis patients to continue to rise in the coming years. Average annual growth should be 5 to 7 %, although significant regional differences are projected. In industrialized nations such as the United States, Japan and the countries of Central and Western Europe, we expect below-average patient growth. While the population of industrialized nations has access to dialysis treatment, the needs of patients with chronic kidney failure are still not completely being met in developing nations. The fact that 80 % of the world's population live in these growth countries highlights the enormous potential of the dialysis market in developing nations. These markets today have an average growth rate of around 10 %.

* Source: research of banks, ifo Institute (Institute for Economic Research), German Council of Economic Experts (Annual Report 2004/05)

The reimbursement systems for dialysis treatment vary from country to country based on regional situations, treatment methods, regulatory aspects or the status of the dialysis provider. In addition, discussion continues to focus on reimbursement according to quality-based criteria that would vary with each patient. In this reimbursement model, the quality of treatment would increase while the total cost of treating a dialysis patient would remain constant.

Fresenius Medical Care is active in many countries with a variety of health care systems and reimbursement schemes. In the United States, the Group's largest market, the Medicare Modernization Act (MMA) was passed in 2004. This reform affects the government health insurance program for retirees and dialysis patients without private health insurance. These are the major changes to reimbursement of dialysis treatment starting in 2005:

- The reimbursement rate per dialysis treatment, also known as the composite rate, was increased 1.6 % over the previous year, starting January 2005.
- At the same time, a new reimbursement system was developed for separately billable dialysis drugs. The new regulation was based on the difference between the average actual cost of these drugs and the reimbursement rate for the dialysis medications. The new regulations reduced the discrepancy between the actual cost and the reimbursement rate. To keep the transition to the new guidelines for the dialysis provider as cost-neutral as possible, the new rate was simply added on top of the reimbursement for dialysis treatment.
- In addition, and in accordance with the MMA, the Secretary shall establish a basic case-mix adjusted prospective payment system for dialysis services furnished by providers of services and renal dialysis facilities in a year to individuals in a facility and to individuals at home. The case-mix under the system would be for a limited number of patient characteristics (e. g. age, body mass index or diabetes). The use of a case-mix measure permits targeting of greater payments to facilities that treat more costly resource-intensive patients. The current composite payment rates will be adjusted for individual patient characteristics and budget neutrality for services furnished on or after April 1, 2005.

Patients covered under the government health care programs Medicare and Medicaid account for about two-thirds of Fresenius Medical Care's sales in the United States.

The market for infusion therapy and clinical nutrition

Despite additional cuts in the health care systems, medical advances and demographic developments are expected to lead to a lasting increase in spending. In Europe, we will be further confronted with cost pressure in the health care systems in the coming years. In Germany we expect to see more pressure on costs than in other European countries.

For the coming years, we expect mid-single digit growth rates in the market for infusion therapy and clinical nutrition in Central and Western Europe. Increasingly shorter length of hospital stay of patients will highlight the importance of follow-on out-patient treatment. We therefore see strong growth impulses, especially in the market for out-patient nutrition therapies.

The increasing prosperity in the new EU countries, and especially in the countries of Eastern Europe, will also drive health care spending. Hospitals in these regions are still lagging behind west European standards. Overall, we expect high single-digit to double-digit growth rates in these markets.

High growth potential continues to be offered by the regions Latin America and Asia-Pacific, especially China, which is already the third-largest country market for Fresenius Kabi. Growth drivers in Latin America and Asia-Pacific are the high demand for basic medical care as well as demographic developments.

The German hospital market

According to statistics from the OECD from 2004, Germany has the longest average length of hospital stay of any of the OECD countries. While a patient in Germany spent an average of 11.6 days in an acute hospital in 2001, the average stay of a patient in the United States was 5.8 days.

The introduction of a new reimbursement system based on diagnosis related groups (DRGs) on January 1, 2004, and the Statutory Health Insurance Modernization Act (GMG), make sound economic management of hospitals more important than ever before. The new regulatory conditions present a major structural challenge to the hospitals. Integrated care, the deregulation of out-patient care and the introduction of DRGs demand major restructuring within hospitals in order to continuously optimize processes and internal organizations. These measures require investments which could lead to financing problems, especially at publicly-owned hospitals.

Overall, increasing competition will mean that only economically efficient hospitals can survive, squeezing less efficient facilities from the market. In the long run, the number of beds will be reduced and clinics closed. A May 2004 survey conducted by Mummert Consulting and the F.A.Z. Institute showed that small inefficient hospitals with less than 200 beds as well as those with a thin financial cushion have an increased risk of closure. This will primarily affect public hospitals and those that are facing budget cuts because they cannot meet minimum case number requirements set by insurance companies for individual indications. Operators of private hospitals are better prepared for future challenges because they already have experience in operating economically. Private hospital operators also see growth opportunities through the acquisition of public facilities. Overall, more than one third of all hospitals are expected to be owned by private operators in ten years' time, although the total number of clinics is expected to decline as the length of hospital stay is shortened and competition increases.

Group sales

The international production and sales platform of the Fresenius Group perfectly positions the company for further growth, with products and therapies meeting market requirements. In 2005, we expect an increase in Group sales of 6 to 9 % over 2004 in constant currency. All business segments should contribute to the increase.

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

Group earnings

We again expect a significant increase in Group net income in 2005 due to good development in sales and ongoing cost-saving measures, with a special focus on production. We project net income to increase by 15 to 20 % in constant currency, significantly exceeding sales growth despite the continuously challenging market conditions that are marked by cost cuts and price pressure. All business segments should contribute to the increase in net income.

Sales and earnings of the business segments

Overall we expect good improvements in sales and earnings in 2005 in each of our business segments: The number of dialysis patients will grow by about 5 to 7 %, leading to a continuing increase in demand for dialysis products and a rise in the number of treatments. Fresenius Medical Care projects a currency-adjusted sales increase of 6 to 9 % in 2005 in its reporting currency, the US dollar, and a net income growth in the low double-digit range.

In the Fresenius Kabi business segment, the demand for our products should remain strong. At the same time we will continue with our efforts to increase productivity and reduce costs. We expect sales growth at Fresenius Kabi including the acquisition of Labesfal to reach about 10 % in constant currency in 2005, with EBIT growing more strongly. The EBIT margin including the Labesfal acquisition is projected to increase ≥ 13 %.

At Fresenius ProServe will we concentrate on improving earnings in our hospital management business. Moreover, we will increase activities in our engineering and services business. We expect Fresenius ProServe to complete 2005 with an organic sales increase of 5 to 8 %. Projected EBIT will be between € 20 to 25 million.

Fresenius Biotech will continue its clinical study program. For 2005, Fresenius Biotech's EBIT is planned to be in the range of € -35 to -40 million, largely due to the expanded clinical study program.

Financing

In 2004, we achieved an excellent operating cash flow due to the good development of earnings and the improvement in receivables management. The operating cash flow margin was 11.7 %. In 2005, we anticipate that we will not match this figure as we expect that operating cash flow might be affected by payments for tax arrears.

A key figure for the Fresenius Group is the net debt/EBITDA ratio. On December 31, 2004 this ratio was 2.2 and we were able to reach our 2005 target of 2.5 already in 2004. In the coming years we will strongly focus on this ratio. We will concentrate on earnings increases and a continued strong cash flow as well as selected acquisitions that must meet our profitability criteria.

Ensuring our financial flexibility has highest priority for the financing strategy of the Fresenius Group. We achieve this by using a broad range of financial instruments and by high diversification of investors. Our maturity profile is characterized by a broad range of tenors with a large portion of mid to long-term financing instruments.

Overall we have appropriate financial cushion with syndicated credit lines, an only partially utilized receivables securitization program at Fresenius Medical Care, the unused portion of the commercial paper program and bilateral credit lines available from banks. Refinancing activities in 2004 increased our financial flexibility. On December 31, 2004, the Fresenius Group had access to a commercial paper program for € 250 million, of which only € 10 million was used, as well as substantial open bilateral credit lines.

Investments and acquisitions

Fresenius is planning to invest in further growth in 2005. Investments in property, plant and equipment and intangible assets are projected to increase to approximately € 400 to 450 million (2004: € 308 million). About two-thirds of this volume will be spent on Fresenius Medical Care while the remaining third will be invested in Fresenius Kabi and Fresenius ProServe. The focus of the investments at Fresenius Medical Care will be on the construction and expansion of dialysis clinics as well as on the expansion and modernization of production sites. Investments at Fresenius Kabi will also be used for expansion and modernization of production plants and for the introduction of new manufacturing technology. At Fresenius ProServe we will invest primarily in the modernization of hospitals at Wittgensteiner Kliniken and in medical technical equipment.

As in 2004, the focus on regional investments will be North America and Europe, each with around 45 %. The remaining amount will be invested in Asia, Latin America and Africa. About 20 % of the funds will be invested in Germany.

Our plans also call for additional funds of about € 400 million for acquisitions. This figure includes the acquisition of Labesfal.

Procurement

The optimization of procurement, with regard to price and conditions as well as the quality of purchased products, is an important component of earnings growth.

Fresenius Kabi and Fresenius Medical Care completed several joint purchasing projects in 2004 and profited from economies of scale by bundling quantities. These successful cooperations resulted in contracts that will yield significant savings in 2005. By pooling our procurement volumes we expect mid to long-term savings on the purchase of high-quality goods such as injection-molded articles, plastic granulates and packaging materials for dialysis products.

Strategic Purchasing of Fresenius Kabi handles the procurement of the most important production materials such as amino acids, carbohydrates, glass bottles and glass ampoules. We expect that we will be able to further reduce the prices for these goods in 2005. By inviting tenders for the whole European and global purchasing requirements of Fresenius Kabi, we were able to avoid price increases and sign new contracts with significantly improved conditions.

In addition, we are striving to complete long-term contracts in 2005 for energy and other resources. However, due to the current market situation we expect energy prices to increase.

In 2005 we plan to further optimize our suppliers base and harmonize our quality standards. In addition, we will implement IT-supported analysis and evaluation tools.

Research and development

Our research and development activities will continue to play a key role to secure the long-term growth of the Group through innovative and new therapies. We are concentrating our research and development on products for the treatment of patients with chronic kidney failure as well as on infusion and nutrition therapies. We are also focusing on targeted development in the biotechnology sector in the fields of antibody and cell-based therapies.

We are planning to increase our spending on research and development in 2005. The increase should be higher than the projected growth rates in sales. The number of employees in research and development should also increase.

Market-oriented research and development along tight deadlines that move the project forward are key to the success of a new product. We continually review our research and development results based on clearly-defined milestones.

Corporate legal structure and organization

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

Planned changes in human resources and the social area

We will continue to create jobs in 2005 in order to further expand our business. The number of employees should grow at a low single-digit rate. This increase will be below the expected growth rate of sales. A major goal of the Group is to increase productivity.

Dividend

It remains important to us to show continuity in our dividend policy. This has been impressively demonstrated by continuous dividend increases in the last eleven years. In 2005, we expect to remain true to this policy and offer our shareholders the perspective of an earnings-linked dividend based on our positive earnings forecasts.

KEY FIGURES OF AFFILIATED COMPANIES

Company	Held by Fresenius in %	Sales 2004 in million US$	Profit/Loss[1] 2004 in million US$	Equity Dec 31, 2004 in million US$	Employees Dec 31, 2004
Germany					
1 Fresenius Medical Care AG Hof an der Saale (sub-group/US GAAP)	shareholdings: 36.90 share of votes: 50.76	6,228.0	402.0	3,634.8	46,949

Company	Held by Fresenius in %	Sales 2004 in million €	Profit/Loss[1] 2004 in million €	Equity Dec 31, 2004 in million €	Employees Dec 31, 2004
Germany					
2 Fresenius Kabi Deutschland GmbH Frankfurt a. M. (with profit transfer agreement)	100	462.8	–	321.5	1,447
3 Fresenius HemoCare Deutschland GmbH Bad Homburg v.d.H. (with profit transfer agreement)	100	21.8	–	10.0	150
4 MC Medizintechnik GmbH Alzenau (with profit transfer agreement)	100	24.7	–	2.3	93
5 V. Krütten Medizinische Einmalgeräte GmbH Idstein (with profit transfer agreement)	100	16.5	–	2.4	121
6 Pharmaplan Group Bad Homburg v.d.H.	100	79.1	12.1[2]	12.7	447
7 Wittgensteiner Kliniken Group Bad Berleburg	100	343.0	-15.2	84.8	7,041

Company	Held by Fresenius in %	Sales 2004 in million €	Profit/Loss[1] 2004 in million €	Equity Dec 31, 2004 in million €	Employees Dec 31, 2004
International					
8 Fresenius Kabi France S.A.S. Sèvres, France	100	114.6	2.5	28.6	557
9 Calea France S.A.S. Sèvres, France	100	17.8	-0.4	1.0	151
10 Fresenius Vial S.A.S. Brézins, France	100	49.2	3.3	19.7	221
11 Fresenius Kabi Italia S.p.A. Verona, Italy	100	59.2	1.6	46.3	271
12 Fresenius HemoCare Italia S.r.l. Medolla/Modena, Italy	100	35.3	0.9	7.6	152
13 Fresenius Kabi España S.A. Vilassar de Dalt, Spain	100	45.1	3.8	19.9	182
14 Fresenius Kabi Ltd. Basingstoke/Hampshire, Great Britain	100	97.6	4.5	6.5	274

	Company	Held by Fresenius in %	Sales 2004 in million €	Profit/Loss[1] 2004 in million €	Equity Dec 31, 2004 in million €	Employees Dec 31, 2004
	International					
15	Fresenius Kabi Austria GmbH Graz, Austria	100	157.9	20.7	57.8	562
16	VAMED Group Vienna, Austria	77	317.5	13.8	69.5	1,866
17	Fresenius Kabi (Schweiz) AG Stans, Switzerland	100	19.2	2.1	5.9	38
18	NPBI International B.V. Emmen, Netherlands	100	111.4	10.3	31.8	1,148
19	Fresenius Kabi Nederland B.V. 's-Hertogenbosch, Netherlands	100	19.5	3.5	3.6	14
20	Fresenius Kabi N.V. Schelle, Belgium	100	26.8	0.4	3.3	32
21	Fresenius Kabi Norge A.S. Halden, Norway	100	47.4	3.9	18.5	341
22	Fresenius Kabi AB Stockholm, Sweden	100	160.1	5.0	167.5	746
23	Fresenius Kabi Polzka Sp.Z.o.o. Warsaw, Poland	100	19.4	-0.4	11.9	237
24	Calea Ltd. Toronto, Canada	100	46.8	3.3	7.9	269
25	Grupo Fresenius México S.A. de C.V. Guadalajara, Mexico	100	25.0	0.7	21.1	463
26	Fresenius Kabi Brasil Ltda. Campinas/São Paulo, Brazil	100	29.3	-0.8	4.2	931
27	Sino-Swed Pharmaceutical Corporation Ltd. Wuxi, China	51	56.0	12.1	40.1	843
28	Beijing Fresenius Kabi Pharmaceutical Co., Ltd. Beijing, China	65	37.4	5.1	21.7	331
29	Fresenius Kabi Korea Ltd. Yongin, Korea	100	16.2	0.1	4.9	99
30	Fresenius Kabi India Private Ltd. Puna, India	100	14.8	-0.3	8.9	647
31	Fresenius Kabi South Africa Ltd. Midrand, South Africa	100	58.1	10.6	40.4	519

[1] net income/loss
[2] € -2.4 million before loss transfer according to profit and loss transfer agreement

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

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CONSOLIDATED STATEMENT OF INCOME

January 1 to December 31, in million €	Note	2004	2003
Sales	26	**7,271**	7,064
Cost of goods sold		**-4,895**	-4,788
Gross profit		**2,376**	2,276
Selling, general and administrative expenses		**-1,398**	-1,374
Research and development expenses	26	**-133**	-121
Operating income (EBIT)		**845**	781
Interest income	26	**15**	24
Interest expense	26	**-224**	-273
Earnings before income taxes and minority interests		**636**	532
Income taxes	23	**-253**	-223
Minority interests	15	**-215**	-194
Net income		**168**	115
Basic earnings per ordinary share in €	17	**4.08**	2.79
Fully diluted earnings per ordinary share in €	17	**4.07**	2.79
Basic earnings per preference share in €	17	**4.11**	2.82
Fully diluted earnings per preference share in €	17	**4.10**	2.82

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

CONSOLIDATED BALANCE SHEET

ASSETS

as at December 31, in million €		Note	2004	2003
	Cash and cash equivalents	4	**140**	125
	Trade accounts receivable less allowances for doubtful accounts	5	**1,528**	1,415
	Accounts receivable from related parties		**17**	23
	Inventories	6	**619**	642
	Prepaid expenses and other current assets	7	**283**	357
	Deferred taxes (current)	23	**168**	182
I.	**Total current assets**		**2,755**	2,744
	Property, plant and equipment	8	**1,696**	1,721
	Goodwill	9	**2,905**	2,977
	Other intangible assets	9	**480**	504
	Other non-current assets	7	**234**	303
	Deferred taxes (non-current)	23	**118**	98
II.	**Total non-current assets**		**5,433**	5,603
	Total assets		**8,188**	8,347

