http://www.oblible.com

$860,000,000

FRESENIUS

Fresenius US Finance II, Inc.

$500,000,000 9% Senior Dollar Notes due 2015

€275,000,000 8¾% Senior Euro Notes due 2015

guaranteed on a senior basis by Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH

Fresenius US Finance II, Inc. (the "Issuer"), is offering US$500,000,000 aggregate principal amount of its 9% senior notes due 2015 (the "Dollar Notes") and €275,000,000 aggregate principal amount of its 8¾% senior notes due 2015 (the "Euro Notes" and together with the Dollar Notes, the "Notes"). The Issuer will pay interest on the Notes semi-annually on January 15 and July 15 of each year, commencing July 15, 2009. The Notes will mature on July 15, 2015.

The Notes will be the senior unsecured obligations of the Issuer and will rank equally with all of its existing and future senior unsecured indebtedness. The Notes will be guaranteed on a senior unsecured basis (the "Guarantees") by Fresenius SE (the "Parent Guarantor") and Fresenius Kabi AG and Fresenius ProServe GmbH (together, the "Subsidiary Guarantors" and, together with the Parent Guarantor, the "Guarantors"). Other subsidiaries of the Parent Guarantor will not guarantee the Notes. The Notes and the Guarantees will be effectively subordinated to all secured indebtedness of the Issuer and the Guarantors to the extent of the value of the collateral securing such indebtedness and structurally subordinated to all liabilities of the Parent Guarantor's subsidiaries that are not guaranteeing the Notes.

The Notes are subject to the redemption provisions as set out elsewhere in this offering memorandum.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF market and the Dollar Notes are expected to be eligible for trading in the PORTAL℠ Market.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 19.

Dollar Notes Issue Price: 93.076% plus accrued interest from the issue date.

Euro Notes Issue Price: 93.024% plus accrued interest from the issue date.

Delivery of the Dollar Notes in book-entry form will be made through The Depository Trust Company and the Euro Notes in book-entry form will be made through Euroclear and Clearstream, in each case, on or about January 21, 2009.

The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"). The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the U.S. Securities Act ("Rule 144A") and to certain persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act ("Regulation S"). You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. See "Notice to Investors" for additional information about eligible offerees and transfer restrictions.

Global Coordinator
Joint Lead Manager and Bookrunner

Deutsche Bank

Joint Lead Managers and Bookrunners

J.P.Morgan **Credit Suisse** **BNP PARIBAS**

Joint Lead Managers

Barclays Capital **UniCredit (HVB)**

Co-Lead Managers

Scotia Capital **Landesbank Baden-Württemberg** **WestLB**

Banc of America Securities LLC	**RZB**	**Daiwa Securities SMBC Europe Limited**	**The Royal Bank of Scotland**	**DZ BANK AG**
BayernLB	**Landesbank Hessen-Thüringen Girozentrale**	**Société Générale SA**	**CALYON**	**Commerzbank Corporates & Markets**

The date of this offering memorandum is January 15, 2009

http://www.oblible.com

Fresenius Medical Care





- Dialysis products
- Dialysis care
- Extracorporeal therapies





FRESENIUS KABI

- Infusion therapy
- Clinical nutrition
- Transfusion technology

FRESENIUS HELIOS





- Hospital operation





FRESENIUS VAMED

- Engineering and services for hospitals and other health care facilities

TABLE OF CONTENTS

	Page
Summary	1
Risk Factors	19
The Acquisition of APP Pharmaceuticals	35
Use of Proceeds	38
Capitalization	39
Unaudited Pro Forma Financial Information of Fresenius Group, Including APP Pharmaceuticals	41
Selected Financial Data	49
Management's Discussion and Analysis of Financial Condition and Results of Operations	56
Business	92
Management	141
Certain Relationships and Related-Party Transactions	157
Group Structure	161
Description of Other Financing Arrangements	166
Description of the Notes	173
Taxation Considerations	218
Plan of Distribution	223
Notice to Investors	227
Service of Process and Enforceability of Civil Liabilities	231
Legal Matters	232
Where You Can Find Other Information	232
Independent Auditors	232
Listing and General Information	233
Glossary	235
Index to Financial Statements	F-1

You should rely only on the information contained in this document. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these Notes. The information in this document may only be accurate on the date of this document. Our business, financial condition, results of operations and prospects and those of our subsidiaries may have changed since then.

IN CONNECTION WITH THIS OFFERING, J.P. MORGAN SECURITIES, INC. (THE "DOLLAR NOTE STABILIZING MANAGER"), DEUTSCHE BANK AG, LONDON BRANCH (THE "EURO-NOTE STABILIZING MANAGER" AND, TOGETHER WITH THE DOLLAR NOTE STABILIZING MANAGER, THE "STABILIZING MANAGERS") AND ANY PERSON ACTING FOR THEM MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE DOLLAR NOTES, IN THE CASE OF THE DOLLAR NOTES STABILIZING MANAGER, OR THE EURO NOTES, IN THE CASE OF THE EURO NOTE STABILIZING MANAGER, IN EACH CASE AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON SUCH STABILIZING MANAGER OR ANY AGENT FOR IT TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILIZATION SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date hereof. The business, financial condition, results of operations and prospects of Fresenius US Finance II, Inc. (the "Issuer", and together with Fresenius SE and its other subsidiaries, the "Fresenius Group" or the "Group") or the Group may have changed since that date. In this offering memorandum, unless otherwise indicated or the context so requires:

- *"Fresenius SE" (until July 13, 2007, known as Fresenius AG) refers to Fresenius SE only and not to any of its subsidiaries;*
- *"we", "us", "our", the "Fresenius Group", the "Group" and "Fresenius" refer to Fresenius SE and its subsidiaries on a consolidated basis;*

- *"APP Pharmaceuticals" refers to APP Pharmaceuticals, Inc., and its subsidiaries on a consolidated basis;*
- *"APP Pharmaceuticals, Inc." refers to APP Pharmaceuticals, Inc., only and not to any of its subsidiaries;*
- *"FK Holdings" refers to Fresenius Kabi Pharmaceuticals Holdings, Inc., only;*
- *"FMCH" refers to Fresenius Medical Care Holdings, Inc., only;*
- *"Fresenius Finance I S.A." refers to Fresenius Finance I S.A., only;*
- *"Fresenius Helios" or "HELIOS" refers to HELIOS Kliniken GmbH and its subsidiaries;*
- *"Fresenius Kabi" refers to Fresenius Kabi AG and its subsidiaries on a consolidated basis;*
- *"Fresenius Kabi AG" refers to Fresenius Kabi AG and not to any of its subsidiaries;*
- *"Fresenius Kabi Finance I S.A." refers to Fresenius Kabi Finance I S.A., only;*
- *"Fresenius Kabi Pharmaceuticals, LLC" refers to Fresenius Kabi Pharmaceuticals, LLC, only;*
- *"Fresenius Medical Care" refers to Fresenius Medical Care AG & Co. KGaA and its subsidiaries on a consolidated basis;*
- *"Fresenius Medical Care AG & Co. KGaA" refers to Fresenius Medical Care AG & Co. KGaA only and not to any of its subsidiaries; as the context may require, "Fresenius Medical Care AG & Co. KGaA" also refers to Fresenius Medical Care AG, a stock corporation (Aktiengesellschaft) that was the business form of Fresenius Medical Care AG & Co. KGaA from its formation until its transformation into a partnership limited by shares under German law in February 2006.*
- *"Fresenius ProServe" refers to Fresenius ProServe GmbH and its subsidiaries on a consolidated basis;*
- *"Fresenius ProServe GmbH" refers to Fresenius ProServe GmbH and not to any of its subsidiaries;*
- *"Fresenius US Finance I, Inc." refers to Fresenius US Finance I, Inc., only;*
- *"Fresenius Vamed" and "VAMED" refers to VAMED AG and its subsidiaries; and*
- *"RCG" refers to Renal Care Group, Inc., only.*

NOTICE TO INVESTORS

We have prepared this offering memorandum solely for use in connection with the proposed offering of the Notes. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. Distribution of this offering memorandum to any person other than the offeree and any person retained to advise such offeree with respect to its purchase is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited.

By accepting delivery of this offering memorandum, you agree to the foregoing restrictions and to make no photocopies of this offering memorandum or any documents referred to herein.

The initial purchasers, the Trustee, the Principal Paying Agent, the Luxembourg Paying Agent and the Luxembourg Listing Agent (such agents collectively, the "Agents") make no representation or warranty, express or implied, as to the accuracy or completeness of the information set forth in this offering memorandum. The initial purchasers, the Trustee and the Agents assume no responsibility for its accuracy or completeness. Nothing contained in this offering memorandum is or should be relied upon as a promise or representation by the initial purchasers, the Trustee and the Agents as to the past or the future.

Except as provided below, we accept responsibility for the information contained in this offering memorandum. To the best of our knowledge and belief, the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. We additionally confirm, except as provided below, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which would make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. However, the information contained under the headings "Summary", "Exchange Rates" and "Business" includes extracts from information and data publicly released by official and other sources. Although we accept responsibility for the accurate extraction and summarization of such information and data, we accept no further responsibility in respect of such information. In addition, the information set out in relation to sections of this offering memorandum describing clearing arrangements, including the section entitled "Description of the Notes — General — Global Clearance and Settlement Under the Book-Entry System", is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), Clearstream Banking *Société Anonyme* ("Clearstream") or The Depository Trust Company ("DTC") currently in effect. While we accept responsibility for accurately summarizing the information concerning Euroclear, Clearstream and DTC, we accept no further responsibility in respect of such information. In addition, this offering memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of these documents will be made available to prospective investors upon request to us or the initial purchasers.

We will provide you with a copy of this offering memorandum and any related amendments or supplements. By purchasing the Notes, you will be deemed to have acknowledged that you have reviewed this offering memorandum and have had an opportunity to request, and have received, all additional information that you need from us. You further acknowledge that the initial purchasers are not responsible for, and are not making any representation to you concerning, our future performance or the accuracy or completeness of this offering memorandum.

Neither we nor the initial purchasers nor any of our or their respective representatives are making any representation to you regarding the legality of an investment in the Notes, and you should not construe anything in this offering memorandum as legal, business, tax or other advice. You should consult your own advisors as to the legal, tax, business, financial and related aspects of an investment in the Notes. Laws in certain jurisdictions may restrict the distribution of this offering memorandum and the offer and sale of the Notes. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes or possess or distribute this offering memorandum, and you must obtain all applicable consents and approvals; neither we nor the initial purchasers shall have any responsibility for any of the foregoing legal requirements. See "Notice to Investors".

Neither the Notes nor the Guarantees have been registered under the U.S. Securities Act or the securities laws of any state of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act ("Regulation S")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. We have not registered, and do not intend to register, the Notes or the Guarantees under the U.S. Securities Act. Notwithstanding anything in this offering memorandum to the contrary, you (and each of your employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the U.S. federal tax treatment and U.S. tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such U.S. federal tax treatment and U.S. tax structure. However, any such disclosure of the U.S. federal tax treatment or U.S. tax structure may be subject to restrictions reasonably necessary to comply with any applicable securities laws.

The Notes are being offered and sold outside the United States in reliance on Regulation S and within the United States to "qualified institutional buyers" in reliance on Rule 144A under the U.S. Securities Act ("Rule 144A"). Prospective purchasers are hereby notified that the sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of these and certain other restrictions on offers, sales and transfers of the Notes and the distribution of this offering memorandum, see "Notice to New Hampshire Residents", "Notice to Investors in the European

Economic Area", "Notice to Investors in the United Kingdom", "Notice to Certain Other European Investors" and "Notice to Investors". By purchasing any Notes, you will be deemed to have represented and agreed to all of the provisions contained in those sections of this offering memorandum. You may be required to bear the financial risks of this investment for an indefinite period of time.

Pursuant to Section 4(3) of the U.S. Securities Act, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a broker/dealer (whether or not it is participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A. During this 40-day period, none of Clearstream, Euroclear or DTC will monitor compliance by a broker/dealer with Section 4(3) of the U.S. Securities Act.

Neither the U.S. Securities and Exchange Commission, any state securities commission nor any non-U.S. securities authority has approved or disapproved of these securities or determined that this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offence.

You may not use any information herein for any purpose other than considering an investment in the Notes.

We reserve the right to withdraw this offering of the Notes at any time. We and the initial purchasers also reserve the right to reject any offer to purchase the Notes in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full amount of the Notes sought by it.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a "relevant member state"), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that member state (the "Relevant Implementation Date"), it has not made and will not make an offer of the Notes to the public in that relevant member state prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that relevant member state in accordance with the Prospectus Directive or, where appropriate, published in another relevant member state and notified to the competent authority in that relevant member state in accordance with Article 18 of the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the Notes to the public in that relevant member state at any time:

(a) to legal entities that are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity that has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43 million; and (iii) an annual turnover of more than €50 million as shown in its last annual and/or consolidated accounts; or

(c) in any other circumstances that do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive other than in reliance of Article 3(2)(b).

For the purposes of this provision, the expression an "offer of the Notes to the public" in relation to any of the Notes in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offering and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

Each subscriber for or purchaser of the Notes in the offering located within a member state of the European Economic Area will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive. The Issuer, each initial purchaser and their affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Joint Lead Managers and Bookrunners of such fact in writing may, with the consent of the Joint Lead Managers and Bookrunners, be permitted to subscribe for or purchase the Notes in the offering.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This offering memorandum is for distribution only to, and is only directed at, persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, (the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Financial Promotion Order or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The Notes are being offered solely to "qualified investors" as defined in the Prospectus Directive and accordingly the offer of Notes is not subject to the obligation to publish a prospectus within the meaning of the Prospectus Directive.

NOTICE TO CERTAIN OTHER EUROPEAN INVESTORS

France

This offering memorandum has not been prepared in the context of a public offering in France within the meaning of Article L.411-1 of the Code monétaire et financier and Title I of Book II of the Réglement Général of the Autorité des Marchés Financiers (the "AMF") and therefore has not been approved by, registered or filed with the AMF. Consequently, the Notes are not being offered, directly or indirectly, to the public in France and this offering memorandum has not been and will not be released, issued or distributed or caused to be released, issued or distributed to the public in France or used in connection with any offer for subscription or sale of the Notes to the public in France.

The Notes may only be offered or sold in the Republic of France to qualified investors (*investisseurs qualifies*) and/or to a limited group of investors (*cercle restraint d'investisseurs*) as defined in and in accordance with articles L.411-1 and L.411-2 of the French *Code Monétaire et Financier* and Decree no 98-880 dated October 1, 1998.

Prospective investors are informed that:

(i) this offering memorandum has not been submitted for clearance to the French Financial Market Authority (*Autorité des Marchés Financiers*);

(ii) in compliance with Decree no 98-880 dated October 1, 1998, any investors subscribing for the Notes should be acting for their own account; and

(iii) the direct and indirect distribution or sale to the public of the Notes acquired by them may only be made in compliance with articles L.411-1, L.411-2, L412-1 and L.621-8 of the French *Code Monétaire et Financier.*

Germany

The offering of the Notes is not a public offering in the Federal Republic of Germany. The Notes may be offered and sold in the Federal Republic of Germany only in accordance with the provisions of the Securities Prospectus Act of the Federal Republic of Germany (the "Securities Prospectus Act", *Wertpapierprospektgesetz WpPG*) and any other applicable German law. Consequently, in Germany the Notes will only be available to, and this offering memorandum and any other offering material in relation to the Notes is directed only at, persons who are qualified investors (*qualifizierte Anleger*) within the meaning of Section 2 No. 6 of the Securities Prospectus Act. Any resale of the Notes in Germany may only be made in accordance with the Securities Prospectus Act and other applicable laws.

Spain

The Notes may not be offered or sold in Spain except in accordance with the requirements of the Spanish Securities Market Law (*Ley 24/1988, de 28 de Julio del Mercado de Valores*) as amended and restated and Royal Decree 291/1992 on Issues and Public Offering of Securities (*Real Decreto 291/1992 de 27 de Marzo, sobre Emisiones y Ofertas Públics de Venta de Valores*) as amended and restated ("R.D. 291/92"), and subsequent legislation.

This offering memorandum is neither verified nor registered in the administrative registries of the *Comisión Nacional del Mercado de Valores*, and therefore a public offer for subscription of the Notes will not be carried out in Spain. Notwithstanding that and in accordance with Article 7 of R.D. 291/92, a private placement of the Notes addressed exclusively to institutional investors (as defined in Article 7.1(a) of R.D. 291/92) may be carried out in accordance with the requirements of R.D. 291/92.

Italy

The offering of the Notes has not been cleared by the *Commissione Nazionale per la Società e la Borsa* ("CONSOB") (the Italian Securities Exchange Commission), pursuant to Italian securities legislation and, accordingly, in the Republic of Italy the notes may not be offered, sold or delivered, not may copies of this offering memorandum or of any other document relating to the notes be distributed in the Republic of Italy, except:

(i) to qualified investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 115522 of July 1, 1998 ("Regulation 11522"), as amended; or

(ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998 (the "Financial Services Act") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of this offering memorandum or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of September, 1, 1993 (the "Banking Act"), the Financial Services Act, Regulation 11522 and any other applicable laws and regulations; and

(ii) in compliance with any and all other applicable laws and regulations.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "believes", "anticipates", "estimates", "intends", "expects", "predicts", "plans", "seeks", "projects", "could" or "will" and similar formulations. These statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this offering memorandum. Key factors that have a direct bearing on our results of operations include, but are not limited to, those factors indicated in this offering memorandum under the caption "Risk Factors".

Because the risk factors referred to in this offering memorandum could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this offering memorandum by us or on our behalf, you should not place undue reliance on any forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors will emerge in the future that could cause our actual development, results of operations or performance to be materially different from what may be expressly or implicitly assumed in forward-looking statements. It is not possible for us to predict what these new factors will be.

DEFINITIONS

"2008 Senior Credit Agreement"	The credit agreement, dated as of August 20, 2008, as amended from time to time, among Fresenius US Finance I, Inc., APP Pharmaceuticals, LLC, and Fresenius Finance I S.A., as borrowers; Fresenius SE, Fresenius ProServe GmbH, Fresenius Kabi AG, APP Pharmaceuticals, Inc., Fresenius US Finance I, Inc., and Fresenius Finance I S.A. as guarantors; Deutsche Bank AG, London Branch, Credit Suisse, London Branch and J.P. Morgan plc as arrangers; Deutsche Bank AG, London Branch, Credit Suisse, London Branch and JP Morgan Chase Bank N.A., and the other lenders from time to time party thereto, as lenders; and Deutsche Bank AG, London Branch as administrative agent and as collateral agent
"2008 Senior Credit Facilities"	The 2008 Senior Term Facilities and the 2008 Senior Revolving Credit Facilities
"2008 Senior Revolving Credit Facilities"	The revolving credit facilities made available under the 2008 Senior Credit Agreement, including a five-year revolving credit facility made available to APP Pharmaceuticals, LLC and a five-year multicurrency revolving credit facility made available to Fresenius Finance I S.A. The five-year multicurrency revolving credit facility may be increased upon or after the satisfaction or waiver of certain conditions. See "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — 2008 Senior Credit Facilities"
"2008 Senior Term Facilities"	The term loan facilities made available under the 2008 Senior Credit Facilities Agreement, including five-year amortizing Tranche A1 term loans made available to Fresenius US Finance I, Inc.; five-year amortizing Tranche A2 term loans made available to APP Pharmaceuticals, LLC; six-year amortizing Tranche B1 term

http://www.oblible.com

	loans made available to Fresenius US Finance I, Inc.; and six-year amortizing Tranche B2 term loans made available to APP Pharmaceuticals, LLC
"Bridge Credit Agreement"	The bridge credit agreement, dated as of August 20, 2008, as amended from time to time, among Fresenius SE as a guarantor; Fresenius US Finance II, Inc., as borrower; the other Guarantors as guarantors; Deutsche Bank AG, London Branch, Credit Suisse, London Branch and J.P. Morgan plc as arrangers; Deutsche Bank AG, London Branch, Credit Suisse, London Branch and JP Morgan Chase Bank, N.A., and the other lenders from time to time party thereto as lenders; and Deutsche Bank AG, London Branch, as administrative agent
"Bridge Facility"	The credit facility under the Bridge Credit Agreement
"CVRs"	163,251,906 contingent value rights issued by FK Holdings to the former shareholders of APP Pharmaceuticals, Inc., in connection with the acquisition of APP Pharmaceuticals and pursuant to the contingent value rights agreement, dated September 10, 2008, by and between FK Holdings and The Bank of New York Mellon
"Dollar Notes"	The Issuer's US$500 million aggregate principal amount of 9% senior notes due 2015 offered hereby
"euro" or "€"	Euro, the currency of the European Union member states participating in the European Monetary Union
"Euro MTF"	Euro MTF market segment of the Luxembourg Stock Exchange
"Euro Notes"	The Issuer's €275 million aggregate principal amount of 8¾% senior notes due 2015 offered hereby
"Existing Notes"	Our €100 million aggregate principal amount of 7½% series B senior notes due 2009, €500 million aggregate principal amount of 5.00% senior notes due 2013 and €500 million aggregate principal amount of 5.50% senior notes due 2016, each issued by Fresenius Finance B.V.
"German GAAP"	Accounting principles generally accepted in Germany and according to the HGB (*Handelsgesetzbuch*)
"Guarantors"	The Parent Guarantor and the Subsidiary Guarantors
"IFRS"	International Financial Reporting Standards of the International Accounting Standards Board
"Indenture"	The Indenture, to be dated as of January 21, 2009, among the Issuer, the Guarantors and The Bank of New York Mellon, as Trustee, governing the Notes
"Issuer"	Fresenius US Finance II, Inc.
"Kabi Intercompany Loans"	The intercompany loans under which the Issuer will on-lend a portion of the proceeds of the Notes to FK Holdings
"Mandatory Exchangeable Bonds"	€554.4 million aggregate principal amount of 5.625% mandatory exchangeable bonds due 2011 issued by Fresenius Finance (Jersey) Ltd. in August 2008, which are mandatorily exchangeable into

	ordinary shares of Fresenius Medical Care AG & Co. KGaA and may not be repaid in cash
"Net Debt of APP Pharmaceuticals"	Total debt of APP Pharmaceuticals at the closing of the acquisition of APP Pharmaceuticals minus cash and cash equivalents
"Notes"	The Dollar Notes and the Euro Notes
"Parent Guarantor"	Fresenius SE
"Societas Europaea (SE)"	The SE is the legal form of a European stock corporation. The supranational legal entity is based on the European Community law. Subject to the European regulations, the SE is treated in all member states of the European Union as a stock corporation according to the national law of the member state in which the SE is incorporated.
"Subsidiary Guarantors"	Fresenius Kabi AG and Fresenius ProServe GmbH
"U.S. dollar," "US$" or "$"	U.S. dollar, the currency of the United States of America
"US GAAP"	Accounting principles generally accepted in the United States of America

Under the caption "Glossary" we have included the definitions of certain technical terms used in this offering memorandum.

INDUSTRY INFORMATION

This offering memorandum contains or refers to numerical data, market data, analyst reports and other publicly available information about our industry, or our estimates based largely on published market data or on numerical data derived from publicly accessible sources. We believe that the estimates based on information that is not available from publicly accessible sources are accurate and impartial. We have accurately reproduced and indicated the respective source of the information in this offering memorandum from publicly accessible sources or otherwise acquired from third parties. To the best of our knowledge, and to the extent that we could determine from the public sources or information otherwise obtained from third parties, no facts have been omitted that would render the statements in this offering memorandum false or misleading. You should bear in mind that market studies are based on information and assumptions that may not be accurate or factually correct, and may be forward-looking or speculative in nature.

You should bear in mind that the Issuer and the initial purchases have not verified and assume no liability for the numerical data, market data and other information from public sources.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, our financial information in this offering memorandum complies with US GAAP applicable at the relevant date (i.e., the reporting date of the respective annual or interim financial statements).

"EBIT" refers to earnings before interest and income taxes.

In this offering memorandum, we present EBITDA. "EBITDA" refers to earnings before interest, income taxes, depreciation and amortization and minority interests. EBITDA for APP Pharmaceuticals does not include effects from discontinuing operations. We do not present EBITDA as a measure of our operating results. Our management believes that the presentation of EBITDA is helpful to investors as a measure of our ability to service debt. However, you should not construe EBITDA as an alternative to net income determined in accordance with US GAAP or cash flows from operations, investing activities or financing activities as a measure of cash flows. It should be noted that the definition of EBITDA described above differs from the definition of EBITDA in certain provisions of the Indenture.

We show EBITDA for each of our business segments before giving effect to the segment Corporate/Other, to which certain revenues and costs are allocated. For this reason, the EBITDA contributions of each of our business segments when added together may add up to more than 100% of our total EBITDA.

In terms of the pro forma adjustments described under "Unaudited Pro Forma Financial Information of Fresenius Group, Including APP Pharmaceuticals" on the EBITDA of our business segments, these adjustments affect only the EBITDA of Fresenius Kabi and did not affect the EBITDA of any of our other business segments.

Certain numerical data, financial information and market data in this offering memorandum are subject to rounding adjustments that were carried out according to customary commercial standards. As a result, the aggregate amounts herein may not correspond in all cases to the data contained in the underlying sources.

EXCHANGE RATES

The table below shows for the period from January 1, 2003 through January 8, 2009, the period end, average, high, and low noon buying rates in The City of New York for cable transfers of euro as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") expressed as dollars per €1.00. These rates may differ from actual rates used in the preparation of the consolidated financial statements and other financial information appearing in this offering memorandum. We make no representation that the euro or U.S. dollar amounts referred to in this offering memorandum have been, could have been or could, in the future, be converted into U.S. dollars or euro, as the case may be, at any particular rate, if at all. On January 8, 2009, the Noon Buying Rate for cable transfers between the euro and U.S. dollars as certified for customs purposes by the Federal Reserve Bank of New York was US$1.36.

Year	Period end	Average[(1)]	High	Low
2003	1.26	1.14	1.26	1.04
2004	1.35	1.25	1.36	1.20
2005	1.18	1.24	1.35	1.17
2006	1.32	1.26	1.32	1.19
2007	1.46	1.38	1.47	1.30
2008	1.39	1.47	1.60	1.25
Month				
January 2009 (through January 8)	1.36	1.36	1.39	1.33

(1) With respect to each year, the average of the Noon Buying Rates on the last day of each month during such year. With respect to the period from January 1 through January 8, 2009, the average of the daily Noon Buying Rates for each business day during such period.

In preparing our consolidated financial statements and in converting certain U.S. dollar amounts in this offering memorandum, we have used the following exchange rates, expressed as U.S. dollars per €1.00, from the website of the Deutsche Bundesbank, which are based on the euro foreign exchange rates of the European Central Bank:

	January 1 to December 31,			January 1 to September 30,
	2005	2006	2007	2008
Period-end	1.1797	1.3170	1.4721	1.4303
Period average as of	1.2442	1.2558	1.3705	1.5219

We have also converted certain U.S. dollar amounts in this offering memorandum at the rates set forth in the table above for the relevant period-end or period to which the amount being converted relates. In addition, we have also converted certain U.S. dollar amounts in this offering memorandum for transactions occurring subsequent to September 30, 2008 at the exchange rate of US$1.4303:€1, the exchange rate prevailing on September 30, 2008.

SUMMARY

Overview

The financial information set forth below includes pro forma financial information derived from the unaudited pro forma financial information included in this offering memorandum, which gives effect to our acquisition of APP Pharmaceuticals on September 10, 2008 and certain financing transactions in connection therewith. In the discussion below, we use the term "on a pro forma basis" to refer to this pro forma financial information, which includes the financial results of APP Pharmaceuticals. For information regarding the preparation of the pro forma financial information, see "Unaudited Pro Forma Financial Information of Fresenius Group, Including APP Pharmaceuticals". For information about the financing transactions, see "— Financing of the Acquisition of APP Pharmaceuticals".

We are an international healthcare group with products and services for dialysis, hospitals and out-patient care. In addition, we focus on hospital operations and offer engineering and services for hospitals and other healthcare facilities. We are active in over 100 countries and have an international marketing and production network of more than 70 production sites worldwide. We currently have four business segments: Fresenius Medical Care, Fresenius Kabi, Fresenius Helios and Fresenius Vamed. For the 12-month period ended September 30, 2008, we generated sales of €12,169 million and EBITDA of €2,249 million on a pro forma basis.

Fresenius Medical Care. Fresenius Medical Care operates both in the field of dialysis products and dialysis services. Based on publicly reported sales and number of patients, Fresenius Medical Care is the world's largest provider of dialysis products and dialysis services for patients with chronic kidney failure. Fresenius Medical Care's dialysis business is vertically integrated, providing therapy services at its own dialysis clinics and supplying these clinics with a full range of products. In addition, Fresenius Medical Care sells dialysis products to other dialysis service providers. For the twelve-month period ended September 30, 2008, Fresenius Medical Care generated approximately 66% of its sales in North America, approximately 24% in Europe and approximately 10% throughout the rest of the world. Fresenius Medical Care sells its products in over 100 countries. Fresenius Medical Care had 181,937 patients (183,753 patients including those at 32 clinics in the US managed but not consolidated) under treatment at 2,349 dialysis clinics in more than 25 countries at September 30, 2008 and provided 27.5 million treatments in the 12-month period ended September 30, 2008. Fresenius Medical Care's sales and EBITDA for the 12-month period ended September 30, 2008 were US$10,459 million (€6,957 million) and US$2,078 million (€1,383 million), respectively, and represented approximately 57% of our group's pro forma sales and 61% of our group's pro forma EBITDA, respectively.

Fresenius Kabi. Fresenius Kabi is focused on the therapy and care of chronically and critically ill patients in hospitals and in the out-patient setting. Fresenius Kabi has three product businesses: infusion therapy, clinical nutrition and transfusion technology. In infusion therapy, we provide infusion solutions, blood volume replacement products and generic injectables. In clinical nutrition, we supply parenteral (i.e., intravenously administered) and enteral (i.e., using the gastro-intestinal tract) nutrition. In transfusion technology, we offer a range of products used to produce blood products. To administer infusion therapy and clinical nutrition products, we offer a wide range of infusion technologies, nutrition pumps and disposables. On a pro forma basis, Fresenius Kabi generated approximately 55% of its sales in Europe, approximately 23% in North America, approximately 13% in Asia-Pacific, approximately 6% in Latin America and approximately 3% in Africa for the 12-month period ended September 30, 2008. Fresenius Kabi's sales and EBITDA for the 12-month period ended September 30, 2008 were €2,715 million and €625 million, respectively, and represented approximately 22% of our group's pro forma sales and 28% of our group's pro forma EBITDA, respectively.

On September 10, 2008, we completed our acquisition of APP Pharmaceuticals, the second largest manufacturer of intravenously administered generic drugs in the United States. Through the acquisition of APP Pharmaceuticals, Fresenius Kabi has entered the U.S. pharmaceuticals market and achieved a leading position in the global market for intravenously administered generic drugs. APP Pharmaceuticals' products are sold mainly to hospitals and include anti-infectives, products for critical care, anesthetics/analgesics and oncology products. As a generic drug manufacturer, APP Pharmaceuticals' investment focus is mainly on maintaining its

specialized manufacturing platform and expanding its established marketing and distribution network. For the 12-month period ended September 30, 2008, APP Pharmaceuticals reported net revenue of US$738 million (€491 million) and EBITDA of US$272 million (€181 million). APP Pharmaceuticals represented 18% of Fresenius Kabi's sales, 4% of our group's sales, approximately 29% of Fresenius Kabi's EBITDA and approximately 8% of our group's EBITDA for the 12-month period ended September 30, 2008, in each case on a pro forma basis.

Fresenius Helios. Fresenius Helios is one of the three largest private hospital operators in Germany. Fresenius Helios currently owns and operates 57 hospitals almost exclusively in Germany, including five maximum care hospitals in the German cities of Berlin-Buch, Erfurt, Krefeld, Schwerin and Wuppertal, and post acute care clinics. Fresenius Helios provides expertise in all areas (except transplantation medicine) and at all levels of clinical care. Fresenius Helios currently treats approximately 550,000 in-patients per year at its hospitals and has a total of approximately 17,300 beds. Fresenius Helios' sales and EBITDA for the 12-month period ended September 30, 2008 were €2,061 million and €254 million, respectively, and represented approximately 17% of our group's pro forma sales and 11% of our group's pro forma EBITDA, respectively.

Fresenius Vamed. Fresenius Vamed is a market leader in the development, planning, construction and technical management of healthcare facilities worldwide, as well as in the general management of healthcare facilities in selected markets. VAMED celebrated its 25th anniversary in 2007, having successfully completed more than 450 health projects in approximately 50 countries, including hospitals, university clinics, health and rehabilitation centers, thermal spa and medical wellness resorts, laboratories and research facilities and other healthcare facilities in Europe, Africa, the Middle East, Asia and Latin America. Fresenius Vamed is also a pioneer in public-private partnership ("PPP") models for the healthcare sector and has developed and implemented seven PPP models in Central Europe. Fresenius Vamed's sales and EBITDA for the twelve-month period ended September 30, 2008 were €464 million and €33 million, respectively, and represented approximately 4% of our group's pro forma sales and 1% of our group's pro forma EBITDA, respectively.

Strengths

Our business benefits from a number of strengths, including:

Leading market positions. We are among the market leaders in each of the key markets in which our business segments operate. Based on publicly reported sales and number of patients treated, Fresenius Medical Care is the world's largest provider of dialysis products and dialysis care for patients with chronic kidney failure. We believe Fresenius Kabi is the market leader in Europe in clinical nutrition and infusion therapy and has strong market positions in the growth regions of Asia-Pacific, Latin America and South Africa. With the acquisition of APP Pharmaceuticals, Fresenius Kabi has become one of North America's largest hospital-based generic injectable pharmaceutical companies. APP Pharmaceuticals has a top three market share position in over 80% of its products. Fresenius Helios is one of the three largest private hospital operators in Germany. Fresenius Vamed is a market leader in development, planning, construction and technical management of healthcare facilities worldwide, as well as in general management of healthcare facilities in selected key markets. We believe our leading positions and the scale and spread of our operations provide us with negotiating power with suppliers and with a cost-competitive advantage compared to smaller competitors.

Globally diversified presence in growing non-cyclical markets. Our markets are fundamentally stable and relatively independent of economic cycles due to the intrinsic importance of the life-saving and life-sustaining products and treatments that we provide. These markets are also expanding due to demographic trends, the growing demand for innovative therapies in industrialized countries and the increasing availability of high-quality healthcare in developing and newly industrializing countries. We are one of the few globally active companies in our business areas and have subsidiaries in over 60 countries, providing us with the local presence needed to respond to differing national healthcare systems. Fresenius Medical Care sells its dialysis products to its own clinics as well as to external dialysis providers. Both Fresenius Medical Care and Fresenius Kabi sell their products to hospitals and other purchasers in over 100 countries. We operate a marketing and production network of more than 70 production sites worldwide. Our key production facilities are in the

United States, Germany, Sweden, China, Japan and India. We also have production facilities in other European and Asia-Pacific countries, Latin America and South Africa.

Comprehensive product range. With a comprehensive product portfolio, we believe we are one of a few companies able to meet our customers' needs for a broad range of therapies. Fresenius Medical Care offers a comprehensive range of products for both hemodialysis (i.e. the removal of impurities and waste products from the bloodstream through a dialyzer before returning the blood to the patient's body) and peritoneal dialysis (i.e., the removal of toxins from the blood using the peritoneum). Fresenius Kabi is one of the few healthcare companies that offers a complete range of both enteral and parenteral nutrition therapies. Fresenius Kabi also offers a broad range of fluid and blood volume substitution products and a comprehensive portfolio of intravenously administered generic drugs. With the acquisition of APP Pharmaceuticals, Fresenius Kabi has expanded its existing product range with a portfolio of more than 100 products in more than 400 doses and formulations, comprising drugs for intensive care, anesthesia, analgesia and oncology, as well as drugs for the treatment of infections. APP Pharmaceuticals has a strong drug registration pipeline covering all of its product segments.

Integrated businesses. Within the framework of our vertically integrated business model, our business segments each operate at various stages of the value chain. Fresenius Medical Care provides its customers and patients with products and services for dialysis. By combining the development and manufacture of dialysis products with dialysis services for patients, Fresenius Medical Care gains valuable medical insights that it uses to improve both treatments and product quality. Fresenius Kabi also pursues an integrated product strategy in the areas of infusion therapy and clinical nutrition. In addition to infusion solutions, intravenously administered drugs and clinical nutrition, Fresenius Kabi also offers the corresponding application systems for the administration of these products to patients. The recent acquisitions of Ribbon S.r.L. and Dabur Pharma Ltd. strengthen Fresenius Kabi's position as a vertically integrated supplier of generic intravenous drugs, securing its supply of active pharmaceutical ingredients ("API") for the manufacture of antibiotics and oncology drugs.

Strong and stable cash flow and proven deleveraging track record. Our business has strong, recurring cash flow streams generated by sales of life-saving and life-sustaining products and services. Our cash flows from operating activities in the year ended December 31, 2007 amounted to €1,296 million, up from €1,052 million in 2006 and €780 million in 2005. As a result of our strong cash flow generation and EBITDA growth, we were able to reduce our net debt to EBITDA ratio from 3.3:1.0 on June 30, 2006, following the acquisition of Renal Care Group, Inc. ("RCG"), to 2.7:1.0 on June 30, 2008.

Experienced management team. Led by our Chairman, Dr. Ulf M. Schneider, we have one of the most experienced management teams in the industry with a proven track record for organic growth and acquiring and successfully integrating new businesses, including the €1.5 billion acquisition of HELIOS Kliniken GmbH in 2005 and the US$4.2 billion acquisition of RCG in 2006. Fresenius Medical Care's executive management boasts a combined experience in the dialysis sector of more than 150 years. Fresenius Kabi's executive management has about 150 years of combined experience in healthcare. Fresenius Helios' executive management has more than 60 years of combined experience in hospital management. Fresenius Vamed's executive management has 65 years of combined experience in providing services to the healthcare industry.

High barriers to entry. Most of our healthcare products and service businesses are characterized by high barriers to entry. High regulatory standards and quality requirements as well as the need for an international production and distribution network and established relationships with suppliers and customers make it difficult for companies to enter and be competitive in our markets. An existing platform of hospitals, in-depth experience and a proven track record are needed to participate successfully in the privatization of the German hospital market and to successfully manage the economic turnaround of acquired hospitals.

Strategy

The key elements of our business strategy are:

Improve leading market positions. Our goal is to maintain and enhance the long-term future of Fresenius as one of the leading international product and service providers in the healthcare sector.

Based on publicly reported sales and number of patients treated, Fresenius Medical Care is the world's largest dialysis company with, in particular, a strong market position in the United States. Fresenius Medical Care intends to exploit further growth opportunities through international expansion in dialysis care and in renal pharmaceuticals.

Based on our estimates, Fresenius Kabi is the leader in infusion therapy and clinical nutrition in Europe and in its most important countries in Latin America and Asia-Pacific. Fresenius Kabi plans to further strengthen its position by introducing additional products from its existing product range in these markets. In addition, the acquisition of APP Pharmaceuticals provides Fresenius Kabi with a platform to market its existing product range in North America while at the same time becoming one of the world's leading companies in the field of intravenously administered generic drugs. Over time, we intend to leverage and internationalize APP Pharmaceuticals' extensive generic intravenous drug portfolio.

Fresenius Helios ranks among the top three private hospital operators in Germany. Fresenius Helios intends to continue to build on this strong position to take advantage of the further growth opportunities offered by the continuing privatization process in the German hospital market.

Fresenius Vamed intends to further strengthen its position as a specialist provider of engineering and other services to hospitals and other healthcare facilities worldwide.

Expand worldwide presence. In addition to sustainable organic growth in those markets where we have an established presence, we intend to further expand into developing markets worldwide, particularly in Asia-Pacific and Latin America. We intend to leverage our brand name, product portfolio and network to focus on markets with attractive growth opportunities. We also intend to employ a selective acquisition strategy to strengthen our market position and to further diversify our business geographically. The acquisition of APP Pharmaceuticals is an important step in this strategy as it has allowed us to enter the U.S. generic injectables market and provides us with further growth opportunities.

Continue as an innovator in the development of products, technologies and therapies. We are committed to further expanding our technological know-how, increasing our expertise in patient treatment and maintaining cost-effective and reliable manufacturing processes. Fresenius Medical Care and Fresenius Kabi intend to leverage their research and development know-how to develop products and systems that are safer, easier to use and more adaptable to the differing needs of patients. By offering more effective products and treatment methods, we intend to continue meeting our own standards for developing and manufacturing prime-quality medical products for the treatment of severely ill patients. Fresenius Helios aims to expand its market position by providing state-of-the-art medicine. Fresenius Vamed, with its ability to meet distinct and constantly changing requirements of different international healthcare markets, is well positioned to keep and secure its position as a market leader. APP Pharmaceuticals has over 25 abbreviated new drug applications ("ANDAs") pending with the U.S. Food and Drug Administration and over 70 product candidates under various stages of development.

Improve profitability and cash flow generation. Our goal is to further increase our profitability. We intend to focus on increasing the efficiency of our manufacturing facilities, on benefiting from economies of scale, on strengthening the use of our sales organizations and on continuously controlling our costs. Furthermore, we intend to enhance our operating cash flows and our balance sheet ratios through the efficient management of our working capital. Through our commitment to improving our operating performance, we intend to continue to increase our EBITDA and cash flow generation and reduce our debt in order to decrease our leverage.

Financing of the Acquisition of APP Pharmaceuticals

On September 10, 2008, Fresenius completed its acquisition of APP Pharmaceuticals. The cash purchase price for APP Pharmaceuticals was US$3,730 million. In addition, each holder of APP Pharmaceuticals common stock received one contingent value right ("CVR") issued by FK Holdings, with a total of 163,251,906 CVRs having been issued at the completion of the acquisition. For a description of the CVRs see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Contingent Value Rights of FK Holdings". At closing, APP Pharmaceuticals also had US$895 million of net debt.

We funded the acquisition of APP Pharmaceuticals with:

- US$871 million (€554 million) raised from the sale by Fresenius SE of 5.625% mandatory exchangeable bonds due 2011 of Fresenius Finance (Jersey) Ltd. in August 2008 (the "Mandatory Exchangeable Bond Offering"). The bonds are mandatorily exchangeable into ordinary shares of Fresenius Medical Care AG & Co. KGaA and may not be repaid in cash;
- US$453 million (€289 million) raised through the issue and sale of 2,748,057 ordinary shares and 2,748,057 preference shares of Fresenius SE in August 2008 (the "Equity Offering");
- US$2,250 million drawn down under the 2008 Senior Credit Facilities; and
- US$1,300 million drawn down under the Bridge Facility.

The Mandatory Exchangeable Bond Offering, the Equity Offering, the entry into the 2008 Senior Credit Agreement and borrowings under the 2008 Senior Credit Facilities (including borrowings for the refinancing of APP Pharmaceuticals' former senior credit facility), and the entry into the Bridge Credit Agreement and borrowings under the Bridge Facility are referred to herein as the "APP Financing" and the acquisition of APP Pharmaceuticals and the APP Financing together are referred to herein as the "APP Transaction".

Since the APP Transaction, we have increased term loan borrowings under the 2008 Senior Credit Facilities by US$500 million (the "Senior Credit Facilities Drawdown"). During October 2008, we repaid US$650 million under the Bridge Facility (the "October Bridge Repayment") from the US$500 million proceeds of the Senior Credit Facilities Drawdown and other borrowings. The Senior Credit Facilities Drawdown and the October Bridge Repayments are referred to herein as the "Bridge Refinancings".

The following table sets forth the sources and uses of funds in connection with the acquisition of APP Pharmaceuticals, giving effect to the Bridge Refinancings:

Sources	**(in millions US$)**	**Uses**	**(in millions US$)**
2008 Senior Credit Facilities[(1)]	2,750	Cash purchase price	3,730
Bridge Facility[(2)]	650	Net Debt of APP Pharmaceuticals[(5)]	895
Other borrowings[(3)]	105		
Total debt	3,505		
New equity[(4)]	1,324	Estimated fees and expenses[(6)]	204
Total sources	**4,829**	**Total uses**	**4,829**

(1) The 2008 Senior Credit Facilities include the 2008 Senior Revolving Credit Facilities. The 2008 Senior Revolving Credit Facilities are available in an aggregate amount of US$550 million, of which US$250 million was drawn at the closing of the acquisition of APP Pharmaceuticals. Prior to September 30, 2008, we repaid US$150 million of the 2008 Senior Revolving Credit Facilities with available funds. For more information about the 2008 Senior Credit Facilities, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — 2008 Senior Credit Facilities".

(2) We will repay the remaining outstanding borrowings under the Bridge Facility with the proceeds of the Notes offered hereby.

(3) Includes drawings under the bilateral facility with the European Investment Bank in the amount of €56 million.

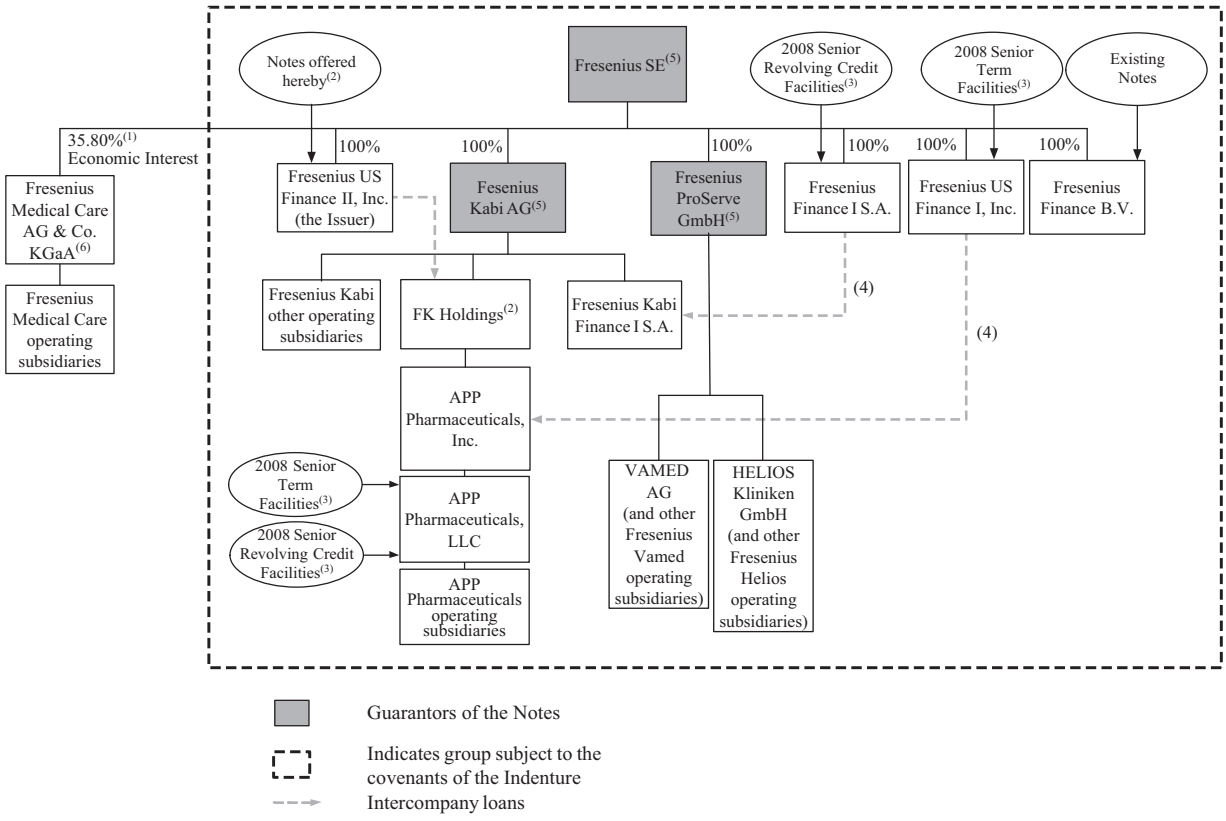
(4) Represents the proceeds from the Equity Offering, converted into U.S. dollars based on a hedged exchange rate and the proceeds raised in the Mandatory Exchangeable Bond Offering, converted into U.S. dollars based on a hedged exchange rate. For information about the Mandatory Exchangeable Bonds, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Fresenius Finance (Jersey) Ltd.'s €554 million 5.625% Mandatory Exchangeable Bonds due 2011".

(5) The net debt of APP Pharmaceuticals at the closing of the acquisition on September 10, 2008, was US$895 million, reflecting outstanding borrowings under APP Pharmaceuticals' former senior credit facility, which was refinanced at the closing of the acquisition of APP Pharmaceuticals, less cash and cash equivalents.

(6) Includes placement and other financing fees, professional fees, transaction fees and other payments related to the APP Transaction, the Bridge Refinancings and the offering of the Notes hereby.

Summary Corporate and Finance Structure

The diagram below depicts, in simplified form, our corporate structure and certain debt obligations after giving effect to the acquisition of APP Pharmaceuticals and pro forma for the offering of the Notes:



(1) As of December 31, 2008.

(2) The proceeds of the Notes offered hereby will be on-lent by the Issuer under intercompany loans. A portion of these intercompany loans will be made to FK Holdings under the Kabi Intercompany Loans. FK Holdings is a newly incorporated company that is 100% beneficially owned by Fresenius Kabi AG and is the 100% sole direct shareholder of APP Pharmaceuticals, Inc. FK Holdings will use the proceeds to repay amounts outstanding under an intercompany loan made by the Issuer from drawings under the Bridge Facility, and the Issuer will, in turn, repay amounts outstanding under the Bridge Facility.

(3) The 2008 Senior Revolving Credit Facilities are available in an aggregate amount of up to US$550 million. US$100 million was outstanding under the 2008 Senior Revolving Credit Facilities, as of September 30, 2008. The 2008 Senior Term Facilities are in an aggregate amount of US$2,500 million and have been drawn down in their entirety. Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH have each given senior guarantees under the 2008 Senior Credit Facilities. In addition, Fresenius US Finance I, Inc. has given a senior guarantee in relation to the obligations of Fresenius Finance I S.A. under the 2008 Senior Revolving Credit Facilities, and Fresenius Finance I S.A. has given a senior guarantee in relation to the obligations of Fresenius US Finance I, Inc. under the 2008 Senior Term Facilities. The US$150 million facility available to APP Pharmaceuticals, LLC under the 2008 Senior Revolving Credit Facilities and those portions of the 2008 Senior Term Facilities that were used to refinance the then-outstanding indebtedness under APP Pharmaceuticals' former senior credit facility are also guaranteed by, and secured by assets of, APP Pharmaceuticals, Inc. and its subsidiaries on the same basis as APP Pharmaceuticals, Inc. and its subsidiaries guaranteed, and their assets secured, the former APP Pharmaceuticals senior credit facility. For a description of the 2008 Senior Credit Facilities, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — 2008 Senior Credit Facilities".

(4) Intercompany security has been granted in favor of intercompany lenders to secure the obligations of intercompany borrowers under the intercompany loans of proceeds received under the 2008 Senior Credit Facilities. For a description of the 2008 Senior Credit Facilities, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — 2008 Senior Credit Facilities".

(5) Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH have each given senior guarantees of the Existing Notes and the Notes offered hereby. Except as provided under "Description of the Notes — Certain Covenants — Additional Subsidiary Note Guarantees", the Notes will not be guaranteed by any of the other subsidiaries of Fresenius SE. See "Risk Factors — Risks Relating to the Notes and the Structure of the Offering — The Notes are subordinate to other creditors of non-guarantors and to our subsidiaries' secured debt, and enforcement of guarantees by our subsidiaries may be limited" and "Description of the Notes". Fresenius SE is the holding company for the Group. Fresenius Kabi AG acts as the first-tier holding company for our business segment Fresenius Kabi, and Fresenius ProServe GmbH acts as the first-tier holding company for our business segments Fresenius Helios and Fresenius Vamed.

(6) Fresenius SE owned 36.29% of the ordinary voting shares of Fresenius Medical Care AG & Co. KGaA and 35.83% of the total subscribed capital of Fresenius Medical Care AG & Co. KGaA as at September 30, 2008. Upon the exchange of the Mandatory Exchangeable Bonds for ordinary shares of Fresenius Medical Care AG & Co. KGaA, Fresenius SE's holding of Fresenius Medical Care AG & Co. KGaA's share capital could decrease at current exchange prices (subject to further anti-dilution adjustments) to between 31.11% at the maximum exchange price and 30.25% at the minimum exchange price based on Fresenius SE's holding of 35.83% at September 30, 2008. For more information on the Mandatory Exchangeable Bonds, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Fresenius Finance (Jersey) Ltd.'s A554 million 5.625% Mandatory Exchangeable Bonds due 2011". Fresenius Medical Care AG & Co. KGaA is a German partnership limited by shares. Fresenius Medical Care Management AG, the general partner of Fresenius Medical Care AG & Co. KGaA, is a wholly owned subsidiary of Fresenius SE. Because corporate decisions are taken by the general partner for German partnerships limited by shares, Fresenius SE has, and as long as it maintains ownership of more than 25% of the share capital of Fresenius Medical Care AG & Co. KGaA will retain, a factual controlling position *(faktische Kontrolle)* in Fresenius Medical Care AG & Co. KGaA under the articles of association of Fresenius Medical Care AG & Co. KGaA. Since this factual controlling position *(faktische Kontrolle)* meets the control test for purposes of consolidation, Fresenius SE fully consolidates Fresenius Medical Care in its consolidated financial statements. See "Group Structure — Our Interest in Fresenius Medical Care AG & Co. KGaA".

Fresenius Medical Care AG & Co. KGaA is not a guarantor of the Existing Notes, and will not be a guarantor of the Notes offered hereby, and neither it nor its subsidiaries will be subject to the covenants of the Indenture.

The Offering

The summary below describes the principal terms of the Notes and the Guarantees. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of the Notes" section of this offering memorandum contains a more detailed description of the terms and conditions of the Notes and the Guarantees, including the definitions of certain terms used in this summary.

Issuer	Fresenius US Finance II, Inc.
Guarantors	Fresenius SE (the "Parent Guarantor"), Fresenius Kabi AG and Fresenius ProServe GmbH (together, the "Subsidiary Guarantors" and, together with the Parent Guarantor, the "Guarantors").
Notes Offered	US$500 million aggregate principal amount of 9% senior notes due 2015 (the "Dollar Notes"). €275 million aggregate principal amount of 8¾% senior notes due 2015 (the "Euro Notes" and, together with the Dollar Notes, the "Notes").
Maturity Date	July 15, 2015 for the Notes.
Interest Payment Dates	Semi-annually on each January 15 and July 15, beginning July 15, 2009. Interest will accrue from the issue date of the Notes.
Denominations	Each Dollar Note will have a minimum denomination of US$2,000 and will be offered only in increments of US$1,000 and each Euro Note will have a minimum denomination of €1,000 and will be offered only in increments of €1,000.
Ranking of the Notes	The Notes will be senior unsecured obligations of the Issuer and will: • rank equally in right of payment with all of the Issuer's existing and future indebtedness that is not subordinated in right of payment to the Notes; • rank senior in right of payment to all of the Issuer's existing and future indebtedness that is subordinated in right of payment to the Notes; • be effectively subordinated in right of payment to all of the Issuer's existing and future indebtedness that is secured by liens on assets to the extent of the assets securing such indebtedness; and • be structurally subordinated in right of payment to any obligations of the Parent Guarantor's subsidiaries (other than the Subsidiary Guarantors). The Dollar Notes and the Euro Notes will rank equally in right of payment with each other.
Ranking of the Guarantees	The payments of all amounts payable under the Notes, including principal, premium, if any, and interest will be guaranteed on a senior unsecured basis (the "Guarantees") by the Guarantors. For information regarding limitations on the enforceability of the Guarantees, see "Risk Factors — Risks Relating to the Notes and the Structure of the Offering — The Notes are subordinate to other creditors of non-guarantors and to our subsidiaries' secured debt,

and enforcement of guarantees by our subsidiaries may be limited" and "Description of the Notes — Guarantees".

The Guarantees will:

- rank equally in right of payment with each of the Guarantors' existing and future indebtedness that is not subordinated in right of payment to the Guarantees, subject to legal limitations on their enforceability;
- rank senior in right of payment to all of the Guarantors' existing and future indebtedness that is subordinated in right of payment to the Guarantees; and
- be effectively subordinated in right of payment to all of the Guarantors' existing and future indebtedness that is secured by liens on assets to the extent of the assets securing such indebtedness.

As of September 30, 2008 (as adjusted to give effect to the Bridge Refinancings and this offering):

- Fresenius SE and its consolidated subsidiaries, including APP Pharmaceuticals, had €8,588 million of total indebtedness, €581 million of which was represented by the Notes and €4,019 million of which was indebtedness of Fresenius Medical Care;
- Fresenius SE and its consolidated subsidiaries, including APP Pharmaceuticals, had €5,227 million of secured indebtedness, €2,724 million of which was indebtedness of Fresenius Medical Care; and
- Fresenius SE and its consolidated subsidiaries, including APP Pharmaceuticals, had €8,438 million of non-guarantor liabilities.

Although the Indenture will contain limitations on the amount of additional indebtedness that the Issuer, the Guarantors and any Subsidiary (other than Fresenius Medical Care and its subsidiaries) will be allowed to incur, the amount of such additional indebtedness could be substantial. The indebtedness incurred by Fresenius Medical Care and its subsidiaries is not guaranteed or otherwise supported by any other member of the Group.

Use of Proceeds . . . . . We intend to use the proceeds from the offering of the Notes to repay amounts outstanding under the Bridge Facility and to repay other short-term debt.

Optional Redemption. . . . . At any time prior to July 15, 2015, the Issuer may redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable "make-whole" premium set forth in this offering memorandum, plus accrued and unpaid interest, if any. See "Description of the Notes — Redemption — Optional Redemption".

In addition, on or prior to January 15, 2012, the Issuer may redeem up to 35% of the original principal amount of the Dollar Notes and up to 35% of the original principal amount of the Euro Notes with

	the net cash proceeds from specified equity offerings at a redemption price equal to (i) in the case of the Dollar Notes, 109.0% of the principal amount of the Dollar Notes or (ii) in the case of the Euro Notes, 108.75% of the principal amount of the Euro Notes, in each case plus accrued and unpaid interest, if any, to the redemption date provided that at least 65% of the original principal amount of the Dollar Notes and 65% of the original principal amount of the Euro Notes remain outstanding after the redemption. See "Description of the Notes — Redemption — Optional Redemption".
	Other than as described above and in the following paragraph and below, the Issuer may not redeem the Notes prior to maturity.
Tax Redemption	If certain changes in the law of any relevant taxing jurisdiction become effective that would impose withholding taxes or other deductions on the payments on the Notes or the Guarantees, the Issuer may redeem the Notes in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. See "Description of the Notes — Redemption — Redemption for Changes in Withholding Taxes".
Mandatory Repurchases of Notes	If the Issuer experiences an event treated as a "Change of Control Triggering Event," it will be required to offer to repurchase the Notes at a purchase price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of the purchase. For a summary of what constitutes a "Change of Control Triggering Event", see "Description of the Notes — Change of Control".
	The Issuer is also required to offer to purchase the Notes with excess proceeds, if any, following certain assets sales at a purchase price equal to 100% of the principal amount, and accrued and unpaid interest to the date of purchase. See "Description of the Notes — Certain Covenants — Limitation on Sales of Assets and Subsidiary Stock".
Certain Covenants	The Indenture will contain covenants restricting, among other things, the ability of the Issuer, the Parent Guarantor and its Subsidiaries (other than Fresenius Medical Care AG & Co. KGaA and its Subsidiaries) to: • incur additional indebtedness; • pay dividends or distributions on, redeem or repurchase our capital stock; • make certain restricted payments and investments; • transfer or sell assets; • enter into transactions with affiliates; • create certain liens; and • merge or consolidate with other entities.

Transfer Restrictions	The Notes and the Guarantees have not been registered under the U.S. Securities Act or the securities laws of any other jurisdiction and will not be so registered. The Notes are subject to restrictions on transferability and resale. See "Notice to Investors". Holders of the Notes will not have the benefit of any exchange or registration rights.
Absence of a Public Market for the Notes	Although application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market in accordance with its rules and the Issuer expects the Dollar Notes to be eligible for trading on the PORTAL[SM] Market, the Notes will be new securities for which there is no market. Although the initial purchasers have informed the Issuer that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, the Issuer cannot assure you that a liquid market for the Notes will develop or be maintained.
Listing	The Issuer has made an application to list the Notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF market and expects the Dollar Notes to be eligible for trading on the PORTAL[SM] Market.
Trustee	The Bank of New York Mellon.
Principal Paying Agent	The Bank of New York Mellon.
Luxembourg Listing Agent, Paying Agent and Transfer Agent	The Bank of New York (Luxembourg) S.A.
Governing Law of Notes and Guarantees	New York.

Summary Financial Information

The tables below present summary consolidated financial and business segment data for our Group for each of the financial years ended December 31, 2005, 2006 and 2007, for the nine months ended September 30, 2007 and 2008 and for the 12 months ended September 30, 2008, as well as summary pro forma information. We derived the summary financial data from our consolidated financial statements prepared in accordance with US GAAP. Business segment data is clearly identified as such in the tables. KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, German public accountants, have audited the US GAAP consolidated financial statements for the three years ended December 31, 2005, 2006 and 2007. The interim consolidated financial statements for the periods ended September 30, 2007 and 2008 are unaudited.

The historical financial information for the 12 months ended September 30, 2008 set forth below was derived by adding the Group's consolidated financial data for the nine months ended September 30, 2008 to the Group's consolidated financial data for the three months ended December 31, 2007. The financial information for the 12 months ended September 30, 2008 has been prepared for illustrative purposes only and is not necessarily representative of our results of operations for any future period or our financial condition at any future date.

Due to the closing of the acquisition of APP Pharmaceuticals on September 10, 2008, the consolidated balance sheet of Fresenius SE as of September 30, 2008 includes APP Pharmaceuticals. Although the APP Transaction closed on September 10, 2008, the consolidated statement of income and consolidated statement of cash flows of Fresenius SE for the period ended September 30, 2008 only include the results of operations of APP Pharmaceuticals for the one-month-period ending September 30, 2008. The consolidated financial statements of Fresenius SE and the APP Pharmaceuticals consolidated financial statements are included elsewhere in this offering memorandum.

The pro forma financial information contained in this offering memorandum reflects the consolidation of APP Pharmaceuticals in our Group as of and for the nine months ended September 30, 2008, for the year ended December 31, 2007 and for the 12 months ended September 30, 2008 and is unaudited. APP Pharmaceuticals has been included in the pro forma financial information together with Fresenius SE and its consolidated subsidiaries. For the purposes of preparing the pro forma consolidated statement of income information, we have assumed that the APP Transaction had occurred as of January 1, 2007. Special items related to the acquisition of APP Pharmaceuticals have been excluded from the pro forma consolidated statements of income for the nine- and 12-month periods ended September 30, 2008. The pro forma financial information has been prepared in accordance with Institut der Wirtschaftsprüfer's RH HFA 1.004 "Erstellung von Pro-Forma-Angaben" regarding the preparation of pro forma financial information.

The pro forma financial information has been prepared for illustrative purposes only. The pro forma financial information is based on assumptions and is inherently uncertain; therefore, it should not be used as an indicator of how our business, financial condition and results of operations would have developed had the structure upon which the pro forma financial information is based been in place from January 1, 2007. The pro forma financial information is also not intended to be an indicator of our financial condition or results of operations in the future. You should review the pro forma financial information together with the historical financial statements of the companies included in the pro forma information.

The consolidated and pro forma financial information below (including ratios) reflects the full consolidation of Fresenius Medical Care's financial statements in our financial statements. Fresenius Medical Care Management AG, a wholly owned subsidiary of Fresenius SE in the legal form of a stock corporation under German law ("Aktiengesellschaft"), is the general partner of Fresenius Medical Care AG & Co. KGaA. The management board of Fresenius Medical Care Management AG, whose current management board is identical with the current management board of Fresenius Medical Care AG & Co. KGaA, is responsible for the management of Fresenius Medical Care AG & Co. KGaA. Because corporate decisions are taken by the general partner for German partnerships limited by shares, Fresenius SE has, and as long as it maintains

ownership of Fresenius Medical Care Management AG and more than 25% of the share capital of Fresenius Medical Care AG & Co. KGaA will retain, a controlling position in Fresenius Medical Care AG & Co. KGaA under the articles of association of Fresenius Medical Care AG & Co. KGaA. Since this controlling position meets the control test for purposes of consolidation under US GAAP, Fresenius SE fully consolidates Fresenius Medical Care in its consolidated financial statements under US GAAP. Net income and assets attributable to other shareholders of Fresenius Medical Care AG & Co. KGaA are eliminated and recorded under minority interests in Fresenius SE's consolidated statement of income and balance sheet. However, Fresenius SE receives cash flows generated by Fresenius Medical Care only to the extent they are distributed to Fresenius SE as dividends, as payments under existing agreements, such as rental and service agreements and as reimbursement of the general partner's expenses. Dividends are received by Fresenius SE only in proportion to its economic interest in Fresenius Medical Care and are also limited by the terms of certain of Fresenius Medical Care's debt instruments. At September 30, 2008, Fresenius SE owned 36.29% of the ordinary voting shares of Fresenius Medical Care AG & Co. KGaA, constituting 35.83% of the total subscribed capital. Upon the exchange of the Mandatory Exchangeable Bonds for ordinary shares of Fresenius Medical Care AG & Co. KGaA, Fresenius SE's holding of Fresenius Medical Care AG & Co. KGaA's share capital could decrease at current exchange prices (subject to further anti-dilution adjustments) to between 31.11% at the maximum exchange price and 30.25% at the minimum exchange price, based on Fresenius SE's holding of 35.83% at September 30, 2008. For more information on the Mandatory Exchangeable Bonds, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Fresenius Finance (Jersey) Ltd.'s €554 million 5.625% Mandatory Exchangeable Bonds due 2011". See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations and Financial Condition" and "Group Structure — Our Interest in Fresenius Medical Care AG & Co. KGaA".

You should regard the summary financial and business data below only as an introduction and should base your investment decision on a review of the entire offering memorandum.

Summary Consolidated Financial Data and Pro Forma Financial Information

Summary Consolidated and Pro Forma Statement of Income Information

	Year ended December 31, 2007		Nine months ended September 30, 2008		Twelve months ended September 30, 2008	
	Actual	Pro forma	Actual	Pro forma	Actual	Pro forma
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
			(in million €)			
Sales	11,358	11,825	8,761	9,066	11,729	12,169
Cost of sales	(7,680)	(7,905)	(5,973)	(6,111)	(8,011)	(8,210)
Gross profit	3,678	3,920	2,788	2,955	3,718	3,959
Selling, general and administrative expenses	(1,885)	(1,983)	(1,415)	(1,497)	(1,866)	(1,972)
Research and development expenses	(184)	(218)	(320)	(167)	(374)	(230)
EBIT	1,609	1,719	1,053	1,291	1,478	1,757
EBIT, adjusted[1]	1,609	1,719	1,209	1,291	1,634	1,757
Net interest expense	(368)	(621)	(271)	(421)	(360)	(578)
Other financial result[2]	—	—	(34)	—	(34)	—
Minority interests	(383)	(383)	(287)	(287)	(389)	(389)
Net income	410	321	153	286	265	384
Net income, adjusted[3]	410	321	324	286	436	384

Summary Other Consolidated and Pro Forma Information

	Year ended December 31,			Twelve months ended September 30, 2008	
	2005	2006	2007		
	Actual	Actual	Actual	Actual	Pro forma
				(unaudited)	(unaudited)
			(in million €, except ratios)		
EBITDA[4][5][6]	1,289	1,843	2,030	2,119	2,249
EBITDA, adjusted[7]	1,289	1,843	2,030	2,091	2,249
Net debt[8]	3,250	5,611	5,338	8,255	8,255
Net interest expense	(203)	(395)	(368)	(360)	(578)
Capital expenditures	353	600	705	725	748
Ratio of EBITDA, adjusted, to net interest expense	6.3	4.6	5.5	5.8	3.9
Ratio of net debt to EBITDA, adjusted	2.3[9]	3.0	2.6	—	3.7

Summary Consolidated Financial Data

Summary Consolidated Statement of Income Data

	Year ended December 31,			Nine months ended September 30,		Twelve months ended September 30,
	2005	2006	2007	2007	2008	2008
				(unaudited)		(unaudited)
			(in million €)			
Sales	7,889	10,777	11,358	8,390	8,761	11,729
Cost of sales	(5,300)	(7,351)	(7,680)	(5,642)	(5,973)	(8,011)
Gross profit	2,589	3,426	3,678	2,748	2,788	3,718
Selling, general and administrative expenses	(1,471)	(1,815)	(1,885)	(1,434)	(1,415)	(1,866)
Research and development expenses	(149)	(167)	(184)	(130)	(320)	(374)
EBIT	969	1,444	1,609	1,184	1,053	1,478
EBIT, adjusted[1]	969	1,444	1,609	1,184	1,209	1,634
Net interest expense	(203)	(395)	(368)	(279)	(271)	(360)
Other financial interest[2]	—	—	—	—	(34)	(34)
Minority interests	(246)	(305)	(383)	(281)	(287)	(389)
Net income	222	330	410	298	153	265
Net income, adjusted[3]	222	330	410	298	324	436

Summary Consolidated Balance Sheet Data

	As of December 31,			As of September 30, 2008
	2005	2006	2007	(unaudited)
			(in million €)	
Cash and cash equivalents	252	261	361	333
Current assets	3,531	4,106	4,291	5,017
Non-current assets	8,063	10,918	11,033	15,097
Total assets	11,594	15,024	15,324	20,114
Short-term liabilities	2,497	3,058	3,503	3,992
Long-term liabilities	3,967	6,238	5,762	9,372
Minority interests	2,289	2,560	2,644	2,905
Total shareholders' equity	2,841	3,168	3,415	3,845
Total liabilities and shareholders' equity	11,594	15,024	15,324	20,114

Summary Consolidated Cash Flow Statement Data

	Year ended December 31,			Nine months ended September 30,		Twelve months ended September 30,
	2005	2006	2007	2007	2008	2008
				(unaudited)		(unaudited)
			(in million €)			
Cash provided by operating activities	780	1,052	1,296	912	736	1,120
Cash used for investing activities	(1,937)	(3,790)	(1,058)	(647)	(3,371)	(3,782)
Cash provided by/used for financing activities	1,256	2,760	(122)	(196)	2,603	2,677

Summary Business Segment Data

Fresenius Medical Care

	Year ended December 31,			Nine months ended September 30,		Twelve months ended September 30,
	2005	2006	2007	2007	2008	2008
				(unaudited)		(unaudited)
			(in million €)			
Sales	5,443	6,768	7,093	5,320	5,184	6,957
EBITDA[4][5]	957	1,295	1,418	1,051	1,016	1,383
EBIT	755	1,050	1,153	857	815	1,111
Net interest expense	(139)	(280)	(271)	(209)	(166)	(228)
Net income	366	427	523	387	396	532
Operating cash flow	539	723	875	662	470	683
Capital expenditure/acquisitions	361	3,933	680	397	480	763
Research and development expenses	(41)	(41)	(49)	(32)	(40)	(57)
Employees (headcount as of September 30 or December 31)	50,250	59,996	64,662	63,902	67,342	67,342
Dividends paid	109	120	139	139	160	160
thereof to Fresenius SE	40	44	50	50	58	58

Fresenius Kabi

	Year ended December 31,			Nine months ended September 30,		Twelve months ended September 30,
	2005	2006	2007	2007	2008	2008
				(unaudited)		(unaudited)
			(in million €)			
Sales	1,681	1,893	2,030	1,494	1,734	2,270
EBITDA[4][5]	318	370	408	299	358	467
EBIT	234	291	332	242	290	380
Net income	111	143	183	132	149	200
Operating cash flow	237	202	179	119	144	204
Capital expenditure/acquisitions	351	127	294	117	3,637	3,814
Research and development expenses	(64)	(77)	(86)	(61)	(71)	(96)
Employees (headcount as of September 30 or December 31)	14,453	15,591	16,964	16,852	20,504	20,504

Fresenius ProServe[10]

	Year ended December 31,		
	2005	2006	2007
		(in million €)	
Sales	809	2,155	2,268
EBITDA[4][5]	45	218	250
EBIT	20	154	181
Net income	2	75	81
Operating cash flow	19	176	274
Capital expenditure/acquisitions	1,519	245	328
Research and development expenses	(1)	(1)	(1)
Employees (headcount as of December 31)	26,664	28,615	31,815

On January 1, 2008, Fresenius ProServe was divided into two business segments for the purpose of reducing the number of layers of management and increasing transparency: Fresenius Helios, which focuses on hospital operations, and Fresenius Vamed, which offers engineering and services for hospitals and other healthcare facilities. We have not changed the legal structure of our Group in connection with this change in our business segment reporting.

	Fresenius Helios			Fresenius Vamed		
	Nine months ended September 30,		Twelve months ended September 30,	Nine months ended September 30,		Twelve months ended September 30,
	2007[11]	2008	2008	2007[11]	2008	2008
	(unaudited) (in million €)					
Sales	1,348	1,568	2,061	234	290	464
EBITDA[4][5]	149	183	254	15	17	33
EBIT	110	127	172	11	14	29
Net income	44	59	79	11	14	26
Operating cash flow	159	185	228	19	0	53
Capital expenditure/acquisitions	196	92	219	10	15	15
Research and development expenses	(1)	0	0	0	0	0
Employees (headcount as of September 30)	30,043[12]	30,804	30,804	1,767[12]	1,833	1,833

(1) Adjusted EBIT (A) excludes purchase accounting adjustments for acquired in-process research and development of APP Pharmaceuticals at September 10, 2008 (in the amount of €175 million) and inventory step-up reflecting the excess of fair value over book value of semi-finished and finished products acquired in the acquisition of APP Pharmaceuticals (in the amount of €9 million), and (B) excludes foreign exchange gains of €28 million realized in connection with the APP Transaction. For more information, see "The Acquisition of APP Pharmaceuticals".

(2) Other financial result includes (i) a loss of €38 million for mark-to-market for the value of the Mandatory Exchangeable Bonds, (ii) a gain of €36 million for mark-to-market for the value of the CVRs and (iii) a loss of €32 million for special financing expenses, all as of September 30, 2008. For more information, see "The Acquisition of APP Pharmaceuticals".

(3) Adjusted net income (A) excludes purchase accounting adjustments for acquired in-process research and development of APP Pharmaceuticals at closing (in the amount of €175 million) and inventory step-up reflecting the excess of fair value over book value of semi-finished and finished products acquired in the acquisition of APP Pharmaceuticals (in the amount of €9 million), (B) excludes foreign exchange gains of €28 million realized in connection with the APP Transaction, and (C) excludes (i) a loss of €27 million for mark-to-market for the value of the Mandatory Exchangeable Bonds, (ii) a gain of €36 million for mark-to-market for the value of the CVRs and (iii) a loss of €20 million for special financing expenses, all as of September 30, 2008. For more information, see "The Acquisition of APP Pharmaceuticals".

(4) It should be noted that for certain of the provisions of the Indenture, EBITDA and interest expense are calculated differently than as defined in footnote (5) below or for financial statement purposes and, in particular, EBITDA for the periods presented includes net income of Fresenius Medical Care only to the extent of dividends received by Fresenius SE. See "Description of the Notes".

(5) EBITDA means earnings before interest, income taxes, depreciation and amortization and minority interests. We are not presenting EBITDA here as a measure of our operating results. Our management believes that the presentation of EBITDA is helpful to investors as a measure of our ability to generate cash and to service debt. However, you should not construe EBITDA as an alternative to net income determined in accordance with US GAAP or to cash flow from operations, investing activities or financing activities as a measure of cash flows. It should be noted that the definition of EBITDA described above differs from the definition of EBITDA in certain of the provisions of the Indenture.

(6) The following table reconciles net income to EBITDA for the Group for the periods indicated:

	Year ended December 31,			Twelve months ended September 30, 2008	
	2005	2006	2007		
	Actual	Actual	Actual	Actual	Pro forma
				(unaudited)	(unaudited)
			(in million €)		
Net income	222	330	410	265	384
Minority interests	246	305	383	389	389
Income taxes	298	414	448	430	406
Depreciation and amortization	320	399	421	641	492
Net interest expense	203	395	368	360	578
Other financial result	—	—	—	34	—
EBITDA	1,289	1,843	2,030	2,119	2,249
One-time foreign exchange gain from APP Transaction	—	—	—	(28)	—
EBITDA, adjusted	1,289	1,843	2,030	2,091	2,249

(7) Adjusted EBITDA excludes foreign exchange gains of €28 million realized in connection with the APP Transaction. For more information, see "The Acquisition of APP Pharmaceuticals".

(8) Net debt includes short-term borrowings, long-term debt (including current portion) and accounts receivable attributable to the accounts receivable facility of subsidiaries of Fresenius Medical Care AG & Co. KGaA less cash and cash equivalents. Net debt includes neither the Mandatory Exchangeable Bonds nor the CVRs.

(9) For purposes of this ratio, EBITDA has been adjusted for the EBITDA contribution of HELIOS Kliniken GmbH and its subsidiaries for the year ended December 31, 2005. We acquired HELIOS Kliniken GmbH in December 2005.

(10) As of January 1, 2008, the Fresenius ProServe business segment was divided into two new business segments: Fresenius Helios and Fresenius Vamed.

(11) Segment data for Fresenius Helios and Fresenius Vamed has been adjusted according to the new business segment reporting structure as of January 1, 2008.

(12) As of December 31, 2007.

RISK FACTORS

Before making an investment decision with respect to the Notes, you should carefully consider the risks relating to our businesses and the legal structures underlying this offering described below, in addition to the other information in this offering memorandum. These risks are not the only ones we face; additional risks and uncertainties not presently known to us, or that we now believe are immaterial, could also impair our businesses or our ability to fulfill our obligations under the Notes. The order of presentation of the risk factors below does not indicate the likelihood of these risks actually occurring or the scope of any potential impairment these risks might cause to our business. The risks could be realized individually or cumulatively.

Risks Relating to Our Business

If we do not comply with the healthcare or other governmental regulations applicable to our businesses, we could be excluded from government healthcare reimbursement programs in the United States and other countries, or our authority to conduct business could be terminated, either of which could result in a material decrease in our sales.

The operations in our four business segments, Fresenius Medical Care, Fresenius Kabi, Fresenius Helios and Fresenius Vamed, which are organized through Fresenius SE's subsidiaries Fresenius Medical Care AG & Co. KGaA, Fresenius Kabi AG (including APP Pharmaceuticals), HELIOS Kliniken GmbH and VAMED AG, respectively, are subject to extensive governmental regulation in virtually every country in which we do business. We are also subject to other laws of general applicability, including antitrust laws. These regulations and laws, which differ from country to country, cover areas that include (inter alia):

- the quality, safety and efficacy of medical and pharmaceutical products and supplies;
- the operation of manufacturing facilities, laboratories and clinics;
- the planning, equipment, construction and management of pharmaceutical and medical-technical production plants;
- the construction and management of healthcare facilities, especially the operation of hospitals, dialysis clinics and other healthcare facilities;
- the rate of, and accurate reporting and billing for, government and third-party reimbursement; and
- the compensation of medical directors and other financial arrangements with physicians and other referral sources.

If we fail to comply with one or more of these laws or regulations, this may give rise to a number of legal consequences. These include, in particular, monetary and administrative penalties, increased costs for compliance with government orders or a complete or partial curtailment of our authority to conduct business. Any of these consequences could have a material adverse impact on our business, financial condition and results of operations.

We rely upon our management structure, regulatory and legal resources and the effective operation of our compliance program to direct, manage and monitor our operations to comply with government regulations. If employees were to deliberately or inadvertently fail to adhere to these regulations, then our authority to conduct business could be terminated and our operations could be significantly curtailed. Such actions could also lead to claims for repayment of reimbursements and other payments received from governmental payors and insurance companies or other sanctions. Any such terminations or reductions could materially reduce our sales, with a resulting material adverse effect on our business, financial condition and results of operations.

In 2004, Fresenius Medical Care Holdings, Inc. ("FMCH"), a subsidiary of Fresenius Medical Care AG & Co. KGaA, and its subsidiaries including Renal Care Group, Inc. ("RCG") (prior to FMCH's acquisition of RCG) received subpoenas from the U.S. Department of Justice, Eastern District of New York, in connection with a civil and criminal investigation, which required production of a broad range of documents relating to FMCH's and its subsidiaries' operations, with specific attention to documents relating to laboratory testing for parathyroid hormone ("PTH") levels and vitamin D therapies. FMCH and Fresenius Medical Care are

cooperating with the government's requests for information. Fresenius Medical Care believes that it has fulfilled all requests for information made by government investigators in this matter and 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 our business, financial condition and results of operations.

In 2005, FMCH and its subsidiaries including RCG (prior to FMCH's acquisition of RCG) received subpoenas from the office of the U.S. Department of Justice, Eastern District of Missouri in connection with a joint civil and criminal investigation. The subpoenas require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relationships, joint ventures, and anemia management programs, RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, and RCG's purchase of dialysis equipment from FMCH. The Office of the Inspector General of the U.S. Department of Health and Human Services and the U.S. Attorney's office for the Eastern District of Texas have also confirmed that they are participating in the review of the anemia management program issues raised by the U.S. Attorney's office for the Eastern District of Missouri. On July 17, 2007, the U.S. Attorney's office filed a civil complaint against RCG and FMCH in its capacity as RCG's current corporate parent in the U.S. District Court, Eastern District of Missouri. The complaint seeks monetary damages and penalties with respect to issues arising out of the operation of RCG's Method II supply company through 2005, prior to the date of FMCH's acquisition of RCG. The complaint is styled *United States of America ex rel. Julie Williams et al. vs. Renal Care Group, Renal Care Group Supply Company and Fresenius Medical Care Holdings.* Fresenius Medical Care believes that RCG's operation of its Method II supply company complied with applicable law and will defend this litigation vigorously. Fresenius Medical Care will continue to cooperate in the ongoing investigation. An adverse determination in this investigation or litigation or any settlement arising out of this investigation or litigation could result in significant financial penalties, and any adverse determination in any litigation arising out of the investigation could have a material adverse effect on our business, financial condition and results of operations.

A reduction in government reimbursement for dialysis care would materially decrease our sales and operating profit.

For the year ended December 31, 2007, a significant portion of our consolidated sales came from government reimbursements. In particular, approximately 36% of worldwide revenue of Fresenius Medical Care, in which Fresenius SE has an economic interest of 35.80% (as of December 31, 2008), resulted from reimbursement provided by the U.S. government Medicare and Medicaid health insurance programs. Changes in U.S. law or government reimbursement practice could affect the reimbursement rates for the services we provide, as well as the scope of Medicare and Medicaid coverage. A decrease in Medicare or Medicaid reimbursement rates or covered services could have a material adverse effect on our business, financial condition and results of operations.

A significant portion of Fresenius Medical Care's North American profits are dependent on the services it provides to a minority of its patients who are covered by private insurance.

In recent reviews of dialysis reimbursement, the Medicare Payment Advisory Commission, an independent U.S. federal body whose primary role is to advise the U.S. Congress on issues affecting the administration of the Medicare program (also known as "MedPAC"), has noted that Medicare payments for dialysis services are less than the average costs that providers incur to provide the services. Since Medicaid rates are comparable to those of Medicare and because Medicare pays only 80% of the Medicare allowable amount (the patient, Medicaid or secondary insurance being responsible for the remaining 20%), the amount Fresenius Medical Care receives from Medicare and Medicaid is less than its average cost per treatment. As a result, the payments Fresenius Medical Care receives from private payors both subsidize the losses it incurs on services for Medicare and Medicaid patients and generate a substantial portion of the profits it reports. Fresenius Medical Care estimates that Medicare and Medicaid are the primary payors for approximately 80% of the patients to whom it provides care but that only 57% of its North America net revenues in 2007 were derived from Medicare and Medicaid. Therefore, if the private payors who pay for the care of the other 20% of our

patients reduce their payments for Fresenius Medical Care's services, or if Fresenius Medical Care experiences a shift in its revenue mix toward Medicare or Medicaid reimbursement, then Fresenius Medical Care's revenue, cash flow and earnings would decrease, and its cash flow and profits would be disproportionately impacted.

Over the last few years, Fresenius Medical Care has generally been able to implement modest annual price increases for private insurers and managed care organizations, but government reimbursement has remained flat or has been increased at rates below typical consumer price index ("CPI") increases. There can be no assurance of similar future price increases to private insurers and managed care organizations. Any reductions in reimbursement from private insurers and managed care organizations could adversely impact our operating results. Any reduction in our ability to attract private pay patients to utilize Fresenius Medical Care's dialysis services relative to historical levels could adversely impact our operating results. Any of the following events could have a material adverse effect on our operating results:

- a portion of Fresenius Medical Care's business that is currently reimbursed by private insurers or hospitals may become reimbursed by managed care organizations, which generally have lower rates for our services; or
- a portion of Fresenius Medical Care's business that is currently reimbursed by private insurers at rates based on our billed charges may become reimbursed under a contract at lower rates.

If our joint ventures violate the law, our business could be adversely affected.

A number of the dialysis centers Fresenius Medical Care operates are owned by joint ventures in which Fresenius Medical Care holds a controlling interest and one or more hospitals, physicians or physician practice groups hold a minority interest. The physician owners may also provide medical director services to those centers or other centers Fresenius Medical Care owns and operates. Substantially all of these joint ventures were acquired in Fresenius Medical Care's acquisition of RCG. While Fresenius Medical Care has structured the joint ventures to comply with many of the criteria for safe harbor protection under the U.S. federal Medicare and Medicaid Fraud and Abuse Amendments of 1977, as amended, (the "Anti-Kickback Statute"), Fresenius Medical Care's investments in these joint venture arrangements do not satisfy all elements of this safe harbor. While Fresenius Medical Care has established comprehensive compliance policies, procedures and programs to ensure ethical and compliant joint venture business operations, if one or more of our joint ventures were found to be in violation of the Anti-Kickback Statute or the Ethics in Patient Referrals Act of 1989 (the "Stark Law"), Fresenius Medical Care could be required to restructure or terminate them. Fresenius Medical Care also could be required to repay to Medicare amounts received by the joint ventures pursuant to any prohibited referrals, and Fresenius Medical Care could be subject to monetary penalties and exclusion from Medicare, Medicaid and other U.S. federal and state healthcare programs. Imposition of any of these penalties could have a material adverse effect on our business, financial condition and results of operations.

Proposals for healthcare reform could decrease sales and operating profit.

A number of governments, most notably for us, the U.S. federal and certain U.S. state governments and the German government, have been considering proposals to modify their current healthcare systems to improve access to healthcare and control costs. Other countries, especially those in Western Europe, are also considering healthcare reform proposals that could materially alter their government-sponsored healthcare programs by reducing reimbursement payments. Any reduction could affect the pricing of the products and the profitability of services, especially as we intend to expand the international business. We cannot predict whether and when these reform proposals will be adopted in countries in which we operate or what impact they might have on us. Any decrease in spending or other significant changes in state funding in countries in which we operate, particularly significant changes in the U.S. Medicare and Medicaid programs, could reduce our sales and profitability and have a material adverse effect on our business, financial condition and results of operations.

In the U.S., the Medicare Improvements for Patients and Providers Act of 2008 was enacted on July 15, 2008. The new law requires the implementation by January 1, 2011 of a new bundled payment system for

dialysis services. Medicare will reimburse dialysis facilities with a single payment for (i) all items and services currently included in the composite rate then in effect, (ii) all erythropoietin-stimulating agents ("ESAs") and other pharmaceuticals (other than vaccines) furnished to the patients that were previously reimbursed separately (such as erythropoietin (EPO), a drug used to treat anemia in dialysis patients, vitamin D analogs, and iron supplements), and (iii) diagnostic laboratory tests. The initial bundled reimbursement rate, subject to certain adjustments, will be set based on 98 percent of estimated 2011 Medicare program dialysis costs as calculated under the current reimbursement system using the lowest per-patient utilization data from 2007, 2008 or 2009. Because these rates have yet to be determined, and by design are calculated to be below estimated costs for providing the dialysis services, we cannot predict whether the new bundled rates will be sufficient to compensate us for any increases in our operating costs.

A new case-based reimbursement system for hospitals (based on diagnosis related groups or "DRG") was introduced in Germany in 2003 for in-patients. This scheme replaced the former composite scheme of mostly departmental per diem payments and a small share of case based payments. Psychiatric, psychosomatic and psychotherapeutic departments have not yet migrated to the new DRG scheme. Under the new case based reimbursement, hospitals receive a flat fee per patient (more exactly for an in-patient case of the patient). The fee takes into account the individual conditions of each patient by evaluating the patient's principal and secondary diagnoses, age, the procedures undertaken on the patient and the patient's discharge status. Hospitals receive additional payments for some specific services provided based on the procedure. Essentially, the DRG system is aimed at improving hospital efficiency and reducing healthcare spending. The DRG system has led to a reduction in unnecessary referrals and to a growing number of out-patient treatments. The system is being introduced in several stages and is expected to be fully implemented by 2009. The flat-rate scheme, together with other cost-cutting measures in the healthcare sector that may be implemented in Germany, could have a material adverse effect on our business, financial condition and results of operations in years to come.

APP Pharmaceuticals faces uncertainty related to pricing and reimbursement and health care reform.

In both domestic and foreign markets, sales of our products will depend in part on the availability of reimbursement from third-party payors such as government health administration authorities, private health insurers, health maintenance organizations and other health care-related organizations. However, reimbursement by such payors is presently undergoing reform, and there is significant uncertainty at this time how this will affect sales of certain pharmaceutical products. There is possible U.S. legislation or regulatory action affecting, among other things, pharmaceutical pricing and reimbursement, including under Medicaid and Medicare, the importation of prescription drugs that are marketed outside the U.S. and sold at prices that are regulated by governments of various foreign countries.

Medicare, Medicaid and other governmental reimbursement legislation or programs govern drug coverage and reimbursement levels in the United States. Federal law requires all pharmaceutical manufacturers to rebate a percentage of their revenue arising from Medicaid-reimbursed drug sales to individual states. Generic drug manufacturers' agreements with federal and state governments provide that the manufacturer will remit to each state Medicaid agency, on a quarterly basis, 11% of the average manufacturer price for generic products marketed and sold under abbreviated new drug applications covered by the state's Medicaid program. For proprietary products, which are marketed and sold under new drug applications, manufacturers are required to rebate the greater of (a) 15.1% of the average manufacturer price or (b) the difference between the average manufacturer price and the manufacturer's best price to any customer for products sold during a specified period. The Medicaid program also requires pharmaceutical manufacturers to report certain information to the Centers for Medicare & Medicaid Services (CMS) on a periodic basis, including average manufacturer price and best price. The Medicare program requires manufacturers of Part B drugs, generally injectables, to report average sales price to CMS on a quarterly basis. If a pharmaceutical manufacturer is found to have knowingly submitted false information to the government, it may be liable for civil monetary penalties per item of false information.

Both the federal and state governments in the United States and foreign governments continue to propose and pass new legislation, rules and regulations designed to contain or reduce the cost of health care. Existing regulations that affect the price of pharmaceutical and other medical products may also change before any of

our products are approved for marketing. Cost control initiatives could decrease the price that we receive for any product we develop in the future. In addition, third-party payers are increasingly challenging the price and cost-effectiveness of medical products and services and litigation has been filed against a number of pharmaceutical companies in relation to these issues. Additionally, significant uncertainty exists as to the reimbursement status of newly approved injectable pharmaceutical products. Our products may not be considered cost effective or adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to realize an adequate return on our investment.

Significant competition in our business segments could adversely affect our sales and our ability to grow.

We face numerous competitors in each of our four business segments. Some of these competitors possess substantially greater financial, marketing or research and development resources. Increased competition could have a material adverse effect on the pricing and sales of our products and services. In particular, technological innovation has historically been a significant competitive factor in the healthcare sector. The introduction of new products and services by competitors could render one or more of our products or services less competitive or even obsolete.

Our Fresenius Kabi business segment generated 18% of our consolidated sales in the year ended December 31, 2007 with its three product businesses: infusion therapy, clinical nutrition and transfusion technology. The markets in which Fresenius Kabi (including APP Pharmaceuticals) operates are characterized by price pressure, intense competition and cost-saving measures in the healthcare sector. These market conditions could lead to a reduction in Fresenius Kabi's sales, which could have a material adverse effect on our business, financial condition and results of operations.

Our Fresenius Helios business segment generated 16% of our consolidated sales in the year ended December 31, 2007. Fresenius Helios is one of the largest private hospital operators in Germany. In the course of its further expansion in Germany, Fresenius Helios may compete with customers of other business segments in our Group. In these circumstances, we cannot assure you that customers will not curtail or end their business relations with us to avoid purchasing products and services from affiliates of a competitor. Were customers to do this, it could have a material adverse effect on our sales of products and services and on our business, financial condition and results of operations.

We are exposed to product liability and other claims, which could result in significant liability that we may not be able to insure on acceptable terms in the future.

Healthcare companies, including Fresenius Group, are often subject to actions alleging negligence, products liability, breach of warranty, malpractice and other legal theories that may involve large claims and significant defense costs, whether or not liability is ultimately imposed on the defendant. The products of Fresenius Medical Care and Fresenius Kabi (in particular, its medical and pharmaceutical products) could also be subject to recalls or actions for patent infringement. In addition, Fresenius Helios could be exposed to claims for negligence in the operation of its hospitals or patient treatment. Fresenius Vamed could be exposed to claims arising from errors in the planning, construction and equipping of hospitals or other healthcare facilities or to claims arising from negligence regarding the facility management or the operational management and logistics of hospitals and other healthcare facilities. We cannot assure you that significant claims will not be asserted against us, that significant adverse verdicts will not be reached against us for patent infringements or that large scale recalls of our products will not become necessary. In addition, some of the countries in which we operate have legal protections relating to pharmaceutical products that could increase the risk of product liability claims. Product liability and patent infringement claims, other actions for negligence or breach of contract and product recalls or related sanctions could result in significant costs. These costs could have a material adverse effect on our business, financial condition and results of operations.

While we have been able to obtain liability insurance in the past to partially cover our business risks, we cannot assure you that such insurance will be available in the future, on acceptable terms or at all. A successful claim in excess of the limits of our insurance coverage could have a material adverse effect on our business, financial condition and results of operations. Liability claims, regardless of their merit or eventual

outcome, could have a material adverse effect on our business and reputation, which could reduce our sales and profitability.

If physicians and other referral sources cease referring patients to Fresenius Medical Care's dialysis clinics or cease prescribing Fresenius Medical Care's products, sales could decrease.

Fresenius Medical Care's dialysis services business is dependent upon patients choosing Fresenius Medical Care clinics for their treatment. Patients may select a clinic based, in whole or in part, on the recommendation of their physician. We believe that physicians and other clinicians typically consider a number of factors when recommending a particular dialysis facility to a patient, including, but not limited to, the quality of care at a clinic, the competency of a clinic's staff, convenient scheduling and a clinic's location and physical condition. Physicians may change their facility recommendations at any time, which may result in the movement of our existing patients to competing clinics, particularly clinics established by the physicians themselves. At most of the Fresenius Medical Care clinics, a relatively small number of physicians, primarily medical directors, account for the referral of all or a significant portion of the patient base. The dialysis services business also depends on recommendations by hospitals, managed care plans and other healthcare institutions. If a significant number of physicians, hospitals or other healthcare institutions ceased referring their patients to Fresenius Medical Care clinics, this would reduce the dialysis care revenue and could have a material adverse effect on our overall operations.

The decision to order dialysis products and other services from Fresenius Medical Care or competing dialysis products and other services will be made in some instances by medical directors and other referring physicians at Fresenius Medical Care dialysis clinics and by the managing medical personnel and referring physicians at other dialysis clinics, subject to applicable regulatory requirements. A decline in physician recommendations or a decline in demand for the products and ancillary services of Fresenius Medical Care could reduce our revenue from dialysis products and other services. This could have a material adverse effect on our business, financial condition and results of operations.

The risks associated with the acquisition of APP Pharmaceuticals and its integration and other current and future acquisitions could have a material adverse effect on our business, financial condition and results of operations.

We have announced and completed various large and small acquisitions in the past. Most recently, on September 10, 2008, Fresenius Kabi completed the acquisition of APP Pharmaceuticals. See "The Acquisition of APP Pharmaceuticals".

Recent and future acquisitions present challenges for the financing and management of our business. Following an acquisition, the infrastructure of an acquired company (including its management information systems) must be integrated into our own infrastructure; legal issues (including regulatory issues and contractual matters) arising from the acquisition must be resolved; contractual matters, marketing, patient services and logistical procedures must be harmonized; and, in some cases, divergent corporate and management cultures need to be reconciled. There is also the risk that key managers or experienced clinical, operating and administrative employees (whether theirs or ours) may leave the company during the integration process. These departures could affect the company's day-to-day business and relations with customers and employees. The integration process could also turn out to be more difficult, time-consuming and costly than expected. If there are delays in the receipt of required governmental approvals for an acquisition, it may not be possible to consummate the acquisition and to recover costs that have been incurred in connection with the acquisition. In addition, difficulties regarding the acquisition or the newly acquired company's business activities that we may have failed to identify could materialize or that we had regarded as immaterial could turn out to be material in the end. In addition, potential benefits of an acquisition may fail to materialize or may not materialize as anticipated. If we are unable to successfully meet the challenges associated with one or more of our acquisitions, particularly the recent acquisition of APP Pharmaceuticals, this could have a material adverse effect on our business, financial condition and results of operations.

Through the public acquisition of APP Pharmaceuticals, Fresenius Kabi has acquired all potential liabilities of APP Pharmaceuticals.

Acquisitions may place a financial burden on us. We face competition from other companies for suitable acquisition targets.

The healthcare industry has experienced significant consolidation in recent years, particularly in the dialysis services sector.

Our ability to make future acquisitions depends, in part, on our available financial resources and limitations imposed under our credit agreements. Restrictions imposed under the competition laws of the regions and countries in which we operate could also limit our ability to make acquisitions. If we make future acquisitions, we may need to borrow additional debt, assume significant liabilities or create additional expenses relating to intangible assets. Any financing that we might need for future acquisitions might be available to us only on terms that restrict our business. Acquisitions that we complete are also subject to the risk that we might not successfully integrate the acquired businesses or that we might not realize anticipated synergies from the combination. If we are not able to effect acquisitions on reasonable terms, there could be a material adverse effect on our business, financial condition and results of operations.

We also compete with other companies in seeking suitable acquisition targets. If we are not able to continue to effect acquisitions on reasonable terms, this could have an adverse effect on our business, financial condition and results of operations.

If we are unable to attract and retain skilled medical, technical and engineering personnel, we may be unable to manage our growth or continue our technological development.

We believe that our future success as a service provider will be largely dependent on our ability to attract and retain qualified nurses and physicians in our dialysis clinics, hospitals and healthcare facilities. Competition for those employees is intense. In addition, Fresenius Medical Care and Fresenius Kabi need to develop new products, technologies and treatment concepts to continue to be competitive. Competition is also intense for skilled engineers and other technical and scientific research and development personnel. If we are unable to attract and retain qualified personnel in these areas, it could be difficult for our management to achieve our growth targets, which could have a material adverse effect on our business, financial condition and results of operations. These factors could also preclude us from integrating acquired companies efficiently into our operations, which could increase our costs and prevent us from realizing expected synergies from acquisitions. In addition, a lack of skilled research and development personnel could impair our technological development, which would increase our costs and impair our reputation for production of technologically advanced products. This could have an adverse effect on our business, financial condition and results of operations.

Fresenius Helios' planned growth presents us with certain risks. In addition, we are dependent on contracts with German public health insurance funds and government social security insurance authorities.

Our growth strategy for Fresenius Helios involves acquiring hospitals in suitable locations. Fresenius Helios' competitors pursue similar strategies. Some of these competitors may have greater financial resources than we have. If our competitors are more successful in making acquisitions than we are, this could curtail our growth plans and hinder the development of our regional care provider networks, which could have a material adverse effect on our business, financial condition and results of operations.

In 2007, approximately 90% of occupied beds at clinics run by Fresenius Helios were the result of referrals from German public health insurance funds and social security insurance authorities, in particular the Bundesversicherungsanstalt für Angestellte. Therefore, we are highly dependent on continuing contractual relations with German governmental authorities, especially as care agreements and referral arrangements, in line with industry practice, do not contain referral guarantees. Faced with increasing budget restrictions, private and state health and retirement insurers are attempting to negotiate the lowest possible treatment charges and flat rates. Should some or all of these contractual arrangements be discontinued, or should the hospitals be

unable to compensate for lower reimbursements, this could have a material adverse effect on our business, financial condition and results of operations.

We face risks and uncertainties from emerging markets.

We intend to expand further in emerging markets. We expect that sales from countries outside of Europe and North America, will account for an increasing portion of our sales in the future. Sales from these countries accounted for 14% of our Group sales in the first nine months of 2008.

Our international operations subject us to a number of risks:

- the economic situations in markets other than Europe and the United States may deteriorate;
- we could face difficulties in enforcing and collecting accounts receivable under some countries' legal systems;
- local regulations could restrict our ability to obtain ownership of local companies;
- political and economic instability, especially in developing and newly industrializing countries, could disrupt our operations;
- customers and other contractual partners, in particular governments, could demand longer payment cycles, with resulting adverse effects on our cash flow; and
- some countries could impose additional taxes or restrict the import of our products.

Any one of these factors could increase our costs, reduce our sales, or disrupt our operations, with possible material adverse effects on our business, financial condition and results of operations.

Changes in foreign exchange rates could have adverse effects on our financial results and on our ability to repay debt; our hedging efforts may be unsuccessful.

The reporting currency of Fresenius is the euro. For the year ended December 31, 2007, 43% of our consolidated sales came from our business segments in Europe, whose sales are mostly denominated in euro; and 43% of our consolidated sales came from our business in North America, whose sales are mostly denominated in U.S. dollars. Fluctuations in exchange rates between the euro and other non-euro currencies, primarily the U.S. dollar, will affect the translation of our consolidated financial results into euro and will also affect the value of any distributions that our business segments make to us. Exchange rate changes may also affect our consolidated balance sheet. Changes in the euro values of our consolidated assets and liabilities resulting from exchange rate movements may cause us to record foreign currency gains and losses. In addition, as of September 30, 2008, approximately 66% of our consolidated debt was denominated in U.S. dollars. Our ability to use cash received in currencies other than the euro or U.S. dollar to service that debt could be adversely affected by changes in exchange rates against the euro or the U.S. dollar.

While we enter into hedging transactions to minimize the effects of certain changes in exchange rates, we cannot assure you that such measures will be successful or that our hedging strategy will be effective. If these measures are unsuccessful or our hedging strategy is ineffective, this could increase our costs, reduce our sales or disrupt our operations, with possible material adverse effects on our business, financial condition and results of operations.

The tax authorities could take positions that require us to make additional tax payments.

Fresenius Group is subject to ongoing tax audits in the United States, Germany and other jurisdictions. In the past, Fresenius Group has received notices of unfavorable adjustments and disallowances in connection with certain of these audits. Fresenius Group is contesting, and in some cases appealing, certain of these unfavorable determinations. Fresenius Group may be subject to additional unfavorable adjustments and disallowances in connection with ongoing audits. If the objections and any final audit appeals are unsuccessful, Fresenius Group could be required to make additional tax payments. Fresenius Group is not currently able to determine the timing of these potential additional tax payments. If all potential additional tax payments and

the settlement payment in the Grace Chapter 11 Proceedings (as defined below under "Business — Legal Proceedings — Commercial Litigation") were to occur contemporaneously, there could be a material adverse impact on our operating cash flow in the relevant reporting period. Nonetheless, we anticipate that cash from operations and, if required, our available liquidity will be sufficient to satisfy all such obligations if and when they come due.

If APP Pharmaceuticals is unable to develop and commercialize new products, its ability to generate revenue and EBITDA will deteriorate.

Profit margins for a pharmaceutical product generally decline as new competitors enter the market. As a result, the future success of APP Pharmaceuticals will depend on our ability to commercialize the product candidates APP Pharmaceuticals is currently developing, as well as to develop new products in a timely and cost-effective manner. APP Pharmaceuticals currently has over 25 abbreviated new drug applications pending with the FDA, and over 70 product candidates under various stages of development. Successful development and commercialization of product candidates will require significant investment in many areas, including research and development and sales and marketing, and APP Pharmaceuticals may not realize a return on those investments. In addition, development and commercialization of new products are subject to inherent risks, including:

- failure to receive necessary regulatory approvals;
- difficulty or impossibility of manufacture on a large scale;
- prohibitive or uneconomical costs of marketing products;
- inability to secure raw material or components from third-party vendors in sufficient quantity or quality or at a reasonable cost;
- failure to develop or commercialize our own products prior to the successful marketing of similar or superior products by third parties;
- lack of acceptance by customers;
- impact of authorized generic competition;
- infringement on the proprietary rights of third parties;
- new patents may be granted for existing products, which could prevent the introduction of newly-developed products for additional periods of time; and
- grant to another manufacturer by the FDA of a 180-day period of marketing exclusivity under the Drug Price Competition and Patent Term Restoration Act of 1984, or the Hatch-Waxman Act, as patents or other exclusivity periods for brand name products expire.

The timely and continuous introduction of new products is critical to the business of APP Pharmaceuticals and, in turn, Fresenius Kabi. The ability of APP Pharmaceuticals to grow revenue will deteriorate if we are unable to successfully develop and commercialize new products, which could have an adverse effect on our business, financial condition and results of operations.

If APP Pharmaceuticals is unable to maintain its key customer arrangements, sales of its products and revenue may decline.

Almost all injectable pharmaceutical products are sold to customers through arrangements with group purchasing organizations ("GPOs"), and distributors. The majority of hospitals contract with the GPO of their choice for their purchasing needs. APP Pharmaceuticals currently derives, and APP Pharmaceuticals expects to continue to derive, a large percentage of its revenue through a small number of GPOs. Currently, fewer than ten GPOs control a large majority of sales to hospital customers.

APP Pharmaceuticals has purchasing arrangements with the major GPOs in the United States, including AmeriNet, Inc., Broadlane Healthcare Corporation, Consorta, Inc., MedAssets Inc., Novation, LLC, Owen

Healthcare, Inc., PACT, LLC, Premier Purchasing Partners, LP, International Oncology Network, National Oncology Alliance, and U.S. Oncology, Inc. In order to maintain these relationships, APP Pharmaceuticals believes it needs to be a reliable supplier, offer a broad product line, remain price competitive, comply with FDA regulations and provide high-quality products. The GPOs through which APP Pharmaceuticals sells its products also have purchasing agreements with other manufacturers that sell competing products and the bid process for products such as those of APP Pharmaceuticals is highly competitive. Most of APP Pharmaceuticals' GPO agreements can be terminated on short notice. If APP Pharmaceuticals is unable to maintain these arrangements with GPOs and key customers, revenue of the products of APP Pharmaceuticals would decline, which could have an adverse effect on our performance.

The strategy to inlicense rights to or acquire and commercialize proprietary or other specialty injectable products may not be successful, and we may never receive any return on our investment in these product candidates.

We may inlicense rights to or acquire or commercialize proprietary or other specialty injectable products or technologies. Other companies, including those with substantially greater financial and sales and marketing resources, will compete with us to license rights to or acquire or commercialize these products. We may not be able to license rights to or acquire these proprietary or other products or technologies on acceptable terms, if at all. Even if we obtain rights to a pharmaceutical product and commit to payment terms, including, in some cases, up-front license payments, we may not be able to generate product sales sufficient to create a profit or otherwise avoid a loss.

A product candidate may fail to result in a commercially successful drug for other reasons, including the possibility that the product candidate may:

- fail to receive necessary regulatory approvals;
- be difficult or uneconomical to produce in commercial quantities;
- be precluded from commercialization by proprietary rights of third parties; or
- fail to achieve market acceptance.

The marketing strategy, distribution channels and levels of competition with respect to any licensed or acquired product may be different from those of our current products, and we may not be able to compete favorably in any new product category.

APP Pharmaceuticals depends on third parties to supply raw materials and other components and APP Pharmaceuticals may not be able to obtain sufficient quantities of these materials, which will limit its ability to manufacture its products on a timely basis and harm our operating results.

The manufacture of APP Pharmaceuticals' products requires raw materials and other components that must meet stringent FDA requirements. Some of these raw materials and other components are available only from a limited number of sources. Additionally, APP Pharmaceuticals' regulatory approvals for each particular product specify the raw materials and components, and the suppliers for such materials, that APP Pharmaceuticals may use for that product. Obtaining approval to change, substitute or add a raw material or component, or the supplier of a raw material or component, can be time consuming and expensive, as testing and regulatory approval is necessary. If APP Pharmaceuticals' suppliers are unable to deliver sufficient quantities of these materials on a timely basis or APP Pharmaceuticals encounters difficulties in its relationships with these suppliers, the manufacture and sale of APP Pharmaceuticals' products may be disrupted, and its business, operating results and reputation could be adversely affected.

APP Pharmaceuticals may be required to indemnify Abraxis BioScience, Inc. and may not be able to collect on indemnification rights from Abraxis BioScience.

On November 13, 2007, APP Pharmaceuticals distributed all of the common stock of Abraxis BioScience, Inc. ("Abraxis BioScience") to APP Pharmaceuticals' stockholders in a spin-off. In connection with the spin-

off, APP Pharmaceuticals, Abraxis BioScience, and certain of their affiliates entered into a series of agreements, including a separation and distribution agreement, a transition services agreement, an employee matters agreement, a tax allocation agreement, a manufacturing agreement and various real estate leases.

Under the terms of the separation and distribution agreement, Abraxis BioScience agreed to indemnify APP Pharmaceuticals from and after the spin-off with respect to all liabilities of the pre-separation company not related to APP Pharmaceuticals' business and the use by APP Pharmaceuticals of any trademarks or other source identifiers owned by Abraxis BioScience. Similarly, APP Pharmaceuticals agreed to indemnify Abraxis BioScience from and after the spin-off with respect to all liabilities of the pre-separation company related to APP Pharmaceuticals' business and the use by Abraxis BioScience of any trademarks or other source identifiers owned by APP Pharmaceuticals.

Under the terms of a manufacturing agreement relating to the separation of Abraxis BioScience from APP Pharmaceuticals, Abraxis BioScience agreed to indemnify APP Pharmaceuticals from any damages resulting from a third-party claim caused by or alleged to be caused by (i) Abraxis BioScience's failure to perform its obligations under the manufacturing agreement; (ii) any product liability claim arising from the negligence, fraud or intentional misconduct of Abraxis BioScience or any of its affiliates or any product liability claim arising from Abraxis BioScience's manufacturing obligations (or any failure or deficiency in Abraxis BioScience's manufacturing obligations), under the manufacturing agreement; (iii) any claim that the manufacture, use or sale of APP Pharmaceuticals pipeline products infringes a patent or any other proprietary right of a third party; or (iv) any recall, product liability claim or other third-party claim not arising from the gross negligence or bad faith of, or intentional misconduct or intentional breach of the manufacturing agreement by, APP Pharmaceuticals by reason of the US$100 million limitation on liability described below. Abraxis BioScience also agreed to indemnify APP Pharmaceuticals for liabilities that Abraxis BioScience becomes subject to as a result of Abraxis BioScience's activities under the manufacturing agreement and for which Abraxis BioScience is not responsible under the terms of the manufacturing agreement. In addition, under this agreement, APP Pharmaceuticals agreed to indemnify Abraxis BioScience from any damages resulting from a third-party claim caused by or alleged to be caused by (i) APP Pharmaceuticals' gross negligence, bad faith, intentional misconduct or intentional failure to perform its obligations under the manufacturing agreement; or (ii) any product liability claim arising from the gross negligence or bad faith of, or intentional misconduct or intentional breach of the manufacturing agreement by, APP Pharmaceuticals. Under the agreement, APP Pharmaceuticals generally will not have any liability for monetary damages to Abraxis BioScience or third parties in connection with the manufacturing agreement for damages in excess of US$100 million in the aggregate.

Under the terms of a tax allocation agreement relating to the separation of Abraxis BioScience from APP Pharmaceuticals, Abraxis BioScience agreed to indemnify APP Pharmaceuticals against all tax liabilities to the extent they relate to Abraxis BioScience's business (i.e., the proprietary products business), and APP Pharmaceuticals agreed to indemnify Abraxis BioScience against all tax liabilities to the extent they relate to APP Pharmaceuticals' business (i.e., the hospital-based products business). In addition, Abraxis BioScience agreed to indemnify APP Pharmaceuticals against any tax liability arising as a result of the spin-off failing to qualify as a tax-free distribution unless such tax liability is imposed as a result of an acquisition of APP Pharmaceuticals or certain other specified acts of APP Pharmaceuticals. In connection with the acquisition of APP Pharmaceuticals, APP Pharmaceuticals received an opinion of counsel that the acquisition should not affect the qualification of the spin-off as a tax-free distribution under Section 355 and Section 368 (a)(1)(D) of the Code and the non-recognition of a gain of APP Pharmaceuticals in the spin-off. However, this opinion is subject to a number of assumptions and qualifications, and is not binding on the IRS or any court, nor does it preclude the IRS from asserting a contrary position. If, notwithstanding the opinion, the IRS were to audit the spin-off and successfully assert that the spin-off failed to qualify for the tax-free status as a result of the acquisition of APP Pharmaceuticals, APP Pharmaceuticals would have a material tax liability.

There are no time limits on when an indemnification claim must be brought and no other monetary limits on the amount of indemnification that may be provided. In addition, indemnification obligations could be significant. APP Pharmaceuticals' ability to satisfy any of these indemnification obligations will depend upon the future financial strength of APP Pharmaceuticals. APP Pharmaceuticals cannot determine whether it will

have to indemnify Abraxis BioScience for any substantial obligations after the separation. In addition, APP Pharmaceuticals also cannot assure that, if Abraxis BioScience becomes obligated to indemnify APP Pharmaceuticals for any substantial obligations, Abraxis BioScience will have the ability to satisfy those obligations.

Risks Relating to the Notes and the Structure of the Offering

Our leverage and debt-service obligations could have important consequences.

We have incurred substantial indebtedness. As of September 30, 2008, our total consolidated interest-bearing financial liabilities amounted to €8,588 million, while our total consolidated assets amounted to €20,114 million and our consolidated shareholders' equity amounted to €6,750 million, including minority interests. On a pro forma basis, we had EBITDA for the 12 months ended September 30, 2008 of €2,249 million and net interest expense of €578 million.

Fresenius' and Fresenius Medical Care's substantial current level of indebtedness, including the indebtedness incurred by Fresenius in connection with the acquisition of APP Pharmaceuticals, presents the risk that Fresenius and Fresenius Medical Care might not generate sufficient cash to service their indebtedness or that Fresenius' and Fresenius Medical Care's leveraged capital structure could limit their ability to finance any further acquisitions and develop additional projects, thereby limiting their ability to compete effectively or to operate successfully.

The Issuer's ability to service the Notes and our ability to service our other indebtedness will depend upon future operating performance, which is subject to:

- the success of our business strategy;
- prevailing economic conditions;
- levels of interest rates; and
- financial, business and other factors, many of which are beyond our control.

Our leverage and debt-service obligations could also have important consequences, including the following:

- our ability to obtain additional financing for future working capital needs or for possible future acquisitions or other purposes may be limited, including to fund any payments under the CVRs as such payments become due in 2011; and
- a substantial portion of our cash flow from operations will be dedicated to the payment of principal and interest on our indebtedness, thereby reducing funds available for other purposes.

There can be no assurance that our cash flow from operations in conjunction with borrowings from existing and possible future credit facilities will be sufficient for the future to meet debt-service requirements, make possible future acquisitions and capital expenditures and to fund any payments under the CVRs. Our leverage could make us vulnerable to:

- a downturn in the operating performance of our subsidiaries;
- larger than normal fluctuations or volatility in our cash flow; or
- a downturn in economic conditions.

If our cash flow were not sufficient to meet our debt service and principal payment requirements, we could be required to refinance our obligations or to dispose of assets in order to meet such requirements. There can be no assurance that we would be able to effect any such transactions or do so on favorable terms.

The Issuer has no material assets or sources of revenue except for claims against other Group companies resulting from an intercompany loan and relies on distributions from Fresenius SE's subsidiaries to service and repay the Notes.

The Issuer is a wholly owned finance subsidiary of Fresenius SE and will on-lend the proceeds from the sale of the Notes under intercompany loans to repay certain borrowings. The Issuer intends to service and repay the Notes out of the payments it receives under these intercompany loans. The Issuer has no other material assets or sources of revenue except for its claims under these intercompany loans. Accordingly, the Issuer's ability to service and repay the Notes depends on the ability of the counterparties to the intercompany loans to service such indebtedness. Therefore, in meeting its payment obligations under the Notes, the Issuer is wholly dependent on the profitability and cashflow of the counterparties to the intercompany loans to which it is a party.

Fresenius SE, the Parent Guarantor of the Notes, functions as a holding company for our Group, has no material amount of independent operations and derives substantially all of its consolidated revenues from its operating subsidiaries. Consequently, Fresenius SE's cash flow and its ability to meet its cash requirements, including its obligations under its Guarantee, is dependent upon the profitability and cash flow of its subsidiaries and payments by such subsidiaries to Fresenius SE in the form of loans, dividends, fees, rental payments, or otherwise, as well as Fresenius SE's own credit arrangements.

The ability of Fresenius Medical Care and our other subsidiaries to make payments to Fresenius SE may be restricted by, among other things, applicable corporate and other laws and regulations and by the terms of covenants and restrictions contained in financing agreements to which Fresenius Medical Care and our other subsidiaries are or will be a party. See "Description of Other Financing Arrangements" for a description of such agreements. In addition to any limitations on payment to Fresenius SE contained in such agreements, any failure to comply with the covenants and restrictions contained in such agreements could trigger defaults under those agreements which could delay or preclude the distribution of dividend payments or any other similar payments to Fresenius SE.

Fresenius Medical Care generated approximately 68%, or €875 million, of our cash flow from operations in the year ended December 31, 2007, but Fresenius SE has access to such cash flow only to the extent it is distributed to it as dividends. Such dividends are received in proportion to its economic interest, which is 35.83% as at September 30, 2008, and are limited by the financing agreements referred to above. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Key Factors Affecting Our Results of Operations and Financial Condition". Upon the exchange of the Mandatory Exchangeable Bonds for ordinary shares of Fresenius Medical Care AG & Co. KGaA, Fresenius SE's holding of Fresenius Medical Care AG & Co. KGaA's share capital could decrease at current exchange prices (subject to further anti-dilution adjustments) to between 31.11% at the maximum exchange price and 30.25% at the minimum exchange price, based on Fresenius SE's holding of 35.83% at September 30, 2008. For more information on the Mandatory Exchangeable Bonds, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Fresenius Finance (Jersey) Ltd.'s €554 million 5.625% Mandatory Exchangeable Bonds due 2011". The Notes will not be guaranteed by Fresenius Medical Care and will (including the direct and indirect security granted to secure the obligations under the 2008 Senior Credit Facilities) be structurally subordinated in right of payment to all existing and future indebtedness of Fresenius Medical Care, including its obligations under its trust preferred securities, its senior notes due 2017 and current and future credit facilities. As of September 30, 2008, Fresenius Medical Care had €4,019 million of indebtedness.

The Subsidiary Guarantors of the Notes, Fresenius Kabi AG and Fresenius ProServe GmbH, function exclusively as second-tier holding companies, have no independent operations and derive substantially all of their revenue and cash from their operating subsidiaries. Fresenius Kabi AG's and Fresenius ProServe GmbH's ability to meet their obligations on their respective Guarantees are dependent upon the profitability and cash flow of their respective subsidiaries and payments by such subsidiaries to them in the form of loans, dividends, fees or otherwise.

See "— The Notes are subordinate to other creditors of non-guarantors and to our subsidiaries' secured debt, and enforcement of guarantees by our subsidiaries may be limited".

The Notes are subordinate to other creditors of non-guarantors and to our subsidiaries' secured debt, and enforcement of guarantees by our subsidiaries may be limited.

Generally, claims of creditors of a subsidiary, including trade creditors, secured creditors and creditors holding indebtedness and guarantees issued by the subsidiary, will have priority with respect to the assets and earnings of the subsidiary over the claims of creditors of its parent company. However, holders of the Notes will have direct claims against Fresenius SE's wholly owned subsidiaries Fresenius Kabi AG, Fresenius ProServe GmbH, and Fresenius SE itself, under the guarantees issued by Fresenius SE and the Subsidiary Guarantors guaranteeing the Notes on a senior unsecured basis.

Accordingly, the Notes will be structurally subordinated to all creditors, including trade creditors, of Fresenius SE's subsidiaries (including Fresenius Medical Care) other than the Subsidiary Guarantors and the Issuer. As of September 30, 2008, our subsidiaries which are not subsidiary guarantors (including Fresenius Medical Care) had €8,438 million of liabilities. Any right of Fresenius SE or any of the Subsidiary Guarantors to receive assets of any subsidiary upon the insolvency or liquidation of the subsidiary (and the consequent rights of the holders of the Notes to participate in those assets) will be structurally subordinated to the claims of the subsidiary's creditors, except to the extent Fresenius SE's or the Subsidiary Guarantor's claims do not result from (i) their respective shareholdings, (ii) shareholder loans (or their economic equivalent) subordinated by law or (iii) contractually subordinated claims, in which case their claims would still be subordinated with respect to any assets of the subsidiary pledged to secure other indebtedness, and any indebtedness of the subsidiary senior to that held by Fresenius SE or the Subsidiary Guarantors. In addition, holders of secured indebtedness of Fresenius SE or the Subsidiary Guarantors would have a claim on the assets securing such indebtedness that is prior to the holders of the Notes and would have a claim that is pari passu with the holders of the Notes to the extent the security did not satisfy such indebtedness. As of September 30, 2008, as adjusted for the Bridge Refinancings, the Fresenius Group (other than Fresenius Medical Care) would have had €2,503 million of secured indebtedness.

Enforcement of the guarantees of the Notes issued by the Subsidiary Guarantors are limited in certain circumstances. Such limitations would, if applicable, effectively subordinate the Notes in right of payment to all indebtedness and other payment obligations of the relevant Subsidiary Guarantor then existing irrespective of the granting of the guarantee.

The terms of the guarantee of the Notes granted by Fresenius Kabi AG limit enforcement to the amount calculated in accordance with Section 291 paragraph 3 and Section 301 of the German Stock Corporation Act *(Aktiengesetz)*, i.e., the amount available to Fresenius Kabi AG from time to time for profit distribution to Fresenius SE under any existing profit-and-loss pooling agreement (*Ergebnisabführungsvertrag*) between Fresenius SE and Fresenius Kabi AG. See "Description of the Notes — Guarantees".

The terms of the guarantee of the Notes granted by Fresenius ProServe GmbH limits enforcement if and to the extent payment under the guarantee or the application of enforcement proceeds would cause Fresenius ProServe GmbH's net assets to fall below its registered share capital, or (if the net assets are already an amount less than the registered share capital) cause such amount to be further reduced, calculated as described under "Description of the Notes — Guarantees".

The guarantees of the Notes granted by the Subsidiary Guarantors will rank pari passu with the guarantees of the Existing Notes except that the guarantee granted by Fresenius Kabi AG of the Notes will be limited as described above while its guarantee of Fresenius Finance B.V.'s €100 million principal amount of 7½% series B senior notes due 2009 (the "2009 Notes") was limited only to the extent that the on-loan of the proceeds of such notes to Fresenius Kabi AG, which were used by Fresenius Kabi AG to repay an outstanding loan to Fresenius SE, were to be re-characterized as equity (which would occur if Fresenius Kabi AG were to become un-creditworthy, i.e., either insolvent, over indebted or otherwise unable to obtain funds from third parties at market rates).

In addition, under the indenture for the 2009 Notes it is a condition to the release of Fresenius Kabi AG's guarantee obligations that certain intercompany loans extended to Fresenius Kabi AG are assigned as security

for such notes. No such similar condition applies to a release of the Fresenius Kabi AG guarantee of the Notes.

The Notes will be effectively junior to any of our and our subsidiaries' secured debt to the extent of the assets securing such debt. As a result, the Notes will be subordinated to the debt under the 2008 Senior Credit Agreement to the extent of the collateral granted to secure such debt.

For a description of the collateral provided under the 2008 Senior Credit Facilities, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — 2008 Senior Credit Facilities — Security".

We may not have the ability to raise the funds necessary to finance a change of control offer as required by the Indenture.

If specific kinds of change of control events occur, the Issuer would be required to make an offer to repurchase all of the outstanding Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest, if any, and additional amounts, if any. If a change of control occurs, we cannot assure you that we will have sufficient funds to pay the purchase price for any Notes tendered. Some events involving a change of control may also cause an event of default under our credit facilities, our Existing Notes, or the Indenture or other debt that we may incur in the future. If a change of control occurs at a time when we are prohibited from purchasing the Notes under our other debt agreements, we could seek the consent of our lenders to purchase the Notes or could attempt to refinance the borrowings that prohibit our repurchase of the Notes. If we do not obtain that consent or repay those borrowings, we would remain prohibited from purchasing the Notes. In that case, our failure to purchase any of the tendered Notes would constitute an event of default under the Indenture governing the Notes, which would likely cause a default under other debt obligations. In that event we would be required to repay all our senior debt, including debt under our credit facilities or indentures before we could repurchase the Notes. You should read the discussions under the headings "Description of Other Financing Arrangements", and "Description of the Notes — Change of Control" for further information about these restrictions.

Our indebtedness imposes restrictions.

The various debt instruments, including the 2008 Senior Credit Facilities and the Indenture, to which we are a party, contain covenants restricting or limiting our ability to, among other things:

- incur additional indebtedness;
- create liens;
- have our subsidiaries pay dividends or make other payments to us;
- transfer or sell assets;
- engage in sale and leaseback transactions;
- merge or consolidate with other entities; and
- enter into transactions with affiliates.

All of these limitations are subject to a number of important exceptions and qualifications.

In addition, the 2008 Senior Credit Facilities include financial covenants that require us to maintain, among other things, a minimum leverage ratio, a minimum interest coverage ratio, a minimum cash flow coverage ratio and a limit on capital expenditures.

If we breach the covenants of any financing arrangements and are unable to cure the breach (to the extent the breach is capable of being cured) or to obtain a waiver from the lenders (to the extent the covenant is capable of be waived), we would be in default under the terms of such arrangement. A default under any financing arrangements could result in a default under other financing arrangements, including the Indenture, and could cause lenders under other arrangements to accelerate such financing arrangements, in which case

the amounts under those arrangements would become due as well. If the indebtedness under the Notes or certain other financing arrangements were to be accelerated, there can be no assurance that our assets would be sufficient to repay in full that indebtedness and the other indebtedness of the Issuer.

In addition, Fresenius Medical Care's senior credit facilities entered into in 2006 (the "2006 Senior Credit Agreement"), its agreements with the European Investment Bank, its euro notes, its senior notes and its trust preferred securities include covenants that require Fresenius Medical Care to maintain certain financial ratios or to meet other financial tests. Under the 2006 Senior Credit Agreement, Fresenius Medical Care is obligated to maintain a minimum consolidated fixed charge ratio and a maximum consolidated leverage ratio. Other covenants in one or more of each of these agreements restrict or have the effect of restricting Fresenius Medical Care's ability to dispose of assets, incur debt, pay dividends to Fresenius SE and make other restricted payments, create liens or engage in sale-and-leaseback transactions. A breach of any of the covenants or conditions of Fresenius Medical Care's financing arrangement could result in a default and acceleration of the debt under the respective arrangement, which could, in turn, lead to additional defaults and acceleration of the debt under other financing arrangements.

There is no active public trading market for the Notes.

Although application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market and the Issuer expects the Dollar Notes to be eligible for trading on the PORTAL[SM] Market, there can be no assurance regarding the future development of a market for the Notes or the ability of holders of the Notes to sell their Notes or the price at which such holders may be able to sell their Notes. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including:

- prevailing interest rates;
- our operating results; and
- the market for similar securities.

Certain of the initial purchasers have advised the Issuer that they currently intend to make a market in the Notes as permitted by applicable laws and regulations; however, the initial purchasers are not obligated to do so, and any such market-making activities with respect to the Notes may be discontinued at any time without notice. Therefore, there can be no assurance as to the liquidity of any trading market for the Notes or that an active public market for the Notes will develop.

THE ACQUISITION OF APP PHARMACEUTICALS

On September 10, 2008, Fresenius completed its acquisition of APP Pharmaceuticals, a leading manufacturer of intravenously administered generic drugs in North America. Through the acquisition of APP Pharmaceuticals, Fresenius Kabi has entered the U.S. pharmaceuticals market and achieved a leading position in the global intravenously administered generic drugs market. Prior to the acquisition, APP Pharmaceuticals was listed on the NASDAQ Stock Market under the symbol "APPX". APP Pharmaceuticals is now a direct, wholly owned subsidiary of Fresenius Kabi Pharmaceuticals Holdings Inc., a U.S. subsidiary of Fresenius Kabi AG ("FK Holdings"), and is now a part of the Fresenius Kabi business segment. For the twelve-month period ended September 30, 2008, APP Pharmaceuticals reported net revenue of US$738 million (€491 million), net income from continuing operations of US$88 million (€59 million), and total assets of US$4,968 million (€3,474 million), as of September 30, 2008.

The cash purchase price for APP Pharmaceuticals was US$3,730 million. In addition, each holder of APP Pharmaceuticals common stock received one CVR issued by FK Holdings, with a total of 163,251,906 CVRs having been issued at the completion of the acquisition. For a description of the CVRs see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Contingent Value Rights of FK Holdings".

We funded the acquisition of APP Pharmaceuticals with:

- US$871 million (€554 million) raised from the sale by Fresenius SE of 5.625% mandatory exchangeable bonds due 2011 of Fresenius Finance (Jersey) Ltd. in August 2008 (the "Mandatory Exchangeable Bond Offering"). The bonds are mandatorily exchangeable into ordinary shares of Fresenius Medical Care AG & Co. KGaA and may not be repaid in cash;
- US$453 million (€289 million) raised through the issue and sale of 2,748,057 ordinary shares and 2,748,057 preference shares of Fresenius SE in August 2008 (the "Equity Offering");
- US$2,250 million drawn down under the 2008 Senior Credit Facilities; and
- US$1,300 million drawn down under the Bridge Facility.

The Mandatory Exchangeable Bond Offering, the Equity Offering, the entry into the 2008 Senior Credit Agreement and borrowings under the 2008 Senior Credit Facilities (including borrowings for the refinancing of APP Pharmaceuticals' former senior credit facility), and the entry into the Bridge Credit Agreement and borrowings under the Bridge Facility are referred to herein as the "APP Financing" and the acquisition of APP Pharmaceuticals and the APP Financing together are referred to herein as the "APP Transaction".

Since the APP Transaction, we have increased term loan borrowings under the 2008 Senior Credit Facilities by US$500 million (the "Senior Credit Facilities Drawdown"). During October 2008, we repaid US$650 million under the Bridge Facility (the "October Bridge Repayment") from the US$500 million proceeds of the Senior Credit Facilities Drawdown and other borrowings. The Senior Credit Facilities Drawdown and the October Bridge Repayments are referred to herein as the "Bridge Refinancings".

The following table sets forth the sources and uses of funds in connection with the acquisition of APP Pharmaceuticals, giving effect to the Bridge Refinancings:

Sources	(in millions US$)	Uses	(in millions US$)
2008 Senior Credit Facilities[1]	2,750	Cash purchase price	3,730
Bridge Facility[2]	650	Net Debt of APP Pharmaceuticals[5]	895
Other borrowings[3]	105		
Total debt	3,505		
New equity[4]	1,324	Estimated fees and expenses[6]	204
Total sources	**4,829**	**Total uses**	**4,829**

(1) The 2008 Senior Credit Facilities include the 2008 Senior Revolving Credit Facilities. The 2008 Senior Revolving Credit Facilities are available in an aggregate amount of US$550 million, of which US$250 million was drawn at the closing of the acquisition of APP Pharmaceuticals. Prior to September 30, 2008, we repaid US$150 million of the 2008 Senior Revolving Credit Facilities with

available funds. For more information about the 2008 Senior Credit Facilities, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — 2008 Senior Credit Facilities".

(2) We will repay the remaining outstanding borrowings under the Bridge Facility with the proceeds of the Notes offered hereby.

(3) Includes drawings under the bilateral facility with the European Investment Bank in the amount of €56 million.

(4) Represents the proceeds from the Equity Offering, converted into U.S. dollars based on a hedged exchange rate and the proceeds raised in the Mandatory Exchangeable Bond Offering, converted into U.S. dollars based on a hedged exchange rate. For information about the Mandatory Exchangeable Bonds, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Fresenius Finance (Jersey) Ltd.'s €554 million 5.625% Mandatory Exchangeable Bonds due 2011".

(5) The net debt of APP Pharmaceuticals at the closing of the acquisition on September 10, 2008, was US$895 million, reflecting outstanding borrowings under APP Pharmaceuticals' former senior credit facility, which was refinanced at the closing of the acquisition of APP Pharmaceuticals, less cash and cash equivalents.

(6) Includes placement and other financing fees, professional fees, transaction fees and other payments related to the APP Transaction, the Bridge Refinancings and the offering of the Notes hereby.

Special items relating to the acquisition of APP Pharmaceuticals

The following table shows special items relating to the acquisition of APP Pharmaceuticals and their effects on EBIT, other financial result and net income for the nine-month period ended September 30, 2008.[1]

	EBIT	Other financial result	Net income
		in €million	
Earnings, adjusted	1,209		324
Purchase accounting adjustments[2]:			
— In-process research and development	(175)		(175)
— Inventory step-up	(9)		(5)
Foreign exchange gain[3]	28		20
Other financial result[4]:			
— Mandatory Exchangeable Bond accounting (mark to market)		(38)	(27)
— CVR accounting (mark to market)		36	36
— Special financing expenses		(32)	(20)
Earnings according to US-GAAP	1,053	(34)	153

(1) Differences in amounts shown in the line items in this table from one column to the next result from differences in taxation effects.

(2) Figures are indicative and subject to change as the purchase price allocation is still provisional. In connection with preparing our year end 2008 financial statements, we are undertaking a valuation of the acquired assets and liabilities. While the results of this valuation may affect the purchase price allocation, it would not affect EBITDA. Purchase accounting adjustments include:

US GAAP accounting principles valid at September 30, 2008 required full depreciation of acquired in-process research and development at the closing of the acquisition. Applying US GAAP principles thus resulted in a one-time charge of €175 million.

The inventory step-up reflects the excess of fair value over book value of acquired semi-finished and finished products. The amount is capitalized and amortized in line with the sale of the respective products.

(3) Foreign exchange gain in the amount of €28 million, resulting from the relative increase in strength of the U.S. dollar in the period leading up to September 30, 2008, which had the effect of increasing the value of a US$-denominated intercompany loan from Fresenius SE to Fresenius Kabi Pharmaceuticals Holdings, Inc., resulted in a book gain in the Group's consolidated accounts.

(4) In addition, €67 million of transaction-related financing expenses have been capitalized and will be depreciated over the life of the facility. Other financial result includes:

Mandatory Exchangeable Bonds: The mark-to-market accounting for the Mandatory Exchangeable Bonds is based on the Black-Scholes valuation model, reflecting the price of shares of Fresenius Medical Care AG & Co. KGaA (into which the Mandatory Exchangeable Bonds are exchangeable). Any change in fair value is recognized in the profit and loss statements of the Group. Valuation changes will lead to gains or expenses until maturity.

CVR: The trading price of the CVR on the buy or sell date is considered to be the fair redemption value. Changes in this value are recognized in the statements of profit and loss of the Group. Valuation changes will lead to quarterly gains or expenses until maturity. The calculation as of September 30, 2008 is determined by taking the difference between the average of the trading price over the initial five trading days (US$0.97 per CVR) and the trading price at September 30, 2008 (US$0.65 per CVR), or US$0.32, and multiplying by the number of CVRs outstanding as of September 30, 2008, or 163.3 million CVRs, yielding US$52 million (€36 million).

Special financing expenses include commitment and funding fees for the Bridge Facility and the write-off of historic financing costs at APP Pharmaceuticals due to the refinancing of a 2007 syndicated loan.

USE OF PROCEEDS

The proceeds from the offering of the Notes will be used to repay amounts outstanding under the Bridge Facility and to repay other short-term debt. The proceeds from the offering of the Notes will be the equivalent of US$800 million, net of the original issue discount.

CAPITALIZATION

The table below sets out our consolidated capitalization as of September 30, 2008:

- on an actual basis, and
- on an adjusted basis to reflect the Bridge Refinancings and the issuance of the Notes offered hereby.

You should read this table together with our consolidated financial statements and the notes to those consolidated financial statements, and the information under "Summary — Overview", "The Acquisition of APP Pharmaceuticals", "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" and "Description of Other Financing Arrangements".

	Actual as of September 30, 2008	Adjusted as of September 30, 2008
	(in million €)	
Cash and cash equivalents[1]	333	333
Short-term debt		
Fresenius Medical Care accounts receivable facility	375	375
Other short-term debt[2][3]	715	693
Total short-term debt	1,090	1,068
Thereof: Fresenius Medical Care	786	786
Long-term debt and trust preferred securities		
2008 Senior Credit Agreement[3]	1,468[4]	1,818
Bridge Credit Agreement[3]	909	0
Fresenius Medical Care 2006 Senior Credit Agreement	2,337	2,337
Fresenius Medical Care 6⅞% senior notes due 2017	344	344
Fresenius Medical Care trust preferred securities	450	450
Fresenius Finance B.V. and Fresenius Medical Care euro notes (*Schuldscheindarlehen*)	800	800
Existing Notes	1,100	1,100
Notes offered hereby[5]	0	581
Other long-term debt and liabilities[6]	564	564
Total long-term debt	7,972	7,994
Less: short-term portion	474	474
Total long-term debt net of short-term portion	7,498	7,520
Thereof: Fresenius Medical Care	3,233	3,233
Total debt	8,588	8,588
Mandatory Exchangeable Bonds	554	554
Shareholders' equity and minority interests		
Subscribed capital	161	161
Capital reserves	2,043	2,043
Other reserves	1,686	1,686
Accumulated other comprehensive income (loss)	(45)	(45)
Shareholders' equity	3,845	3,845
Minority interests	2,905	2,905
Total capitalization[7]	15,892	15,892

(1) Of the amounts set forth in this line item, €126 million represent cash and cash equivalents held by Fresenius Medical Care.

(2) Other short-term debt mainly consists of bilateral bank facilities and short-term portion of long-term debt.

(3) During October 2008, we repaid US$650 million under the Bridge Facility (the "October Bridge Repayment") from the US$500 million proceeds of the Senior Credit Facilities Drawdown and other borrowings.

(4) Prior to September 30, 2008, we repaid US$150 million of the 2008 Senior Revolving Credit Facilities with available funds.

(5) This amount reflects the proceeds of the Notes, net of the original issue discount.

(6) Of the amounts set forth in this line item, €41 million represents capital lease obligations. Other long-term debt otherwise mainly consists of bilateral bank facilities and the credit facilities with the European Investment Bank.

(7) Does not include the CVRs.

Other than as indicated above, there has been no material change to the Group's consolidated capitalization or indebtedness since September 30, 2008.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF FRESENIUS GROUP, INCLUDING APP PHARMACEUTICALS

Introduction

We have prepared a pro forma consolidated statement of income for the year ended December 31, 2007 and the nine months ended September 30, 2008 (together, the "pro forma financial information"). The pro forma financial information is unaudited.

Due to the closing of the acquisition of APP Pharmaceuticals on September 10, 2008, the consolidated balance sheet of Fresenius SE as of September 30, 2008 includes APP Pharmaceuticals. Although the APP Transaction closed on September 10, 2008, the consolidated statement of income and the consolidated statement of cash flows of Fresenius SE for the period ended September 30, 2008 include the results of operations of APP Pharmaceuticals for the one-month-period ending September 30, 2008. The consolidated financial statements of Fresenius SE and the APP Pharmaceuticals consolidated financial statements are included elsewhere in this offering memorandum.

The pro forma financial information reflects the acquisition of APP Pharmaceuticals and the related financing of the acquisition.

The pro forma financial information is based on the following financial statements:

- the audited consolidated financial statements of Fresenius SE as of and for the year ended December 31, 2007 prepared in accordance with US GAAP and the unaudited consolidated financial statements of Fresenius SE as of and for the nine months ended September 30, 2008 (including the single month of September 2008 for APP Pharmaceuticals) prepared in accordance with US GAAP; and
- the audited consolidated financial statements of APP Pharmaceuticals as of and for the year ended December 31, 2007 prepared in accordance with US GAAP and the unaudited consolidated financial statements of APP Pharmaceuticals as of and for the eight months ended August 31, 2008 prepared in accordance with US GAAP (the "APP Pharmaceuticals consolidated financia1 statements"). For purposes of the pro forma financial information, we translated the consolidated financial statements of APP Pharmaceuticals from U.S. dollars into euros.

We have also prepared an unaudited pro forma consolidated statement of income for the 12 months ended September 30, 2008. The financial information for the 12 months ended September 30, 2008 was derived by adding Fresenius SE's and APP Pharmaceuticals' consolidated financial data for the nine months ended September 30, 2008 to Fresenius SE's and APP Pharmaceuticals' pro forma consolidated financial data for the three months ended December 31, 2007.

We have included APP Pharmaceuticals, Inc. and its subsidiaries in the pro forma financial information together with the consolidated subsidiaries of Fresenius SE. For the purposes of preparing the pro forma consolidated statement of income for the nine months ended September 30, 2008, for the twelve months ended September 30, 2008 and for the year ended December 31, 2007, it was necessary to assume that the APP Transaction had occured as of January 1, 2007. Special items related to the acquisition of APP Pharmaceuticals have been excluded from the pro forma consolidated statements of income for the nine- and 12-month periods ended September 30, 2008.

The pro forma adjustments are based upon available information, preliminary estimates and certain assumptions that the management of the Fresenius Group believes are reasonable and are described in the accompanying notes to the pro forma financial information.

The purpose of the pro forma financial information is to show the influence of the acquisition of APP Pharmaceuticals on the results of operations of the Fresenius Group.

The pro forma financial information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not attempt to predict or suggest what our future

results will be. The unaudited pro forma financial information also does not attempt to show how the combined company would actually have performed had APP Pharmaceuticals been owned by us throughout the periods presented.

The actual results of operations of Fresenius following the acquisition of APP Pharmaceuticals will differ, perhaps significantly, from the pro forma amounts reflected herein because, among other reasons:

- the assumptions used in preparing the unaudited pro forma financial data may be revised in the future due to changes in values of assets; and
- adjustments may need to be made to the historical financial data upon which such pro forma data are based.

The pro forma financial information has been prepared in accordance with Institut der Wirtschaftsprüfer's RH HFA 1.004 "Erstellung von Pro-Forma-Angaben" regarding the preparation of pro forma financial information.

The pro forma financial information has also been prepared in accordance with SFAS 141, *Business Combinations.* The total purchase price paid for APP Pharmaceuticals has been preliminarily allocated, based on information available to us as of the date hereof, to the tangible and intangible assets acquired and liabilities assumed in connection with the acquisition, in each case based on management's preliminary estimates of their current fair values. These estimates and assumptions of the fair values of assets acquired and liabilities assumed and operating results derived therefrom are subject to changes that could result in material differences between the actual amounts and those reported in the unaudited pro forma financial information.

The pro forma financial information is provided for illustrative purposes only and is subject to a number of uncertainties and assumptions and does not purport to represent what the Fresenius Group's actual performance or financial position would have been, had the acquisition of APP Pharmaceuticals occurred on January 1, 2007, and does not purport to indicate our future financial position or results of operations. You should read the pro forma financial information together with the historical financial statements of Fresenius and APP Pharmaceuticals included elsewhere in this offering memorandum.

The Preparation of and Procedure and Assumptions Used in the Pro Forma Financial Information

1. Costs for the Acquisition of APP Pharmaceuticals Common Stock

On July 6, 2008, APP Pharmaceuticals, Inc., Fresenius SE, Fresenius Pharmaceuticals Holding, LLC, a Delaware limited liability company subsequently converted into a Delaware corporation ("FK Holdings") and an indirect, wholly-owned subsidiary of Fresenius SE, and Fresenius Kabi Pharmaceuticals, LLC, a Delaware limited liability company ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which, Merger Sub was merged with and into APP Pharmaceuticals, Inc. and APP Pharmaceuticals, Inc. became a direct, wholly-owned subsidiary of FK Holdings and an indirect, wholly-owned subsidiary of Fresenius SE on September 10, 2008.

Upon the effectiveness of the merger, each share of APP Pharmaceuticals common stock was converted into the right to receive (x) an amount in cash equal to US$23.00, without interest plus (y) one CVR issued by FK Holdings. Each CVR entitles its holder a cash payment of up to US$6.00 to the extent that the Adjusted EBITDA (as defined in the CVR indenture) of APP Pharmaceuticals and FK Holdings for the three years ending December 31, 2010, exceeds a specified level.

The total cash purchase price (excluding any cash payments under the CVRs) for the acquisition of the equity of APP Pharmaceuticals was US$3,730 million. The maximum aggregate payment obligation under the CVRs could be up to US$979.5 million.

Upon the effectiveness of the merger, there were approximately 160,987,198 shares of APP Pharmaceuticals common stock outstanding and approximately 2,264,708 shares issuable in respect of outstanding options and restricted stock units ("RSUs") granted under APP Pharmaceuticals various stock compensation plans. Based (a) on a US$23.00 per share price for APP Pharmaceuticals common stock in the merger (representing

the cash portion of the merger consideration per share), outstanding options and RSUs (including those that vested in connection with the merger), the fair value of CVRs and the repayment of APP Pharmaceuticals' then outstanding senior credit facility on September 10, 2008, and (b) estimated expenses incurred by Fresenius in connection with the acquisition of APP Pharmaceuticals of US$22 million, the total purchase price was as follows:

	(in million US$)
Purchase of outstanding common stock (cash portion)	3,702.7
Buy out of restricted stock units and stock options under stock compensation plans	27.7
Fair value of CVRs	158.4[(1)]
Estimated transaction costs	22.0
Repayment of APP Pharmaceuticals then outstanding senior credit debt and settlement of related interest rate swap	997.5
Total purchase price	4,908.3

The preliminary purchase price allocation (based on preliminary fair value estimates) as of September 30, 2008 was as follows:

	(in million US$)
Net working capital and other assets	320.1
Property, plant and equipment	133.0
In-process research and development	252.0
Identifiable intangible assets	610.0
Deferred tax liability, net	(138.0)
Goodwill	3,731.2
Total	4,908.3

(1) The fair value of CVRs was determined by taking the average of the trading price over the initial 5 days of trading.

The purchase price allocation in the table above is preliminary as of September 30, 2008. The final determination of the purchase price allocation will be based on the fair values of APP Pharmaceuticals' net assets, including the fair values of in-process research and development and other intangibles, as of the date of the merger. The excess of the purchase price over the fair values of the assets and liabilities of APP Pharmaceuticals will be reflected as goodwill.

For the purposes of the unaudited pro forma statements of operations, identifiable intangible assets are amortized using the straight-line method over the estimated useful life of the asset ranging from 12 to 20 years (with a weighted average of 15 years). The final amount for the identifiable intangible assets, the estimated useful lives and the acquired in-process research and development charge will be determined upon completion of a third-party valuation, and therefore, may differ significantly from the amounts presented in the unaudited pro forma statements of operations. To the extent the amounts and estimated useful lives are different from those presented above, the unaudited pro forma statements of operations could change significantly. For example:

(i) If the amounts allocated to identifiable assets increase or decrease by US$100 million (a 15% increase), annual amortization expense would increase or decrease, respectively, by US$6.7 million (assuming a 15-year weighted average life).

(ii) If the weighted average life decreases from 15 years to 12 years (a 20% decrease) or increases to 20 years (a 25% increase), annual amortization expense would increase or decrease, respectively, by US$11.2 million (assuming no change to the amount allocated).

2. Financing the purchase of the shares of APP Pharmaceuticals

We funded the acquisition of APP Pharmaceuticals with a variety of debt instruments. For more information on the financing of the acquisition of APP Pharmaceuticals, see "The Acquisition of APP Pharmaceuticals".

3. Foreign Currency Translation of APP Pharmaceuticals' Financial Data and Pro Forma Adjustments

Revenues and expenses are translated for the relevant periods at the weighted average exchange rates for the year ended December 31, 2007, the twelve months ended September 30, 2008 and the nine months ended September 30, 2008. Adjustments for foreign currency translation fluctuations are excluded from net earnings and are reported under accumulated other comprehensive income.

Unaudited Pro Forma Consolidated Statement of Income

January 1 to December 31, 2007, in million	Fresenius SE	APP Pharmaceuticals[1]	APP Pharmaceuticals[1]	Pro forma adjustments	Fresenius SE including APP Pharmaceuticals
	€	US$	€	€	€
Sales	11,358	647	472	(5)[a]	11.825
Cost of sales	(7,680)	(332)	(242)	12[b]	(7,905)
				5[a]	
Gross profit	3,678	315	230	12	3,920
Selling, general and administrative expenses	(1,885)	(109)	(79)	11[b]	(1,983)
				(30)[b]	
Research and development expenses	(184)	(46)	(34)	0	(218)
Operating income (EBIT)	1,609	160	117	(7)	1,719
Net interest	(368)	(23)	(17)	(236)[d]	(621)
Earnings before income taxes and minority interest	1,241	137	100	(243)	1,098
Income taxes	(448)	(55)	(40)	94[e]	(394)
Minority interests	(383)	0	0	0	(383)
Net income	410	82	60	(149)	321
Basic earnings per ordinary share	2.64				1.99
Fully diluted earnings per ordinary share	2.61				1.96
Basic earnings per preference share	2.65				2.00
Fully diluted earnings per preference share	2.62				1.97
Weighted average number of ordinary shares outstanding	77,394,080				80,142,137
Weighted average number of ordinary shares assuming dilution	78,186,931				80,934,988
Weighted average number of preference shares outstanding	77,394,080				80,142,137
Weighted average number of preference shares assuming dilution	78,186,931				80,934,988

(1) Results from continuing operations.