LIABILITIES AND SHAREHOLDERS' EQUITY

in million €	Note	**2004**	2003
Trade accounts payable		**273**	265
Accounts payable to related parties		**1**	1
Accrued expenses and other current liabilities	10	**986**	987
Short-term borrowings	11	**391**	132
Short-term liabilities and loans from related parties		**2**	3
Current portion of long-term debt and capital lease obligations	11	**190**	495
Accruals for income taxes		**195**	197
Deferred taxes (short-term)	23	**18**	47
A. Total short-term liabilities		**2,056**	2,127
Long-term debt and liabilities from capital lease obligations less current portion	11	**1,219**	1,416
Long-term liabilities and loans from related parties		**–**	–
Other long-term liabilities	12	**160**	166
Pensions and similar obligations	13	**228**	216
Deferred taxes (long-term)	23	**245**	231
Trust preferred securities of Fresenius Medical Care Capital Trusts	14	**933**	977
B. Total long-term liabilities		**2,785**	3,006
I. Total liabilities		**4,841**	5,133
II. Minority interests	15	**1,744**	1,678
Subscribed capital	16	**105**	105
Capital reserves	16	**645**	644
Other reserves	16	**895**	778
Accumulated other comprehensive income (loss)	18	**-42**	9
III. Total shareholders' equity		**1,603**	1,536
Total liabilities and shareholders' equity		**8,188**	8,347

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

CONSOLIDATED CASH FLOW STATEMENT

January 1 to December 31, in million €	Note	2004	2003
Cash provided by/used for operating activities			
Net income		**168**	115
Minority interests		**215**	194
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities			
Cash inflow from hedging		**12**	116
Depreciation and amortization	26	**315**	325
Gain/loss from sale of investments		**-14**	10
Change in deferred taxes		**25**	80
Gain/loss on sale of fixed assets		**-1**	3
Change in assets and liabilities, net of amounts from businesses acquired or disposed of			
Change in trade accounts receivable, net	5	**-20**	23
Change in inventories	6	**9**	-19
Change in prepaid expenses and other current and non-current assets	7	**100**	40
Change in accounts receivable from/payable to related parties		**4**	-9
Change in trade accounts payable, accruals and other short-term and long-term liabilities		**36**	-77
Change in accruals for income taxes		**2**	-25
Cash provided by operating activities		**851**	776
Cash provided by/used for investing activities			
Purchase of property, plant and equipment		**-308**	-339
Proceeds from sale of property, plant and equipment		**22**	17
Purchase of shares in related companies and investments, net	3, 27	**-100**	-71
Proceeds from sale of shares in related companies and investments, net		**10**	0
Cash used for investing activities		**-376**	-393

in million €	Note	2004	2003
Cash provided by/used for financing activities			
Proceeds from short-term borrowings	11	**87**	90
Repayments of short-term borrowings	11	**-77**	-513
Proceeds from short-term borrowings from related parties		**1**	1
Repayments of short-term borrowings from related parties		**-1**	0
Proceeds from long-term debt and capital lease obligations	11	**607**	1,273
Repayments of long-term debt and capital lease obligations	11	**-1,096**	-880
Redemption of Series D Preferred Stock of Fresenius Medical Care subsidiary		**0**	-8
Changes of accounts receivable securitization program	11	**143**	-254
Proceeds from exercise of stock options	19	**3**	1
Dividends paid		**-122**	-114
Change in minority interests	15	**–**	-7
Payments on hedge contracts for inter-company loans in foreign currency		**-3**	0
Cash used for financing activities		**-458**	-411
Effect of exchange rate changes on cash and cash equivalents		**-2**	-10
Net increase/decrease in cash and cash equivalents		**15**	-38
Cash and cash equivalents at beginning of year	4	**125**	163
Cash and cash equivalents at end of year	4	**140**	125

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

		Ordinary shares		Preference shares		Subscribed capital	
in million €	Note	Number of shares (thousand)	Amount (thousand €)	Number of shares (thousand)	Amount (thousand €)	Amount (thousand €)	Amount (million €)
As at December 31, 2002		20,485	52,441	20,485	52,441	104,882	105
Issuance of bearer ordinary and bearer preference shares	16, 19						
Proceeds from exercise of stock options	19	–	–	–	–		–
Compensation expense related to stock options	19						
Dividends paid	16						
Comprehensive income (loss)							
Net income							
Cash flow hedges	18, 25						
Foreign currency translation adjustment	18						
Minimum pension liability	13, 18						
Comprehensive income							
As at December 31, 2003		20,485	52,441	20,485	52,441	104,882	105
Issuance of bearer ordinary and bearer preference shares	16, 19						
Proceeds from the exercise of stock options	19	1	2	1	2	4	–
Compensation expense related to stock options	19						
Dividends paid	16						
Comprehensive income (loss)							
Net income							
Cash flow hedges	18, 25						
Foreign currency translation adjustment	18						
Minimum pension liability	13, 18						
Comprehensive income							
As at December 31, 2004		20,486	52,443	20,486	52,443	104,886	105

in million €	Note	Capital reserves	Other reserves	Other comprehensive income (loss): Currency translation differences	Other comprehensive income (loss): Cash flow hedges	Other comprehensive income (loss): Pensions	Total
As at December 31, 2002		643	710	194	-17	-28	1,607
Issuance of bearer ordinary and bearer preference shares	16, 19						–
Proceeds from exercise of stock options	19						–
Compensation expense related to stock options	19	1					1
Dividends paid	16		-47				-47
Comprehensive income (loss)							
Net income			115				115
Cash flow hedges	18, 25				21		21
Foreign currency translation adjustment	18			-154			-154
Minimum pension liability	13, 18					-7	-7
Comprehensive income		0	115	-154	21	-7	-25
As at December 31, 2003		644	778	40	4	-35	1,536
Issuance of bearer ordinary and bearer preference shares	16, 19						0
Proceeds from the exercise of stock options	19	–					–
Compensation expense related to stock options	19	1					1
Dividends paid	16		-51				-51
Comprehensive income (loss)							
Net income			168				168
Cash flow hedges	18, 25				-22		-22
Foreign currency translation adjustment	18			-20			-20
Minimum pension liability	13, 18					-9	-9
Comprehensive income		0	168	-20	-22	-9	117
As at December 31, 2004		645	895	20	-18	-44	1,603

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

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1. PRINCIPLES

I. Group structure

Fresenius is a health care Group with products and services for dialysis, the hospital and the medical care of patients at home. Further areas of activity are hospital management as well as engineering and services for hospitals and the pharmaceutical industry. In addition to the activities of the Fresenius AG, the operating activities are split into the following legally-independent business segments (subgroups) as of December 31, 2004:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

Fresenius Medical Care was created through the merger of the worldwide dialysis business of Fresenius with that of W. R. Grace & Co. (USA) effective as of September 30, 1996. Fresenius Medical Care is the world's leading provider of dialysis products and dialysis services for the treatment of patients with chronic kidney failure.

Fresenius Kabi was created through the merger of the former business segment Pharma of Fresenius AG with that of the international infusion business of Pharmacia & Upjohn which was acquired on December 1, 1998. Fresenius Kabi is the leading company in the field of infusion and nutrition therapy in Europe with subsidiaries and distributors worldwide. The portfolio of Fresenius Kabi comprises the therapy and care of seriously and chronically ill patients, both during their stay in hospital and in their homes. Within the scope of this care chain, the company offers products for fluid and blood volume replacement, anaesthetics, parenteral and enteral nutrition products and medical-technical products.

Fresenius ProServe offers services to the international health care sector. The products and services portfolio ranges from the consulting, planning, construction and equipping, the technical management, to the management and operation of health care facilities. Furthermore, Fresenius ProServe offers services related to the planning, construction, service and technical management of medical technical and pharmaceutical production plants.

Fresenius AG continued to own 50.76 % of the ordinary voting shares of Fresenius Medical Care AG at the end of the 2004 fiscal year. Fresenius AG's share of the total subscribed capital of Fresenius Medical Care AG (ordinary and preference shares) continued to be 36.9 % at December 31, 2004.

Fresenius AG continued to hold 100 % of the management companies of the business segments Fresenius Kabi (Fresenius Kabi AG) and Fresenius ProServe (Fresenius ProServe GmbH) on December 31, 2004.

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

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

II. Basis of presentation

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

Fresenius AG as a German parent company is obliged, in principle, to prepare consolidated financial statements according to German Commercial Code (HGB). § 292a HGB, however, exempts companies from this obligation if consolidated financial statements, drawn up in euros and in the German language, are published in accordance with the Fourth and Seventh EU Directives. Fresenius AG prepares its consolidated financial statements in accordance with the accounting principles generally accepted in the United States (US GAAP). The following paragraph explains the main consolidation, valuation and accounting policies which differ from German accounting rules.

III. Analysis of consolidation methods and accounting policies that differ from German accounting rules

a) General differences

US GAAP accounting rules differ from those of German accounting with respect to the objectives: While the emphasis in US GAAP is on providing decision-relevant information to the reader, German accounting rules focus on the protection of creditors' rights and the principle of prudence.

b) Requirements for the classification of the financial statements

The classification of accounts in accordance with US GAAP is based with respect to assets on the degree of realizability and with respect to liabilities on their remaining term. Balance sheets in accordance with § 266 Commercial Code (HGB) are classified based on the estimated time the assets remain in the company or on the sources of funds, such as liabilities or shareholders' equity.

c) Consolidation principles
In business combinations, German accounting rules allow companies under certain circumstances, to determine acquisition costs in connection with the acquisition of businesses based on the nominal value of shares issued. Under US GAAP, acquisition costs are determined on the basis of the fair value of the assets and liabilities acquired.

Furthermore, there are differences between German accounting rules and US GAAP regarding currency translation.

d) Capitalization of interest during construction
German accounting rules allow but do not require interest expenses to be capitalized as part of the cost of property, plant and equipment. According to US GAAP the capitalization of interest expenses is mandatory under certain circumstances. The capitalized interest is then amortized over the expected useful life of the asset concerned.

e) Inventories
According to US GAAP, inventories are accounted for under the full cost principle. By application of the lower of cost or market principle, the valuation of inventories is more strongly based on the sales market, so that in certain circumstances a higher value results than under HGB.

f) Amortization of goodwill
By contrast to German accounting rules, goodwill and separately identifiable intangible assets with indefinite useful lives are not amortized but tested annually for impairment.

g) Pension accruals and similar obligations
By contrast to German accounting rules, accruals for pensions and similar obligations are required to be calculated using the projected unit credit method under US GAAP. By taking into account current interest rates and the future development of salaries and pensions, this method results in a better projection of the fair value of the obligations than the partial value (Teilwert) method allowed by German tax law.

Under the rules of the HGB accruals are recorded for obligations arising from early retirement agreements for regulated, current and unregulated obligations based on the probable amounts to be paid. Under US GAAP, an accrual for early retirement agreements can only be recorded if a binding agreement with the employee exists.

h) Other accruals

Under US GAAP, accruals for uncertain liabilities and anticipated losses can only be recorded if a claim will probably be made and the amount of the accrual can be reasonably estimated. When assessing the amount of the accrual, the most probable value is recorded, and in the case of several values of equal probability, the lowest is recorded. Under HGB, accruals are accounted for applying the prudence principle.

i) Minority interests

According to US GAAP, minority interests are not part of net income or shareholders' equity. Under German accounting rules, minority interests are presented within net income and shareholders' equity.

j) Sales recognition

For its long-term custom order business, the Fresenius Group uses the percentage of completion method according to US GAAP. Under this method, sales and earnings are realized according to the effective stage of completion of a project. Under HGB, sales and earnings are not realized until the contract has been fully completed.

k) Stock-based compensation

The Fresenius Group accounts for the stock options granted under the Fresenius stock option plan using the intrinsic value method (APB 25) of US GAAP which, in the case of variable plans, results in a recognition of the compensation expense over the vesting period if the current market price of the underlying share exceeds the exercise price on the measurement date. The net income calculated in accordance with SFAS No. 123 is disclosed in the Notes (see Note 1. IV. t)). Due to the structure of the Fresenius stock option plan, no expense arises under HGB.

l) Foreign currency translation

According to US GAAP, receivables and liabilities denominated in a foreign currency are translated at the year-end exchange rate, and the resulting gains and losses are recorded in net income. Under HGB, monetary items are valued at the year-end exchange rate in accordance with the imparity principle, i. e. only unrealised losses are recognized in the income statement.

m) Derivative financial instruments

According to US GAAP (SFAS No. 133) all derivative financial instruments must be recorded at their fair value. Changes in fair value of derivative financial instruments are recognized periodically either in earnings or, in the case of cash flow hedges, as other comprehensive income (loss) in shareholders' equity.

According to German accounting rules, derivative financial instruments are only included in the financial statements to recognize unrealized losses.

IV. Summary of significant accounting policies

a) Principles of consolidation

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

Fresenius Medical Care enters into various arrangements with certain dialysis clinics to provide management services, financing and product supply. Some of these clinics are VIEs. Under FIN 46R (Consolidation of Variable Interest Entities (revised)) these clinics are consolidated if Fresenius Medical Care is determined to be the primary beneficiary. Fresenius Medical Care also participates in a joint venture which is engaged in the perfusion industry. The arrangements with the joint venture partner are such that it qualifies as a VIE and Fresenius Medical Care is the primary beneficiary. These VIEs generate approximately € 118 million (US$ 147 million) in annual revenue.

In accordance with FIN 46R, VIEs are fully consolidated. The interest held by the minority shareholders in these consolidated VIEs is reported as minority interest in the consolidated balance sheet at December 31, 2004.

Fresenius Medical Care also has relationships with VIEs where it is not the primary beneficiary. These VIEs consist of a number of dialysis facilities whose operations are not material in the aggregate and a management company with which Fresenius Medical Care has had a relationship with since 1998. The management company has approximately € 8 million (US$ 10 million) in sales and Fresenius Medical Care has no potential losses as a result of its relationship.

Fresenius ProServe participates in long-term project entities which are set up for defined periods of time and for the specific purpose of constructing and operating thermal centers. Some of these project entities qualify as VIEs, whereby Fresenius ProServe is not the primary beneficiary. The project entities generate approximately € 27 million in annual revenue. From today's perspective and due to the contractual situation, Fresenius ProServe is not exposed to any material risk of loss from the VIEs.

The consolidated financial statements of the year 2004 include, in addition to Fresenius AG, 77 (2003: 80) German and 629 (2003: 638) foreign companies.

The composition of the Group changed as follows:

	Germany	Abroad	**Total**
December 31, 2003	80	638	**718**
Additions	4	43	**47**
of which newly founded	2	5	**7**
of which acquired	1	14	**15**
Disposals	7	52	**59**
of which no longer consolidated	5	32	**37**
of which merged	2	20	**22**
December 31, 2004	77	629	**706**

Eleven companies were accounted for under the equity method.

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

All significant intercompany expenses and income as well as intercompany receivables and liabilities are eliminated.

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

c) Cash and cash equivalents
Cash and cash equivalents represent cash and certificates of deposit with original maturity dates of three months or less at origination.

d) Allowances for doubtful accounts

Estimates for the allowances for accounts receivable are mainly based on historic collection experience, taking into account the ageing of accounts receivable and the contract partner. From time to time, the accounts receivable are reviewed for changes from the historic collection experience to ensure the appropriateness of the allowances.

e) Inventories

Inventories are stated at the lower of cost (acquisition or manufacturing cost determined by using the average or first-in, first-out method) or market value.

f) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation. Significant improvements are capitalized; repairs and maintenance costs that do not extend the useful lives of the assets are charged to expenses as incurred. Property, plant and equipment under capital leases are stated at the present value of future minimum lease payments at the inception of the lease, less accumulated depreciation. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years for buildings and improvements (with a weighted average life of 16 years) and 3 to 15 years for machinery and equipment (with a weighted average life of 9 years). Equipment held under capital leases and leasehold improvements are depreciated using the straight-line-method over the shorter of the lease term or the estimated useful life of the assets.

The Fresenius Group capitalizes interest on funds which were borrowed during construction periods. Interest capitalized during 2004 and 2003 amounted € 1 million in each year.

g) Goodwill and other intangible assets

Intangible assets such as tradenames, management contracts, patents, distribution rights, software and licenses acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141 (Business Combinations).

In accordance with SFAS No. 142 (Goodwill and Other Intangible Assets), intangible assets with finite useful lives are amortized over their respective useful lives and reviewed for impairment in accordance with SFAS No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets) (see Note 1. IV n) “Impairment”).