Unaudited Pro Forma Consolidated Statement of Income

January 1 to September 30, 2008, in million	Fresenius SE	APP[1] Pharmaceuticals	APP[1] Pharmaceuticals	Pro forma adjustments	Fresenius SE including APP Pharmaceuticals
	€	US$	€	€	€
Sales	8,761	475	309	(4)[a]	9,066
Cost of sales	(5,973)	(242)	(158)	7[b]	(6,111)
				4[a]	
				9[f]	
Gross profit	2,788	233	151	16	2,955
Selling, general and administrative expenses	(1,415)	(74)	(49)	7[b]	(1,497)
				(17)[b]	
				(5)[c]	
				(28)[f]	
Research and development expenses	(320)	(34)	(22)	175[f]	(167)
Operating income (EBIT)	1,053	125	80	158	1,291
Net interest	(271)	(39)	(25)	(125)[d]	(421)
Other financial result	(34)	0	0	34[f]	0
Earnings before income taxes and minority interest	748	86	55	67	870
Income taxes	(308)	(36)	(24)	50[e]	(297)
				(15)[f]	
Minority interests	(287)	0	0	0	(287)
Net income	153	50	31	102	286
Basic earnings per ordinary share	0.97				1.76
Fully diluted earnings per ordinary share	0.96				1.75
Basic earnings per preference share	0.98				1.77
Fully diluted earnings per preference share	0.97				1.76
Weighted average number of ordinary shares outstanding	78,283,473				80,420,851
Weighted average number of ordinary shares assuming dilution	78,939,273				81,076,651
Weighted average number of preference shares outstanding	78,283,473				80,420,851
Weighted average number of preference shares assuming dilution	78,939,273				81,076,651

(1) Period January 1 to August 31, 2008.

Unaudited Pro Forma Consolidated Statement of Income

October 1, 2007 to September 30, 2008, in million	Fresenius SE	APP Pharmaceuticals[1]	APP Pharmaceuticals[1]	Pro forma adjustments	Fresenius SE including APP Pharmaceuticals
	€	US$	€	€	€
Sales	11,729	669	445	(5)[a]	12,169
Cost of sales	(8,011)	(335)	(223)	10[b] 5[a] 9[f]	(8,210)
Gross profit	3,718	334	222	19	3,959
Selling, general and administrative expenses	(1,866)	(103)	(68)	10[b] (25)[b] 5[c] (28)[f]	(1,972)
Research and development expenses	(374)	(46)	(31)	175[f]	(230)
Operating income (EBIT)	1,478	185	123	156	1,757
Net interest	(360)	(51)	(34)	(184)	(578)
Other financial result	(34)	0	0	34[f]	0
Earnings before income taxes and minority interest	1,084	134	89	6	1,179
Income taxes	(430)	(53)	(35)	74 15[f]	(406)
Minority interests	(389)	0	0	0	(389)
Net income	265	81	54	65	384
Basic earnings per ordinary share	1.64				2.37
Fully diluted earnings per ordinary share	1.62				2.36
Basic earnings per preference share	1.65				2.38
Fully diluted earnings per preference share	1.63				2.37
Weighted average number of ordinary shares outstanding	80,393,143				80,393,143
Weighted average number of ordinary shares assuming dilution	81,048,943				81,048,943
Weighted average number of preference shares outstanding	80,393,143				80,393,143
Weighted average number of preference shares assuming dilution	81,048,943				81,048,943

(1) Results from continuing operations.

Notes to the Unaudited Pro Forma Consolidated Statement of Income for the Year Ended December 31, 2007, the 12 Months Ended September 30, 2008 and the Nine Months Ended September 30, 2008

(a) Reflects the elimination of sales of products of APP Pharmaceuticals to Fresenius and the elimination of the cost of sales related to such products at Fresenius.

(b) Reflects the elimination of historical amortization and amortization of identifiable intangible assets recorded in purchase accounting. New amortization is based on the estimated fair values and estimated weighted average useful lives assigned to these assets, approximately 15 years.

(c) Reflects the elimination of APP Pharmaceuticals own costs in connection with the acquisition.

(d) Reflects (i) the elimination of historical interest expense associated with APP Pharmaceuticals former senior credit agreement and (ii) the pro forma impact of interest expense and amortization of deferred financing costs associated with the 2008 Senior Credit Facilities and the Bridge Facility (assumed weighted average interest rate of 8.0%). If interest rates were to hypothetically change by 20 basis points, we estimate that the interest expense would vary by approximately €6 million.

(e) Reflects the tax effect of the pro forma adjustments, principally related to interest expense and the amortization of identifiable intangible assets, using a tax rate that reflects APP Pharmaceuticals' statutory tax rate of 38.8%. Because of the existence of net deferred tax liabilities, we deemed it reasonable to record a tax benefit on the pro forma pre-tax loss.

(f) Reflects the elimination of special items relating to the acquisition of APP Pharmaceuticals.

SELECTED FINANCIAL DATA

The tables below present selected consolidated financial and business segment data for our Group for each of the financial years ended December 31, 2005, 2006 and 2007, for the nine months ended September 30, 2007 and 2008 and for the 12 months ended September 30, 2008, as well as selected pro forma information. We derived the selected financial data from our consolidated financial statements prepared in accordance with US GAAP. Business segment data is clearly identified as such in the tables. KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, German public accountants, have audited the US GAAP consolidated financial statements for the three years ended December 31, 2005, 2006 and 2007. The interim consolidated financial statements for the periods ended September 30, 2007 and 2008 are unaudited.

The historical financial information for the 12 months ended September 30, 2008 set forth below was derived by adding the Group's consolidated financial data for the nine months ended September 30, 2008 to the Group's consolidated financial data for the three months ended December 31, 2007. The financial information for the 12 months ended September 30, 2008 has been prepared for illustrative purposes only and is not necessarily representative of our results of operations for any future period or our financial condition at any future date.

Due to the closing of the acquisition of APP Pharmaceuticals on September 10, 2008, the consolidated balance sheet of Fresenius SE as of September 30, 2008 includes APP Pharmaceuticals. Although the APP Transaction closed on September 10, 2008, the consolidated statement of income and consolidated statement of cash flows of Fresenius SE for the period ended September 30, 2008 include the results of operations of APP Pharmaceuticals for the one-month-period ending September 30, 2008. The consolidated financial statements of Fresenius SE and the APP Pharmaceuticals consolidated financial statements are included elsewhere in this offering memorandum.

The pro forma financial information contained in this offering memorandum reflects the consolidation of APP Pharmaceuticals in our Group as of and for the nine months ended September 30, 2008, for the year ended December 31, 2007 and for the 12 months ended September 30, 2008 and is unaudited. APP Pharmaceuticals has been included in the pro forma financial information together with Fresenius SE and its consolidated subsidiaries. For the purposes of preparing the pro forma consolidated statement of income information we have assumed that the APP Transaction had occurred as of January 1, 2007. Special items related to the acquisition of APP Pharmaceuticals have been excluded from the pro forma consolidated statements of income for the nine- and 12-month periods ended September 30, 2008. The pro forma financial information has been prepared in accordance with Institut der Wirtschaftsprüfer's RH HFA 1.004 "Erstellung von Pro-Forma-Angaben" regarding the preparation of pro forma financial information.

The pro forma financial information has been prepared for illustrative purposes only. The pro forma financial information is based on assumptions and is inherently uncertain; therefore, it should not be used as an indicator of how our business, financial condition and results of operations would have developed had the structure upon which the pro forma financial information is based been in place from January 1, 2007. The pro forma financial information is also not intended to be an indicator of our financial condition or results of operations in the future. You should review the pro forma financial information together with the historical financial statements of the companies included in the pro forma information.

The consolidated and pro forma financial information below (including ratios) reflects the full consolidation of Fresenius Medical Care's financial statements in our financial statements. Fresenius SE owns 36.29% of the ordinary voting shares of Fresenius Medical Care AG & Co. KGaA and 35.83% of the total subscribed capital of Fresenius Medical Care AG & Co. KGaA as at September 30, 2008. Upon the exchange of the Mandatory Exchangeable Bonds for ordinary shares of Fresenius Medical Care AG & Co. KGaA, Fresenius SE's holding of Fresenius Medical Care AG & Co. KGaA's share capital could decrease at current exchange prices (subject to further anti-dilution adjustments) to between 31.11% at the maximum exchange price and 30.25% at the minimum exchange price, based on Fresenius SE's holding of 35.83% at September 30, 2008. For more information on the Mandatory Exchangeable Bonds, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Fresenius Finance

(Jersey) Ltd.'s €554 million 5.625% Mandatory Exchangeable Bonds due 2011". Fresenius Medical Care Management AG, a wholly owned subsidiary of Fresenius SE in the legal form of a stock corporation under German law ("Aktiengesellschaft"), is the general partner of Fresenius Medical Care AG & Co. KGaA. Fresenius Medical Care Management AG, represented by its management board, is responsible for the management of Fresenius Medical Care AG & Co. KGaA. Because corporate decisions are taken by the general partner for German partnerships limited by shares, Fresenius SE has, and as long as it maintains ownership of Fresenius Medical Care Management AG and more than 25% of the share capital of Fresenius Medical Care AG & Co. KGaA will retain, a controlling position in Fresenius Medical Care AG & Co. KGaA under the articles of association of Fresenius Medical Care AG & Co. KGaA. Since this controlling position meets the control test for purposes of consolidation under US GAAP, Fresenius SE fully consolidates Fresenius Medical Care in its consolidated financial statements under US GAAP. Net income and assets attributable to other shareholders of Fresenius Medical Care AG & Co. KGaA are eliminated and recorded under minority interests in Fresenius SE's consolidated statement of income and balance sheet. However, Fresenius SE receives cash flows generated by Fresenius Medical Care only to the extent they are distributed to Fresenius SE as dividends, as payments under existing agreements, such as rental and service agreements, and as reimbursement of the general partner's expenses. Dividends are received by Fresenius SE only in proportion to its economic interest in Fresenius Medical Care and are also limited by the terms of certain of Fresenius Medical Care's debt instruments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations and Financial Condition" and "Group Structure — Our Interest in Fresenius Medical Care AG & Co. KGaA".

You should regard the selected financial and business data below only as an introduction and should base your investment decision on a review of the entire offering memorandum.

Selected Consolidated Financial Data and Pro Forma Financial Information

Selected Consolidated and Pro Forma Statement of Income Information

	Year ended December 31, 2007		Nine months ended September 30, 2008		Twelve months ended September 30, 2008	
	Actual	Pro forma	Actual	Pro forma	Actual	Pro forma
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
			(in million €)			
Sales	11,358	11,825	8,761	9,066	11,729	12,169
Cost of sales	(7,680)	(7,905)	(5,973)	(6,111)	(8,011)	(8,210)
Gross profit	3,678	3,920	2,788	2,955	3,718	3,959
Selling, general and administrative expenses	(1,885)	(1,983)	(1,415)	(1,497)	(1,866)	(1,972)
Research and development expenses	(184)	(218)	(320)	(167)	(374)	(230)
EBIT	1,609	1,719	1,053	1,291	1,478	1,757
EBIT, adjusted[1]	1,609	1,719	1,209	1,291	1,634	1,757
Net interest expense	(368)	(621)	(271)	(421)	(360)	(578)
Other financial result[2]	—	—	(34)	(34)	(34)	—
Minority interests	(383)	(383)	(287)	(287)	(389)	(389)
Net income	410	321	153	286	265	384
Net income, adjusted[3]	410	321	324	286	436	384

Selected Other Consolidated and Pro Forma Information

	Year ended December 31,			Twelve months ended September 30, 2008	
	2005	2006	2007		
	Actual	Actual	Actual	Actual	Pro forma
				(unaudited)	(unaudited)
			(in million €, except ratios)		
EBITDA[4][5][6]	1,289	1,843	2,030	2,119	2,249
EBITDA, adjusted[7]	1,289	1,843	2,030	2,091	2,249
Net debt[8]	3,250	5,611	5,338	8,255	8,255
Net interest expense	(203)	(395)	(368)	(360)	(578)
Capital expenditures	353	600	705	725	748
Ratio of EBITDA, adjusted, to net expense	6.3	4.6	5.5	5.8	3.9
Ratio of net debt to EBITDA, adjusted	2.3[9]	3.0	2.6	—	3.7

Selected Consolidated Financial Data

Selected Consolidated Statement of Income Data

	Year ended December 31,			Nine months ended September 30,		Twelve months ended September 30,
	2005	2006	2007	2007	2008	2008
				(unaudited)		(unaudited)
			(in million €)			
Sales	7,889	10,777	11,358	8,390	8,761	11,792
Cost of sales	(5,300)	(7,351)	(7,680)	(5,642)	(5,973)	(8,011)
Gross profit	2,589	3,426	3,678	2,748	2,788	3,718
Selling, general and administrative expenses	(1,471)	(1,815)	(1,885)	(1,434)	(1,415)	(1,866)
Research and development expenses	(149)	(167)	(184)	(130)	(320)	(374)
EBIT	969	1,444	1,609	1,184	1,053	1,478
EBIT, adjusted[1]	969	1,444	1,609	1,184	1,209	1,634
Net interest expense	(203)	(395)	(368)	(279)	(271)	(360)
Other financial result[2]	–	–	–	–	(34)	(34)
Minority interests	(246)	(305)	(383)	(281)	(287)	(389)
Net income	222	330	410	298	153	265
Net income, adjusted[3]	222	330	410	298	324	436

Selected Consolidated Balance Sheet Data

	As of December 31,			As of September 30, 2008
	2005	2006	2007	(unaudited)
			(in million €)	
Cash and cash equivalents	252	261	361	333
Current assets	3,531	4,106	4,291	5,017
Non-current assets	8,063	10,918	11,033	15,097
Total assets	11,594	15,024	15,324	20,114
Short-term liabilities	2,497	3,058	3,503	3,992
Long-term liabilities	3,967	6,238	5,762	9,372
Minority interests	2,289	2,560	2,644	2,905
Total shareholders' equity	2,841	3,168	3,415	3,845
Total liabilities and shareholders' equity	11,594	15,024	15,324	20,114

Selected Consolidated Cash Flow Statement Data

	Year ended December 31,			Nine months ended September 30,		Twelve months ended September 30,
	2005	2006	2007	2007	2008	2008
				(unaudited)		(unaudited)
			(in million €)			
Cash provided by operating activities	780	1,052	1,296	912	736	1,120
Cash used for investing activities	(1,937)	(3,790)	(1,058)	(647)	(3,371)	(3,782)
Cash provided by/used for financing activities	1,256	2,760	(122)	(196)	2,603	2,677

Selected Business Segment Data

Fresenius Medical Care

	Year ended December 31,			Nine months ended September 30,		Twelve months ended September 30,
	2005	2006	2007	2007	2008	2008
				(unaudited)		(unaudited)
			(in million €)			
Sales	5,443	6,768	7,093	5,320	5,184	6,957
EBITDA[4][5]	957	1,295	1,418	1,051	1,016	1,383
EBIT	755	1,050	1,153	857	815	1,111
Net interest expense	(139)	(280)	(271)	(209)	(166)	(228)
Net income	366	427	523	387	396	532
Operating cash flow	539	723	875	662	470	683
Capital expenditure/acquisitions	361	3,933	680	397	480	763
Research and development expenses	(41)	(41)	(49)	(32)	(40)	(57)
Employees (headcount as of September 30 or December 31)	50,250	59,996	64,662	63,902	67,342	67,342
Dividends paid	109	120	139	139	160	160
thereof to Fresenius SE	40	44	50	50	58	58

Fresenius Kabi

	Year ended December 31,			Nine months ended September 30,		Twelve months ended September 30,
	2005	2006	2007	2007	2008	2008
				(unaudited)		(unaudited)
			(in million €)			
Sales	1,681	1,893	2,030	1,494	1,734	2,270
EBITDA[4][5]	318	370	408	299	358	467
EBIT	234	291	332	242	290	380
Net income	111	143	183	132	149	200
Operating cash flow	237	202	179	119	144	204
Capital expenditure/acquisitions	351	127	294	117	3,637	3,814
Research and development expenses	(64)	(77)	(86)	(61)	(71)	(96)
Employees (headcount as of September 30 or December 31)	14,453	15,591	16,964	16,852	20,504	20,504

Fresenius ProServe[10]

	Year ended December 31,		
	2005	2006	2007
		(in million €)	
Sales	809	2,155	2,268
EBITDA[4][5]	45	218	250
EBIT	20	154	181
Net income	2	75	81
Operating cash flow	19	176	274
Capital expenditure/acquisitions	1,519	245	328
Research and development expenses	(1)	(1)	(1)
Employees (headcount as of December 31)	26,664	28,615	31,815

On January 1, 2008, Fresenius ProServe was divided into two business segments for the purpose of reducing the number of layers of management and increasing transparency: Fresenius Helios, which focuses on hospital operations, and Fresenius Vamed, which offers engineering and services for hospitals and other healthcare facilities. We have not changed the legal structure of our Group in connection with this change in our business segment reporting.

	Fresenius Helios			Fresenius Vamed		
	Nine months ended September 30,		Twelve months ended September 30,	Nine months ended September 30,		Twelve months ended September 30,
	2007[11]	2008	2008	2007[11]	2008	2008
	(unaudited) (in million €)					
Sales	1,348	1,568	2,061	234	290	464
EBITDA[4][5]	149	183	254	15	17	33
EBIT	110	127	172	11	14	29
Net income	44	59	79	11	14	26
Operating cash flow	159	185	228	19	0	53
Capital expenditure/acquisitions	196	92	219	10	15	15
Research and development expenses	1	0	0	0	0	0
Employees (headcount as of September 30)	30,043[12]	30,804	30,804	1,767[12]	1,833	1,833

(1) Adjusted EBIT (A) excludes purchase accounting adjustments for acquired in-process research and development of APP Pharmaceuticals at closing (in the amount of €175 million) and inventory step-up reflecting the excess of fair value over book value of semi-finished and finished products acquired in the acquisition of APP (in the amount of €9 million), and (B) excludes foreign exchange gains of €28 million realized in connection with the APP Transaction. For more information, see "The Acquisition of APP Pharmaceuticals".

(2) Other financial result includes (i) a loss of €38 million for mark-to-market for the value of the Mandatory Exchangeable Bonds, (ii) a gain of €36 million for mark-to-market for the value of the CVRs and (iii) a loss of €32 million for special financing expenses, all as of September 30, 2008. For more information, see "The Acquisition of APP Pharmaceuticals".

(3) Adjusted net income (A) excludes purchase accounting adjustments for acquired in-process research and development of APP Pharmaceuticals at closing (in the amount of €175 million) and inventory step-up reflecting the excess of fair value over book value of semi-finished and finished products acquired in the acquisition of APP Pharmaceuticals (in the amount of €9 million), (B) excludes foreign exchange gains of €28 million realized in connection with the APP Transaction, and (C) excludes (i) a loss of €27 million for mark-to-market for the value of the Mandatory Exchangeable Bonds, (ii) a gain of €36 million for mark-to-market for the value of the CVRs and (iii) a loss of €20 million for special financing expenses, all as of September 30, 2008. For more information, see "The Acquisition of APP Pharmaceuticals".

(4) It should be noted that for certain of the provisions of the Indenture, EBITDA and interest expense are calculated differently than as defined in footnote (5) below or for financial statement purposes and, in particular, EBITDA for the periods presented includes net income of Fresenius Medical Care only to the extent of dividends received by Fresenius SE. See "Description of the Notes".

(5) EBITDA means earnings before interest, income taxes, depreciation and amortization and minority interests. We are not presenting EBITDA here as a measure of our operating results. Our management believes that the presentation of EBITDA is helpful to investors as a measure of our ability to generate cash and to service debt. However, you should not construe EBITDA as an alternative to net income determined in accordance with US GAAP or to cash flow from operations, investing activities or financing activities as a measure of cash flows. It should be noted that the definition of EBITDA described above differs from the definition of EBITDA in certain of the provisions of the Indenture.

(6) The following table reconciles net income to EBITDA for the Group for the periods indicated:

	Year ended December 31,			Twelve months ended September 30, 2008	
	2005	2006	2007		
	Actual	Actual	Actual	Actual	Pro forma
				(unaudited)	(unaudited)
			(in million €)		
Net income	222	330	410	265	384
Minority interests	246	305	383	389	389
Income taxes	298	414	448	430	406
Depreciation and amortization	320	399	421	641	492
Net interest expense	203	395	368	360	578
Other financial result	—	—	—	34	—
EBITDA	1,289	1,843	2,030	2,119	2,249
One-time foreign exchange gain from APP Transaction	—	—	—	(28)	—
EBITDA, adjusted	1,289	1,843	2,030	2,091	2,249

(7) Adjusted EBITDA excludes foreign exchange gains of €28 million realized in connection with the APP Transaction. For more information, see "The Acquisition of APP Pharmaceuticals".

(8) Net debt includes short-term borrowings, long-term debt (including current portion) and accounts receivable attributable to the accounts receivable facility of subsidiaries of Fresenius Medical Care AG & Co. KGaA less cash and cash equivalents. Net debt includes neither the Mandatory Exchangeable Bonds nor the CVRs.

(9) For purposes of this ratio, EBITDA has been adjusted for the EBITDA contribution of HELIOS Kliniken GmbH and its subsidiaries for the year ended December 31, 2005. We acquired HELIOS Kliniken GmbH in December 2005.

(10) As of January 1, 2008, the Fresenius ProServe business segment was divided into two new business segments: Fresenius Helios and Fresenius Vamed.

(11) Segment data for Fresenius Helios and Fresenius Vamed has been adjusted according to the new business segment reporting structure as of January 1, 2008.

(12) As of December 31, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes to those financial statements. Some of the statements contained below, including those concerning future sales, costs, capital expenditures, acquisitions and financial condition, include forward looking-statements. Because such statements involve risks and uncertainties, actual results may differ materially from the results that the forward-looking statements express or imply. You can find a discussion of these risks and uncertainties in "Disclosure Regarding Forward-Looking Statements" and "Risk Factors". Fresenius Medical Care presents its stand-alone consolidated financial statements in U.S. dollars. Certain items of Fresenius Medical Care's financial data, such as geographical financial data, have not been converted into euro amounts and are therefore stated in U.S. dollar amounts in accordance with US GAAP in the discussion below.

Due to the closing of the acquisition of APP Pharmaceuticals on September 10, 2008, the consolidated financial statements of Fresenius SE as of September 30, 2008 contain the consolidated balance sheet as of September 30, 2008 and the one-month-period of September 2008 of the consolidated statement of income of APP Pharmaceuticals. The consolidated financial statements of Fresenius SE and the APP Pharmaceuticals consolidated financial statements are included elsewhere in this offering memorandum.

Except where otherwise noted, the following presentation is based on the historical financial statements of Fresenius SE and its subsidiaries and not on any pro forma financial data and before special items relating to the acquisition of APP Pharmaceuticals.

Overview

We are an international healthcare group with products and services for dialysis, hospitals and out-patient care. In addition, we focus on hospital operations and offer engineering and services for hospitals and other healthcare facilities. We are active in over 100 countries and have an international marketing and production network of more than 70 production sites worldwide. In the nine months ended September 30, 2008, we generated sales of €8,761 million, adjusted EBITDA of €1,546 million and adjusted EBIT of €1,209 million, compared to sales of €8,390 million, EBITDA of €1,485 million and EBIT of €1,184 million, respectively, in the same period of 2007. In the year ended December 31, 2007, we generated sales of €11,358 million, EBITDA of €2,030 million and EBIT of €1,609 million, compared to €10,777 million, €1,843 million and €1,444 million, respectively, in the year ended December 31, 2006, and €7,889 million, €1,289 million and €969 million, respectively, in the year ended December 31, 2005. In 2007, €7,093 million (62%) of our sales were attributable to Fresenius Medical Care, €2,030 million (18%) to Fresenius Kabi and €2,268 million (20%) to Fresenius ProServe, which as of January 1, 2008, has been divided for business and reporting (but not legal) purposes into Fresenius Helios and Fresenius Vamed.

The discussion below of our financial condition and results of operations reflects the three operating segments that we reported as business segments for reporting periods ending prior to January 1, 2008 and the four operating segments we reported as business segments for reporting periods ending on or after January 1, 2008:

- *Fresenius Medical Care.* Fresenius Medical Care operates both in the field of dialysis products and in the field of dialysis services. Based on publicly reported sales and number of patients, Fresenius Medical Care is the world's largest provider of dialysis products and dialysis services for patients with chronic kidney failure. Fresenius Medical Care's dialysis business is vertically integrated, providing therapy services at its own dialysis clinics and supplying these clinics with a full range of products. In addition, Fresenius Medical Care sells dialysis products to other dialysis service providers. In 2007, Fresenius Medical Care generated approximately 69% of its sales in North America, 22% in Europe and approximately 9% throughout the rest of the world and represented 62% of our consolidated Group sales. At September 30, 2008, Fresenius Medical Care treated 181,937 patients at 2,349 dialysis clinics in more than 25 countries (183,753 patients including those at 32 clinics in the US managed but not consolidated). Fresenius Medical Care sells its products in over 100 countries. Fresenius

Medical Care provided 26.4 million treatments in 2007. Fresenius SE holds 36.29% of the ordinary voting shares of Fresenius Medical Care AG & Co. KGaA and 35.83% of the total subscribed capital of Fresenius Medical Care AG & Co. KGaA as at September 30, 2008. Fresenius Medical Care is fully consolidated in our Group's consolidated financial statements.

- *Fresenius Kabi.* Fresenius Kabi is focused on the therapy and care of chronically and critically ill patients in hospitals and in the out-patient setting. Fresenius Kabi has three product businesses: infusion therapy, clinical nutrition and transfusion technology. For infusion therapy we provide infusion solutions, blood volume replacement products and generic injectables. For transfusion technologies we offer a range of products used to produce blood products. For clinical nutrition we supply parenteral and enteral nutrition. To administer infusion therapy and clinical nutrition products Fresenius Kabi offers a wide range of infusion technologies, nutrition pumps and disposables. Fresenius Kabi is present in Europe as well as in the growth regions of the world, including Asia-Pacific and Latin America. Fresenius Kabi's total sales for 2007 were €2,030 million and represented approximately 18% of our consolidated Group sales, with infusion therapy accounting for €1,076 million, clinical nutrition for €831 million and transfusion technology for €123 million.

- *Fresenius Helios (part of Fresenius ProServe for accounting periods ending prior to January 1, 2008).* Fresenius Helios is one of the three largest private hospital operators in Germany. Fresenius Helios also includes post acute care clinics. Fresenius Helios currently owns and operates 57 hospitals mainly in Germany, including five maximum care hospitals in the German cities of Berlin-Buch, Erfurt, Krefeld, Schwerin and Wuppertal. Fresenius Helios provides expertise in all areas (except transplantation medicine) and at all levels of clinical care, including maximum care. Fresenius Helios treats about 550,000 in-patients a year at its hospitals and has a total of approximately 17,300 beds. In 2007, Fresenius Helios generated revenues of €1,841 million, or 16% of our total Group sales.

- *Fresenius Vamed (part of Fresenius ProServe for accounting periods ending prior to January 1, 2008).* Headquartered in Vienna, Austria, Fresenius Vamed is a market leader in the development, planning, construction and technical management of healthcare facilities worldwide, as well as in general management of healthcare facilities in selected key markets. In 2007, Fresenius Vamed's sales were €408 million, representing 4% of our total Group sales.

You can find additional information about our business segments in "Business".

Our consolidated financial statements also include the segment Corporate/Other, to which certain corporate revenues and costs are allocated. The costs relate to certain Group overhead charges and the costs of certain research and development projects relating to biotechnology. The segment is mainly comprised of Fresenius SE, our Group's holding company; Fresenius Netcare GmbH, which provides services in the field of information technology; and Fresenius Biotech, which does not fulfill the standards for a reportable segment under US GAAP. In addition, Corporate/Other also reflects consolidation adjustments between our business segments.

Key Factors Affecting Our Results of Operations and Financial Condition

Factors affecting our results of operations include the following:

- *Significant Recent Acquisitions.* In 2008, we completed a number of acquisitions, including the acquisition of APP Pharmaceuticals. On September 10, 2008, Fresenius completed its acquisition of APP Pharmaceuticals, a leading manufacturer of intravenously administered generic drugs in North America. Through the acquisition of APP Pharmaceuticals, Fresenius Kabi has entered the U.S. pharmaceuticals market and achieved a leading position in the U.S. intravenously administered generic drugs market. APP Pharmaceuticals is now an indirect, wholly owned subsidiary of Fresenius Kabi AG and part of the Fresenius Kabi business segment. On a pro forma basis, APP Pharmaceuticals would have represented 4% of our consolidated Group sales in 2007.

  The cash purchase price for APP Pharmaceuticals was US$3.7 billion. In addition, each holder of APP Pharmaceuticals common stock received one contingent value right ("CVR"), with a total of

163.3 million CVRs having been issued. For a discussion of the CVRs, see "Description of Other Financing Arrangements — Continuing Value Rights of FK Holdings."

We expect to have higher interest expenses in 2008 and for the medium term thereafter because our debt has increased substantially in connection with the acquisition of APP Pharmaceuticals.

You can find additional information about APP Pharmaceuticals and the financing of the APP Transaction in "The Acquisition of APP Pharmaceuticals" and "Business".

- *Ownership of Fresenius Medical Care.* We owned 36.29% of the ordinary voting shares of Fresenius Medical Care AG & Co. KGaA and 35.83% of the total subscribed capital of Fresenius Medical Care AG & Co. KGaA as at September 30, 2008. Upon the exchange of the Mandatory Exchangeable Bonds for ordinary shares of Fresenius Medical Care AG & Co. KGaA, Fresenius SE's holding of Fresenius Medical Care AG & Co. KGaA's share capital could decrease at current exchange prices (subject to further anti-dilution adjustments) to between 31.11% at the maximum exchange price and 30.25% at the minimum exchange price, based on Fresenius SE's holding of 35.83% at September 30, 2008. For more information on the Mandatory Exchangeable Bonds, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Fresenius Finance (Jersey) Ltd.'s €554 million 5.625% Mandatory Exchangeable Bonds due 2011". Fresenius Medical Care Management AG, a wholly owned subsidiary of Fresenius SE in the legal form of a stock corporation under German law (*Aktiengesellschaft*), is the general partner of Fresenius Medical Care AG & Co. KGaA. The management board of Fresenius Medical Care Management AG, whose current management board is identical with the current management board of Fresenius Medical Care AG & Co. KGaA, is responsible for the management of Fresenius Medical Care AG & Co. KGaA. Because corporate decisions are taken by the general partner for German partnerships limited by shares, Fresenius SE has, and as long as it maintains ownership of more than 25% of the share capital of Fresenius Medical Care AG & Co. KGaA will retain, a controlling position in Fresenius Medical Care AG & Co. KGaA under the articles of association of Fresenius Medical Care AG & Co. KGaA. Since this controlling position meets the control test for purposes of consolidation under US GAAP, we fully consolidate Fresenius Medical Care in our consolidated financial statements under US GAAP. Net income and assets attributable to other shareholders of Fresenius Medical Care AG & Co. KGaA are eliminated and recorded under minority interests in our consolidated statement of income and balance sheet.

  Although we fully consolidate the financial statements of Fresenius Medical Care in our financial statements, we receive the cash flows generated by the Fresenius Medical Care business segment only to the extent they are distributed to us as dividends. Such dividends are received in proportion to our ownership of the ordinary voting shares of Fresenius Medical Care AG & Co. KGaA. We received dividend distributions from Fresenius Medical Care AG & Co. KGaA in the amount of €58 million in the nine months ended September 30, 2008, €50 million in 2007, €44 million in 2006 and from Fresenius Medical Care AG (the stock corporation which conducted the business of Fresenius Medical Care prior to the transformation of form into a partnership limited by shares) in the amount of €40 million in 2005. The €58 million dividend that we received in the nine months ended September 30, 2008 will be the total dividend that we will receive in respect of our ownership interest in Fresenius Medical Care AG & Co. KGaA for the full year 2008. In addition, covenants contained in Fresenius Medical Care's 2006 Senior Credit Agreement impose limitations on the amount of total annual dividends that Fresenius Medical Care may distribute in any one year. Under the 2006 Senior Credit Agreement, total dividend distributions are capped at US$260 million in 2008 and increase in subsequent years. Covenants in the Indenture relating to Fresenius Medical Care's trust preferred securities also place similar limitations on Fresenius Medical Care's ability to distribute dividends. You can find more information about Fresenius Medical Care's indebtedness in "Description of Other Financing Arrangements — Fresenius Medical Care".

  In addition to cash dividends, we receive cash payments, primarily in the form of service fees and rental payments, from Fresenius Medical Care under certain intercompany agreements, and as reimbursement of the general partner's expenses. We received payments of €46.2 million in 2007,

€42.8 million in 2006 and €41.7 million in 2005 under these agreements. These payments were partially offset by payments that we made to Fresenius Medical Care pursuant to other intercompany agreements in the amount of €7.1 million in 2007, €7.2 million in 2006 and €6.0 million in 2005.

For more information about ownership of Fresenius Medical Care, see "Group Structure — Our Interest in Fresenius Medical Care AG & Co. KGaA".

- *Acquisitions.* We completed a number of acquisitions during the period under review. These acquisitions include:
  - Fresenius Medical Care's acquisitions in the nine months ended September 30, 2008 totaled €150 million, mainly related to the purchase of dialysis clinics. In 2007, acquisitions totaled €262 million, mainly consisting of Renal Solutions, Inc. ("RSI") in the United States. In 2006, acquisitions totaled €3,561 million, mainly consisting of Renal Care Group, Inc. in the United States. In 2005, acquisitions totaled €108 million.
  - Fresenius Kabi's acquisitions in the nine months ended September 30, 2008 totaled €3,564 million, mainly consisting of APP Pharmaceuticals, Inc., USA, and Dabur Pharma Ltd, India. In 2007, acquisitions totaled €178 million, mainly consisting of Nestle's enteral nutrition business in France (Novartis Nutrition S.A.S.) and in Spain (Nestle España S.A.), the artificial colloid product business of Kyorin Pharmaceuticals Co. Ltd., Japan, the remaining shares in Pharmatel Fresenius Kabi Pty Ltd. in Australia and Laboratorios Filaxis, S.A. in Argentina. In 2006, acquisitions totaled €14 million. In 2005 acquisitions totaled €274 million, mainly consisting of Labesfal — Laboratório de Especialidades Farmacêuticas Almiro, Portugal, and the business of Clinico GmbH, Germany.
  - Fresenius ProServe's acquisitions totaled €175 million in 2007, mainly consisting of the remaining 40% of the shares in HUMAINE Kliniken GmbH in Germany ("HUMAINE"), through HELIOS, and a majority stake of 74.9% in Krefeld Municipal Hospitals in Germany. In 2006, acquisitions totaled €139 million, mainly consisting of a 60% stake in HUMAINE, through HELIOS, and additional stakes in HELIOS. In 2005, acquisitions totaled €1,507 million, mainly relating to the acquisition of HELIOS.

  Acquisitions completed in 2007 as well as those which were included in our consolidated financial statements for the first full year in 2007 contributed €538 million to our sales and €77 million to our EBIT in 2007.

  Acquisitions completed in 2006 as well as those which were included in our consolidated financial statements for the first full year in 2006 contributed €2,203 million to our sales and €332 million to our EBIT in 2006.

  Acquisitions completed in 2005 as well as those which were included in our consolidated financial statements for the first full year in 2005 contributed €106 million to our sales and €27 million to our EBIT in 2005.

- *Currency Translation.* We conduct our business on a global basis in several major international currencies, although our operations are primarily in Europe and the United States. Our reporting currency is the euro. In 2007, 43% of our consolidated sales came from our business segments in Europe, whose sales are mostly denominated in euro, and 43% of our consolidated sales came from our business in North America, whose sales are mostly denominated in U.S. dollars. Fluctuations in exchange rates between the euro and other, non-euro currencies, primarily the U.S. dollar, affect the translation of our consolidated financial results into euro and also affect the value of any distributions that our business segments contribute to our consolidated financial statements. Exchange rate changes also affect our consolidated balance sheet. Changes in the euro values of our consolidated assets and liabilities resulting from exchange rate movements may cause us to record foreign currency gains and losses.

  In 2006 and 2007, the weakening of the U.S. dollar against the euro had a strong negative impact on our reported sales largely due to the large percentage of our sales that are generated in the

United States. On average over the year, the U.S. dollar was 9% lower against the euro in 2007 compared to 2006 and 1% lower in 2006 compared to 2005. In translating the financial statements for 2007 of our consolidated subsidiaries that are stated in U.S. dollars, each US$0.01 decrease in the value of the U.S. dollar against the euro decreased our sales by approximately €40 million and decreased our share of Fresenius Medical Care's net income by approximately €0.8 million. In the first nine months of 2008, the U.S. dollar was an average of 13% lower against the euro compared to the previous year's period.

In the discussion below, we refer to the currency translation effects on certain items in our financial statements. We use the term "at constant exchange rates" to refer to comparisons of financial data that have been controlled to exclude currency translation effects. We believe comparisons at constant exchange rates are useful in explaining changes in our historical results of operations and in permitting a comparison of our underlying performance excluding currency translation effects. In making the currency adjustments, we have applied the end-of-period exchange rates used for the translation of balance sheet data and the period average exchange rates used for the translation of profit and loss statement data in our financial statements for the same period in the previous year.

You can find additional information on the accounting treatment of currency translation effects in Note 1.IV.i to our consolidated financial statements for the year ended December 31, 2007. Please also see "Risk Factors — Risks Relating to Our Business — Changes in foreign exchange rates could have adverse effects on our financial results and our ability to repay debt; our hedging efforts may be unsuccessful".

Segment Results

Management evaluates each segment using a measure that reflects all of the segment's revenues and expenses. Management believes the most appropriate measure in this regard is earnings before interest and taxes, or "EBIT". In addition to EBIT, management believes that earnings before interest, taxes, depreciation and amortization, or "EBITDA", is helpful for investors as a measurement of the segment's ability to generate cash and to service financing obligations. You should not, however, consider EBITDA to be an alternative to net income determined in accordance with US GAAP or to cash flow from operations, investing activities or financing activities or as a measure of cash flows generally. Because all companies do not calculate EBIT and EBITDA consistently, the presentation herein may not be comparable to other similarly titled measures of other companies.

The EBITDA margin is calculated by dividing EBITDA by sales.

The EBIT margin is calculated by dividing EBIT by sales.

The following table shows the sales, EBITDA, EBITDA margins, EBIT and EBIT margins of each of our segments for the periods indicated:

	Year ended December 31,						Nine months ended September 30,			
	2005		2006		2007		2007		2008	
	€	%	€	%	€	%	€	%	€	%
							(unaudited)		(unaudited)	
	(in million €, except percentages)									
Fresenius Medical Care										
Sales	5,443	100.0	6,768	100.0	7,093	100.0	5,320	100.0	5,184	100.0
EBITDA	957	17.6	1,295	19.1	1,418	20.0	1,051	19.7	1,016	19.6
EBIT	755	13.9	1,050	15.5	1,153	16.3	857	16.1	815	15.7
Fresenius Kabi										
Sales	1,681	100.0	1,893	100.0	2,030	100.0	1,494	100.0	1,734	100.0
EBITDA	318	18.9	370	19.5	408	20.1	299	20.0	358	20.6
EBIT	234	13.9	291	15.4	332	16.4	242	16.2	290	16.7
Fresenius ProServe[1]										
Sales	809	100.0	2,155	100.0	2,268	100.0	–	–	–	–
EBITDA	45	5.6	218	10.1	250	11.0	–	–	–	–
EBIT	20	2.5	154	7.1	181	8.0	–	–	–	–
Fresenius Helios[1]										
Sales	–	–	–	–	–	–	1,348	100.0	1,568	100.0
EBITDA	–	–	–	–	–	–	149	11.1	183	11.7
EBIT	–	–	–	–	–	–	110	8.2	127	8.1
Fresenius Vamed[1]										
Sales	–	–	–	–	–	–	234	100.0	290	100.0
EBITDA	–	–	–	–	–	–	15	6.4	17	5.9
EBIT	–	–	–	–	–	–	11	4.7	14	4.8
Fresenius Corporate/Other[2]										
Sales	(44)	100.0	(39)	100.0	(33)	100.0	(6)	100.0	(15)	100.0
EBITDA	(31)	–	(40)	–	(46)	–	(29)	–	0	–
EBITDA, adjusted[3]	(31)	–	(40)	–	(46)	–	(29)	–	(28)	–
EBIT	(40)	–	(51)	–	(57)	–	(36)	–	(193)	–
EBIT, adjusted[4]	(40)	–	(51)	–	(57)	–	(36)	–	(37)	–
Fresenius Group										
Sales	7,889	100.0	10,777	100.0	11,358	100.0	8,390	100.0	8,761	100.0
EBITDA	1,289	16.3	1,843	17.1	2,030	17.9	1,485	17.7	1,574	18.0
EBITDA, adjusted[3]	1,289	16.3	1,843	17.1	2,030	17.9	1,485	17.7	1,546	17.6
EBIT	969	12.3	1,444	13.4	1,609	14.2	1,184	14.1	1,053	12.0
EBIT, adjusted[4]	969	12.3	1,444	13.4	1,609	14.2	1,184	14.1	1,209	13.8

(1) As of January 1, 2008, the Fresenius ProServe business segment was divided into two new business segments: Fresenius Helios and Fresenius Vamed.

(2) EBIT and EBITDA margins are not shown for segments in periods in which EBIT and EBITDA are negative for that segment.

(3) Adjusted EBITDA excludes foreign exchange gains of €28 million realized in connection with the APP Transaction. For more information, see "The Acquisition of APP Pharmaceuticals".

(4) Adjusted EBIT (A) excludes purchase accounting adjustments for acquired in-process research and development of APP Pharmaceuticals at closing (in the amount of €175 million) and inventory step-up reflecting the excess of fair value over book value of semi-finished and finished products acquired in the acquisition of APP Pharmaceuticals (in the amount of €9 million), and (B) excludes foreign exchange gains of €28 million realized in connection with the APP Transaction. For more information, see "The Acquisition of APP Pharmaceuticals".

You can find additional information on the financial performance of our segments in Note 30 to our consolidated financial statements for the financial year ended December 31, 2007.

Sales by Geographical Region

We operate in five major geographical regions: North America, Europe, Asia-Pacific, Latin America and Africa. The following tables set forth our sales by region for the periods indicated, the period-to-period changes in our sales, as well as the contribution of organic growth, growth from acquisitions net of divestitures and currency translation effects on these changes:

	Nine months ended September 30,		Change	Organic growth	Currency translation effects	Acquisitions/ divestitures	Percentage of total sales in 2008
	2007	2008	2008/2007				
	(unaudited) (in million €)		(%)	(%)	(%)	(%)	(%)
Europe	3,528	4,046	15	9	0	6	46
North America	3,741	3,471	(7)	4	(12)	1	40
Asia-Pacific	585	649	11	14	(7)	4	7
Latin America	358	428	20	18	(3)	5	5
Africa	178	167	(6)	(2)	(8)	4	2
Total	8,390	8,761	4	7	(7)	4	100

	Year ended December 31,		Change	Organic growth	Currency translation effects	Acquisitions/ divestitures	Percentage of total sales in 2007
	2006	2007	2006/2007				
	(in million €)		(%)	(%)	(%)	(%)	(%)
Europe	4,536	4,852	7	5	0	2	43
North America	4,862	4,932	1	5	(9)	5	43
Asia-Pacific	696	802	15	9	(5)	11	7
Latin America	452	488	8	10	(3)	1	4
Africa	231	284	23	26	(4)	1	3
Total	10,777	11,358	5	6	(5)	4	100

	Year ended December 31,		Change	Organic growth	Currency translation effects	Acquisitions/ divestitures	Percentage of total sales in 2006
	2005	2006	2006/2005				
	(in million €)		(%)	(%)	(%)	(%)	(%)
Europe	3,032	4,536	50	5	0	45	43
North America	3,746	4,862	30	9	(1)	22	45
Asia-Pacific	557	696	25	19	0	6	6
Latin America	354	452	28	22	3	3	4
Africa	200	231	16	18	(3)	1	2
Total	7,889	10,777	37	9	0	28	100

You can find further information concerning the individual contributions of these geographical regions to our financial results in the table entitled "Segment Reporting by region" in the financial statements included elsewhere in this offering memorandum.

Results of Operations

The following table summarizes our financial performance and certain operating results for the periods indicated, both in actual terms and as a percentage of sales:

	Year ended December 31,						Nine months ended September 30,			
	2005		2006		2007		2007		2008	
	€	% of sales	€	% of sales	€	% of sales	€	% of sales	€	% of sales
					(in million €)		(unaudited)		(unaudited)	
Sales	7,889	100.0	10,777	100.0	11,358	100.0	8,390	100.0	8,761	100.0
Cost of sales	(5,300)	67.2	(7,351)	68.2	(7,680)	67.6	(5,642)	67.2	(5,973)	68.2
Gross profit	2,589	32.8	3,426	31.8	3,678	32.4	2,748	32.8	2,788	31.8
Selling, general and administrative expenses	(1,471)	18.6	(1,815)	16.8	(1,885)	16.6	(1,434)	17.1	(1,415)	16.2
Research and development expenses	(149)	1.9	(167)	1.5	(184)	1.6	(130)	1.5	(320)	3.6
EBIT	969	12.3	1,444	13.4	1,609	14.2	1,184	14.1	1,053	12.0
EBIT, adjusted	969	12.3	1,444	13.4	1,609	14.2	1,184	14.1	1,209	13.8
Net interest	(203)	2.6	(395)	3.7	(368)	3.2	(279)	3.3	(271)	3.1
Other financial result	–	–	–	–	–	–	–	–	(34)	0.4
Earnings before income taxes and minority interests	766	9.7	1,049	9.7	1,241	10.9	905	10.8	748	8.5
Income taxes	(298)	3.8	(414)	3.8	(448)	3.9	(326)	3.9	(308)	3.5
Minority interests	(246)	3.1	(305)	2.8	(383)	3.4	(281)	3.3	(287)	3.3
Net income	222	2.8	330	3.1	410	3.6	298	3.6	153	1.7
Net income, adjusted	222	2.8	330	3.1	410	3.6	298	3.6	324	3.7

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Fresenius Medical Care presents its stand-alone consolidated financial statements in U.S. dollars. Certain items of Fresenius Medical Care's financial data, such as geographical financial data, have not been converted into euro amounts and are therefore stated in U.S. dollar amounts in accordance with US GAAP in the discussion below.

Where the discussion below refers to adjusted financial numbers, such numbers have been adjusted to exclude special items relating to the acquisition of APP Pharmaceuticals. For more information, see "— Special items relating to the acquisition of APP Pharmaceuticals", below. Also see "The Acquisition of APP Pharmaceuticals".

Sales

Our total sales increased 4% to €8,761 million for the nine months ended September 30, 2008 from €8,390 million for the nine months ended September 30, 2007. The 4% increase represents 7% organic growth and 4% growth from acquisitions, offset by 7% for currency translation effects.

- Fresenius Medical Care's sales decreased 3% to €5,184 million for the nine months ended September 30, 2008 compared to €5,320 million for the nine months ended September 30, 2007 and, as a percentage of our total sales, decreased from 63% to 59%. The 3% decrease in sales represents 7% organic growth, offset by 10% for currency translation effects. In U.S. dollar terms, Fresenius Medical Care's sales increased 10% to US$7,890 million in the first nine months of 2008, compared to US$7,151 million in the first nine months of 2007.

At September 30, 2008, Fresenius Medical Care owned, operated or managed approximately 2,349 clinics compared to 2,221 clinics at September 30, 2007. During the nine months ended September 30, 2008, it acquired 31 clinics, opened 99 new clinics and closed or sold 19 clinics. The number of patients treated in clinics owned, operated or managed by Fresenius Medical Care increased 6% to approximately 181,937 at September 30, 2008 (183,753 patients including those at 32 clinics in the US managed but not consolidated) from approximately 172,227 at September 30, 2007. In the nine months ended September 30, 2008 consolidated), approximately 20.7 million treatments were provided, an increase of 5% compared to approximately 19.6 million treatments provided in the nine months ended September 30, 2007.

The following table sets forth information regarding Fresenius Medical Care's sales derived from dialysis care and from dialysis products in the North America segment and in the International segment (markets outside of North America) in the nine months ended September 30, 2007 and 2008:

	Dialysis care sales			Dialysis products sales		
	Nine months ended September 30,		Change	Nine months ended September 30,		Change
	2007	2008	2008/2007	2007	2008	2008/2007
	(unaudited) (in million US$)		(%)	(unaudited) (in million US$)		(%)
North America	4,476	4,615	3	481	538	12
International	880	1,139	29	1,313	1,598	22
Total	5,356	5,754	7	1,794	2,136	19

Fresenius Medical Care's sales in North America grew 4% to US$5,153 million in the nine months ended September 30, 2008 from US$4,957 million in the nine months ended September 30, 2007. This growth reflects a 3% increase in dialysis care revenues and a 12% increase in products sales. The 3% increase in dialysis care revenues reflects 3% same market growth and 1% growth resulting from acquisitions, partially offset by 1% as a result of sold or closed clinics. Average North America revenue per treatment for both the first nine months of 2007 and the first nine months of 2008 was US$324. The revenue rate per treatment was negatively impacted by reduced reimbursement rates for and decreased utilization of EPO, and positively impacted by increased commercial payor rates. The number of dialysis treatments in North America increased 4% to 14.2 million treatments in the nine months ended September 30, 2008 from 13.7 million treatments in the nine months ended September 30, 2007. The 12% increase in product revenue was driven mostly by a higher sales volume of concentrate, bloodlines dialyzers, peritoneal products, and machines as well as higher sales attributable to PhosLo, as a result of higher volumes and increased prices.

Fresenius Medical Care's sales in markets outside of North America grew 25% to US$2,737 million in the nine months ended September 30, 2008 from US$2,194 million in the nine months ended September 30, 2007. This growth reflects a 29% increase in dialysis care revenues and a 22% increase in products sales. Of this 29% increase in dialysis care revenues, an increase in same market treatments contributed 8%, increased revenue per treatment contributed 9%, exchange rate fluctuations contributed approximately 12%, 1% resulted from acquisitions and 1% resulted from one additional dialysis day, partially offset by 2% as a result of sold or closed clinics. Average revenue per treatment outside of North America increased to US$177 in the first nine months of 2008 from US$149 in the first nine months of 2007. Of this US$28 increase in the revenue rate per treatment, approximately US$12 is attributable to increased reimbursement rates and changes in country mix, while approximately US$16 is attributable to the strengthening of local currencies against the U.S. dollar. The number of dialysis treatments outside of North America increased 9% to 6.4 million treatments in the nine months ended September 30, 2008 from 5.9 million treatments in the nine months ended September 30, 2007. The 22% increase in international dialysis product revenue was mostly due to higher dialyzer and machine sales.

- Fresenius Kabi's sales increased 16% to €1,734 million in the nine months ended September 30, 2008 compared to €1,494 million in the nine months ended September 30, 2007 and, as a percentage of Fresenius Group's total sales, increased to 20% in the nine months ended September 30, 2008 compared to 18% in the nine months ended September 30, 2007. The 16% increase in sales represents 9% organic growth and 10% growth from net acquisitions, offset by 3% for currency translation effects.

  Fresenius Kabi's organic sales were 7% higher in Europe (excluding Germany) and 3% higher in Germany in the nine months ended September 30, 2008 compared with the first nine months of 2007. Fresenius Kabi achieved organic growth rates of 23% in Asia-Pacific, 11% in Latin America and 10% in other regions.

  Fresenius Kabi's sales growth was driven by growth in all product businesses. Sales in the infusion therapy product business grew organically by 7% to €924 million in the nine months ended September 30, 2008 compared with €793 million in the first nine months of 2007. The clinical nutrition product business experienced organic growth of 11%, with sales of €701 million in the nine months ended September 30, 2008 compared with €610 million in the nine months ended September 30, 2007. Sales in Fresenius Kabi's transfusion technology product business grew organically by 20% to €109 million in the first nine months of 2008 compared with €91 million in the first nine months of 2007.

- Fresenius Helios' sales increased by 16% to €1,568 million in the nine months ended September 30, 2008 compared to €1,348 million in the nine months ended September 30, 2007. This growth reflects 5% organic sales growth and 11% growth from acquisitions, net of divestitures. This growth was driven by a significant increase in hospital admissions in the first nine months of 2008 compared to the same period in 2007. This increase in admissions was partly due to an increase in the number of hospitals owned by Fresenius Helios to 61 hospitals at September 30, 2008 from 58 hospitals as of September 30, 2007. After September 30, 2008, Fresenius Helios sold 4 hospitals located in the Czech Republic to Fresenius Vamed, reducing the total number of hospitals owned by Fresenius Helios from 61 to 57. In the nine months ended September 30, 2008, the number of Helios' acute care hospital admissions in Germany increased by 16% to 381,737.

- Fresenius Vamed's sales increased by 24% to €290 million in the nine months ended September 30, 2008 compared to €234 million in the nine months ended September 30, 2007. This growth reflects 24% organic sales growth.

Special items relating to the acquisition of APP Pharmaceuticals

The following table shows special items relating to the acquisition of APP Pharmaceuticals and their effects on EBIT, other financial result and net income for the nine-month period ended September 30, 2008.[1]

	EBIT	Other financial result	Net income
		in €million	
Earnings, adjusted	1,209		324
Purchase accounting adjustments[2]:			
— In-process research and development	(175)		(175)
— Inventory step-up	(9)		(5)
Foreign exchange gain[3]	28		20
Other financial result:[4]			
— Mandatory Exchangeable Bonds accounting (mark to market)		(38)	(27)
— CVR accounting (mark to market)		36	36
— Special financing expenses		(32)	(20)
Earnings according to US-GAAP	1,053	(34)	153

(1) Differences in amounts shown in the line items from one column to the next result from differences in taxation effects.

(2) Figures are indicative and subject to change as the purchase price allocation is still provisional. In connection with preparing our year end 2008 financial statements, we are undertaking a valuation of the acquired assets and liabilities. While the results of this valuation may affect the purchase price allocation, it would not affect EBITDA. Purchase accounting adjustments include:

US GAAP accounting principles required full depreciation of acquired in-process research and development at the closing of the acquisition. Applying US GAAP principles thus resulted in a one-time charge of €175 million.

The inventory step-up reflects the excess of fair value over book value of acquired semi-finished and finished products. The amount is capitalized and amortized in line with the sale of the respective products.

(3) Foreign exchange gain in the amount of €28 million, resulting from the relative increase in strength of the U.S. dollar in the period leading up to September 30, 2008, which had the effect of increasing the value of a US$-denominated intercompany loan from Fresenius SE to Fresenius Kabi Pharmaceuticals Holdings, Inc., resulted in a book gain in the Group's consolidated accounts.

(4) In addition, €67 million of transaction-related financing expenses have been capitalized and will be depreciated over the life of the facility. Other financial result includes:

Mandatory Exchangeable Bonds: The mark-to-market accounting for the Mandatory Exchangeable Bonds is based on the Black-Scholes valuation model, reflecting the price of shares of Fresenius Medical Care AG & Co. KGaA (into which the Mandatory Exchangeable Bonds are exchangeable). Any change in fair value is recognized in the profit and loss statements of the Group. Valuation changes will lead to gains or expenses until maturity.

CVR: The trading price of the CVR on the buy or sell date is considered to be the fair redemption value. Changes in this value are recognized in the statements of profit and loss of the Group. Valuation changes will lead to quarterly gains or expenses until maturity. The calculation as of September 30, 2008 is determined by taking the difference between the average of the trading price over the initial five trading days (US$0.97 per CVR) and the trading price at September 30, 2008 (US$0.65 per CVR), or US$0.32, and multiplying by the number of CVRs outstanding as of September 30, 2008, or 163.3 million CVRs, yielding US$52 million (€36 million).

Special financing expenses include commitment and funding fees for the Bridge Facility and the write-off of historic financing costs at APP Pharmaceuticals due to the refinancing of a 2007 syndicated loan.

Cost of Sales

Cost of sales consists primarily of material costs, labor costs and depreciation. Cost of sales increased by 6% to €5,973 million in the nine months ended September 30, 2008 compared to €5,642 million in the nine months ended September 30, 2007 and, as a percentage of our total sales, increased to 68.2% in the nine months ended September 30, 2008 from 67.2% in the nine months ended September 30, 2007. Cost of sales was not significantly affected by special items relating to the acquisition of APP Pharmaceuticals.

Gross Profit

Our gross profit increased 1% to €2,788 million in the nine months ended September 30, 2008 compared to €2,748 million in the nine months ended September 30, 2007. At constant exchange rates, our gross profit increased by 8%. Our gross profit margin decreased to 31.8% in the nine months ended September 30, 2008 compared to 32.8% in the nine months ended September 30, 2007.

Excluding special items relating to the acquisition of APP Pharmaceuticals, gross profit increased 2% to €2,797 million in the nine months ended September 30, 2008 compared to €2,748 million in the nine months ended September 30, 2007. At constant exchange rates, gross profit increased by 8%. Gross profit margin decreased to 31.9% in the nine months ended September 30, 2008 compared to 32.8% in the nine months ended September 30, 2007.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of personnel costs, marketing costs and depreciation and amortization expenses. Selling, general and administrative expenses decreased by 1% to €1,415 million in the nine months ended September 30, 2008 compared to €1,434 million in the nine months ended September 30, 2007 and, as a percentage of sales, decreased to 16.2% compared to 17.1% in the nine months ended September 30, 2007.

Excluding special items relating to the acquisition of APP Pharmaceuticals, selling, general and administrative expenses increased by 1% to €1,443 million in the nine months ended September 30, 2008 compared to €1,434 million in the nine months ended September 30, 2007 and, as a percentage of sales, decreased to 16.5% compared to 17.1% in the nine months ended September 30, 2007.

Research and Development

Research and development expenses consist of costs of product research, product development, regulatory and clinical studies and personnel. These expenditures increased to €320 million in the nine months ended September 30, 2008 compared to €130 million in the nine months ended September 30, 2007. Of this €190 million increase, €175 million represented in-process research and development acquired in the acquisition of APP Pharmaceuticals.

In the nine months ended September 30, 2008, Fresenius Medical Care spent €40 million, compared to €32 million in the nine months ended September 30, 2007. Fresenius Kabi spent €71 million in the nine months ended September 30, 2008, compared to €61 million in the nine months ended September 30, 2007. Fresenius Helios had no research and development expenses in the nine months ended September 30, 2008, compared to €1 million in the nine months ended September 30, 2007. Fresenius Vamed had no research and development expenses in the nine months ended September 30, 2008 and in the nine months ended September 30, 2007. In addition, the segment Corporate/Other spent €209 million (€175 million thereof consisting of in-process research and development acquired in the acquisition of APP Pharmaceuticals) on research and development in the nine months ended September 30, 2008. The remaining €34 million spent on research and development in the nine months ended September 30, 2008 constitutes expenses of research and development primarily relating to Fresenius Biotech's activities in connection with the clinical development of trifunctional antibodies aimed at the treatment of cancer, compared to €36 million in the nine months ended September 30, 2007.

Excluding special items relating to the acquisition of APP Pharmaceuticals, research and development expenses increased 12% to €145 million in the nine months ended September 30, 2008 compared to €130 million in the nine months ended September 30, 2007.

Depreciation and Amortization

Depreciation and amortization increased 73% to €521 million (€184 million thereof consisting of one-time effects relating to the acquisition of APP Pharmaceuticals) in the nine months ended September 30, 2008 compared to €301 million in the nine months ended September 30, 2007 and, as a percentage of total sales, increased to 5.9% from 3.6%.

Excluding special items relating to the acquisition of APP Pharmaceuticals, depreciation and amortization increased 12% to €337 million in the nine months ended September 30, 2008 compared to €301 million in the nine months ended September 30, 2007 and, as a percentage of total sales, increased to 3.8% from 3.6%.

Operating Income ("EBIT")

Group EBIT decreased 11% to €1,053 million in the nine months ended September 30, 2008, compared to €1,184 million in the nine months ended September 30, 2007. EBIT margin decreased to 12.0% from 14.1%. In constant currency, Group EBIT decreased by 5%.

Excluding special items effects relating to the acquisition of APP Pharmaceuticals, Group EBIT increased 2% to €1,209 million in the nine months ended September 30, 2008, as compared to €1,184 million in the nine months ended September 30, 2007. EBIT margin decreased to 13.8% from 14.1%. In constant currency, Group EBIT increased by 9%.

- Fresenius Medical Care's EBIT decreased 5% to €815 million in the nine months ended September 30, 2008 compared to €857 million in the nine months ended September 30, 2007. Its EBIT margin decreased to 15.7% from 16.1%. Fresenius Medical Care's EBIT increased by 3% in constant currency.

  In U.S. dollar terms, Fresenius Medical Care's EBIT increased by 8% to US$1,240 million in the nine months ended September 30, 2008 compared to US$1,152 million in the first nine months of 2007, resulting in an operating margin of 15.7% for the first nine months of 2008 compared to 16.1% for the first nine months of 2007. This development mainly reflected higher research and development expenses and start-up costs for new clinics. Reduced reimbursement rates for EPO, lower utilization levels of EPO

as well as increased costs for the anticoagulant drug Heparin and higher personnel expenses were partially offset by increases in underlying reimbursement rates and strong contributions from renal products.

Fresenius Medical Care's EBIT in North America increased 4% to US$858 million in the nine months ended September 30, 2008 compared to US$826 million in the nine months ended September 30, 2007. This improvement was the result of increases in the number of treatments and in the volume of products sold. EBIT margin was 16.7% in both the first nine months of 2008 and the first nine months of 2007, with increased margins from increased revenue from commercial payers, a higher volume of products sold and a gain from the sale of a minority interest in certain clinics, partially offset by reduced reimbursement rates for and decreased utilization of EPO, as well as heparin cost increases and higher personnel expenses. Cost per treatment was US$271 for the nine-month periods ended September 30, 2008 and US$269 for the nine months ended September 30, 2007.

Fresenius Medical Care's EBIT in the International segment increased 20% to US$462 million in the nine months ended September 30, 2008 compared to US$386 million in the nine months ended September 30, 2007. This increase resulted from increases in volume of products sold, treatment volume and revenue per treatment.

- Fresenius Kabi's EBIT increased 20% to €290 million in the nine months ended September 30, 2008 compared to €242 million in the nine months ended September 30, 2007. Its EBIT margin increased to 16.7% from 16.2%.

  Fresenius Kabi's EBIT in Europe increased 12% to €240 million in the nine months ended September 30, 2008 compared to €215 million in the months ended September 30, 2007. Its EBIT margin in Europe remained constant at 21.4%.

  Fresenius Kabi's EBIT outside Europe increased 33% to €108 million in the nine months ended September 30, 2008 compared to €81 million in the nine months ended September 30, 2007. Its EBIT margin outside Europe improved to 17.6% from 16.6%.

- Fresenius Helios' EBIT increased 15% to €127 million in the nine months ended September 30, 2008 compared to €110 million in the nine months ended September 30, 2007. Its EBIT margin decreased slightly to 8.1% from 8.2%. The increase in EBIT was primarily due to the strong financial performance of the established clinics. As of September 30, 2008, the number of acute care hospital admissions in Germany increased by 16% to 381,737 compared to 328,005 admissions as of September 30, 2007.

- Fresenius Vamed's EBIT increased 27% to €14 million in the nine months ended September 30, 2008 compared to €11 million the nine months ended September 30, 2007. Its EBIT margin improved to 4.8% from 4.7%. Order intake in the project business increased by 9% to €242 million in the first half of 2008 compared to €222 million in the first half of 2007. Order backlog as of September 30, 2008 was €569 million, an increase of 12% over order backlog of €510 million as of December 31, 2007.

Net Interest

Net interest expense decreased 3% to €271 million in the nine months ended September 30, 2008 compared to €279 million in the nine months ended September 30, 2007. This improvement was mainly due to lower average interest rates on Fresenius Medical Care's debt and currency translation effects. Due to the closing of the APP Transaction on September 10, 2008, net interest expense for the nine months ended September 30, 2008 includes only 20 days of interest expense associated with the APP Financing. As a result, net interest expense will be higher in future reporting periods than the amount of net interest expense reported for the nine months ended September 30, 2008.

Not included in net interest expense were certain financing expenses relating to the acquisition of APP Pharmaceuticals in the amount of €34 million, which are included in the Group Financial Statements under Other Financial Result.

Income Taxes

Income taxes decreased 6% to €308 million for the nine months ended September 30, 2008 compared to €326 million for the nine months ended September 30, 2007. The effective income tax rate for the nine months ended September 30, 2008 increased to 41.2% compared to 36.0% in the nine months ended September 30, 2007.

Excluding special items relating to the acquisition of APP Pharmaceuticals, income taxes remained stable at €327 million for the nine months ended September 30, 2008 compared to €326 million in the nine months ended September 30, 2007. The effective income tax rate for the nine months ended September 30, 2008 decreased to 34.9% compared to 36.0% in the nine months ended September 30, 2007.

Minority Interests

Profits allocated to minority interests increased 2% to €287 million in the nine months ended September 30, 2008 compared to €281 million in the nine months ended September 30, 2007. Of the profits allocated to minority interests in the nine months ended September 30, 2008, 93% were attributable to the other shareholders of Fresenius Medical Care. Profits allocated to minority interests were not affected by special items relating to the acquisition of APP Pharmaceuticals.

Net Income

Net income decreased to €153 million in the nine months ended September 30, 2008 compared to €298 million in the nine months ended September 30, 2007. At constant exchange rates, net income decreased by 45%.

Excluding special items relating to the acquisition of APP Pharmaceuticals, net income increased 9% to €324 million in the nine months ended September 30, 2008 compared to €298 million in the nine months ended September 30, 2007. At constant exchange rates, net income increased by 14%.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Sales

Our total sales increased 5% to €11,358 million in 2007 from €10,777 million in 2006. The 5% increase represents 6% organic growth and 6% growth from acquisitions, offset by 5% for currency translation effects and 2% for divestitures. The average 9% weakening of the U.S. dollar against the euro in 2007 had a significant negative impact on our sales, since a large portion of our business is generated in North America.

- Fresenius Medical Care's sales increased 5% to €7,093 million in 2007 from €6,768 million in 2006 and, as a percentage of our total sales, decreased slightly from 63% to 62%. The 5% increase in sales represents 6% organic growth combined with 7% growth from acquisitions, offset by 1% for divestitures and 7% for currency translation effects. In U.S. dollar terms, sales increased 14% to US$9,720 million in 2007 from US$8,499 million in 2006.

  At year-end 2007, Fresenius Medical Care owned, operated or managed 2,238 clinics compared to 2,108 clinics at year-end 2006. During 2007, it acquired 84 clinics, opened 76 new clinics and combined or closed 30 clinics. Fresenius Medical Care treated 173,863 patients at December 31, 2007 (175,705 patients including 33 clinics in the US managed but not consolidated), an increase from 163,517 patients at December 31, 2006. In 2007, 26.4 million treatments were provided, an increase of 11% from 23.7 million treatments in 2006.

The following table sets forth information regarding Fresenius Medical Care's sales derived from dialysis care and from dialysis products in its North America segment and in its International segment (markets outside of North America) in 2006 and 2007:

	Dialysis care sales			Dialysis products sales		
	Year ended December 31,		Change	Year ended December 31,		Change
	2006	2007	2007/2006	2006	2007	2007/2006)
	(in million US$)		(%)	(in million US$)		(%)
North America	5,464	6,002	10	561	661	18
International	913	1,211	33	1,561	1,846	18
Total	6,377	7,213	13	2,122	2,507	18

Fresenius Medical Care's sales in North America grew 11% to US$6,663 million in 2007 from US$6,025 million in 2006, largely due to a 10% increase in dialysis care revenues and an 18% increase in product sales. The 10% increase in dialysis care revenues reflects 3% organic growth and 7% growth from acquisitions. The number of treatments in North America increased 9% to 18.5 million in 2007 from 16.9 million in 2006. Continued strong sales of dialysis machines, dialysis concentrates and the phosphate binder PhosLo contributed to the growth in products sales in North America in 2007. Average revenue per dialysis treatment in North America increased to US$323 from US$317 mainly due to increased commercial payer rates, an increase in the drug add-on adjustment and a 1.6% increase in the Medicare composite rate in the United States, and the effects of the acquisition of Renal Care Group, partially offset by decreased utilization of and reimbursement rates for EPO.

Sales in Fresenius Medical Care's International segment grew 24% to US$3,057 million in 2007 from US$2,474 million in 2006. This 24% increase represents 9% growth from currency translation effects due to the continued strengthening of the euro and certain other currencies against the U.S. dollar, 9% organic growth, and 6% growth from acquisitions net of divestitures. The number of treatments in the International segment increased 16% to 8.0 million in 2007 from 6.9 million in 2006. Average revenue per dialysis treatment in the International segment increased to US$152 from US$133 primarily due to increased reimbursement rates, changes in country mix and the strengthening of local currencies against the U.S. dollar.

- Fresenius Kabi's sales increased 7% to €2,030 million in 2007 from €1,893 million in 2006 and, as a percentage of our total sales, remained constant at 18%. The 7% increase in sales represents 8% organic growth and 1% growth from acquisitions, offset by 2% for currency translation effects.

  Organic sales growth was 5% in Europe (excluding Germany) in 2007. Organic sales growth was 2% in Germany and was negatively affected by cost containment measures that were implemented in Germany's healthcare system. Fresenius Kabi achieved organic growth rates of 22% in Asia-Pacific and 9% in Latin America in 2007. Other markets experienced organic growth of 10% in 2007.

  Fresenius Kabi's sales growth was in 2007 driven by all three product businesses. Infusion therapy's sales increased 5% to €1,076 million in 2007 from €1,023 million 2006. Clinical nutrition's sales increased 10% to €831 million in 2007 from €753 million in 2006. Transfusion technology's sales increased 5% to €123 million in 2007 from €117 million in 2006. In 2007, infusion therapy, clinical nutrition and transfusion technology achieved organic growth rates of 5%, 12% and 5%, respectively.

- Fresenius ProServe's sales increased 5% to €2,268 million in 2007 from €2,155 million in 2006 and, as a percentage of our total sales, remained constant at 20%. Fresenius ProServe consisted primarily of two businesses, Fresenius Helios and Fresenius Vamed, each of which became its own segment for financial reporting purposes on January 1, 2008.

  Sales by Fresenius Helios increased 10% to €1,841 million in 2007 compared to €1,673 million in 2006. Organic sales growth accounted for 3% and acquisitions accounted for 9% of this growth, which was

offset by 2% for divestitures. The organic sales growth of 3% was largely attributable to an 11% increase in inpatient admissions to 476,477 in 2007 compared to 428,360 in 2006.

Fresenius Vamed's sales increased 4% to €408 million in 2007 from €392 million in 2006. Sales in Fresenius Vamed's project business increased by 4% to €259 million in 2007 from €249 million in 2006. Order intake in the project business increased 17% during 2007 to €395 million from €337 million in 2006. Order backlog in the project business of Fresenius Vamed increased by 32% to €510 million at year-end 2007 compared to €387 million at year-end 2006. Fresenius Vamed's service business grew by 4% to €149 million in 2007 from €143 million in 2006.

Cost of Sales

Cost of sales increased 4% to €7,680 million in 2007 from €7,351 million in 2006 and, as a percentage of our total sales, decreased slightly to 67.6% in 2007 from 68.2% in 2006.

Gross Profit

Our gross profit increased 7% to €3,678 million in 2007 from €3,426 million in 2006. At constant exchange rates, it increased 12%. Our gross profit margin improved to 32.4% in 2007 from 31.8% in 2006.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 4% to €1,885 million in 2007 from €1,815 million in 2006 and, as a percentage of sales, decreased to 16.6% from 16.8%.

Research and Development

Research and development expenses increased 10% to €184 million in 2007 from €167 million in 2006. Fresenius Medical Care spent €49 million in 2007 compared to €41 million in 2006, on the development of products and therapies for dialysis and other extracorporeal therapies, with a particular focus on the further development of the series 5008 hemodialysis machine, the development of membrane technology for use in hemodialysis, and early stage research on membrane technology that is capable of launching pharmaceutical agents into the patient's blood. Fresenius Kabi spent €86 million in 2007, compared to €77 million in 2006, on the development of new products and product enhancements in its core areas of clinical nutrition, infusion therapy and transfusion technology. Fresenius ProServe spent €1 million on research and development in 2007 (all of which was attributable to Fresenius Helios), as well as in 2006. In addition, the segment Corporate/ Other spent €48 million on research and development in each of 2007 and 2006, to support Fresenius Biotech's activities in connection with the clinical development of trifunctional antibodies aimed at the treatment of certain types of cancer.

Depreciation and Amortization

Depreciation and amortization increased 6% to €421 million in 2007 from €399 million in 2006 and, as a percentage of total sales, remained unchanged at 3.7%.

Operating Income (EBIT)

Group EBIT increased 11% to €1,609 million in 2007 from €1,444 million in 2006. EBIT margin increased to 14.2% from 13.4%. At constant exchange rates, Group EBIT increased 17% in 2007.

- Fresenius Medical Care's EBIT increased 10% to €1,153 million in 2007 from €1,050 million in 2006. Its EBIT margin increased to 16.3% compared to 15.5% in 2006. The improvement in EBIT was driven by the performance of the dialysis care business, as well as by significant improvements in the international business. Currency translation effects, particularly due to the decline in the U.S. dollar against other currencies, including the euro, had a negative impact on EBIT of 7%.

In U.S. dollar terms, Fresenius Medical Care's EBIT increased 20% to US$1,580 million in 2007 from US$1,318 million in 2006, mainly as a result of increased gross margins and the decrease in selling, general and administrative expenses as a percentage of revenue.

Fresenius Medical Care's EBIT in North America increased 17% to US$1,130 million in 2007 from US$965 million in 2006. EBIT margin in North America increased to 17.0% in 2007 from 16.0% in 2006. The increase in EBIT in North America was mainly due to higher revenue per treatment rates and higher volume of product sold, partially offset by higher personnel expenses, as well as decreased utilization of and reduced reimbursement rates for EPO. It also reflected the gain from acquisition-related divestitures of US$40 million, integration costs for the Renal Care Group acquisition (completed on March 31, 2006) of US$31 million and in-process research and development of US$3 million, all in 2006. Excluding these one-time effects, operating income for the North America market would have been US$958 million in 2006, and 2006 EBIT margin in North America would have been 15.9%.

The EBIT of Fresenius Medical Care's International segment increased 24% to US$544 million in 2007 from US$440 million in 2006, primarily as a result of increases in treatment volume, acquisitions and volume of products sold. EBIT margin in the International segment remained constant at 17.8%, primarily as a result of disproportionately high growth in the dialysis care business, offset by operational improvements.

- Fresenius Kabi's EBIT increased 14% to €332 million in 2007 from €291 million in 2006. Its EBIT margin increased to 16.4% from 15.4%. These increases were driven by a good operating performance in all geographical regions, cost-optimization and efficiency-improvement measures, and changes in the product mix.

  Fresenius Kabi's EBIT in Europe increased 15% to €294 million in 2007 from €256 million in 2006. Its EBIT margin in Europe improved to 21.6% from 19.6%.

  Outside Europe, Fresenius Kabi's EBIT increased 13% to €113 million in 2007 from €100 million in 2006. Its EBIT margin outside Europe remained constant at 17.0%.

- Fresenius ProServe's EBIT increased 18% to €181 million in 2007 from €154 million in 2006. Its EBIT margin improved to 8.0% from 7.1%. These improvements in Fresenius ProServe's EBIT reflect 17% growth in the EBIT of Fresenius Helios, which accounted for €155 million of EBIT in 2007, and 13% growth in the EBIT of Fresenius Vamed, which accounted for €26 million of EBIT in 2007.

- Fresenius Helios had an EBIT margin of 8.4% in 2007, up from 7.9% in 2006. This increase was primarily due to good margin developments in the established clinics.

- Fresenius Vamed's EBIT margin was 6.4% in 2007 compared to 5.9% in 2006.

Net Interest

Net interest expense decreased 7% to €368 million in 2007 from €395 million in 2006. Two primary factors drove this decrease. First, a special charge of €30 million associated with the early refinancing of Group debt was included in net interest expense in 2006. Second, a large portion of our financial liabilities (approximately 53% as of December 31, 2007) are denominated in U.S. dollars. The decrease in the exchange rate of the U.S. dollar against the euro in 2007 had a significant effect on the interest payments on these loans, reducing our interest expenses on these loans by €21 million.