Goodwill and identifiable intangibles with indefinite lives are not amortized, but tested annually for impairment. The Fresenius Group identified trade names and management contracts as intangible assets with indefinite useful lives.

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

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

The recoverability of goodwill and other separable intangible assets with indefinite useful lives was verified. Fresenius Group did not record any impairment losses, with the exception of an impairment loss of € 4 million in the Fresenius Biotech business segment.

h) Derivative financial instruments

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

Amounts due from and payable to the counterparties of interest rate swaps are recorded on an accrual basis at each reporting date at amounts computed by reference to the respective interest rate swap contract. Realized gains and losses that occur from the early termination or expiration of contracts are deferred and recorded in income over the remaining period of the original swap agreement if the corresponding debt is still outstanding. Gains and losses arising from interest differential on contracts that hedge specific borrowings are recorded as interest expense over the life of the contract. In the event the hedged asset is sold, or otherwise disposed of, or liability is terminated, the gain or loss on the interest rate swap would be matched with the offsetting gain or loss of the related item (see Note 25 "Financial Instruments").

i) Foreign currency translation

The reporting currency is the euro. The Fresenius Group follows the provisions of SFAS No. 52 (Foreign Currency Translation). Substantially all assets and liabilities of the foreign subsidiaries are translated at year-end exchange rates, while revenues and expenses are translated at exchange rates prevailing during the year. Adjustments for foreign currency translation fluctuations are excluded from net earnings and are reported in accumulated other comprehensive income (loss). In addition, the translation adjustments of certain intercompany borrowings, which are considered foreign equity investments, are reported in accumulated other comprehensive income (loss).

Gains and losses arising on the translation of the income statement as well as those arising on the elimination of foreign currency intercompany loans are recorded as selling, general and administrative expenses, except where certain intercompany loans are equivalent to shareholders' equity.

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

		Year-end exchange rate* in € Dec 31, 2004	Year-end exchange rate* in € Dec 31, 2003	**Average exchange rate in € 2004**	Average exchange rate in € 2003
1	US dollar	**0.7342**	0.7918	**0.8039**	0.8840
1	Pound sterling	**1.4183**	1.4188	**1.4735**	1.4452
100	Swedish krona	**11.0857**	11.0132	**10.9597**	10.9599
100	Chinese renminbi	**8.8581**	9.5821	**9.8219**	10.7941
100	Japanese yen	**0.7161**	0.7405	**0.7438**	0.7635

* mean rate on balance sheet date

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

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

In the business segment Fresenius ProServe, sales are recognized for long-term production contracts depending on the individual agreement and in accordance with the percentage of completion method. The sales to be recognized are calculated as a percentage of the costs already incurred based on the estimated total cost of the contract or milestones laid down in the contract.

k) Research and development expenses
Research and development expenses are expensed as incurred.

l) Legal costs
The Fresenius Group accrues for losses resulting from legal issues when they are probable and their amount can be reasonably estimated. These accruals include expenses for legal and consulting services in connection with these legal issues.

m) Income taxes
In accordance with SFAS No. 109 (Accounting for Income Taxes), deferred tax assets and liabilities are recognized for the future consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded to reduce the carrying amount of the deferred tax assets unless it is more likely than not that such assets will be realized (see Note 23 “Income taxes”).

n) Impairment

The Fresenius Group reviews the carrying value of its long-lived assets or asset groups with definite useful lives to be held and used for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable in accordance with SFAS No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets). Recoverability of these assets is measured in a first step by a comparison of the carrying value of an asset to the future net cash flow directly associated with the asset. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value exceeds the fair value of the asset. The Fresenius Group uses various valuation factors, including market prices and present value techniques to assess fair value.

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

o) Debt issuance costs

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

p) Self-insurance programs

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

q) Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

r) Receivables management

The companies of the Fresenius Group perform ongoing evaluations of the financial situation of their customers and generally do not require a collateral from the customers for the supply of products and provision of services. Approximately 26 % and 28 %, respectively, of the sales of the Fresenius Group in 2004 and 2003 are subject to the regulations and the governmental health care programs in the United States, especially Medicare and Medicaid.

s) Earnings per ordinary share and preference share

Basic earnings per ordinary share and basic earnings per preference share for all years presented have been calculated using the two-class method required under US GAAP based upon the weighted average number of ordinary and preference shares outstanding. Basic earnings per ordinary share are computed by dividing net income less preference amounts by the weighted average number of ordinary shares and preference shares outstanding during the year. For the purposes of computing earnings per preference share, the additional amount payable on preference shares is added to earnings per ordinary share. Diluted earnings per share include the effect of all potentially dilutive instruments on ordinary shares and preference shares that would have been outstanding during the year. The awards granted under the Fresenius' and Fresenius Medical Care's stock incentive plans (see Note 19 "stock options"), are potentially dilutive equity instruments.

t) Stock option plans

The Fresenius Group accounts for its stock option plans using the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25 (Accounting for Stock Issued to Employees) and related interpretations. As such, compensation expense is recorded only if the current market price of the underlying stock exceeds the exercise price on the measurement date. For stock incentive plans which are performance based, the Fresenius Group recognizes compensation expense over the vesting periods, based on the then current market values of the underlying stock.

Fair Value of Stock Options

In electing to continue to follow APB Opinion No. 25 for expense recognition purposes, the Fresenius Group is obliged to provide the expanded disclosures required under SFAS No. 148 (Accounting for Stock-Based Compensation – Transition and Disclosure) for stock-based compensation granted, including disclosure of proforma net earnings and earnings per share had compensation expense relating to grants been measured under the fair value recognition provisions of SFAS No. 123 (Accounting for Stock-Based Compensation).

The per share weighted-average fair value of stock options granted during 2004 and 2003 was € 25.31 and € 20.27, respectively, on the date of the grant using the Black-Scholes option-pricing model with the weighted-average assumptions presented below.

Weighted-average assumptions	**2004**	2003
Expected dividend yield	**2.05 %**	1.70 %
Risk-free interest rate	**3.50 %**	3.80 %
Expected volatility	**40.00 %**	45.00 %
Expected life of options	**5.3 years**	5.3 years

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

in million €, except the amounts per share (€)	2004	2003
Net income		
as reported	**168**	115
Net income as reported less preference on preference shares	**167**	114
plus share-based employee compensation expense according to APB No. 25	–	1
less share-based employee compensation expense according to SFAS No. 123	**-8**	-8
Pro-forma less preference on preference shares	**159**	107
Pro-forma	**160**	108
Basic earnings per ordinary share		
As reported	**4.08**	2.79
Pro-forma	**3.88**	2.62
Basic earnings per preference share		
As reported	**4.11**	2.82
Pro-forma	**3.91**	2.65
Fully-diluted earnings per ordinary share		
As reported	**4.07**	2.79
Pro-forma	**3.87**	2.62
Fully-diluted earnings per preference share		
As reported	**4.10**	2.82
Pro-forma	**3.90**	2.65

u) Recent pronouncements and accounting changes

In November 2004, the Financial Accounting Standards Board issued SFAS No. 151 (Inventory Costs – an amendment of ARB No. 43, Chapter 4 (FAS 151)) which is the result of its efforts to converge U.S. accounting standards for inventories with International Financial Reporting Standards. This statement requires abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Fresenius Group is in the process of determining the potential impact on the Group's consolidated financial statements.

In December 2004, the Financial Accounting Standards Board issued its final standard on accounting for share-based payments, SFAS No. 123R (Share-Based Payment (revised) (FAS 123R)), that requires companies to expense the cost of employee stock options and similar awards. SFAS No. 123R requires determining the cost that will be measured at fair value on the date of the Share-Based Payment (SBP) awards based upon an estimate of the number of awards expected to vest. There will be no right of reversal of cost if the awards expire without being exercised. Fair value of the SBP awards will be estimated using an option-pricing model that appropriately reflects the specific circumstances and economics of the awards. Compensation cost for the SBP awards will be recognized as they vest. The Fresenius Group will have three alternative transition methods, each having a different reporting implication. The effective date is for interim and annual periods beginning after June 15, 2005. The Fresenius Group is in the process of determining the transition method it is going to adopt and the potential impact on the Group's consolidated financial statements.

V. Critical accounting policies

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

a) Recoverability of goodwill and intangible assets

The growth of the Fresenius Group through acquisitions has created a significant amount of intangible assets, including goodwill, tradenames and management contracts. At December 31, 2004 and December 31, 2003, the carrying amount of goodwill and non-amortizable intangible assets amounted to € 3,244 million and € 3,335 million, respectively, which represented 40 % and 36 %, respectively, of total assets.

In accordance with Statement of Financial Accounting Standards No. 142 (Goodwill and Other Intangible Assets) an annual impairment test of goodwill and non-amortizable intangible assets is performed once a year, or if events occur or circumstances change that would indicate the carrying value might be impaired (see Note 1.IV. g)).

To comply with the provisions of SFAS No. 142 and determine possible impairments of these assets, the fair value of the reporting unit determined under SFAS No. 142 is compared to the reporting unit's carrying amount. The fair value of each reporting unit is estimated using estimated future cash flows for the unit discounted by a weighted average cost of capital specific to that unit. Estimated cash flows are based on budgets for the next three years, and projections for the following years based on an expected growth rate. The growth rate is based on industry and internal projections. The discount rates reflect any inflation in local cash flows and risks inherent to each reporting unit. If the fair value of the reporting unit is less than its carrying value, a second step is performed which compares the fair value of the reporting unit's goodwill to the carrying value of its goodwill. If the fair value of the goodwill is less than its carrying value, the difference is recorded as an impairment.

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

b) Legal contingencies

The Fresenius Group is involved in legal matters relating to a number of matters arising in the ordinary course of our business. Furthermore, Fresenius Medical Care is party to litigation in connection with the NMC transaction in 1996. For details, please see Note 24 "Commitments and contingent liabilities".

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

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

c) Allowance for doubtful accounts

Trade accounts receivable are a significant asset of the Group and the allowance for doubtful accounts is a significant estimate made by management. Trade accounts receivable were € 1,528 million and € 1,415 million in 2004 and 2003, respectively, net of allowances and in 2003 after sales of accounts receivable under the accounts receivable program (see note 11 "Debt and capital lease obligations"). The majority of receivables derives from the business segment Fresenius Medical Care and mainly relates to the dialysis care business in North America. The allowance for doubtful accounts was € 166 million and € 170 million as of December 31, 2004 and December 31, 2003, respectively.

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

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

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

2. RELATED PARTY TRANSACTIONS

A former member of the Supervisory Board of Fresenius AG was a member of the Management Board of a bank which is the dealer in the Euro-Multi-Currency Commercial Paper Program with a total amount of € 250 million.

A member of the Supervisory Board of Fresenius Medical Care AG is the former Chairman of the Management Board of another bank that serves as dealer and administrative agent of the Euro-Multi-Currency Commercial Paper Program.

A member of the Supervisory Boards of Fresenius AG and Fresenius Medical Care AG is a partner in a law firm that provided services to the Group. The Fresenius Group paid to this law firm approximately € 1.3 million and € 0.7 million in 2004 and 2003, respectively.

3. ACQUISITIONS AND DIVESTITURES

Acquisitions

The Fresenius Group made acquisitions totaling € 113 million and € 91 million in 2004 and 2003, respectively. Of this total, Fresenius Medical Care invested € 96 million and € 89 million, respectively, Fresenius Kabi € 13 million and € 2 million, Fresenius ProServe € 4 million and € 14 million, the segment Corporate/Other none and € 7 million. In the fiscal year 2003 the total was offset by proceeds of € 21 million (less cash and cash equivalents) received on the intercompany sale of the Adsorber business to Fresenius Medical Care.

The acquisitions completed in 2004, or which were included in the consolidated statements for the first full year, contributed, compared to the previous year, the following amounts to the development of sales and earnings:

Sales	€ 87 million
EBITDA	€ 7 million
EBIT	€ 3 million
Net interest	€ -3 million
Net income	€ -1 million

The acquisitions increased the total assets of the Fresenius Group by € 119 million.

All acquisitions have been accounted for by the purchase method and accordingly have been consolidated from the date of acquisition. The excess of the total acquisition costs over the fair value of the net assets acquired amounted to € 88 million and € 70 million in 2004 and 2003, respectively.

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

In 2003, Fresenius Medical Care made acquisitions amounting to € 89 million, of which the majority was used to purchase dialysis clinics, mainly in USA.

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

Fresenius Kabi did not make any acquisitions in 2003. The amount of € 2 million disclosed related to contractually agreed purchase price payments relating to prior years acquisitions.

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

Fresenius ProServe made acquisitions in 2003 totaling € 14 million. This includes € 6 million for entities operating in the fields of hospital project business and medical research. € 8 million was invested in the purchase of additional shares in Wittgensteiner Kliniken AG and for the retrospective cost for acquisitions made in the previous year.

Fresenius Biotech did not make any acquisitions in 2004.

Acquisitions of the Biotech division in 2003 totaled € 6 million, comprising further purchase price payments to acquire the shares of Trion Pharma GmbH, Munich, and to acquire further shares in EUFETS AG, Idar-Oberstein.

Divestitures
In October 2004 Fresenius ProServe has reached an agreement to sell its subsidiary hospitalia care to Kursana Residenzen GmbH, Berlin. Prior to the sale, hospitalia care had sales of € 38 million in 2004.

NOTES ON THE CONSOLIDATED BALANCE SHEET

4. CASH AND CASH EQUIVALENTS

in million €	2004	2003
Cash	127	108
Securities (with a maturity of up to 90 days)	13	17
Total cash and cash equivalents	140	125

5. TRADE ACCOUNTS RECEIVABLE

in million €	2004	2003
Trade accounts receivables	1,694	1,585
less allowance	166	170
Trade accounts receivables (net)	1,528	1,415

6. INVENTORIES

As at December 31, inventories consisted of the following:

in million €	2004	2003
Raw materials and purchased components	134	131
Work in progress	93	98
Finished goods	426	446
less reserves	34	33
Inventories (net)	619	642

The companies of the Fresenius Group are obligated to purchase approximately € 159 million of materials, of which € 104 million is committed at December 31, 2004 for 2005. The terms of these agreements run one to seven years.

Inventories as of December 31, 2004 and as of December 31, 2003 include approximately € 16 million and approximately € 24 million, respectively, of the product Erythropoietin (EPO) which is supplied by a single source supplier in the United States. Delays, stoppages, or interruptions in the supply of EPO could adversely affect the operating results of Fresenius Medical Care. Revenues from EPO accounted for approximately 11% of total sales of the Fresenius Group for 2004 and 2003.

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

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

in million €	**2004**	2003
Tax receivables	**73**	101
Derivate financial instruments	**53**	90
Investments and long-term loans	**53**	51
Prepaid expenses	**39**	48
Advances made	**25**	20
Re-insurance claims	**19**	50
Receivables from management contracts in clinics	**14**	24
Notes receivables	**4**	5
Other assets	**245**	276
Prepaid expenses and other assets (gross)	**525**	665
thereof short-term	**288**	362
less allowances	**8**	5
Prepaid expenses and other assets (net)	**517**	660
thereof short-term	**283**	357

As a result of the intention to sell land and equipment of the US production site Clayton of Fresenius Kabi in 2003, these assets have been classified as held for sale in accordance with SFAS No. 144 and reported in other current assets. An impairment loss of € 9 million was recognized on the expected proceeds (less cost to sell) and was recorded in selling, general and administrative expenses in the previous year. The sale was made in the second quarter of 2004 and did not have any other significant impact on the results for the financial year.

Impairment losses of € 7 million and € 6 million, respectively, were recognized on other non-current assets in the fiscal years 2004 and 2003. Reclassifications to other non-current assets amounted to € 3 million and € 2 million in 2004 and 2003, respectively.

8. PROPERTY, PLANT AND EQUIPMENT

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

Purchasing and manufacturing costs

in million €	As at January 1, 2004	Exchange rate differences	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As at December 31, 2004**
Land and improvements	97	0	0	2	0	2	**97**
Buildings and improvements	1,097	-31	3	62	22	9	**1,144**
Machinery and equipment	1,681	-32	12	146	44	108	**1,743**
Machinery, equipment and rental equipment under capitalized leases	173	1	-8	9	-2	6	**167**
Construction in progress	92	-5	0	81	-69	0	**99**
Property, plant and equipment	3,140	-67	7	300	-5	125	**3,250**

Depreciation

in million €	As at January 1, 2004	Exchange rate differences	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As at December 31, 2004**
Land and improvements	0	0	0	0	0	0	**0**
Buildings and improvements	375	-14	3	71	0	12	**423**
Machinery and equipment	982	-13	1	181	2	92	**1,061**
Machinery, equipment and rental equipment under capitalized leases	62	0	-2	10	-1	0	**69**
Construction in progress	0	0	0	3	0	2	**1**
Property, plant and equipment	1,419	-27	2	265	1	106	**1,554**

Carrying amounts

in million €	**December 31, 2004**	December 31, 2003
Land and improvements	**97**	97
Buildings and improvements	**721**	722
Machinery and equipment	**682**	699
Machinery, equipment and rental equipment under capitalized leases	**98**	111
Construction in progress	**98**	92
Property, plant and equipment	**1,696**	1,721

Depreciation expenses amounted to € 265 million and € 271 million for 2004 and 2003, respectively.