Income Taxes

Income taxes increased 8% to €448 million in 2007 from €414 million in 2006. The effective income tax rate for 2007 decreased to 36.1% compared to 39.5% in 2006 (or 37.2% adjusted for the tax expenses associated with the divestiture of dialysis clinics in the United States, as goodwill attributable to these clinics was not deductible for tax purposes).

Minority Interests

Profits allocated to minority interests increased 26% to €383 million in 2007 from €305 million in 2006, mainly on the good earnings performance of Fresenius Medical Care. Of the profits allocated to minority interests in 2007, 92% were attributable to the other shareholders of Fresenius Medical Care. In constant currency, profits allocated to minority interests increased by 32% in 2007.

Net Income

Net income increased 24% to €410 million in 2007 from €330 million in 2006. Net income growth in constant currency was 28% in 2007.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Sales

Our total sales increased 37% to €10,777 million in 2006 from €7,889 million in 2005. The increase represents 9% organic growth and 29% growth from acquisitions, offset by 1% for divestitures. The growth from acquisitions was mainly attributable to the consolidation of Renal Care Group, which affected the final nine months of our 2006 results, and the consolidation of HELIOS Kliniken, which affected all 12 months of our 2006 results.

- Fresenius Medical Care's sales increased 24% to €6,768 million in 2006 from €5,443 million in 2005 and, as a percentage of our total sales, decreased to 63% in 2006 from 69% in 2005. The 24% increase in sales represents 10% organic growth and 15% growth from net acquisitions, mainly the consolidation of Renal Care Group, offset by 1% for currency translation effects.

  At year-end 2006, Fresenius Medical Care owned, operated or managed 2,108 clinics compared to 1,680 clinics at year-end of 2005. During 2006, it acquired 378 clinics, opened 83 new clinics and sold or closed 33 clinics, not including divestitures related to the acquisition of Renal Care Group. The number of patients treated in clinics that Fresenius Medical Care owned, operated or managed increased to 163,517 at December 31, 2006 from 131,450 at year-end 2005. In 2006, 23.7 million treatments were provided, an increase of 20% from 19.7 million treatments in 2005. Average revenue per dialysis treatment increased to US$269 in 2006 from US$247 in 2005, primarily due to improved reimbursement rates from private payers and an increase in the percentage of patients covered by private health insurers, from whom we received a higher reimbursement rate than from public health insurance plans.

  The following table sets forth information regarding Fresenius Medical Care's sales derived from dialysis care and from dialysis products in its North America segment and in its International segment (markets outside of North America) in 2005 and 2006:

	Dialysis care sales			Dialysis products sales		
	Year ended December 31,		Change	Year ended December 31,		Change
	2005	2006	2006/2005	2005	2006	2006/2005)
	(in million US$)		(%)	(in million US$)		(%)
North America	4,054	5,464	35	523	561	7
International	813	913	12	1,382	1,561	13
Total	4,867	6,377	31	1,905	2,122	11

  Fresenius Medical Care's sales in North America grew by 32% to US$6,025 million in 2006 from US$4,577 million in 2005. Organic growth contributed 9% of this growth in North American sales, while acquisitions net of divestments contributed 23%. The number of treatments in North America increased 25% to 16.9 million in 2006 from 13.5 million in 2005.

  Sales in Fresenius Medical Care's International segment grew by 13% to US$2,474 million in 2006 from US$2,195 million in 2005. Of this 13% increase in sales, organic sales growth accounted for 12% and

currency translation effects accounted for 1%. The number of treatments in the International segment increased 10% to 6.9 million in 2006 from 6.3 million in 2005.

- Fresenius Kabi's sales increased 13% to €1,893 million in 2006 from €1,681 million in 2005 and, as a percentage of our total sales, decreased to 17% in 2006 from 21% in 2005. The 13% increase in sales represents 8% organic growth, 4% growth from acquisitions, and 1% for positive currency translation effects. Most of the 4% growth from acquisitions was attributable to the consolidation of the Clinico Group and the Australian company Pharmatel. In Europe (excluding Germany), organic growth was 5%, while organic growth in Germany was 1%. Latin America and the Asia-Pacific region experienced organic growth rates of 22% and 18% respectively, while Fresenius Kabi's operations in the rest of the world experienced organic growth of 17%.

- Sales at Fresenius ProServe grew to €2,155 million in 2006 from €809 million in 2005 and, as a percentage of our total sales, increased to 20% in 2006 from 10% in 2005. On a comparable basis (2005 including HELIOS Kliniken: €2,009 million), this was an increase of 7%. The growth was driven largely by the consolidation of HUMAINE Kliniken, with effect from July 1, 2006. Fresenius ProServe achieved organic growth of 3% in 2006. Order intake in Fresenius ProServe's engineering business increased by 19% to €407 million in 2006 from €341 million in 2005, while order backlog at year-end increased by 19% to €428 million at year-end 2006 from €360 million at year-end 2005.

Cost of Sales

Cost of sales increased 39% to €7,351 million in 2006 from €5,300 million in 2005 and, as a percentage of our total sales, increased slightly to 68.2% in 2006 compared to 67.2% in 2005. The effect of exchange rates on cost of sales was mainly neutral in 2007.

Gross Profit

Our gross profit increased 32% to €3,426 million in 2006 from €2,589 million in 2005. In constant currency, the increase was 33%. The gross profit margin decreased slightly to 31.8% in 2006 compared to 32.8% in 2005.

Selling, General and Administrative Expenses

Selling, general and administrative expenses rose by 23% to €1,815 million in 2006 from €1,471 million in 2005. The increase was due primarily to the growth of our Group through acquisitions. As a percentage of sales, selling, general and administrative expenses decreased to 16.8% from 18.6%.

Research and Development

Research and development expenses increased 12% to €167 million in 2006 from €149 million in 2005. Fresenius Medical Care spent €41 million in each of 2006 and 2005 on research and development. In 2006, Fresenius Medical Care continued to work on projects aimed at improving treatment therapies. The main focus of these projects was on the further development of dialyzers and dialysis machines for hemodialysis (including the new 5008 series dialysis machine) and peritoneal dialysis. Fresenius Kabi's research and development expenses increased 20% to €77 million in 2006 from €64 million in 2005, for the development of new products and product enhancements in its core areas of clinical nutrition, infusion therapy and medical devices. Fresenius ProServe spent €1 million on research and development in each of 2006 and 2005. The segment Corporate/Other spent €48 million in 2006 compared to €43 million in 2005, an increase of 12%, mainly to support Fresenius Biotech's activities in connection with the clinical development of trifunctional antibodies aimed at the treatment certain types of cancer.

Depreciation and Amortization

Depreciation and amortization increased 25% to €399 million in 2006 from €320 million in 2005 and, as a percentage of our total sales, decreased to 3.7% in 2006 from 4.1% in 2005. The increase in depreciation and amortization expenses was largely a result of growth through acquisitions.

Operating Income (EBIT)

Group EBIT increased 49% to €1,444 million in 2006 from €969 million in 2005. Group EBIT margin increased to 13.4% compared to 12.3% in 2005. At constant exchange rates, EBIT rose 50%.

- Fresenius Medical Care's EBIT increased 39% to €1,050 million in 2006 from €755 million in 2005. In 2006, its EBIT margin increased to 15.5% compared to 13.9% in 2005. EBIT in 2006 included a gain of €32 million from the divestitures of dialysis clinics in the United States, as well as €40 million of other one-time expenses, including expenses relating to the integration of Renal Care Group. The improvement in EBIT in 2006 was driven mainly by the performance of the dialysis care business in the United States, as well as by significant improvements in the international business. On a constant currency basis, EBIT growth was 40%.

  In U.S. dollar terms, Fresenius Medical Care's EBIT increased 40% to US$1,318 million in 2006 from US$939 million in 2005. Its EBIT margin increased to 15.5% in 2006 compared to 13.9% in 2005, as a result of higher gross profit margin and stable selling and administrative expenses as a percentage of sales. EBIT in North America increased 50% to US$965 million in 2006 from US$644 million in 2005. EBIT margin increased to 16.0% for 2006 from 14.1% in 2005, mostly as a result of improved revenue rates, increased treatment volume, effects of the acquisition of Renal Care Group net of related divestitures, and increased product sales partially offset by higher personnel expenses. Cost per treatment increased to US$266 in 2006 compared to US$254 in 2005.

  EBIT in Fresenius Medical Care's International segment increased 22% to US$440 million in 2006 from US$362 million in 2005. The EBIT margin of Fresenius Medical Care's International segment improved to 17.8% in 2006 compared to 16.5% in 2005, largely due to increased production efficiencies in Europe, accelerated purchases of product by German customers in advance of an increase of 3% in the German Value Added Tax in 2007, improvements in operations in Latin America and Asia-Pacific, collections on previously written-off receivables, lower bad debt expense and the impact of restructuring costs in Japan in 2005. These effects were partially offset by income received in 2005 associated with the cancellation of a distribution agreement and with a patent litigation settlement.

- Fresenius Kabi's EBIT increased 24% to €291 million in 2006 from €234 million in 2005. Its EBIT margin increased to 15.4% from 13.9%. This growth was driven by a good operating performance in all regions and by cost optimization and efficiency improvement measures, especially in production.

- Fresenius ProServe's EBIT increased to €154 million in 2006 compared to €20 million in 2005. EBIT margin improved to 7.1% in 2006 from 2.5% in 2005. This improvement was primarily due to the consolidation of HELIOS. Including HELIOS Kliniken in the figure for 2005, this corresponds to a 23% increase in EBIT for 2006.

Net Interest

Net interest expense increased 95% to €395 million in 2006 from €203 million in 2005. The higher interest expense was mainly due to the debt financing of the acquisitions of Renal Care Group and HELIOS Kliniken. However, net interest expense for 2006 also includes special expenses of €30 million related to the early refinancing of Group debt.

Income Taxes

Income taxes increased 39% to €414 million in 2006 from €298 million in 2005. The effective income tax rate for 2006 was 39.5% compared to 38.9% in 2005. It was substantially influenced by the tax expense

associated with the divestiture of dialysis clinics in the United States because goodwill attributable to these clinics was not considered deductible for tax purposes. Excluding this effect, the effective tax rate in 2006 was 37.2%.

Minority Interests

Profits allocated to minority interests increased by 24% to €305 million in 2006 from €246 million in 2005, mainly due to the higher earnings of Fresenius Medical Care. Of the €305 million in minority interests, 93% was attributable to the other shareholders of Fresenius Medical Care.

Net Income

Net income increased 49% to €330 million in 2006 from €222 million in 2005. Accounting for the net effect of exchange rates does not significantly change Group net income for 2006.

Liquidity and Capital Resources

Overview

We have historically financed our capital and working capital requirements through a combination of cash flows from our segments' operating activities, short- and long-term bank borrowings and the issuance of bonds, trust preferred securities and commercial paper.

Cash flows from our segments' operating activities are impacted by their operating results and the development of their working capital, which consists principally of receivables and inventories, less payables, accruals and other liabilities. The level of receivables is significantly dependent on reimbursement rates. As discussed under "— Quantitative and Qualitative Disclosures About Market Risk — Reimbursement Rates" below, the majority of our consolidated sales are generated from providing dialysis treatments, a major portion of which are reimbursed by either public healthcare organizations or private insurers.

Historical Consolidated Cash Flow

The following table summarizes our cash flow activity for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2005	2006	2007	2007	2008
				(unaudited)	
			(in million €)		
Cash provided by operating activities	780	1,052	1,296	912	736
Cash provided by/used for investing activities	(1,937)	(3,790)	(1,058)	(647)	(3,371)
Cash provided by/used for financing activities	1,256	2,760	(122)	(196)	2,603
Net increase/(decrease) in cash and cash equivalents	112	9	100	58	(28)
Cash and cash equivalents at beginning of period	140	252	261	261	361
Cash and cash equivalents at period-end	252	261	361	319	333

The discussion below of our cash flows is on a consolidated basis. We receive the cash flows generated by Fresenius Medical Care only to the extent they are distributed to us as dividends in proportion to our interest in the total subscribed capital of 35.83% as at September 30, 2008, as payments under existing agreements, such as rental and service agreements, or as reimbursement of the general partner's expenses. The majority of our subsidiaries place most of their excess liquidity in the form of short-term intercompany deposits or in cash pooling arrangements with Fresenius SE.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Operating Activities. Our net cash generated from operating activities was €736 million in the nine months ended September 30, 2008 and €912 million in the nine months ended September 30, 2007, mainly

due to an increase in inventories, prepaid expenses and trade accounts receivables. The primary movements in our operating cash flow in the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 were the following:

- including special items relating to the purchase of APP Pharmaceuticals, our net income was €145 million lower in the nine months ended September 30, 2008 than in the nine months ended September 30, 2007. Not including these special items, our net income was €26 million higher in the first nine months of 2008 than in the first nine months of 2007;
- net income allocated to minority shareholders was €6 million higher in the nine months ended September 30, 2008 than in the nine months ended September 30, 2007;
- depreciation and amortization expenses were €220 million higher in the nine months ended September 30, 2008 than in the nine months ended September 30, 2007;
- deferred taxes were €31 million higher at September 30, 2008 than at December 31, 2007;
- gain or loss on sale of fixed assets was €67 million lower in the nine months ended September 30, 2008 than in the nine months ended September 30, 2007;
- accruals for income taxes were €35 million lower at September 30, 2008 than at December 31, 2007;
- accounts receivable, inventories, prepaid expenses and other current and non-current assets, and accounts receivable from related parties were €378 million higher at September 30, 2008 than at December 31, 2007. This largely reflects a €164 million increase in trade accounts receivable (primarily due to higher receivables resulting from the growth of our businesses), a €96 million increase in inventories and a €109 million increase in prepaid expenses and other current and non-current assets. The scope of inventories (inventories divided by cost of sales multiplied by 365 days), increased to 51 days as at September 30, 2008 (including cost of sales by APP Pharmaceuticals for the full year and excluding one-time effects relating to the acquisition of APP Pharmaceuticals) from 42 days as at December 31, 2007. The average number of days of sales outstanding increased slightly to 72 days (including the full year of APP Pharmaceuticals' sales) at September 30, 2008 from 71 days at December 31, 2007; and
- trade accounts payable, accruals and other short and long-term liabilities were €154 million higher at September 30, 2008 than at December 31, 2007.

Investing Activities. Net cash used in investing activities increased to €3,371 million in the nine months ended September 30, 2008 from €647 million in the nine months ended September 30, 2007. We made acquisitions (including acquisitions financed with cash, equity and the assumption of debt) totaling €3,760 million in the nine months ended September 30, 2008 compared to €246 million in the nine months ended September 30, 2007. Net cash used for acquisitions was €2,961 million in the nine months ended September 30, 2008 compared to €235 million in the nine months ended September 30, 2007. Net cash used for capital expenditures on property, plant and equipment was €496 million in the nine months ended September 30, 2008 compared to €461 million in the nine months ended September 30, 2007. For more information about our acquisitions and capital expenditures, see "— Acquisitions and Capital Expenditures".

Financing Activities. Our financing activities provided net cash of €2,838 million in the nine months ended September 30, 2008 compared to cash used for our financing activities of €5 million in the nine months ended September 30, 2007. The reversal from cash used for financing activities to cash provided by financing activities in the nine months ended September 30, 2008 primarily reflects the net increase in financial liabilities in that period.

Our free cash flow after investing activities and the payment of dividends was a negative €2,870 million in the nine months ended September 30, 2008 compared to a positive €74 million in the nine months ended September 30, 2007.

We paid dividends of €235 million in the nine months ended September 30, 2008 and €191 million in the nine months ended September 30, 2007, of which €103 million and €89 million, respectively, related to dividends paid by Fresenius SE.

Our total long- and short-term debt increased 51% to €8,588 million at September 30, 2008 from €5,699 million at December 31, 2007. Total long-term debt net of current obligations increased to €7,498 million at September 30, 2008 from €4,767 million at December 31, 2007. Short-term debt increased to €1,090 million at September 30, 2008 from €932 million at December 31, 2007. The 51% increase in our total debt was mainly due to the financing of the APP Transaction.

Cash and cash equivalents were €333 million at September 30, 2008 compared to €361 million at December 31, 2007.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Operating Activities. Our operating cash flow was €1,296 million in 2007 and €1,052 million in 2006. The primary movements in our operating cash flow in 2007 compared to 2006 were the following:

- our net income for the year was €80 million higher in 2007 than in 2006;
- net income allocated to minority shareholders was €78 million higher in 2007 than in 2006;
- cash inflow from hedging transactions in 2007 was €9 million lower in 2007 than in 2006;
- depreciation and amortization expenses were €22 million higher in 2007 than in 2006;
- adjustments for book losses on sales of investments were €2 million lower in 2007 than in 2006;
- deferred taxes were €12 million higher at December 31, 2007 than at December 31, 2006;
- gain or loss on sale of fixed assets was €15 million lower in 2007 than in 2006;
- accounts receivable, inventories, prepaid expenses and other current and non-current assets, and accounts receivable from related parties were €162 million higher at December 31, 2007 than at December 31, 2006. This largely reflects a €125 million increase in inventories and a €112 million increase in net trade accounts receivable primarily due to business expansion. The increase in the scope of our inventories to 42 days at December 31, 2007 from 38 days at December 31, 2006 was primarily due to build-up of inventories at Fresenius Kabi associated with the relocation of production and the related accumulation of sufficient buffer stocks to guarantee continuing supplies in anticipation of the relocation. Prepaid expenses and other current and non-current assets were €76 million higher at December 31, 2007 than at December 31, 2006. Average number of days of sales outstanding was 71 days at both December 31, 2007 and December 31, 2006;
- trade accounts payable, accruals and other short and long-term liabilities were €152 million higher at December 31, 2007 than at December 31, 2006, primarily due to the growth of our businesses;
- accruals for income taxes were €81 million higher at December 31, 2007 than at December 31, 2006; and
- tax payments related to divestitures and acquisitions were zero in 2007 compared to €52 million in 2006.

Investing Activities. Net cash used in investing activities decreased to €1,058 million in 2007 from €3,790 million in 2006. We made acquisitions (including acquisitions financed with cash, equity and the assumption of debt) totaling €618 million in 2007 compared to €3,714 million in 2006. Net cash used for acquisitions was €396 million in 2007 compared to €3,657 million in 2006. Net cash used for capital expenditures on property, plant and equipment was €662 million in 2007 compared to €571 million in 2006. For more information about our acquisitions and capital expenditures, see "— Acquisitions and Capital Expenditures".

Financing Activities. Our financing activities used net cash in the amount of €122 million in 2007, whereas in 2006 financing activities provided net cash in the amount of €2,760 million. The reversal from cash provided by financing activities to cash being used for financing activities was primarily due to our net repayment of financial liabilities in 2007. Our free cash flow after investing activities and the payment of dividends was €33 million in 2007 compared to negative €2,909 million in 2006.

For the payment of dividends, we used cash of €205 million in 2007 and €171 million in 2006, of which €89 million and €76 million, respectively, related to dividends paid by Fresenius SE.

Total debt at December 31, 2007 was €5,699 million compared to €5,872 million at December 31, 2006. Short-term borrowings were €932 million at December 31, 2007 compared to €596 million at December 31, 2006. Long-term borrowings at December 31, 2007 were €4,767 million compared to €5,276 million at December 31, 2006.

Cash and cash equivalents were €361 million at year-end 2007 compared to €261 million at year-end 2006.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Operating Activities. Our operating cash flow was €1,052 million in 2006 compared to €780 million in 2005. The primary movements in our operating cash flow in 2006 compared to 2005 were the following:

- our net income for the year was €108 million higher in 2006 than in 2005;
- net income allocated to minority shareholders was €59 million higher in 2006 than 2005;
- cash inflows from foreign exchange hedging contracts were €9 million higher in 2006 than in 2005;
- depreciation and amortization expenses were €79 million higher in 2006 than in 2005;
- adjustments for book losses from sales of investments and fixed assets were €9 million higher in 2006 than in 2005;
- deferred taxes were €77 million higher at December 31, 2006 than at December 31, 2005;
- accounts receivable, inventories, prepaid expenses and other current and non-current assets, and accounts receivable from related parties were €232 million higher December 31, 2006 than at December 31, 2005. This was largely the result of €86 million more in net trade accounts receivable, primarily due to the growth of our businesses, €101 million more in prepaid expenses and other current and non-current assets, and €49 million more in inventories. The scope of inventories improved to 38 days at December 31, 2006 from 48 days at December 31, 2005, primarily due to the consolidation of HELIOS and, with effect from April 1, 2006, Renal Care Group. The average number of days of sales outstanding improved to 71 days at December 31, 2006 from 79 days at December 31, 2005, primarily due to more efficient receivables management;
- trade accounts payable, accruals and other short- and long-term liabilities were €187 million higher at December 31, 2006 than at December 31, 2005;
- accruals for income taxes payable were €13 million higher at December 31, 2006 than at December 31, 2005; and
- tax payments related to divestitures and acquisitions were €52 million higher in 2006 than in 2005.

Investing Activities. Net cash used in investing activities increased to €3,790 million in 2006 from €1,937 million in 2005. We made acquisitions (including acquisitions financed with cash, equity and the assumption of debt) totaling €3,714 million in 2006 compared to €1,894 million in 2005. Net cash used for acquisitions (less proceeds of related divestitures) was €3,219 million in 2006 compared to €1,606 million in 2005. Net cash used for capital expenditures on property, plant and equipment was €571 million in 2006 compared to €331 million in 2005. For more information about our acquisitions and capital expenditures, see "— Acquisitions and Capital Expenditures".

Financing Activities. Net cash provided by financing activities increased to €2,760 million in 2006 from €1,256 million in 2005. The increase in cash provided by financing activities in 2006 was primarily related to net proceeds received from financial liabilities in that year, including proceeds from long-term debt and liabilities from capital lease obligations of €3,323 million in 2006, as well as proceeds from liabilities from the issuance of senior notes, in the amount of €978 million. These proceeds were partially offset by

repayments of long-term debt and liabilities from capital lease obligations in the amount of €1,514 million and repayments of liabilities from senior notes in the amount of €314 million. Our free cash flow after investing activities and the payment of dividends was a negative €2,909 million in 2006 compared to a negative €1,289 million in 2005.

Total debt at December 31, 2006 was €5,872 million compared to €3,502 million at December 31, 2005. Short-term borrowings were €596 million at December 31, 2006 compared to €447 million at December 31, 2005. Long-term borrowings at December 31, 2006 were €5,276 million compared to €3,055 million at December 31, 2005.

For the payment of dividends, we used cash of €171 million in 2006 and €132 million in 2005, of which €76 million and €56 million, respectively, related to dividends paid by Fresenius SE.

Cash and cash equivalents were €261 million at year-end 2006 compared to €252 million at year-end 2005.

Acquisitions and Capital Expenditures

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

The following table shows the geographic distribution of our acquisitions and gross capital expenditures for the periods indicated:

	Nine months ended September 30,	
	2007	2008
	(unaudited) (in million €)	
Europe	361	445
North America	225	3,440
Asia-Pacific	96	271
Latin America	39	101
Africa	6	5
Total	727	4,262

- Fresenius Medical Care made acquisitions totaling €150 million in the nine months ended September 30, 2008 compared to €114 million in the nine months ended September 30, 2007. Acquisitions in the nine months ended September 30, 2008 primarily related to the purchase of dialysis clinics. Capital expenditures on property, plant and equipment were €330 million in the nine months ended September 30, 2008 compared to €283 million in the nine months ended September 30, 2007. The majority of capital expenditures on property, plant and equipment in the nine months ended September 30, 2008 were used for maintaining existing clinics and equipping new clinics, mainly in North America; maintenance and expansion of new facilities, primarily in Germany and North America; and capitalization of machines provided to our customers, primarily outside of North America. Capital expenditures were approximately 6% of Fresenius Medical Care's revenues.
- Fresenius Kabi made acquisitions totaling €3,564 million in the nine months ended September 30, 2008 compared to €41 million in the nine months ended September 30, 2007. Acquisitions in the nine months ended September 30, 2008 mainly consisted of APP Pharmaceuticals and Dabur Pharma. Capital expenditures on property, plant and equipment were €73 million in the nine months ended September 30, 2008 compared to €76 million in the nine months ended September 30, 2007.
- Fresenius Helios made acquisitions in the nine months ended September 30, 2008 of €4 million compared to €84 million worth of acquisitions in the nine months ended September 30, 2007. Capital expenditures on property, plant and equipment was €88 million in the nine months ended September 30, 2008 compared to €112 million in the nine months ended September 30, 2007. Capital

expenditures on property, plant and equipment in the nine months ended September 30, 2008 were made primarily to the modernization of hospitals.

- Fresenius Vamed made acquisitions totaling €12 million in the nine months ended September 30, 2008 compared to €6 million in the nine months ended September 30, 2007. Acquisitions in this period primarily consisted of the acquisition of HERMED, a hospital planning, construction and service company in Germany. Capital expenditures on property, plant and equipment was €3 million in the nine months ended September 30, 2008 compared to €4 million in the nine months ended September 30, 2007.

  We expect to spend approximately €750 million for capital expenditures in the year ending December 31, 2008, compared to €705 million spent in the year ended December 31, 2007. Our budgeted capital expenditures for 2008 do not include any capital expenditures that may be incurred by APP Pharmaceuticals. Our capital expenditures for 2008 continue with the major investment projects already underway, relating primarily to obligations for hospitals at Fresenius Helios as well as investments to expand and optimize productions plants of Fresenius Medical Care and Fresenius Kabi. We expect to fund all of our capital expenditures in 2008 from our operating cash flows and not from any borrowings.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

The following table shows the geographic distribution of our acquisitions and gross capital expenditures for 2006 and 2007:

	Year ended December 31,	
	2006	2007
	(in million €)	
Europe	438	709
North America	3,789	439
Asia-Pacific	29	106
Latin America	51	56
Africa	7	8
Total	4,314	1,318

- Fresenius Medical Care made acquisitions totaling €262 million in 2007 compared to €3,561 million in 2006. The primary acquisition in 2007 was the acquisition of Renal Solutions, Inc. Capital expenditures on property, plant and equipment totaled €418 million in 2007 compared to €372 million in 2006. Capital expenditures on property, plant and equipment in 2007 related primarily to start-up of new dialysis clinics (primarily in North America), expansion and modernization of existing clinics and the expansion and optimization of production sites.
- Fresenius Kabi made acquisitions totaling €178 million in 2007 compared to €14 million in 2006. Fresenius Kabi's primary acquisitions in 2007 included Nestle's enteral nutrition business in France (Novartis Nutrition S.A.S.) and in Spain (Nestle España S.A.), the artificial colloid product business of Kyorin Pharmaceuticals Co. Ltd. in Japan, the remaining shares in Pharmatel Fresenius Kabi Pty Ltd. in Australia and Laboratorios Filaxis, S.A. in Argentina. Capital expenditures on property, plant and equipment were €116 million in 2007 compared to €113 million in 2006. Capital expenditures on property, plant and equipment in 2007 related primarily to the expansion and optimization of production sites.
- Fresenius ProServe made acquisitions totaling €175 million in 2007 compared to €139 million in 2006. Expenditures for acquisitions in 2007 related mainly to the acquisition of the remaining 40% of the shares in HUMAINE Kliniken GmbH in Germany ("HUMAINE"), through HELIOS, and a majority stake of 74.9% in Krefeld Municipal Hospitals in Germany. Capital expenditures on property, plant and equipment were €153 million in 2007 compared to €106 million in 2006. Capital

expenditures on property, plant and equipment in 2007 related primarily to the modernization of hospitals, the single largest investment being the construction of a new clinic in Berlin-Buch, Germany.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

The following table shows the geographic distribution of our acquisitions and capital expenditures for 2005 and 2006:

	Year ended December 31,	
	2005	2006
	(in million €)	
Europe	1,970	438
North America	203	3,789
Asia-Pacific	47	29
Latin America	24	51
Africa	3	7
Total	2,247	4,314

- Fresenius Medical Care made acquisitions totaling €3,561 million in 2006 compared to €108 million in 2005. The primary acquisition in 2006 was the acquisition of Renal Care Group, Inc. Capital expenditures on property, plant and equipment were €372 million in 2006 compared to €253 million in 2005. Capital expenditures on property, plant and equipment in 2006 primarily related to start-up of new dialysis clinics (primarily in North America), expansion and modernization of existing clinics and the expansion and optimization of production sites.
- Fresenius Kabi made acquisitions totaling €14 million in 2006 compared to €274 million in 2005. The final acquisition payment in connection with the acquisition of Endomed Laboratório Farmacéutico Ltda. in Brazil accounted for most of Fresenius Kabi's net cash used for acquisitions in 2006. In 2005, net cash used for acquisitions related primarily to the acquisitions of Labesfal — Laboratório de Especialidades Farmecêuticas Almiro in Portugal and the business of Clinico GmbH in Germany. Capital expenditures on property, plant and equipment was €113 million in 2006 compared to €77 million in 2005. Capital expenditures on property, plant and equipment assets in 2006 primarily related to the expansion and optimization of production sites.
- Fresenius ProServe made acquisitions totaling €139 million in 2006 compared to €1,507 million in 2005. Expenditures for acquisitions in 2006 primarily included the acquisition of a 60% stake in HUMAINE, through HELIOS. Additionally, Fresenius ProServe completed a capital increase which resulted in its stake in HELIOS increasing by 4.1%. In 2005, the primary acquisition related to the acquisition of a 94% stake in HELIOS. Capital expenditures on property, plant and equipment was €106 million in 2006 compared to €12 million in 2005. Capital expenditures on property, plant and equipment in 2006 were largely related to the modernization of hospitals, the single largest investment being the construction of the new clinic in Berlin-Buch, Germany.

Historical Debt

The following table sets forth our financial liabilities as of the dates indicated:

	As of December 31,			As of September 30,
	2005	2006	2007	2008
				(unaudited)
		(in million €)		
Long-term financial liabilities				
Fresenius Medical Care 2006 Senior Credit Agreement	399[1]	2,707	2,151	2,337
2008 Senior Credit Agreement	0	0	0	1,468
Fresenius Finance B.V. and Fresenius Medical Care euro notes (*Schuldscheindarlehen*)	460	366	440	800
Fresenius Finance B.V. 7½ series B senior notes due 2009	100	100	100	100
Fresenius Finance B.V. 7¾ series A senior notes due 2009[2]	300	0	0	0
Fresenius Finance B.V. 5.00% senior notes due 2013	0	500	500	500
Fresenius Finance B.V. 5.50% senior notes due 2016	0	500	500	500
Fresenius Medical Care Finance III S.A. 6⅞ senior notes due 2017	0	0	334	344
HELIOS bridge loan facility[3]	600	0	0	0
Bridge Credit Agreement[4]	0	0	0	909
Capital lease obligations	40	39	42	41
Fresenius Medical Care trust preferred securities	1,000	946	901	450
Other long-term debt and liabilities[5]	378	383	369	523
Total long-term debt	3,277	5,541	5,337	7,972
Less: Short-term portion	(222)	(265)	(570)	474
Total long-term financial liabilities net of current portion	3,055	5,276	4,767	7,498
Thereof of Fresenius Medical Care	1,606	3,859	3,171	3,233
Short-term financial liabilities				
Bilateral bank facilities	100	2	264	241
Fresenius Medical Care accounts receivable facility	80	202	58	375
Short-term liabilities and loans from related parties	1	1	0	0
Short-term portion of long-term financial liabilities	266	391	610	474
Total short-term financial liabilities	447	596	932	1,090
Thereof of Fresenius Medical Care	251	377	662	786
Total financial liabilities				
Total long-term financial liabilities net of current portion	3,055	5,276	4,767	7,498
Total short-term debt	447	596	932	1,090
Total financial liabilities (actual)	3,502	5,872	5,699	8,588
Thereof of Fresenius Medical Care	1,857	4,236	3,833	4,019

(1) Reflects amounts outstanding under Fresenius Medical Care's former credit agreement, which was entered into on February 21, 2003. This credit agreement was replaced by the 2006 Senior Credit Agreement.

(2) In January 2006, Fresenius Finance B.V. launched and completed a tender offer for its 7¾ series A senior notes due 2009. €212 million in principal amount of such notes were validly tendered and accepted and cancelled with a portion of the proceeds of Fresenius Finance B.V.'s issuance of 5.00% senior notes due 2013 and the 5.50% senior notes due 2016. In April 2006, Fresenius Finance B.V. exercised its optional redemption right in relation to, and redeemed and cancelled, the remaining €88 million outstanding principal amount of its 7¾ series A senior notes due 2009.

(3) As of December 31, 2005, the loan facility was fully used for the payment of the purchase price of the acquisition of HELIOS Kliniken GmbH on December 22, 2005. The facility was repaid and cancelled at the end of January 2006 using part of the proceeds of Fresenius Finance B.V.'s issuance of 5.00% senior notes due 2013 and 5.50% senior notes due 2016.

(4) For more information on the Bridge Credit Facility under the Bridge Credit Agreement, see "The Acquisition of APP Pharmaceuticals."

(5) Other long-term debt and liabilities mainly consists of obligations under bilateral and syndicated bank facilities and the credit facilities with the European Investment Bank.

You can find additional information about the financial liabilities listed in the table above in "Description of Other Financing Arrangements" and Notes 19, 20 and 22 to our consolidated financial statements for the year ended December 31, 2007.

As discussed above under "— Key Factors Affecting Our Results of Operations and Financial Conditions — Significant Recent Acquisitions", our debt has increased substantially in connection with the acquisition of APP Pharmaceuticals. You can find information about our pro forma indebtedness as of September 30, 2008 in "Capitalization".

The ratio of net indebtedness to shareholders' equity was 122% at September 30, 2008, compared to 88% at year-end 2007, 98% at year-end 2006 and 63% at year-end 2005.

Available Sources of Liquidity

Overview

We expect that our principal sources of liquidity in the medium term will be cash provided by operations, cash from short- and long-term borrowings and cash dividends from Fresenius Medical Care AG & Co. KGaA.

In addition to funding Fresenius Kabi's recent acquisition of APP Pharmaceuticals, we anticipate that the principal demand on our cash subsequent to September 30, 2008 and in the medium term thereafter will be to fund:

- our working capital requirements;
- our capital expenditures, the expansion and modernization of existing clinics and the expansion and improvement of production sites worldwide;
- the acquisition of complementary businesses; and
- the payment of dividends to shareholders.

Fresenius Medical Care AG & Co. KGaA and its subsidiaries provide their own liquidity and have their own financing arrangements. Except for certain short-term financing provided by Fresenius SE, they are not dependent on Fresenius SE, Fresenius Kabi, Fresenius Helios, Fresenius Vamed or the Issuer for any of their financing needs or to provide credit support for their financing facilities.

Available Sources of Liquidity for Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care

Fresenius SE has a commercial paper program for the issuance of a maximum of €250 million of short-term notes, which was not utilized as of September 30, 2008.

Following the completion of the APP Transaction, as of September 30, 2008, we had US$350 million available for further draw-downs under the 2008 Senior Revolving Credit Facilities. In November 2008, Fresenius increased the 2008 Senior Revolving Credit Facilities by US$100 million.

As of September 30, 2008, we had additional borrowing capacity in excess of €100 million under committed bilateral facilities available and €250 million of uncommitted short-term lines available. Borrowings under these facilities are generally used to finance our working capital needs and are unsecured.

Fresenius SE and its subsidiaries (excluding Fresenius Medical Care AG & Co. KGaA and its subsidiaries) had cash and cash equivalents of €207 million as of September 30, 2008.

Fresenius Medical Care's Available Sources of Liquidity

Fresenius Medical Care obtains long-term financing primarily from its 2006 Senior Credit Agreement. Under that agreement, Fresenius Medical Care entered into a US$4.6 billion credit facility, initially consisting of a 5-year revolving portion in the amount of US$1 billion, a 5-year term loan facility in the amount of US$1.85 billion and a 7-year term loan facility in the amount of US$1.75 billion. As of September 30, 2008,

Fresenius Medical Care had drawn down US$3,443 million (including letters of credit) under its 2006 Senior Credit Agreement and US$652 million remained available for further drawings.

Fresenius Medical Care AG & Co. KGaA's facilities with the European Investment Bank provide for a total amount of €221 million, of which €124 million was outstanding as of September 30, 2008. The facilities will mature in 2013 and 2014. Fresenius Medical Care has also obtained long-term financing through the issuance of senior notes, euro-denominated notes and trust-preferred securities. Its euro-denominated notes in the amount of €200 million are due July 27, 2009 and have been reclassified as short term.

Fresenius Medical Care also has an accounts receivable facility which, as most recently extended, is available through October 15, 2009. The maximum amount available for securitization under the accounts receivable facility is US$550 million. As of September 30, 2008, Fresenius Medical Care had outstanding short-term borrowings under the accounts receivable facility of US$537 million. Short-term financing has also been provided by loans from Fresenius SE.

The Issuer expects that the proceeds of any future indebtedness incurred by it will be on-lent to FK Holdings, its subsidiaries or to both.

You can find additional information about the financing arrangements discussed above in "Description of Other Financing Arrangements" and Note 19 to our consolidated financial statements for the year ended December 31, 2007.

We believe our existing credit facilities, cash generated from our operations and this offering and other current sources of financing will be adequate to meet our foreseeable needs, including our 2008 budget for acquisitions and capital expenditures. If cash flows from operations or availability under existing banking arrangements fall below expectations, we may have to consider other alternatives to maintain sufficient liquidity. We cannot assure you that we will be able to do so on satisfactory terms, if at all.

Summary of Commitments and Contingent Liabilities

The table below summarizes our obligations and commitments to make future payments under our long-term debt, trust preferred securities and other long-term obligations (excluding the Mandatory Exchangeable Bonds), as of September 30, 2008. The table below does not reflect any obligations and commitments of APP Pharmaceuticals other than those under the 2008 Senior Credit Facilities.

	Payments due by period of			
	Total	Up to 1 year	1 to 5 years	Over 5 years
		(unaudited) (in million €)		
Operating leases for real estate, machinery and equipment[1],[2]	1,405	267	732	406
Unconditional purchase obligations for materials[2]	288	192	95	1
Other long-term non-debt obligations[2][3]	249	0	198	51
Fresenius Medical Care trust preferred securities	450	0	450	0
Fresenius Medical Care 2006 Senior Credit Agreement	2,337	93	2,244	0
Fresenius Medical Care Finance III S.A. 6⅞% senior notes due 2017	344	0	0	344
Fresenius Finance B.V. 7½% senior notes due 2009	100	100	0	0
Fresenius Finance B.V. 5.0% senior notes due 2013	500	0	500	0
Fresenius Finance B.V. 5.5% senior notes due 2016	500	0	0	500
2008 Senior Credit Agreement	1,468	24	778	666
Bridge Credit Agreement	909	0	0	909
Other long-term debt (including capital lease obligations)[4]	1,364	257	646	461
Total	9,914	933	5,643	3,338

(1) Rental expenses recorded for operating leases were €372 million in 2007, €369 million for 2006 and €297 million in 2005.

(2) As of December 31, 2007.

(3) Our obligations under the Mandatory Exchangeable Bonds are payable in the form of shares of Fresenius Medical Care AG & Co. KGaA. See "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Fresenius Finance (Jersey) Ltd's €554 million 5.625% Mandatory Exchangeable Bonds due 2011".

(4) You can find additional information about our long-term debt obligations in "— Liquidity and Capital Resources — Historical Debt", "— Available Sources of Liquidity", "Description of Other Financing Arrangements" and Notes 19, 20 and 22 to our consolidated financial statements for the year ended December 31, 2007.

The table above does not include any payment obligation under the CVRs. Such payments, if any, would be made on June 30, 2011. Our potential maximum payment obligation under the CVRs is US$979.5 million. For a description of the CVRs, please see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Contingent Value Rights of FK Holdings".

The amount of guarantees and other commercial commitments as at September 30, 2008 was not significant.

The settlement agreement entered into by Fresenius Medical Care with the asbestos creditors committees on behalf of the W.R. Grace & Co. bankruptcy estate and W.R. Grace & Co. provides for payments by Fresenius Medical Care of US$115 million upon approval of the settlement agreement by the U.S. District Court, which has since occurred, and confirmation of a W.R. Grace & Co. bankruptcy reorganization plan that includes the settlement. The proposed settlement is subject to confirmation of a final plan of reorganization of W.R. Grace & Co. that meets the requirements of the settlement agreement or is otherwise satisfactory to Fresenius Medical Care. The US$115 million obligation is included in the special charge we recorded in 2001 to address legal matters related to the merger with National Medical Care in 1996. See "Business — Legal Proceedings — Commercial Litigation."

Fresenius Medical Care is subject to ongoing tax audits in the United States, Germany and other jurisdictions. Fresenius Medical Care has received notices of unfavorable adjustments and disallowances in connection with certain of the audits. It is contesting these unfavorable adjustments and disallowances, including, if necessary, by way of appeal of these unfavorable determinations. Fresenius Medical Care may be subject to additional unfavorable adjustments and disallowances in connection with ongoing audits. If its objections and any final audit appeals are unsuccessful, Fresenius Medical Care could be required to make additional tax payments. With respect to adjustments and disallowances currently on appeal, we do not anticipate that an unfavorable ruling would have a material impact on our results of operations. We currently are not able to determine the timing of these potential additional tax payments.

If all potential additional tax payments and the Grace Chapter 11 Proceedings settlement were to occur contemporaneously, there could be a material adverse impact on Fresenius Medical Care's operating cash flow in the relevant reporting period. Fresenius Medical Care anticipates that other cash from operations and, if required, its available liquidity will be sufficient to satisfy all such obligations if and when they come due.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Our segments operate in highly competitive markets and are subject to changes in business, economic and competitive conditions. Our business is subject to:

- changes in reimbursement rates;
- intense competition;
- foreign exchange rate fluctuations;
- varying degrees of acceptance of new product introductions;

- technological developments in our industry;
- uncertainties in litigation or investigative proceedings and regulatory developments in the healthcare sector; and
- the availability of financing.

Developments in any of these risk areas could cause our results to differ materially from the results that we or others have projected or may project.

Below, please find additional information on various market risks we may face.

Reimbursement Rates

Fresenius Medical Care obtained approximately 36% of its sales in 2007 from sources subject to regulations under U.S. government healthcare programs. In the past, U.S. budget deficit reduction and healthcare reform measures have changed the reimbursement rates under these programs, including the Medicare composite rate, the reimbursement rate for EPO and the reimbursement rates for other dialysis and non-dialysis related services and products, as well as other material aspects of these programs, and they may change in the future. You can find more information about reimbursement policies in "Business — Regulatory Matters".

We also obtain a significant portion of our sales from reimbursement by non-government payers. Historically, these payers' reimbursement rates have generally been higher than government program rates in their respective countries. However, non-governmental payers are imposing cost containment measures that are creating significant downward pressure on reimbursement levels that we receive for our services and products.

Inflation

The effects of inflation during the periods covered by our consolidated financial statements have not been significant to our results of operations. However, most of our sales from dialysis care are subject to reimbursement rates regulated by governmental authorities, and a significant portion of other revenues, especially revenues from the United States, is received from customers whose revenues are also subject to regulation. Non-governmental payers are also exerting downward pressure on reimbursement rates. Increased operating costs that are subject to inflation, such as labor and supply costs, may not be recoverable through price increases in the absence of a compensating increase in reimbursement rates payable to us and our customers and could materially adversely affect our business, financial condition and results of operations.

Hedging/Management of Currency and Interest Rate Risks

We are exposed to market risk from changes in foreign currency exchange rates and changes in interest rates. In order to manage the risks from these foreign currency exchange rate and interest rate fluctuations, we enter into certain hedging transactions with highly rated financial institutions as authorized by our management board. We do not contract for financial instruments for trading purposes.

We conduct our financial instrument activities under the control of a single centralized department with certain individual exceptions. We have established guidelines derived from best practice standards in the banking industry for risk assessment procedures and supervision concerning the use of financial derivatives. They include, among others, a clear segregation of duties in the areas of execution, administration, accounting and controlling.

We conduct our business on a global basis in several major international currencies, although our operations are primarily in Europe and the United States. For financial reporting purposes, we have chosen the euro as our reporting currency. Therefore, foreign exchange translation risks resulting from the fluctuation of exchange rates between the euro and the local currencies in which the financial statements of our foreign subsidiaries are prepared have an impact on results of operations and financial position as reported in our consolidated financial statements. In translating the financial statements for 2007 of our consolidated subsidiaries that are stated in U.S. dollars, each US$0.01 decrease in the value of the U.S. dollar against the

euro decreased our sales by approximately €40 million and decreased our share of Fresenius Medical Care's net income by approximately €0.8 million. We have translated the balance sheets of our non-euro denominated operations into euros at the exchange rates prevailing at the balance sheet date. Revenues and expenses are translated at the average exchange rates for the period.

Besides translation risks, foreign exchange transaction risks exist, which mainly relate to transactions such as purchases and sales as well as engineering and services provided by our Group which are denominated in foreign currencies. A major part of transaction risks arise from products manufactures by our worldwide production sites which are usually denominated in the local currency of the respective manufacturer and are delivered worldwide to various of our Group entities. These intragroup sales are mainly denominated in euros, U.S. dollars and yens. Therefore, our Group companies are exposed to changes of the foreign exchange rates between the invoicing currencies and the local currencies in which they conduct their businesses. For the purpose of hedging existing and foreseeable foreign exchange transaction exposures, we enter into foreign exchange forward contracts and, on a small scale, foreign exchange options. Foreign exchange forward contracts and options are not used for purposes other than hedging foreign exchange exposures. At December 31, 2007, we had no foreign exchange options.

As of December 31, 2007, the notional amount of foreign exchange contracts totaled €739 million with a fair value of €14 million. These foreign exchange contracts have been entered into to hedge risks from operational business and in connection with intercompany loans in foreign currency.

Interest Rate Risk Management

The Fresenius Group's interest rate risks mainly arise from money market and capital market transactions of our Group for financing our business activities. Interest rate hedging transactions are primarily concluded by Fresenius SE and Fresenius Medical Care AG & Co. KGaA.

The Fresenius Group enters into interest rate swaps and, on a small scale, into interest rate options in order to hedge against interest rate exposures arising from short-term and long-term borrowings at variable rates by swapping them into fixed rates. In addition, we use interest rate swaps to hedge against changes of the fair value of the underlying fixed rate financial liabilities.

Cash Flow Hedge

The Fresenius Group enters into interest rate swaps that are designated as cash flow hedges converting some variable interest rate payments, resulting from existing revolving loans and euro notes (*Schuldscheindarlehen*) mainly denominated in U.S. dollars and euros, into fixed interest rate payments. At December 31, 2007, the U.S. dollar interest rate swaps with a notional volume of US$3,465 million and a fair value of negative US$35 million expire at various dates between 2008 and 2012. These interest rate derivatives include interest rate swaps with a notional amount of US$650 million entered into in 2007, which became effective March 31, 2008. Until that date, interest rate swaps with a notional amount of US$515 million have expired. At December 31, 2007, the euro interest rate swaps with a notional volume of €217 million and a fair value of negative €2 million expire between 2008 and 2014. The U.S. dollar interest rate swaps bear an average interest rate of 4.43% and the euro interest rate swaps bear an average interest rate of 4.56%.

At December 31, 2007, pre-tax losses of €26 million (2006: pre-tax gains of €45 million), were recognized in accumulated other comprehensive income (loss). The equivalent amounts of after-tax losses were €16 million (2006: after-tax gains of €28 million), respectively. Interest payables and interest receivables in connection with the swap agreements are accrued and recorded as an adjustment to the interest expense at each reporting date.

Fair Value Hedge

Fresenius Medical Care enters into U.S. dollar interest rate swaps designated as fair value hedges to hedge the risk of changes in the fair value of parts of its U.S. dollar fixed rate borrowings. These interest rate swaps effectively convert the fixed interest payments on Fresenius Medical Care Capital Trust II trust preferred

securities denominated in U.S. 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 trust preferred securities, the hedging relationship is highly effective and no ineffectiveness affects earnings. These interest rate swaps are reported at fair value in the balance sheet. The reported amount of the hedged portion of fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. The effect of hedged underlyings recognized in the income statement amount to negative €7 million (2006: negative €3 million) and was mainly offset by the effect of the hedging instruments recognized in the income statement in the amount of €7 million (2006: €3 million). At December 31, 2007, the notional volume and fair value of these swaps at Fresenius Medical Care was US$450 million (€306 million) and negative US$6 million (2006: negative €4 million), respectively. On February 1, 2008, the fair value hedges of Fresenius Medical Care expired together with the mandatory redemption of the underlying debt.

Credit Risk

The Fresenius Group is exposed to potential losses in the event of non-performance by counterparties to derivative financial instruments. These derivative financial instruments were entered into with counterparties that are highly rated financial institutions. The maximum credit exposure of derivatives is represented by the fair value of those contracts with a positive fair value amount to €0.4 million for interest rate derivatives and €19 million for foreign exchange derivatives at December 31, 2007. The maximum credit risk resulting from the use of non-derivative financial instruments is defined as the total amount of all receivables. In order to control this credit risk, our management performs an ageing analysis of trade account receivable.

Liquidity Risk

The liquidity risk is defined as the risk that a company is potentially unable to meet its financial obligations. Our management manages the liquidity of our Group by means of effective working capital and cash management as well as anticipatory evaluation of refinancing alternatives. Our management believes that existing credit facilities as well as the cash generated by operating activities and additional short-term borrowings are sufficient to meet Fresenius SE's foreseeable demand for liquidity.

Critical Accounting Policies

Our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that are the basis for our financial statements. The critical accounting policies, the judgments made in the creation and application of these policies, and the sensitivities of reported results to changes in accounting policies, assumptions and estimates are factors to be considered along with our financial statements.

Recoverability of Goodwill and Intangible Assets

The amount of intangible assets, including goodwill, trade names and management contracts, represents a considerable part of the total assets of our Group. At December 31, 2007 and December 31, 2006, the carrying amount of goodwill and non-regularly amortizable intangible assets with indefinite useful lives was €7,411 million and €7,457 million, respectively. This represented 48% and 50%, respectively, of total assets.

In accordance with FAS 142, Goodwill and Other Intangible Assets, an impairment test of goodwill and non-amortizable intangible assets with indefinite useful lives is performed once a year, or if events occur or circumstances change that would indicate the carrying amount might be impaired (impairment test).

To comply with the regulations of FAS 142 and to determine possible impairments of these assets, the fair value of the reporting unit determined in accordance with FAS 142 is compared to the reporting unit's carrying amount. The fair value of each reporting unit is estimated using estimated future cash flows for the unit discounted by a weighted average cost of capital (WACC) specific to that reporting unit. Estimating the discounted future cash flows involves significant assumptions, especially regarding future reimbursement rates and sales prices, number of treatments, sales volumes and costs. In determining discounted cash flows, we

utilize for each reporting unit its three-year budget, projections for years 4 to 10 and a corresponding growth rate for all remaining years. These growth rates are 0% to 4% for Fresenius Medical Care, 2% for Fresenius Kabi and 1% for Fresenius ProServe (mainly consisting of HELIOS and VAMED). This discount factor is determined by the WACC of the respective reporting unit. Fresenius Medical Care's WACC consisted of a basic rate of 7.34% for 2007. This basic rate is then adjusted by a country-specific risk rate within each reporting unit for determining the reporting unit's fair value. In 2007, this rate ranged from 0% to 7%. In the business segments Fresenius ProServe (mainly consisting of HELIOS and VAMED) and Fresenius Kabi, the WACC was 7.57%, and country-specific adjustments did not occur. If the fair value of the reporting unit is less than its carrying amount, the difference is recorded as an impairment of the fair value of the goodwill at first. An increase of the WACC by 0.5% would not have resulted in the recognition of an impairment loss in 2007.

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

Legal Contingencies

Our Group is involved in several legal matters arising from the ordinary course of our business. The outcome of these matters may have a material effect on our financial position, results of operations or cash flows. For details, please see "Business — Legal Proceedings" and Note 26, Commitments and contingent liabilities, to our consolidated financial statements.

We regularly analyze current information about such claims for probable losses and provide accruals for such matters, including estimated expenses for legal services, as appropriate. We utilize our internal legal department as well as external resources for these assessments. In making the decision regarding the need for a loss accrual, we consider the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of loss.

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

Allowance for Doubtful Accounts

Trade accounts receivable are a significant asset of ours and the allowance for doubtful accounts is a significant estimate made by management. Trade accounts receivable were €2,159 million and €2,088 million in 2007 and 2006, respectively, net of allowances. You can find more information about the accounts receivable program in Note 19 to our consolidated financial statements for the year ended December 31, 2007. Approximately two-thirds of our trade accounts receivable derive from the business segment Fresenius Medical Care and mainly relate to its dialysis care business in North America.

The major debtors or debtor groups of trade accounts receivable were U.S. Medicare and Medicaid health care programs, with 13%, and private insurers in the U.S., with 17%, at December 31, 2007. Other than these two groups, we had no significant risk concentration in our accounts receivable, due to our international and heterogeneous customer structure.

Our allowance for doubtful accounts was €223 million as of December 31, 2007 and €218 million as of December 31, 2006.

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

Deterioration in the aging of receivables or collection difficulties could require that we increase our estimates of the allowances for doubtful accounts. Additional expenses for uncollectible receivables could have a significant negative impact on our future operating results.

Self-Insurance Programs

Under the insurance programs for professional, product and general liability, auto liability and worker's compensation claims, our largest subsidiary, located in North America, is partially self-insured for professional liability claims. For further details regarding the accounting policies for self-insurance programs, please see Note 1.IV.y, "Summary of significant accounting policies", to our consolidated financial statements.

Recent Developments

On January 12, 2009, we issued a press release confirming our Group's outlook for 2008 and providing a preview of our expectations for 2009. For 2008, our Group's sales were expected to grow by 9.5 to 10.5% and net income by 10 to 15%, both in constant currency, excluding the acquisition of APP Pharmaceuticals and special items related to the acquisition of APP Pharmaceuticals. For 2009, our Group's organic sales growth is expected to be at least in the mid-single-digit range. Net income growth in constant currency and before special items related to the acquisition of APP Pharmaceuticals is expected to be greater than organic sales growth.

BUSINESS

Fresenius is an international healthcare group with products and services for dialysis, hospitals and outpatient care. In addition, Fresenius focuses on hospital operations and offers engineering and services for hospitals and other healthcare facilities. Our Group includes the following business segments:

- ***Fresenius Medical Care*** is the world's largest provider of dialysis products and dialysis care for patients with chronic kidney failure according to publicly available information regarding sales and number of patients treated;
- ***Fresenius Kabi*** is focused on the therapy and care of chronically and critically ill patients, providing infusion therapies, clinical nutrition and transfusion technology;
- ***Fresenius Helios*** is one of the three largest private hospital operators in Germany, with a focus on providing acute treatment and subsequent medical rehabilitation; and
- ***Fresenius Vamed*** is one of the leading providers of engineering, construction and maintenance services to hospitals and other healthcare facilities worldwide.

Fresenius is active in over 100 countries and has an international marketing and production network of more than 70 production sites worldwide. In the year ended December 31, 2007, our Group generated sales of €11,358 million and EBIT of €1,609 million. Fresenius Medical Care is fully consolidated into the financial statements of the Fresenius Group.

The following table shows key data of our business segments and our Corporate/Other segment:

	Year ended December 31, 2007					
	Fresenius Medical Care	Fresenius Kabi	Fresenius Helios	Fresenius Vamed	Corporate/ Other[1]	Total
Sales (in million €)	7,093	2,030	1,841	408	(14)	11,358
EBITDA (in million €)	1,418	408	220	31	(47)	2,030
Operating income (EBIT) (in million €)	1,153	332	155	26	(57)	1,609
Net income (in million €)	523	183	64	23	(383)	410
Operating cash flow (in million €)	875	179	202	72	(32)	1,296
Capital Expenditures/acquisitions (in million €)	680	294	323	10	11	1,318
Research and development (in million €)	49	86	1	0	48	184
Employees (as of December 31)	64,662	16,964	30,043	1,767	745	114,181
Equity participation	36%	100%	98%	77%	–	–

(1) Segment data has been adjusted according to the new company structure as of January 1, 2008.

(2) Corporate/Other consists of consolidation and certain corporate revenues and costs (which relate to certain Group overhead charges and the costs of Fresenius Biotech, which does not have the status of a business segment).

On September 10, 2008, Fresenius Kabi acquired APP Pharmaceuticals, a leading manufacturer of intravenously administered generic drugs in North America. Through the acquisition of APP Pharmaceuticals, Fresenius Kabi has entered the U.S. pharmaceuticals market and achieved a leading position in the global intravenously administered genetic drugs market. In 2007, APP Pharmaceuticals had net revenue of US$647 million (€472 million) and EBITDA of US$210 million (€154 million). As part of the transaction, APP Pharmaceuticals has merged with a U.S. subsidiary of Fresenius Kabi.

Unless otherwise indicated, the market data information set forth below is based on our internal estimates. See "Industry Information".

History and Development

We have a long history dating back over 95 years and the Fresenius family has an even longer history in the medical industry. Fresenius AG (now Fresenius SE) went public in December 1986. In 1996, we completed

a series of transactions pursuant to which we combined the Fresenius dialysis product business with National Medical Care, Inc., W.R. Grace & Co.'s dialysis services business, to create Fresenius Medical Care. In the course of the initial public offering of Fresenius Medical Care in the National Medical Care acquisition, its ordinary shares were first traded on October 1, 1996 in New York and on October 2, 1996 in Frankfurt am Main, Germany. Its non-voting preference shares were admitted to trading on November 25, 1996 in New York and on November 27, 1996 in Frankfurt am Main, Germany. Fresenius Medical Care's American Depositary Shares evidencing its ordinary shares and its preference shares were also admitted to the New York Stock Exchange. In 1998, Fresenius acquired the international infusion and nutrition business of Pharmacia & Upjohn and created Fresenius Kabi by combining this business with the Fresenius Pharma Division. In 1999, Fresenius AG became an operating holding company with legally independent business segments. In 2001, Fresenius acquired WKA, a German hospital operator that today is part of Fresenius Helios. In December 2005, Fresenius ProServe GmbH acquired HELIOS Kliniken GmbH, one of the largest private hospital operators in Germany. Fresenius AG was converted into a European company (*SE — Societas Europaea*) effective on July 13, 2007.

As from January 1, 2008, Fresenius ProServe was replaced by two new business segments: the hospital operations business segment Fresenius Helios and Fresenius Vamed, which offers engineering and services for hospitals and other healthcare facilities. The two business segments are now run independently of each other and are directly represented with a representative for each business segment in Fresenius SE's Management Board.

In addition to the acquisition of APP Pharmaceuticals, we have acquired a number of complementary businesses and technologies in recent years. Major recent acquisitions in our Fresenius Medical Care segment include the acquisitions:

- in March 2006 of Renal Care Group, Inc. ("RCG"), which at the time of the acquisition was a provider of dialysis and ancillary services through more than 450 owned out-patient dialysis centers (some of which were divested together with additional clinics owned by Fresenius Medical Care to comply with a consent order issued by the US Federal Trade Commission) in 34 states within the United States and a provider of acute dialysis services to more than 200 hospitals;
- in November 2006 of the worldwide phosphate binder business ("PhosLo") from Nabi Biopharmaceuticals Inc. With this acquisition, Fresenius Medical Care further expanded its market position in the field of dialysis-related drugs. PhosLo is a calcium acetate phosphate binder for oral application in end-stage renal disease patients; and
- in November 2007 of Renal Solutions, Inc. ("RSI"). RSI holds key patents and other intellectual property worldwide related to sorbent-based technology ("SORB"). SORB technology purifies potable water to dialysate quality and allows dialysis for up to eight hours with only six liters of potable water through a process of dialysate regeneration and toxin adsorption. This regeneration capability significantly reduces the water volume requirement for a typical hemodialysis treatment.

Major recent acquisitions in our Fresenius Kabi segment, in addition to the acquisition of APP Pharmaceuticals, include the acquisitions:

- in January 2005 of Labesfal — Laboratórios de Especialidades Farmacêuticas Almiro S.A. ("Labesfal"), a Portugese company that produces intravenously administered generic drugs;
- in December 2005 of Clinico GmbH, a manufacturer of medical devices for sale to hospitals and to industrial clients;
- in April 2007 of Laboratorios Filaxis S.A., Argentina ("Filaxis"). The Filaxis acquisition strengthened Fresenius Kabi's portfolio of intravenously administered generic drugs by adding oncology products;
- in December 2007 of Nestlé's enteral nutrition businesses in France (Novartis Nutrition S.A.S.) and in Spain. Novartis Nutrition S.A.S. (renamed Fresenius Kabi Nutrition S.A.S.) holds a leading position on the French enteral nutrition market and offers a comprehensive portfolio of sip and tube feeds and

corresponding medical devices. The acquisition of the Spanish business provided Fresenius Kabi with access to the Spanish enteral nutrition market;

- in January 2008 of the Chilean company Laboratorio Sanderson S.A., the Chilean market leader in intravenously administered generic drugs (I.V. drugs) and infusion solutions. Through this acquisition Fresenius Kabi significantly expanded its local product range and will become the leading infusion therapy provider in the Chilean hospital market;
- in January 2008 of Ribbon s.r.l., an Italian company that is one of Europe's leading manufacturers of the antibiotic agent classes cephalosporines and penicillines with state-of-the-art production facilities in northern Italy; and
- in August 2008 of over 90% of the shares of Dabur Pharma Ltd. ("Dabur"), a supplier based in Delhi, India, of generic drugs and active pharmaceutical ingredients ("API") for the treatment of cancer.

Major acquisitions in our Fresenius Helios business segment include the acquisition of HELIOS Kliniken GmbH through Fresenius ProServe GmbH in December 2005. HELIOS Kliniken GmbH is one of the largest private hospital operators in Germany and operates 57 hospitals. Fresenius Helios acquired a hospital chain with six hospitals in 2006, five hospitals in 2007, and one hospital in 2008 and announced the acquisition of five additional hospitals in 2008.

Strengths

Our business benefits from a number of strengths, including:

Leading market positions. We are among the market leaders in each of the key markets in which our business segments operate. Based on publicly reported sales and number of patients treated, Fresenius Medical Care is the world's largest provider of dialysis products and dialysis care for patients with chronic kidney failure. We believe Fresenius Kabi is the market leader in Europe in clinical nutrition and infusion therapy and has strong market positions in the growth regions of Asia-Pacific, Latin America and South Africa. With the acquisition of APP Pharmaceuticals, Fresenius Kabi has become one of North America's largest hospital-based generic injectable pharmaceutical companies. APP Pharmaceuticals has a top three market share position in over 80% of its products. Fresenius Helios is one of the three largest private hospital operators in Germany. Fresenius Vamed is a market leader in development, planning, construction and technical management of healthcare facilities worldwide, as well as in general management of healthcare facilities in selected key markets. We believe our leading positions and the scale and spread of our operations provide us with negotiating power with suppliers and with a cost-competitive advantage compared to smaller competitors.

Globally diversified presence in growing non-cyclical markets. Our markets are fundamentally stable and relatively independent of economic cycles due to the intrinsic importance of the life-saving and life-sustaining products and treatments that we provide. These markets are also expanding due to demographic trends, the growing demand for innovative therapies in industrialized countries and the increasing availability of high-quality healthcare in developing and newly industrializing countries. We are one of the few globally active companies in our business areas and have subsidiaries in over 60 countries, providing us with the local presence needed to respond to differing national healthcare systems. Fresenius Medical Care sells its dialysis products to its own clinics as well as to external dialysis providers. Both Fresenius Medical Care and Fresenius Kabi sell their products to hospitals and other purchasers in over 100 countries. We operate a marketing and production network of more than 70 production sites worldwide. Our key production facilities are in the United States, Germany, Sweden, China, Japan and India. We also have production facilities in other European and Asia-Pacific countries, Latin America and South Africa.

Comprehensive product range. With a comprehensive product portfolio, we believe we are one of a few companies able to meet our customers' needs for a broad range of therapies. Fresenius Medical Care offers a comprehensive range of products for both hemodialysis (i.e. the removal of impurities and waste products from the bloodstream through a dialyzer before returning the blood to the patient's body) and peritoneal dialysis (i.e., the removal of toxins from the blood using the peritoneum). Fresenius Kabi is one of the few healthcare companies that offers a complete range of both enteral and parenteral nutrition therapies.

Fresenius Kabi also offers a broad range of fluid and blood volume substitution products and a comprehensive portfolio of intravenously administered generic drugs. With the acquisition of APP Pharmaceuticals, Fresenius Kabi has expanded its existing product range with a portfolio of more than 100 products in more than 400 doses and formulations, comprising drugs for intensive care, anesthesia, analgesia and oncology, as well as drugs for the treatment of infections. APP Pharmaceuticals has a strong drug registration pipeline covering all of its product segments.

Integrated businesses. Within the framework of our vertically integrated business model, our business segments each operate at various stages of the value chain. Fresenius Medical Care provides its customers and patients with products and services for dialysis. By combining the development and manufacture of dialysis products with dialysis services for patients, Fresenius Medical Care gains valuable medical insights that it uses to improve both treatments and product quality. Fresenius Kabi also pursues an integrated product strategy in the areas of infusion therapy and clinical nutrition. In addition to infusion solutions, intravenously administered drugs and clinical nutrition, Fresenius Kabi also offers the corresponding application systems for the administration of these products to patients. The recent acquisitions of Ribbon and Dabur strengthen Fresenius Kabi's position as a vertically integrated supplier of generic intravenous drugs, securing its supply of API for the manufacture of antibiotics and oncology drugs.

Strong and stable cash flow and proven deleveraging track record. Our business has strong, recurring cash flow streams generated by sales of life-saving and life-sustaining products and services. Our cash flows from operating activities in the year ended December 31, 2007 amounted to €1,296 million, up from €1,052 million in 2006 and €780 million in 2005. As a result of our strong cash flow generation and EBITDA growth, we were able to reduce our net debt to EBITDA ratio from 3.3:1.0 on June 30, 2006, following the acquisition of RCG to 2.7:1.0 on June 30, 2008.

Experienced management team. Led by our Chairman, Dr. Ulf M. Schneider, we have one of the most experienced management teams in the industry with a proven track record for organic growth and acquiring and successfully integrating new businesses, including the €1.5 billion acquisition of HELIOS Kliniken GmbH in 2005 and the US$4.2 billion acquisition of RCG in 2006. Fresenius Medical Care's executive management boasts a combined experience in the dialysis sector of more than 150 years. Fresenius Kabi's executive management has about 150 years of combined experience in healthcare. Fresenius Helios' executive management has more than 60 years of combined experience in hospital management. Fresenius Vamed's executive management has 65 years of combined experience in providing services to the healthcare industry.

High barriers to entry. Most of our healthcare products and service businesses are characterized by high barriers to entry. High regulatory standards and quality requirements as well as the need for an international production and distribution network and established relationships with suppliers and customers make it difficult for companies to enter and be competitive in our markets. An existing platform of hospitals, in-depth experience and a proven track record are needed to participate successfully in the privatization of the German hospital market and to successfully manage the economic turnaround of acquired hospitals.

Strategy

The key elements of our business strategy are:

Improve leading market positions. Our goal is to maintain and enhance the long-term future of Fresenius as one of the leading international product and service providers in the healthcare sector.

Based on publicly reported sales and number of patients treated, Fresenius Medical Care is the world's largest dialysis company with, in particular, a strong market position in the United States. Fresenius Medical Care intends to exploit further growth opportunities through international expansion in dialysis care and in renal pharmaceuticals.

Based on our estimates, Fresenius Kabi is the leader in infusion therapy and clinical nutrition in Europe and in its most important countries in Latin America and Asia-Pacific. Fresenius Kabi plans to further strengthen its position by introducing additional products from its existing product range in these markets. In addition, the acquisition of APP Pharmaceuticals provides Fresenius Kabi with a platform to market its

existing product range in North America while at the same time becoming one of the world's leading companies in the field of intravenously administered generic drugs. Over time, we intend to leverage and internationalize APP Pharmaceuticals' extensive generic intravenous drug portfolio.

Fresenius Helios ranks among the top three private hospital operators in Germany. Fresenius Helios intends to continue to build on this strong position to take advantage of the further growth opportunities offered by the continuing privatization process in the German hospital market.

Fresenius Vamed intends to further strengthen its position as a specialist provider of engineering and other services to hospitals and other healthcare facilities worldwide.

Expand worldwide presence. In addition to sustainable organic growth in those markets where we have an established presence, we intend to further expand into developing markets worldwide, particularly in Asia-Pacific and Latin America. We intend to leverage our brand name, product portfolio and network to focus on markets with attractive growth opportunities. We also intend to employ a selective acquisition strategy to strengthen our market position and to further diversify our business geographically. The acquisition of APP Pharmaceuticals is an important step in this strategy as it has allowed us to enter the U.S. generic injectables market and provides us with further growth opportunities.

Continue as an innovator in the development of products, technologies and therapies. We are committed to further expanding our technological know-how, increasing our expertise in patient treatment and maintaining cost-effective and reliable manufacturing processes. Fresenius Medical Care and Fresenius Kabi intend to leverage their research and development know-how to develop products and systems that are safer, easier to use and more adaptable to the differing needs of patients. By offering more effective products and treatment methods, we intend to continue meeting our own standards for developing and manufacturing prime-quality medical products for the treatment of severely ill patients. Fresenius Helios aims to expand its market position by providing state-of-the-art medicine. Fresenius Vamed, with its ability to meet distinct and constantly changing requirements of different international healthcare markets, is well positioned to keep and secure its position as a market leader. APP Pharmaceuticals has over 25 abbreviated new drug applications ("ANDAs") pending with the U.S. Food and Drug Administration ("FDA") and over 70 product candidates under various stages of development.

Improve profitability and cash flow generation. Our goal is to further increase our profitability. We intend to focus on increasing the efficiency of our manufacturing facilities, on benefiting from economies of scale, on strengthening the use of our sales organizations and on continuously controlling our costs. Furthermore, we intend to enhance our operating cash flows and our balance sheet ratios through the efficient management of our working capital. Through our commitment to improving our operating performance, we intend to continue to increase our EBITDA and cash flow generation and reduce our debt in order to decrease our leverage.

Fresenius Medical Care

Fresenius Medical Care operates both in the field of dialysis products and in the field of dialysis services. Based on publicly reported sales and number of patients, Fresenius Medical Care is the world's largest provider of dialysis products and dialysis services for patients with chronic kidney failure. Fresenius Medical Care's dialysis business is vertically integrated, providing therapy services at its own dialysis clinics and supplying these clinics with a full range of products. In addition, Fresenius Medical Care sells dialysis products to other dialysis service providers. In 2007, Fresenius Medical Care generated approximately 69% of its sales in North America, approximately 22% in Europe, the Middle East and Africa and approximately 9% throughout the rest of the world and represented 62% of our consolidated Group sales.

As described under "Management's Discussion and Analysis of Financial Condition and Results of Operation — Key Factors Affecting Our Results of Operations and Financial Condition", although Fresenius Medical Care is fully consolidated in our financial statements, we have a 35.80% economic interest in Fresenius Medical Care (as of December 31, 2008) and we receive cash flows from it only to the extent that

dividends are paid to us, from existing agreements such as rental and service agreements, and as reimbursement of the general partner's expenses.

In 2007, Fresenius Medical Care treated 173,863 patients at 2,238 dialysis clinics in more than 25 countries. In North America, 121,431 patients were treated at 1,602 clinics. In Europe, the Middle East and Africa 26,902 patients were treated at 362 clinics. In Latin America, 17,741 patients were treated at 169 clinics. In Asia-Pacific, 7,789 patients were treated at 105 clinics.

In 2007, Fresenius Medical Care provided 26.4 million treatments, an increase of approximately 11% over the approximately 23.7 million treatments that were provided in 2006.

Fresenius Medical Care is currently the world's largest manufacturer and distributor of equipment and related products for hemodialysis and the second largest manufacturer of peritoneal dialysis products. (Source: Internal estimates, publicly available market data and company data of significant competitors). Fresenius Medical Care sells its products in over 100 countries.

While dialysis services accounted for approximately 90% of Fresenius Medical Care's total sales in North America in 2007, dialysis products dominated sales in the rest of the world (the "International" segment) and accounted for approximately 60% of Fresenius Medical Care's total sales in the rest of the world. In 2006, dialysis products accounted for approximately 63% of total sales generated in the rest of the world. The following table illustrates Fresenius Medical Care's sales and EBIT in its North America and International segments:

	Year ended December 31,					
	2005		2006		2007	
	(in million US$)	% of total sales	(in million US$)	% of total sales	(in million US$)	% of total sales
North America sales	4,577	68%	6,025	71%	6,663	69%
International sales	2,195	32%	2,474	29%	3,057	31%
Total	6,772	100%	8,499	100%	9,720	100%
North America operating profit (EBIT)	644		965		1,130	
International operating profit (EBIT)	362		440		544	

Dialysis Overview

End-Stage Renal Disease. End-stage renal disease ("ESRD") is the stage of advanced chronic kidney disease that is characterized by the irreversible loss of kidney function and requires regular dialysis treatment or kidney transplantation to sustain life. A normally functioning human kidney removes waste products and excess water from the blood, which prevents toxin buildup, water overload and the eventual poisoning of the body. A number of conditions, including diabetes, hypertension, glomerulonephritis and inherited diseases, can cause chronic kidney disease. The majority of people with ESRD acquire the disease as a complication of one or more of these primary conditions.

There are currently only two methods for treating ESRD: dialysis and kidney transplantation. Scarcity of compatible kidneys limits transplants. Therefore, most patients suffering from ESRD rely on dialysis. Dialysis is the removal of toxic waste products and excess fluids from the body by artificial means. There are two major dialysis methods commonly used today: hemodialysis and peritoneal dialysis. Generally, an ESRD patient's physician, in consultation with the patient, chooses the patient treatment method based on the patient's medical condition and needs. A global comparison of the two methods shows that hemodialysis is the dominant treatment. In 2007, hemodialysis patients comprised more than 89% of all dialysis patients worldwide; the remaining approximately 11% used peritoneal dialysis.

Hemodialysis. Hemodialysis removes toxins and excess fluids from the blood outside the patient's body. The blood flows outside the body through plastic tubes known as bloodlines into a specially designed filter, called a dialyzer. The dialyzer separates waste products and excess water from the blood. Dialysis solution flowing through the dialyzer in the opposite direction carries away the waste products and excess water and

supplements the blood with solutes, which have to be added due to the loss of renal function. The treated blood is returned to the patient. The hemodialysis machine pumps blood, adds anti-coagulants, regulates the purification process and controls the mixing of dialysis solution and the rate of its flow through the system. The machine also monitors and records the patient's vital signs. Hemodialysis patients generally receive treatment three times per week, typically for three to five hours per treatment. The majority of Hemodialysis patients receive treatment at outpatient dialysis clinics, such as those of Fresenius Medical Care.

Peritoneal Dialysis. Peritoneal dialysis removes toxins from the blood using the peritoneum, the membrane lining covering the internal organs located in the abdominal area, as a filter. Patients using peritoneal dialysis administer their own treatments in a home or workplace setting, either by a treatment known as continuous ambulatory peritoneal dialysis, or "CAPD", or by a treatment called continuous cycling peritoneal dialysis, or "CCPD". In both of these treatments, a surgically implanted catheter provides access to the peritoneal cavity. A typical CAPD peritoneal dialysis program involves the introduction and disposal of dialysis solution four times a day. With CCPD, a machine pumps a solution to and from the patient's peritoneal cavity while the patient sleeps.

Dialysis Services

In 2007, Fresenius Medical Care acquired 84 clinics, opened 76 new clinics and combined or closed 30 clinics. The number of patients treated in Fresenius Medical Care's clinics increased by 6% to 173,863 at December 31, 2007 from 163,517 at December 31, 2006.