Included in property, plant and equipment as of December 31, 2004 and 2003 were € 93 million and € 78 million, respectively, of peritoneal dialysis cycler machines which Fresenius Medical Care leases to customers with end-stage renal disease on a month-to-month basis and hemodialysis machines which Fresenius Medical Care leases to physicians under operating leases.

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

Depreciation related to machinery, equipment and rental equipment under capital leases amounts to € 10 million and € 13 million in 2004 and in 2003, respectively.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

As of December 31, the purchasing and manufacturing costs and accumulated amortization of intangible assets consisted of the following:

Purchasing and manufacturing costs

in million €	As at January 1, 2004	Exchange rate differences	Changes in entities consolidated	Additions	Reclassifications	Disposals	**As at December 31, 2004**
Goodwill	2,977	-175	98	11	0	2	**2,909**
Patient relationships	204	-15	13	0	0	0	**202**
Tradenames and patents	228	-13	1	5	4	2	**223**
Distribution rights	30	0	-1	0	0	9	**20**
Other	350	-21	10	15	-2	6	**346**
Goodwill and other intangible assets	3,789	-224	121	31	2	19	**3,700**

Amortization

in million €	As at January 1, 2004	Exchange rate differences	Changes in entities consolidated	Additions	Reclassifications	Disposals	**As at December 31, 2004**
Goodwill	0	0	0	4	0	0	**4**
Patient relationships	166	-13	0	13	0	0	**166**
Tradenames and patents	27	0	0	4	1	1	**31**
Distribution rights	17	0	-1	2	0	11	**7**
Other	98	-6	-1	20	-2	2	**107**
Goodwill and other intangible assets	308	-19	-2	43	-1	14	**315**

Carrying amounts

in million €	December 31, 2004	December 31, 2003
Goodwill	**2,905**	2,977
Patient relationships	**36**	38
Tradenames and patents	**192**	201
Distribution rights	**13**	13
Other	**239**	252
Goodwill and other intangible assets	**3,385**	3,481

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

Regularly amortizable intangible assets

	December 31, 2004			December 31, 2003		
in million €	Purchasing/ manufac-turing costs	Accumulated amortization	Carrying amounts	Purchasing/ manufac-turing costs	Accumulated amortization	Carrying amounts
Patient relationships	**202**	**166**	**36**	204	166	38
Patents	**44**	**31**	**13**	36	27	9
Distribution rights	**20**	**7**	**13**	30	17	13
Other	**186**	**107**	**79**	191	105	86
Total	**452**	**311**	**141**	461	315	146

Non-amortizable intangible assets

	December 31, 2004			December 31, 2003		
in million €	Purchasing/ manufac-turing costs	Accumulated amortization	Carrying amounts	Purchasing/ manufac-turing costs	Accumulated amortization	Carrying amounts
Tradenames	**179**	**0**	**179**	192	0	192
Management contracts	**160**	**0**	**160**	166	0	166
Subtotal	**339**	**0**	**339**	358	0	358
Goodwill (including assembled workforce)	**2,909**	**4**	**2,905**	2,977	0	2,977
Total	**3,248**	**4**	**3,244**	3,335	0	3,335

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

Amortization on intangible assets amounted to € 43 million and € 48 million for 2004 and 2003, respectively.

The regularly amortizable intangible assets have an average useful life of 16 years (patient relationships an average of 16 years, patents an average of 10 years, distribution rights an average of 13 years, other intangible assets of 17 years).

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

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

in million €	2005	2006	2007	2008	2009
Estimated amortization expenses for the next five fiscal years	30	25	17	9	7

The carrying amounts of goodwill has developed as follows:

in million €	
As at January 1, 2004	**2,977**
Additions / Disposals, net	107
Impairment	-4
Reclassifications	0
Currency Translation	-175
As at December 31, 2004	**2,905**

10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As at December 31, accrued expenses and other current liabilities consisted of the following:

in million €	**2004**	2003
Accrued salaries and wages	**240**	212
Accruals in connection with legal matters	**90**	109
Advances received	**66**	58
Accrued taxes (without income taxes)	**51**	44
Accounts receivable credit balances	**49**	52
Interest	**44**	48
Self-insurance program	**42**	36
Accounts payable to government institutions	**31**	26
Bonuses and discounts	**27**	27
Commissions	**21**	19
Accrued physician compensation	**16**	16
Derivative financial instruments	**14**	45
Legal costs	**13**	12
Deferred income	**9**	11
Other accruals	**273**	272
Total accrued expenses and other current liabilities	**986**	987

In 2001, Fresenius Medical Care recorded a US$ 258 million special charge to address 1996 merger-related legal matters, estimated liabilities and legal expenses arising in connection with the W.R. Grace & Co. Chapter 11 proceedings (the "Grace Chapter 11 Proceedings") and the cost of resolving pending litigation and other disputes with certain commercial insurers (see Note 24 "Commitments and contingent liabilities").

Fresenius Medical Care accrued US$ 172 million principally representing a provision for income taxes payable for the years prior to the 1996 merger for which W.R. Grace & Co. had agreed to indemnify Fresenius Medical Care, but which Fresenius Medical Care may ultimately be obligated to pay as a result of Grace's Chapter 11 Proceedings. In addition, that amount included the costs of defending the Fresenius Medical Care in litigation arising out of the Grace Chapter 11 Proceedings (see Note 24).

Fresenius Medical Care included US$ 55 million in the special charge of US$ 258 million to provide for settlement obligations, legal expenses and the resolution of disputed accounts receivable relating to various insurance companies.

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

During the second quarter of 2003, the court supervising the Grace Chapter 11 Proceedings approved the definitive settlement agreement entered into among Fresenius Medical Care, the committee representing the asbestos creditors and W.R. Grace & Co (see Note 24). Under the settlement agreement, the Fresenius Medical Care will pay US$ 115 million upon plan confirmation.

Based on these developments, Fresenius Medical Care reduced its estimate in 2003 for the settlement and related costs of the Grace Chapter 11 Proceedings by US$ 39 million. This reduction of the provision for the W.R. Grace & Co. matter has been applied to the other components of the special charge (i. e. reserves for settlement obligations and disputed accounts receivable from commercial insurers and other merger-related legal matters described in this Note).

At December 31, 2004, there is a remaining balance of US$ 122 million (€ 90 million), including the aforementioned US$ 115 million settlement payment, for the accrual for the special charge for legal matters. Fresenius Medical Care believes that these reserves are adequate for the settlement of the matters described above. During 2004, US$ 16 million (€ 12 million) in charges were applied against the accrued special charge for legal matters.

11. DEBT AND CAPITAL LEASE OBLIGATIONS

Short-term borrowings

Short-term borrowings of € 391 million and € 132 million at December 31, 2004, and 2003, respectively, represent amounts borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks. The average interest rates on these borrowings at December 31, 2004, and 2003 was 3.8 % and 4.2 % p. a., respectively.

Lines of credit

Excluding amounts available under the 2003 Fresenius Medical Care Senior Credit Agreement, at December 31, 2004 and December 31, 2003, respectively, Fresenius Group had € 490 million and € 447 million available under such commercial bank agreements. In some instances, lines of credit contain various covenants including, but not limited to, requirements for maintaining defined levels of working capital, net worth, capital expenditures and certain financial ratios.

Accounts Receivable Facility

Fresenius Medical Care has an asset securitization facility (the "accounts receivable facility"), which provides borrowings up to a maximum of US$ 460 million (€ 338 million). Under the facility, certain receivables are sold to NMC Funding Corp., a wholly-owned subsidiary of Fresenius Medical Care. NMC Funding Corp. then assigns undivided ownership interests in the accounts receivable to certain bank investors. In 2004, Fresenius Medical Care amended the accounts receivable facility. Under the terms of the amendment, NMC Funding Corp. retains the right to repurchase all transferred interests in the accounts receivable sold to the banks under the facility. As Fresenius Medical Care now has the right at any time to repurchase the then outstanding interests, the receivables remain on the Consolidated Balance Sheet and the proceeds from the sale of undivided interests are recorded as short-term borrowings.

Prior to the amendment, the receivables sold were removed from the Consolidated Balance Sheet. At December 31, 2003, US$ 158 million (€ 125 million) had been received pursuant to such sales and were reflected as reductions to accounts receivable of Fresenius Medical Care.

At December 31, 2004 there are outstanding short-term borrowings under the facility of US$ 336 million (€ 247 million). NMC Funding Corp. pays interest to the bank investors, calculated based on the commercial paper rates for the particular tranches selected. The effective interest rate ranged from 1.00 % to 2.23 % during the twelve months ended December 31, 2004. Under the terms of the facility agreement, new interests in accounts receivable are sold as collections reduce previously sold accounts receivable. The costs are expensed as incurred and recorded as interest expense and related financing costs. On October 21, 2004 Fresenius Medical Care amended the accounts receivable facility to extend the maturity date to October 20, 2005.

Long-term borrowings

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

in milion €	**2004**	2003
Fresenius Medical Care 2003 senior credit agreement	**356**	722
Capital lease obligations	**41**	55
Euro Notes	**389**	129
Bonds	**400**	800
Other	**223**	205
	1,409	1,911
less current maturities	**190**	495
Debt and capital lease obligations	**1,219**	1,416

Aggregate annual payments applicable to the 2003 Fresenius Medical Care Senior Credit Agreement, capital leases, Euro Notes, bonds and other borrowings for the five years subsequent to December 31, 2004 (excluding borrowings underlying trust preferred securities, see Note 14) are:

for the fiscal years	in million €
2005	190
2006	204
2007	236
2008	138
2009	542
Subsequent years	99
Total	**1,409**

Euro Bonds

On April 27, 1999 Fresenius Finance B.V., 's-Hertogenbosch (Netherlands), a 100 % subsidiary of Fresenius AG, issued Euro Bonds for a total of € 600 million in two tranches in order to repay short-term bank loans which were mainly used for the acquisition of the international infusion business of Pharmacia & Upjohn AB, Stockholm (Sweden).

The variable interest rate tranche with a nominal amount of € 200 million was repaid on May 18, 2002 at the nominal value.

The fixed interest tranche with a nominal amount of € 400 million was divided into 400,000 certificates denominated at € 1,000 each, which had an annual interest rate of 4.5 %. The fixed-interest tranche matured after five years; repayment was made on May 18, 2004 at the nominal value.

This fixed interest tranche was refinanced in mid-May 2004 by senior notes with a maturity of two to five years (€ 260 million), partial utilization of short-term bank borrowings of € 50 million (€ 100 million in total) and issuances under the commercial paper program.

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

The Euro Bonds are guaranteed by Fresenius AG, Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius AG has given a number of commitments to provide protection to the bondholders, which, under certain circumstances, partly restrict the scope of action of Fresenius AG and its subsidiaries (excluding Fresenius Medical Care AG and that company's subsidiaries). These commitments include, amongst other things, restrictions in the amount of further debt that can be raised, the payment of dividends, the volume of capital expenditure, the redemption of subordinated liabilities and the mortgaging or sale of assets. Some of these restrictions are lifted automatically when the rating of the company reaches investment grade. In the event of non-compliance with the terms of the bonds, the bondholders (owning in aggregate more than 25 % of the outstanding bonds) are entitled to call the bonds and demand immediate repayments plus interest. At December 31, 2004, the Fresenius Group is in compliance with all of its commitments.

Fresenius Medical Care – 2003 Senior Credit Agreement

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

Through a series of amendments in 2003 and 2004, Fresenius Medical Care has voluntarily reduced the aggregate amount available to US$ 1,200 million and has achieved a reduction of the applicable interest rate. The 2003 amendment voluntarily reduced the aggregate amount available to US$ 1,400 million while reducing interest rates for certain tranches of the term loan portion by 25 basis points. The 2004 amendments further voluntarily reduced the aggregate amount available to US$ 1,200 million while increasing the available amounts under the revolving loan portion and voluntarily reducing the amounts available under the term loan portion. In the 2004 amendments, Fresenius Medical Care also reduced the interest rates on the Revolving Credit by 62.5 basis points and the term loan interest rates on certain of the term loan tranches by an additional 62.5 and 75 basis points while extending the termination date of the facility until February 28, 2010. In addition, under the 2004 amendments, Fresenius Medical Care can increase the amount of the revolving credit facility by up to US$ 200 million during the extended life of the Fresenius Medical Care 2003 Senior Credit Agreement.

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

	Maximum amount available		Balance outstanding	
in US$ million	**2004**	2003	**2004**	2003
Revolving Credit	**750**	500	**35**	14
Term Loan A	**0**	500	**0**	500
Term Loan A-1	**450**	0	**450**	0
Term Loan C	**0**	398	**0**	398
Total	**1,200**	1,398	**485**	912

The terms of the credit facilities available at December 31, 2004 are:

- a revolving credit facility of up to US$ 750 million (of which up to US$ 250 million is available for letters of credit, up to US$ 300 million is available for borrowings in certain non-US currencies, up to US$ 75 million is available as swing line in US dollars, up to US$ 250 million is available as a competitive loan facility and up to US$ 50 million is available as swing line in certain non-US currencies, the total of which cannot exceed US$ 750 million) which will be due and payable on February 28, 2010.

- a term loan facility (Loan A-1) of US$ 450 million, also maturing on February 28, 2010. The terms of the Fresenius Medical Care 2003 Senior Credit Agreement require payments that permanently reduce the term loan facility. The repayment begins in the fourth quarter of 2005 and amounts to US$ 25 million per quarter. The remaining amount outstanding is due on February 28, 2010.

The revolving credit facility and Loan A-1 interest rates are equal to LIBOR plus an applicable margin, or base rate, defined as the higher of the Bank of America prime rate or the Federal Funds rate plus 0.5 % plus the applicable margin. The applicable margin is variable and depends on the ratio of Fresenius Medical Care's funded debt to EBITDA as defined in the Fresenius Medical Care 2003 Senior Credit Agreement. In addition to scheduled principal payments, indebtedness outstanding under the Fresenius Medical Care 2003 Senior Credit Agreement will be reduced by portions of the net cash proceeds from certain sales of assets, securitization transactions other than Fresenius Medical Care's existing accounts receivable financing facility and the issuance of subordinated debt.

The Fresenius Medical Care 2003 Senior Credit Agreement contains affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Some of the covenants limit indebtedness of and investments by Fresenius Medical Care, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. Additionally, the Fresenius Medical Care 2003 Senior Credit Agreement provides for a dividend restriction which is US$ 180 million for dividends paid in 2005, and increases in subsequent years. Fresenius Medical Care paid dividends of US$ 122 million (€ 100 million) in 2004. In default, the outstanding balance under the Fresenius Medical Care 2003 Senior Credit Facility becomes immediately due and payable at the option of the Lenders. As of December 31, 2004 Fresenius Medical Care is in compliance with all covenants under the Fresenius Medical Care 2003 Senior Credit Agreement.

Euro Notes

Corporate note loans issued by Fresenius Finance B.V. amounting to € 260 million have maturities of between two and five years. Interest rates are linked to EURIBOR. The loans – mostly hedged through interest swaps – were subject in 2004 to interest rates of between 3.94 % and 5.61 %.

In 2001, Fresenius Medical Care issued four tranches of senior notes totaling € 129 million in aggregate principal amount. The first tranche was for € 80 million with a fixed interest rate of 6.16 % and the second and third tranches were for € 29 million and € 15 million, respectively, with variable interest rates that averaged 3.51 % in 2004 and 3.84 % in 2003. The final tranche was for € 5 million at a fixed rate of 5.33 %. All four tranches have a maturity date of July 13, 2005. Both floating rates are tied to the EURIBOR rate.

12. OTHER LONG-TERM LIABILITIES

Of the total amount of other non-current liabilities amounting to € 160 million and € 166 million at December 31, 2004 and 2003, respectively, € 98 million and € 123 million are due in between one and five years and € 62 million and € 43 million are due later than five years.

13. PENSIONS AND SIMILAR OBLIGATIONS

Defined benefit pension plans

Over one half of the pension obligations totaling € 228 million relate to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1988 which applies for most of the German entities of the Group. Approximately one eighth relates to the "Fresenius Medical Care Retention Plan" in the US and a further quarter relates to individual pension plans, mostly for non-German Group entities.