The following table sets forth the number of treatments, patients and dialysis clinics in 2005, 2006 and 2007:

	Year ended December 31,		
	2005	2006[1]	2007
Completed treatments (in million)	19.7	23.7	26.4
Patients (December 31)	131,450	163,517	173,863
Dialysis clinics (December 31)	1,680	2,108	2,238

(1) Fresenius Medical Care acquired RCG in March 2006.

Each of Fresenius Medical Care's dialysis clinics is under the general supervision of a medical director and, in some cases, one or more associate medical directors, all of whom are physicians. Each dialysis clinic also has an administrator or clinical manager who supervises the day-to-day operations of the facility and the staff. The staff typically consists of registered nurses, licensed practical nurses, patient care technicians, a social worker, a registered dietician, a unit clerk and biomedical technicians.

Fresenius Medical Care offers hemodialysis treatments in its own clinics through the use of its dialysis machines and disposable products. The capacity of a clinic depends upon the number of dialysis stations, the type of treatment, patient requirements, length of time per treatment, local operating practices and local ordinances regulating hours of operation.

As part of dialysis therapy, Fresenius Medical Care provides a variety of additional services to ESRD patients in the United States at its dialysis clinics. These services include administering erythropoietin ("EPO"), a synthetic bio engineered hormone that stimulates the production of red blood cells. EPO is used to treat anemia, a medical complication that ESRD patients frequently experience, and Fresenius Medical Care administers EPO to most of its patients in the United States. In the United States, services offered by clinics include supplying EPO. Sales from EPO accounted for approximately 21% of Fresenius Medical Care's dialysis care sales in North America in 2007.

Fresenius Medical Care also provides dialysis services under contract to hospitals in the United States on an "as needed" basis for hospitalized ESRD patients and for patients suffering from acute kidney failure. Fresenius Medical Care treats these patients either at their bedside, using portable dialysis equipment, or at the hospital's dialysis site.

Fresenius Medical Care's clinics also offer services for home dialysis patients, the majority of whom receive peritoneal dialysis treatment. For these patients, Fresenius Medical Care provides materials, training and patient-support services, including clinical monitoring, follow-up assistance and arranging for delivery of products to the patient's residence.

The manner in which each clinic conducts its business depends, in large part, upon applicable laws, rules and regulations of the jurisdiction in which the clinic is located, as well as our clinical policies. However, a patient's attending physician, who may be the clinic's medical director or an unaffiliated physician with staff privileges at the clinic, has medical discretion to prescribe the particular treatment modality and medications for that patient. Similarly, the attending physician has discretion in prescribing particular medical products, although the clinic typically purchases equipment, regardless of brand, in consultation with the medical director.

Laboratory Services

Nephrologists use the results of laboratory tests to determine the appropriate individual dialysis therapy for each patient. Fresenius Medical Care provides laboratory testing services, such as blood, urine and other bodily fluid testing services, through its subsidiary Spectra Laboratories ("Spectra"). Spectra is the leading clinical laboratory provider of dialysis services in North America and operates two laboratories located in New Jersey and one located in northern California. In 2007, Spectra performed nearly 49 million tests for approximately 150,000 dialysis patients in more than 2,200 clinics across the United States, including clinics owned or operated by Fresenius Medical Care.

Dialysis Equipment and Products

Fresenius Medical Care manufactures dialysis equipment and related products. Fresenius Medical Care sells its dialysis products in over 100 countries. The majority of Fresenius Medical Care's customers are dialysis clinics.

Hemodialysis Equipment and Products. Fresenius Medical Care offers an extensive hemodialysis product line and believes that its broad range of technologically sophisticated hemodialysis products makes it the largest producer of hemodialysis products.

Fresenius Medical Care sells its dialysis machines in North America as the 2008™ series and elsewhere in the world as the 4008 series and the 5008 series. While the 2008/4008 series is the most widely sold machine for hemodialysis treatment, the 5008 series, which was launched in 2005, is intended to gradually replace most of the 4008 series in coming years. The 5008 series includes a number of newly developed technical components for revised and improved dialysis processes and offers the most efficient therapy modality, ONLINE-Hemodiafiltration, as its standard. The 5008 series incorporates dedicated interfaces that incorporate significant advances in the field of electronics to safely and clearly control and monitor highly complex treatment procedures.

Fresenius Medical Care manufactures dialyzers using hollow fiber Fresenius Polysulfone® and Helixone® membranes, which are synthetic materials. According to its estimates, Fresenius Medical Care is worldwide the leading producer of polysulfone dialyzers. In addition, Fresenius Medical Care manufactures and distributes numerous other hemodialysis disposables and other hemodialysis products.

Peritoneal Dialysis Equipment and Products. Fresenius Medical Care offers a full line of peritoneal dialysis systems and solutions for both CAPD, which requires manually changing the dialysis solution four times a day, and CCPD, a machine-supported type of peritoneal dialysis that is used mostly at night.

CCPD therapy differs from CAPD therapy insofar as the fluid is infused into the peritoneal cavity of patients while they sleep. Fresenius Medical Care's CCPD systems incorporate microprocessor technology. This enables physicians to program specific prescriptions for each patient. In addition, special patient management software tools have been developed in recent years to support both CAPD and CCPD therapies in the different regions of the world.

Renal Pharmaceuticals. As part of Fresenius Medical Care's horizontal expansion growth path, it intends to pursue the "Pharma-Tech" approach, integrating the use of dialysis drugs with its existing product technology, dialysis treatment and laboratory services.

Fresenius Medical Care acquired the rights to Phoslo® from Nabi Pharmaceuticals in November 2006. During 2007, Fresenius Medical Care submitted an application to the FDA to extend the Phoslo® label indication to pre-dialysis patients with chronic kidney disease. Fresenius Medical Care also applied for approval of Phoslo® in selected European countries and of OsvaRen, another product that supports bone health, in most European Union ("EU") member states.

In July 2008, Fresenius Medical Care entered into two separate and independent license and distribution agreements, one for the United States and one for certain countries in Europe and the Middle East, to market and distribute Galenica's intravenous iron products, such as Venofer® and Ferinject® for dialysis treatment. In North America, the license agreement among Fresenius Medical Care Holdings, Inc. ("FMCH"), a subsidiary of Fresenius Medical Care, Luitpold Pharmaceuticals Inc, and Vifor (International), Inc. provides FMCH with exclusive rights to manufacture and distribute Venofer® to freestanding (non-hospital based) U.S. dialysis facilities. In addition, it grants FMCH similar rights for Injectafer® (ferric carboxymaltose), a proposed new IV iron medication currently under clinical study in the US. The US license agreement has a term of 10 years, includes a FMCH extension option, and requires payment by FMCH over the 10 year term of aggregate royalties of approximately US$2 billion, subject to certain early termination provisions. The closing under the US license agreement was completed in September 2008.

Production Facilities

Fresenius Medical Care's global orientation also applies to the manufacture of its products. Fresenius Medical Care operates production facilities in numerous countries throughout the world to meet the demand for its machines, high-performance machines for CCPD ("cyclers"), dialyzers, solutions, concentrates, blood lines, disposable tubing components and equipment for water treatment in dialysis clinics. Fresenius Medical Care's production activities focus on the North American, European and Japanese markets. In addition, Fresenius Medical Care's decentralized structure helps to significantly reduce transportation costs. Another advantage of the decentralized structure of its production facilities in the United States, Europe and Japan is that this helps to reduce the impact of currency fluctuations.

Customers

The following table provides information for the years ended December 31, 2005, 2006 and 2007 regarding the percentage of Fresenius Medical Care's U.S. dialysis treatment services net revenues from (a) the Medicare ESRD program; (b) private/alternative payors, such as commercial insurance and private funds; (c) Medicaid and other government sources; and (d) hospitals.

	Year ended December 31,		
	2005	2006	2007
Medicare ESRD program	56.0%	54.5%	53.2%
Private/alternative payors	31.6%	34.4%	36.5%
Medicaid and other government sources	4.2%	3.9%	4.2%
Hospitals	8.2%	7.2%	6.1%
Total	100%	100%	100%

Under the Medicare ESRD program, Medicare reimburses dialysis providers for the treatment of certain individuals who are diagnosed as having ESRD, regardless of age or financial circumstances. See "— Regulatory Matters — Reimbursement."

We believe that Fresenius Medical Care's success in establishing and maintaining dialysis clinics, both in the United States and in other countries, depends significantly on its ability to obtain the acceptance of and

referrals from local physicians, hospitals and managed care plans. A dialysis patient generally seeks treatment at a conveniently located clinic at which the patient's nephrologist has staff privileges.

Medicare ESRD program reimbursement regulations require that a medical director generally supervises treatment at a dialysis clinic. Generally, the medical director must be board certified or board eligible in internal medicine and have at least twelve months of training or experience in the care of patients at ESRD clinics. Fresenius Medical Care's medical directors also maintain their own private practices.

Market Information

Fresenius Medical Care offers life-sustaining and life-saving products and services in markets characterized by stability and favorable demographic trends.

Based on Fresenius Medical Care's estimates, approximately 2.15 million ESRD patients were being treated worldwide as of year-end 2007. Of these patients, approximately 1.65 million were receiving dialysis treatment, of which 1.47 million were receiving hemodialysis and about 180,000 were receiving peritoneal dialysis. Approximately 500,000 kidney patients were living with donated kidneys. In 2007, the number of dialysis patients grew by approximately 6%.

The growth in patient numbers has not been uniform across all regions. For example, in the United States, Japan and Western and Central Europe, patient growth rates tend to be below average. This is because the percentage of ESRD patients treated is already high and access to appropriate treatment, primarily dialysis, is generally available in these countries and regions. On the other hand, significantly higher growth rates of around 10% were recorded in economically less-developed regions. Of all dialysis patients worldwide in 2007, approximately 21% were treated in the United States, approximately 17% in Japan and approximately 18% in the EU. The remaining 44% of all dialysis patients were spread across more than 110 countries throughout the rest of the world.

Fresenius Medical Care is the world's leading provider of dialysis services and dialysis products with an estimated 16.8% share of the total dialysis market in 2007.

Competition

Dialysis Services. Fresenius Medical Care's major competitors in the United States include DaVita, Inc., Dialysis Clinic, Inc., Renal Advantage Inc. and DSI Renal, Inc., and, outside North America include Diaverum (formerly the non-U.S. dialysis services business of Gambro Lundia AB ("Gambro AB")), Baxter International Inc. ("Baxter") and B. Braun Melsungen AG ("B. Braun"). Ownership of dialysis clinics in the United States is highly fragmented with a large number of operators owning 10 or fewer clinics each and a small number of larger multi-clinic operators.

Over the past decade, the dialysis industry has been characterized by ongoing consolidation. The acquisition of all of Gambro AB's dialysis service clinics in the United States by DaVita, Inc., in 2005 and of RCG by Fresenius Medical Care in 2006 are examples of this continuing consolidation process.

Many of Fresenius Medical Care's dialysis clinics are in urban areas, often in proximity to competing clinics. Fresenius Medical Care experiences direct competition, from time to time, from former Fresenius medical directors, former employees or referring physicians who establish their own clinics. In addition, other healthcare providers or equipment manufacturers, some of whom have significant operations, may decide to enter the dialysis business in the future.

Since government programs are the primary source of reimbursement for services to the majority of dialysis patients in the United States, competition is based primarily on quality and accessibility of service and the ability to obtain referrals from physicians who could treat patients themselves at other clinics. However, the extension of periods during which commercial insurers are primarily responsible for reimbursement and the growth of managed care programs have placed greater emphasis on service costs for privately insured patients.

In most countries outside the United States, Fresenius Medical Care competes primarily against individual free-standing clinics and hospital-based clinics. In many of these countries, especially developed countries, governments directly or indirectly regulate prices and the opening of new clinics. Providers compete in all countries primarily on the basis of quality and availability of service and the development and maintenance of relationships with referring physicians.

Dialysis Products. The markets in which Fresenius Medical Care sells its dialysis products are highly competitive. Fresenius Medical Care's competitors in the sale of hemodialysis and peritoneal dialysis products include Gambro AB, Baxter, Asahi Kusei Medical Co., Ltd., Bellco S.p.A., a subsidiary of Sorin Group, B. Braun, Nipro Corporation Ltd., Nikkiso Co., Ltd., Terumo Corporation, Kawasumi Laboratories Inc., Fuso Pharmaceuticals Industries Ltd., and Toray Medical Co., Ltd.

Laboratory Services. Spectra competes in the United States with large national laboratories, dedicated dialysis laboratories and numerous local and regional laboratories, including hospital laboratories. In the laboratory services market, companies compete on the basis of service performance, including quality of laboratory testing, timeliness of reporting test results and cost. We believe that Spectra's laboratory services are competitive in these areas.

Fresenius Kabi

Fresenius Kabi is focused on the therapy and care of chronically and critically ill patients in hospitals and in the out-patient setting. Fresenius Kabi has three product businesses: infusion therapy, clinical nutrition and transfusion technology. These businesses represented approximately 18% of our consolidated Group sales in 2007.

Fresenius Kabi's total sales in 2007 were €2,030 million, with infusion therapy accounting for €1,076 million, clinical nutrition for €831 million and transfusion technology for €123 million.

The following table shows Fresenius Kabi's sales in 2005, 2006 and 2007 by region:

	Year ended December 31,							
	2005		2006			2007		
	(in million €)	% of total sales	(in million €)	Change from 2005 (%)	% of total sales	(in million €)	Change from 2006 (%)	% of total sales
Germany	405	24.1%	427	5	22.6%	434	2	21.4%
Europe (excluding Germany)	819	48.7%	877	7	46.3%	930	6	45.8%
Asia-Pacific	183	11%	258	41	14%	311	21	15%
Latin America	101	6%	128	27	7%	143	12	7%
Other regions	457	27.2%	589	17	31.1%	666	4	32.8%
Total	1,681	100%	1,893	13	100%	2,030	7	100%

In addition, with the acquisition of APP Pharmaceuticals, Fresenius Kabi has acquired APP Pharmaceuticals' injectable product portfolio, which APP Pharmaceuticals believes is one of the most comprehensive in the North American pharmaceutical industry. APP Pharmaceuticals currently manufactures and sells over 100 injectable products in more than 400 dosages and formulations across four main areas that are included under Fresenius Kabi's infusion therapy product business. In addition, APP Pharmaceuticals believes that it is currently the leader in injectable ANDA drug approvals. APP Pharmaceuticals currently has over 25 ANDAs pending with the FDA and over 70 product candidates under various stages of development. In 2007, APP Pharmaceuticals received 11 ANDA approvals.

Infusion Therapy

Fresenius Kabi

Fresenius Kabi's infusion therapy business offers infusion solutions, blood-volume replacement products and intravenously administered generic drugs, such as anesthetics, antibiotics and drugs for the treatment of oncological diseases. For the administration of these therapies Fresenius Kabi provides infusion technologies

and disposables. Infusion therapy products are mainly used during various surgical procedures, in intensive care units and in emergency medicine, such as trauma. These products are an integral part of a hospital's basic inventory.

If the necessary care is not taken to replace the fluid and blood losses in time, patients may go into the state of shock, which acutely restricts blood and fluid supply to all vital organs. Restricted blood circulation leads to a shortage of oxygen and nutrients to the organs, which may result in organ failure, tissue damage and even death. Infusion therapy restores normal fluid volume, counteracting low blood pressure. Water is the primary component of most of the infusion solutions. Other ingredients may include electrolytes, carbohydrates, buffers, and colloids.

Fresenius Kabi provides a wide range of infusion therapy products:

- standard infusion solutions consist primarily of salts (electrolytes), carbohydrates and water. They are infused when the body's water content or electrolyte balance has been disrupted, in acute need of energy supply and a lack of salt or lack of specific minerals in the blood;
- artificial blood volume replacement (colloids) are most often used in treating patients suffering from blood losses resulting from an accident or during surgery; colloids can be a safe alternative to blood transfusions to compensate for blood loss resulting from an accident or surgery. Fresenius Kabi develops and manufactures blood volume replacement solutions such as HAES-steril®, Voluven® and Volulyte, which are manufactured with hydroxyethyl starch derived from waxy maize;
- intravenously administered generic drugs, such as anesthetics (for example, Propofol Fresenius), pain-therapy products (analgesics), antibiotics, antiinfectives and drugs for the treatment of oncological diseases; and
- medical-technical equipment and disposables, such as cannulae, tubes and pumps for administering infusion therapies.

APP Pharmaceuticals

Within Fresenius Kabi's infusion therapy product business, APP Pharmaceuticals manufactures and sells generic injectables products across four main product areas: injectable anti-infective products, injectable critical care products, injectable anesthetic/analgesic products and injectable oncology products.

Injectable Anti-Infective Products. APP Pharmaceuticals manufactures and markets 25 injectable anti-infective products. According to IMS Health Incorporated ("IMS"), a pharmaceutical market research firm, APP Pharmaceuticals was the United States market leader for ten injectable anti-infective products in terms of units or dollars sold during 2007.

APP Pharmaceuticals believes it offers one of the most comprehensive portfolios of injectable anti-infective products, including eleven different classes of antimicrobials. APP Pharmaceuticals believes it is the only generic pharmaceutical company that owns and operates a dedicated cephalosporins manufacturing facility in the United States. The FDA requires dedicated facilities for the manufacture of cephalosporins. APP Pharmaceuticals believes that it currently offers the broadest portfolio of generic cephalosporins.

APP Pharmaceuticals' anti-infective product line includes:

- *Ampicillin.* Ampicillin is an antibacterial agent of the penicillin group with a broad spectrum of antibiotic activity. Ampicillin is indicated in the treatment of infections of the respiratory tract, urinary tract and gastrointestinal tract caused by susceptible strains;
- *Azithromycin.* Azithromycin is indicated for the treatment and prevention of community-acquired pneumonia and pelvic inflammatory disease when caused by susceptible microorganisms;
- *Cefotetan.* Cefotetan is a second-generation cephalosporin with a broad range of anti-microbial activity. Cefotetan is often used for surgical prophylaxis and offers the longest half-life of any cephalosporin;

- *Cefoxitin.* Cefoxitin is indicated in the treatment of serious infections caused by susceptible bacteria strains, i.e. urinary tract infections, gynecological infections, intra-abdominal infections, respiratory tract infections as well as skin infections; and

- *Vancomycin.* Vancomycin is a glycopeptide antibiotic used to treat serious and severe infections caused by penicillin and cephalosporin resistant bacteria.

Injectable Critical Care Products. APP Pharmaceuticals manufactures and markets more than 60 injectable critical care products. According to IMS, 13 of those critical products held first position and 9 held second position in the United States market in terms of units sold in 2007. APP Pharmaceuticals' critical care product line encompasses a wide range of products essential to hospitals and clinics, ranging from diluents, to heart medications, to steroidal products to sedatives.

APP Pharmaceuticals' critical care products include:

- *Heparin.* Injectable heparin is a blood thinner used to prevent and treat blood clotting, especially during and after surgery. APP Pharmaceuticals manufactures one of the most comprehensive lines of injectable therapeutic heparin. In the first quarter of 2008, Baxter International, a major supplier of heparin announced the recall of all the heparin sodium injection and heparin flush products that it was offering to the market. Since that time, APP Pharmaceuticals has increased production to a level it believes is sufficient to meet the entire U.S. market demand. APP Pharmaceuticals is currently the sole provider of therapeutic heparin to Fresenius Medical Care and in the U.S. market generally; and

- *Oxytocin.* Oxytocin is used to induce labor at term and control postpartum bleeding. APP Pharmaceuticals currently holds the number one unit and dollar share position for oxytocin in the US market.

Injectable Anesthetic/Analgesic Products. APP Pharmaceuticals manufactures and markets 10 injectable anesthetic/analgesic products, which includes the eight anesthetic and analgesics product families the company acquired in June 2006.

APP Pharmaceuticals' anesthetic/analgesic products include:

- *Diprivan®.* Diprivan® is a formulation patent protected intravenous sedative-hypnotic agent. Diprivan® is indicated for the induction of general anesthesia in adult and pediatric patients; maintenance of general anesthesia in adult and pediatric patients and intensive care unit sedation for intubated, mechanically ventilated adults. Zeneca Pharmaceuticals first commercially introduced Diprivan® in the United States in 1989 and APP Pharmaceuticals purchased this product from AstraZeneca in June 2006. Diprivan® maintains the number one unit and dollar position in the US market; and

- *Naropin®.* Naropin® is a patent protected long-acting local anesthetic that contains the active ingredient ropivicaine hydrochloride, which is a member of the amino amide class of local anesthetics. Naropin® is indicated for local or regional anesthesia for surgery and for acute pain management. AstraZeneca developed Naropin® and APP Pharmaceuticals purchased this product from AstraZeneca in June 2006.

Injectable Oncology Products. APP Pharmaceuticals manufactures and markets 19 injectable oncology products. According to IMS, during 2007 APP Pharmaceuticals was the market leader for four of these products in terms of units sold in the United States.

APP Pharmaceuticals' oncology products include:

- *Doxorubicin.* Doxorubicin is indicated for use in adjuvant therapy for the treatment of breast cancer where there is evidence of axillary lymph node involvement following tumor resection. Doxorubicin has been successful in producing regression in disseminated neoplastic conditions, including several types of leukemias, ovarian, breast and bladder cancers, as well as Hodgkin's disease. Doxorubicin is the generic equivalent of Pharmacia & Upjohn Company's Adriamycin®. APP Pharmaceuticals launched the injectable liquid version of doxorubicin in August 2007; and

- *Irinotecan Hydrochloride Injection.* Irinotecan Hydrochloride Injection is a chemotherapy drug used to treat advanced cancer of the large intestine and rectum. It is indicated as a component of first-line therapy in combination with 5-fluorouracil and leucovorin for patients with metastatic colorectal cancer. Irinotecan Hydrochloride Injection is the generic equivalent of Pfizer's Camptosar® Injection, which lost its patent protection in February 2008.

Clinical Nutrition

There are two types of clinical nutrition therapy: parenteral nutrition and enteral nutrition. Parenteral nutrition is administered intravenously when the intestinal function is impaired. Enteral nutrition is administered in the form of sip and tube feeds using the gastro-intestinal tract. Clinical nutrition products are administered predominantly to intensive care, trauma or cancer patients, patients who have undergone surgery and patients suffering from malnutrition. Clinical nutrition therapy is essential to maintaining or restoring normal body tissue and function during convalescence by reducing complications and therefore, thus shortening the length of hospital stay, as well as helping to avoid weight-loss and reducing related morbidity.

Clinical Nutrition therapy meets a variety of nutritional needs, including the need for:

- protein or amino acids, the building blocks of the body's proteins to maintain protein synthesis and to preserve body muscle mass;
- fat for energy supply;
- glucose for immediate energy supply; and
- micronutrients: vitamins, minerals, trace elements, micronutrients and organic phosphates, which are essential to a number of complex functions within the body, such as the enzyme and hormone system.

Parenteral Nutrition. Parenteral nutrition is administered to patients intravenously. Fresenius Kabi has a comprehensive range of products, including:

- amino acid solutions, including formulations for pediatric use, standard adult use, organ specific amino acids for patients with conditions such as renal insufficiency or hepatic insufficiency (liver disease) and specific amino acids for intensive care;
- lipid emulsions:
  - *LCT:* long chain triglyceride-containing lipid emulsions — for standard use in infants and adults;
  - *MCT/LCT:* medium and long chain triglyceride-containing lipid emulsions — for rapid metabolisation — suitable for use in critically ill patients;
  - *Structured triglycerides:* chemically tailored triglyceride consisting of medium-chain and long-chain fatty acids for critically ill patients; and
  - MCT/LCT additionally containing olive oil and fish oil: medium chain triglycerides including omega 3, 6 and 9 fatty acids developed for use primarily in critically ill patients;
- glucose products;
- water and fat soluble vitamins and trace elements for infants and adult patients; and
- medical-technical products and disposables for administering parenteral nutrition.

Enteral Nutrition. Enteral nutrition products are given as sip and tube feeds using the gastro-intestinal tract. Fresenius Kabi's enteral products that are taken orally (oral nutritional supplements) come in a variety of flavours and textures.

Fresenius Kabi's enteral nutrition products include:

- a range of standard tube and sip feeds with different energy and protein levels with and without fibre for patients with or at risk of malnutrition and other nutrition deficiencies;
- enteral products for intensive care patients to fulfill increased requirements of certain key nutrients such as glutamine and antioxidants;
- pediatric enteral nutrition products;

- disease specific products for treatment of patients with, for example, renal insufficiency, hepatic insufficiency, diabetes, burns and cancer; and
- medical-technical products and disposables for administering enteral nutrition.

Transfusion Technology

In transfusion technology, Fresenius Kabi offers products for the production of blood products. These include a broad range of products for blood banks and blood-donor services. Blood products (such as red cell concentrates, platelet concentrates and plasma) are essential to modern medicine and are derived from a patient's own blood (autologously) or from donor blood (homologously).

Fresenius Kabi's transfusion technology products include the following:

- a range of products for blood transfusion services, including products for blood collection, processing, storage and transfusion;
- aphaeresis systems that allow the collection of specific blood components from a donor or patient;
- the Continuous Auto Transfusion System ("C.A.T.S."), for blood salvage during or after an operation. C.A.T.S. collects and processes shed blood from surgical wounds or drainage to produce quality packed red blood cells for re-infusion;
- blood filters that remove leukocytes from donor blood; and
- a comprehensive range of standardardized blood bags.

Production Facilities

Fresenius Kabi

Fresenius Kabi operates an international production network. Its most important production sites include plants in Friedberg, Germany and Uppsala, Sweden. In addition, Fresenius Kabi has production sites in other European countries, South and Central America, Asia and South Africa. With the acquisition of Filaxis and Dabur, Fresenius Kabi has recently added production facilities for oncology intravenously administered drugs to its existing portfolio. This international production network assists Fresenius Kabi, which operates in numerous local markets, in implementing its business model and in meeting high logistical and regulatory requirements.

APP Pharmaceuticals

APP Pharmaceuticals' manufacturing operations are located in Melrose Park, Illinois, Grand Island, New York, and Barceloneta, Puerto Rico. The Puerto Rico facility, which APP Pharmaceuticals acquired from Pfizer Inc. in February 2007, consists of a validated manufacturing plant with capabilities of producing EU and U.S. compliant injectable pharmaceuticals, as well as protein-based biologics and metered dosed inhalers. APP Pharmaceuticals began commercial manufacturing from its Puerto Rico facility in the second half of 2007. These manufacturing facilities, which include dedicated cephalosporin powder filling, liquid filling line and oncolytic manufacturing suites, have, in the aggregate, approximately 848,500 square feet of manufacturing, packaging, laboratory, office and warehouse space. APP Pharmaceuticals can produce a broad range of dosage formulations, including lyophilized products, liquids, both aseptically filled and terminally sterilized, and powders. APP Pharmaceuticals currently produces approximately 190 million vials of product per year and has the capacity to produce 250 million vials of product per year.

Customers

Fresenius Kabi

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

APP Pharmaceuticals

APP Pharmaceuticals' products are primarily marketed by a dedicated sales force to hospitals, long-term care facilities, alternate care sites, clinics and doctors who administer injectable products in their offices. Many purchases by these buyers are made through arrangements with group purchasing organizations ("GPOs"), which negotiate collective purchasing agreements on behalf of their members, or through specialty distributors, which specialize in particular therapeutic categories such as oncology. APP Pharmaceuticals sells to members of all of the major GPOs in the United States, which the company believes collectively represent over 95% of all hospital-based pharmaceutical purchasers in the United States. APP Pharmaceuticals also sells products to the leading specialty distributors.

APP Pharmaceuticals currently derives, and expects to continue to derive, a large percentage of its sales from customers that are members of a small number of GPOs. Currently, fewer than ten GPOs control a large majority of sales to hospital customers. APP Pharmaceuticals has purchasing arrangements with the major GPOs in the United States. The GPO agreements are typically multi-year in duration and may be terminated on short notice.

Market Information

Fresenius Kabi

There are several significant growth factors in the infusion therapy and clinical nutrition markets: the increasing demand for medical treatment, the rise in the average age of the population and the demand for innovative treatment concepts. Against the backdrop of general cost pressure, treatments that achieve better clinical results, by, for example, reducing the length of hospital stays, will become increasingly important in the future. In its report on the nutritional situation in Europe, the European Council noted that approximately 30% of all patients in European hospitals are malnourished from a medical point of view. (*Report of the Committee of Experts on Nutrition, Food Safety and Consumer Protection/Council of Europe, November 2002.*) The health and economic consequences of this malnourishment are significant, as malnourished patients have poorer recovery prospects than normally nourished patients, resulting in higher treatment costs and longer hospital stays. Out-patient nutrition therapy is likely to become increasingly important in the future, as tighter budgets fuel a movement away from in-patient treatment to more cost-effective out-patient treatment. In emerging economies, the growth in national incomes is triggering higher healthcare spending. The main focus is on the provision of primary healthcare to the population, with an increasing demand for life-saving and life-prolonging healthcare services.

The market for transfusion technology is characterized by ongoing consolidation among blood donation organizations coupled with a stagnating number of blood donors.

Fresenius Kabi bases its estimates of market shares on its internal research, IMS data and other independent sources. Based on its internal estimates, Fresenius Kabi is the leading company in the European market in providing products for infusion and clinical nutrition therapies (both parenteral and enteral) for severely and chronically ill patients. According to internal estimates, Fresenius Kabi has a market share of approximately 12% in infusion therapy, making it the market leader in its target market (which excludes North America and Japan), has a market share of approximately 27% in nutrition therapy, making it the market leader in its target market (which excludes North America and Japan), and has a market share of approximately 21% in transfusion technology, making it the market leader in its target market (which excludes North America and Japan).

APP Pharmaceuticals

APP Pharmaceuticals is active in the U.S. pharmaceuticals market. The total U.S. pharmaceuticals market was estimated to be US$261 billion in 2006. Of the total market, injectables accounted for US$61 billion, of which patented injectables having a share of approximately 94% and generic injectables of approximately 6%. Growth in the generics market is driven primarily by the increasing number of patent expirations, consistent and strong demand for injectables, an ageing population and a focus on controlling costs by patients and

payors. In the United States in particular, growth in the generics market is being driven by U.S. patent expirations in branded sales. It is expected that drugs accounting for approximately US$18 billion of branded sales in 2007 will have gone off-patent by 2015.

Competition

Fresenius Kabi

Fresenius Kabi operates in highly competitive markets. In recent years, many smaller companies have withdrawn from the business, sparking a consolidation in some of the markets in which we operate. At the same time, a small number of new competitors have entered the market. In the infusion therapy and parenteral nutrition market, Fresenius Kabi's main competitors in Europe are Baxter and B. Braun. In the enteral nutrition market, Fresenius Kabi's main competitors are Danone, Abbott and Nestlé. Baxter, Sichuan Kelun Pharmaceutical, Abbott and Otsuka are primary competitors in Asia-Pacific; in addition, there are numerous local competitors. With the acquisition of APP Pharmaceuticals, Fresenius Kabi entered the U.S. pharmaceutical market.

APP Pharmaceuticals

Competition among pharmaceutical and other companies that develop, manufacture or market pharmaceutical products is intense. APP Pharmaceuticals faces competition from major, brand name pharmaceutical companies, as well as generic manufacturers such as Hospira, Bedford Laboratories, Baxter Laboratories and Teva Pharmaceuticals USA. We believe the top four players control about two thirds of the generic injectables market in the United States. We expect that the market consolidation will continue to the disadvantage of some of the many small players in the market. APP Pharmaceuticals successfully competes with these entities in all areas of business, including the attraction and retention of qualified scientific and technical personnel.

As patents for brand name products and related exclusivity periods expire, the first generic pharmaceutical manufacturer to receive regulatory approval for generic versions of these products is generally able to achieve significant market penetration and higher margins. As competing generic manufacturers receive regulatory approvals on similar products, market share, revenue and gross profit typically decline. The level of market share, revenue and gross profit attributable to a particular generic pharmaceutical product is normally related to the number of competitors in that product's market and the timing of that product's regulatory approval and launch in relation to competing approvals and launches. APP Pharmaceuticals continues to develop and introduce new products in a timely and cost-effective manner and identifies niche products with significant barriers to entry in order to maintain its revenue and gross margins. Since 2001, APP Pharmaceuticals has led its competitors both in the number of regulatory submissions and the sources of approvals, with 66 approvals representing a 97% approval rate.

Fresenius Helios

Fresenius Helios is one of the three largest private hospital operators in Germany. The HELIOS group also includes post acute care clinics. Fresenius Helios owns and operates 57 hospitals mainly in Germany, including five maximum care hospitals in the German cities of Berlin-Buch, Erfurt, Krefeld, Schwerin and Wuppertal. Fresenius Helios provides expertise in all areas (except transplantation medicine) and at all levels of clinical care, including maximum care. Fresenius Helios currently treats approximately 550,000 in-patients per year at its hospitals and has a total of approximately 17,300 beds.

Fresenius Helios has a proven track record in turning around hospitals and running complex maximum care hospitals. Fresenius Helios' business is based on acquiring mainly public hospitals with low profitability in the process of their privatization by local authorities. Public hospitals are typically operated at lower margins, offering Fresenius Helios the opportunity to create value by improving their profitability level through a combination of more efficient staff management, procurement synergies and general management best practices. In connection with the restructurings of hospitals, Fresenius Helios has developed a standardized process involving short-, medium- and long-term measures. The aim of these measures is to enable hospitals to achieve an attractive and sustainable EBITDA margin target within five years following their acquisition. In

the past, Fresenius Helios has focused on the acquisition of large hospitals with strong revenues and restructuring potential that fit into Fresenius Helios' successful clustering strategy with hospitals as competence and growth centers. Amid the ongoing hospital privatisation trend in Germany, Fresenius Helios expects to continue to be a leading consolidator over the next few years.

In 2007, Fresenius Helios generated 16% of our total Group sales. Fresenius Helios' total sales in 2007 were €1,841 million, up 10% from €1,673 million in 2006. Fresenius Helios achieved organic growth of 3% in each of 2006 and 2007.

The following table set forth certain data regarding Fresenius Helios' facilities and the number of patients treated:

	Year ended December 31,		
	2005	2006	2007
Acute care clinics	33[1]	34	40
thereof beds	10,794[1]	11,713	13,333
thereof length of stay (days)[2]	n/a[1]	7.3	7.1
Post acute care clinics	18	21	20
thereof beds	3,451	3,972	3,859
thereof length of stay (days)[2]	n/a	32.9	31.9
thereof occupancy post acute care clinics[2]	n/a	78%	82%
Inpatient admissions[2]	403,037[1]	428,360	476,477
thereof acute care clinics[2]	374,381[1]	396,301	442,383
thereof post acute care clinics[2]	28,656[1]	32,059	34,094
Outpatient admissions[2]	n/a	n/a	1,127,613

(1) We completed the acquisition of HELIOS Kliniken GmbH on December 22, 2005. At the time of the acquisition, HELIOS Kliniken GmbH operated 24 hospitals. Through Wittgensteiner Kliniken, Fresenius was already active in hospital operations prior to the acquisition of HELIOS Kliniken GmbH.

(2) Germany only.

Customers

The customers of Fresenius Helios include social security institutions, health insurers, and private patients.

Market Information

The total volume for hospital treatment (excluding research and teaching treatments) in Germany was approximately €65 billion in 2006. Personnel costs accounted for about 63% and material costs for about 37%.

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

The German hospital market is undergoing a privatization trend that is being driven by the budgetary constraints faced by local authorities in Germany. We expect that private players, such as private hospital chains and clinic alliances will be better able to respond to the pressure to improve efficiency at hospitals than public players. Private players often have more experience in operating commercially and creating efficient structures at hospitals. They also have the potential to secure cost advantages in procurement and generally have more advantageous financing possibilities. Finally, private operators have more experience with the process know-how in acquiring and integrating new facilities and quickly adjusting their cost structures.

The following table shows key figures for in-patient care in Germany:

	Year ended December 31,		
	2005	2006	Change
Hospitals	2,139	2,104	(1.6)%
Available beds	523,824	510,767	(2.5)%
Number of admissions (in million)	16.54	16.83	1.8%
Beds per 1,000 population	6.4	6.2	(0.2)%
Average costs per admission (€)[1]	3,813	3,932	3.1%
Length of stay (days)	8.7	8.5	(0.2)%

(1) Total costs, gross.

The average length of stay of a patient in an acute care clinic (excluding specialized psychiatric clinics) in Germany was 8.5 days at the end of 2006.

After reaching a peak of 17.4 million in 2002, the number of in-patient admissions in Germany declined in the following three years. Among other things, this was due to the introduction of reimbursement based on diagnosis related groups ("DRG"), which led to an increased reduction in unnecessary referrals and to a growing number of out-patient treatments. In 2006, the number of hospital admissions rose slightly. While the number of admissions in the area of advanced medicine is expected to rise as a result of demographic changes, the shift toward out-patient treatment for less acute cases is likely to continue. Germany registered 204 in-patient hospital admissions per 1,000 population in 2006, a much higher figure in comparison to other countries. The United States, for example, registered 117 admissions per 1,000 population in 2005. Other countries rank well below Germany, with figures in the range of 150 admissions per 1,000 population. The pressure on in-patient hospital capacities in Germany is therefore likely to persist in coming years.

The necessary structural adjustments in Germany in terms of the number of hospitals and available beds are aggravated by the difficult financial and economic situation found at many hospitals. The main factors here are rising investment needs in response to higher quality requirements and technological advances, and an increasingly competitive environment as reimbursement is standardized. It is estimated that the current annual investment backlog is approximately €5 billion. Hospital competitiveness is therefore also dependent on their ability to self-finance these investments.

The following table shows the breakdown of the German hospital market by type of operator in 2006:

	Market Share
Private hospitals	14%
Public hospitals	51%
Independent non-profit hospitals	35%

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

Sources: German Federal Statistics Office, OECD Indicators — 2007 edition; German Medical Association, "Growing Trend towards Hospital Privatizations in Germany"; Krankenhaus-Barometer survey 2007.

Competition

In addition to the large publicly owned hospitals, Fresenius Helios' largest competitors in the German hospital management market are the German private hospital groups Asklepios, Rhön Klinikum and Sana Kliniken. The top three hospital operators had a combined market share of the privatized market of approximately 60% in 2006. The remainder of the market is highly fragmented.

Fresenius Vamed

Headquartered in Vienna, Austria, Fresenius Vamed is a market leader in the development, planning, construction and technical management of healthcare facilities worldwide, as well as in general management of healthcare facilities in selected key markets. In 2007, Fresenius Vamed celebrated its 25th anniversary, having successfully completed more than 450 health projects in approximately 50 countries in Europe, Africa, the Middle East, Asia, Russia and Latin America including hospitals and university clinics, health and rehabilitation centers, thermal spa and medical wellness resorts, laboratories and research facilities and other healthcare facilities. Fresenius Vamed is also a pioneer in public-private partnership ("PPP") models for the healthcare sector and has developed and implemented seven PPP models in Central Europe.

Following its strategy "everything from one source", Fresenius Vamed today offers a comprehensive and innovative scope of services for hospitals and healthcare facilities worldwide. This unique focus on health with all parts of the value chain forms Fresenius Vamed's competitive advantage and underlines the company's strong position as a partner for healthcare facilities worldwide. Being able to meet distinct and constantly changing requirements of different international healthcare markets, Fresenius Vamed is well positioned to keep and secure its position as a market leader.

Fresenius Vamed generated 4% of our total Group sales. Fresenius Vamed's total sales in 2007 were €408 million, with its project business accounting for €259 million and its service business accounting for €149 million.

The following table sets forth Fresenius Vamed's sales in 2005, 2006 and 2007:

	Year ended December 31,					
	2005		2006		2007	
	(in million €)	% of total sales	(in million €)	% of total sales	(in million €)	% of total sales
Project business	232	62	249	64	259	63
Service business	145	38	143	36	149	37
Total	377	100	392	100	408	100

Project Business

This part of Fresenius Vamed's business comprises project management and consulting, including the planning, turnkey construction and financing management of projects. Fresenius Vamed responds flexibly to clients' local needs, providing custom-tailored solutions, all from one source. In some instances, Fresenius Vamed also carries out projects in cooperation with partners. Often, this cooperation takes the form of public private partnerships with the public sector.

Service Business

Fresenius Vamed offers a full range of facility management services for healthcare facilities from consulting, planning and execution to total operational management. With this integrated portfolio of services, Fresenius Vamed ensures optimal operation of a facility over its entire life cycle, from the construction of buildings to their modernization or renewal. Modular in design, Fresenius Vamed's service offering encompasses every aspect of technical, commercial and infrastructural facility management, ranging from building and equipment maintenance, medical technology management, waste management, energy management, cleaning of buildings and outdoor facilities, security services, up to technical management. In addition to facility management, Fresenius Vamed also specializes in logistics for the healthcare industry. Fresenius Vamed's goal is to minimize logistics costs while assuring the required quality of care. Fresenius Vamed does this by optimizing the logistics processes within the individual functional areas — for example hospitals or medical centers — and by planning and structuring the project financing and, finally, by constructing and operating regional logistics centers.

Customers

Fresenius Vamed's customers include public and private hospitals and other healthcare facilities.

Market Information

Fresenius Vamed operates in approximately 50 countries worldwide, mainly in Europe but also in Africa, Middle East, Asia, Russia and Latin America. The markets in the various countries in which Fresenius Vamed operates display significant differences due to the different development stages of their respective healthcare systems, differing regulatory environments and differing levels of privatization in the healthcare market.

Competition

Fresenius Vamed's competitors include Vincenz Holding, Humanomed, Siemens, Strabag and PORR in Austria; Simed International and Phillips Projects Dev. in the Netherlands; Icuatro and Ibadesa in Spain and Hospital Engineering and Siemens Medical Solutions in Germany. Fresenius Vamed also competes with smaller local consulting firms. In many of its hospital projects, Fresenius Vamed cooperates with producers of medical equipment such as General Electric, Siemens SHS, Dräger and Philips Healthcare. Although Fresenius Vamed sometimes competes with these producers, they are primarily producers of medical equipment and are involved only to a lesser extent in general planning and equipping of entire hospitals.

Sales, Marketing and Logistics

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

Fresenius' products are shipped from the production plants to central warehouses, mostly located not far from the production sites. These central warehouses dispatch the products to the regional warehouses, which then distribute them to the clinics and other customers, or directly to a patient's home. The business segments offer after-sales services, training in the local language, technical support, servicing and maintenance, and warranty arrangements in every country in which Fresenius sells its products. Product training is also provided at Fresenius's production sites. Regional service centers are operated that are responsible for day-to-day international service support.

Our business segments have the following customer structure:

- Fresenius Medical Care's main customers for its products business are dialysis clinics and hospitals. In dialysis care, approximately 36% of Fresenius Medical Care's revenues are derived from the U.S. government's Medicare/Medicaid programs, and the other 64% from private and other healthcare payors and hospitals.
- Fresenius Kabi has a broadly diversified customer base. This includes hospitals, wholesalers, purchasing associations, medical and similar institutions, hospital operators, and home care patients. Fresenius Kabi has no significant dependence on one source of revenue.
- Fresenius Helios' customers include social security institutions, health insurers, and private patients.
- Fresenius Vamed's customers are public and private hospitals and other healthcare facilities. Most of Fresenius Vamed's target markets are either covered with representation offices or local partners. In general, new markets are developed by implementing first pilot/reference projects/services from the central sales and marketing organisation. Fresenius Vamed's sales and marketing organisation in

Vienna is structured around regions. Due to the specific requirements of Fresenius Vamed's project and services business, a strong network is essential to cope with the usually tender driven business in international markets.

Suppliers

Our purchasing policy combines worldwide sourcing of high-quality materials with the establishment of long-term relationships with our suppliers. Additionally, we carefully assess the reliability of all materials purchased to ensure that they comply with the rigorous quality and safety standards required for our products. We coordinate our purchases worldwide through centralized purchasing coordination departments that ensure the bundling of similar requirements and negotiate global master supply agreements. Furthermore, these coordination departments organize purchasing for the production sites, carry out quality and safety checks of purchased goods and analyze market and price developments.

We focus on further optimizing procurement logistics and reducing purchasing costs. Supplemental raw material contracts for manufacturers of semi-finished goods will enable us to improve purchasing terms for our whole network.

With the exception of Amgen Inc. ("Amgen"), our EPO supplier in the United States, we are not materially dependent upon any one supplier.

APP Pharmaceuticals has a diverse supplier base, securing a continuous supply of all critical raw materials. APIs are predominantly sourced from European manufacturers.

Investments

You can find information on the most important investments undertaken in 2005, 2006, 2007 and in the first nine months of 2008 as well as planned investments in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Acquisitions and Capital Expenditures".

Research and Development

Innovations are the cornerstones of our strategy and the basis of our economic success. We, therefore, place great importance on our research and development activities. Our research and development focuses on the core competences of our individual business segments:

- dialysis and other extracorporeal therapies (Fresenius Medical Care);
- infusion therapy, clinical nutrition and medical devices (Fresenius Kabi); and
- antibody therapies (Fresenius Biotech). Fresenius Biotech is reported in Group/Other within our segment reporting.

We develop new products, as well as improve existing therapies, treatment processes and services.

Research and development expenses increased by 10% in 2007 to €184 million (approximately 5% of product sales) from €167 million in 2006. Of that amount, Fresenius Medical Care accounted for 27%, Fresenius Kabi for 47% and Corporate/Fresenius Biotech for 26%.

At December 31, 2007, 999 people in the Group were employed in research and development, compared to 911 at December 31, 2006 and 856 at December 31, 2005. Of the 999 employed at December 31, 2007, 357 worked for Fresenius Medical Care, 550 for Fresenius Kabi and 92 for Fresenius Biotech. Our main research sites are in Europe; production-related development work is also carried out in the United States and China.

Dialysis

Fresenius Medical Care's research and development efforts are geared towards offering patients new products and therapies in the area of dialysis and other extracorporeal therapies to improve their quality of life and increase their life expectancy. The quality and safety of its systems are a central focus of its research and development efforts.

5008 Hemodialysis Machine. As in previous years, the market launch of the 5008 hemodialysis machine was still largely at the center of Fresenius Medical Care's research and development department's activities in 2007. Fresenius Medical Care continues to focus on improving the reliability and operation of the machine in clinical use and under increasingly varied conditions in international applications. In Fresenius Medical Care's efforts to continuously improve the product, Fresenius Medical Care takes into account the considerable feedback from its own dialysis clinics and from other customers. Moreover, Fresenius Medical Care is constantly refining the 5008, focusing on therapeutic, technical, and economic aspects of the machine.

With the development of the 5008, online hemodiafiltration ("HDF") has become a standard feature rather than an exclusive technology for only a few users. In online HDF, the 5008 machine produces the required amounts of sterile and pyrogene-free infusion solution from standard bicarbonate dialysate. A growing number of clinical studies on the advantages of hemodiafiltration show that the method can lead to a 30% to 35% decrease in the mortality rate of kidney patients. Fresenius Medical Care is one of the first providers of commercially available online HDF machines. As online HDF becomes increasingly widespread as a standard treatment, Fresenius Medical Care's research and development work will center on improving technical aspects of this treatment method.

The 5008 machine continues the use of intelligent physiological controls and measuring procedures to monitor the course of the treatment: these include body temperature regulation (by means of the Blood Temperature Monitor), automatic regulation of weight loss through ultrafiltration (by means of the Blood Volume Monitor), and online measurement of the dialysis dose achieved (by means of the Online Clearance Monitor). In 2007, the research and development department focused mainly on the necessary adjustments and technological improvements to these controls and procedures.

Membrane Technology. Fresenius Medical Care believes that the Fresenius Polysulfone membrane in its different variants defines state of the art in membrane technology. It is still possible to adapt membranes and even complete dialyzers to special new therapy variants and to further improve their efficiency. Fresenius Medical Care's research and development department also deals with this as part of their long-term product care and refinement efforts.

Conventional dialyzers and filters are characterized by their non-specific removal of substances that are dissolved in the patients' blood. Advancements made in recent years in research on so-called uremic toxins give hope that membranes might be developed with specific properties that can filter targeted substances from patients' blood. The acquisition of RSI in 2007 will enable further synergies to be tapped between our research and development departments. RSI specializes in the field of dialysis regeneration using enzyme-based sorbent systems. The main aim of these systems is to reduce the amount of water needed for hemodialysis treatment from about 120 litres at present to around five or six litres. In addition, the absorber cartridge assumes the function of the costly water-processing unit, enabling the system to use drinking water. The long-term use of such sorbent systems is of particular interest to the research and development department because they also hold the prospect of removing specific toxins from patients' blood.

Fresenius Medical Care is also working on membranes which can release pharmaceutical agents into patients' blood, grouped under the term "pharma tech". Attaching appropriate ligands — special molecules — to the membrane surface, enables these membranes to take on special properties. This work is still at an early stage.

Peritoneal dialysis. Peritoneal dialysis has gained in importance in recent years. Fresenius Medical Care offers various types of high-quality, high-performance cyclers.

The Fresenius Medical Care research and development department is currently working on a global cycler. The goal is to offer high-quality CCPD at an optimized cost worldwide. The use of a common technological platform for this project is an important step in this direction.

Infusion Therapy and Clinical Nutrition

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

In 2007, Fresenius Kabi continued with the international roll-out of its new KabiPac® plastic bottle for infusion solutions. This innovative container for infusion solutions assures a high level of safety in everyday hospital use. Fresenius Kabi has integrated two separate, easily distinguishable ports in the cap of the bottle to ensure simple and safe use. The sterility of these ports is assured by an appropriately designed fastening. The design of the bottle enables the container to collapse and drain completely, ensuring that the patient receives all the fluid it contains. Fresenius Kabi has launched its infusion solutions in the new KabiPac® in Austria, Poland, the Czech Republic and Brazil, in 2007.

One of Fresenius Kabi's core competencies is the development of blood volume replacement products, which are primarily used in intensive care and emergency medicine as well as during surgery. Hydroxyethyl starch products are so-called artificial colloids that can be used for any blood group. Fresenius Kabi is currently distributing its product Voluven® in more than 80 countries. In 2007, Voluven® was introduced in Australia and Colombia. In 2007, Voluven was also approved by the FDA. Fresenius Kabi has newly developed its blood volume substitute in a balanced electrolyte solution, Volulyte, which was first launched in July 2008.

Fresenius Kabi's Agilia® product family offers a full line of infusion and syringe pumps as well as disposables for intravenous medication therapy. In 2007, at Medica, the world's largest trade fair for medical technology, Fresenius Kabi presented the Agilia® Volumat® MC volumetric infusion pump, another innovative product in the Agilia® line. The pump can be used both in classic (m1/h) mode and in mass calculation mode (for example, ug/kg/h) and is therefore suitable for use in intensive care or during an operation.

In clinical nutrition, Fresenius Kabi is a leading provider of three-chamber bags for parenteral nutrition. The new three-chamber bag design was launched in selected markets in 2006. This bag provides a maximum of convenience and safety for everyday hospital use and is now available in almost every country in Europe.

As one of the leading suppliers of lipid emulsions, Fresenius Kabi offers these emulsions both as an ingredient of its three-chamber bags and as separate products. In 2007, Fresenius Kabi introduced SMOFlipid® lipid emulsion, used especially for the parenteral nutrition of intensive-care patients, in Austria, Greece, Chile and other countries.

Fresenius Kabi introduced its Supportan® sip and feed tube products with a new formulation in 2007. These products are now matched even more specifically to the metabolic needs of oncology patients. The high omega-3 fatty acid eicosapentaen acid ("EPA") content can combat the physical emaciation caused by cancer diseases and simultaneously strengthen the body's immune system. To guarantee the required daily dosage of two grams of EPA, this amount is already contained in one EasyBag of the tube feed Supportan® or in two Tetra-Pack containers of the sip feed Supportan®. The high calorie, high protein and fat rich content of Supportan® products enable an optimal supply of energy and nutrients.

Antibody Therapies

Fresenius Biotech develops innovative therapies with trifunctional antibodies for the treatment of cancer. 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 and treat graft rejection following an organ transplant. The clinical development of ATG-Fresenius S for other applications and distribution continues.

In the field of trifunctional antibodies, Fresenius Biotech published the results of a pan-European phase II/III study with Removab® in malignant ascites. The results show an advantage of Removab® over the standard therapy in primary as well as secondary endpoints. Fresenius Biotech dispatched an application to the European Medicines Agency at the end of 2007 for approval of Removab® for the intraperitoneal treatment of malignant ascites following epithelial tumors in cases where standard therapies are not available or no longer feasible. Parallel with the authorization process, Fresenius Biotech began preparations for marketing Removab® in Europe and is currently offering Removab® to potential development and marketing partners for the United States and Japan.

Two phase II studies have been initiated on the effectiveness and safety of Removab® for gastric cancer. Other phase II studies in the United States and Europe are testing the effectiveness and safety of Removab® on patients with ovarian cancer.

The development program for the antibody Rexomun® is continuing with phase II studies on patients with advanced breast cancer. Two European studies are investigating the effectiveness of Rexomun® on patients who, following the failure of hormone therapy, are not suitable for other antibody therapies and for whom there is no standard therapy.

Intellectual Property

Patents

As the owner of or licensee under patents, patent applications, utility models and designs throughout the world, we currently hold rights in about 4,600 such industrial property rights in major markets through national and regional filings. We are not materially dependent on patents.

Patented technologies that relate to dialyzers include our in line sterilization method and sterile closures for in line sterilized medical devices. The generation of DiaSafeplus® filters and FX® dialyzers are also the subject of patents and pending patent applications.

The connector system for our biBag bicarbonate concentrate powder container for the 4008 dialysis equipment series has been patented in the United States, Norway, Finland, Japan and Europe. The German part of the Europe patent is currently the subject of invalidity proceedings.

A number of patents and pending patent applications relate to components of the new 5008 dialysis equipment series, including, for example, the pump technology, extracorporeal blood pressure measurement and connector system for a modified biBag bicarbonate concentrate container. New applications are also pending relating to our new Liberty® peritoneal dialysis cycler, which has a number of innovative attributes such as its multi-channel disposable cassette, dual-piston pump and pneumatically locking door.

In 2007, Fresenius Medical Care acquired Renal Solutions Inc. and its substantial portfolio of patents and applications for renal sorbent technology. Many of the patents and applications represent new technology that Fresenius Medical Care hopes to utilize in future products.

Among Fresenius Medical Care AG & Co. KGaA's more significant patents has been its polysulfone hollow fiber. This patent expired in Germany and other countries in 2005 and in the United States in March 2007. The in-line sterilization method patent will expire in 2010 in Germany, the United States and other countries. The patent for the 4008 biBag connector expires in 2013 in Germany, the United States, and other countries. The dates given represent the maximum patent life of the corresponding patents. We believe that even after expiration of these patents, Fresenius Medical Care's proprietary know-how for the manufacture of these products and our continuous efforts in obtaining targeted patent protection for newly developed upgrade products will continue to constitute a competitive advantage.

For peritoneal dialysis, Fresenius Medical Care AG & Co. KGaA holds protective rights for our polyolefine film Biofine®, which is suitable for packaging intravenous and peritoneal dialysis fluids. This film is currently used only in non-U.S. markets. These patents have been granted in Australia, Brazil, Canada, Germany, Europe, South Korea, Belarus and the United States. A Japanese patent was revoked as a result of opposition proceedings. A further patent family describes a special film for a peelable, non-PVC, multi

chamber bag for peritoneal dialysis solutions. Patents have been granted in Brazil, Europe, Germany, Japan, South Korea and the United States. However, proceedings against the registration of this patent are currently pending in Europe. A series of U.S. patents covering tubing sets for peritoneal dialysis will expire in 2010 and 2012 in the United States.

Patents held by Fresenius Kabi include the Voluven® blood volume replacement product.

We believe that our success will depend primarily on our technology. As a standard practice, we obtain the legal protections we believe are appropriate for our intellectual property. Nevertheless, we are in a position to successfully market a material number of products for which patent protection has lapsed or where only particular features have been patented. From time to time our patents may be infringed by third parties and in such case we will assert our rights. Initially registered patents may also be subject to invalidation claims made by competitors in formal proceedings (oppositions, trials, re-examinations, etc.) either in part or in whole. In addition, technological developments could suddenly and unexpectedly reduce the value of our existing intellectual property.

Trademarks

We hold a broad trademark portfolio, which includes, among many other trademarks, our company names "Fresenius", "Fresenius Medical Care", "Fresenius Kabi", "Fresenius Helios" and "Fresenius Vamed" as well as the "F" logos. The trademarks are owned by Fresenius SE or its relevant affiliates. The trademark portfolio is being administered and protected by our trademark department in cooperation with our professional lawyers of correspondence throughout the world.

Employees

The following tables show the number of our employees by business segment, region and function for the last three financial years:

Headcount by Business Segment

	Year ended December 31,		
	2005	2006	2007
Fresenius Medical Care	50,250	59,996	64,662
Fresenius Kabi	14,453	15,591	16,964
Fresenius Helios[(1)]	24,234	26,368	30,043
Fresenius Vamed[(1)]	1,901	1,768	1,767
Corporate[(1)]	1,133[(2)]	1,149[(2)]	745
Total	91,971	104,872	114,181

(1) Adjusted according to the new company structure as of January 1, 2008.

(2) Includes Pharmaplan and Pharmatec, both of which were sold, effective in 2007.

Headcount by Region

	Year ended December 31,		
	2005	2006	2007
Europe	48,169	52,062	56,830
North America	31,031	38,597	40,076
Asia Pacific	4,296	4,968	6,917
Latin America and other Regions	8,475	9,245	10,358
Total	91,971	104,872	114,181

Headcount by Function

	Year ended December 31,		
	2005	2006	2007
Administration	12,832	12,803	13,277
Sales and Marketing	6,486	7,438	7,611
Production	71,797	83,720	92,294
Research and Development	856	911	999
Total	91,971	104,872	114,181

We are a member of the Mining/Chemical/Energy Industry Employers Association (*Arbeitgeberverband Bergbau, Chemie, Energie*) in Germany. We are bound by the collective bargaining agreements (*Tarifverträge*) this association negotiates with union representatives. We are also party to shop agreements (*Betriebsvereinbarungen*) negotiated with works councils at individual facilities. During the last three financial years, we have not suffered any labor-related work disruptions.

In the last five years, we have experienced no major strikes or work stoppages. We believe we have a good relationship with our employees and with the trade unions, works councils, and other bodies representing our employees in the various countries in which we operate. There is a shortage of specialized employees in many fields in which we operate.

As of December 31, 2007, APP Pharmaceuticals had a total of 1,375 full-time employees, of which 72 were engaged in research and development, 315 were in quality assurance and quality control, 779 were in manufacturing, 61 were in sales and marketing and 148 were in administration and finance. None of APP Pharmaceuticals' employees are represented by a labor union or subject to a collective bargaining agreement. APP Pharmaceuticals has not experienced any work stoppage and considers its relations with its employees to be good.

Facilities

Fresenius, through various property companies, owns the Group's headquarters in Bad Homburg, Germany, as well as the major production facilities in Germany that are located in Friedberg, Schweinfurt and St. Wendel.

Fresenius Medical Care operates state-of-the-art production facilities worldwide to meet the demand for machines, cyclers, dialyzers, solutions, concentrates, mixes, bloodlines, and disposable tubing assemblies and equipment for water treatment in dialysis clinics. Fresenius Medical Care has invested significantly in developing proprietary processes, technologies and manufacturing equipment which Fresenius Medical Care believes provide a competitive advantage in manufacturing its products. Fresenius Medical Care's decentralized structure helps to reduce transport costs. Fresenius Medical Care is using its facilities in St. Wendel, Germany and Ogden, Utah as centers of competence for development and manufacturing. The St. Wendel training center will increase to about double its current size to help meet the growing demand for qualified employees.

Fresenius Medical Care produces and assembles hemodialysis machines and CCPD cyclers in its Schweinfurt, Germany and Walnut Creek, California facilities. Fresenius Medical Care also maintains facilities at its service and local distribution centers in Argentina, Egypt, France, Italy, The Netherlands, China, Brazil and Russia for testing and calibrating dialysis machines manufactured or assembled elsewhere, to meet local end user market needs. Fresenius Medical Care manufactures and assembles dialyzers and polysulfone membranes in its St. Wendel, Germany, L'Arbresle, France, Vrsac, Serbia and Inukai, Japan facilities and at production facilities of its joint ventures in Belarus, Saudi Arabia and Japan. At Fresenius Medical Care's Ogden, Utah facilities Fresenius Medical Care manufactures and assembles dialyzers and polysulfone membranes and manufactures peritoneal dialysis solutions. In 2007 and 2008 Fresenius Medical Care significantly increased dialyzer production capacity in Germany and the US. Fresenius Medical Care manufactures hemodialysis concentrate at various facilities worldwide, including Italy, Great Britain, Spain, Turkey, Serbia, Morocco, Argentina, Brazil, Columbia, Australia, Germany, and the U.S. Fresenius Medical

Care's peritoneal dialysis products are manufactured in North America, Europe, Latin America, and Asia, with two of its largest plants for production of peritoneal dialysis products in Mexico and Japan. Fresenius Medical Care's facilities are inspected on a regular basis by national and/or international authorities.

Fresenius Kabi has around 50 sales and marketing organizations, more than 50 production sites (including compounding centers) and 12 research and development centers around the world. Fresenius Kabi's most important production facilities include factories in Friedberg, Germany, Uppsala, Sweden and Wuxi, China. Fresenius Kabi operates other production facilities in Europe, South and Central America, Asia and South Africa.

Fresenius Helios currently owns or leases approximately 57 facilities, primarily in Germany. These facilities include hospitals, specialist clinics, health facilities and offices. Fresenius Helios' most important properties are clinics (both owned and leased), which are primarily located in Germany. Generally, Fresenius Vamed does not own facilities (with the exception of four hospitals it owns in the Czech Republic) and has some leased facilities within its network.

Quality Management

Our ISO 9001:2000-based quality management has the following three objectives:

- to identify value-enhancing processes oriented to the needs of our customers and to efficiency,
- to monitor and steer these processes on the basis of performance indicators, and
- to improve procedures.

These objectives cover the quality of our products and all services and therapies that we provide. Our quality management system integrates all product groups, such as drugs, medical devices, and nutrition, as well as our clinics. The methodology is regularly evaluated through internal audits and external certification bodies.

Our products are already closely controlled at the development stage. Our drugs are subject to regulatory approval, so appropriate documentation has to be prepared and submitted in accordance with national and international regulations. Medical devices undergo a conformity assessment procedure that documents compliance with the appropriate norms. In enteral nutrition, we already follow the Hazard Analysis Critical Control Point principle during the development process.

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

Sales and marketing are also an integral part of the quality management system. For example, at any given time we are able to trace which batch was supplied to which customer. In recent years, Fresenius Helios has initiated and further developed a performance indicator system to evaluate the quality of medical results in hospitals. The system is acknowledged as a highly innovative procedure within the hospital market, although it is not based on ISO certification. The system is also used as quality standard in more than 200 German hospitals outside the HELIOS group. Furthermore, in 2008 the Swiss Federal Office of Public Health (*Bundesamt für Gesundheit*) started a pilot project for the survey and publication of quality indicators in the hospital market, based on the HELIOS quality management system.

Environmental Matters

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

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

In our business processes, we concentrate our environmental efforts on the responsible and rational use of resources, particularly water and energy. Avoiding waste in the first instance takes priority over reducing, utilizing and disposing of it. Our logistics departments also play an important role in environmental protection, particularly with respect to the reduction of air pollution.

Fresenius Medical Care developed its own Integrated Management System ("IMS") to meet its own high quality standards for its dialysis clinics and environmental concerns and to manage the quality of dialysis care it provides. The IMS complies with the legal and normative guidelines for its products and services, while at the same time focuses on established operational workflows. It fulfils the ISO 9001:2000 requirements for quality management systems in combination with the ISO 14001:2004 standard for environmental management systems. At the same time, it conforms to the special requirements for medical devices of the ISO 13485:2003 standard.

Fresenius Kabi also assumes active responsibility for environmental protection. The continuous improvement of product quality to the patient's benefit goes hand in hand with selective environmental measures that take local regulations into account. In 2007, a matrix certification to environment standard 14001:2004 was introduced. Initially, five plants in Europe and Asia will take part in this cross-location certification process.

Fresenius Helios had already organized waste disposal at its clinics according to the standards set by law earlier. The goal is cost-efficient and environmentally compatible waste disposal.

The healthcare system will also have to pay greater heed to sustainability in the future. This has to be taken into account especially in the hospital sector. As an active contribution toward environmental protection, Fresenius Vamed already integrates national environmental standards and regulations in the planning and construction of a hospital or other healthcare facility.

Insurance

We are covered by comprehensive general liability insurance, liability insurance for pharmaceutical operations as well as property insurance and other types of insurance policies that are standard within the industry. We believe that our insurance coverage is sufficient and in line with industry practice.

You can find information on risks relating to product liability and other claims in "Risk Factors — Risks Relating to Our Business — We are exposed to product liability and other claims, which could result in significant liability that we may not be able to insure on acceptable terms in the future".

Material Contracts

EPO Supply Agreement

EPO, the administration of which contributed materially to the sales of Fresenius Medical Care in the United States in 2007, is produced in the United States by a single source manufacturer, Amgen. The current contract between a subsidiary of Fresenius Medical Care and Amgen USA Inc., a subsidiary of Amgen, covers the period from October 1, 2006 until December 31, 2011. The contract sets out the applicable prices as well as other supply and discount terms between the Fresenius Group and Amgen.

Settlement Agreement

On February 6, 2003, Fresenius Medical Care entered into a settlement agreement with the asbestos creditors' committees for the final settlement of fraudulent conveyance claims and other legal matters resulting from the reorganization proceedings of W.R. Grace & Co. under Chapter 11 of the U.S. Bankruptcy Code. See "— Legal Proceedings — Commercial Litigation".

Acquisition of APP Pharmaceuticals

Fresenius Kabi signed definitive agreements to acquire APP Pharmaceuticals on July 6, 2008 and completed the acquisition on September 10, 2008. The cash purchase price was US$3,730 million. In addition, each holder of APP Pharmaceuticals common stock received one contingent right value ("CVR"), with a total of 163,251,906 CVRs being issued. You can find a more detailed description of the Acquisition in "The Acquisition of APP Pharmaceuticals" and the risks associated with the acquisition in "Risk Factors — Risks Relating to Our Business — The risks associated with the acquisition of APP Pharmaceuticals and its integration and other current and future acquisitions could have a material adverse effect on our business, financial condition and results of operations" and "Risk Factors — Risks Relating to the Acquisition of APP Pharmaceuticals". For more information, see "The Acquisition of APP Pharmaceuticals".

Intravenous Iron Products

In July 2008, Fresenius Medical Care entered into two separate and independent license and distribution agreements, one for the United States and one for certain countries in Europe and the Middle East, to market and distribute Galenica's intravenous iron products, such as Venofer® and Ferinject® for dialysis treatment. For a summary of these agreements, See "— Fresenius Medical Care — Renal Pharmaceuticals".

Other Agreements

For a description of certain intercompany agreements and arrangements between Fresenius SE and its subsidiaries (other than Fresenius Medical Care) and Fresenius Medical Care and its subsidiaries, see "Certain Relationships and Related Transactions". For a description of material credit agreements and other financing documents, see "Description of Other Financing Arrangements".

Legal Proceedings

From time to time, we are party to or may be threatened with litigation, claims or assessments arising in the ordinary course of our business. We regularly analyze current information, including our defenses and insurance coverage and, as necessary, provide accruals for probable liabilities for the eventual disposition of these matters as necessary.

Fresenius Medical Care is routinely involved in numerous claims, lawsuits, regulatory and tax audits, investigations and other legal matters arising, for the most part, in the ordinary course of its business of providing healthcare services and products. The outcome of litigation and other legal matters is always difficult to accurately predict and outcomes that are not consistent with the Fresenius Medical Care's view of the merits can occur. Fresenius Medical Care believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or more of the legal matters currently pending or threatened could have a material adverse effect on its business, results of operations and financial condition.

Commercial Litigation

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

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

In 2003, Fresenius Medical Care reached agreement with the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate and W.R. Grace & Co. in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to Fresenius Medical Care that arise out of the bankruptcy of W.R. Grace & Co. Under the terms of the settlement agreement as amended (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 without interest to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation. No admission of liability has been or will be made. The Settlement Agreement has been approved by the U.S. District Court. Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation ("Sealed Air," formerly known as Grace Holding, Inc.). Fresenius Medical Care is engaged in litigation with Sealed Air to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by Fresenius Medical Care relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of Fresenius Medical Care's payment obligation, this litigation will be dismissed with prejudice.

In April 2008, W.R. Grace & Co. announced an agreement in principle with the asbestos creditors' and equity security holders' committees in the Grace Chapter 11 Proceedings to settle all present and future asbestos-related personal injury claims. The agreement in principle and W.R. Grace & Co.'s related bankruptcy reorganization plan are subject to conditions including resolution of claims of other creditors and Bankruptcy Court and District Court approvals.

At December 31, 2001, Fresenius Medical Care recorded a pre-tax special charge of US$258 million to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. With the exception of the proposed US$115 million payment under the Settlement Agreement, all other matters included in the special charge have been resolved. While Fresenius Medical Care believes that its remaining accrual reasonably estimates its currently anticipated costs related to the continued defense and resolution of this matter, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual.

On April 4, 2003, FMCH filed a suit in the U.S. District Court for the Northern District of California, styled *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 and its subsidiaries and affiliates, 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 the use of touch screen interfaces for hemodialysis machines. Baxter filed counterclaims against FMCH seeking more than US$140 million in monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. On July 17, 2006, the court entered judgment on a jury verdict in favor of FMCH finding that all the asserted claims of the Baxter patents are invalid as obvious and/or anticipated in light of prior art. On February 13, 2007, the court granted Baxter's motion to set aside the jury's verdict in favor of FMCH and reinstated the patents and entered judgment of infringement. Following a trial on damages, the court entered judgment on November 6, 2007 in favor of Baxter on a jury award of US$14 million. On April 4, 2008, the court denied Baxter's motion for a new trial, established a royalty payable to Baxter of 10% of the sales price

for continuing sales of FMCH's 2008K hemodialysis machines and 7% of the sales price of related disposables, parts and service beginning November 7, 2007, and enjoined sales of the 2008K machine effective January 1, 2009. Fresenius Medical Care has appealed the court's rulings to the U.S. Court of Appeals for the Federal Circuit. Fresenius Medical Care is confident that it will prevail on appeal and has made no provision in its financial statements for any potential liability in this matter. If Fresenius Medical Care is unsuccessful on all appeals, including any appeal of the royalty, the royalties payable to Baxter on the machines and disposable supplies that are subject to the court's order are estimated to be in the range of US$2 million to US$4 million per month. In the interim period until Fresenius Medical Care's appeal is decided, it is funding a court-approved escrow account at the rate noted above. If Fresenius Medical Care wins the appeal, the escrowed funds will be returned to it with interest. Fresenius Medical Care is pursuing design modifications to the 2008K machine that it expects will limit the scope of royalty payment exposure and permit the continued sale of the modified 2008K machine after the January 1, 2009 injunction effective date, irrespective of the outcome of Fresenius Medical Care's appeal.

On April 28, 2008, Baxter filed suit in the U.S. District Court for the Northern District of Illinois, Eastern Division (Chicago), styled *Baxter International, Inc. and Baxter Healthcare Corporation v. Fresenius Medical Care Holdings, Inc. and Fresenius USA, Inc.*, Case No. CV 2389, asserting that FMCH's hemodialysis machines infringe four recently issued patents (late 2007-2008), all of which are based on one of the patents at issue in the April 2003 Baxter case described above. The new patents expire in April 2011 and relate to trend charts shown on touch screen interfaces and the entry of ultrafiltration profiles (ultrafiltration is the removing of liquid from a patient's body using pressure). The court has stayed the case pending the outcome of the appeal in the April 2003 Baxter case. Fresenius Medical Care believes that its hemodialysis machines do not infringe any valid claims of the Baxter patents at issue.

On October 17, 2006, Baxter and Deka Products Ltd. (Deka) filed suit in the U.S. District Court for the Eastern District of Texas which was subsequently transferred to the Northern District of California, styled *Baxter Healthcare Corporation and DEKA Products Limited Partnership v. Fresenius Medical Care Holdings, Inc. d/b/a Fresenius Medical Care North America and Fresenius USA, Inc.*, Case No. CV 438 TJW. The complaint alleges that FMCH's Liberty peritoneal cyclers infringe certain patents owned by or licensed to Baxter. Sales of the Liberty cyclers commenced in July 2008. Fresenius Medical Care believes that the Liberty peritoneal cycler does not infringe any valid claims of the Baxter/DEKA patents.

Gambro Pty Limited and Gambro AB (together the "Gambro Group") commenced litigation against Fresenius Medical Care AG & Co. KGaA's Australian subsidiary, Fresenius Medical Care Australia Pty Limited ("Fresenius Medical Care Australia") regarding infringement and damages with respect to a Gambro AB patent-protecting intellectual property in relation to a system for preparation of dialysis or replacement fluid, the Gambro Bicart device in Australia (the "Gambro Patent"). As a result of the commercialization of a system for the preparation of dialysis fluid based on the Fresenius Medical Care Bibag device in Australia, the Australian courts concluded that Fresenius Medical Care Australia infringed the Gambro Patent. In May 2008, the Gambro Group, Fresenius Medical Care Australia and Fresenius Medical Care AG & Co. KGaA entered into a Deed of Settlement and Release pursuant to which Fresenius Medical Care made certain cash payments to the Gambro Group and pursuant to which the proceedings and all claims under the Gambro Patent, including any claims for relief for losses alleged to have been incurred after the expiry of the Gambro Patent, were resolved.

Two patent infringement actions have been pending in Germany between Gambro Industries ("Gambro") on the one side and Fresenius Medical Care Deutschland GmbH ("D-GmbH") and Fresenius Medical Care AG & Co. KGaA on the other side. Gambro herein alleged patent infringements concerning a patent on a device for the preparation of medical solutions by D-GmbH and Fresenius Medical Care AG & Co. KGaA. The first case was dismissed as being unfounded. Such decision has already become final. In the second case, the District Court of Mannheim rendered a judgement on June 27, 2008 deciding in favor of Gambro and declaring that D-GmbH and Fresenius Medical Care AG & Co. KGaA have infringed a patent claim. Accordingly, the court ordered D-GmbH and Fresenius Medical Care AG & Co. KGaA to pay compensation (to be determined in a separate court proceeding) for alleged infringement and to stop offering the alleged patent infringing technology in its original form in Germany. Such verdict could be enforced provisionally by

way of security to be deposited by Gambro; however, D-GmbH and Fresenius Medical Care AG & Co. KGaA have received no notice that Gambro has applied for provisional enforceability, as yet. D-GmbH brought an invalidity action in the Federal German Patent Court ("BPatG") against Gambro's patent. This case is currently pending with the Federal Court of Justice as the court of appeal. D-GmbH and Fresenius Medical Care AG & Co. KGaA have also filed an appeal against the District Court's verdict. Irrespective of the outcome of the appeal, Fresenius Medical Care has developed design modifications to the concerned devices that provide an alternative technical solution. In view of the pending appeal against BPatG's verdict and D-GmbH's and Fresenius Medical Care AG & Co. KGaA's appeal against the District Court's verdict, D-GmbH and Fresenius Medical Care AG & Co. KGaA continue to believe that the alleged patent infringing technology does not infringe any valid patent claims of Gambro. Therefore, no provision has been made in the financial statements for any potential liability in this matter.