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

Fresenius Medical Care currently has two principal pension plans, one for German employees, and the other covering employees in the United States. During the first quarter of 2002, Fresenius Medical Care Holdings, Inc. (FMCH) curtailed its defined benefit and supplemental executive retirement plans. Under the curtailment amendment, no additional defined benefits for future services will be earned by substantially all employees eligible to participate in the plan. FMCH has retained all employee pension obligations as of the curtailment date for the fully-vested and frozen benefits for all employees. Each year FMCH contributes at least the minimum required by the Employee Retirement Income Security Act of 1974, as mended. There was no minimum funding requirement for FMCH for the defined benefit plan in 2004. FMCH voluntarily contributed US$ 26 million (€ 19 million) during 2004.

The following tables provides a reconciliation of benefit obligations, plan assets, and funded status of the plans. Benefits paid as shown in the reconciliation of plan assets include only benefit payments from the funded benefit plans:

in million €	2004	2003
Change in benefit obligations		
Benefit obligations at beginning of year	**388**	364
Change in entities consolidated	**0**	1
Translation effects	**-13**	-27
Service cost	**11**	12
Interest cost	**22**	22
Other changes	**-2**	0
Transfer of plan participants	**1**	0
Actuarial losses	**30**	26
Benefits paid	**-10**	-10
Benefit obligations at end of year	**427**	388
Change on plan assets		
Fair value of plan assets at beginning of year	**156**	125
Translation effects	**-10**	-15
Actual return on plan assets	**13**	16
Employer contributions	**24**	36
Benefits paid	**-5**	-6
Fair value of plan assets at end of year	**178**	156
Funded status	**249**	232
Unrecognized loss	**-87**	-65
Unrecognized prior service cost	**3**	0
Unrecognized transition obligation	**-2**	-2
Net amount recognized	**163**	165
Calculation of additional minimun liability*		
Fair value of plan assets	**178**	156
Accumulated benefit obligation (ABO)	**347**	319
Minimum liability*	**169**	163
Accrued benefit costs	**104**	112
Additional minimun liability*	**65**	51
Thereof intangible assets	**1**	0
Thereof accumulated other comprehensive income (loss)	**64**	51
Total pension liability (at December 31)	**228**	216
Weighted-average assumptions for benefit obligations at December 31:		
Discount rate	**5.4 %**	5.8 %
Rate of compensation increase	**3.7 %**	3.8 %

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

in million €	2004	2003
Components of net period benefit costs		
Service cost	**11**	12
Interest cost	**22**	22
Expected return on plan assets	**-11**	-10
Amortization of transition obligations	**1**	1
Amortization of unrealized losses	**4**	4
Curtailment gain	**0**	0
Net periodic benefit costs	**27**	29
Weighted-average assumptions for net periodic benefit costs at December 31:		
Discount rate	**5.5 %**	6.0 %
Expected return of plan assets	**7.1 %**	7.7 %
Rate of compensation increase	**3.6 %**	3.7 %

Plan investment policy and strategy

The investment strategy for the Fresenius Medical Care North America pension plan is to earn a long-term rate of return on assets of at least 7.5 % compounded annually while utilizing a target investment allocation of 50 % equity and 50 % debt securities.

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

The following schedule describes the Fresenius Group´s allocation for its plans:

	Allocation 2004	Allocation 2003	Target allocation
Categories of plan assets			
Equity securities	**48 %**	49 %	47 %
Debt securities	**50 %**	48 %	51 %
Real estate	**1 %**	1 %	1 %
Other	**1 %**	2 %	1 %
Total	**100 %**	100 %	100 %

The investment strategy for the pension plan is to earn a long-term rate of return on assets of at least 7 % compounded annually. Allocations in the fiscal year 2005 are expected to amount to € 18 million.

The following table gives an analysis of actual pension payments for the fiscal years 2004 and 2003 as well as the expected pension payments in the next five fiscal years and the total pension payments for the five year period thereafter.

in million €	2004
Cash used for pension obligations	
Benefit payments prior year	10
Benefit payments current year	10
Expected future benefit payments	
Expected benefit payments in 2005	12
Expected benefit payments in 2006	11
Expected benefit payments in 2007	12
Expected benefit payments in 2008	14
Expected benefit payments in 2009	16
Expected benefit payments between 2010 and 2014	97
Total expected benefit payments for the next 10 years	**162**

The measurement date used to determine pension benefit measurements was December 31, 2004 for the plans of FMCH and September 30, 2004 for all non-US plans.

Pension obligations at December 31, 2004 and 2003 relate to the following geographical regions:

in million €	**2004**	2003
Germany	**139**	132
Europe (excluding Germany)	**51**	44
North America	**36**	39
Asia-Pacific	**2**	1
Latin America	**–**	0
Africa	**0**	0
Total benefit obligations	**228**	216

The pension obligations relate mainly to Europe and North America, with more than 60 % relating specifically to Germany and approximately one fifth each relating to the rest of Europe and North America, respectively.

Approximately three quarters of beneficiaries are located in North America, approximately one fifth in Germany and the remainder throughout the rest of Europe and other continents.

Defined contribution plans

The employees of FMCH are eligible to join 401(k) savings plan. Fresenius Medical Care’s total expense under this plan for the years ended December 31, 2004 and 2003 was € 12 million and € 13 million, respectively.

14. TRUST PREFERRED SECURITIES

Fresenius Medical Care originally issued Trust Preferred Securities through five Fresenius Medical Care Capital Trusts, statutory business trusts organized under the laws of the State of Delaware/USA. Fresenius Medical Care owns all of the common securities of these trusts. The sole asset of each trust is a senior subordinated note of Fresenius Medical Care or a wholly-owned subsidiary of Fresenius Medical Care and related guarantees by Fresenius Medical Care AG, Fresenius Medical Care Deutschland GmbH and Fresenius Medical Care Holdings, Inc.; Fresenius Medical Care Deutschland GmbH and Fresenius Medical Care Holdings, Inc., being the "Guarantor Subsidiaries". The Trust Preferred Securities are guaranteed by Fresenius Medical Care through a series of undertakings by the Company and the Subsidiary Guarantors.

The Trust Preferred Securities entitle the holders to distributions at a fixed annual rate of the stated amount and are mandatorily redeemable after 10 years. Earlier redemption may also occur upon a change of control followed by a rating decline or defined events of default including a failure to pay interest. Upon liquidation of the trusts, the holders of Trust Preferred Securities are entitled to a distribution equal to the stated amount. The Trust Preferred Securities do not hold voting rights in the trust except under limited circumstances.

The Trust Preferred Securities Agreements contain affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Some of the covenants limit indebtedness of and investments by Fresenius Medical Care, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. Some of these covenants are subordinated to the Fresenius Medical Care 2003 Senior Credit Agreement covenants. As of December 31, 2004, Fresenius Medical Care is in compliance with all covenants under all Trust Preferred Securities Agreements.

The Trust Preferred Securities outstanding as of December 31, 2004 and 2003 are as follows:

	Year issued	Stated amount	Interest rate	Mandatory redemption date	**2004**	2003
Fresenius Medical Care Capital Trust II	1998	$ 450 million	7 7/8 %	Feb 1, 2008	**€ 324 million**	€ 356 million
Fresenius Medical Care Capital Trust III	1998	DM 300 million	7 3/8 %	Feb 1, 2008	**€ 154 million**	€ 154 million
Fresenius Medical Care Capital Trust IV	2001	$ 225 million	7 7/8 %	Jun 15, 2011	**€ 158 million**	€ 170 million
Fresenius Medical Care Capital Trust V	2001	€ 300 million	7 3/8 %	Jun 15, 2011	**€ 297 million**	€ 297 million
Trust Preferred Securities					**€ 933 million**	€ 977 million

15. MINORITY INTERESTS

At December 31, 2004 and 2003, minority interests in the Group were as follows:

in million €	**2004**	2003
Minority interests in Fresenius Medical Care	**1,684**	1,620
Minority interests in the business segments		
Fresenius Medical Care	**13**	11
Fresenius Kabi	**27**	28
Fresenius ProServe	**19**	18
Corporate/Other	**1**	1
Total minority interests	**1,744**	1,678

The minority interests increased in 2004 by € 66 million to € 1,744 million. The change resulted from the inclusion of a portion of profits of € 215 million, decreased by pro-rata portion of dividend payments of € 71 million, first consolidations as well as negative currency effects amounting to € -78 million.

16. SHAREHOLDERS' EQUITY

Subscribed capital

The subscribed capital of Fresenius AG is divided into 20,485,519 bearer ordinary shares and 20,485,519 non-voting bearer preference shares. The shares are issued as non-par value shares and have a theoretical nominal value of € 2.56. During the fiscal year 2004 1,354 stock options were exercised.

In a letter dated November 19, 2002, Vermögensverwaltungsgesellschaft Nachlass Else Kröner mbH gave notice that it directly holds 67.35 % of the voting rights in Fresenius AG and that further voting rights are attributable to it in accordance with § 22 section 2 of the German Trade Securities Act (WpHG). In total, Vermögensverwaltungsgesellschaft Nachlass Else Kröner mbH holds more than 75 % of the voting rights in Fresenius AG.

In December 2002, Allianz AG, Munich gave notice that it holds 9.74 % of the shares of Fresenius AG via its indirect subsidiary, Allianz Lebensversicherungs-Aktiengesellschaft, Stuttgart.

AW-Beteiligungs GmbH, with registered offices in Ochsenfurt, gave notice in accordance with § 21 section 1 of the WpHG that its voting rights in Fresenius AG, Bad Homburg v. d. H., fell below the 75 % threshold on December 30, 2003 and now amount to 4.74 % held directly.

AIH Agrar-Industrie-Holding GmbH, with registered offices in Mannheim, gave notice in accordance with § 21 section 1 of the WpHG that its voting rights in Fresenius AG, Bad Homburg v. d. H., fell below the 75 % threshold on December 30, 2003 and that it no longer holds any voting rights in the company, whether directly or in the form of voting rights attributable in accordance with § 22 section 1, sentence 1 no. 1 and § 22 section 2 of the WpHG.

Südzucker AG, with registered offices in Mannheim/Ochsenfurt, gave notice in accordance with § 21 section 1 of the WpHG that its voting rights in Fresenius AG, Bad Homburg v.d.H., fell below the 75 % threshold on December 30, 2003 and that it no longer holds any voting rights in the company, whether directly or in the form of voting rights attributable in accordance with § 22 section 1, sentence 1 no. 1 and § 22 section 2 of the WpHG.

Approved capital

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

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

Conditional capital

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

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

The conditional capital has developed as follows:

in €	Ordinary shares	Preference shares	Total
Conditional Capital I Fresenius AG stock option plan 1998	1,648,005.12	1,648,005.12	3,296,010.24
Conditional Capital II Fresenius AG stock option plan 2003	2,304,000.00	2,304,000.00	4,608,000.00
Total conditional capital January 1, 2004	**3,952,005.12**	**3,952,005.12**	**7,904,010.24**
Exercising of Fresenius AG stock option plan 1998	-1,733.12	-1,733.12	-3,466.24
Total conditional capital December 31, 2004	**3,950,272.00**	**3,950,272.00**	**7,900,544.00**

Dividends

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

At the Annual General Meeting of May 28, 2004, a resolution was passed to pay a dividend of € 1.23 per bearer ordinary share and € 1.26 per bearer preference share, i.e. a total distribution of € 51.0 million was resolved.

17. EARNINGS PER SHARE

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

in million €, except for amounts per share (€)	**2004**	2003
Numerators		
Net income	**168**	115
Less preference on preference shares	**1**	1
Income available to all class of shares	**167**	114
Denominators (number of shares)		
Weighted average number of ordinary shares outstanding	**20,484,955**	20,484,842
Weighted average number of preference shares outstanding	**20,484,955**	20,484,842
Total weighted average number of shares outstanding of all classes	**40,969,910**	40,969,684
Potentially dilutive ordinary shares	**61,747**	32,330
Potentially dilutive preference shares	**61,747**	32,330
Total weighted average shares outstanding of all classes assuming dilution	**41,093,404**	41,034,344
Total weighted average ordinary shares assuming dilution	**20,546,702**	20,517,172
Total weighted average preference shares assuming dilution	**20,546,702**	20,517,172
Basic earnings per ordinary share	**4.08**	2.79
Preference per preference share	**0.03**	0.03
Basic earnings per preference share	**4.11**	2.82
Fully diluted earnings per ordinary share	**4.07**	2.79
Preference per preference share	**0.03**	0.03
Fully diluted earnings per preference share	**4.10**	2.82

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

18. OTHER COMPREHENSIVE INCOME (LOSS)

Changes in the components of other comprehensive income (loss) were as follows for 2004 and 2003:

in million €	2004 Amount before taxes	2004 Tax effect	2004 Amount after taxes	2003 Amount before taxes	2003 Tax effect	2003 Amount after taxes
Change in unrealized gains/losses	**-29**	**-11**	**-18**	28	-11	17
Realized gains/losses due to reclassifications	**-7**	**3**	**-4**	7	-3	4
Change in unrealized gains/losses from derivative financial instruments	**-36**	**14**	**-22**	35	-14	21
Minimum pension liability	**-13**	**4**	**-9**	-14	7	-7
Foreign currency translation adjustment	**-20**	**0**	**-20**	-154	0	-154
	-69	**18**	**-51**	-133	-7	-140

19. STOCK OPTIONS

Fresenius AG stock option plans

At December 31, 2004, Fresenius AG has two awards outstanding under the terms of various stock-based compensation plans, including the Fresenius AG 2003 plan, which is the only plan of Fresenius AG with stock option awards currently available for grant. Under the 2003 plan, convertible bonds with a principal of up to € 4.6 million may be issued to the members of the Management Board, to members of the management of affiliated companies, to employees of the company and to employees of its affiliated companies representing grants for up to 900,000 bearer ordinary shares and up to 900,000 non-voting bearer preference shares. Members of the Management Board and employees of Fresenius Medical Care AG and its affiliated companies which are only affiliated with the company through Fresenius Medical Care AG are excluded. Members of the Management Board are entitled, in total, to 400,000 convertible bonds with an entitlement to subscribe 200,000 bearer ordinary shares and the same number of non-voting bearer preference shares. Employees are entitled, in total, to 1,400,000 convertible bonds with an entitlement to subscribe to 700,000 bearer ordinary shares and the same number of non-voting bearer preference shares.

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

Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target becomes the stock exchange quoted price of the ordinary or preference shares upon the first time the stock exchange quoted price exceeds the Initial Value by at least 25 %. The Initial Value is the joint average stock exchange price of bearer ordinary shares and non-voting bearer preference shares during the last 30 trading days prior to the date of grant. The conversion price of the options without a stock price target is the Initial Value. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15 % less than if the employee elected options subject to the stock price target. Each option entitles the holder thereof, upon payment the respective conversion price, to acquire one ordinary or preference share. Up to 20 % of the total amount available for the issuance of awards under the Fresenius AG 2003 stock option plan may be issued each year. At December 31, 2004, options for up to 1,258,204 ordinary or preference shares are available for grant in future periods.

During 1998, Fresenius AG adopted a stock incentive plan (Fresenius AG 1998 stock option plan) for Fresenius AG's key management and executive employees. This stock incentive plan was replaced by the Fresenius AG 2003 plan and no options have been granted since 2003. Under this plan eligible employees had the right to acquire ordinary and preference shares of Fresenius AG. Options granted under this plan have a ten-year term, and one third of them vest on each of the second, third and fourth anniversaries of the award date. One ordinary or one preference share can be acquired for each option. At December 31, 2004, 1,140,482 stock options were outstanding, including 866,502 which have vested.