Other Litigation and Potential Exposures

RCG was named as a nominal defendant in a second amended complaint filed September 13, 2006, in the Chancery Court for the State of Tennessee Twentieth Judicial District at Nashville against former officers and directors of RCG which purports to constitute a class action and derivative action relating to alleged unlawful actions and breaches of fiduciary duty in connection with Fresenius Medical Care's acquisition of RCG (the "RCG Acquisition") and in connection with alleged improper backdating and/or timing of stock option grants. The amended complaint was styled *Indiana State District Council of Laborers and Hod Carriers Pension Fund, on behalf of itself and all others similarly situated and derivatively on behalf of RCG, Plaintiff, vs. RCG, Gary Brukardt, William P. Johnston, Harry R. Jacobson, Joseph C. Hutts, William V. Lapham, Thomas A. Lowery, Stephen D. McMurray, Peter J. Grua, C. Thomas Smith, Ronald Hinds, Raymond Hakim, and R. Dirk Allison, Defendants*. The complaint sought damages against former officers and directors and did not state a claim for money damages directly against RCG. On August 30, 2007, this suit was dismissed by the trial court without leave to amend. Plaintiff subsequently appealed and the matter remains pending in the appellate court of Tennessee.

In October 2004, FMCH and its subsidiaries, including RCG (prior to the RCG Acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of New York in connection with a civil and criminal investigation, which require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents relating to laboratory testing for parathyroid hormone ("PTH") levels and vitamin D therapies. Fresenius Medical Care is cooperating with the government's requests for information. Fresenius Medical Care believes that it has fulfilled all requests for information made by government investigators in this matter, and that it has complied with applicable laws relating to PTH testing and use of vitamin D therapies.

FMCH and its subsidiaries, including RCG (prior to the RCG Acquisition), received a subpoena from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. FMCH received its subpoena in April 2005. RCG received its subpoena in August 2005. The subpoenas require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relationships, joint ventures, and anemia management programs, RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, and RCG's purchase of dialysis equipment from FMCH. The Office of the Inspector General of the U.S. Department of Health and Human Services and the U.S. Attorney's office for the Eastern District of Texas have also confirmed that they are participating in the review of the anemia management program issues raised by the U.S. Attorney's office for the Eastern District of Missouri. On July 17, 2007, the U.S. Attorney's office filed a civil complaint against RCG and FMCH in its capacity as RCG's current corporate parent in United States District Court, Eastern District of Missouri. The complaint seeks monetary damages and penalties with respect to issues arising out of the operation of RCG's Method II supply company through 2005, prior to the date of FMCH's acquisition of RCG. The complaint is styled *United States of America ex rel. Julie Williams et al. vs. Renal Care Group, Renal Care Group Supply Company and FMCH*. Fresenius Medical Care believes that RCG's operation of its Method II supply company

was in compliance with applicable law and will defend this litigation vigorously. Fresenius Medical Care will continue to cooperate in the ongoing investigation.

In May 2006, RCG received a subpoena from the U.S. Department of Justice, Southern District of New York in connection with an investigation into RCG's administration of its stock option programs and practices, including the procedure under which the exercise price was established for certain of the option grants. The subpoena required production of a broad range of documents relating to the RCG stock option program prior to the RCG Acquisition. Fresenius Medical Care believes that is has fulfilled all requests for information made by government investigators in this matter, and that RCG complied with applicable laws relating to the issuance of stock options.

In August 2007, the Sheet Metal Workers National Pension Fund filed a complaint in the United States District Court for the Central District of California, Western Division (Los Angeles), alleging that Amgen, Inc., Fresenius Medical Care and DaVita Inc., marketed Amgen's products, Epogen® and Aranesp®, to hemodialysis patients for uses not approved by the FDA and thereby caused a putative class of commercial insurers to pay for unnecessary prescriptions of these products. Although the court dismissed the original allegations against Fresenius Medical Care, it granted the plaintiff leave to amend and this litigation was subsequently consolidated with other cases against Epogen® and Aranesp® Off-Label Marketing and Sales Practices Multidistrict Litigation and assigned to the Central District of California. On July 2, 2008, a consolidated complaint was filed in the Multidistrict Litigation that renews allegations against the Company and DaVita, in addition to those against Amgen.

On November 27, 2007, the United States District Court for the Western District of Texas (El Paso) unsealed and permitted service of two complaints previously filed under seal by a *qui tam* relator, a former FMCH local clinic employee (Qui tam is a legal provision under the United States False Claims Act (the "False Claims Act"), which allows for private individuals to bring suit on behalf of the U.S. federal government, as far as such individuals believe to have knowledge of presumable fraud committed by third parties). The first complaint alleges that a nephrologist unlawfully employed in his practice an assistant to perform patient care tasks that the assistant was not licensed to perform and that Medicare billings by the nephrologist and FMCH therefore violated the False Claims Act. The second complaint alleges that FMCH unlawfully retaliated against the relator by discharging her from employment constructively. The United States Attorney for the Western District of Texas has declined to intervene and to prosecute on behalf of the United States. Counsel for the nephrologist has asserted that a criminal investigation of the relator's allegations is continuing and has moved the Court to stay all activity in the *qui tam* until the alleged criminal investigation has concluded. The Court denied the motion to stay and the litigation is progressing.

From time to time, Fresenius Medical Care is a party to or may be threatened with other litigation or arbitration, claims or assessments arising in the ordinary course of its business. Fresenius Medical Care's management regularly analyzes current information including, as applicable, Fresenius Medical Care's defenses and insurance coverage and, as necessary, provides accruals for probable liabilities for the eventual disposition of these matters.

Fresenius Medical Care, like other healthcare providers, conducts its operations under intense government regulation and scrutiny. Fresenius Medical Care must comply with regulations which relate to or govern the safety and efficacy of medical products and supplies, the operation of manufacturing facilities, laboratories and dialysis clinics, and environmental and occupational health and safety. Fresenius Medical Care must also comply with laws of the United States, such as the U.S. federal Medicare and Medicaid Fraud and Abuse Amendments of 1977, as amended (the "Anti-Kickback Statute"), the False Claims Act, the Ethics in Patient Referrals Act of 1989 (the "Stark Law") and other U.S. federal and state fraud and abuse laws. See "— Regulatory Matters", below. Applicable laws or regulations may be amended, or enforcement agencies or courts may make interpretations that differ from Fresenius Medical Care's interpretations or the manner in which it conducts its business. Enforcement has become a high priority for the U.S. federal government and some states of the U.S. In addition, the provisions of the False Claims Act authorizing payment of a portion of any recovery to the party bringing the suit encourage private plaintiffs to commence "whistle blower" actions. By virtue of this regulatory environment, Fresenius Medical Care's business activities and practices are subject to

extensive review by regulatory authorities and private parties, and continuing audits, investigative demands, subpoenas, other inquiries, claims and litigation relating to Fresenius Medical Care's compliance with applicable laws and regulations. Fresenius Medical Care may not always be aware that an inquiry or action has begun, particularly in the case of "whistle blower" actions, which are initially filed under court seal.

Fresenius Medical Care operates many facilities throughout the United States. In such a decentralized system, it is often difficult to maintain the desired level of oversight and control over the thousands of individuals employed by many affiliated companies. Fresenius Medical Care relies upon its management structure, regulatory and legal resources, and the effective operation of its compliance program to direct, manage and monitor the activities of these employees. On occasion, Fresenius Medical Care may identify instances where employees, deliberately or inadvertently, have submitted inadequate or false billings. The actions of such persons may subject Fresenius Medical Care and its subsidiaries to liability under the Anti-Kickback Statute, the Stark Law and the False Claims Act, among other laws.

Physicians, hospitals and other participants in the healthcare industry are also subject to a large number of lawsuits alleging professional negligence, malpractice, product liability, worker's compensation or related claims, many of which involve large claims and significant defense costs. Fresenius Medical Care has been and is currently subject to these suits due to the nature of its business and expects that those types of lawsuits may continue. Although Fresenius Medical Care maintains insurance at a level which it believes to be prudent, it cannot assure that the coverage limits will be adequate or that insurance will cover all asserted claims. A successful claim against Fresenius Medical Care or any of its subsidiaries in excess of insurance coverage could have a material adverse effect upon it and the results of its operations. Any claims, regardless of their merit or eventual outcome, could have a material adverse effect on Fresenius Medical Care's reputation and business.

Fresenius Medical Care has also had claims asserted against it and has had lawsuits filed against it relating to alleged patent infringements or businesses that it has acquired or divested. These claims and suits relate both to operation of the businesses and to the acquisition and divestiture transactions. Fresenius Medical Care has, when appropriate, asserted its own claims, and claims for indemnification. A successful claim against Fresenius Medical Care or any of its subsidiaries could have a material adverse effect upon its business, financial condition, and the results of its operations. Any claims, regardless of their merit or eventual outcome, could have a material adverse effect on Fresenius Medical Care's reputation and business.

In the ordinary course of Fresenius' operations, Fresenius is subject to litigation, arbitration and investigations relating to various aspects of its business. Fresenius regularly analyzes current information about such claims for probable losses and provides accruals for such matters, including estimated expenses for legal services, as appropriate.

Regulatory Matters

Overview

Our operations are subject to extensive governmental regulation by virtually every country in which we operate, including, most notably, in the United States, at the federal, state and local levels. Although these regulations differ from country to country, in general, non-U.S. regulations are designed to accomplish the same objectives as U.S. regulations regarding the operation of dialysis clinics, laboratories and manufacturing facilities, the provision of quality healthcare for patients, compliance with labor laws, the maintenance of occupational, health, safety and environmental standards and the provision of accurate reporting and billing for governmental payments and/or reimbursement. In the U.S., some states establish regulatory processes that must be satisfied prior to the establishment of new dialysis clinics. Outside the U.S., each country has its own payment and reimbursement rules and procedures, and some countries prohibit ownership of healthcare providers or establish other regulatory barriers to direct ownership by foreign companies. In all jurisdictions, we work within the framework of applicable laws to establish alternative contractual arrangements to provide services to those facilities.

Any of the following matters could have a material adverse effect on our business, financial condition and results of operations:

- failure to receive required licenses, certifications or other approvals for new facilities or products or significant delays in such receipt;
- complete or partial loss of various federal certifications, licenses, or other permits required under the laws of any state or other governmental authority by withdrawal, revocation, suspension, or termination or restrictions of such certificates and licenses by the imposition of additional requirements or conditions, or the initiation of proceedings possibly leading to such restrictions or the partial or complete loss of the required certificates, licenses or permits; and
- changes resulting from healthcare reform or other government actions that reduce reimbursement or reduce or eliminate coverage for particular services we provide.

We must comply with all U.S., German and other legal and regulatory requirements under which we operate, including the Anti-Kickback Statute, the federal False Claims Act, the federal restrictions on certain physician referrals under the Stark Law, U.S. federal rules under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") that protect the privacy of patient medical records and prohibit inducements to patients to select a particular healthcare provider and other fraud and abuse laws and similar state statutes, as well as similar laws in other countries. Moreover, there can be no assurance that applicable laws, or the regulations thereunder, will not be amended, or that enforcement agencies or the courts will not make interpretations inconsistent with our own, any one of which could have a material adverse effect on our business, reputation, financial condition and operating results. Sanctions for violations of these statutes may include criminal or civil penalties, such as imprisonment, fines or forfeitures, denial of payments, and suspension or exclusion from the Medicare and Medicaid programs. In the United States, some of these laws have been broadly interpreted by a number of courts, and significant government funds and personnel have been devoted to their enforcement because such enforcement has become a high priority for the federal government and some states. Our company, and the healthcare industry in general, will continue to be subject to extensive federal, state and foreign regulation, the full scope of which cannot be predicted. In addition, the U.S. Congress and federal and state regulatory agencies continue to consider modifications to healthcare laws that may create further restrictions.

Product Regulation

United States

In the United States, numerous regulatory bodies, including the FDA and comparable U.S. state regulatory agencies, impose requirements on certain of our subsidiaries a manufacturer and a seller of medical products and supplies under their jurisdiction. We are required to register with the FDA as a device manufacturer. As a result, we are subject to periodic inspection by the FDA for compliance with the FDA's Quality System Regulation requirements and other regulations. These regulations require us to manufacture products in accordance with Good Manufacturing Practices ("GMP") and that we comply with FDA requirements regarding the design, safety, advertising, labeling, record keeping and distribution of our products. Further, we are required to comply with various FDA and other agency requirements for labeling and promotion. The Medical Device Reporting regulations require that we provide information to the FDA whenever there is evidence to reasonably suggest that a device may have caused or contributed to a death or serious injury or, if a malfunction were to occur, could cause or contribute to a death or serious injury. In addition, the FDA prohibits us from promoting a product for unapproved indications.

If the FDA believes that a company is not in compliance with applicable regulations, it can issue a warning letter, issue a recall order, institute proceedings to detain or seize products, impose operating restrictions, enjoin future violations and assess civil penalties against a company, its officers or its employees and can recommend criminal prosecution to the U.S. Department of Justice.

We cannot assure that all necessary regulatory approvals, including approvals for new products or product improvements, will be granted on a timely basis, if at all. Delays in or failure to receive approval, product recalls or warnings and other regulatory actions and penalties can materially affect operating results.

In addition, in order to clinically test, produce and market certain medical products and other disposables (including hemodialysis and peritoneal dialysis equipment and solutions, dialyzers, bloodlines and other disposables as well as the products manufactured by APP Pharmaceuticals) for human use, we must satisfy mandatory procedures and safety and efficacy requirements established by the FDA or comparable state and foreign governmental agencies. After approval or clearance to market a product is given, the FDA, upon the occurrence of certain events, has the power to withdraw the clearance or require changes to a device, its manufacturing process, or its labeling or may require additional proof that regulatory requirements have been met. Such rules generally require that products be approved by the FDA as safe and effective for their intended use prior to being marketed. As drugs, Fresenius Medical Care's peritoneal dialysis solutions and the products manufactured by APP Pharmaceuticals are subject to additional FDA regulation under the Food, Drug and Cosmetic Act of 1938, as amended.

International (Including Germany and Other Non-U.S.)

Most countries maintain different regulatory regimes for medicinal products and for medical devices. In almost every country there are rules regarding the quality, effectiveness, and safety of products and regulating their testing, production and distribution. Treaties or other international law and standards and guidelines under treaties or laws may supplement or supersede individual country regulations.

Drugs. Many of our products are subject to the specific drug-law provisions in various countries.

The EU has issued a directive on medicinal products, No. 65/65/EWG (January 26, 1965), as amended. Each member of the EU is responsible for conforming its laws to comply with this directive. In Germany, the German Drug Law (*Arzneimittelgesetz* — "AMG") which implements EU requirements, is the primary regulation applicable to medicinal products.

The provisions of the German Drug Law are comparable with the legal standards in other European countries. As in many other countries, the AMG provides that in principle a medicinal product may only be placed on the market if it has been granted a corresponding marketing authorization. Such marketing authorization is granted by the competent licensing authorities only if the quality, efficacy and safety of the medicinal product has been scientifically proven. The medicinal products marketed on the basis of a corresponding marketing authorization are subject to ongoing control by the competent authorities. The marketing authorization may also be subsequently restricted or made subject to specific requirements. It may be withdrawn or revoked if there was a reason for the refusal of the marketing authorization upon its grant or such a reason arises subsequently, or if the medicinal product is not an effective therapy or its therapeutic effect has been insufficiently proven according to the relevant state of scientific knowledge. Such a reason for refusal is, inter alia, found to exist if there is the well-founded suspicion that the medicinal product has not been sufficiently examined in accordance with the current state of scientific knowledge, that the medicinal product does not show the appropriate quality, or that there is the well-founded suspicion that the medicinal product, when properly used as intended, produces detrimental effects going beyond the extent justifiable according to the current state of knowledge of medicinal science. The marketing authorization can also be withdrawn or revoked in the case of incorrect or incomplete information supplied in the authorization documents, if the quality checks prescribed for the medicinal product were insufficient or have not been sufficiently carried out, or if the withdrawal or revocation is required to comply with a decision made by the European Commission or the Council of the EU. Instead of a withdrawal or revocation, it is also possible to order the suspension of the marketing authorization for a limited period.

The provisions of the AMG and the German regulation for the manufacture of pharmaceuticals and API (*ArzneiMittel– und WirkstoffHerstellungsVerordnung* — "AMWH-V") also contain special requirements for the manufacture of medicinal products. The production of medicinal products requires a corresponding manufacturing license which is granted by the competent authorities of the relevant Member State for a specific manufacturing facility and for specific medicinal products and forms of medicinal products. The manufacturing

license is granted only if the manufacturing facility, production techniques and production processes comply with the national drug law requirements and guidelines of EU-good manufacturing practice ("EU-GMP") as well as the terms of the particular marketing authorization. A manufacturer of medicinal products must, inter alia, employ pharmacists, chemists, biologists, or physicians responsible for the quality, safety and efficacy of the medicinal products. The manufacturer must name several responsible persons: a Qualified Person ("QP") for the release of the medicinal product into the market possessing the expert knowledge specified by the AMG, a head of production, a head of quality control, and, if the manufacturer markets the medicinal products itself, a commissioner for the so-called graduated plan (*Stufenplanbeauftragter* for Germany, a "Qualified Person" for Pharmacovigilance ("QPP") for the EU) and an information officer. It is the responsibility of the QP to ensure that each batch of the medicinal products is produced and examined in compliance with the statutory provisions of the AMG. The QPP must, among other things, collect and assess any reported risks associated with the medicinal products and coordinate any necessary measures according to German Drug Law. The QPP, residing within the European Economic Area, is responsible for pharmacovigilance and the establishment of a system for handling of all suspected adverse reactions that need to be reported. The information officer is in charge of the scientific information relating to the medicinal products. All these persons may be held personally liable under German criminal law for any breach of the AMG, and the manufacturing license may be withdrawn or revoked and it is also possible to order the suspension of the license for a limited period.

International guidelines also govern the manufacture of medicinal products and, in many cases, overlap with national requirements. Material regulations concerning manufacture and registration related to medicinal products have been issued by the European Commission and the International Conference on Harmonisation of Technical Requirements for Human Use ("ICH"). The Pharmaceutical Inspection Co-Operation Scheme ("PIC/S"), an international treaty, contains rules that, in particular, bind many countries in which medicinal products are manufactured. Among other things, the European Commission, PIC/S, ICH a.s.o. establish requirements for GMP which are then adopted at the national level. Another international standard, which is non-binding for medicinal products, is the ISO 9000-9004 system for assuring quality management system requirements. This system has a broader platform than EU-GMP, which are more detailed and is primarily acknowledged outside the field of medicinal products, for example with respect to medical devices.

Medical Devices. In the past, medical devices were subject to less stringent regulation than medicinal products in some countries. In the last decade, however, statutory requirements have been increased. In the European Community ("EC"), the requirements to be satisfied by medical devices are laid down in three European directives to be observed by all EC Member States, all Member States of the European Economic Community ("EEC"), as well as all future accession states: (1) Directive 90/385/EEC of June 20, 1990 relating to active implantable medical devices ("AIMDs"), as last amended ("AIMD Directive"), (2) Directive 93/42/EEC of June 14, 1993 relating to medical devices, as last amended ("MD Directive"), (3) Directive 98/79/EC of October 27, 1998 relating to in vitro diagnostic medical devices as last amended ("IVD Directive"). In addition, Directive 2001/95/EC of December 3, 2001, as last amended, concerning product safety should be noted. With regard to the MD Directive, the Commission submitted a consultation draft on April 5, 2005. The amendments are intended to achieve improvements, for instance in the following areas: clinical assessment by specification of the requirements in more detail; monitoring of the devices after their placing on the market; and decision making by enabling the Commission to make binding decisions in case of contradictory opinions of states regarding the classification of a product as a medical device. This draft was published as the final text of Directive 2007/47/EC. Member States now have until December 21, 2008, to transpose the new Directive into national law, following which there is a transition period for manufacturers to come into compliance by March 21, 2010.

According to the directives relating to medical devices, the "CE mark" (Conformité Européene signifying that the device complies with all applicable requirements of the European Community) shall serve as a general product passport for all Member States of the EC and the EEC. Upon receipt of an EC certificate for the quality management system for a particular facility, we are able to mark products produced or developed in that facility as being in compliance with the EC requirements. A manufacturer having an EC-certified full quality management system has to declare and document conformity of its products to the harmonized

European directive. If able to do so, the manufacturer may put a CE mark on the products. Products subject to these provisions that do not bear the CE mark cannot be imported, sold or distributed within the EC.

The right to affix the CE mark is granted to any manufacturer who has observed the conformity assessment procedure prescribed for the relevant medical device and submitted the EC declaration of conformity before placing the medical device on the market. The conformity assessment procedures were standardized by Council Decision 93/465/EEC of July 22, 1993, which established modules for the various phases of the conformity assessment procedures intended to be used in the technical harmonization directives and the rules for the affixing and use of the CE conformity mark. The conformity assessment modules to be used differ depending on the class or type of the medical device to be placed on the market. The classification rules for medical devices are, as a general rule, based upon the potential risk of causing injury to the human body. Annex IX to the MD Directive (making a distinction between four product classes I, IIa, IIb, and III) and Annex II to the IVD Directive (including a list of the products from lists A and B) contain classification criteria for products and product lists that are, in turn, assigned to specific conformity assessment modules. AIMDs represent a product class of their own and are subject to the separate AIMD Directive. Special rules apply, for example, to custom-made medical devices, medical devices manufactured in-house, medical devices intended for clinical investigation or in vitro diagnostic medical devices intended for performance evaluation, as well as for diagnostic medical devices for in-house use, combination devices and products related to medical devices.

The conformity assessment procedures for Class I devices with a low degree of invasiveness in the human body (e.g. devices without a measuring function that are not subject to any sterilization requirements), can be made under the sole responsibility of the manufacturer by submitting an EC declaration of conformity (a self-certification or self-declaration). For Class IIa devices, the participation of a so-called "Notified Body" is binding for the production phase. Devices of classes IIb and III involving a high risk potential are subject to inspection by the Notified Body not only in relation to their manufacture (as for class IIa devices), but also in relation to their specifications. Class III is reserved for the most critical devices the marketing of which is subject to an explicit prior authorization with regard to their conformity. In this risk category, the manufacturer can make use of several different conformity assessment modules.

Environmental Regulation

The Fresenius Group uses substances regulated under U.S. and non-U.S. environmental laws, primarily in manufacturing and sterilization processes. While it is difficult to quantify, we believe the ongoing impact of compliance with environmental protection laws and regulations will not have a material impact on our financial position or results of operations.

Facilities and Operational Regulation

United States

The Clinical Laboratory Improvement Amendments of 1988 ("CLIA") subjects virtually all clinical laboratory testing facilities, including ours, to the jurisdiction of the Department of Health and Human Services ("HHS"). CLIA establishes national standards for assuring the quality of laboratories based upon the complexity of testing performed by a laboratory. Certain of our operations are also subject to federal laws governing the repackaging and dispensing of drugs and the maintenance and tracking of certain life-sustaining and life-supporting equipment.

Our operations are subject to various U.S. Department of Transportation, Nuclear Regulatory Commission and Environmental Protection Agency requirements and other federal, state and local hazardous and medical waste disposal laws. As currently in effect, laws governing the disposal of hazardous waste do not classify most of the waste produced in connection with the provision of dialysis, or laboratory services as hazardous, although disposal of non-hazardous medical waste is subject to specific state regulation. Our operations are also subject to various air emission and wastewater discharge regulations.

Federal, state and local regulations require us to meet various standards relating to, among other things, the management of facilities, personnel qualifications and licensing, maintenance of proper records, equipment, quality assurance programs, the operation of pharmacies and dispensing of controlled substances. All of our operations in the United States are subject to periodic inspection by federal and state agencies and other governmental authorities to determine if the operations, premises, equipment, personnel and patient care meet applicable standards. To receive Medicare reimbursement, Fresenius Medical Care's dialysis centers, renal diagnostic support business and laboratories must be certified by the U.S. Centers for Medicare and Medicaid Services ("CMS"), an agency of HHS. All of Fresenius Medical Care's dialysis centers and laboratories that furnish Medicare services have the required certification.

Certain of our facilities and certain of their employees are also subject to state licensing statutes and regulations. These statutes and regulations are in addition to federal and state rules and standards that must be met to qualify for payments under Medicare, Medicaid and other government reimbursement programs. Licenses and approvals to operate these centers and conduct certain professional activities are customarily subject to periodic renewal and to revocation upon failure to comply with the conditions under which they were granted.

Occupational Safety and Health Administration ("OSHA") regulations require employers to provide employees who work with blood or other potentially infectious materials with prescribed protections against blood-borne and air-borne pathogens. The regulatory requirements apply to all healthcare facilities, including dialysis centers and laboratories, and require employers to make a determination as to which employees may be exposed to blood or other potentially infectious materials and to have in effect a written exposure control plan. In addition, employers are required to provide hepatitis B vaccinations, personal protective equipment, blood-borne and airborne pathogens training, post-exposure evaluation and follow-up, waste disposal techniques and procedures, engineering and work practice controls and other OSHA-mandated programs for blood-borne and air-borne pathogens.

Some states in the United States have certificate of need ("CON") laws that require any person or entity seeking to establish a new healthcare service or to expand an existing service to apply for and receive an administrative determination that the service is needed. Fresenius Medical Care currently operates in 13 states, as well as the District of Columbia and Puerto Rico that have CON laws applicable to dialysis centers. These requirements could, as a result of a state's internal determination of its dialysis services needs, prevent entry to new companies seeking to provide services in these states, and could constrain our ability to expand our operations in these states.

International (Including Germany and Other Non-U.S.)

Most countries outside the United States regulate operating conditions of dialysis clinics and hospitals and the manufacturing of dialysis products, medicinal products, enteral nutrition products and medical devices.

We are subject to a broad spectrum of regulation in almost all countries. Our operations must comply with various environmental and transportation regulations in the various countries in which we operate. Our manufacturing facilities, hospitals and dialysis clinics are also subject to various standards relating to, among other things, facilities, management, personnel qualifications and licensing, maintenance of proper records, equipment, quality assurance programs, the operation of pharmacies, the protection of workers from blood-borne diseases and the dispensing of controlled substances. All of our operations are subject to periodic inspection by various governmental authorities to determine if the operations, premises, equipment, personnel and patient care meet applicable standards. Our dialysis clinic operations and our related activities generally require licenses, which are subject to periodic renewal and may be revoked for violation of applicable regulatory requirements.

In addition, many countries impose various investment restrictions on foreign companies. For instance, government approval may be required to enter into a joint venture with a local partner. Some countries do not permit foreign investors to own a majority interest in local companies or require that companies organized under their laws have at least one local shareholder. Investment restrictions therefore affect the corporate

structure, operating procedures and other characteristics of our subsidiaries and joint ventures in these and other countries.

We believe our facilities are currently in compliance in all material respects with the applicable national and local requirements in the jurisdictions in which they operate.

Reimbursement

As a global dialysis care provider and supplier of dialysis products, Fresenius Medical Care is represented in more than 100 countries throughout the world facing the challenge of meeting the needs of patients in very different economic environments and healthcare systems.

The healthcare systems and rules for the reimbursement of the treatment of patients suffering from ESRD vary in the individual countries. In general, the government, frequently in coordination with private insurers, is responsible for financing the healthcare system through tax payments and other sources of income, social security contributions or a combination of such sources.

However, in a large number of developing countries, the government or charitable institutions grant only minor aid so that dialysis patients must bear all or a large part of their treatment expenses themselves. In some countries, dialysis patients do not receive treatment on a regular basis, but only if and to the extent available funds so allow.

United States

Dialysis Services. Fresenius Medical Care's dialysis centers provide out-patient hemodialysis treatment and related services for ESRD patients (end-stage renal disease patients). In addition, some of Fresenius Medical Care's centers offer services for the provision of peritoneal dialysis and hemodialysis treatment at home, and dialysis for hospitalized patients.

The Medicare program is the largest single source of Fresenius Medical Care's dialysis services revenues from dialysis treatment. For example, in 2007, approximately 53% of dialysis services revenues resulted from Medicare's ESRD program. As a preliminary matter, in order to be eligible for reimbursement by Medicare, ESRD facilities must meet conditions for coverage established by CMS. CMS has issued revised conditions for coverage that will become effective on October 14, 2008. Fresenius Medical Care is revising certain of its standard operating policies and procedures to conform to the new requirements.

Certain products and services delivered by Fresenius Medical Care's dialysis centers are reimbursed by the Medicare program in accordance with a "basic case-mix adjusted prospective system," which provides a fixed payment for each dialysis treatment, comprised of a composite rate component and a drug add-on adjustment component. The payment rates under this system are subject to adjustment from time to time through changes in the Medicare statute (in the case of basic services included in the "composite rate") or through annual adjustments (in the case of a portion of the payment referred to as the "drug add-on adjustment").

Certain other items and services that Fresenius Medical Care furnishes at its dialysis centers are not included in the composite rate and are eligible for separate Medicare reimbursement. The most significant of these items are drugs or biologicals, such as erythropoietin-stimulating agents ("ESAs"), vitamin D analogs, and iron, which are reimbursed at 106% of the average sales price as reported to CMS by the manufacturer. Products and support services furnished to ESRD patients receiving dialysis treatment at home are also reimbursed separately under a reimbursement structure comparable to the in-center composite rate. Although these reimbursement methodologies limit the allowable charge per treatment, they provide us with predictable per treatment revenues.

For Medicare-primary patients, Medicare is responsible for payment of 80% of the prospective payment amount and separately reimburseable drugs or biologicals amounts set by the U.S. Congress for dialysis treatments and the patient or third-party insurance payors, including employer-sponsored health insurance plans, commercial insurance carriers and the Medicaid program, are responsible for paying any co-payment

amounts for approved services not paid by Medicare (typically the annual deductible and 20% co-insurance), subject to the specific coverage policies of such payors. Each third-party payor, including Medicaid, makes payment under contractual or regulatory reimbursement provisions that may or may not cover the full 20% co-payment or annual deductible. Where the patient has no third-party insurance or the third party insurance does not cover the co-payment or deductible, the patient is responsible for paying the co-payments or the deductible, which Fresenius Medical Care frequently does not fully collect despite reasonable collection efforts. Under an advisory opinion from the Office of the Inspector General of the Department of Health and Human Services, subject to specified conditions, Fresenius Medical Care and other similarly situated providers may make contributions to a non-profit organization that has agreed to make premium payments for supplemental medical insurance and/or "Medigap" insurance on behalf of indigent ESRD patients, including some of Fresenius Medical Care's patients.

For calendar 2008, CMS increased the drug add-on adjustment by US$0.69, bringing the drug add-on adjustment to 15.5% of the total per-treatment prospective payment. The composite rate, unlike many other payment rates in Medicare, is not automatically updated each year. As a result, this portion of the payment rate does not receive an annual update in the absence of a statutory change. Although the U.S. Congress provided for updates ranging from 1.6 to 2.4% to the composite rate in the previous five years, the U.S. Congress has not enacted legislation to update the composite rate for the calendar year 2008. CMS updated the wage index adjustment applicable to ESRD facilities to a 25/75 blend between adjustments based on old metropolitan statistical areas ("MSA") and those based on new core-based statistical areas ("CBSA"). In 2009, CMS expects to complete the transition from the MSA definition to the CBSA definition, and facilities will be paid according to the CBSA rate.

The Medicare Improvements for Patients and Providers Act of 2008 (the "Act") was enacted on July 15, 2008. The Act provides for an increase in the composite rate of 1% effective January 1, 2009 and an additional 1% increase effective January 1, 2010. The new law requires CMS to implement by January 1, 2011 a bundled ESRD payment system under which CMS will reimburse dialysis facilities with a single payment for (i) all items and services currently included in the composite rate, (ii) all ESAs and other pharmaceuticals (other than vaccines) furnished to the patients that were previously reimbursed separately, and (iii) diagnostic laboratory tests. The initial bundled reimbursement rate will be set based on 98 percent of estimated 2011 Medicare program costs of dialysis care as calculated under the current reimbursement system using the lowest per patient utilization data from 2007, 2008 or 2009. The bundled payment will be subject to case mix adjustments that may take into account individual patient characteristics (e.g., age, weight, body mass) and co-morbidities. Payments will also be adjusted for (i) certain high cost patient outliers due to unusual variations in medically necessary care, (ii) disparately high costs incurred by low volume facilities relative to other facilities and (iii) such other adjustments as the Secretary of HHS deems appropriate. Beginning in 2012, the bundled payment amount will be subject to annual increases based on increases in the costs of a mix of dialysis items and services to be determined by HHS minus 1%. The Act will establish pay-for-performance quality standards that will take effect in 2012. Dialysis facilities that fail to achieve the established quality standards will have payments reduced by 2%. Facility quality standards are expected to be developed in the areas of anemia management, patient satisfaction, iron management, bone mineral metabolism and vascular access. Facility performance scores will be made available to the public. The bundled system will be phased in over four years with full implementation for all dialysis facilities on January 1, 2014. However, providers may elect at any time prior to 2011 to become fully subject to the new system. The Act extends the authority of specialized Medicare Advantage ("MA") plans to target enrollment to certain populations through December 31, 2010 and revises definitions, care management requirements and quality reporting standards for all specialized plans. The Act maintains a moratorium on new specialized MA plans through December 31, 2010.

Medicaid Rebate Program. Fresenius Medical Care participates in the federal Medicaid rebate program established by the Omnibus Budget Reconciliation Act of 1990, as well as several state supplemental rebate programs, and Fresenius Medical Care make its pharmaceutical products available to authorized users of the Federal Supply Schedule ("FSS") of the General Services Administration under an FSS contract negotiated by the Department of Veterans Affairs. In addition, federal law requires that any company that participates in the Medicaid rebate program extend comparable discounts to qualified purchasers under the Public Health Services

("PHS") pharmaceutical pricing program managed by the Health Resources and Services Administration of HHS. The PHS pricing program extends discounts comparable to the Medicaid rebates to a variety of community health clinics and other entities that receive health services grants from the PHS, as well as hospitals that serve a disproportionate share of poor Medicare and Medicaid beneficiaries.

Under the Medicaid rebate program, Fresenius Medical Care pays a rebate to each state Medicaid program based upon sales of our pharmaceutical products that are reimbursed by those programs. Rebate calculations are complex and, in certain respects, subject to interpretation by us, government or regulatory agencies and the courts. The Medicaid rebate amount is computed each quarter based on our submission to CMS of our current average manufacturer price and best price for our pharmaceutical products. The Veterans Healthcare Act of 1992 imposes a requirement that the prices Fresenius Medical Care charges to agencies under the FSS be discounted off the average manufacturer price charged to non-federal customers.

Government agencies may make changes in program interpretations, requirements or conditions of participation, and retain the right to audit the accuracy of our computations of rebates and pricing, some of which may have or result in implications (such as recoupment) for amounts previously estimated or paid and may have a material adverse effect on Fresenius Medical Care's revenues, profitability and financial condition.

Laboratory Tests. Spectra obtains a substantial portion of its net revenue from Medicare, which pays for clinical laboratory services provided to dialysis patients in two ways:

First, payment for certain routine tests is included in the composite rate paid to Fresenius Medical Care's dialysis centers. The centers obtain the laboratory services from laboratories and pay the laboratories for the services. In accordance with industry practice, Spectra usually provides such testing services under capped agreements with its customers pursuant to which it bills a fixed amount per patient per month to cover the laboratory tests included in the composite rate at the designated frequencies.

Second, laboratory tests performed by Spectra for Medicare beneficiaries that are not included in Fresenius Medical Care's Composite Rate are billed separately directly to Medicare. Such tests are paid at 100% of the Medicare fee schedule amounts, which vary to some extent across different areas but which cannot exceed national ceilings on payment rates, called national limitation amounts ("NLAs"). The U.S. Congress has periodically reduced NLAs, most recently for services on or after January 1998. The U.S. Congress in the Medicare Prescription Drug, Modernization and Improvement Act of 2003 (the "Medicare Modernization Act") imposed a five year freeze, for calendar years 2004 through 2008, on the otherwise applicable inflation updates based on the consumer price index.

Erythropoetin Stimulating Agents ("ESAs"). ESAs, including Epogen® and Aransep®, are used for anemia management of patients with renal disease. The administration of ESAs is separately billable under the Medicare program, and accounted for 21% of Fresenius Medical Care's 2007 U.S. dialysis care revenues.

Anemia severity is commonly monitored by measuring a patient's hematocrit, an indicator of the proportion of red blood cells in a patient's whole blood, or by evaluating a patient's hemoglobin level. The amount of ESA that is appropriate for a patient varies by several factors, including the severity of the patient's anemia.

In March 2007, at the request of the FDA, the manufacturer of Epogen® and Aranesp® added a "blackbox" safety warning (FDA's highest level of safety warning) to its package label dosing instructions. In April 2007, the National Kidney Foundation amended its anemia management guidelines for anemia management ("K/DOQI"). In November 2007, the FDA announced revisions to product labeling, including a change to the dosing recommendations for anemic patients with chronic renal failure to explicitly advise clinicians to maintain hemoglobin levels within the range of 10 to 12g/dL. In addition, warnings were strengthened regarding possible adverse events when ESAs are administered to achieve higher hemoglobin levels.

In July, 2007, CMS announced a revision to the national monitoring policy for ESAs, to be effective January 1, 2008. The revision reduces the monthly aggregate maximum dose from 500,000 IU to 400,000 IU for Epogen® and from 1500 mcg to 1200 mcg for Aranesp®. The revision continues the original monthly 25% dose reduction requirement in payment in instances where a patient's hemoglobin level persists above

13.0 g/dL for less than three monthly billing cycles and, in addition, it further reduces payment by 50% of the reported dose if the hemoglobin level persists above 13.0 g/dL for three months or more.

We believe Fresenius Medical Care's policies on billing for ESAs comply with CMS policies. Fresenius Medical Care has recommended to its treating physicians that they review and understand the package label insert and the K/DOQI guidelines as they make their anemia management decisions.

Any of the following changes relating to ESAs could adversely affect our business and results of operations, possibly materially:

- future changes in the ESA reimbursement methodology and/or rate;
- inclusion of ESAs in the Medicare composite rate without sufficient offsetting increases to such rate;
- reduction in the typical dosage per administration, including by imposition of a requirement to administer ESAs to Medicare beneficiaries subcutaneously rather than intravenously;
- increases in the cost of ESAs without offsetting increases in the ESA reimbursement rate; or
- reduction by the manufacturer of ESAs of the amount of overfill in the ESA vials.

Legislation enacted in July 2008 requires implementation by January 1, 2011 of a new "bundled" payment system for dialysis services under which Medicare will reimburse dialysis facilities with a single payment for (i) all items and services currently included in the composite rate then in effect, (ii) all ESAs and other pharmaceuticals (other than vaccines) furnished to the patients that were previously reimbursed separately (such as EPO), and (iii) diagnostic laboratory tests. See "Risk Factors — Proposals for healthcare reform could decrease sales and operating profit".

Coordination of Benefits. Medicare entitlement begins for most patients in the fourth month after the initiation of chronic dialysis treatment at a dialysis center. During the first three months, considered to be a waiting period, the patient or patient's insurance, Medicaid or a state renal program are responsible for payment.

Patients who are covered by Medicare and are also covered by an employer group health plan ("EGHP") are subject to a 30-month coordination period during which the EGHP is the primary payor and Medicare the secondary payor. During this coordination period the EGHP pays a negotiated rate or in the absence of such a rate, Fresenius Medical Care's standard rate or a rate defined by its plan documents. The EGHP payments are generally higher than the Medicare payment. EGHP insurance, when available, will therefore generally cover as the primary payor a total of 33 months, the 3-month waiting period plus the 30-month coordination period.

Possible Changes in Statutes or Regulations. Legislation or regulations may be enacted in the future that could substantially modify or reduce the amounts paid for services and products offered by us and our subsidiaries. It is also possible that statutes may be adopted or regulations may be promulgated in the future that impose additional eligibility requirements for participation in the federal and state healthcare programs. Such new legislation or regulations could, depending on the detail of the provisions, have positive or adverse effects, possibly materially, on our businesses and results of operations. See "Risk Factors — Risks Relating to Our Business — A reduction in government reimbursement for dialysis care would materially decrease our sales and operating profit".

International (Including Germany and Other Non-U.S.)

As a global company delivering dialysis care and dialysis products in more than 100 countries worldwide, Fresenius Medical Care faces the challenge of addressing the needs of dialysis patients in widely varying economic and healthcare environments.

Healthcare systems and reimbursement structures for ESRD treatment vary by country. In general, the government pays for healthcare and finances its payments through taxes and other sources of government income, from social contributions, or a combination of those sources. However, not all healthcare systems provide for dialysis treatment. In many developing countries, only limited subsidies from government or

charitable institutions are available, and dialysis patients must finance all or substantially all of the cost of their treatment. In some countries patients in need of dialysis do not receive treatment on a regular basis but rather when the financial resources allow it.

In the major European and British Commonwealth countries, healthcare systems are generally based on one of two models. The German model, the "Bismarck system" (statutory Health Insurance (SHI) System), is mainly based on mandatory employer and employee contributions dedicated to healthcare financing. The British model, the "Beveridge system", provides a national healthcare system funded by taxes. Within these systems, provision for the treatment of dialysis has been made either through allocation of a national budget or a billing system reimbursing on a fee-for-service basis. The healthcare systems of countries such as Japan, France, Belgium, Austria, the Czech Republic, Poland, Hungary, Turkey and the Netherlands are based on the Bismarck-type system. Countries like Canada, Denmark, Finland, Portugal, Sweden, Taiwan and Italy established their national health services using the Beveridge-type system.

Ownership of healthcare providers and, more specifically dialysis care providers, varies within the different systems and from country-to-country. In Europe about 50% of the clinics providing dialysis care and services are publicly owned, about 35% are privately owned and approximately 15% belong to a healthcare organization. It should be noted that healthcare organizations treating a significant patient population operate only in Germany and France. Publicly operated clinics care for almost 100% of the dialysis populations in Canada and more than 80% in Australia. Within Europe, nearly 100% of the dialysis population is treated in public clinics in the Netherlands, Finland and Belgium and more than 80% in the United Kingdom while the majority of dialysis clinics are privately owned in Spain, Hungary and Portugal.

In Latin America privately owned clinics predominate, constituting more than 75% of all clinics providing dialysis care while in Asia, with the exception of Japan, Republic of Korea, Taiwan and Thailand, publicly owned clinics are predominant. In the United States, less than 2% of all dialysis clinics are publicly operated and in Japan only approximately 15%. Unlike the United States, however, Japan has a premium-based, mandatory social insurance system, and the structure of its healthcare system is more closely comparable to the German system.

Financing policies for ESRD treatment also differ from country-to-country. There are three main types of reimbursement modalities: budget transfer, fee for service and flat rate. In some cases, the reimbursement modality varies within the same country depending on the type of provider (public or private). Budget transfer is a reimbursement modality used mainly for public providers in most of the European countries where the funding is based on taxation and in some of the countries where it is based on social security (e.g. Czech Republic). Fee for service is the most common reimbursement modality for private providers in all European countries (with exceptions, such as Hungary, where reimbursement to private providers is based on budget) and for public providers in countries where the funding system is based on social security payments. Germany is the only country in Europe in which the reimbursement modality is a flat weekly rate independent of both the type of provider and the type of dialysis therapy provided.

Treatment components included in the cost of dialysis may vary from country-to-country or even within countries, depending on the structure and cost allocation principles. Where treatment is reimbursed on a fee-for-service basis, reimbursement rates are sometimes allocated in accordance with the type of treatment performed. Fresenius Medical Care believes that it is not appropriate to calculate a global reimbursement amount, because the services and costs for which reimbursement is provided in any such global amount would be likely to bear little relation to the actual reimbursement system in any one country. Generally, in countries with established dialysis programs, reimbursements range from US$100 to more than US$300 per treatment. However, a comparison from country to country would not be meaningful if made in the absence of a detailed analysis of the cost components reimbursed, services rendered and the structure of the dialysis clinic in each country being compared.

Healthcare expenditures are consuming an ever-increasing portion of gross domestic product worldwide. In the developed economies of Europe, Asia and Latin America, healthcare spending is in the range of 5%-15% of gross domestic product. In many countries, dialysis costs consume a disproportionately high amount of healthcare spending and these costs may be considered a target for implementation of cost

containment measures. Today, there is increasing awareness of the correlation between the quality of care delivered in the dialysis unit and the total healthcare expenses incurred by the dialysis patient. Accordingly, developments in reimbursement policies might include higher reimbursement rates for practices which are believed to improve the overall state of health of the ESRD patient and reduce the need for additional medical treatment.

Acute Care Hospitals in Germany

In Germany, the current system of reimbursement of acute care hospitals is based on a dualistic system. The Federal States are responsible for financing investments in hospitals which provide the necessary medical care within the scope of the State hospital planning to guarantee a nationwide medical care service. The operating expenses are financed by invoicing services to health insurance funds, other social security institutions, private health insurances and patients. Rehabilitation and post-acute care facilities receive no capex subsidies. Their operations are funded mainly by pension and health insurance funds.

Total expenditure on acute care hospital operations is principally limited by the annual budget negotiated between each hospital and the responsible health insurance funds. A new case-based reimbursement system for hospitals (based on diagnosis related groups or "DRG") was introduced in Germany in 2003 for in-patients. This scheme replaced the former composite scheme of mostly departmental per diem payments and a small share of case based payments. Psychiatric, psychosomatic and psychotherapeutic departments have not yet migrated to the new DRG scheme. Under the new case based reimbursement, hospitals receive a flat fee per patient (more exactly for an in-patient case of the patient). The fee takes into account the individual conditions of each patient by evaluating the patient's principal and secondary diagnoses, age, the procedures undertaken on the patient, and the discharge status. Hospitals receive additional payments for some specific services provided based on the procedure. Essentially, the DRG system is aimed at improving hospital efficiency and reducing healthcare spending. The DRG system has led to a reduction in unnecessary referrals and to a growing number of out-patient treatments. The system is being introduced in several stages and is expected to be fully implemented by 2009. On December 18, 2008, the German Federal Parliament has agreed to a draft Reform Act on Financing Hospitals, which may amend the current financing system.

The flat-rate scheme, together with other cost-cutting measures in the healthcare sector that may be implemented in Germany, could have a material adverse effect on our business, financial condition and results of operations in years to come.

Anti-Kickback Statutes, False Claims Act, Healthcare Insurance Portability and Accountability Act of 1996, Civil Monetary Penalties Law, Stark Law and Other Fraud and Abuse Laws in the U.S.

Some of our operations are subject to U.S. federal and state statutes and regulations governing financial relationships between healthcare providers and potential referral sources and reimbursement for services and items provided to Medicare and Medicaid patients. Such laws include the Anti-Kickback Statute, the False Claims Act, the Stark Law, and other U.S. federal healthcare fraud and abuse laws and similar state laws. These laws apply because Fresenius Medical Care's medical directors and other physicians with whom Fresenius Medical Care has financial relationships refer patients to, and order diagnostic and therapeutic services from, its dialysis centers and other operations. As is generally true in the dialysis industry, at each dialysis facility a small number of physicians often account for all or a significant portion of the patient referral base. An ESRD patient generally seeks treatment at a center that is convenient to the patient and at which the patient's nephrologist has staff privileges.

The U.S. Government, many individual states and private third-party risk insurers have devoted increasing resources to combat fraud, waste and abuse in the healthcare sector. The Office of Inspection General (OIG) of HHS and other enforcement agencies have dedicated substantial resources to their efforts to detect agreements between physicians and service providers that may violate fraud and abuse laws.

Anti-Kickback Statutes

The U.S. federal Anti-Kickback Statute establishes criminal prohibitions against and civil penalties for the knowing and willful solicitation, receipt, offer or payment of any remuneration, whether direct or indirect, in return for or to induce the referral of patients or the ordering or purchasing of items or services payable in whole or in part under Medicare, Medicaid or other federal healthcare programs. Sanctions for violations of the Anti-Kickback statute include criminal and civil penalties, such as imprisonment and/or criminal fines of up to US$25,000 per violation, and civil penalties of up to US$50,000 per violation, and exclusion from the Medicare or Medicaid programs and other federal programs.

The OIG has the authority to promulgate regulations referred to as "safe harbors" that define certain business relationships and arrangements that would not be subject to civil sanction or criminal enforcement under the Anti-Kickback Statute. Failure to comply with a safe harbor provision does not make the activity illegal. Rather, the safe harbors set forth specific criteria that, if fully met, will assure the entities involved of not being prosecuted criminally or civilly for the arrangement under the Anti-Kickback Statute.

Many states also have enacted statutes similar to the Anti-Kickback Statute, which may include criminal penalties, applicable to referrals of patients regardless of payor source, and may contain exceptions different from state to state and from those contained in the federal Anti-Kickback Statute.

False Claims Act and Related Criminal Provisions

The False Claims Act imposes civil penalties for knowingly making or causing to be made false claims with respect to governmental programs, such as Medicare and Medicaid, for services billed but not rendered, or for misrepresenting actual services rendered, in order to obtain higher reimbursement. Moreover, private individuals may bring qui tam or "whistle blower" suits against providers under the False Claims Act, which authorizes the payment of 15 to 30% of any recovery to the individual bringing suit. Such actions are initially required to be filed under seal pending their review by the Department of Justice. As a result, a party named in such an action may not know that the action has been commenced. See "— Legal Proceedings — Other Claims and Potential Exposures". The False Claims Act generally provides for the imposition of civil penalties of US$5,000 to US$10,000 per claim and for treble damages, resulting in the possibility of substantial financial penalties for small billing errors that are replicated in a large number of claims, as each individual claim could be deemed to be a separate violation of the False Claims Act. Some states also have enacted statutes similar to the False Claims Act which may include criminal penalties, substantial fines and treble damages. Effective, January 1, 2007, section 1909 of the Social Security Act (enacted by section 6031 of the Deficit Reduction Act of 2005) provides a financial incentive for states to enact false claims acts that establish liability to the state for the submission of false or fraudulent claims to the state's Medicaid program. If a state false claims act is determined to meet certain enumerated requirements, the state is entitled to an increase in the amounts recovered under a state action brought under such law. The OIG, in consultation with the Attorney General of the United States and the Department of Justice, determines whether a state false claims act meets these enumerated requirements to qualify for the added financial incentive. As of August 2008, the OIG reviewed and approved state false claims acts promulgated by California, Florida, Georgia, Hawaii, Illinois, Indiana, Louisiana, Massachusetts, Michigan, Nevada, New Mexico, New York, Oklahoma, Rhode Island, Tennessee, Texas, and Virginia.

The Health Insurance Portability and Accountability Act of 1996

HIPAA was enacted in August 1996 and expanded federal fraud and abuse laws by increasing their reach to all federal healthcare programs, establishing new bases for exclusions and mandating minimum exclusion terms, creating an additional statutory exception to the Anti-Kickback Statute for risk-sharing arrangements, by requiring the Secretary of Health and Human Services to issue advisory opinions, increasing civil money penalties to US$10,000 (formerly US$2,000) per item or service and assessments to three times (formerly twice) the amount claimed, creating a specific healthcare fraud offense and related health fraud crimes, and expanding investigative authority and sanctions applicable to healthcare fraud. It also prohibits a provider from

offering anything of value which the provider knows or should know would be likely to induce federal healthcare program beneficiary to select or continue with the provider.

HIPAA included a healthcare fraud provision which prohibits knowingly and willfully executing a scheme or artifice to defraud any "healthcare benefit program," which includes any public or private plan or contract affecting commerce under which any medical benefit, item, or service is provided to any individual, and includes any individual or entity who is providing a medical benefit, item, or service for which payment may be made under the plan or contract. Penalties for violating this statute include criminal penalties, exclusion from the Medicare and Medicaid programs, freezing of assets and forfeiture of property traceable to commission of a healthcare fraud.

HIPAA regulations establish national standards for certain electronic healthcare transactions, the use and disclosure of certain individually identifiable patient health information, and the security of the electronic systems maintaining this information. These are commonly known as the HIPAA Privacy and Security Rules. Health insurance payers and healthcare providers like us must comply with the HIPAA Regulations. Violations of these HIPAA regulations may include in civil money penalties and potential criminal sanctions.

Civil Monetary Penalties Law

Individuals or entities who have either (1) directly submitted, or caused to be submitted, claims which are improper or false; (2) arranged or contracted with an individual or entity that the person knows or should know is excluded from participation in Federal healthcare programs; or (3) offered or received kickbacks may also be subject to monetary penalties or exclusion under the Civil Monetary Penalties Law ("CMPL") at the discretion of the OIG. Penalties are generally not more than US$10,000 for each item or service. However, under the CMPL, violators of the federal Anti-Kickback Statute provisions may also be subject to additional civil money penalties of US$50,000 per violation. Violators are also subject to an assessment of up to three times the amount claimed for each item or service in lieu of damages sustained by the United States or a State agency because of such claim, or damages of up to three times the total amount of remuneration offered, paid, solicited, or received. In addition, any person or entity who violates this section may be excluded from participation in the Federal or state healthcare programs.

Stark Law

The original Stark Law, was enacted as part of the Omnibus Budget Reconciliation Act ("OBRA") of 1989, and prohibits a physician from referring Medicare patients for clinical laboratory services to entities with which the physician (or an immediate family member) has a financial relationship, unless an exception applies. Sanctions for violations of the Stark Law may include denial of payment, refund obligations, civil monetary penalties and exclusion of the provider from the Medicare and Medicaid programs. In addition, the Stark Law prohibits the entity receiving the referral from filing a claim or billing for services arising out of the prohibited referral.

Provisions of OBRA 1993, known as "Stark II," amended the Stark Law to revise and expand upon various statutory exceptions, expanded the services regulated by the statute to a list of "Designated Health Services," and expanded the reach of the statute to the Medicaid program. The provisions of Stark II generally became effective on January 1, 1995. The additional Designated Health Services include: physical therapy, occupational therapy and speech language pathology services; radiology and certain other imaging services; radiation therapy services and supplies; durable medical equipment and supplies; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics, and prosthetic devices and supplies; home health services; out-patient prescription drugs; and in-patient and out-patient hospital services. The first phase of Stark regulations was finalized on January 4, 2001. Most portions of the first phase regulations became effective in 2002. The first phase of the final regulations implementing the Stark Law (the "Phase I regulations") contains an exception for Epogen® and certain other dialysis-related out-patient prescription drugs furnished in or by an ESRD facility under many circumstances. In addition, the regulations made clear that services reimbursed by Medicare to a dialysis facility under the ESRD composite rate do not implicate the Stark Law. Further, the final Phase I regulations also adopted a definition of durable medical equipment which

effectively excludes ESRD equipment and supplies from the category of Designated Health Services. Phase II of the Stark regulations was published on March 26, 2004, and became effective on July 26, 2004. This phase of the regulations finalized all of the compensation exceptions to the Stark Law, including those for "personal services arrangements" and "indirect compensation arrangements". In addition, Phase II revised the exception for Epogen® and certain other dialysis-related out-patient prescription drugs furnished in or by an ESRD facility to include certain additional drugs.

On September 5, 2007, CMS published Phase III of the Stark regulations, which modified certain existing Stark Law exceptions, including the exception for indirect compensation arrangements. These regulations became effective on December 4, 2007. In 2008, CMS published several revisions to the Stark regulations which became effective on October 1, 2008 and December 4, 2008 and additional revisions which will become effective October 1, 2009.

Finally, it should be noted that several U.S. states in which Fresenius Medical Care operates have enacted self-referral statutes similar to the Stark Law. Such state self-referral laws may apply to referrals of patients regardless of payor source and may contain exceptions different from each other and from those contained in the Stark Law.

Other Fraud and Abuse Laws

Our operations are also subject to a variety of other federal and state fraud and abuse laws, principally designed to ensure that claims for payment to be made with public funds are complete, accurate and fully comply with all applicable program rules.

Healthcare Reform

Healthcare reform is considered by many countries to be a national priority. In the United States, members of the U.S. Congress from both parties and officials from the executive branch continue to consider many healthcare proposals, some of which are comprehensive and far-reaching in nature. Several states and many other countries in which we operate are also currently considering healthcare proposals. We cannot predict what additional action, if any, the U.S. federal government, any state or any other country may ultimately take with respect to healthcare reform or when any such action will be taken. The 2008 U.S. presidential election and change in the federal administration could increase the chances for major changes in the healthcare industry in the United States. Any significant healthcare reform may bring radical changes in the financing and regulation of the healthcare industry, which could have a material adverse effect on our business and the results of our operations. See "Risk Factors — Risks Relating To Our Business — Proposals for healthcare reform could decrease sales and operating profit".

MANAGEMENT

Fresenius SE's corporate bodies are the management board (the "Management Board"), the supervisory board (the "Supervisory Board") and the annual general meeting (the "Annual General Meeting"). Fresenius SE has a two-tier management and control system consisting of the Management Board and the Supervisory Board. The powers of these bodies are governed in accordance with Regulation No. 2157/2001 on the Statute for a European Company (Societas Europaea - SE), the German Stock Corporation Act (*Aktiengesetz*) and by Fresenius SE's statutes and the rules of procedure of the Management Board and the Supervisory Board and its committees. The two boards work independently of each other. No one is allowed to be a member of both bodies simultaneously. In accordance with its statutes, Fresenius SE can be legally represented by two members of the Management Board or by one Management Board member together with an authorized signatory (*Prokurist*).

The Management Board is responsible for managing Fresenius SE's day-to-day business. Further, the Management Board legally represents Fresenius SE in its dealings with third parties. The Management Board is solely responsible for managing Fresenius SE, and the Annual General Meeting may not issue directives to the Management Board.

The Supervisory Board oversees and advises the Management Board and is responsible for appointing and removing members of the Management Board. In addition, the Supervisory Board represents Fresenius SE in transactions between a Management Board member and Fresenius SE itself. While the Management Board is required to submit regular reports on Fresenius SE's day-to-day operations and fundamental corporate planning issues, the Supervisory Board may also request special reports from the Management Board at any time. The Supervisory Board generally may not exercise any management functions. However, according to the rules of procedure of the Management Board, certain types of transactions may not be carried out by the Management Board without the consent of the Supervisory Board. If the Supervisory Board refuses to approve certain transactions contemplated by the Management Board, the Management Board can request that the Annual General Meeting make the final decision.

The Annual General Meeting appoints the members of the Supervisory Board for a term until the close of the General Meeting which resolves on the ratification of actions for the fourth financial year after the term of office is commenced, with the financial year in which the term of office commences not being counted, however, for no longer than for a period of six years. Reappointments are permissible.

In carrying out their duties, the members of the Management Board and the Supervisory Board have to exercise the standard of care of a diligent and conscientious businessperson. In complying with this standard of care, the members of these boards have to take into account a broad range of considerations, including the interests of Fresenius SE and its shareholders, employees and creditors. The Management Board in particular must respect the shareholders' right to equal treatment.

The German Stock Corporation Act prohibits individual shareholders and any other persons from exercising any influence on Fresenius SE to cause a member of the Management Board or the Supervisory Board to take actions detrimental to Fresenius SE. Anyone who uses his or her influence to cause a member of the Management Board or the Supervisory Board, an authorized signatory (Prokurist) or an authorized representative (*Handlungsbevollmächtigter*) to act in a way that is detrimental to Fresenius SE or its shareholders is liable to Fresenius SE for any damages caused thereby. The members of the Management Board and the Supervisory Board also become jointly and severally liable if they breach their duties and cause damage to Fresenius SE.

Where a breach of duty by members of the Management Board or the Supervisory Board causes damages to Fresenius SE, it may assert claims for compensation against the members of the Management Board or the Supervisory Board; the Management Board represents Fresenius SE in court where claims are asserted against Supervisory Board members, and the Supervisory Board represents Fresenius SE where claims are asserted against Management Board members. According to a decision by the German Federal Supreme Court (*Bundesgerichtshof*), the Supervisory Board has a duty to assert claims for compensation against the Management Board that are likely to be enforceable unless there are strong reasons for not doing so for the

good of the corporation, and these reasons outweigh or are at least as compelling as the reasons in favor of asserting the claims. However, even if the board entitled to represent Fresenius SE decides not to pursue the claim, Fresenius SE must assert claims for damages against members of the Management Board or the Supervisory Board if the Annual General Meeting so resolves with a simple majority.

Minority shareholders owning in the aggregate a total of one-tenth of the issued share capital may request that Fresenius SE asserts claims for damages against members of its boards and that a court appoint a special representative to do this. Shareholders owning in the aggregate a total of one-tenth or a proportionate amount of €1 million of the issued share capital may request the appointment of a special representative to assert claims for damages. In addition, shareholders owning in the aggregate a total of one-hundredth or a proportionate amount of €100,000 of the issued share capital at the time the motion is filed may apply for the admission of a lawsuit with the district court where Fresenius SE's registered office is located to compel Fresenius SE to assert claims for damages on its own behalf. One of the conditions for the admission of such a lawsuit is that the shareholders have made an unsuccessful request for Fresenius SE to file a suit within a reasonable period of time, and that there is evidence to justify the presumption that Fresenius SE has suffered damages due to dishonesty or gross violation of the law or its statutes. Fresenius SE is entitled at all times to assert a claim for damages on its own; if Fresenius SE files a suit, any pending shareholders' lawsuit relating to the admission of a lawsuit or the shareholders' lawsuit itself becomes inadmissible.

Fresenius SE may only waive claims for damages asserted against members of its governing bodies or make an out-of-court settlement if at least three years have passed since the claim was asserted so long as this is approved by a shareholders' resolution at the Annual General Meeting by a simple majority of votes, and provided that a minority of shareholders owning in the aggregate a total of one-tenth of the issued share capital do not record an objection.

Management Board

The Management Board of Fresenius SE consists of seven members as of the date of this offering memorandum.

The rules of procedure of the Management Board assign each member of the board a specific area of responsibility. The members of the Management Board are nevertheless jointly responsible for managing the Fresenius Group. The Management Board constitutes a quorum when a meeting has been convened with due notice and at least half of the members are present and vote. Resolutions are passed with a simple majority of the votes cast. In case of a deadlock, the chairman casts the tie-breaking vote.

In accordance with the German Stock Corporation Act, the Management Board must submit regular reports to the Supervisory Board, particularly on expected business policy and strategies, the profitability of operations, day-to-day business and any other transactions that may be of material importance for Fresenius SE's profitability or liquidity.

The table below lists the names of the members of the Management Board as of the date of this offering memorandum and includes their ages, principal areas of responsibility, the year in which each member was first appointed and all companies in which the members currently hold seats on an administrative, management or supervisory body. This table also lists each membership of the Management Board members on an administrative, management or supervisory body at Fresenius SE's subsidiaries.

Name	Age	Area of responsibility/ activity	Year first appointed	Other directorships and other supervisory Board appointments
Dr. Ulf M. Schneider	43	Chairman	2003	**Supervisory Board:** (a) Eufets AG (Chairman) Fresenius Kabi AG (Chairman) Fresenius Medical Care Management AG (Chairman) (b) Fresenius HemoCare Netherlands B.V., Netherlands Fresenius Kabi Austria GmbH, Austria Fresenius Kabi España S.A., Spain Fresenius Medical Care Groupe France S.A.S., France (Chairman) HELIOS Kliniken GmbH (Chairman) **Board of Directors:** APP Pharmaceuticals, Inc., USA FHC (Holdings), Ltd., Great Britain Fresenius Kabi Pharmaceuticals Holding Inc., USA (Chairman)
Rainer Baule	60	Fresenius Kabi	1997	**Supervisory Board:** (b) Calea Ltd., Canada Fresenius HemoCare Netherlands B.V., Netherlands (Chairman) Fresenius Kabi Austria GmbH, Austria (Chairman) Fresenius Kabi España S.A., Spain Fresenius Kabi Groupe France S.A., France Fresenius Kabi Italia S.p.A., Italy Labesfal - Laboratórios Almiro, S.A., Portugal **Board of Directors:** APP Pharmaceuticals, Inc., USA FHC (Holdings), Ltd., Great Britain **Management Board:** Fresenius Kabi AG (Chairman)
Dr. Francesco De Meo	45	Fresenius Helios	2008	**Supervisory Board:** (b) Allianz Private Krankenversicherungs-AG HELIOS Klinikum Bad Saarow GmbH (Chairman) HELIOS Klinikum Emil von Behring GmbH (Chairman) HELIOS Klinikum Krefeld GmbH HELIOS Kliniken Schwerin GmbH (Chairman) **Management Board:** HELIOS Kliniken GmbH (Chairman)
Dr. Jürgen Götz	45	Chief Legal and Compliance Officer and Labor Relations Director	2007	**Supervisory Board:** (b) HELIOS Kliniken GmbH Wittgensteiner Kliniken GmbH (Chairman)
Dr. Ben J. Lipps	68	Fresenius Medical Care	2004	**Management Board:** Fresenius Medical Care Management AG (Chairman)
Stephan Sturm	45	Chief Financial Officer	2005	**Supervisory Board:** (a) Fresenius Kabi AG (Deputy Chairman) VAMED AG, Austria (Deputy Chairman) (b) Fresenius HemoCare Netherlands B.V., Netherlands Fresenius Kabi España S.A., Spain Labesfal - Laboratórios Almiro, S.A., Portugal HELIOS Kliniken GmbH Wittgensteiner Kliniken GmbH **Board of Directors:** FHC (Holdings), Ltd., Great Britain
Dr. Ernst Wastler	50	Fresenius Vamed	2008	**Supervisory Board:** (b) VAMED-KMB Krankenhausmanagement und Betriebsführungsges.m.b.H., Austria (Chairman) Charité CFM Facility Management GmbH (Deputy Chairman) **Management Board:** VAMED AG, Austria (Chairman)

(a) Member of statutory Supervisory Boards.

(b) Member of comparable boards or committees of German and international companies.

Dr. Ulf M. Schneider has been the Chief Executive Officer ("CEO") of Fresenius SE since May 28, 2003. On November 1, 2001, Dr. Schneider joined the Management Board of Fresenius Medical Care, where he was responsible for finance. Previously, he was Group Finance Director at Gehe UK plc, a leading English pharmaceutical wholesaler and retailer based in Coventry, U.K. Ulf M. Schneider held several senior executive positions since 1989 with Gehe's majority shareholder, Franz Haniel & Cie. GmbH, a diversified German multinational company. Ulf M. Schneider holds a Lic. oec. degree in Finance and Accounting, a Ph.D. in Economics from the University of St. Gallen and an MBA from Harvard University.

Rainer Baule joined the Management Board of Fresenius SE on June 1, 1997 and has been CEO of Fresenius Kabi since May 7, 2001. From 1996 to 1997 he was CEO of EG&G Berthold, Bad Wildbad. Beginning in 1979 he held several leading positions in Germany and the U.S. at Carl Zeiss Group, Oberkochen, most recently as Executive Vice President of a division and as Member of the Zeiss Group Management. Rainer Baule started his professional career as a Management Partner of Komeg-Kontroll-Technik GmbH, Riegelsberg. He holds a degree in Commercial Engineering from TU Darmstadt.

Dr. Francesco De Meo joined the Management Board of Fresenius SE on January 1, 2008 as the CEO of Fresenius Helios. In 2000, Francesco De Meo became head of the legal and human resources departments of HELIOS Kliniken GmbH. On January 1, 2001, he was appointed to the HELIOS Kliniken Management Board with responsibilities for human resources, legal affairs, research and science. At the same time, he was also appointed Labor Relations Director. Before joining HELIOS, Francesco De Meo was director of Rauser AG, a management consultancy in Reutlingen, as well as a practicing attorney. He studied law and earned a doctorate at Tübingen University.

Dr. Jürgen Götz has been Chief Legal and Compliance Officer and the Labor Relations Director of Fresenius SE since July 1, 2007. From April 1, 2005 until his appointment to the Management Board, Jürgen Götz led the Legal and Insurance Department of Fresenius SE as Senior Vice President and General Counsel. He began his career in 1993 at Hoechst AG, where he held several senior management positions. In 1997, he became head of the Legal Department of Hoechst Marion Roussel AG. In 1999, Jürgen Götz took over the Legal – Global Corporate department of Aventis Pharma AG, the successor company to Hoechst Marion Roussel. Jürgen Götz studied law in Bonn, Munich and Frankfurt am Main, where he also earned his doctorate.

Dr. Ben J. Lipps has been on the Management Board of Fresenius SE since March 16, 2004 and is responsible for Fresenius Medical Care. He has been the CEO of Fresenius Medical Care AG & Co. KGaA since May 1, 1999. Prior to that, from September 1998 to May 1999, he was the deputy chairman of the Management Board. Since September 1996, Dr. Lipps has been President, Chief Executive Officer, and Director of Fresenius Medical Care Holdings, Inc. Prior to September 1996, he was President, Chief Executive Officer, Chief Operating Officer, and Director of Fresenius USA, Inc., having already held various posts in the predecessor company of Fresenius USA, Inc. Before his employment with the Group, Dr. Lipps joined Dow Chemical Company in 1966 and managed its research team, which between 1967 and 1969 developed the first capillary dialyzer. Dr. Lipps served as Vice President Research & Development at Cordis Dow Corporation before he joined the predecessor company of Fresenius USA, Inc.

Stephan Sturm has been the Chief Financial Officer ("CFO") at Fresenius SE since January 1, 2005. Previously, he was employed as Managing Director of Credit Suisse First Boston ("CSFB"). He joined CSFB in 1998 as co-director of the European share issue business and was promoted to Head of Investment Banking for Germany and Austria in 2000. He was also a member of CSFB's European Management Committee. During his over 13 years in investment banking, Mr. Sturm held a variety of executive positions with BHF-Bank, Union Bank of Switzerland, and CSFB in Frankfurt and London. Stephan Sturm began his career in 1991 as a management consultant at McKinsey & Co in Dusseldorf and Frankfurt. Stephan Sturm holds a degree in Business from Mannheim University.

Dr. Ernst Wastler has served as CEO of VAMED AG since July 1, 2001, and joined the Fresenius SE Management Board on January 1, 2008. Ernst Wastler became a member of the VAMED AG Management Board in 1998 and was responsible for projects and services central Europe. Prior to that, he held several management positions at international business segments of the VAMED Group. His career began in 1981 in

international consulting, engineering and project management at Austroplan GmbH in Vienna. Ernst Wastler studied international business at the Vienna University of Economics and Business Administration and earned a doctorate there in 1983.

The business address of the members of the Management Board is Fresenius SE's headquarters at Bad Homburg vor der Höhe, Germany.

The contracts of the members of the Management Board will end on the following dates:

Dr. Ulf M. Schneider	2013
Rainer Baule	2009
Dr. Francesco De Meo	2010
Dr. Jürgen Götz	2010
Dr. Ben J. Lipps	2011
Stephan Sturm	2012
Dr. Ernst Wastler	2010

The terms of office for each board member will also end on each of these respective dates. The contracts of the Management Board members do not provide for any payments if their employment is terminated.

Fresenius SE paid members of the Management Board compensation totalling €12,544 thousand in 2007 for their services to Fresenius SE and its subsidiaries. Of this amount, €2,903 thousand was non-performance related compensation, €4,759 thousand performance-related compensation and €4,391 thousand long-term incentive components. The components with long-term incentive effect can be exercised only after the expiry of the specified vesting period. For more information, see the notes to our consolidated financial statements for the year ended December 31, 2007 found elsewhere in this offering memorandum.

Accruals totalling €275 thousand for the Group were recognized in 2007 for pension commitments for the active members of the Management Board. With regard to these pension commitments, the Fresenius Group had pension obligations of €2,028 thousand as of December 31, 2007.

Compensation for retired Management Board members and their surviving dependents amounted to €483 thousand in 2007. Provisions for pension obligations for these individuals amounted to €9,870 thousand.

Fresenius SE has concluded a consequential loss liability insurance policy (D&O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of Fresenius SE and for all representative bodies of affiliates in Germany and elsewhere. The D&O policy applies throughout the world and runs until the end of June 2009. 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.

Fresenius SE has not made any loans to the members of the Management Board. The board members have not completed any transactions with Fresenius SE outside the course of its normal business activities.

There are no family relationships between any members of the Management Board. There are no family relationships between any members of the Management Board and any members of the Supervisory Board.

Supervisory Board

The Supervisory Board of Fresenius SE is composed of six shareholder representatives and six employee representatives. All twelve members of the Supervisory Board are appointed by the Annual General Meeting. Six of the twelve members must be appointed on the basis of a proposal put forward by the employees. The Annual General Meeting is bound to the employees' proposal. In accordance with the legal form of an SE, the employee representatives may come from various European countries.

Resolutions of the Supervisory Board require a majority vote by its members. In the case of a parity of votes, the vote of the chairman, or, if he does not participate in the passing of the resolution, the vote of the deputy chairman, provided that he is a shareholder representative, shall be decisive. A deputy chairman who is an employee representative shall not be entitled to a casting vote.

The Supervisory Board must meet at least twice during each six-month calendar period.

The following table contains the names of the members of Fresenius SE's Supervisory Board and includes their positions on the Supervisory Board, the year in which each member was first appointed and the names of all companies in which Supervisory Board members currently holds a seat on an administrative, management or Supervisory body. This table does not list each membership of the Supervisory Board members on an administrative, management or Supervisory body at Fresenius SE's subsidiaries.

Name (Principal occupation)	Position	Member since	Other directorships
Dr. Gerd Krick Former CEO of Fresenius SE	Chairman	2003	**Committees:** Member of the Audit Committee Chairman of the Nomination Committee Chairman of the Personnel Committee **Supervisory Boards:** Fresenius Medical Care AG & Co. KGaA (Chairman) Fresenius Medical Care Management AG VAMED AG, Austria (Chairman)
Prof. Dr. h.c. Roland Berger Management Consultant		2008	**Committees:** Chairman of the Audit Committee **Supervisory Boards:** Live Holding AG (Deputy Chairman) Prime Office AG (Chairman) Schuler AG Senator Entertainment AG Wilhelm von Finck AG (Deputy Chairman) WMP EuroCom AG (Chairman) **Advisory Board:** Wittelsbacher Ausgleichsfonds **Board of Directors:** Fiat S.p.A., Italy Special Purpose Acquisition Company (SPAC) Germany 1 Acquisition Limited, Guernsey (Co-Chairman) Roland Berger AG, Switzerland (Chairman) Telecom Italia S.p.A., Italy
Dario Ilossi Trade union officer FEMCA Cisl – Energy, Fashion and Chemicals		2007	
Konrad Kölbl Full-time Works Council member Member of the Manual Workers' Works Council VAMED-KMB Krankenhausmanagement und Betriebsführungsges.m.b.H. Chairman of the Group Works Council VAMED AG Member of the SE-Works Council of Fresenius SE		2007	**Committees:** Audit Committee **Supervisory Board:** VAMED-KMB Krankenhausmanagement und Betriebsführungsges.m.b.H., Austria

Name (Principal occupation)	Position	Member since	Other directorships
Klaus-Peter Müller Chairman of the Supervisory Board of Commerzbank AG		2008	**Supervisory Boards:** Commerzbank AG (Chairman) Fraport AG Linde AG Steigenberger Hotels AG **Board of Directors:** Parker Hannifin Corporation, USA **Administrative Boards:** Assicurazioni Generali S.p.A., Italy KfW Kreditanstalt für Wiederaufbau Liquiditäts-Konsortialbank GmbH
Dr. Gerhard Rupprecht Member of the Management Board Allianz SE Chairman of the Management Board Allianz Deutschland AG		2004	**Supervisory Boards:** Allianz Beratungs-und Vertriebs-AG (Chairman) Allianz Elementar Versicherungs-AG (Chairman) Allianz Investmentbank AG (Deputy Chairman) Allianz Elementar Lebensversicherungs-AG (Chairman) Allianz Lebensversicherungs-AG (Chairman) Allianz Private Krankenversicherungs-AG (Chairman) Allianz Suisse Lebensversicherungs-AG, Switzerland Allianz Suisse Versicherungs-AG, Switzerland Allianz Versicherungs-AG (Chairman) Heidelberger Druckmaschinen AG
Wilhelm Sachs Full-time Works Council member Deputy Chairman of the Works Council Friedberg plant Member of the Joint Works Council Fresenius SE/Friedberg plant Chairman of the General Works Council Fresenius SE Member of the SE-Works Council of Fresenius SE		2004	**Committees:** Member of the Personnel Committee
Dr. Dieter Schenk Lawyer and tax consultant	Deputy Chairman	1998	**Committees:** Member of the Nomination Committee **Supervisory Boards:** Fresenius Medical Care AG & Co. KGaA (Deputy Chairman) Fresenius Medical Care Management AG (Deputy Chairman) Gabor Shoes AG (Chairman) Greiffenberger AG (Deputy Chairman) TOPTICA Photonics AG (Chairman) **Administrative Board:** Else Kröner-Fresenius-Stiftung (Chairman)
Dr. Karl Schneider Former Spokesman Südzucker AG		1991	**Committees:** Member of the Audit Committee Member of the Nomination Committee Member of the Personnel Committee **Administrative Board:** Else Kröner-Fresenius-Stiftung (Deputy Chairman)

Name (Principal occupation)	Position	Member since	Other directorships
Stefan Schubert Hospital nurse and full-time Works Council member Chairman of the Works Councils of HELIOS Klinik Bad Schwalbach, HELIOS Klinik Idstein and Kreisaltenzentrum Bad Schwalbach Chairman of the Group Works Council of Wittgensteiner Kliniken GmbH Member of the SE-Works Council of Fresenius SE		2007	**Supervisory Board:** Wittgensteiner Kliniken GmbH
Rainer Stein Full-time Works Council member Chairman of the Group Works Council HELIOS Kliniken GmbH Chairman of the SE-Works Council of Fresenius SE		2007	**Committees:** Member of the Audit Committee **Supervisory Board:** HELIOS Kliniken GmbH
Niko Stumpfögger Secretary of the Trade Union ver.di, Betriebs- und Branchenpolitik im Bereich Gesundheit und Soziales	Deputy Chairman	2007	**Supervisory Board:** HELIOS Kliniken GmbH

Members of the Supervisory Board may be reached at the address of Fresenius SE's headquarters in Bad Homburg vor der Höhe, Germany.