Stock option transactions are summarized as follows (average exercise price in €):

Ordinary shares December 31	Number of options	Average exercise price in €	Number of options exercisable
Balance 2002	621,641	80.18	
Granted	139,672	44.82	
Forfeited	22,629	80.52	
Balance 2003	738,684	73.31	316,300
Granted	131,226	69.66	
Exercised	677	61.26	
Forfeited	32,968	73.06	
Balance 2004	836,265	72.75	433,251

Preference shares December 31	Number of options	Average exercise price in €	Number of options exercisable
Balance 2002	621,641	94.14	
Granted	139,672	38.69	
Forfeited	22,629	97.18	
Balance 2003	738,684	82.60	316,300
Granted	131,226	60.70	
Exercised	677	65.45	
Forfeited	32,968	82.09	
Balance 2004	836,265	79.72	433,251

The following table provides information with respect to stock options outstanding and exercisable at December 31, 2004:

Ordinary shares Range of exercise price in €	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price in €	Options exercisable	Weighted average exercise price in €
40.01–45.00	115,518	8.50	42.86	–	–
55.01–60.00	19,492	8.50	56.44	–	–
60.01–65.00	135,723	7.50	61.26	45,241	61.26
65.01–70.00	220,253	7.14	68.46	103,888	69.23
80.01–85.00	94,725	4.51	82.64	80,076	82.26
90.01–95.00	250,554	6.16	94.07	204,046	94.07
	836,265	6.83	72.75	433,251	82.50

Preference shares Range of exercise price in €	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price in €	Options exercisable	Weighted average exercise price in €
35.01–40.00	115,518	8.50	37.52	–	–
45.01–50.00	19,492	8.50	45.63	–	–
55.01–60.00	116,365	9.50	59.05	–	–
65.01–70.00	135,723	7.50	65.45	45,241	65.45
70.01–75.00	14,649	9.50	73.81	–	–
75.01–80.00	103,888	4.50	79.42	103,888	79.42
90.01–95.00	80,076	3.60	90.86	80,076	90.86
105.01–110.00	139,524	6.60	106.23	93,016	106.23
125.01–130.00	110,030	5.60	128.42	111,030	128.42
	836,265	6.83	79.72	433,251	98.39

Fresenius Medical Care stock option plans

At December 31, 2004, Fresenius Medical Care has awards outstanding under the terms of various stock-based compensation plans, including the Fresenius Medical Care 2001 plan, which is the only plan of Fresenius Medical Care with stock option awards currently available for grant. Under the Fresenius Medical Care 2001 plan, convertible bonds with a principal of up to € 10.24 million may be issued to the members of the management board and other employees of Fresenius Medical Care representing grants for up to 4 million non-voting preference shares. The convertible bonds have a par value of € 2.56 and bear interest at a rate of 5.5 %. Except for the members of the management board, eligible employees may purchase the bonds by issuing a non-recourse note with the terms corresponding the terms of and secured by the bond. Fresenius Medical Care has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by Fresenius Medical Care and are not reflected in Fresenius Medical Care's consolidated financial statements. The options expire in ten years and can be exercised beginning after two, three or four years. Bonds issued to Board members, who did not issue a note to Fresenius Medical Care, are recognized as a liability on Fresenius Medical Care's balance sheet.

Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target becomes the stock exchange quoted price of the preference shares upon the first time the stock exchange quoted price exceeds the Initial Value by at least 25 %. The Initial Value is the average price of the preference shares during the last 30 trading days prior to the date of grant. The conversion price of the options without a stock price target is the Initial Value. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15 % less than if the employee elected options subject to the stock price target. Each option entitles the holder thereof, upon payment the respective conversion price, to acquire one preference share. Up to 20 % of the total amount available for the issuance of awards under the 2001 plan may be issued each year through May 22, 2006. At December 31, 2004, options for up to 1,094,612 preference shares are available for grant in future periods.

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

Stock option transactions are summarized as follows (average exercise price in €):

Preference shares December 31	Number of options (thousand)	Average exercise price in €	Number of options exercisable (thousand)
Balance 2002	3,615	45.51	
Granted	622	33.16	
Exercised	25	32.58	
Forfeited	223	48.91	
Balance 2003	3,989	43.34	2,147
Granted	1,021	44.81	
Exercised	83	32.92	
Forfeited	266	46.74	
Balance 2004	4,661	43.60	2,393

The following table provides information with respect to stock options outstanding and exercisable at December 31, 2004:

Preference shares Range of exercise price in €	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price in €	Options exercisable	Weighted average exercise price in €
25.01 - 35.00	1,703,099	7.10	31.37	703,460	31.91
35.01 - 40.00	111,446	8.65	39.20	–	–
40.01 - 45.00	1,145,660	7.77	43.65	363,083	43.00
45.01 - 50.00	432,314	5.62	48.96	432,314	48.96
50.01 - 55.00	31,421	6.91	52.81	24,045	52.60
55.01 - 60.00	1,126,708	4.25	57.19	795,774	57.33
70.01 - 75.00	110,789	6.60	73.72	73,868	73.72
	4,661,437	6.82	43.60	2,392,544	46.63

The Fresenius Group applies APB Opinion No. 25 in accounting for stock compensation and, accordingly, recognized compensation expense of € 1 million each in 2004 and 2003 for stock options granted since 1998.

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

20. COST OF MATERIALS

Cost of materials comprises costs of raw materials, supplies and purchased components and of purchased services as follows:

in million €	**2004**	2003
Cost of raw materials, supplies and purchased components	**1,673**	1,667
Cost of purchased services	**448**	420
Cost of materials	**2,121**	2,087

21. PERSONNEL EXPENSES

Cost of goods sold, selling, general and administrative expenses and expenditure on research and development, include personnel expenses amounting to € 2,318 million and € 2,313 million in 2004 and 2003, respectively. Personnel expenses comprise the following:

in million €	**2004**	2003
Wages and salaries	**1,851**	1,871
Social security contributions and cost of retirement pensions and social assistance	**467**	442
thereof amount for retirement pensions	**52**	55
Personnel expenses	**2,318**	2,313

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

By group	**2004**	2003
Wage earnings employees	**34,731**	34,271
Salaried employees	**32,649**	30,632
Apprentices	**458**	340
Total employees	**67,838**	65,243

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

Management Board

For the year ended December 31, 2004, the total remuneration of the Management Board paid in cash for carrying out their duties in Fresenius AG and its subsidiaries amounted to € 4,015 thousand. Of this amount, € 2,320 thousand was paid in salaries and € 1,695 thousand was paid in the form of variable income. The amount of the variable income depends on the earnings of the Fresenius Group and/or the business segments.

In addition in 2004, the members of the Management Board received 36,550 convertible bonds from the 2003 Fresenius AG stock option plan. At the end of the fiscal year 2004, the members of the Management Board held 249,400 stock options and 87,720 convertible bonds. In fiscal year 2004, no stock options were exercised.

Pension provisions of € 3,985 thousand are recognized by the Fresenius Group to cover pension entitlements of current members of the Management Board.

€ 603 thousand was paid to former members of the Management Board and their heirs. The pension accrual for these persons amounts to € 7,093 thousand.

Supervisory Board

The remuneration of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in § 13 of the statutes of Fresenius AG. The total remuneration of the Supervisory Board of Fresenius AG in 2004 was € 971 thousand. This included € 260 thousand and € 711 thousand relating to fixed and variable components, respectively. The fixed remuneration per Supervisory Board member was equivalent to € 13 thousand, whereby the Chairman receives double this amount and the deputy to Chairman receive one and half times the amount of a Supervisory Board member. The members of the Audit Committee and the Personnel Committee of the Supervisory Board receive an additional € 10 thousand each and the Chairman of the committees receives a further € 10 thousand on the basis of the resolution taken at the Annual General Meeting on May 28, 2003. The remuneration increases each full fiscal year by 10 % if the dividend paid on an ordinary share for this period (dividend amount according to the resolution of the Annual General Meeting (gross dividend)) is one percentage point above 13 % of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. Thus, the variable remuneration per Supervisory Board member amounted to € 59 thousand for 2004. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board.

One subsidiary paid € 22 thousand to the heirs of a former Supervisory Board member. The subsidiary accrued a pension provision for this purpose of € 64 thousand.

D & O-Insurance

Fresenius AG has concluded a consequential loss liability insurance policy (D & O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of Fresenius AG and for all representative bodies of affiliates in Germany and elsewhere. The D & O policy applies throughout the world and runs until the end of December 2005. 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.

23. INCOME TAXES

Income before income taxes and minority interests is attributable to the following geographic locations:

in million €	**2004**	2003
Income before income taxes and minority interests in Germany	**73**	–
Income before income taxes and minority interests abroad	**563**	532
Income before income taxes and minority interests	**636**	532

Income tax expense (benefit) and income for the years 2004 and 2003 consisted of the following:

in million €	Germany	Abroad	2004 Total	Germany	Abroad	2003 Total
Current taxes	**44**	**180**	**224**	48	95	143
Deferred taxes	**-5**	**34**	**29**	2	78	80
Income taxes	**39**	**214**	**253**	50	173	223

For the fiscal year ended December 31, 2004 Fresenius AG is subject to German federal corporation income tax at a base rate of 25 % plus a solidarity surcharge of 5.5 % on federal corporation taxes payable.

The German government enacted the Flood Victim Solidarity Law in September 2002 resulting in an increase of the base rate of German federal corporation income tax from 25 % to 26.5 % for 2003 only. The tax rate returned to 25 % on January 1, 2004.

The difference in income tax expense from the expected corporate income tax expense computed by applying the German federal corporation income tax rate, including the solidarity surcharge, on income before income taxes and minority interest (26.375 % for fiscal year 2004; 27.96 % for fiscal year 2003) is as follows:

in million €	2004	2003
Computed "expected" income tax expense/income	**168**	141
Increase (reduction) in income taxes resulting from:		
Items not recognized for tax purposes	**6**	12
Dividend distribution of the year	**0**	-1
Trade income taxes	**16**	15
Foreign tax rate differential	**49**	42
Tax free income	**-17**	-11
Changes in valuation allowances on deferred tax assets	**28**	23
Other	**3**	2
Income taxes	**253**	223
Effective tax rate	**39.8 %**	41.9 %

The higher effective tax rate of the Fresenius Group in the previous year resulted, amongst other factors, from one-time expenses at Fresenius ProServe, which were either not deductible or may only be partly deductible for tax purposes.

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

in million €	**2004**	2003
Deferred tax assets		
Accounts receivable	**27**	29
Inventories	**33**	30
Other current assets	**2**	4
Other non-current assets	**55**	33
Accruals	**137**	129
Other short-term liabilities	**12**	28
Other liabilities	**6**	8
Pension obligations	**16**	12
Losses carried forward from previous years	**151**	134
Deferred tax assets (gross)	**439**	407
Less valuation allowance	**95**	67
Deferred tax assets (net)	**344**	340
Deferred tax liabilities		
Accounts receivable	**10**	28
Inventories	**12**	14
Other current assets	**3**	4
Other non-current assets	**225**	210
Accruals	**36**	22
Other short-term liabilities	**15**	52
Other liabilities	**20**	8
Deferred tax liabilities (gross)	**321**	338
Total deferred taxes (net)	**23**	2

in million €		**2004** **thereof long-term**		2003 thereof long-term
Deferred tax assets	**286**	**118**	280	98
Deferred tax liabilities	**263**	**245**	278	231
Total deferred taxes (net)	**23**	**-127**	2	-133

During 2004, the valuation allowance increased as a result of the increase in the volume of tax losses which the Fresenius Group anticipates will not be recovered, mainly attributable to net operating losses in Asia Pacific.

The following table shows the amounts and years that operating losses expire:

For the fiscal years	in million €
2005	19
2006	8
2007	11
2008	9
2009	19
2010	7
2011	13
2012	1
2013	0
2014	5
Thereafter	5
Total	**97**

The total remaining operating losses of € 362 million can largely be carried forward for an unlimited period.

In assessing the realizability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Fresenius Group believes it is more likely than not that the company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2004.

Provision has not been made for additional taxes on approximately € 147 million undistributed earnings of foreign subsidiaries of Fresenius Medical Care. The majority of these earnings have been, and will continue to be, permanently reinvested. The earnings could become subject to additional tax if remitted or deemed remitted as dividends; however, calculation of such additional tax is not practical.

For fiscal years ending in 2004 and afterwards, dividends from German subsidiaries are 95 % tax-exempt, i. e. 5 % of dividend income is taxable for corporate tax purposes after recent German tax law changes. The effects of this new rule are estimated by Management as insignificant since consolidated tax filing arrangements are in place for most of Fresenius AG's subsidiaries in Germany, with the exception of Fresenius Medical Care AG.

Effective January 1, 2004, German corporations are subject to a tax of 5 % of capital gains from the disposal of foreign and domestic shareholdings. Losses from a share disposal or expenses from write-downs in a shareholding are non-deductible. Reverse write-downs, however, are also subject to the 5 % add-back taxation. Management does not anticipate significant additional income taxation.

OTHER NOTES

24. COMMITMENTS AND CONTINGENT LIABILITIES

Operating leases and rental payments

The companies of the Fresenius Group lease office and manufacturing buildings as well as machinery and equipment under various lease agreements expiring on dates through 2013. Rental expense recorded for operating leases for the years ended December 31, 2004 and 2003 was € 289 million and € 295 million, respectively.

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

In December 2003, Fresenius Medical Care exercised an option to terminate an operating lease for certain manufacturing equipment in its Ogden, Utah, North American facility. The equipment was purchased for approximately € 59 million and is reflected as a capital expenditure in the accompanying consolidated statement of cash flows 2003.

Future minimum rental payments under noncancelable operating leases for the five years succeeding December 31, 2004 and thereafter are:

For the fiscal years	in million €
2005	198
2006	169
2007	134
2008	104
2009	85
Thereafter	373
Total	**1,063**

Other than the above mentioned items, other financial commitmens are immaterial.

Legal proceedings

Commercial litigation

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

Pre-Merger tax claims or tax claims that would arise if events were to violate the tax-free nature of the Merger, could ultimately be Fresenius Medical Care's obligation. In particular, W.R. Grace & Co. has disclosed in its filings with the Securities and Exchange Commission that: its tax returns for the 1993 to 1996 tax years are under audit by the Internal Revenue Service (US tax authorities); W.R. Grace & Co. has received the Service's examination report on tax periods 1993 to 1996; that during those years W.R. Grace & Co. deducted approximately US$ 122 million in interest attributable to corporate owned life insurance (COLI) policy loans; that W.R. Grace & Co. has paid US$ 21 million of tax and interest related to COLI deductions taken in tax years prior to 1993; that a U.S. District Court ruling has denied interest deductions of a taxpayer in a similar situation. In October 2004, W.R. Grace & Co. obtained bankruptcy court approval to settle its COLI claims with the Internal Revenue Service. In January 2005, W.R. Grace & Co., FMCH and Sealed Air Corporation executed a settlement agreement with respect to the COLI-related claims and other tax claims. W.R. Grace & Co. has filed a motion with the U.S. District Court seeking approval to satisfy its payment obligations to the Service under the settlement agreement. Subject to certain representations made by W.R. Grace & Co., Fresenius Medical Care and Fresenius AG, W.R. Grace & Co. and certain of its affiliates agreed to indemnify Fresenius Medical Care against this and other pre-Merger and Merger-related tax liabilities.

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

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

Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (formerly known as W.R. Grace Holdings, Inc.). Fresenius Medical Care is engaged in litigation with Sealed Air Corporation (Sealed Air) to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by Fresenius Medical Care relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of Fresenius Medical Care's payment obligation, this litigation will be dismissed with prejudice.

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

Other Litigation and Potential Exposures

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

Accrued special charge of Fresenius Medical Care for legal matters

At December 31, 2001, Fresenius Medical Care recorded a pre-tax special charge of US$ 258 million to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. While Fresenius Medical Care believes that its remaining accruals reasonably estimate its currently anticipated costs related to the continued defense and resolution of the remaining matters, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual.

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

25. FINANCIAL INSTRUMENTS

General

Gains and/or losses from changes in exchange and interest rates are shown in the consolidated statement of income under selling, general and administrative expenses, and interest income or expenses, respectively.

Market risk

The Fresenius Group is exposed to market risk from changes in interest rates and foreign exchange rates. In order to manage the risk of interest rate and currency exchange rate fluctuations, the Fresenius Group enters into various hedging transactions with highly rated financial institutions as authorized by the Management Board. Financial instruments are not used for trading purposes.

In general, the Fresenius Group conducts its financial instrument activities under the control of a single centralized department. The Fresenius Group established guidelines for risk assessment procedures and controls for the use of financial instruments. They include a clear segregation of duties with regard to execution on one side and administration, accounting and controlling on the other.

Foreign exchange risk management

The Fresenius Group uses the euro as its financial reporting currency. Therefore, mainly changes in the rate of exchange rate between the euro and US dollar, and the local currencies in which the financial statements of the foreign subsidiaries are maintained, affect its results of operations and financial position as reported in its consolidated financial statements. The Fresenius Group employs, to a limited extent, forward contracts including options to hedge its existing and anticipated currency exposure. Fresenius Group's policy, which has been consistently followed, is that foreign exchange forward contracts including options be used only for the purpose of hedging foreign currency exposure.

Fresenius Group's exposure to market risk for changes in foreign exchange rates relates to transactions such as sales and purchases, and lending and borrowings, including intercompany borrowings in foreign currency. The Fresenius Group has significant amounts of sales of products invoiced in euro from its European manufacturing facilities to its other worldwide operations. In general, these sales are denominated in euros. This exposes the subsidiaries to fluctuations in the rate of exchange between the euro and the currency in which their local operations are conducted.

Changes in the fair values of foreign currency forward contracts designated and qualifying as cash flow hedges of forecasted product purchases are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of cost of goods sold, in the same period in which the hedged transaction affects earnings. After tax gains of € 1.4 million (pretax € 1.8 million) (in the previous year of € 3.9 million; pretax € 5.8 million) for the year ended December 31, 2004 are deferred in accumulated other comprehensive income (loss) and will mainly be reclassified into earnings in the statement of income during 2005. During 2004, the Fresenius Group reclassified after tax losses of € 0.6 million (pretax € 0.8 million) (previous year loss of € 0.1 million; pretax € 0.8 million) from accumulated other comprehensive income (loss) into the statement of income.