The term of the current Supervisory Board members expires upon completion of the Annual General Meeting in 2013.

The Supervisory Board has set up three sub-committees: the Personnel Committee, the Audit Committee and the Nomination Committee. The main responsibility of the Audit Committee, whose members are Prof. Dr. Roland Berger, Dr. Gerd Krick, Dr. Karl Schneider, Konrad Kölbl and Rainer Stein, is to prepare the review by the Supervisory Board to approve the annual financial statements and the consolidated financial statements; to review the interim reports and, following consultation with the Management Board, to engage the auditors (including agreement on fees). The Personnel Committee, whose members are Dr. Gerd Krick, Dr. Karl Schneider and Wilhelm Sachs, is responsible for concluding, amending, and terminating the Management Board members' employment contracts. The Nomination Committee, whose members are Dr. Gerd Krick, Dr. Karl Schneider and Dr. Dieter Schenk, deliberates on the Supervisory Board's proposal to the Annual General Meeting regarding the nomination of the Supervisory Board.

The compensation paid to the Supervisory Board is determined by the Annual General Meeting and is set out in Section 14 of Fresenius SE's statutes. The members of the Supervisory Board received a total compensation of approximately €743 thousand in 2007, approximately €94 thousand of which related to fixed compensation, €606 thousand variable compensation and €43 thousand compensation for committee services. Part of the compensation for 2007 relates to the time before the conversion into a SE at July 13, 2007. Compensation for the time after the conversion into a SE was approved by the Annual General Meeting in May 2008 and will be fully disclosed in the annual report 2008. Each member of the Supervisory Board shall receive a fixed compensation of €13 thousand. The members of the Audit Committee and the Personnel Committee of the Supervisory Board receive an additional €10 thousand each and the Chairman of the committee a further €10 thousand. For each full fiscal year, the remuneration increases by 10% for each percentage point that the dividend paid on each ordinary share for that year (gross dividend according to the resolution of the Annual General Meeting) exceeds 3.6% of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. The Chairman receives twice this amount and the deputies to the Chairman one and a half times the amount of a Supervisory Board member. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board. Fresenius SE provides to the members of the Supervisory Board insurance coverage in an adequate amount (relating to their function) and on an adequate excess amount basis.

Fresenius SE has concluded a consequential loss liability insurance policy (D&O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of Fresenius SE and for all representative bodies of affiliates in Germany and elsewhere. The D&O policy applies throughout the world and runs until the end of June 2009. 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.

Fresenius SE has not made any loans to the members of the Supervisory Board. The Supervisory Board members have not completed any transactions with Fresenius SE outside the course of its normal business activities.

There are no family relationships between any members of the Supervisory Board. There are no family relationships between any members of the Supervisory Board and any members of the Management Board.

Equity Interests Held by Management Board and Supervisory Board Members in Fresenius SE

As of the date of this offering memorandum, the members of the Management Board held a total of 7,790 shares representing a notional amount of the issued share capital of €7,790.00 and the members of the Supervisory Board held 958,955 shares representing a notional amount of the issued share capital of €958,955.00. No member of the Management Board or the Supervisory Board, directly or indirectly, held shares or options exceeding 1% of the shares issued by Fresenius SE. In addition, the total number of shares and options held by the members of the Management Board and the Supervisory Board as of December 31, 2007 did not exceed 1% of the shares issued by Fresenius SE, as required by Section 6.6 of the German Corporate Governance Code.

Management and Employee Participation Plans

As of the date of this offering memorandum, Fresenius SE has three share purchase and option plans for Management Board members and employees in management positions: the 1998 stock option program, the 2003 stock option plan and the 2008 stock option plan. The latter is the only plan under which options are granted.

2008 Stock Option Plan

Under Fresenius SE's 2008 stock option plan, which was approved by the Annual General Meeting on May 21, 2008, the Management Board is authorized to issue up to 6,200,000 subscription rights for up to 3,100,000 ordinary bearer shares as well as for up to 3,100,000 preference bearer shares of Fresenius SE until May 20, 2013. Subscription rights may only be issued to members of Fresenius SE's Management Board, to members of the management of affiliated companies and to executive employees of the Company and affiliated companies.

Members of the Management Board of Fresenius Medical Care Management AG, in its capacity as personally liable general partner of Fresenius Medical Care AG & Co. KGaA, as well as employees of Fresenius Medical Care AG & Co. KGaA and of the companies which are connected to the Company solely through Fresenius Medical Care AG & Co. KGaA, to the extent that they are in an employment or service relationship solely with Fresenius Medical Care AG & Co. KGaA or solely with a company affiliated with the Company only through Fresenius Medical Care AG & Co. KGaA, shall be excluded from the Fresenius SE stock option plans.

The total volume of the subscription rights shall be allocated to the entitled groups of persons as follows:

- Members of the Management Board of the Company shall receive a maximum of up to 1,200,000 subscription rights, comprised of 600,000 subscription rights for ordinary bearer shares and 600,000 subscription rights for preference bearer shares.
- Members of the management of affiliated companies of the Company shall receive a maximum of up to 3,200,000 subscription rights, comprised of 1,600,000 subscription rights for ordinary bearer shares and 1,600,000 subscription rights for preference bearer shares.

- Executive employees of the Company and of affiliated companies of the Company shall receive a maximum of up to 1,800,000 subscription rights, comprised of 900,000 subscription rights for ordinary bearer shares and 900,000 subscription rights for preference bearer shares.

Subscription rights for the subscription of ordinary bearer shares and subscription rights for the subscription of preference bearer shares may only be granted together to their respective entitled persons and in the same number.

The granting of the subscription rights shall occur in five annual tranches, in each case with effect as of the first bank working day in July and/or with effect as of the first bank working day in December (each of them a "Day of Issue"). As the amendment of the Statutes were entered in the commercial register on July 11, 2008, subscription rights shall be granted for the first time on the first bank working day of the calendar month following the register entry.

The exercise price of a subscription right shall equal the average stock market price (closing price) of the ordinary bearer share or the preference bearer share, respectively, of the Company in the electronic XETRA trading of Deutsche Börse AG in Frankfurt am Main, or a comparable successor system, on the last 30 exchange trading days before the granting of the subscription right. For U.S. participants the exercise price may be calculated on the basis of the average share price over the last 30 calendar days prior to the grant date, should such calculation reveal a higher exercise price. The minimum exercise price shall be the proportionate amount of the subscribed capital of the Company attributable to an ordinary bearer share or, respectively, a preference bearer share (Section 9 para. 1 German Stock Corporation Act (AktG)).

The exercise of subscription rights shall be subject to the condition precedent, in each case, that the annual success target within a three-year waiting period is achieved. The success target shall be achieved in each case if, after the granting of the subscription rights to the respective entitled person, the adjusted net income, in each case compared to the respective adjusted net income of the previous financial year, has increased by at least eight percent. In the event that for one comparison period or more than one of the three comparison periods within the waiting period the success target is not achieved, the issued subscription rights shall forfeit, in each case, to such proportionate extent as to which the success target has not been achieved during the waiting period, i.e. to the extent of one third, of two thirds or entirely, with an equal share of subscription rights being allocated to ordinary shares and preference shares.

The waiting period for the first-time exercise shall be three years from the respective day of issue. After the expiry of the waiting period, all subscription rights in respect of which the success target has been achieved may be exercised at any time outside the black-out periods.

2003 Stock Option Plan

Fresenius SE's 2003 stock option plan, which was approved by the Annual General Meeting on May 28, 2003, is the only plan under which options in the form of convertible bonds were granted during 2007.

Under the 2003 Plan, 1,440,000 convertible bonds with a par value of €2.56 each could be granted in total until the entry of the shares split on January 24, 2007. After the share split (ratio 1 (old) : 3 (in the future)), 1,080,000 convertible bonds with a par value of €1.00 each could be granted in total during 2007. The bonds were granted exclusively to the members of the Management Board of Fresenius SE, to members of the management or affiliated companies, to employees of Fresenius SE and to employees of its affiliated companies. Members of the Management Board and employees of Fresenius Medical Care AG & Co. KGaA and its affiliated companies which are only affiliated with Fresenius SE through Fresenius Medical Care AG & Co. KGaA were excluded. The convertible bonds entitle to the subscription of up to 1,260,000 bearer ordinary shares and up to 1,260,000 non-voting bearer preference shares of Fresenius SE. Members of the Management Board of Fresenius SE were entitled, in total, up to 560,000 convertible bonds giving the right to subscribe up to 280,000 bearer ordinary shares and the same number of non-voting bearer preference shares. Employees were entitled, in total, up to 1,960,000 convertible bonds giving the right to subscribe up to 980,000 bearer ordinary shares and the same number of non-voting bearer preference shares.

This compensation program was superseded by Fresenius SE's 2008 stock option plan. Since May 27, 2008, no further stock options have been issued from the 2003 stock option program.

The convertible bonds have an interest rate of 5.5%. Except for the members of the Management Board, eligible employees could finance the purchase of these securities with a loan that has the same terms and conditions as the convertible bonds and is secured by these. Fresenius SE is authorized to offset its obligation in relation to the convertible bonds against the employees' obligation under the related loans. Therefore, the obligations under the convertible bonds and the loan receivables from employees are considered as stock options and were not included in Fresenius SE's consolidated financial statements for 2007. The options have a term of ten years. One-third of them can be converted after two, three, and four years after the issue date at the earliest. The convertible bonds granted to members of the Management Board, members of the management of the Issuer's affiliates, employees of the Issuer and employees of the Issuer's affiliates that were not financed by loans were recorded as liabilities in our consolidated accounts for the 2007 financial year.

Once the subscription rights have been granted, the beneficiaries may choose between stock options with or without a stock price target. The conversion price for stock options with a stock price target is the price of the ordinary or preference shares at the time the share price exceeds the base price by at least 25% for the first time. If converted after the share split, the conversion price which entitles to three ordinary shares or preference shares, respectively, is equal to the triple of one third of the initial value. The initial value is the joint average stock exchange price of bearer ordinary shares and non-voting bearer preference shares during the last 30 trading days prior to the date of grant. The conversion price for stock options without a stock price target is the base price less the nominal value of the converted convertible bond. Where stock options without a stock price target are chosen, the beneficiaries receive 15% fewer stock options than those who choose stock options with a stock price target. Each convertible bond granted after the share split entitles to subscribe one ordinary or preference share, subject to payment of the conversion price. Bonds granted and converted prior to the share split were entitled to subscribe one ordinary or preference share, conversion after the share split entitles to three ordinary or preference shares. Every year, up to 20% of the total volume of stock options available for issue may be issued from Fresenius SE's 2003 stock option plan. As of December 31, 2007, the number of outstanding stock options issued under the 2003 Plan was 3,387,084 of which 787,280 were exercisable.

1998 Stock Option Program

In 1998, Fresenius SE launched its 1998 stock option program for members of the Management Board and other members of senior management. This stock-based compensation program was superseded by Fresenius SE's 2003 stock option plan, and since 2003 no further stock options have been issued from the 1998 stock option program. The 1998 stock option program gave beneficiaries the right to purchase ordinary shares and preference shares in Fresenius SE. The stock options granted under this program have a term of ten years. One-third of them can be exercised two, three, and four years after the issue date at the earliest. Each subscription right entitles the holder to purchase one ordinary share or one preference share. After the share split in 2007, each option entitled the holder to acquire three ordinary or three preference shares. As of December 31, 2007, the number of outstanding and exercisable stock options issued under the 1998 plan was 856,908.

The transactions relating to stock options are summarized as follows:

Ordinary shares at December 31,	Number of options	Weighted-average exercise price in €	Number of exercisable options
Balance in 2005	2,295,885	24.56	1,085,940
Granted	451,380	39.98	
Expired	92,961	24.42	
Exercised	563,898	25.87	
Balance in 2006	2,090,406	27.97	855,960
Granted	456,710	56.90	
Exercised	405,447	23.90	
Expired	19,673	32.51	
Balance in 2007	2,121,996	34.93	822,094

Preference shares at December 31,	Number of options	Weighted-average exercise price in €	Number of exercisable options
Balance in 2005	2,295,885	26.97	1,085,940
Granted	451,380	39.98	
Expired	92,961	24.42	
Exercised	563,898	25.87	
Balance in 2006	2,090,406	29.21	855,960
Granted	456,710	56.58	
Exercised	405,447	25.68	
Expired	19,673	33.10	
Balance in 2007	2,121,996	35.74	822,094

The following tables set forth the outstanding and exercisable stock options as of December 31, 2007:

Ordinary shares price range in €	Number of outstanding options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Number of exercisable options	Weighted-average exercise price in €
10.01 – 15.00	153,756	5.50	13.65	153,756	13.65
15.01 – 20.00	142,557	4.59	19.64	142,557	19.64
20.01 – 25.00	262,232	5.58	22.05	161,603	22.10
25.01 – 30.00	391,391	6.90	28.40	132,627	28.07
30.01 – 35.00	220,260	3.11	30.72	220,260	30.72
35.01 – 40.00	481,836	8.39	39.26	11,291	35.51
45.01 – 50.00	13,254	8.50	48.81	0	
55.01 – 60.00	441,433	9.50	56.43	0	
70.01 – 75.00	15,277	9.50	70.54	0	
Total	2,121,996	7.00	34.93	822,094	23.55

Preference shares price range in €	Number of outstanding options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Number of exercisable options	Weighted-average exercise price in €
10.01 – 15.00	167,169	5.50	12.04	167,169	12.04
15.01 – 20.00	214,178	6.50	19.00	113,549	19.00
20.01 – 25.00	129,144	4.50	21.13	129,144	21.13
25.01 – 30.00	439,445	6.31	28.91	180,681	28.31
30.01 – 35.00	125,073	3.58	34.73	125,073	34.73
35.01 – 40.00	50,724	7.50	38.52	11,291	38.52
40.01 – 45.00	526,299	7.41	40.83	95,187	42.12
50.01 – 55.00	13,254	8.50	53.01	0	
55.01 – 60.00	441,433	9.50	56.11	0	
70.01 – 75.00	15,277	9.50	70.14	0	
Total	2,121,996	7.00	35.74	822,094	25.30

Conflicts of Interest

Some members of Fresenius SE's Management Board and other members of its management are also members of the Management Board and/or members of the management of subsidiaries of Fresenius SE. Members of Fresenius SE's Management Board also serve on the managing bodies of Fresenius Medical Care AG & Co. KGaA, Fresenius Kabi AG, HELIOS Kliniken GmbH and VAMED AG as well as of the subsidiaries of these companies.

Although the interests of Fresenius SE and its subsidiaries are generally in line with each other, there can be no assurance that conflicts of interests will not arise in certain instances. These potential conflicts of interests could be particularly important in light of Fresenius SE's minority ownership of Fresenius Medical Care AG & Co. KGaA. The German Stock Corporation Act and the German Corporate Governance Code contain provisions that aim to protect affected companies from the negative effects of potential conflicts of interest.

Beyond this, there are no potential conflicts of interests between the obligations of the Management Board members towards Fresenius SE and their private interests or other obligations. As far as Fresenius SE is aware, there are no other potential conflicts of interests between the Supervisory Board members' obligations towards Fresenius SE and their private interests or other obligations other than those transactions set forth under "Certain Relationships and Related Party Transactions".

None of the members of Fresenius SE's Management Board and the Supervisory Board were appointed or hired on the basis of an agreement between the relevant board and a third party.

Annual General Meeting

Fresenius SE's Annual General Meeting may be held where the registered office of Fresenius SE is located, or in a German city where a stock exchange is located, or at the location of a German subsidiary. The Annual General Meeting may be convened by the Management Board or, in cases prescribed by law, by the Supervisory Board or a group of ordinary and/or preference shareholders who, in the aggregate, hold at least 5% of the issued share capital. The Annual General Meeting shall be held within the first six months after the completion of a financial year in accordance with Regulation No. 2157/2001 on the Statute for a European Company (SE). Shareholders who wish to participate in the Annual General Meeting or to exercise their voting right have to register for the ordinary general meeting and prove their eligibility. For the purpose of proving eligibility, a special proof of share ownership issued by the custodian institution in text form in the German or English language will be sufficient. The proof of shareholding has to relate to the point in time as determined by the German Stock Corporation Act (*Aktiengesetz*). The registration and proof of eligibility must be received by the company no later than on the seventh day prior to the general meeting (registration date). If

the end of the period falls on a Saturday, Sunday, or a holiday recognised by statute law at the registered office of the company, the preceding working day shall be relevant for the delivery.

The Annual General Meeting shall be convened at least 30 days prior to the day by the end of which the shareholders have to register for the general meeting.

Each ordinary share entitles the holder to one vote at the Annual General Meeting. The preference shares carry no voting rights unless mandatory legal provisions provide otherwise. However, if the annual minimum preference dividend of €0.02 for each preference share in accordance with Section 20, para. 3 of the statutes is not paid in full in a given year and the remainder is not paid the following year in addition to the full dividend for that year, preference shareholders will have voting rights until the then outstanding amount has been paid. In this case, the preference shares must be taken into account when calculating a majority of the issued share capital as required by law or the statutes.

A resolution to eliminate or limit preference rights requires the approval of the preference shareholders. If the preference rights are eliminated, the preference shareholders will receive voting rights. A resolution on the issue of preference shares that rank senior or equal to the non-voting preference shares in the distribution of profit or business assets also requires the approval of the preference shareholders. Approval is not required if the right to issue such shares was expressly reserved when the preference rights were being granted or, if the voting right was excluded later, at the time of exclusion, and the subscription rights of shareholders are not excluded. The preference shareholders must decide in a special resolution at the Annual General Meeting whether or not to give the required approval by a majority of at least three-quarters of the votes cast. The statutes may not create a different majority or impose further requirements.

The resolutions of the Annual General Meeting shall be passed by a simple majority of votes cast, unless the statutes or mandatory legal provisions do require otherwise. Unless mandatory legal provisions require otherwise, amendments of the statutes require a majority of two thirds of the votes cast or, if at least half of the subscribed capital is represented, the simple majority of votes cast. If, for the effectiveness of the passing of resolutions, mandatory legal provisions require that, in addition, a majority of the subscribed capital be represented when the resolution is passed, the simple majority of the subscribed capital represented shall be sufficient, to the extent that this is permitted by law. If the voting results in a tie, a motion shall be deemed rejected. Shareholders can exercise their voting rights by proxy. In accordance with the German Corporate Governance Code, Fresenius SE names one or more proxies to exercise shareholders' voting rights following their instructions.

Resolutions involving amendments to the statutes of a stock corporation require a majority of at least three quarters of the subscribed capital represented at the casting of votes as well as a simple majority of the votes cast (Sections 179 para. 2, 133 AktG). The statutes may stipulate deviating majority requirements, however, with the proviso that in respect of a change of the corporate purpose only a larger majority of the subscribed capital may be stipulated (Section 179 para. 2 sentence 2 AktG). In the case of an SE, amendments of the statutes require a resolution of the Annual General Meeting adopted with a majority of at least two thirds of the votes cast, provided that the legal provisions applicable to stock corporations do not stipulate or allow for larger majority requirements (Art. 59 para. 1 SE Regulation). Therefore, according to the prevailing opinion, those amendments of the statues which pursuant to the AktG already require a mandatory majority of the subscribed capital of three quarters now require, in the case of an SE, a majority of three quarters of the votes (validly) cast. The statutes of an SE may stipulate that the simple majority of votes cast is sufficient for a resolution of the general meeting effecting amendments to the statutes, provided that at least half of the subscribed capital is represented (Section 51 sentence 1 SEAG). This does not apply with regard to an alteration of the corporate purpose, a resolution on the transfer of the registered office or in cases where a larger majority of the subscribed capital is required by mandatory statutory law (Section 51 sentence 1 SEAG). The statutes of Fresenius SE contain a provision to this effect (cf. Section 18 para. 3 of the statutes of Fresenius SE).

Corporate Governance

The German Corporate Governance Code ("Code") contains recommendations and suggestions for managing and monitoring listed companies in Germany. It is based on internationally and nationally recognized standards for good and responsible corporate governance. The purpose of the Code is to make the German corporate governance system transparent for investors. The Code was passed by the Government Commission of the German Corporate Governance Code on February 26, 2002 and has been amended since then, most recently on June 14, 2007 and on June 6, 2008.

There is no legal obligation to comply with the recommendations or suggestions of the Code. Section 161 of the German Stock Corporation Act only requires that the Management Board and the Supervisory Board either declare on an annual basis that the recommendations of the Code were and will be adhered to or state which recommendations were or will not be followed. This declaration must be available to shareholders on a constant basis. No disclosure is required when companies deviate from the suggestions in the Code.

The Management and Supervisory Boards of Fresenius SE have made a Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act *(Aktiengesetz)* on May 21, 2008, in accordance with the German Corporate Governance Code as of June 14, 2007, and have made it available to shareholders. In accordance with clause 3.10 of the Code, this declaration, as well as past declarations, is available on our website at www.fresenius.com/Investor Relations/Corporate Governance:

"The Management Board and the Supervisory Board of Fresenius SE declare that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been and are being complied with and were complied with in the past. The Management Board and the Supervisory Board also intend to follow the recommendations of the German Corporate Governance Code in the future. Merely the following recommendations have not been or are not being adhered to:

- Code clause 4.2.3 recommends that the Supervisory Board should agree to a cap for stock options and comparable instruments in the event of extraordinary, unforeseen developments. The Stock Option Plan 2008 does not contain such regulation.
- Pursuant to clause 5.4.1 of the Code, an age limit is to be specified for the members of the Supervisory Board. According to clause 5.1.2, the same shall apply to the members of the Management Board. As in the past, Fresenius will refrain from introducing an age limit for members of the Management and Supervisory Boards as this would limit the selection of qualified candidates."

Principal Shareholders

The share capital of Fresenius SE consists of ordinary shares and non-voting preference shares. Both classes of shares are issued only in bearer form. Accordingly, unless Fresenius SE receives information regarding acquisitions of its shares pursuant to German statutory notification requirements, it has no way of determining who its shareholders are or how many shares any particular shareholder owns. Under the German Securities Trading Act (*Wertpapierhandelsgesetz*), holders of voting securities of a German company listed on the regulated market (*regulierter Markt*) of a German stock exchange or a corresponding trading segment of a stock exchange within the EU are required to notify the issuer of the level of their holding whenever such holding reaches, exceeds or falls below certain thresholds, which are set at 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% of an issuer's outstanding voting rights.

The Else-Kröner-Fresenius Foundation held approximately 58.17% of the voting rights of Fresenius SE as at December 14, 2008.

Allianz Lebensversicherungs AG ("Allianz") held between 5% and 10% of the ordinary shares, according to a 2005 press statement. These two principal shareholders do not have any corporate law relationship.

FMR LLC., Boston, Massachusetts, USA, exceeded the threshold of 3% and held 3.43% of the voting rights in Fresenius SE, arising from 2,658,121 voting rights, on October 1, 2007. No update was provided after the capital increase in August 2008.

FIL Limited, Hamilton, Bermuda, exceeded the thresholds of 3% and 5% of the voting rights in Fresenius SE and held 5.19% of the voting rights in Fresenius SE, arising from 4,675,538 voting rights, on May 28, 2008. No update was provided after the capital increase in August 2008.

Artio Global Management LLC, New York, USA, crossed below the threshold of 3% and held 2.97% of the voting rights in Fresenius SE, arising from 2,396,313 voting rights, on December 16, 2008.

The remaining shares of Fresenius SE are in free float. All ordinary shares of Fresenius SE have identical voting rights. There are no multiple voting rights.

Holders of Fresenius SE's preference shares are entitled to receive a dividend from the annual distributable balance sheet profit that is €0.01 higher per share than the dividend received by holders of ordinary shares. Distribution of a minimum dividend of €0.02 per preference share takes precedence over the distribution of a dividend on the ordinary shares. If the distributable profit is not sufficient to pay a dividend of €0.02 per preference share in one or more financial years, the outstanding amount (with no interest) is paid from the distributable profit of subsequent financial years after distribution of the minimum dividend on the preference shares for these financial years and before distribution of a dividend on the ordinary shares. This right to subsequent payment also applies to the dividend on preference shares for the financial year in which the distributable profit is used to make up payments on preference shares dividends carried over from previous years.

CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

In connection with the formation of Fresenius Medical Care AG (the business form of Fresenius Medical Care until its transformation into a partnership limited by shares), which resulted from the combination of Fresenius Worldwide Dialysis (the dialysis business of Fresenius) and the dialysis business of W.R. Grace, Fresenius SE and its affiliates and Fresenius Medical Care AG & Co. KGaA and its affiliates entered into several agreements for the purpose of giving effect to the Merger and defining our ongoing relationship. Fresenius SE and W.R. Grace negotiated these agreements. The information below summarizes the material aspects of certain agreements, arrangements and transactions between Fresenius SE, Fresenius Medical Care AG & Co. KGaA and their affiliates. We believe that the leases, the supply agreements and the service agreements are no less favorable to us and no more favorable to Fresenius Medical Care AG & Co. KGaA than would have been obtained in arm's length bargaining between independent parties. The trademark and other intellectual property agreements summarized below were negotiated by Fresenius SE and W.R. Grace, and, taken independently, are not necessarily indicative of market terms.

In the discussion below regarding our contractual and other relationships with Fresenius Medical Care AG & Co. KGaA, the term "we (or us) and our subsidiaries" refers *only* to Fresenius SE and its affiliates *other than* Fresenius Medical Care AG & Co. KGaA and its subsidiaries.

Real Property Lease

Fresenius Medical Care AG & Co. KGaA did not acquire the land and buildings in Germany that Fresenius Worldwide Dialysis used when Fresenius Medical Care AG & Co. KGaA was formed in September 1996. Fresenius SE or its affiliates have leased part of the real property to Fresenius Medical Care AG & Co. KGaA directly, and transferred the remainder of that real property to two limited partnerships. Fresenius SE is the sole limited partner of each partnership and the sole shareholder of the general partner of each partnership. These limited partnerships, as landlords, have leased the properties to Fresenius Medical Care AG & Co. KGaA and to Fresenius SE, as applicable, for use in their respective businesses. The aggregate annual rent payable by Fresenius Medical Care under these leases was approximately €14.0 million, which was approximately US$19.2 million as of December 31, 2007, exclusive of maintenance and other costs, and is subject to escalation, based upon the German consumer-price-index determined by the Federal Statistical Office, a specified German cost of living index. The leases for manufacturing facilities have a ten-year term, followed by two successive optional renewal terms of ten years each at the election of Fresenius Medical Care. In December 2006, Fresenius Medical Care exercised its option to renew the leases for manufacturing facilities and the other leases were amended to extend their terms and add renewal options. The leases for the other facilities have a term of ten years. In December 2007, we amended the lease for the Schweinfurt, Germany facility to add additional manufacturing capacity. Based upon an appraisal, we believe that the rents under the leases represent fair market value for such properties.

Intellectual Property

Trademarks

Fresenius SE continues to own the name and mark "Fresenius" and its "F" logo. Fresenius SE and Fresenius Medical Care Deutschland GmbH ("D-GmbH"), the principal German subsidiary of Fresenius Medical Care, have entered into agreements containing the following provisions. Fresenius SE has granted to D-GmbH, for the benefit of Fresenius Medical Care and its affiliates, an exclusive, worldwide, royalty-free, perpetual license to use "Fresenius Medical Care" in its company names, and to use the Fresenius marks, including some combination marks containing the Fresenius name that were used by Fresenius SE's dialysis business, and the Fresenius Medical Care name as a trade name, in all aspects of the renal business. D-GmbH, for the benefit of Fresenius Medical Care and its affiliates, has also been granted a worldwide, royalty-free, perpetual license:

- to use the "Fresenius Medical Care" mark in the then current National Medical Care non-renal business if it is used as part of "Fresenius Medical Care" together with one or more descriptive words, such as "Fresenius Medical Care Home Care" or "Fresenius Medical Care Diagnostics";

- to use the "F" logo mark in the National Medical Care non-renal business, with the consent of Fresenius SE. That consent will not be unreasonably withheld if the mark using the logo includes one or more additional descriptive words or symbols; and
- to use "Fresenius Medical Care" as a trade name in both the renal business and the National Medical Care non-renal business.

Fresenius Medical Care and its affiliates have the right to use "Fresenius Medical Care" as a trade name in other medical businesses only with the consent of Fresenius SE. Fresenius SE may not unreasonably withhold its consent. In the U.S. and Canada, Fresenius SE will not use "Fresenius" or the "F" logo as a trademark or service mark, except that it is permitted to use "Fresenius" in combination with one or more additional words such as "Pharma Home Care" as a service mark in connection with its home care business and may use the "F" logo as a service mark with the consent of D-GmbH. D-GmbH will not unreasonably withhold its consent if the service mark includes one or more additional descriptive words or symbols. Similarly, in the U.S. and Canada, Fresenius SE has the right to use "Fresenius" as a trade name, but not as a mark, only in connection with its home care and other medical businesses other than the renal business and only in combination with one or more other descriptive words, provided that the name used by Fresenius SE is not confusingly similar to Fresenius Medical Care's marks and trade names. After the expiration of Fresenius SE's ten-year covenant not to compete with Fresenius Medical Care, which has occurred, Fresenius SE may use "Fresenius" in its corporate names if it is used in combination with one or more additional descriptive word or words, provided that the name used by Fresenius SE is not confusingly similar to the Fresenius Medical Care marks or corporate or trade names.

Other Intellectual Property

Some of the patents, patent applications, inventions, know-how and trade secrets that Fresenius Worldwide Dialysis used prior to the formation of Fresenius Medical Care AG & Co. KGaA were also used by other divisions of Fresenius SE. For Biofine, the polyvinyl chloride-free packaging material, Fresenius SE has granted to D-GmbH, for the benefit of Fresenius Medical Care and its affiliates, an exclusive license for the renal business and a non-exclusive license for all other fields except other non-renal medical businesses. D-GmbH and Fresenius SE will share equally any royalties from licenses of the Biofine intellectual property by either D-GmbH or by Fresenius SE to third parties outside the renal business and the other non-renal medical businesses. In addition, Fresenius SE transferred to D-GmbH the other patents, patent applications, inventions, know-how and trade secrets that were used predominantly in Fresenius SE's dialysis business prior to the formation of Fresenius Medical Care AG & Co. KGaA. In certain cases Fresenius Worldwide Dialysis and the other Fresenius SE divisions as a whole each paid a significant part of the development costs for patents, patent applications, inventions, know-how and trade secrets that were used by both prior to the Merger. Where D-GmbH acquired those jointly funded patents, patent applications, inventions, know-how and trade secrets, D-GmbH licensed them back to Fresenius SE exclusively in the other non-renal medical businesses and non-exclusively in all other fields. Where Fresenius SE retained the jointly funded patents, patent applications, inventions, know-how and trade secrets, Fresenius SE licensed them to D-GmbH exclusively in the renal business and non-exclusively in all other fields.

Supply Agreements

Fresenius Kabi manufactures some products, principally concentrates, for Fresenius Medical Care AG & Co. KGaA at facilities that Fresenius SE has retained. These facilities are located in Brazil and France.

Fresenius Medical Care Deutschland GmbH manufactures and supplies plastic foil used for the production of infusion solution bags for Fresenius Kabi AG.

Local subsidiaries of our Group have entered into supply agreements for the purchase and sale of products from the above facilities. Prices under the supply agreements include a unit cost component for each product and an annual fixed cost charge for each facility. The unit cost component, which is subject to annual review by the parties, is intended to compensate the supplier for variable costs such as costs of materials, variable labor and utilities. The fixed cost component generally will be based on an allocation of the 1995

fixed costs of each facility, including rent, depreciation, production scheduling and quality control. The fixed cost component will be subject to adjustment by good-faith negotiation every twenty-four months. If the parties cannot agree upon an appropriate adjustment, the adjustment will be made based on an appropriate consumer price index in the country in which the facility is located.

During 2007, Fresenius Medical Care AG & Co. KGaA sold products to Fresenius SE in the amount of US$34.1 million. In 2007, Fresenius Medical Care AG & Co. KGaA made purchases from Fresenius SE in the amount of US$52.3 million. Each supply agreement has a term that is approximately equal to the estimated average life of the relevant production assets, typically having terms of four and one-half to five years. Each supply agreement may be terminated by the purchasing party after a specified notice period, subject to a compensation payment reflecting a portion of the relevant fixed costs. The parties may modify existing, or enter into additional, supply agreements, arrangements and transactions. Any future modifications, agreements, arrangements and transactions will be negotiated between the parties and will be subject to the approval provisions of Fresenius Medical Care's pooling agreement and applicable law.

In January and February 2008, Baxter Healthcare Corporation and/or its parent corporation, Baxter International, Inc., issued recalls and suspended production of its sodium heparin injection products in response to reports of adverse patient reactions. Prior to the recalls, FMCH, the principal North American subsidiary of Fresenius Medical Care, purchased a majority of its heparin requirements from Baxter. As a result of Baxter's recalls, APP Pharmaceuticals is the only remaining US supplier of FDA-approved heparin used in dialysis. Commencing prior to its acquisition by Fresenius SE, APP Pharmaceuticals has substantially increased FMCH's acquisition costs for this product. As a result of the acquisition of APP Pharmaceuticals, this relationship has become an affiliate or related party transaction, which we expect will continue in the future. This acquisition has had no impact on the purchase price of heparin charged by APP Pharmaceuticals to FMCH.

Services Agreement

Fresenius SE and certain of its subsidiaries carry out administrative and other services for Fresenius Medical Care AG & Co. KGaA at our Bad Homburg headquarters. These services relate to, among other things, administrative services, management information services, employee benefit administration, insurance, IT services, tax services and treasury services. For 2007, Fresenius SE and its subsidiaries charged Fresenius Medical Care AG & Co. KGaA approximately US$44.1 million for these services. Conversely, we have obtained certain services from Fresenius Medical Care AG & Co. KGaA, in particular services relating to research and development, central purchasing, patent administration and warehousing. For 2007, Fresenius Medical Care AG & Co. KGaA charged approximately US$9.8 million to Fresenius SE and its subsidiaries for services rendered to them. Fresenius Medical Care AG & Co. KGaA and Fresenius SE may modify existing or enter into additional services agreements, arrangements and transactions. Any such future modifications, agreements, arrangements and transactions will be negotiated between the parties and will be subject to the approval provisions of the pooling agreement and applicable law.

Total Payments Under Intercompany Supply and Services Agreements

Fresenius SE and its subsidiaries (excluding Fresenius Medical Care AG & Co. KGaA and its subsidiaries) received payments of €42 million in 2005, €43 million in 2006 and €46 million in 2007 from Fresenius Medical Care AG & Co. KGaA and its subsidiaries under inter-company agreements. These payments were partially offset by payments that Fresenius SE and its subsidiaries (excluding Fresenius Medical Care AG & Co. KGaA and its subsidiaries) made to Fresenius Medical Care AG & Co. KGaA and its subsidiaries pursuant to other intercompany agreements in the amount of €6 million in 2005, €7 million in 2006 and €7 million in 2007.

Financing

At September 30, 2008, Fresenius SE had loans in the amount of €1.4 million outstanding to Fresenius Medical Care AG & Co. KGaA. This mainly relates to cash management arrangements.

Other Interests

Dr. Gerd Krick, the chairman of the Supervisory Board of Fresenius SE, is also chairman of the Supervisory Board of Fresenius Medical Care AG & Co. KGaA and a member of the Supervisory Board of Fresenius Medical Care Management AG, the general partner of Fresenius Medical Care AG & Co. KGaA.

Prof. Dr. h. c. Roland Berger, a member of the Supervisory Board of Fresenius SE, is the chairman of the supervisory board of Roland Berger Strategy Consultants. In the first nine months of 2008, the Fresenius Group paid this company €2 million for consulting services rendered.

Klaus-Peter Müller, a member of the Supervisory Board of Fresenius SE, is the chairman of the Supervisory Board of Commerzbank AG. The Fresenius Group keeps business accounts with Commerzbank under customary conditions.

Dr. Gerhard Rupprecht, a member of the Supervisory Board of Fresenius SE, is a member of the management board of Allianz SE and the chairman of the management board of Allianz Deutschland AG. In 2007, the Fresenius Group paid €6 million and in the first half of 2008, the Fresenius Group paid €4 million for insurance premiums to Allianz. Furthermore, the Fresenius Group keeps business accounts under customary conditions with Dresdner Bank AG, a wholly owned subsidiary of Allianz.

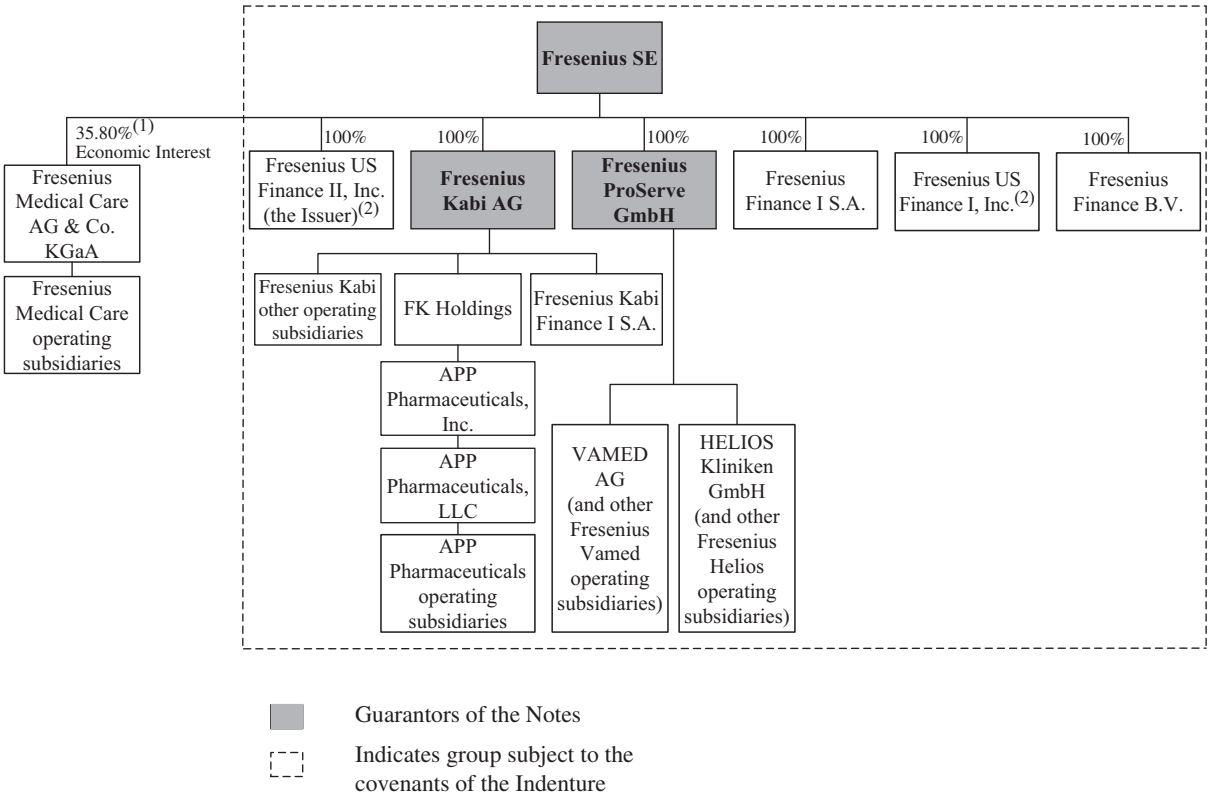
Dr. Dieter Schenk, deputy chairman of the Supervisory Board of Fresenius Medical Care AG & Co. KGaA and a member of the Supervisory Boards of Fresenius SE and Fresenius Medical Care Management AG, is a partner in the law firm Nörr Stiefenhofer Lutz, which has provided legal services to Fresenius SE and to Fresenius Medical Care AG & Co. KGaA. Professor Dr. Bernd Fahrholz, also a member of the Supervisory Board of Fresenius Medical Care AG & Co. KGaA, was a partner in the law firm Nörr Stiefenhofer Lutz until September 30, 2005. During 2007 and the six month period ending 30 June 2008, Nörr Stiefenhofer Lutz received payments of approximately €1 million and respectively €0.5 million for services rendered to the Fresenius Group. Dr. Schenk and another member of the Supervisory Board of Fresenius SE, Dr. Karl Schneider, are executors of Else Kröner's estate and exercise the voting rights of the Else Kröner-Fresenius-Foundation, Bad Homburg vor der Höhe, Germany. The Else Kröner-Fresenius-Foundation, a charitable foundation established under the will of Mrs. Kröner, owns the majority of the voting shares of Fresenius SE. Dr. Schenk is also chairman of the administrative board of the Else Kröner-Fresenius-Foundation.

Dr. Ulf M. Schneider, chairman of the Supervisory Board of Fresenius Medical Care Management AG, was CFO of Fresenius Medical Care AG & Co. KGaA until May 2003 and is currently chairman of the Management Board of Fresenius SE.

GROUP STRUCTURE

Corporate Structure

The following diagram depicts, in simplified form, the Group's corporate structure.



[1] As of December 31, 2008.

[2] Fresenius SE has agreed under certain circumstances to provide Fresenius US Finance I, Inc. and Fresenius US Finance II, Inc. with additional capital up to specified limits. However, this agreement is not a guarantee of the payment of any indebtedness, liability or obligation of either Fresenius US Finance I, Inc. or Fresenius US Finance II, Inc., does not confer on the holders of the Notes or any other lender any right or claims against Fresenius SE and is not enforceable against Fresenius SE by anyone other than either Fresenius US Finance I, Inc. or Fresenius US Finance II, Inc.

Our Interest in Fresenius Medical Care AG & Co. KGaA

Fresenius Medical Care is a partnership limited by shares (*Kommanditgesellschaft auf Aktien*). As of September 30, 2008, Fresenius SE owned 36.29% of Fresenius Medical Care AG & Co. KGaA's outstanding ordinary voting shares and 35.83% of Fresenius Medical Care AG & Co. KGaA's total subscribed capital. Fresenius Medical Care Management AG, a wholly owned subsidiary of Fresenius SE in the legal form of a stock corporation under German law (*Aktiengesellschaft*), is the general partner of Fresenius Medical Care AG & Co. KGaA. Fresenius Medical Care Management AG, represented by its management board, is responsible for the management of Fresenius Medical Care AG & Co. KGaA. Because corporate decisions are taken by the general partner for German partnerships limited by shares, Fresenius SE has, and as long as it maintains ownership of Fresenius Medical Care Management AG and more than 25% of the share capital of Fresenius Medical Care AG & Co. KGaA will retain, a controlling position in Fresenius Medical Care AG & Co. KGaA under the articles of association of Fresenius Medical Care AG & Co. KGaA. Since this controlling position meets the control test for purposes of consolidation under US GAAP, Fresenius SE fully consolidates Fresenius Medical Care in its consolidated financial statements under US GAAP. Upon the exchange of the Mandatory Exchangeable Bonds for ordinary shares of Fresenius Medical Care AG & Co. KGaA, Fresenius

SE's holding of Fresenius Medical Care AG & Co. KGaA's share capital could decrease at current exchange prices (subject to further anti-dilution adjustments) to between 31.11% at the maximum exchange price and 30.25% at the minimum exchange price, based on Fresenius SE's holding of 35.83% at September 30, 2008. This reduction in our ownership would not affect our controlling position in Fresenius Medical Care AG & Co. KGaA or our ability to consolidate Fresenius Medical Care in our consolidated financial statements under US GAAP.

Fresenius SE receives the cash flows generated by Fresenius Medical Care only to the extent they are distributed to Fresenius SE as dividends. Fresenius SE receives such dividends in proportion to its economic interest in Fresenius Medical Care AG & Co. KGaA. Fresenius SE received dividend distributions from Fresenius Medical Care AG & Co. KGaA in the amount of €58 million in the nine months ended September 30, 2008, €50 million in 2007, €44 million in 2006 and from Fresenius Medical Care AG (the predecessor entity of Fresenius Medical Care AG & Co. KGaA before the change in its legal form) in the amount of €40 million in 2005. In addition, covenants that are contained in Fresenius Medical Care's 2006 Senior Credit Agreement impose limitations on the amount of total annual dividends that Fresenius Medical Care may distribute in any one year, with total dividend distributions being capped at US$260 million for 2008 and increases in subsequent years. Covenants in the Indenture relating to Fresenius Medical Care's trust preferred securities also place similar limitations on Fresenius Medical Care's ability to distribute dividends. You can find more information about Fresenius Medical Care's senior credit facilities in "Description of Other Financing Arrangements — Fresenius Medical Care".

In addition to cash dividends, we receive cash payments, primarily in the form of service fees and rental payments, from Fresenius Medical Care under certain intercompany agreements and as reimbursement of the expenses of Fresenius Medical Care's general partner. See "Certain Relationships and Related Party Transactions". We received payments of €46.2 million in 2007, €42.8 million in 2006 and €41.7 million in 2005 under these agreements. These payments were partially offset by payments that we made to Fresenius Medical Care pursuant to other intercompany agreements in the amount of €7.1 million in 2007, €7.2 million in 2006 and €6.0 million in 2005.

Fresenius SE does not possess a majority of the outstanding voting ordinary shares of Fresenius Medical Care AG & Co. KGaA and is precluded from voting on certain matters that are submitted to the shareholders of Fresenius Medical Care AG & Co. KGaA. However, through its ownership of 100% of the outstanding shares of the general partner of Fresenius Medical Care AG & Co. KGaA, Fresenius SE has the sole right to elect the supervisory board of the general partner, which, in turn, elects the management board of the general partner. The management board of the general partner is responsible for the management of Fresenius Medical Care AG & Co. KGaA, but the actions and decisions of the general partner's management board are fully reviewable by the supervisory board of the general partner and by the supervisory board of Fresenius Medical Care AG & Co. KGaA. Actions of the management board require only the approval of the supervisory board of the general partner. However, a pooling agreement for the benefit of minority ordinary shareholders and preference shareholders of Fresenius Medical Care AG & Co. KGaA provides that at least one-third of the supervisory board members be independent, that a majority of such independent members approve certain related party transactions involving Fresenius SE and its affiliates and that certain extraordinary transactions involving Fresenius SE and its affiliates comply with all provisions of German law regarding such transactions.

The articles of association of Fresenius Medical Care AG & Co. KGaA can be amended only through a resolution of the general meeting adopted by a qualified 75% majority of shareholders and with the consent of the general partner. Accordingly, neither group of owners (i.e., the shareholders or the general partner) can unilaterally amend the articles of association without the consent of the other group. Fresenius SE, however, is able to exert significant influence over amendments to the articles of association of Fresenius Medical Care AG & Co. KGaA through its ownership of a significant percentage of Fresenius Medical Care AG & Co. KGaA's ordinary shares, since such amendments require a 75% vote of the shares present at the meeting rather than three quarters of the outstanding shares.

Under the articles of association, Fresenius Medical Care Management AG is required to withdraw as general partner of Fresenius Medical Care AG & Co. KGaA if Fresenius SE's holdings decrease to (i) 25% or less of Fresenius Medical Care AG & Co. KGaA's share capital or (ii) less than 100% of Fresenius Medical Care Management AG's share capital. Alternatively, Fresenius SE may sell its interests in the general partner to a third party if the sale also includes more than 25% of Fresenius Medical Care AG & Co. KGaA's share capital.

Upon the exchange of the Mandatory Exchangeable Bonds for ordinary shares of Fresenius Medical Care AG & Co. KGaA, Fresenius SE's holding of Fresenius Medical Care AG & Co. KGaA's share capital could decrease at current exchange prices (subject to further anti-dilution adjustments) to between 31.11% at the maximum exchange price and 30.25% at the minimum exchange price, based on Fresenius SE's holding of 35.83% at September 30, 2008. For more information on the Mandatory Exchangeable Bonds, see "Description of Other Financing Arrangements — Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care — Fresenius Finance (Jersey) Ltd.'s €554 million 5.625% Mandatory Exchangeable Bonds due 2011".

Fresenius SE

Fresenius SE is registered with the commercial register of the local court (*Amtsgericht*) of Bad Homburg vor der Höhe, Germany, under registration number HRB 10660. As of December 31, 2008, Fresenius SE had issued capital of €161,143,734 represented by 80,571,867 ordinary bearer shares without par value and 80,571,867 non-voting preference shares without par value. Fresenius SE's registered office is Bad Homburg vor der Höhe, Germany. Its business address is Else-Kröner-Strasse 1, 61352 Bad Homburg vor der Höhe, Germany, and its telephone number is +49 (0) 6172-608-0.

Section 2 of Fresenius SE's articles of association sets forth its corporate purpose as follows:

(a) development, manufacture, and distribution of, as well as trading with, products, systems, and processes in the healthcare sector;

(b) construction, development, and operation of medical and curative facilities as well as of hospitals;

(c) planning and construction of production plants, in particular for the manufacture of pharmaceutical, dietary, and medical devices products; and

(d) consulting in the medical and pharmaceutical fields as well as scientific information and documentation.

Fresenius SE is entitled to enter into any business transactions and take any measures that are deemed necessary or useful in accomplishing the corporate purpose of the company, in particular, to acquire interests in other companies of the same or a related kind, to take over their management and/or representation, to transfer company divisions, including major company divisions, to other enterprises, provided that the company owns at least the majority of the latter's voting capital and/or holds a controlling interest, and to establish branches at home and abroad.

In accordance with US GAAP as of September 30, 2008, Fresenius SE had total assets of €4,475 million, total liabilities of €1,537 million and, for the nine months ended September 30, 2008, net income of €431 million (including income from participations).

The Issuer

The Issuer is a wholly owned subsidiary of Fresenius SE. The Issuer was incorporated under the General Corporation Law of the State of Delaware on September 2, 2008, with the identification number 6825610.

The nature of the Issuer's business or purposes to be conducted by it is to "engage in any lawful financing act or activity, and any other acts related thereto or in furtherance thereof, for which corporations may be organized and incorporated under the General Corporation Law of the State of Delaware".

As of September 30, 2008 the Issuer had an authorized share capital of US$15. The Issuer had an issued capital of US$1 represented by 100 shares of common stock with a par value of US$0.01 each.

Upon the closing of the offering of Notes hereby, the principal assets of the Issuer will be intercompany loans, including the Kabi Intercompany Loans. These intercompany loans will bear interest at the same weighted average interest rate as the Notes, plus an applicable margin. The Issuer does not currently intend to make any material changes, modifications or amendments to the terms of these intercompany loans that would impair the Issuer's ability to repay the Notes.

The Issuer's executive offices are located at 1501 E. Woodfield Road, Suite 300 E, Schaumburg, Illinois, 60173, U.S.A, and its telephone number is +1 (847) 413-2075.

The current directors of the Issuer are Mr. Tom Silberg, Mr. Richard Tajak and Ms. Carrie Tillman. The directors can be contacted at the executive offices of the Issuer. Mr. Silberg is the Chief Executive Officer of APP Pharmaceuticals, Inc. Mr. Tajak is the Chief Financial Officer of APP Pharmaceuticals, Inc. Ms. Tillman is an employee of Corporation Service Company.

The financial year of the Issuer starts on January 1 and ends on December 31 of each year. The first financial year of the Issuer ended on December 31, 2008. The Issuer does not independently publish its financial statements. The Issuer has appointed KPMG LLP as its independent auditors.

Since the day of its incorporation, the Issuer has not held any participations in other undertakings and has not issued any convertible debt securities, exchangeable debt securities or securities with warrants attached. The Issuer does currently not own any interest in real estate.

The Subsidiary Guarantors

Fresenius SE directly owns all of the capital stock in Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius Kabi AG acts as the first-tier holding company for our business segment Fresenius Kabi, and Fresenius ProServe GmbH acts as the first-tier holding company for our business segments Fresenius Helios and Fresenius Vamed.

Fresenius Kabi AG

Fresenius Kabi AG is a stock corporation (*Aktiengesellschaft*) organized under the laws of Germany and registered with the commercial register of the local court (*Amtsgericht*) of Frankfurt am Main under registration number HRB 45881. As of September 30, 2008, Fresenius Kabi AG had issued capital of €66 million represented by 25,781,250 bearer shares.

The articles of association of Fresenius Kabi AG set forth its corporate purpose as follows: the participation in German and foreign companies engaged in the development, production and/or distribution of pharmaceutical and dietary products, in particular for enteral and parenteral nutrition, and infusion solutions: furthermore the development, production and distribution of medical devices and IT software for hospitals.

Members of Fresenius Kabi AG's management board may be reached at its business address, Else-Kröner-Strasse 1, 61352 Bad Homburg vor der Höhe, Germany.

In accordance with US GAAP, as of September 30, 2008, Fresenius Kabi AG had total assets of €1,794 million, total liabilities of €278 million and, for the nine months ended September 30, 2008, net income of €387 million (before profit transfer to Fresenius SE). Fresenius Kabi AG does not independently publish its financial statements.

Fresenius ProServe GmbH

Fresenius ProServe GmbH is a company with limited liability (*Gesellschaft mit beschränkter Haftung*) organized under the laws of Germany and registered in the commercial register of the local court (*Amtsgericht*) of Bad Homburg vor der Höhe under registration number HRB 7302. As of September 30, 2008, Fresenius ProServe GmbH had registered capital of €40 million.

The articles of association of Fresenius ProServe GmbH set forth its corporate purpose as follows: the acquisition, holding and management of participations in German and foreign companies engaged in the following activities: the planning and construction of production facilities, in particular for pharmaceutical and dietary products and medical devices; the planning, construction and operation of curative facilities and hospitals; and project services.

On January 1, 2008, Fresenius ProServe was divided into two business segments for the purpose of reducing the number of layers of management and increasing transparency: Fresenius Helios, which focuses on hospital operations, and Fresenius Vamed, which offers engineering and services for hospitals and other healthcare facilities. We have not changed the legal structure of our Group in connection with this change in our business segment reporting.

Members of the management of Fresenius ProServe GmbH may be reached at its business address, Else-Kröner-Strasse 1, 61352 Bad Homburg vor der Höhe, Germany.

In accordance with US GAAP, as of September 30, 2008, Fresenius ProServe GmbH had total assets of €2,010 million, total liabilities of €345 million and, for the nine months ended September 30, 2008, net income of €56 million (before profit transfer to Fresenius SE). Fresenius ProServe GmbH does not independently publish its financial statements.

DESCRIPTION OF OTHER FINANCING ARRANGEMENTS

Fresenius SE and Its Subsidiaries Other Than Fresenius Medical Care

Bridge Facility

The amount currently outstanding under the Bridge Facility is US$650 million. We intend to repay borrowings under the Bridge Facility with the proceeds of the Notes offered hereby. For more information, see "The Acquisition of APP Pharmaceuticals".

2008 Senior Credit Facilities

In connection with the acquisition of APP Pharmaceuticals, the Fresenius Group entered into the 2008 Senior Credit Agreement on August 20, 2008.

The 2008 Senior Credit Agreement governs the 2008 Senior Credit Facilities, which consist of the 2008 Senior Term Facilities and the 2008 Senior Revolving Credit Facilities. The 2008 Senior Term Facilities consist of:

- five-year Term Loan A Facilities in the aggregate principal amount of US$1,000 million (of which US$500 million is available to Fresenius US Finance I, Inc., a wholly-owned subsidiary of Fresenius SE, and US$500 million is available to APP Pharmaceuticals, LLC). The Term Loan A Facilities amortize and are repayable in 10 unequal semi-annual installments commencing on June 10, 2009 with a final maturity date on September 10, 2013; and
- six-year Term Loan B Facilities in the aggregate principal amount of US$1,000 million (of which US$502.5 million is available to Fresenius US Finance I, Inc., and US$497.5 million is available to APP Pharmaceuticals, LLC). The Term Loan B Facilities amortize and are repayable in 11 substantially equal semi-annual installments commencing on June 10, 2009 with a final bullet payment equal to 94.25% of such loans on September 10, 2014.

The 2008 Senior Revolving Credit Facilities consist of five-year senior revolving credit facilities in the aggregate principal amount of US$450 million (of which US$150 million is available to APP Pharmaceuticals, LLC and US$300 million is available as multicurrency facility to Fresenius Finance I S.A., a wholly-owned subsidiary of Fresenius SE).

In October 2008, the 2008 Senior Credit Agreement was amended to increase the Term Loan B Facility available to Fresenius US Finance I, Inc. In November 2008, Fresenius increased the 2008 Senior Revolving Credit Facilities by US$100 million.

The interest rate on each borrowing under the 2008 Senior Credit Agreement is a rate per annum equal to the aggregate of (a) the applicable margin (as described below) and (b) LIBOR or, in relation to any loan in euro, EURIBOR for the relevant period, subject, in the case of Term Loan B, to a minimum LIBOR of 3.25% per annum. The applicable margin for Term Loan A Facilities and the Revolving Credit Facilities is variable and depends on the leverage ratio as defined in the 2008 Senior Credit Agreement.

Subject to certain exceptions and threshold amounts, mandatory prepayments are required to be made on the 2008 Senior Credit Agreement upon the occurrence of certain events, including asset dispositions, incurrence of additional indebtedness, equity issuances and intercompany loan repayments.

The 2008 Senior Credit Agreement is guaranteed by Fresenius SE, Fresenius ProServe GmbH and Fresenius Kabi AG. The obligations of APP Pharmaceuticals, LLC under the 2008 Senior Credit Agreement that refinance outstanding indebtedness under the former APP credit facility are secured by the assets of APP and its subsidiaries and guaranteed by APP's subsidiaries on the same basis as the former APP credit facility. The lenders also benefit from indirect security through pledges over the shares of certain subsidiaries of Fresenius Kabi AG and pledges over certain intercompany loans.

The 2008 Senior Credit Agreement contains a number of customary affirmative and negative covenants and other payment restrictions. These covenants include, among others, limitations on liens, sale of assets,

incurrence of debt, investments and acquisitions and restrictions on the payment of dividends. The 2008 Senior Credit Agreement also includes financial covenants — as defined in the agreement — that require Fresenius SE and its subsidiaries (other than Fresenius Medical Care and its subsidiaries) to maintain a maximum leverage ratio, a minimum fixed charge coverage ratio, a minimum interest coverage ratio and limits amounts spent on capital expenditure.

The following table shows the available and outstanding amounts under the 2008 Senior Credit Agreement at September 30, 2008:

	Maximum amount available		Balance outstanding	
	in million US$	in million €	in million US$	in million €
Revolving Credit Facilities	450	315	100	70
Term Loan A Facilities	1,000	699	1,000	699
Term Loan B Facilities	1,000	699	1,000	699
Total	2,450	1,713	2,100	1,468

Other Bank Facilities

As of September 30, 2008, Fresenius SE and its subsidiaries (other than Fresenius Medical Care AG & Co. KGaA and its subsidiaries) had approximately €468 million in indebtedness outstanding under bilateral and syndicated bank facilities, including bilateral facilities with the European Investment Bank ("EIB"). Of such amount, approximately €322 million was incurred by subsidiaries. In connection with the arranging of the 2008 Senior Credit Facilities, we canceled certain of our bilateral and syndicated bank facilities that were undrawn. After giving effect to the cancellation of these facilities, as of September 30, 2008, we had additional borrowing capacity in excess of €100 million under committed bilateral facilities available and €250 million of uncommitted short-term lines available. Borrowings under these facilities are generally used to finance our working capital needs and are unsecured.

Fresenius Finance B.V.'s Euro Notes ("Schuldscheindarlehen")

Fresenius Finance B.V. had issued the following tranches of euro-denominated *Schuldscheindarlehen* ("euro notes") outstanding as of September 30, 2008:

Tranche	Maturity	Interest rate	Notional amount in million €
Fresenius Finance B.V. 2007/2012	July 2, 2012	5.51%	26
Fresenius Finance B.V. 2007/2012	July 2, 2012	variable	74
Fresenius Finance B.V. 2007/2014	July 2, 2014	5.75%	38
Fresenius Finance B.V. 2007/2014	July 2, 2014	variable	62
Fresenius Finance B.V. 2008/2012	April 2, 2012	5.59%	62
Fresenius Finance B.V. 2008/2012	April 2, 2012	variable	138
Fresenius Finance B.V. 2008/2014	April 2, 2014	5.98%	112
Fresenius Finance B.V. 2008/2014	April 2, 2014	variable	88
Total			600

Fresenius SE's Commercial Paper Program

Fresenius SE has a commercial paper program for the issuance of a maximum of €250 million of short-term notes. Notes issued under this program may be denominated in euros or in any other freely convertible currency of an OECD member state. The maturity may not exceed two years less one day. The obligations represented by the notes rank *pari passu* with all other senior unsecured obligations of Fresenius SE. As of September 30, 2008, there were no amounts outstanding under the commercial paper program.

Fresenius Finance (Jersey) Ltd.'s €554 million 5.625% Mandatory Exchangeable Bonds due 2011

Mandatory Exchangeable Bonds

To finance the acquisition of APP Pharmaceuticals, the Fresenius Group issued Mandatory Exchangeable Bonds (the "MEB") in an aggregate nominal amount of €554.4 million. Fresenius Finance B.V. subscribed for the MEB issued by Fresenius Finance (Jersey) Ltd. at 100% of their principal amount and on-lent the MEB to Fresenius SE who placed the MEB in the market. The bonds carry a coupon of 5⅝% per annum and will mature on August 14, 2011. Upon maturity, the bonds will be mandatorily exchangeable into ordinary shares of Fresenius Medical Care AG & Co.KGaA with a maximum of 16.80 million and a minimum of 14.24 million shares being deliverable, subject to anti-dilution adjustments with respect to Fresenius Medical Care AG & Co.KGaA (e.g. in case of certain corporate actions). The MEB are not redeemable in cash.

The initial minimum exchange price equaling the reference share price was set to €33.00 and the initial maximum exchange price was set to €38.94 (i.e. 118% of the initial minimum exchange price). Pursuant to the terms and conditions of the MEB, both the holder and the issuer may procure for the exchange of the bonds before maturity. In principal, the issuer, Fresenius Finance (Jersey) Ltd., may procure the exchange of all of the outstanding MEB for shares of Fresenius Medical Care AG & Co.KGaA at the maximum exchange ratio calculated on the relevant exchange date plus payment of any accrued and unpaid interest and a make whole amount. Furthermore, the MEB shall be mandatorily exchangeable at the maximum exchange ratio plus such payments if the corporate credit ratings of Fresenius SE fall below certain benchmarks and such benchmarks are subsequently not reinstated. Moreover, in the event of a change of control of Fresenius SE or Fresenius Medical Care AG & Co.KGaA, each holder of the MEB may elect to exchange its MEB at the maximum exchange ratio plus such payments. Each holder of the MEB may also exchange his MEB at the minimum exchange ratio calculated on the relevant exchange date without payment of accrued interest or any make-whole amount.

Fresenius SE has guaranteed in favor of Fresenius Finance (Jersey) Ltd. the payment of certain interest payments by Fresenius Finance B.V. and, via a pledge agreement, secured the delivery of the underlying Fresenius Medical Care ordinary shares for exchange. In addition, the terms and conditions of the MEB include a negative pledge in relation to certain capital market indebtedness.

The derivative financial instruments embedded in the MEB are measured at fair value and are shown separately under the balance sheet item "long-term accrued expenses and other long-term liabilities".

Existing Notes

Fresenius Finance B.V.'s €100 million 7½% Series B Senior Notes due 2009

On April 24, 2003, Fresenius Finance B.V. issued €100,000,000 aggregate principal amount of 7½% Series B senior notes due 2009. The notes bear an interest rate of 7½% per annum and mature on April 30, 2009. Fresenius Finance B.V. may redeem the notes prior to their maturity only if changes in tax laws impose certain withholding taxes on amounts payable on the notes. The covenants governing the notes are customary for European high yield transactions. Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH have provided senior unsecured guarantees of the notes.

Fresenius Finance B.V.'s €500 million 5.00% Senior Notes due 2013

On January 20, 2006, Fresenius Finance B.V. issued €500,000,000 aggregate principal amount of 5.00% senior notes due 2013. The notes bear an interest rate of 5.00% per annum and mature on January 31, 2013. Fresenius Finance B.V. may redeem all or part of the notes at any time prior to January 31, 2013, at a redemption price equal to 100% of the principal amount of the notes redeemed plus a make-whole premium. In addition, Fresenius Finance B.V. may on any one or more occasions at any time prior to January 31, 2009 redeem up to 35% of the original principal amount of the notes with the net cash proceeds of one or more public equity offerings (as defined in the indenture) at a redemption price of 105.0% of the principal amount thereof. The covenants governing the 5.00% senior notes due 2013 are customary for European high yield transactions. Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH have provided senior unsecured guarantees of the notes.

Fresenius Finance B.V.'s €500 million 5.50% Senior Notes due 2016

On January 20, 2006, Fresenius Finance B.V. issued €500,000,000 aggregate principal amount of 5.50% senior notes due 2016. The notes bear an interest rate of 5.50% per annum and mature on January 31, 2016. Fresenius Finance B.V. may redeem all or part of the notes at any time prior to January 31, 2011, at a redemption price equal to 100% of the principal amount of the notes redeemed plus a make-whole premium. Fresenius Finance B.V. may redeem all or a part of the notes on or after January 31, 2011 at the following redemption prices: 102.750% from January 31, 2011 to January 30, 2012; 101.833% from January 31, 2012 to January 30, 2013; 100.916% from January 31, 2013 to January 30, 2014 and 100% thereafter. In addition, Fresenius Finance B.V. may on any one or more occasions at any time prior to January 31, 2009 redeem up to 35% of the original principal amount of the notes with the net cash proceeds of one or more public equity offerings (as defined in the indenture) at a redemption price of 105.5% of the principal amount thereof. The covenants governing the 5.50% senior notes due 2016 are customary for European high yield transactions. Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH have provided senior unsecured guarantees of the notes.

Contingent Value Rights of FK Holdings

In connection with the acquisition of APP Pharmaceuticals, the holders of APP Pharmaceuticals common stock received, in addition to the aggregate cash purchase price of US$3.7 billion, one CVR per share, issued by FK Holdings, with a total of 163,251,906 CVRs having been issued on the Acquisition Closing Date. Each CVR entitles its holder to receive, on June 30, 2011, a cash payment, without interest, equal to a pro rata portion of an amount equal to 2.5 times the excess over US$1.2677 billion, if any, of the cumulative adjusted EBITDA (as defined in the agreement governing the CVRs) of APP Pharmaceuticals and FK Holdings and their respective subsidiaries on a consolidated basis for the three years ending December 31, 2010. The maximum amount payable with respect to each CVR is US$6.00 in cash. If the cumulative adjusted EBITDA for this period does not exceed the threshold, no amounts will be payable on the CVRs and the CVRs will expire without any payment becoming due. For this purpose, adjusted EBITDA of APP Pharmaceuticals and FK Holdings and their respective subsidiaries excludes (i) costs, expenses, and revenue from sales outside the United States and Canada, and (ii) costs, expenses and revenue for sales of product not currently under development by APP Pharmaceuticals. The cash payment on the CVRs, if any, will be determined after December 31, 2010, and will be payable June 30, 2011, except in the case of a change of control of FK Holdings, which may result in an acceleration of any payment. The CVRs are registered with the U.S. Securities and Exchange Commission and listed on NASDAQ.

The CVRs are unsecured obligations of FK Holdings and all payments on and other obligations under the CVRs, including acceleration payments resulting from a change of control, are subordinated in right of payment to the prior payment in full of senior obligations of FK Holdings, including the 2008 Senior Credit Facilities and the Notes offered hereby.

The CVR indenture under which the CVRs were issued provides that while any CVRs remain outstanding, FK Holdings may not:

- voluntarily liquidate, dissolve or wind-up FK Holdings or any of its subsidiaries;
- effect any merger, consolidation or conversion of FK Holdings or enter into any transaction that would result in FK Holdings (or any other member of the Fresenius Group, subject to conditions described below) failing to own directly all of the outstanding shares or other equity interests, equity securities or rights exercisable, exchangeable or convertible for or into shares or other equity interests or share appreciation rights, phantom shares or other equity or equity-like instruments of APP Pharmaceuticals or permit APP Pharmaceuticals to merge with another corporation or entity;
- permit APP Pharmaceuticals or any of its subsidiaries to enter into any transaction, that would result in APP Pharmaceuticals (or any other member of the Fresenius Group, subject to conditions described below) failing to own directly or indirectly all of the outstanding shares or other equity interests, equity securities or rights exercisable, exchangeable or convertible for or into shares or other equity interests

or share appreciation rights, phantom shares or other equity or equity-like instruments of each of the subsidiaries of APP Pharmaceuticals;

- amend, modify, or release Fresenius SE from its obligations under the equity commitment letter (described below) or fail to enforce Fresenius SE's obligations thereunder; or
- enter into or permit to exist any agreement, arrangement or understanding that would restrict or prevent payment of the CVR payment, if any, when due.

In addition, the CVR indenture provides that if FK Holdings enters into or effects any transaction with a member of the Fresenius Group that would result in such member of the Fresenius Group owning an equity interest in APP Pharmaceuticals, FK Holdings shall cause the acquiring Fresenius Group member(s) involved in each such transaction to include in all calculations relevant to the CVR payment the results of operations of such acquiring Fresenius Group member(s) attributable to such equity interests in the same manner as such results were included in FK Holdings' consolidated results before such transaction occurred, including sales adjustments in respect of sale transactions by any such member of the Fresenius Group.

The CVRs are not an equity security of FK Holdings and do not represent ownership rights in FK Holdings. FK Holdings has received an equity commitment letter from Fresenius SE pursuant to which Fresenius SE has committed to make a cash contribution to FK Holdings in an amount equal to the aggregate amount of the cash payment to be paid to the holders of CVRs, to the extent that FK Holdings becomes obligated to make such payment and requires such contribution. FK Holdings is obligated to take all actions reasonably necessary, including bringing necessary legal action against Fresenius SE, to enforce Fresenius SE's obligations, and FK Holdings' rights under, the equity commitment letter.

Intercompany Loans, including with FK Holdings

The Issuer will on-lend the proceeds from the sale of the Notes under intercompany loans, including the Kabi Intercompany Loans (as to which FK Holdings is the counterparty). The Issuer intends to service and repay the Notes out of the payments it receives under these intercompany loans. FK Holdings is the parent corporation of APP Pharmaceuticals, Inc.

Fresenius Medical Care

Fresenius Medical Care's 2006 Senior Credit Agreement

On March 31, 2006, Fresenius Medical Care entered into a US$4.6 billion syndicated credit facility (the "2006 Senior Credit Agreement") with Bank of America, N.A. ("BofA"); Deutsche Bank AG New York Branch; The Bank of Nova Scotia; Credit Suisse, Cayman Islands Branch; JPMorgan Chase Bank, National Association; and certain other lenders and replaced Fresenius Medical Care's then-existing credit agreement (the "Prior Credit Agreement"). The credit facility consists of:

- a 5-year US$1.0 billion revolving credit facility which will be due and payable on March 31, 2011;
- a 5-year term loan facility ("Term Loan A") of US$1.85 billion also scheduled to mature on March 31, 2011. The 2006 Senior Credit Agreement requires 19 quarterly payments in respect of the Term Loan A of US$30 million each that permanently reduce the term loan facility. The repayments began on June 30, 2006 and continue through December 31, 2010. The remaining amount outstanding is due on March 31, 2011; and
- a 7-year term loan facility ("Term Loan B") of US$1.75 billion scheduled to mature on March 31, 2013. The terms of the 2006 Senior Credit Agreement require 28 quarterly payments in respect of the Term Loan B that permanently reduce the term loan facility. The repayment began June 30, 2006. The first 24 quarterly payments will be equal to one quarter of one percent (0.25%) of the original principal balance outstanding, payments 25 though 28 will be equal to twenty-three and one half percent (23.5%) of the original principal balance outstanding with the final payment due on March 31, 2013, subject to an early repayment requirement on March 1, 2011 if Fresenius Medical Care's Trust Preferred Securities due June 15, 2011 are not repaid or refinanced or their maturity is not extended prior to that date.

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

The applicable margin is variable and depends on Fresenius Medical Care's Consolidated Leverage Ratio, which is a ratio of Fresenius Medical Care's Consolidated Funded Debt less up to US$30 million cash and cash equivalents to Consolidated EBITDA (as these terms are defined in the 2006 Senior Credit Agreement).

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

On July 2, 2007, a portion of the proceeds from the issuance of US$500 million aggregate principal amount of 6⅞% senior notes due 2017 (see below) was voluntarily applied to repay Term Loan A and Term Loan B. Under the terms of the 2006 Senior Credit Agreement, advance payments on the term loans are applied first against the next four quarterly payments due with any amounts in excess of the four quarterly payments applied on a pro-rata basis against any remaining payments. As a result of the advance payments on the Term Loans, no scheduled payments have been made for either Term Loan A or B as of September 30, 2008.

The obligations under the 2006 Senior Credit Agreement are secured by pledges of capital stock of certain material subsidiaries of Fresenius Medical Care AG & Co. KGaA, including FMCH and Fresenius Medical Care Deutschland GmbH, in favor of the lenders.

In June 2007, the 2006 Senior Credit Agreement was amended in order to enable Fresenius Medical Care to issue US$500 million in 6⅞% senior notes due 2017. See "— Fresenius Medical Care's US$500 million 6⅞% Senior Notes". Furthermore, on January 31, 2008, the 2006 Senior Credit Agreement was amended to increase certain types of permitted borrowings and to remove all limitations on capital expenditures. Fresenius Medical Care is also party to letters of credit which have been issued under the 2006 Senior Credit Agreement by banks and utilized by subsidiaries of Fresenius Medical Care.