Changes in the fair value of foreign currency forward contracts designated and qualifying as cash flow hedges associated with foreign currency denominated intercompany financing transactions are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of selling, general and administrative expenses and interest income or interest expense in the same period in which the hedged transactions affect earnings. During the year ended December 31, 2004, after tax gains of € 1.7 million (pretax € 2.8 million) were reclassified into earnings because the occurrence of the related hedged forecasted transactions was no longer probable. After tax losses of € 0.5 million (pretax € 0.9 million) for the year ended December 31, 2004 (previous year after tax gain of € 34.1 million (pretax € 56.1 million)) were deferred in accumulated other comprehensive income (loss) and will be reclassified into earnings in the statement of income during 2005 and 2006.

As of December 31, 2004, the notional volume of foreign currency forward contracts to hedge intercompany loans amounted to € 0.93 billion and to hedge risks from operating business amounted to € 0.35 billion.

Earnings were not materially affected by hedge ineffectiveness.

As of December 31, 2004, the Fresenius Group had foreign exchange forward contracts with a maximum maturity of 24 months to hedge its exposure to the variability in future cash flows associated with forecasted product purchases and financing transactions.

The Fresenius Group also entered into foreign exchange forward contracts with a fair value of approximately € 11.0 million as of December 31, 2004 to hedge its currency exposure from intercompany loans. No hedge accounting is applied to these forward contracts. Accordingly, the foreign currency forward contracts are recognized as assets and liabilities and changes in fair values are charged to earnings.

The Fresenius Group is exposed to potential losses in the event of nonperformance by counterparties to financial instruments but does not expect any counterparties to fail to meet their obligations. The potential risk of loss with any one party resulting from this type of credit risk is monitored. The Management of the Fresenius Group anticipates, however, that all counterparties will be able to meet their obligations. The current credit exposure of the Fresenius Group from foreign exchange derivatives is represented by the fair value of those contracts with a positive fair value at the reporting date.

Interest rate risk management

The Fresenius Group enters into derivatives to protect interest rate exposures arising from long-term and short-term borrowings and accounts receivable securitization programs at floating rates by effectively swapping them into fixed rates and to hedge the fair value of its fixed interest rate borrowings. Under interest rate swaps, the Fresenius Group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

The Fresenius Group enters into interest rate swap agreements that are designated as cash flow hedges effectively converting certain variable interest rate payments mainly denominated in US dollars and euros into fixed interest rate payments. After tax losses of € 18.8 million (pretax € 31.1 million) for the year ended December 31, 2004 (previous year after tax losses € 33.9 million; pretax € 56.5 million) were deferred in accumulated other comprehensive income (loss). Interest payable and interest receivable under the swap agreements are accrued and recorded as an adjustment to interest expense at each reporting date.

As of December 31, 2004, the notional volume of US$ interest rate hedge contracts was US$ 1.25 billion (€ 0.92 billion) (December 31, 2003: US$ 0.95 billion (€ 0.75 billion)) and the notional volume of Euro interest rate hedge contracts was € 0.22 billion (December 31, 2003: € 0.00 billion). These US$ interest rate swaps, which expire at various dates between 2006 and 2009, effectively fix the company's variable interest rate exposure on the majority of the US dollar-denominated revolving loans and outstanding obligations under the accounts receivable securitization program at an average interest rate of 5.26 % (2003: 5.45 %) and hedge the fair value of its fixed US$ interest rate borrowings. The Euro interest rate swaps, which expire at various dates between 2007 and 2009, effectively fix the company´s variable interest rate exposure from Euro notes at an average interest rate of 3.17 %.

Fresenius Medical Care enters into interest rate swap agreements that are designated as fair value hedges to hedge the risk of changes in the fair value of fixed interest rate borrowings effectively converting the fixed interest payments on Fresenius Medical Care Capital Trust II preferred securities denominated in US dollars into variable interest rate payments. Since the critical terms of the interest rate swap agreements are identical to the terms of Fresenius Medical Capital Trust II preferred securities, the hedging relationship is highly effective and no ineffectiveness is recognized in earnings. The interest rate swap agreements are reported at fair value in the balance sheet. The reported amount of the hedged portion of fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts, and the offsetting changes in the adjusted carrying amount of the related portion of fixed rate trust preferred securities offset each other in the income statement. At December 31, 2004, the notional volume of these swaps at Fresenius Medical Care was US$ 450 million (€ 331 million).

There was no material impact on earnings due to hedge ineffectiveness.

The after tax gains of € 4 million deferred in accumulated other comprehensive income (loss) at December 31, 2003 only had insignificant currency impact.

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

Fair value of financial instruments

The following table presents the carrying amounts and fair values of the Group's financial instruments on December 31, 2004 and 2003. SFAS No. 107 (Disclosures about Fair Value of Financial Instruments) defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

in million €	**2004** Carrying amount	Fair value	2003 Carrying amount	Fair value
Non-derivatives				
Assets				
Cash and cash equivalents	**140**	**140**	125	125
Accounts receivable	**1,528**	**1,528**	1,415	1,415
Liabilities				
Trade accounts payable (including related parties)	**274**	**274**	266	266
Income taxes payable	**195**	**195**	197	197
Long-term loans (excluding trust preferred securities, notes and bonds)	**620**	**620**	982	982
Short-term loans (including related parties)	**393**	**393**	135	135
Trust preferred securities	**933**	**1,048**	977	1,038
Euro Notes	**389**	**389**	129	131
Bonds	**400**	**441**	800	832
Derivatives				
Foreign exchange contracts	**17**	**17**	89	89
Dollar interest rate hedges	**-34**	**-34**	-56	-56
Euro interest rate hedges	**-3**	**-3**		
Yen interest rate hedges	**-1**	**-1**	-1	-1
Other interest rate hedges	**–**	**–**	–	–

Estimation of fair values

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

Short-term financial instruments are valued at their carrying amounts included in the consolidated balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash and cash equivalents, receivables, accounts payable, income taxes payable and short-term borrowings.

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

The fair value of the bonds and trust preferred securities is calculated based on market quotes on the balance sheet date.

Dealer quotes are available for all important derivatives of the Fresenius Group.

26. BUSINESS SEGMENT INFORMATION

Fresenius Group has identified the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe which corresponds to the internal organizational and reporting structures (Management Approach) as at December 31, 2004.

The key data which are presented in the segment reporting correspond to the key data of the internal reporting system in the Fresenius Group. Internal and external reporting and corporate accounting correspond to each other; the same key data and definitions are used.

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

The business segments were identified in accordance with SFAS No. 131 (Disclosures about Segments of an Enterprise and Related Information), which defines the segment reporting requirements in the annual financial statements and interim reports to the shareholders with regard to the operating business, product and service businesses and regions. The information partitioning to business segment (Reportable Segments) is set forth below:

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats about 124,400 patients in its own dialysis clinics. In the United States, the range of services include apheresis and haemoperfusion services for hospitals.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition, and has subsidiaries and distribution partners around the world. Fresenius Kabi's activities cover the whole spectrum of therapy and care for acute and chronically ill patients in hospital and in ambulatory care. As part of this chain of care, the company offers products for maintaining fluid balance and blood volume, anaesthesia, parenteral and enteral nutrition therapies, as well as medical-technical equipment.

Fresenius ProServe offers services to the international health care sector. The products and services portfolio ranges from the consulting, planning, construction and equipping, the technical management, to the management and operation of health care facilities. Furthermore, Fresenius ProServe offers services related to the planning, construction, service and technical management of medical technical and pharmaceutical production plants.

The segment Corporate/Other mainly comprises the holding functions of Fresenius AG as well as Fresenius Netcare GmbH, which was founded in connection with the spin-off of the information technology department, and which provides services in the field of information technology as well as the Biotech division, which does not fulfil the characteristics of a reportable segment. In addition, the segment Corporate/Other includes the consolidation adjustments between the segments.

Segment reporting on regions considers not only the geographical factors, but also the similarity of the markets regarding opportunities and risks. The allocation by regions depends on the domicile of the customers.

Notes on the business segments

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

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

Net interest comprises interest and other similar expenses and income.

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

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

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

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

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

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

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

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

The return on operating assets (ROOA) is defined as the ratio of EBIT to average operating assets.

Assets required for operations are defined as total assets less deferred tax assets, trade accounts payable and advance payments from customers.

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

Report on the business segments

in million €	Fresenius Medical Care 2004	Fresenius Medical Care 2003	Fresenius Medical Care Change	Fresenius Kabi 2004	Fresenius Kabi 2003	Fresenius Kabi Change
Sales	**5,007**	4,886	2 %	**1,491**	1,463	2 %
thereof contribution to consolidated sales	**4,979**	4,862	2 %	**1,465**	1,442	2 %
thereof intercompany sales	**28**	24	17 %	**26**	21	24 %
as % of consolidated sales	**69 %**	69 %		**20 %**	20 %	
EBITDA	**872**	861	1 %	**258**	232	11 %
Depreciation and amortization	**187**	191	-2 %	**82**	85	-4 %
EBIT	**685**	670	2 %	**176**	147	20 %
Net interest	**-147**	-187	21 %	**-46**	-45	-2 %
Net income	**323**	293	10 %	**79**	65	22 %
Operating cash flow	**665**	667	0 %	**170**	133	28 %
Free cash flow before acquisitions and dividends	**456**	422	8 %	**121**	80	51 %
Debt	**1,820**	2,030	-10 %	**709**	739	-4 %
Total assets	**5,845**	5,941	-2 %	**1,518**	1,510	1 %
Capital expenditure	**224**	258	-13 %	**55**	57	-4 %
Acquisitions	**96**	89	8 %	**13**	2	550 %
Research and development expenses	**41**	44	-7 %	**56**	49	14 %
Employees (per capita on balance sheet date)	**46,949**	43,445	8 %	**11,577**	11,470	1 %
Key figures						
EBITDA margin	**17.4 %**	17.6 %		**17.3 %**	15.9 %	
EBIT margin	**13.7 %**	13.7 %		**11.8 %**	10.0 %	
ROOA	**11.8 %**	11.4 %		**13.4 %**	11.1 %	
Depreciation and amortization as % of sales	**3.7 %**	3.9 %		**5.5 %**	5.8 %	

Fresenius ProServe			Corporate/Other			Group		
2004	2003	Change	**2004**	2003	Change	**2004**	2003	Change
813	742	10 %	**-40**	-27	-48 %	**7,271**	7,064	3 %
811	738	10 %	**16**	22	-27 %	**7,271**	7,064	3 %
2	4	-50 %	**-56**	-49	-14 %	**0**	0	
11 %	11 %		**0 %**	0 %		**100 %**	100 %	
39	14	179 %	**-9**	-1	-800 %	**1,160**	1,106	5 %
30	33	-9 %	**16**	16	0 %	**315**	325	-3 %
9	-19	147 %	**-25**	-17	-47 %	**845**	781	8 %
-11	-10	-10 %	**-5**	-7	29 %	**-209**	-249	16 %
-10	-34	71 %	**-224**	-209	-7 %	**168**	115	46 %
23	-3	867 %	**-7**	-21	67 %	**851**	776	10 %
-1	-23	96 %	**-11**	-25	56 %	**565**	454	24 %
222	275	-19 %	**-16**	-21	24 %	**2,735**	3,023	-10 %
742	794	-7 %	**83**	102	-19 %	**8,188**	8,347	-2 %
25	21	19 %	**4**	3	33 %	**308**	339	-9 %
4	14	-71 %	**0**	-14	100 %	**113**	91	24 %
–	1	-100 %	**36**	27	33 %	**133**	121	10 %
9,398	10,815	-13 %	**570**	534	7 %	**68,494**	66,264	3 %
4.8 %	1.9 %					**16.0 %**	15.7 %	
1.1 %	-2.6 %					**11.6 %**	11.1 %	
1.5 %	-3.2 %					**11.1 %**	9.8 %	
3.7 %	4.4 %					**4.3 %**	4.6 %	

Report on the segments by region

in million €	Europe 2004	Europe 2003	Europe Change	North America 2004	North America 2003	North America Change
Sales	**2,802**	2,692	4 %	**3,478**	3,496	-1 %
as % of consolidated sales	**39 %**	38 %		**48 %**	50 %	
EBIT	**295**	234	26 %	**478**	464	3 %
Depreciation and amortization	**182**	184	-1 %	**102**	108	-6 %
Total assets	**3,269**	3,305	-1 %	**4,046**	4,196	-4 %
Capital expanditure	**145**	144	1 %	**132**	158	-16 %
Acquisitions	**41**	55	-25 %	**52**	33	58 %
Employees (per capita on balance sheet date)	**27,373**	27,845	-2 %	**29,690**	28,585	4 %

Asia-Pazific			Latin America			Africa			Group		
2004	2003	Change	**2004**	2003	Change	**2004**	2003	Change	**2004**	2003	Change
547	509	7 %	**272**	246	11 %	**172**	121	42 %	**7,271**	7,064	3 %
7 %	7 %		**4 %**	3 %		**2 %**	2 %		**100 %**	100 %	
36	56	-36 %	**19**	12	58 %	**17**	15	13 %	**845**	781	8 %
19	21	-10 %	**10**	11	-9 %	**2**	1	100 %	**315**	325	-3 %
472	481	-2 %	**330**	321	3 %	**71**	44	61 %	**8,188**	8,347	-2 %
14	18	-22 %	**13**	18	-28 %	**4**	1	300 %	**308**	339	-9 %
15	2	650 %	**0**	1	-100 %	**5**	0	–	**113**	91	24 %
3,633	3,382	7 %	**7,126**	5,814	23 %	**672**	638	5 %	**68,494**	66,264	3 %

Reconciliation of key figures to consolidated earnings

in million €	**2004**	2003
Total EBITDA of reporting segments	**1,169**	1,107
Depreciation and amortization	**-315**	-325
General corporate expenses Corporate/Other	**-9**	-1
Interest expenses	**-224**	-273
Interest income	**15**	24
Total earnings before income taxes and minority interests	**636**	532
Total EBIT of reporting segments	**870**	798
General corporate expenses Corporate/Other	**-25**	-17
Interest expenses	**-224**	-273
Interest income	**15**	24
Total earnings before income taxes and minority interests	**636**	532
Depreciation and amortization of reporting segments	**299**	309
Depreciation and amortization Corporate/Other	**16**	16
Total depreciation and amortization	**315**	325

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

Non-current assets by geographical region as of December 31, 2004 and 2003 were as follows:

in million €	**2004**	2003
Germany	**813**	809
Europe (excluding Germany)	**969**	946
North America	**3,125**	3,300
Asia-Pacific	**209**	231
Latin America	**130**	132
Africa	**29**	21
Total non-current assets	**5,275**	5,439

27. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

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

in million €	**2004**	2003
Interest paid	**228**	244
Income taxes paid	**180**	171

in million €	**2004**	2003
Assets acquired	**137**	130
Liabilities assumed	**-11**	-36
Notes assumed in connection with acquisitions	**-13**	-12
Cash paid	**113**	82
Cash acquired	**-13**	-11
Net cash paid for acquisitions	**100**	71

The free cash flow is an important management key figure in the Group. It is calculated as follows:

in million €	**2004**	2003
Operating cash flow	**851**	776
Purchase of property, plant and equipment	**-308**	-339
Proceeds from sale of property, plant and equipment	**22**	17
Free cash flow before acquisitions and dividends	**565**	454
Purchase/sale of shares in related and associated companies, net	**-90**	-71
Free cash flow before dividends	**475**	383
Dividends paid	**-122**	-114
Free cash flow after dividends	**353**	269

28. SUBSEQUENT EVENTS

In mid-January 2005, Fresenius Kabi signed an agreement to acquire the portuguese company Labesfal-Laboratório de Especialidades Farmacêuticas Almiro S.A. (Labesfal). This entity, which manufactures intravenously administered drugs, generated sales of € 56 million in 2004 with 320 employees.

There have been no further significant changes in the sector environment or group position since the beginning of the fiscal year 2005. At present, the Group is not planning to carry out any significant changes in its structure, administration or legal form or in the area of personnel.

29. CORPORATE GOVERNANCE

The Management Boards and the Supervisory Boards of Fresenius AG and Fresenius Medical Care AG have submitted the Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act (AktG) in accordance with the German Corporate Governance Code dated May 21, 2003 and made this permanently available to the shareholders.

30. PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The Management Board of Fresenius AG proposes to the Annual General Meeting that the earnings for 2004 of Fresenius AG be distributed as follows:

Payment of a dividend of € 1.35 per bearer ordinary share on the 20,485,519 ordinary shares entitled to dividend	€	**27,655,450.65**
Payment of a dividend of € 1.38 per bearer preference share on the 20,485,519 preference shares entitled to dividend	€	**28,270,016.22**
Balance to be carried forward	€	**203,171.90**
	€	**56,128,638.77**

Bad Homburg v. d. H., February 25, 2005

The Management Board

Dr. U. M. Schneider — R. Baule — R. Hohmann — Dr. B. Lipps — S. Sturm

AUDITOR'S REPORT

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the Fresenius Aktiengesellschaft, Bad Homburg v.d. Höhe, for the business year from January 1, to December 31, 2004. The preparation and the content of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US-GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with Accounting Principles Generally Accepted in the United States of America.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1, to December 31, 2004, has not led to any reservations.

In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, to December 31, 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Frankfurt am Main, February 25, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Böttcher	Walter
German Public Auditor	German Public Auditor

Report of the Supervisory Board

In 2004, the Supervisory Board performed the duties assigned to it according to the law and Articles of Association, and regularly advised and supervised the Management Board. It was closely involved in all decisions that were of major importance to the Group.

The Management Board regularly informed the Supervisory Board of its plans and the progress of the business, concerning both the Group as a whole and the individual segments, and as well about important business transactions. The Supervisory Board held four joint meetings with the Management Board to address in detail the development and policy of the business on the basis of the presented reports. The main focus of the meetings was the development of business activities as well as business transactions requiring the approval of the Supervisory Board. All major business transactions were reviewed by the Supervisory Board and discussed with the Management Board. The group also thoroughly reviewed and discussed the strategic direction of the company and signaled its approval. The Chairman of the Supervisory Board regularly received information outside of the meetings about the current situation of the company and its major transactions.

One focus of the activities was the business development of Fresenius ProServe. In particular, the Supervisory Board received detailed information about the efforts to improve the future profitability of Wittgensteiner Kliniken AG. The sale of hospitalia care GmbH was also discussed and approved. The Supervisory Board also discussed and advised on the further development of the business of Fresenius Kabi and acquisitions performed by this business segment. The Board, for example, approved a joint venture with the Australian company Pharmatel Pty. Ltd. as well as the purchase of Infusia a.s. in the Czech Republic, and Labesfal – Laboratório de Especialidades Farmacêuticas Almiro S.A., in Portugal. The Supervisory Board also received information about the ongoing business development of Fresenius Medical Care AG. Finally, it approved the extension of the company headquarters in Bad Homburg.

In addition, the Supervisory Board received regular information about the risk management of the Group. The Supervisory Board approved the mid-term planning of the Group after a detailed review and discussion with the Management Board. Together with the Management Board, the Supervisory Board submitted the Declaration of Compliance in accordance with the German Corporate Governance Code.

The committee formed as stipulated by § 27 Section 3 of the German Co-determination Law did not meet in 2004. The Personnel Committee held three meetings and the Audit Committee held four. The focus of the Audit Committee was the preliminary audit of the 2003 financial statements of Fresenius AG as well as of the Group and the review of the audit report with the auditor. The Audit Committee also reviewed the quarterly reports for 2004 as well as the risk management system.

The following changes took place in the Supervisory Board and Management Board in 2004: Mr. Arnold Danneck retired from the Supervisory Board effective May 28, 2004. By court resolution, Mr. Wilhelm Sachs was appointed as new member of the Supervisory Board effective June 30, 2004. Mr. Gerhard Roggemann left the Board on September 30, 2004. As his successor, Dr. Gerhard Rupprecht was appointed by court resolution as of October 1, 2004. Mr. Gerd Holtgrefe, Deputy Chairman, also left the Supervisory Board at the end of the year. By court resolution, Mr. Volker Weber was appointed as his successor effective January 1, 2005. We thank Mr. Danneck, Mr. Holtgrefe and Mr. Roggemann for their constructive collaboration on the Supervisory Board and for their commitment in the interests of the company and its employees.

The Supervisory Board appointed Mr. Stephan Sturm to the Management Board as Chief Financial Officer and Labor Relations Director to replace Mr. Udo Werlé, who retired on December 31, 2004. We thank Mr. Werlé for his many years of success and dedication at Fresenius.

The accounting records, the financial statements which were prepared according to the German Commercial Code (HGB) and the management report of Fresenius AG for 2004 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, elected as auditors by the Annual General Meeting of Fresenius AG on

May 28, 2004 and subsequently commissioned by the Supervisory Board – they bear the unqualified audit certificate. The same applies to the consolidated financial statements of Fresenius AG, which were prepared according to US GAAP. A consolidated management report and additional Notes were added to these statements. The US GAAP consolidated financial statements discharge the company, according to § 292a of the German Commercial Code (HGB), from the obligation to prepare consolidated financial statements according to German law.

The financial statements, consolidated financial statements and management reports as well as the auditor's reports were submitted to the Supervisory Board within the required time limit. The Supervisory Board noted and approved the auditor's findings. The Supervisory Board's own review yielded no objections to the financial statements of Fresenius AG and the Fresenius Group. The auditor attended all Supervisory Board meetings.

In its March 18, 2005 meeting, the Supervisory Board approved the financial statements of Fresenius AG and the consolidated financial statements for 2004 as presented by the Management Board, making them final. The auditor reported in detail during the meeting on the results of the audit. The Supervisory Board concurred with the proposal of the Management Board for the appropriation of the retained earnings for 2004.

The Supervisory Board expresses its thanks to the Management Board and all our employees for their achievements and dedication in the 2004 financial year.

Bad Homburg v.d.H., March 18, 2005
The Supervisory Board

Dr. Gerd Krick
Chairman

SUPERVISORY BOARD

Dr. h. c. Hans Kröner

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

Dr. Gerd Krick

Königstein
Former Chairman of the Management Board Fresenius AG
Chairman

Chairman of the Personnel Committee
Member of the Audit Committee

Offices
Supervisory Board
Fresenius Kabi Austria GmbH, Austria
(until November 2, 2004)
Fresenius Medical Care AG (Chairman)
VAMED AG, Austria (Chairman)
Vereinte Krankenversicherung AG
Advisory Board
HDI Haftpflichtverband der deutschen Industrie V.a.G.
Board of Directors
Adelphi Capital Europe Fund, Cayman Islands
Board of Trustees
Donau-Universität Krems, Austria

Gerd Holtgrefe

(until December 31, 2004)
Hanover
Secretary of the Trade Union
IG Bergbau, Chemie, Energie
Deputy Chairman

Member of the Personnel Committee
(until December 31, 2004)
Member of the Audit Committee
(until December 31, 2004)

Offices
Supervisory Board
Astra Zeneca Holding GmbH

Arnold Danneck

(until May 28, 2004)
Tholey
Chairman of the General Works Council
(until April 21, 2004)
Deputy Chairman of the Works Council
St. Wendel plant
(until April 29, 2004)

Gerhard Herres

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

Dr. Gabriele Kröner

Munich
Doctor

Offices
Management Board
Else Kröner-Fresenius-Stiftung

Dr. rer. nat. Bernd Mathieu

Bad Homburg v.d.H.
Graduate chemist

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

Christel Neumann

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

Ilona Oesterle

Waldsolms
Deputy Chairlady of the Works Council
Bad Homburg v. d. H.
Deputy Chairlady of the General Works Council (until May 25, 2004)

Gerhard Roggemann

(until September 30, 2004)
Hanover
Member of the Managing Board
WestLB AG Düsseldorf/Münster
(until March 20, 2004)
Vice Chairman Hawkpoint Partners Ltd.,
London (since September 1, 2004)

Member of the Audit Committee
(until September 30, 2004)

Offices
Supervisory Board
AXA Lebensversicherung AG
Hapag-Lloyd AG
Solvay Deutschland GmbH
Board of Governors
International University of Bremen GmbH

Dr. Gerhard Rupprecht

(since October 1, 2004)
Gerlingen
Member of the Management Board
Allianz AG
Chairman of the Management Board
Allianz Lebensversicherungs-AG

Offices
Supervisory Board
Heidelberger Druckmaschinen AG
Quelle AG
ThyssenKrupp Automotive AG
Allianz Elementar Lebensversicherungs-AG, Austria
(Chairman)
Allianz Elementar Versicherungs-AG, Austria
Allianz First Life Insurance Co. Ltd., Korea
Allianz Life Insurance Company of North America, USA

Wilhelm Sachs

(since June 30, 2004)
Friedrichsdorf
Chairman of the General Works Council
(since April 21, 2004)
Deputy Chairman of the Works Council
Friedberg plant
Deputy Chairman of the Standing
Committee on Industry and Trade

Dr. Dieter Schenk

Munich
Lawyer and tax consultant

Offices
Supervisory Board
Fresenius Medical Care AG (Deputy Chairman)
Gabor Shoes AG (Chairman)
Greiffenberger AG (Deputy Chairman)
TOPTICA Photonics AG (Deputy Chairman)

Dr. Karl Schneider

Mannheim
Former Spokesman of
Südzucker AG

Member of the Personnel Committee

Volker Weber

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

Offices
Supervisory Board
SV Deutschland GmbH (since December 2004)

Dr. Bernhard Wunderlin

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

Chairman of the Audit Committee

Offices
Supervisory Board
Harald Quandt Holding GmbH
Sauerborn Trust AG, (Chairman)
(until December 31, 2004)
Augsburger Aktienbank AG
Advisory Board
Von Rautenkranz Nachfolger GbR
Marsh & McLennan Holdings GmbH
Administrative Board
Senckenbergische Naturforschende Gesellschaft
Management Board
Gemeinnützige Hertie-Stiftung
Board of Trustees
Hertie School of Governance
Foundation Council
PcW-Stiftung

MANAGEMENT BOARD

Dr. Ulf M. Schneider

Frankfurt am Main

Chairman

Corporate Offices
Supervisory Board
Fresenius Kabi AG (Chairman)
Fresenius Medical Care AG (since February 23, 2004)
Eufets AG (Chairman)
Fresenius Kabi Austria GmbH, Austria
(since November 17, 2004)
Fresenius Medical Care Groupe France S.A., France
(Chairman since November 7, 2004)
NPBI International B.V., Netherlands
(since September 28, 2004)
Fresenius Kabi España S.A., Spain
(since November 1, 2004)

Rainer Baule

Ettlingen

Business Segment Fresenius Kabi

Corporate Offices
Supervisory Board
Fresenius Kabi Austria GmbH, Austria (Chairman)
NPBI International B.V., Netherlands (Chairman)
Fresenius Kabi Groupe France S.A., France

Rainer Hohmann

Bochum

Business Segment Fresenius ProServe

Corporate Offices
Supervisory Board
VAMED AG, Austria
Wittgensteiner Kliniken AG (Chairman)

Dr. Ben Lipps

(since March 16, 2004)

Boston, Massachusetts (USA)

Business Segment

Fresenius Medical Care

Corporate Offices
Management Board
Fresenius Medical Care AG (Chairman)

Stephan Sturm

(since January 1, 2005)

Hofheim am Taunus

Chief Financial Officer and

Labor Relations Director

Corporate Offices
Supervisory Board
Fresenius Kabi AG (since January 19, 2005)
Wittgensteiner Kliniken AG (since February 22, 2005)

Udo Werlé

(until December 31, 2004)

Lampertheim

Chief Financial Officer and

Labor Relations Director

External Offices
Supervisory Board
K & C Kremsner & Consultants
Corporate Offices (until December 31, 2004)
Supervisory Board
Fresenius Kabi AG
Fresenius Vial S.A., France
(Deputy Chairman)
Wittgensteiner Kliniken AG

GLOSSARY

Health care terms

Acute-Graft-versus-Host-Disease (aGvHD)
Acute phase of Graft-versus-Host-Disease, caused by T-cells in the donor graft that attack the host organism.

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

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

Blood volume replacement
Infusion solution to compensate blood loss.

Clearance
A quantitative parameter to describe the dialysis performance in terms of uremic toxin removal.

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

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

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

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

Disease State Management (DSM)
Holistic concept of patient treatment taking into account all medical aspects associated with the disease.

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

Extracorporeal
Taking place outside the body.

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

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

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

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

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

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

MTD
Maximum tolerated dose.

Omega-3 fatty acids
Long-chain fatty acids of a special structure contained especially in fish oil.

Optimal Renal Care
A joint venture of Fresenius Medical Care with the Southern Californian health insurer Kaiser Permanente Medical Group.

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

Peritoneal dialysis (PD)
Dialysis treatment method using the patient's peritoneum as a "filter" to cleanse his blood.

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

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

Renaissance Health Care
A joint venture of Fresenius Medical Care with leading nephrologists.

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

Transition Management
Organization of a professional transition from the hospital to the ambulatory environment regarding the further therapy and care of the patient. This includes for example training and education of patients, relatives and nursing staff as well as the individual coordination of the therapy concept with all people and institutions, which are involved, e. g. patient, hospital, general practitioner, nursing service.

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

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

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

Financial terms

EBIT
Earnings before interest and income taxes.

EBITDA
Earnings before interest, income taxes, depreciation and amortization.

I/B/E/S
Institutional Broker Estimate System.

ROIC (Return on Invested Capital)
Calculated by:
(EBIT - taxes) : Invested capital
Invested capital = total assets + amortization of goodwill (accumulated) - deferred tax assets - cash and cash equivalents - trade accounts payable - accruals (without pension accruals) - other liabilities not bearing interest.

ROOA (Return on Operating Assets)
Calculated by:
EBIT x 100 : operating assets (average)
Operating assets = total assets - deferred tax assets - trade accounts payable - payments received on account.

US GAAP
United States Generally Accepted Accounting Principles.

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

Products and services

ATG-Fresenius (anti T-lymphocyte globulin)
Protein which suppresses T-lymphocytes.

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

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

DiaSafe™
Filter to obtain ultra-pure dialysis solution during hemodialysis.

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

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

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

In-line filter blood bag system
Blood bag system with integrated filter for leukocyte filtration.

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

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

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

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

stay•safe®
Biocompatible, safe and environmentally-friendly peritoneal dialysis system using Biofine® as well as PIN and DISC technology

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Fresenius Medical Care

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  - Hemodiafiltration
  - Hemofiltration
- Low-flux dialyzers (Fresenius Polysulfone®)
- High-flux dialyzers (Fresenius Polysulfone®)
- FX-class dialyzers (Helixone®)
- Dialysis fluid filters
- Tubing systems
- Dialysis cannulae
- Dialysis concentrates (liquid, dry)
- Rinsing solutions
- Disinfectants
- Water treatment systems
- Analysis devices
- Data management systems

ACUTE DIALYSIS
- Machines for renal replacement therapy
- Hemofilter
- Hemofiltration solutions
- Dialysis fluid concentrates
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- Machines and tubing systems for Automated Peritoneal Dialysis (APD)
- Peritoneal dialysis solutions
- CAPD systems
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- Training (hemodialysis and peritoneal dialysis)
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- Data management
- Managed care services for dialysis patients

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- DALI®

Immunoadsorption:
- PROSORBA®
- Immunosorba

Fresenius Kabi

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- I.V. anti-infective drugs
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- Disinfectants
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CLINICAL NUTRITION
Parenteral nutrition
- Industrially compounded admixtures (2 and 3 chamber bags, all in one bags)
- Standard and special amino acid solutions
- Lipid emulsions
- Products for immunonutrition
- Additives
- Compounding systems including empty bags and calculation software for nutrition therapy
- Patient-individual concept for out-patient parenteral nutrition
- Scientific support and information
- Training and education
- Medical devices
  - Devices for parenteral nutrition and its application
  - Volumetric infusion pumps
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  - Standard diets
  - Disease-specific diets
  - Nutritional supplements
- Scientific support and information
- Training and education
- Management and provision of out-patient therapies

- Medical devices
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    - Transnasal tubes
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- Disposables and accessories

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- Cooling and transportation systems
- Automatic blood component processing systems
- Sealing devices
- Sterile docking devices
- Blood cell separators for
  - Hemapheresis
  - Therapeutic apheresis
- Stem cell bags
- Solutions

Fresenius ProServe

WITTGENSTEINER KLINIKEN

Operation and management of hospitals in Germany

VAMED

Worldwide projects and services for health facilities:

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

HOSPITALIA INTERNATIONAL

Worldwide services and consultancy on all aspects of the hospital, turn-key realization and modernization of health facilities:

- Feasibility studies
- Consulting
- Project development, management and control
- Planning
- Turnkey projects
- Complete medical and technical equipment for hospitals
- Installation
- Staff training
- Maintenance services

PHARMAPLAN

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

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

Others

BIOTECHNOLOGY

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

Financial calendar

Report on 1st quarter 2005 Conference call	May 4, 2005
Annual General Meeting, Frankfurt am Main (Germany)	May 25, 2005
Payment of dividend*	May 26, 2005
Report on 1st half 2005 Analysts' meeting, Bad Homburg v.d.H. Live webcast	August 4, 2005
Report on 1st-3rd quarters 2005 Analysts' meeting, Bad Homburg v.d.H. Live webcast Press conference, Bad Homburg v.d.H. Live webcast	November 3, 2005

* subject to the prior approval by the Annual General Meeting

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The German version of this annual report is legally binding.

The financial statements of Fresenius AG may be obtained upon request.

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

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

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