Fresenius Medical Care's US$500 Million 6⅞% Senior Notes

On July 2, 2007, FMC Finance III S.A., a wholly-owned subsidiary of Fresenius Medical Care AG & Co. KGaA, issued US$500 million aggregate principal amount of 6⅞% senior notes due 2017 at a discount resulting in an effective interest rate of 7⅛%. The senior notes are guaranteed on a senior basis jointly and severally by Fresenius Medical Care AG & Co. KGaA and by Fresenius Medical Care's subsidiaries Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Deutschland GmbH. FMC Finance III S.A. may redeem the senior notes at any time at 100% of principal plus accrued interest and a premium calculated pursuant to the terms of the indenture. The holders have a right to request that FMC Finance III S.A. repurchase the senior notes at 101% of principal plus accrued interest upon the occurrence of a change of control of Fresenius Medical Care followed by a decline in the rating of the senior notes. The indenture governing Fresenius Medical Care's 6⅞ senior notes contains various negative covenants that restrict the ability of Fresenius Medical Care to incur debt, engage in sale-and-leaseback transactions and merge or consolidate with other companies or sell assets.

Euro Notes ("Schuldscheindarlehen")

In July 2005, FMC Finance, S.à.r.l. Luxembourg IV issued euro-denominated notes due July 27, 2009 (*Schuldscheindarlehen* or "euro notes") totaling €200 million with a €126 million tranche at a fixed interest rate of 4.57% and a €74 million tranche with a floating rate at EURIBOR plus applicable margin. The euro notes have been reclassified as short-term indebtedness.

Trust Preferred Securities

Fresenius Medical Care has issued trust preferred securities through Fresenius Medical Care Capital Trusts, statutory trusts organized under the laws of the State of Delaware.

Fresenius Medical Care owns all of the common securities of these trusts. The sole asset of each of the trusts is a senior subordinated note of Fresenius Medical Care AG & Co. KGaA or a wholly owned subsidiary of Fresenius Medical Care and the related guarantees of the trust preferred securities by Fresenius Medical Care AG & Co. KGaA and certain of its subsidiaries.

The trust preferred securities entitle holders to distributions at a fixed annual rate of the stated amount. The securities are mandatorily redeemable after 10 years. Earlier redemption may also occur upon a change of control followed by a ratings 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 of their securities. The trust preferred securities do not hold voting rights except under limited circumstances.

The trust preferred securities outstanding as of September 30, 2008 are as follows:

	Year issued	Stated amount	Interest rate	Mandatory redemption date	Amount outstanding
Fresenius Medical Care Capital Trust IV . . .	2001	US$225 million	7⅞%	June 15, 2011	€152 million
Fresenius Medical Care Capital Trust V	2001	€300 million	7⅜%	June 15, 2011	€298 million
Total					€450 million

The indentures relating to the trust preferred securities contain certain covenants that, among other things, restrict, or have the effect of restricting Fresenius Medical Care's ability to dispose of assets, incur debt, create liens or make capital expenditures, investments or acquisitions.

Accounts Receivable Facility

Fresenius Medical Care AG & Co. KGaA has an accounts receivable facility that is typically renewed in October of each year and was most recently renewed in October 2008. The accounts receivable facility currently provides borrowings up to a maximum of US$550 million (US$537 million outstanding at September 30, 2008) Under the accounts receivable facility, certain receivables are sold to NMC Funding Corp. ("NMC Funding"), a wholly-owned subsidiary of Fresenius Medical Care. NMC Funding then assigns percentage ownership interests in the accounts receivable to certain bank investors. Under the terms of the accounts receivable facility, NMC Funding retains the right to recall all transferred interests in the accounts receivable assigned to the banks under the facility. As Fresenius Medical Care has the right at any time to recall the then outstanding interests, the receivables remain on the consolidated balance sheet and the proceeds from the transfer of percentage ownership interests are recorded as short-term borrowings.

Credit Agreements with the EIB

Fresenius Medical Care AG & Co.KGaA entered into various credit agreements with the EIB in 2005 and 2006 totaling €221 million. Fresenius Medical Care AG & Co.KGaA had the following three credit facilities available at September 30, 2008 under these agreements:

- a €41 million multi-currency term-loan credit facility expiring in 2013, which was fully drawn down in U.S. dollars in the amount of US$48.8 million in September 2005; and
- a €90 million multi-currency term-loan credit facility expiring in 2014, which was fully drawn down in euros in the amount of €90 million in February 2008; and
- a €90 million multi-currency revolving credit facility expiring in 2013, which was unutilized as of September 30, 2008.

Borrowings under these agreements are secured by bank guarantees and have customary covenants.

DESCRIPTION OF THE NOTES

The Issuer will issue $500 million aggregate principal amount of 9% senior notes due 2015 (the "Dollar Notes") and €275 million aggregate principal amount of 8¾% senior notes due 2015 (the "Euro Notes" and, together with the Dollar Notes, the "Notes"). The Notes will be issued under an indenture (the "Indenture"), to be dated January 21, 2009, among the Issuer, the Guarantors and The Bank of New York Mellon, as Trustee. A copy of the form of the Indenture is available upon request to the Issuer.

You will find the definitions of capitalized terms used in this description either in the body of this section or at the end of this section under "— Certain Definitions." For purposes of this description, references to the "Company" refer only to Fresenius SE and not to its subsidiaries.

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market and the Issuer expects the Dollar Notes to be eligible for trading on the PORTAL[SM] Market. The Issuer can provide no assurance that its application will be accepted. If and so long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer will maintain a listing, paying and transfer agent in Luxembourg.

This Description of the Notes is intended to be a useful overview of the material provisions of the Notes and the Indenture. Since this description is only a summary, you should refer to the Indenture for a complete description of the obligations of the Issuer and your rights. The Indenture will not be qualified under the U.S. Trust Indenture Act of 1939, as amended, and will not include any terms required to be included in a trust indenture so qualified except as such terms are expressly included in the Indenture.

General

The Notes

The Notes:

- are general unsecured, senior obligations of the Issuer;
- mature on July 15, 2015, on which date they will be repaid at their principal amount (unless redeemed earlier);
- in the case of the Dollar Notes will be issued in denominations of $2,000 and integral multiples of $1,000 and in the case of the Euro Notes will be issued in denominations of €1,000 and integral multiples of €1,000;
- will be represented by registered Notes in global form, but in certain circumstances may be represented by registered Notes in definitive form. See "Book-Entry, Delivery, and Form"; and
- rank equally in right of payment to any existing and future senior Indebtedness of the Issuer.

The Issuer may issue additional Notes ("Additional Notes") from time to time after this offering subject to the provisions of the Indenture described below under "— Certain Covenants", including, without limitation, the covenant set forth under "— Certain Covenants — Limitation on Incurrence of Indebtedness". The Notes and any Additional Notes that are actually issued under the Indenture will be treated as a single class for all purposes of the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. The Dollar Notes and Euro Notes are separate series of Notes but will be treated as a single class of securities under the Indenture, except as otherwise stated herein. As a result, among other things, holders of each series of Notes will not have separate and independent rights to give notice of a Default or to direct the Trustee to exercise remedies in the event of a Default with respect to the Notes or otherwise. The term "Notes" shall, except where otherwise expressly stated, include the Additional Notes.

The Issuer expects that the proceeds of the issuance of any Additional Notes will be on-lent to FK Holdings or its subsidiaries or to both.

Interest

Interest on the Dollar Notes and Euro Notes will accrue at rates of 9% and 8¾% per annum, respectively. Interest on the Notes will compound semi-annually and will:

- accrue from the date of issuance or the most recent interest payment date;
- be payable in cash semi-annually in arrears on January 15 and July 15, commencing on July 15, 2009;
- be payable to the holders of record fifteen calendar days immediately preceding the related interest payment dates; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Form of Notes

Each issue of Notes sold to qualified institutional buyers in reliance on Rule 144A (the "Rule 144A Notes") under the Securities Act will be represented by one or more global notes in registered form without interest coupons attached (collectively, the "144A Global Notes"). The 144A Global Notes representing the Dollar Notes (the "Dollar 144A Global Notes") will be deposited with a custodian for The Depository Trust Company ("DTC"), and registered in the name of Cede & Co., as nominee of DTC. The 144A Global Notes representing the Euro Notes (the "Euro 144A Global Notes") will be deposited with, or on behalf of, a common depositary (the "Common Depositary") for the accounts of Euroclear and Clearstream and registered in the name of the nominee of the Common Depositary.

Each issue of Notes sold in reliance on Regulation S (the "Reg S Notes") under the Securities Act will be represented by one or more global notes in registered form without interest coupons attached (collectively, the "Reg S Global Notes" and, together with the Rule 144A Global Notes, the "Global Notes"). The Reg S Global Notes representing the Dollar Notes (the "Dollar Reg S Global Notes") will be registered in the name of Cede & Co., as nominee of DTC and deposited with a custodian for DTC, for credit to Euroclear and Clearstream, and the Reg S Global Notes representing the Euro Notes (the "Euro Reg S Global Notes") will be deposited with, or on behalf of, the Common Depositary for the accounts of Euroclear and Clearstream and registered in the name of the nominee of the Common Depositary.

The Dollar 144A Global Notes and the Dollar Reg S Global Notes are collectively referred to herein as the "Dollar Global Notes." The Euro 144A Global Notes and the Euro Reg S Global Notes are collectively referred to herein as the "Euro Global Notes."

Ownership of interests in the 144A Global Notes ("Restricted Book-Entry Interests") and in the Reg S Global Notes (the "Reg S Book-Entry Interests" and, together with the Restricted Book-Entry Interests, the "Book-Entry Interests") will be limited to persons that have accounts with DTC, Euroclear and/or Clearstream, or persons that hold interests through such participants. Prior to the 40th day after the later of the commencement of this offering and the date the Notes were originally issued (the "Distribution Compliance Period"), interests in the Reg S Global Notes may only be held through Euroclear or Clearstream. DTC, Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of certificated notes.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in book-entry form by DTC, Euroclear and Clearstream and their participants. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of notes for any purpose.

So long as the Notes are held in global form, DTC, Euroclear and/or Clearstream, as applicable (or their respective nominees), will be considered the sole holders of Global Notes for all purposes under the Indenture.

In addition, participants in DTC, Euroclear and/or Clearstream must rely on the procedures of DTC, Euroclear and/or Clearstream, as the case may be, and indirect participants must rely on the procedures of DTC, Euroclear, Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders under the Indenture. The Euro Notes in global form may be transferred only to a successor of the Common Depositary.

Neither the Issuer nor the Trustee will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Redemption of the Global Notes

In the event any Global Note (or any portion thereof) is redeemed, DTC, Euroclear and/or Clearstream (or their respective nominees), as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by DTC, Euroclear and Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Issuer understands that, under existing practices of DTC, Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, DTC, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however,* that no Book-Entry Interest of €1,000 or $2,000, as applicable, principal amount or less may be redeemed in part.

Payments on Global Notes

The Issuer will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest, Additional Amounts, if any) to DTC or its nominee (in the case of the Dollar Global Notes) and to the Common Depositary or its nominee (in the case of the Euro Global Notes), which will distribute such payments to participants in accordance with their procedures; *provided* that, at the option of the Issuer, payment of interest may be made by check mailed to the address of the holders of the Notes as such address appears in the note register. The Issuer will make payments of all such amounts without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature except as may be required by law. The Issuer expects that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, the Issuer and the Trustee will treat the registered holders of the Global Notes (e.g., DTC, Euroclear or Clearstream (or their respective nominees)) as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to payments made on account of a Book-Entry Interest or for maintaining, supervising or reviewing the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest; or
- DTC, Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants.

Currency of Payment for the Global Notes

Except as may otherwise be agreed between DTC and any holder, the principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Dollar Global Notes will be paid to holders of interests in such Dollar Notes (the "DTC Holders") through DTC in U.S. dollars. Except as may otherwise be agreed between Euroclear and/or Clearstream and any holder, the principal of, premium, if any, and interest

on, and all other amounts payable in respect of, the Euro Global Notes will be paid to holders of interests in such Notes (the "Euroclear/Clearstream Holders") through Euroclear and/or Clearstream in euro.

Payments will be subject in all cases to any fiscal or other laws and regulations (including any regulations of the applicable clearing system) applicable thereto. None of the Issuer, the Trustee, the initial purchasers or any of their respective agents will be liable to any holder of a Global Note or any other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection with any such payment.

Action by Owners of Book-Entry Interests

DTC, Euroclear and Clearstream have advised the Issuer that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. DTC, Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Notes, each of DTC, Euroclear and Clearstream reserves the right to exchange the Global Notes for definitive registered notes in certificated form (the "Definitive Registered Notes"), and to distribute Definitive Registered Notes to its participants.

Transfers

Transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC, Euroclear and Clearstream and their respective direct or indirect participants, which rules and procedures may change from time to time.

The Global Notes will bear a legend to the effect set forth in "Notice to Investors." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers as discussed in "Notice to Investors."

During the Distribution Compliance Period, any sale or transfer of ownership of a Reg S Book-Entry Interest to a U.S. person shall not be permitted unless such resale or transfer is made pursuant to Rule 144A. Subject to the foregoing, a Reg S Book-Entry Interest may be transferred to a person who takes delivery in the form of a Restricted Book-Entry Interest in a Global Note of the same series only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "Notice to Investors," and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Transfers of Restricted Book-Entry Interests to persons wishing to take delivery of Restricted Book-Entry Interests will at all times be subject to the transfer restrictions contained in the legend appearing on the face of the 144A Global Note, as set forth in "Notice to Investors."

Restricted Book-Entry Interests may be transferred to a person who takes delivery in the form of a Reg S Book-Entry Interest in a Global Note of the same series upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S and that, if such transfer occurs prior to the expiration of the Distribution Compliance Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream. See "Notice to Investors."

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note of the same series will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest. In connection with such transfer, appropriate adjustments will be made to reflect a decrease in the

principal amount of the first mentioned Global Note and a corresponding increase in the principal amount of the other Global Note, as applicable.

Definitive Registered Notes

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes:

- in the case of a Dollar Global Note, if DTC notifies the Issuer that it is unwilling or unable to continue as depositary for the Dollar Global Note, or DTC ceases to be a clearing agency registered under the Exchange Act and, in either case, a qualified successor depositary is not appointed by the Issuer within 120 days;
- in the case of a Euro Global Note, if Euroclear or Clearstream notifies the Issuer that it is unwilling or unable to continue as depositary for the Euro Global Note, and a qualified successor is not appointed by the Issuer within 120 days;
- if DTC, Euroclear or Clearstream so requests following an event of default under the Indenture; or
- if the owner of a Book-Entry Interest requests such exchange in writing delivered through either DTC, Euroclear or Clearstream following an event of default under the Indenture.

For so long as any of the Notes are listed on the Luxembourg Stock Exchange and its rules so require, if Definitive Registered Notes are issued, the Issuer will provide the Luxembourg Stock Exchange with a notice for publication on the exchange's website in the manner described below in "— Notices". In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such Note by surrendering it at the offices of the transfer agent or the Registrar. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note shall be issued to the transferee in respect of the part transferred, and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed shall be issued to the transferor or the holder, as applicable; *provided* that no Definitive Registered Note in a denomination less than €1,000 or $2,000, as applicable, shall be issued. The Issuer will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Notes.

The Issuer shall not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (a) the record date for any payment of interest on the Notes, (b) any date fixed for redemption of the Notes or (c) the date fixed for selection of the notes to be redeemed in part. Also, the Issuer is not required to register the transfer or exchange of any Notes selected for redemption or that the registered holder of Notes has tendered (and not withdrawn) for repurchase in connection with a Change of Control or an Asset Disposition Offer. In the event of the transfer of any Definitive Registered Note, the transfer agent may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the Indenture. The Issuer may require a holder to pay any taxes and fees required by law or permitted by the Indenture and the Notes.

Upon the issuance of Definitive Registered Notes, and for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such stock exchange so require, holders of the Notes will be able to receive principal and interest on the Notes at the Luxembourg office of the Paying Agent, subject to the right of the Issuer to mail payments in accordance with the terms of the Indenture. The Issuer will pay interest on the Notes to Persons who are registered holders at the close of business on the record date immediately preceding the interest payment date for such interest. Such holders must surrender the Notes to a Paying Agent to collect principal payments.

If Definitive Registered Notes are issued and a holder thereof claims that such Definitive Registered Notes have been lost, destroyed or wrongfully taken or if such Definitive Registered Notes are mutilated and are surrendered to the Registrar or at the office of a transfer agent, the Issuer shall issue and the Trustee shall authenticate a replacement Definitive Registered Note if the Trustee's and the Issuer's requirements are met. The Trustee or the Issuer may require a holder requesting replacement of a Definitive Registered Note to

furnish an indemnity bond sufficient in the judgment of both the Trustee and the Issuer to protect the Issuer, the Trustee or the Paying Agent appointed pursuant to the Indenture from any loss which any of them may suffer if a Definitive Registered Note is replaced. The Issuer may charge for its expenses in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by the Issuer pursuant to the provisions of the Indenture, the Issuer in its discretion may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only in accordance with the Indenture and, if required, only after the transferor first delivers to the transfer agent a written certification (in the form provided in the Indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such notes and the Issuer may require a holder to pay any taxes and fees required by law or permitted by the Indenture and the Notes. See "Notice to Investors."

Information Concerning DTC, Euroclear and Clearstream

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the relevant settlement systems and are subject to changes by them. The Issuer takes no responsibility for these operations and procedures and investors should contact the systems or their participants directly to discuss these matters.

The Issuer understands as follows with respect to DTC, Euroclear and Clearstream:

DTC. DTC is:

- a limited purpose trust company organized under the New York Banking Law;
- a "banking organization" under New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered under Section 17A of the U.S. Securities Exchange Act of 1934, as amended.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book-entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC's owners are the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. and a number of its direct participants. Others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a direct participant also have access to the DTC system and are known as indirect participants.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. To the extent that certain persons require delivery in definitive form, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the DTC system will receive distributions attributable to the Dollar Global Notes only through DTC participants.

Euroclear and Clearstream. Like DTC, Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear

and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Global Clearance and Settlement Under the Book-Entry System

The Notes represented by the Global Notes are expected to be listed on the Luxembourg Stock Exchange. The Dollar Notes are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Dollar Notes will, therefore, be required by DTC to be settled in immediately available funds. The Issuer expects that secondary trading in any certificated Notes will also be settled in immediately available funds. Subject to compliance with the transfer restrictions applicable to the Global Notes, cross-market transfers of Book-Entry Interests in the Dollar Notes between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be done through DTC in accordance with DTC's rules on behalf of each of Euroclear or Clearstream by its Common Depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to the Common Depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Dollar Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the Common Depositary.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Dollar Global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear and Clearstream as a result of a sale of an interest in a Dollar Global Note by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as at the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in the Dollar Global Notes among participants in DTC, Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee, the initial purchasers, the Registrar, any transfer agent or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

Paying Agent and Registrar

The Bank of New York Mellon will initially act as paying agent (the "Paying Agent") for the Notes and The Bank of New York (Luxembourg) S.A. will initially act as registrar (the "Registrar") for the Notes. The Issuer may change the Paying Agent or Registrar for the Notes, and the Issuer may act as Registrar for the Notes; *provided* that, if Definitive Registered Notes are issued, and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF market and the rules of such stock exchange so require, the Issuer will appoint a credit or financial institution located in Luxembourg and reasonably acceptable to the Trustee, as an additional Paying Agent for the Notes, and the Issuer has initially designated The Bank of New York (Luxembourg) S.A. as its agent for such purposes. In the event that a

Paying Agent is replaced, the Issuer will provide notice thereof in accordance with the procedures described under "— Notices".

Guarantees

Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH will unconditionally guarantee, jointly and severally, on a senior unsecured basis, the obligations of the Issuer under the Notes and the Indenture, including the repurchase obligation of the Issuer resulting from a Change of Control. In this description, we refer to the guarantee of Fresenius SE and that of each of the Subsidiary Guarantors as a Note Guarantee. The Note Guarantee of Fresenius SE will not be limited in amount. Each Note Guarantee of the Subsidiary Guarantors will be limited as described in the following three paragraphs.

The Note Guarantee of Fresenius Kabi AG shall be limited to the amount calculated in accordance with Section 291 para. 3 and Section 301 of the German Stock Corporation Act (*Aktiengesetz*), i.e. limited to the amount available to Fresenius Kabi AG from time to time for purposes of profit distributions under any existing profit and loss pooling agreement (*Ergebnisabführungsvertrag*) between Fresenius Kabi AG and Fresenius SE. For the avoidance of doubt, all amounts payable under the Note Guarantee of Fresenius Kabi AG shall remain payable until any and all claims under such Note Guarantee have been satisfied in full so that a permissible amount under Section 301 of the German Stock Corporation Act may be determined more than once. When determining the permissible amount under Section 301 of the German Stock Corporation Act if a demand under the Note Guarantee is made, Fresenius Kabi AG is required (to the extent legally permitted) to realize any and all of its assets that are shown on its balance sheet with a book value (*Buchwert*) which is more than insignificantly lower than the realizable market value of such assets where they are not essentially necessary for Fresenius Kabi AG's business (*betriebsnotwendig*). This limitation shall not apply to the extent the proceeds from the issuance of the Notes are on-lent to Fresenius Kabi AG or any of its Subsidiaries from time to time and have not been repaid. In this regard, it should be noted that all of the proceeds from the offering of the Notes hereby will initially be on-lent by the Issuer under intercompany loans including, under the Kabi Intercompany Loans, to FK Holdings, a Subsidiary of Fresenius Kabi AG. See "Use of Proceeds". Further, the limitations in the preceding sentences on the Note Guarantee of Fresenius Kabi AG will not apply if and for as long as there is a domination agreement (*Beherrschungsvertrag*) in existence with Fresenius Kabi AG as the dominated party. In this regard, it should be noted that currently there is no domination agreement in place with Fresenius Kabi AG nor is there currently any intention to enter into such an agreement with Fresenius Kabi AG.

The Note Guarantee of Fresenius ProServe GmbH shall be limited if and to the extent payment under such Note Guarantee or the application of enforcement proceeds would cause Fresenius ProServe GmbH's net assets (*Reinvermögen*) to fall below Fresenius ProServe GmbH's registered share capital (*Stammkapital*) or (if the net assets are already an amount less than the registered share capital) causing such amount to be further reduced (each a "Limitation Event") and, in each case, thereby affecting the assets required for the obligatory preservation of its registered share capital according to Sections 30, 31 of the German Limited Liability Company Act (*GmbHG*). Such net assets shall be calculated on the basis of a balance sheet prepared in accordance with the principles for ordinary bookkeeping and the preparation of balance sheets as they were consistently applied by Fresenius ProServe GmbH in preparing its unconsolidated balance sheets (*Jahresabschluss gem. Section 42 GmbH Gesetz, Sections 242, 264 subs. HGB*) in the previous years. For the purposes of such calculation, the following adjustments will be made: (i) the amount of any increase of the registered share capital out of retained earnings (*Kapitalerhöhung aus Gesellschaftsmitteln*) after the Issue Date that has been effected without the prior consent of the Trustee shall be deducted from the registered share capital; (ii) loans and other contractual liabilities incurred in violation of the provisions of the Notes and the Indenture shall be disregarded; (iii) any amounts due and payable under the Note Guarantee of Fresenius ProServe GmbH, which correspond to proceeds from the issuance of the Notes that are on-lent to Fresenius ProServe GmbH or any of its subsidiaries from time to time, shall be disregarded to the extent that any such amount is still outstanding; and (iv) any asset that is shown in the balance sheet with a book value (*Buchwert*) that is significantly lower than the market value of such asset, which is not essentially necessary for Fresenius ProServe GmbH's business (*betriebsnotwendig*) and that can be realized (to the extent legally possible) shall be taken into account with its realizable market value.

If and to the extent the enforcement of Fresenius Proserve GmbH's Note Guarantee requires Fresenius Proserve GmbH's management to assume that Fresenius Proserve GmbH will not survive as a going concern (*negative Fortführungsprognose*), and if so required by law the value of the assets of Fresenius Proserve GmbH shall be determined as the lesser of their book value (*Buchwert*) and their realization value (*Liquidationswert*) and liabilities shall be accounted for (to the extent they are interest bearing) with their repayment amount (*Rückzahlungsbetrag*) or (to the extent they are not interest bearing) with their cash value (*Barwert*). In addition, all required provisions for contingent liabilities, pending transactions and the cost of liquidation (*Rückstellungen für ungewisse Verbindlichkeiten schwebende Geschäfte und Abwicklungskosten*) shall be accounted for regardless whether a respective provision has been made in the latest available balance sheet of Fresenius Proserve GmbH which has been drawn up on a going concern basis (*positive Fortführungsprognose*). The limitations of the Note Guarantee of Fresenius Proserve GmbH shall not apply to the extent Fresenius ProServe GmbH has a compensation claim against Fresenius SE arising under any loss and profit pooling agreement (*Gewinnabführungsvertrag*) and/or domination agreement (*Beherrschungsvertrag*) existing between Fresenius SE and Fresenius ProServe GmbH or otherwise that compensates for any loss incurred due to any payment of Fresenius Proserve GmbH under its Note Guarantee.

Under the Indenture, the Parent Guarantor may consolidate with, merge with or into, or transfer all or substantially all of its assets to any other person only to the extent described below under "— Certain Covenants — Limitation on Mergers, Acquisitions and Sales of Assets". However, if the other person is not the Issuer, the Parent Guarantor's obligations under its Note Guarantee must be expressly assumed by such other person. In such circumstances, the Parent Guarantor shall be released and relieved from all its obligations under its Note Guarantee. Upon the sale or other disposition (including by way of consolidation or merger) of a Subsidiary Guarantor or shares of a Subsidiary Guarantor such that such Subsidiary Guarantor ceases to be a Subsidiary or the sale or disposition of all or substantially all the assets of a Subsidiary Guarantor (in each case other than to the Issuer or any affiliate thereof) as permitted by the covenant described under "— Certain Covenants — Limitation on Sales of Assets and Subsidiary Stock", such Subsidiary Guarantor will be released and relieved from all its obligations under its Note Guarantee. If such transaction constituted a sale of substantially all the property and assets of Fresenius SE, such transaction would only be permitted to the extent it complies with "— Certain Covenants — Limitation on Mergers, Acquisitions and Sales of Assets". In addition, the Note Guarantee of a Subsidiary Guarantor may be released as permitted by the covenant described under "— Certain Covenants — Release of Subsidiary Guarantees".

Redemption

Optional Redemption

Except as described under "— Optional Redemption upon Public Equity Offering", "— Make Whole Redemption" and "— Redemption for Changes in Withholding Taxes" below, the Notes are not redeemable at the option of the Issuer.

Optional Redemption upon Public Equity Offering. At any time prior to January 15, 2012, the Issuer may on any one or more occasions redeem up to 35% of the original principal amount of the Dollar Notes and up to 35% of the original principal amount of the Euro Notes with the net cash proceeds of one or more Public Equity Offerings at a redemption price of (i) in the case of the Dollar Notes, 109.0% of the principal amount of the Dollar Notes or (ii) in the case of the Euro Notes, 108.75% of the principal amount of the Notes, in each case plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided* that

(1) at least 65% of the original principal amount of the Dollar Notes and 65% of the original principal amount of the Euro Notes remains outstanding after each such redemption; and

(2) the redemption occurs within 90 days after the consummation of such Public Equity Offering.

Make-Whole Redemption. At any time on or prior to July 15, 2015, the Issuer may redeem the Notes, in whole but not in part, at its option, at a price equal to 100% of the principal amount thereof plus the

Applicable Premium as of, and accrued but unpaid interest, if any, to, the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Such redemption may be made upon not less than 30 nor more than 60 days notice.

"Applicable Premium" means:

(1) with respect to a Dollar Note on any redemption date, the excess of (i) the present value on such redemption date of (A) the redemption price of such Dollar Note on July 15, 2015 (such redemption price being that described in "Redemption — Optional Redemption" above), plus (B) all required remaining scheduled interest payments due on such Dollar Note through July 15, 2015 computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (ii) the principal amount of such Dollar Note on such redemption date; and

(2) with respect to a Euro Note on any redemption date, the excess of (i) the present value on such redemption date of (A) the redemption price of such Euro Note on July 15, 2015 (such redemption price being that described in "Redemption — Optional Redemption" above), plus (B) all required remaining scheduled interest payments due on such Euro Note through July 15, 2015, computed using a discount rate equal to the Bund Rate plus 50 basis points, over (ii) the principal amount of such Euro Note on such redemption date.

In each case, calculation of the Applicable Premium will be made by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate; *provided, however,* that such calculation shall not be a duty or obligation of the Trustee.

"Bund Rate" means the yield to maturity at the time of computation of direct obligations of the Federal Republic of Germany (Bund or Bundesanleihen) with a constant maturity (as officially complied and published in the most recent financial statistics that have become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to July 15, 2015; *provided, however* that if the period from the redemption date to July 15, 2015 is not equal to the constant maturity of the direct obligations of the Federal Republic of Germany for which a weekly average yield is given, the Bund Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the Federal Republic of Germany for which such yields are given, except that if the period from such redemption date to July 15, 2015 is less than one year, the weekly average yield on actually traded direct obligations of the Federal Republic of Germany adjusted to a constant maturity of one year shall be used.

"Treasury Rate" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such statistical release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to July 15, 2015; *provided, however,* that if the period from the redemption date to July 15, 2015 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to July 15, 2015 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

Redemption for Changes in Withholding Taxes. The Issuer is entitled to redeem the Notes, at its option, at any time in whole but not in part, upon not less than 30 nor more than 60 days' notice, at 100% of the principal amount of the Notes, plus accrued and unpaid interest (if any) to the date of redemption (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest

payment date), in the event the Issuer has become or would become obligated to pay, on the next date on which any amount would be payable with respect to the Notes, any additional amounts as a result of:

(a) a change in or an amendment to the laws (including any regulations promulgated under such laws) of (1) the United States, Germany, Luxembourg, the United Kingdom or any political subdivision or governmental authority thereof or therein having the power to tax, (2) any jurisdiction from or through which payment on the Notes is made, or any political subdivision or governmental authority thereof or therein having the power to tax or (3) any other jurisdiction in which the payor is organized or otherwise considered to be a resident for tax purposes, or any political subdivision or governmental authority thereof or therein having the power to tax; or

(b) any change in or amendment to any official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including by virtue of a holding, judgment or order by a court of competent jurisdiction);

which change or amendment to such laws or official position is announced and becomes effective on or after the date of issuance of the Notes; *provided* that the Issuer determines, in its reasonable judgment, that the obligation to pay such additional amounts cannot be avoided by the use of reasonable measures available to it.

Notice of any such redemption must be given within 270 days of the earlier of the announcement or effectiveness of any such change.

Selection and Notice. Notice of early redemption will be published in accordance with the procedures under "— Notices". In case of an optional redemption, the Luxembourg Stock Exchange will be notified.

If the optional redemption date is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest, if any, will be paid to the Person in whose name the Note is registered at the close of business on such record date, and no additional interest will be payable to beneficial holders whose Notes will be subject to redemption by the Issuer.

In the case of any partial redemption, the Issuer will deliver written direction to the Trustee, including how to select the Notes for redemption in compliance with the requirements of the principal securities exchange (currently expected to be the Luxembourg Stock Exchange), if any, on which the Notes are listed or, if the Notes are not listed, then the Trustee shall select the Notes for redemption on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion will deem to be fair and appropriate, although no Euro Note of €1,000 in original principal amount or less and no Dollar Note of $2,000 in original principal amount or less will be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to that Note will state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued and delivered to the Common Depositary, or in the case of Definitive Registered Notes, issued in the name of the holder thereof upon cancellation of the original Note.

Additional Amounts

All payments made under or with respect to the Notes under the Indenture or pursuant to any Note Guarantee must be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) imposed or levied by or on behalf of the (1) the United States, Germany, Luxembourg, the United Kingdom or any political subdivision or governmental authority thereof or therein having the power to tax, (2) any jurisdiction from or through which payment on the Notes is made, or any political subdivision or governmental authority thereof or therein having the power to tax or (3) any other jurisdiction in which the payor is organized or otherwise considered to be resident or doing business for tax purposes, or any political subdivision or governmental authority thereof or therein having the power to tax (each a "Relevant Taxing Jurisdiction"), collectively, "Taxes", unless the Issuer or any Guarantor is required to withhold or deduct Taxes by law or by the interpretation or administration thereof by the relevant government authority or agency. If the Issuer or any Guarantor is so required to withhold or deduct any amount for or on account of Taxes from any payment made under or with respect to the Notes, the Issuer or such Guarantor, as

the case may be, will be required to pay such amount — "Additional Amounts" — as may be necessary so that the net amount (including Additional Amounts) received by each holder after such withholding or deduction (including any withholding or deduction on such Additional Amounts) will not be less than the amount such holder would have received if such Taxes had not been withheld or deducted; *provided, however,* that no Additional Amounts will be payable for or on account of:

(i) any Taxes that would not have been so imposed but for (i) the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or a person having a power over, such holder) and any Relevant Taxing Jurisdiction including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or person having such a power) being or having been a citizen or resident or treated as a resident of, being or having been engaged in a trade or business in, or having or having had a permanent establishment in, a Relevant Taxing Jurisdiction other than any connections arising from a holder acquiring, holding or disposing of, receiving any payment under or enforcing a Note or any Note Guaranty or (ii) such holder's present or former status for United States tax purposes as a personal holding company, a controlled foreign corporation, a passive foreign investment company, a foreign private foundation or a corporation that accumulates earnings to avoid United States federal income tax;

(ii) any U.S. federal withholding Taxes imposed by reason of the holder or beneficial owner (i) owning or having owned, directly or indirectly, actually or constructively, 10% or more of the total combined voting power of all classes of stock of the Issuer entitled to vote, (ii) being a bank that has acquired a Note in the ordinary course of its trade or business, or (iii) being a controlled foreign corporation for United States tax purposes that is related to the Issuer by actual or constructive stock ownership;

(iii) any Taxes that would not have been so imposed but for the presentation by the holder of such Note for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;

(iv) any estate, inheritance, gift, sales, transfer, personal property, wealth or any similar Taxes;

(v) any Taxes that are payable otherwise than by withholding from payments on such Note;

(vi) any Taxes that would not have been imposed but for the failure to comply with certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder or beneficial owner of such Note or coupon, if such holder is legally eligible to comply with such requirement and such compliance is required by statute or by regulation of the United States Treasury Department or pursuant to an applicable tax treaty as a precondition to relief or exemption from such tax, assessment or other governmental charge (including, without limitation, providing prior to the receipt of any payment on or in respect of a Note a complete, correct and executed IRS Form W-8 or W-9 or successor form, as applicable, with all appropriate attachments);

(vii) any Taxes that are payable by a holder that is not the beneficial owner of such Note or portion of such Note, or that is a foreign partnership, but only to the extent that a beneficial owner or member of the partnership would not have been entitled to the payment of any additional amounts had the beneficial owner or member received directly its beneficial or distributive share of the payment;

(viii) any withholding or deduction that is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(ix) any combination of items (i) through (viii) above.

The Issuer will also make such withholding or deduction and remit the full amount deducted or withheld to the relevant authority as and when required in accordance with applicable law. The Issuer will furnish to the

Trustee, within 30 days after the date the payment of any Taxes is due under applicable law, certified copies of tax receipts evidencing such payment by the Issuer.

Wherever in the Indenture or the Notes there are mentioned, in any context, (1) the payment of principal, (2) purchase prices in connection with a purchase of Notes under the Indenture or the Notes, (3) interest or (4) any other amount payable on or with respect to any of the Notes, such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Issuer will pay any present stamp, court or documentary taxes, or any other excise, property or similar taxes, charges or levies (including any penalties, interest or other liabilities related thereto) which arise in the United States (or any political subdivision thereof or therein) from the execution, delivery and registration of Notes upon original issuance and initial resale of the Notes or any other document or instrument referred to therein. If at any time the Issuer changes its place of organization to outside of the United States or there is a new issuer organized outside of the United States, the Issuer or new issuer, as applicable, will pay any stamp, court or documentary taxes, or any other excise, property or similar taxes, charges or levies (including any penalties, interest or other liabilities related thereto) which arise in the jurisdiction in which the Issuer or new issuer is organized (or any political subdivision thereof or therein) and are payable by the holders of the Notes in respect of the Notes or any other document or instrument referred to therein under any law, rule or regulation in effect at the time of such change, or in connection with, the enforcement of the Notes or any such other document or instrument.

The foregoing obligations will survive any termination, defeasance or discharge of the Indenture. References in this section ("— Additional Amounts") to the Issuer or Guarantor shall apply to any successor(s) thereto.

Mandatory Redemption

The Issuer is not required to make mandatory redemption payments or sinking fund payments with respect to the Notes.

Ranking

The Notes will be general unsecured obligations of the Issuer that rank senior in right of payment to all of the Issuer's existing and future Indebtedness that is expressly subordinated in right of payment to the Notes. The Notes will rank equally in right of payment with all existing and future Indebtedness of the Issuer that is not so subordinated. The Notes will be effectively subordinated in right of payment to all of the Issuer's existing and future unsecured Indebtedness that is secured by liens on assets to the extent of the amounts securing such Indebtedness, and will be structurally subordinated in right of payment to any obligations of the Parent Guarantor's subsidiaries, other than Subsidiary Guarantors.

The Notes will be equal in right of payment with each other and the Fresenius Finance B.V.'s 7½% Senior Notes due 2009 (the "2009 Notes"), 5.00% Senior Notes due 2013 (the "2013 Notes") and 5.50% Senior Notes due 2016 (the "2016 Notes").

The guarantees of the Notes granted by the Subsidiary Guarantors will be equal in right of payment with the guarantees of the previously issued notes, except that the guarantees granted by Fresenius Kabi AG of the Notes and the 2016 Notes will be limited as described in this offering memorandum, while its guarantees of the 2009 Notes were limited only to the extent that the on-loan of the proceeds of such notes to Fresenius Kabi AG, which were used by Fresenius Kabi AG to repay an outstanding loan from Fresenius SE, were to be recharacterized as equity. For more information, see "Risk Factors — Risks Related to the Notes and the Structure of the Offering — The Notes are subordinate to other creditors of non-guarantors, and enforcement of guarantees by our subsidiaries may be limited".

Change of Control

Each holder of the Notes, upon the occurrence of a Change of Control Triggering Event, will have the right to require that the Issuer repurchase such holder's Notes, at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Within 30 days following a Change of Control Triggering Event, the Issuer will mail a notice to each holder with a copy to the Trustee stating:

(1) that a Change of Control Triggering Event has occurred and that such holder has the right to require the Issuer to purchase such holder's Notes, at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest on the relevant interest payment date);

(2) the circumstances and relevant facts regarding such Change of Control Triggering Event;

(3) the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed);

(4) that each Note will be subject to repurchase only in the amount of (x) with respect to the Dollar Notes, $2,000 or integral amounts of $1,000 and (y) with respect to the Euro Notes, €1,000 or integral amounts thereof; and

(5) the instructions determined by the Issuer, consistent with the covenant described hereunder, that a holder must follow in order to have its Notes purchased.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations or applicable listing requirements conflict with the provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue thereof.

The Change of Control Triggering Event repurchase feature is a result of negotiations between the Company and the Initial Purchasers. We have no present intention to engage in a transaction involving a Change of Control, although it is possible that we would decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of Indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to Incur additional Indebtedness are contained in the covenants described under "— Certain Covenants — Limitation on Incurrence of Indebtedness". These restrictions can only be waived with the consent of the holders of a majority in principal amount of the Notes then outstanding under the Indenture. Except for the limitations contained in such covenants, however, the Indenture will not contain any covenants or provisions that may afford holders of the Notes protection in the event of a highly leveraged transaction.

The Issuer's ability to repurchase Notes upon a Change of Control Triggering Event may be limited by a number of factors. The occurrence of some of the events that constitute a Change of Control could constitute a default under certain Indebtedness of our subsidiary FMC which, in the event of a Change of Control, could make it difficult for the Issuer to repurchase the Notes. Our future indebtedness may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require such indebtedness to be repurchased upon a Change of Control Triggering Event. Moreover, the exercise by the holders of their right to require the Issuer to repurchase the Notes could cause a default under such indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of such repurchase on us. Finally, the Issuer's ability to pay cash to the holders of Notes following the occurrence of a Change of Control Triggering

Event may be limited by our then existing financial resources. We cannot assure you that sufficient funds will be available when necessary to make any required repurchases. The provisions under the Indenture relating to the Issuer's obligation to make an offer to repurchase Notes as a result of a Change of Control Triggering Event may be waived or modified with the written consent of the holders of a majority in principal amount of the Notes issued under the Indenture.

Certain Covenants

For purposes of the Indenture, FMC and its Subsidiaries are not treated as Subsidiaries of the Company. As a result, these covenants will not apply to FMC and it's Subsidiaries and the term "Subsidiary" in these covenants, the events of default and the related definitions do not include FMC and its Subsidiaries. However, it will be an event of default under the Indenture if, at any time that FMC is a Subsidiary of the Company (other than during such time that the Notes have achieved and continue to maintain Investment Grade Status), the principal amount of any Indebtedness of FMC or its Subsidiaries that has been accelerated or not paid at maturity exceeds €300 million and such acceleration has not been rescinded or principal amount paid for 60 days.

Limitation on Incurrence of Indebtedness

(a) The Company shall not, and shall not permit any of its Subsidiaries to, Incur, directly or indirectly, any Indebtedness; *provided, however,* that the Company and any Subsidiary may Incur Indebtedness (including Acquired Indebtedness) if on the date thereof:

  (1) the Consolidated Coverage Ratio of the Company is at least 2.0 to 1.0; and

  (2) no Default or Event of Default will have occurred and be continuing or would occur as a consequence of Incurring the Indebtedness.

(b) The foregoing limitations contained in paragraph (a) do not apply to the Incurrence of any of the following Indebtedness:

  (1) Indebtedness Incurred pursuant to the Senior Credit Agreement and the guarantees thereof in an aggregate amount not to exceed $3,050 million principal amount at any time outstanding, *less* the amount of any payments actually made by the Company under the Senior Credit Agreement with the Net Available Cash of any Asset Disposition pursuant to paragraph (a)(2) of "—Limitation on Sales of Assets and Subsidiary Stock";

  (2) Indebtedness Incurred to fund working capital requirements and other general corporate purposes under bank agreements, commercial paper programs or other agreements, facilities or programs outstanding from time to time in an aggregate amount of €600 million;

  (3) Indebtedness owed to and held by a Subsidiary or Indebtedness of a Subsidiary owing to and held by the Company; *provided, however,* that any subsequent issuance or transfer of any Capital Stock that results in any such Indebtedness being held by a Person other than the Company or another Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or another Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the Company or the Subsidiary, as the case may be;

  (4) Indebtedness in respect of the Notes issued on the Issue Date, and the related Note Guarantees by the Company and the Subsidiary Guarantors;

  (5) Capital Lease Obligations and Indebtedness Incurred, in each case, to provide all or a portion of the purchase price or cost of construction of an asset or, in the case of a sale and leaseback transaction, to finance the value of such asset owned by the Company or a Subsidiary, in an aggregate principal amount which, together with all other such Capital Lease Obligations and such Indebtedness so Incurred after the Issue Date and remaining outstanding on the date of such Incurrence (other than Indebtedness permitted by paragraph (a) or clause (1) or (7) of this paragraph (b)), does not exceed €250 million;

(6) Indebtedness (other than Indebtedness described in clauses (1) or (5)) outstanding on the Issue Date after giving effect to the application of proceeds from the Notes;

(7) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to paragraph (a) or pursuant to clause (1), (4) or (6) of this paragraph (b);

(8) Hedging Obligations entered into in the ordinary course of the business and not for speculative purposes as determined in good faith by the Company;

(9) customer deposits and advance payments received from customers for goods purchased in the ordinary course of business;

(10) Indebtedness of the Company owed to FMC or the Subsidiaries of FMC;

(11) Indebtedness arising under the Cash Management Arrangements;

(12) Indebtedness Incurred by the Helios Group in an aggregate principal amount which, together with all other Indebtedness of the Helios Group outstanding on the date of such Incurrence (other than Indebtedness permitted by paragraph (a) or clauses (1) through (11) of this paragraph (b)), does not exceed €250 million; and

(13) Indebtedness Incurred by the Company or a Subsidiary of the Company (other than the Helios Group) in an aggregate principal amount which, together with all other Indebtedness of the Company and its Subsidiaries (other than the Helios Group) outstanding on the date of such Incurrence (other than Indebtedness permitted by paragraph (a) or clauses (1) through (11) of this paragraph (b)), does not exceed €250 million.

(c) For purposes of determining compliance with the foregoing covenant:

(1) in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, the Company, in its sole discretion, will classify and from time to time may reclassify such item of Indebtedness and only be required to include the amount and type of such Indebtedness in one of the above clauses;

(2) an item of Indebtedness may be divided and classified, or reclassified, in more than one of the types of Indebtedness described above; and

(3) in the event Indebtedness relates to Guarantees of Indebtedness otherwise permitted by this covenant by Kabi or ProServe (or any Subsidiary that is required to guarantee the Issuer's obligations under the Notes pursuant to the terms of the Indenture), such Guarantees shall not be treated as an additional Incurrence of Indebtedness, *provided* that the respective Note Guarantees of such Guarantors remain in full force and effect.

(d) Notwithstanding the foregoing, Indebtedness incurred by Subsidiaries of the Company that are not Guarantors or Finance Subsidiaries (other than Acquired Indebtedness) in accordance with clauses (a), (b)(2), (b)(12) and (b)(13) of this covenant may not exceed €600 million in the aggregate at any one time outstanding.

Limitation on Restricted Payments

(a) It will be a breach of the Indenture if the Company or any of its Subsidiaries, directly or indirectly, makes any Restricted Payment if at the time the Company or such Subsidiary makes such Restricted Payment:

(1) a Default or Event of Default has occurred and is continuing (or would result therefrom); or

(2) the Company is not able to Incur an additional €1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under "— Limitation on Incurrence of Indebtedness"; or

(3) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of:

(A) 50% of the Consolidated Net Income of the Company and its Subsidiaries (excluding the Consolidated Net Income of FMC and its Subsidiaries and the aggregate amount of cash distributed by FMC to the Company) accrued during the period (treated as one accounting period) from January 1, 2008 to the end of the Company's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, in case such Consolidated Net Income is a deficit, minus 100% of such deficit), plus 100% of the cash distributed by FMC on its Capital Stock to the Company since January 1, 2008;

(B) the aggregate Net Cash Proceeds received by the Company from the issuance or sale of its Qualified Capital Stock subsequent to January 1, 2008 (other than an issuance or sale to a Subsidiary and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees);

(C) the amount by which Indebtedness of the Company is reduced on the Company's balance sheet upon the conversion or exchange (other than by a Subsidiary), subsequent to the date of the Indenture of any Indebtedness of the Company convertible or exchangeable for Qualified Capital Stock of the Company (less the amount of any cash, or the fair value of any other property, distributed by the Company upon such conversion or exchange); and

(D) €20 million.

(b) The provisions of the foregoing paragraph (a) will not prohibit (and the following will not breach the Indenture):

(1) any purchase or redemption of Capital Stock or Subordinated Obligations of the Company made by exchange for, or out of the proceeds of the substantially concurrent sale of, Qualified Capital Stock of the Company (other than Capital Stock issued or sold to a Subsidiary or an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees); *provided, however,* that (A) such purchase or redemption shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale shall be excluded from the calculation of amounts under clause (3) (B) of paragraph (a) above;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness of the Company which is permitted to be Incurred pursuant to the covenant described under "— Limitation on Incurrence of Indebtedness"; *provided, however,* that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments; or

(3) dividends paid within 60 days after the date of declaration of that dividend if at such date of declaration such dividend would have complied with this covenant and at the time of payment of such dividend, no other Default shall have occurred and be continuing or result from the dividend payment; *provided, however,* that such dividends (including all dividends paid since January 1, 2008 other than the dividend paid by the Company in May 2008 out of its profits for the fiscal year ended December 31, 2007) shall be included in the calculation of the amount of Restricted Payments.

Limitation on Restrictions on Distributions from Subsidiaries

The Company will not, and will not permit any of its Subsidiaries to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any such Subsidiary:

(a) to pay dividends or make any other distributions on its Capital Stock to the Company or any other such Subsidiary or pay any Indebtedness owed to the Company or any other such Subsidiary;

(b) to make any loans or advances to the Company or any other such Subsidiary; or

(c) to transfer any of its property or assets to the Company or any other such Subsidiary;

except:

(1) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date;

(2) any encumbrance or restriction with respect to a Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Subsidiary on or prior to the date on which such Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by the Company) and outstanding on such date;

(3) any encumbrance or restriction (x) pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in clause (1) or (2) above) or (y) contained in any amendment to an agreement referred to in clause (1) or (2) above or (z) pursuant to an agreement governing Indebtedness of a Subsidiary permitted to be Incurred under the Indenture; *provided, however,* that the encumbrances and restrictions with respect to such Subsidiary contained in any such agreements or amendment are no less favorable to the holders of Notes than (a) in the case of any Subsidiary of the Company that was a Subsidiary on the Issue Date, encumbrances and restrictions with respect to such Subsidiary in existence on the Issue Date or (b) in the case of any Subsidiary acquired by the Company following the Issue Date, encumbrances and restrictions with respect to such Subsidiary in existence at the time such Subsidiary was acquired;

(4) any such encumbrance or restriction consisting of customary non-assignment provisions in leases governing leasehold interests or in licensing agreements to the extent such provisions restrict the transfer of the lease or the property leased thereunder or the licensing agreement or the rights licensed thereunder or customary shareholder consent or approval provisions in shareholder or joint venture agreements;

(5) in the case of clause (c) above, customary restrictions contained in leases, licences, easements or similar contracts and restrictions contained in security agreements, mortgages or purchase money obligations securing Indebtedness of a Subsidiary, in each case, to the extent such restrictions restrict the transfer of the property subject to such leases, licences, easements or similar contract or such security agreements, mortgages or purchase money obligations;

(6) any restriction with respect to a Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Subsidiary pending the closing of such sale or disposition; and

(7) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation or order.

Limitation on Sales of Assets and Subsidiary Stock

(a) The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, consummate any Asset Disposition unless:

(1) the Company or such Subsidiary receives consideration at the time of such Asset Disposition at least equal to the fair market value (including as to the value of all non-cash consideration), as determined in good faith by the Board of Directors of the Company or such Subsidiary, as the case may be, of the shares and assets subject to such Asset Disposition and at least 70% of the consideration thereof received by the Company or such Subsidiary is in the form of cash or cash equivalents; and

(2) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company (or such Subsidiary, as the case may be):

(A) first, to the extent the Company elects (or is required by the terms of the Senior Credit Agreement), to prepay, repay, redeem or purchase Indebtedness (other than any Disqualified Stock) of a Subsidiary whose asset was the subject of such Asset Disposition or any of its Subsidiaries (in each case other than Indebtedness owed to the Company or an Affiliate of the Company) or Indebtedness secured by such assets within one year from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;

(B) second, to the extent of the balance of such Net Available Cash after application in accordance with clause (A), to the extent the Company elects, to acquire Additional Assets within one year from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; *provided, however,* if a definitive agreement to acquire such additional assets is entered into within such period, such period shall be extended for such period as the agreement remains in effect but for no more than six months;

(C) third, to the extent of the balance of such Net Available Cash after application in accordance with clauses (A) and (B), to cause the Company to make an offer to the holders of the Notes and any other Pari Passu Indebtedness of the Company (to the extent the terms of such Pari Passu Indebtedness so require) on a pro rata basis to purchase the Notes and such Pari Passu Indebtedness pursuant to and subject to the conditions contained in the Indenture; *provided, however,* that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to clause (A) above, the Company or such Subsidiary shall retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased.

Notwithstanding the foregoing provisions of this paragraph, the Company and such Subsidiaries will not be required to apply any Net Available Cash in accordance with this paragraph except to the extent that the aggregate Net Available Cash from all Asset Dispositions which is not applied in accordance with this paragraph exceeds €20 million. Pending application of Net Available Cash pursuant to this covenant, such Net Available Cash will be invested in Permitted Investments.

For the purposes of this covenant, the following are deemed to be cash or cash equivalents:

(1) the assumption of Indebtedness of the Company or such Subsidiary and the release of the Company or such Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition; and

(2) securities received by the Company or any Subsidiary from the transferee that are promptly converted by the Company or such Subsidiary into cash.

(b) In the event of an Asset Disposition that requires the purchase of the Notes pursuant to clause (a) (2) (C) above, the Issuer will be required to purchase the Notes tendered pursuant to an offer by the Issuer for such Notes at a purchase price of 100% of the principal amount thereof (without premium), plus accrued but unpaid interest, in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indenture. The Issuer shall not be required to make such an offer to purchase Notes pursuant to this covenant if the Net Available Cash available therefor is less than €20 million (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to any subsequent Asset Disposition).

(c) The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws, regulations or applicable listing rules in connection with the repurchase of Notes under this covenant. To the extent that the provisions of any securities laws, regulations or applicable listing rules conflict with provisions of this covenant, the Issuer will comply with the applicable securities laws, regulations and applicable listing rules and will not be deemed to have breached its obligations under this clause by virtue thereof.

Limitation on Affiliate Transactions

(a) The Company will not, and will not permit any of its Subsidiaries to, enter into any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with any Affiliate of the Company (an "Affiliate Transaction") unless the terms thereof:

(1) are no less favorable to the Company or such Subsidiary than those that could be obtained at the time of such transaction in arm's length dealings with a Person who is not such an Affiliate;

(2) if such Affiliate Transaction involves an amount in excess of €10 million, (i) are set forth in writing and (ii) have been approved by a majority of the members of the Management Board of the Company or such Subsidiary having no personal stake in such Affiliate Transaction; and

(3) if such Affiliate Transaction involves an amount in excess of €30 million, have been determined by an internationally recognized appraisal, accounting or investment banking firm or, in appropriate circumstances, an internationally recognized engineering firm to be either (a) no less favorable than those that could have been obtained in a comparable transaction at such time on an arm's length basis from a Person that is not an Affiliate or (b) fair from a financial standpoint to the Company and its Subsidiaries.

(b) The provisions of paragraph (a) above shall not prohibit

(1) any Restricted Payment permitted to be paid pursuant to the covenant described under "— Limitation on Restricted Payments";

(2) transactions, payments, loans, advances or indemnities pursuant to any employee arrangements or employee or director benefit plans entered into by the Company or any of its Subsidiaries in the ordinary course of business of the Company or such Subsidiary;

(3) any Affiliate Transaction between the Company and a Subsidiary or between Subsidiaries; and

(4) any Affiliate Transaction between or among the Company, its Subsidiaries, FMC and the Subsidiaries of FMC, pursuant to the Service Agreements, the Cash Management Arrangements, Interest Rate Agreements and Currency Agreements as in effect on the Issue Date or any amendment or replacement agreement or arrangement of a similar nature so long as such amendment or replacement agreement is not more disadvantageous to the holders of the Notes in any material respect than the original agreement or arrangement as in effect on the Issue Date.

Limitation on Liens

The Company will not, and will not permit any of its Subsidiaries to directly, or indirectly, create, Incur or suffer to exist any Lien (other than Permitted Liens) upon any of its property or assets (including Capital Stock), whether owned on the date of the Indenture or acquired after that date, securing any Indebtedness, unless contemporaneously with (or prior to) the Incurrences of the Liens effective provision is made to secure the Indebtedness due under the Indenture and the Notes, equally and ratably with (or prior to in the case of Liens with respect to Subordinated Obligations) the Indebtedness secured by such Lien for so long as such Indebtedness is so secured.

Limitation on Mergers, Acquisitions and Sales of Assets

The Indenture provides that the Issuer may not consolidate or merge with or into (whether or not the Issuer is the Surviving Person), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties and assets in one or more related transactions, to another Person unless:

(1) the Surviving Person is a corporation organized and existing under the laws of the United States of America, or any State thereof or the District of Columbia;

(2) the Surviving Person (if other than the Issuer) assumes all the obligations of the Issuer under the Indenture and the Notes issued hereunder pursuant to a supplemental indenture in a form reasonably acceptable to the Trustee;

(3) at the time of and immediately after such transaction, no Default or Event of Default shall have occurred and be continuing; and

(4) the Issuer delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture, if any, comply with the Indenture.

The Company will not merge with or into, or convey, transfer, lease, sell, assign, or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its properties and assets to any Person unless:

(1) the Surviving Person shall be a Person organized and existing under the laws of Germany, the United Kingdom, any other member state of the European Union (as of December 31, 2003), Switzerland, the United States of America, or any State thereof or the District of Columbia or, if the Surviving Person is a corporation organized and existing under the laws of any other jurisdiction, the Company delivers to the Trustee an Opinion of Counsel to the effect that the rights of the holders of the Notes, would not be affected adversely as a result of the law of the jurisdiction of organization of the Surviving Person, insofar as such law affects the ability of the Surviving Person to pay and perform its obligations and undertakings in connection with its Note Guarantee or the ability of the Surviving Person to obligate itself to pay and perform such obligations and undertakings or the ability of the holders to enforce such obligations and undertakings;

(2) the Surviving Person (if other than the Company) shall expressly assume, in a transaction or series of transactions involving the Company, by a supplemental indenture in a form satisfactory to the Trustee, all of the obligations of the Company under the Indenture and the Company's Note Guarantee;

(3) at the time of, and immediately after giving effect to, such transaction or transactions on a pro forma basis (and treating any Indebtedness which becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having been issued by such Person at the time of such transaction), no Default shall have occurred and be continuing;

(4) in the case of a transaction or series of transactions involving the Company, (A) the Surviving Person will have Consolidated Net Worth (immediately after the transaction) equal to or

greater than the Consolidated Net Worth of the Company immediately preceding the transaction and (B) at the time of such transaction and after giving pro forma effect to such transaction, the Surviving Person would be permitted to Incur at least €1.00 of additional Indebtedness pursuant to paragraph (a) of the covenant described under "— Limitation on Incurrence of Indebtedness"; and

(5) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger conveyance, transfer, assignment, sale, lease or other disposition and such supplemental indenture and Guarantee Agreement, if any, comply with the Indenture.

Additional Subsidiary Note Guarantees

To the extent not prohibited by applicable law, if any Guarantor transfers or causes to be transferred, in one transaction or a series of related transactions, any property to any Subsidiary that is not a Guarantor, then such transferee Subsidiary shall:

(1) execute and deliver to the Trustee a supplemental indenture in form reasonably acceptable to the Trustee pursuant to which such Subsidiary shall unconditionally guarantee all of the Issuer's obligations under the Notes and the Indenture on the terms set forth in the Indenture; and

(2) deliver to the Trustee an Opinion of Counsel that such supplemental indenture has been duly authorized, executed and delivered by such Subsidiary and constitutes a legal, valid, binding and enforceable obligation of such Subsidiary. Thereafter, such Subsidiary shall be a Guarantor for all purposes of the Indenture.

Notwithstanding the foregoing, any Guarantor may transfer (or cause to be transferred) in one transaction or a series of related transactions property representing in aggregate not more than 5% of its EBITDA as reflected on its financial statements.

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of such exchange still require, notice of any additional Subsidiary becoming a Guarantor will be provided to the Luxembourg Stock Exchange for publication on its website (www.bourse.lu), and the Issuer will prepare a supplement in relation to such Guarantor for the Luxembourg Stock Exchange.

Release of Subsidiary Guarantees

In the event that a Subsidiary Guarantor is a Subsidiary of the Company but not a Wholly Owned Subsidiary of the Company, the Note Guarantee of that Subsidiary Guarantor may be released and all of its obligations under such Note Guarantee discharged with notice delivered to the Trustee; *provided* that, at such time, one of the Subsidiary Guarantors that was a Subsidiary Guarantor on the date of the Indenture remains a Subsidiary Guarantor.

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of such exchange still require, notice of any release of a Subsidiary Guarantor from its Note Guarantee will be published in a newspaper having general circulation in Luxembourg.

Reports

For so long as any Notes are outstanding, the Company will provide the Trustee (in physical or electronic form as the Company and the Trustee may agree) with:

(1) its consolidated annual financial statements and related notes thereto for the most recent two fiscal years prepared in accordance with GAAP (or IFRS, with appropriate reconciliation to GAAP, in the event the Company is required by applicable law to prepare its financial statements in accordance with IFRS) and including segment data, together with an audit report thereon, together with a discussion of the "Results of Operations and Liquidity" for

such fiscal years prepared in a manner substantially consistent with the "Management's Discussion and Analysis of Financial Conditions and Results of Operations" appearing herein and a "Summary of the Fiscal Year" and a discussion of "Business Segments" provided in a manner consistent with its annual report, a description of "Related Party Transactions" and a description of Indebtedness, within 90 days of the end of each fiscal year;

(2) consolidated quarterly financial information as of and for the period from the beginning of each year to the close of each quarterly period (other than the fourth quarter), together with comparable information for the corresponding period of the preceding year, and a summary "Management's Discussion and Analysis of Financial Conditions and Results of Operations" providing a brief discussion of the results of operations for the period within 45 days following the end of the fiscal quarter; and

(3) any announcement containing a description of any material acquisition, disposition or restructuring of the Company and its Subsidiaries, taken as a whole, or any senior executive officer changes at the Company or change in auditors of the Company or any other material event of the Company and its Subsidiaries, taken as whole, that the Company or any of its Restricted Subsidiaries that it issues publicly.

Contemporaneously with the provision of each report discussed above, the Company will also file a press release with the appropriate internationally recognized wire services with respect to such report and (i) post copies of such reports on such website as may be then maintained by the Company or (ii) otherwise provide substantially comparable public availability of such reports.

If and so long as the Notes are listed on the Luxembourg Stock Exchange, to the extent that such exchange requires, copies of such reports shall also be available at the specified office of the Paying Agent and transfer agent in Luxembourg.

In addition, for so long as any Notes are outstanding, the Company will use its commercially reasonable efforts to participate in quarterly conference calls, in English, to discuss operating results and related matters on a basis consistent with their current practice.

In addition, so long as the Notes remain outstanding and during any period when the Issuer or the Company is not subject to Section 13 or 15(d) of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Company will furnish to any holder or beneficial owner of Notes initially offered and sold in the United States to "qualified institutional buyers" as defined in Rule 144A under the U.S. Securities Act of 1933 pursuant to such rule and any prospective purchaser in the United States designated by such holder or beneficial owner, upon request, any information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act of 1933.

Suspension of Covenants During Achievement of Investment Grade Status

If during any period the Notes have achieved and continue to maintain Investment Grade Status and no Event of Default has occurred and is continuing (such period is referred to herein as an "Investment Grade Status Period"), then upon notice by the Company to the Trustee by the delivery of an Officers' Certificate that it has achieved Investment Grade Status, the covenants and Events of Default enumerated below will be suspended and will not during such period be applicable to the Company and its Subsidiaries. As a result, during any such period, the Notes will lose the full covenant protection initially provided under the Indenture. No action taken during an Investment Grade Status Period or prior to an Investment Grade Status Period in compliance with the covenants then applicable will require reversal or constitute a default under the Notes in the event that suspended covenants are subsequently reinstated or suspended, as the case may be. An Investment Grade Status Period will not commence until the Company has delivered the Officers' Certificate referred to above and will terminate immediately upon the failure of the Notes to maintain Investment Grade Status. The covenants to be suspended are those described under "— Limitation on Incurrence of Indebtedness", "— Limitation on Restricted Payments", "— Limitation on Restrictions on Distributions from Subsidiaries", "— Limitation on Affiliate Transactions", and clause (4) of the second paragraph of "— Limitation on

Mergers, Acquisitions and Sales of Assets." In addition, clause (5) of "— Events of Default" would cease to constitute an Event of Default under the Indenture.

Ownership of the Issuer

The Company will continue to directly or indirectly maintain 100% ownership of the Capital Stock of the Issuer or any permitted successor of the Issuer, provided that any permitted successor of the Company under the Indenture may succeed to the Company's ownership of such Capital Stock.

The Company will cause the Issuer or its successor to engage only in those activities that are necessary, convenient or incidental to issuing and selling the Notes and any additional Indebtedness permitted by the Indenture, and advancing or distributing the proceeds thereof to the Company and its Subsidiaries and performing its obligations relating to the Notes and any such additional Indebtedness, pursuant to the terms thereof and of the Indenture and any other applicable indenture.

Events of Default

The Indenture provides that any one or more of the following described events, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Notes:

(1) failure for 30 days to pay interest on the Notes, including any Additional Amounts in respect thereof, when due; or

(2) failure to pay principal of or premium, if any, on the Notes when due, whether at maturity, upon redemption, by declaration or otherwise; or

(3) failure to observe or perform any other covenant contained in the Indenture for 60 days after notice as provided in the Indenture; or

(4) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by us or any of our Subsidiaries (or the payment of which is guaranteed by us), whether such Indebtedness or Guarantee now exists or is Incurred after the issue date, if (A) such default results in the acceleration of such Indebtedness prior to its express maturity or will constitute a default in the payment of such Indebtedness and (B) the principal amount of any such Indebtedness that has been accelerated or not paid at maturity, when added to the aggregate principal amount of all other such Indebtedness, at such time, that has been accelerated or not paid at maturity, exceeds €25 million for so long as the Existing Notes are outstanding and thereafter €50 million; or

(5) at any time that FMC remains a Subsidiary of the Company, the principal amount of any Indebtedness of FMC or its Subsidiaries in an amount in excess of €300 million shall have been accelerated or not paid at maturity and such acceleration shall not have been rescinded or any such amount due (whether by acceleration or at maturity) shall have remained unpaid for at least 60 days from the date of such acceleration or maturity; or

(6) any final judgment or judgments (not covered by insurance) which can no longer be appealed for the payment of money in excess of €25 million for so long as the Existing Notes are outstanding and thereafter €50 million shall be rendered against the Company or any of its Subsidiaries and shall not be discharged for any period of 60 consecutive days during which a stay of enforcement shall not be in effect; or

(7) any Note Guarantee shall cease to be in full force and effect in accordance with its terms for any reason except in the event of a substitution of a Guarantor for the Issuer pursuant to the terms of the Indenture or the satisfaction in full of all the obligations thereunder or shall be declared invalid or unenforceable other than as contemplated by its terms, or any Guarantor shall repudiate, deny or disaffirm any of its obligations thereunder or under the Indenture; or

(8) certain events in bankruptcy, insolvency or reorganization of the Company, the Issuer or any of the Company's Significant Subsidiaries.

The Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Notes may declare the principal of and interest (including any Additional Amounts) on the Notes due and payable immediately on the occurrence of an Event of Default under the Indenture; *provided, however,* that, after such acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding Notes may, under certain circumstances, rescind and annul such acceleration if all Events of Default under the Indenture, other than the nonpayment of accelerated principal, have been cured or waived as provided under the Indenture.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, such Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any holders of Notes issued thereunder unless such holders shall have agreed in writing to fully indemnify the Trustee. Subject to the provisions for the indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Notes issued thereunder, then outstanding, will have the right to direct the time, method and place of conducting any proceeding for any remedy available to such Trustee, or exercising any trust or power conferred on the Trustee.

No holder of any Note will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless written notice of a continuing Event of Default shall have previously been given in accordance with the terms of the Indenture and full indemnity shall have been offered, to the Trustee to institute such proceeding as Trustee, and the Trustee will not have received from the holders of a majority in aggregate principal amount of the outstanding Notes issued thereunder a direction inconsistent with such request and shall have failed to institute such proceeding within 60 days. However, such limitations do not apply to a suit instituted by a holder of a Note for enforcement of payment of the principal of and premium, if any, or interest on such Note on or after the respective due dates expressed in such Note.

The holders of a majority in aggregate outstanding principal amount of the Notes affected thereby may, on behalf of the holders of all the Notes waive any past default, except a default in the payment of principal, premium, if any, or interest or a default in respect of a covenant or provision that cannot be modified or amended without consent of the holder of each Note affected. The Issuer is required to file annually with the Trustee a certificate as to whether or not the Issuer is in compliance with all the conditions and covenants under the Indenture.

Amendments and Waivers

Subject to certain exceptions, the Indenture may be amended with the consent of the holders of a majority in principal amount of the Notes then outstanding (including without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes and, subject to certain exceptions, any past default or compliance with any provisions may be waived with the consent of the holders of a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes). However, without the consent of each holder of an outstanding Note affected, an amendment may not (with respect to any Notes of a series held by a non consenting holder), among other things:

(1) reduce the percentage of principal amount of Notes whose holders must consent to an amendment;

(2) reduce the stated rate of or extend the stated time for payment of interest on any Note;

(3) reduce the principal of or extend the Stated Maturity of any Note;

(4) change the time at which any Note may be redeemed as described above under "— Redemption — Optional Redemption";

(5) reduce the premium payable upon the repurchase of any Note, change the time at which any Note may be repurchased, or change any of the associated definitions related to the provisions of

"— Redemption — Change of Control" or "Certain Covenants — Limitation on Sales of Assets and Subsidiary Stock" once the obligation to repurchase the Notes has arisen;

(6) make any Note payable in money other than that stated in the Note;

(7) impair the right of any holder to receive payment of premium, if any, principal of and interest on such holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such holder's Notes; or

(8) make any change in the amendment provisions which require each holder's consent or in the waiver provisions.

Without the consent of any holder, the Issuer and the Trustee may amend the Indenture to:

(1) cure any ambiguity, omission, defect or inconsistency;

(2) provide for the assumption by a successor corporation, partnership, trust or limited liability company of the obligations of the Issuer under the Indenture or of a Guarantor (other than the Company) under the Note Guarantees;

(3) provide for uncertificated Notes in addition to or in place of certificated Notes;

(4) add Guarantees with respect to the Notes;

(5) secure the Notes;

(6) add to the covenants of the Issuer and the Guarantors for the benefit of the holders or surrender any right or power conferred upon the Issuer;

(7) provide for the issuance of Additional Notes in accordance with the Indenture;

(8) make any change that does not adversely affect the rights of any holder;

(9) evidence and provide for the acceptance and appointment under the Indenture by any successor Trustee;

(10) conform the text of the Indenture, the Notes or the Note Guarantees to any provision of this "Description of the Notes" to the extent such provision in this "Description of the Notes" was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Note Guarantees; and

(11) comply with the rules of any applicable securities depositary.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment under the Indenture becomes effective, the Issuer is required to mail to the holders a notice briefly describing such amendment. However, the failure to give such notice to all the holders (with a copy to the Trustee), or any defect in the notice, will not impair or affect the validity of the amendment.

Defeasance

The Issuer at any time may terminate all its obligations under the Notes and the Indenture ("legal defeasance"), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain a Registrar and Paying Agent in respect of the Notes.

The Issuer at any time may terminate its obligations under covenants described under "Certain Covenants" (other than "— Limitation on Mergers, Acquisitions and Sales of Assets"), the operation of the cross-default upon a payment default, cross-acceleration provisions, the bankruptcy provisions with respect to Subsidiaries (other than the Issuer), the judgment default provision described under "Events of Default" above and the limitations contained in clause (4) under "Certain Covenants — Limitation on Mergers, Acquisitions and Sales of Assets" above ("covenant defeasance").

The Issuer may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to the Notes. If the Issuer exercises its covenant defeasance option, payment of the Notes may not be accelerated because of an Event of Default specified in clause (3), (4), (5) or (6) (with respect only to Subsidiaries other than the Issuer) under "— Events of Default" above or because of the failure of the Issuer to comply with clause (4) under "— Certain Covenants — Limitation on Mergers, Acquisitions and Sales of Assets" above.

In order to exercise either defeasance option, the Issuer must irrevocably deposit in trust (the "defeasance trust") in advance with the Trustee euro or euro-denominated Designated Government Obligations for the payment of principal, premium, if any, and interest on the Euro Notes, U.S. dollars or U.S. dollar-denominated Designated Government Obligations for the payment of principal, if any, and interest on the Dollar Notes, as the case may be, in each case to redemption or maturity, as the case may be, and must comply with certain other conditions, including prior delivery to the relevant Trustee of

(a) an Opinion of Counsel (subject to customary exceptions and exclusions) to the effect that holders of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred. In the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the Internal Revenue Service or other change in applicable U.S. federal income tax law; and

(b) an Opinion of Counsel in the Federal Republic of Germany (subject to customary exceptions and exclusions) to the effect that holders of the Notes will not recognize income, gain or loss for income tax purposes of the Federal Republic of Germany as a result of such deposit and defeasance and will be subject to income tax in the Federal Republic of Germany on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

Currency Indemnity

The euro (or any of its successor currencies) is the sole currency of account and payment for all sums payable by the Issuer under the Indenture with respect to the Euro Notes and U.S. dollars is the sole currency of account and payment for all sums payable by the Issuer under the Indenture with respect to the Dollar Notes. Any amount received or recovered in a currency other than euro in respect of the Euro Notes or U.S. dollars in respect of the Dollar Notes (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Subsidiary or otherwise) by the holder or the Trustee in respect of any sum expressed to be due to it from the Issuer will constitute a discharge of the Issuer only to the extent of the euro amount or U.S. dollar amount, as the case may be, which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not possible to make that purchase on that date, on the first date on which it is possible to do so). If that euro amount or U.S. dollar amount, as the case may be, is less than the euro amount or U.S. dollar amount, as the case may be, expressed to be due to the recipient under any Euro Note or Dollar Note, as the case may be, the Issuer will indemnify the recipient against any loss sustained by it as a result. In any event the Issuer will indemnify the recipient against the cost of making any such purchase.

For the purposes of this indemnity, it will be sufficient for the holder to certify that it would have suffered a loss had an actual purchase of euros or U.S. dollars, as the case may be, been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of euros or U.S. dollars, as the case may be, on such date had not been practicable, on the first date on which it would have been practicable). These indemnities constitute a separate and independent obligation from the other obligations of the Issuer, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any holder and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

Prescription

The Issuer shall be discharged from its obligation to pay principal on the Notes to the extent that a payment which has been duly made remains unclaimed at the end of the period of ten years from the maturity date in respect of such Notes. The Issuer shall be discharged from its obligation to make an interest payment on the Notes to the extent that a payment which has been duly made remains unclaimed at the end of the period of five years from the interest payment date in respect of such payment.

Listing

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. So long as the Notes are listed on the Luxembourg Stock Exchange, an agent for making payments on, and transfers of Notes will be maintained in Luxembourg. The Issuer has initially designated The Bank of New York (Luxembourg) S.A. as its agent for such purposes. The Issuer expects the Dollar Notes to be eligible for trading on the PORTAL market.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer, the Company or the other Guarantors, as such, shall have any liability for any obligations of the Issuer under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver and release may not be effective to waive liabilities under the U.S. federal securities laws and it is the view of the SEC that such a waiver is against public policy. In addition, such waiver and release may not be effective under the laws of the Federal Republic of Germany.

Consent to Jurisdiction and Service of Process

The Indenture provides that the Issuer irrevocably agrees to accept notice and service of process in any suit, action or proceeding with respect to the Indenture and the Notes, as the case may be, brought in any federal or state court located in the Borough of Manhattan in the City of New York and that the Issuer submit to the jurisdiction thereof.

Concerning the Trustee

The Bank of New York Mellon is the Trustee under the Indenture and has appointed The Bank of New York (Luxembourg) S.A. as Registrar (in the case of Definitive Registered Notes) under direction by the Issuer. An affiliate of the Trustee has been appointed as Paying Agent with regard to the Notes.

Governing Law

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York. The Note Guarantees will be governed by, and construed in accordance with, the laws of the State of New York, except that certain matters concerning the limitations thereof will be construed in accordance with the laws of the Federal Republic of Germany.

Notices

Notices regarding the Notes will be (a) sent to a leading newspaper having general circulation in the City of New York (which is expected to be The Wall Street Journal) (and, if and so long as Notes are listed on the Luxembourg Stock Exchange and the rules of such Stock Exchange shall so require, published on the website at the Luxembourg Stock Exchange (www.bourse.lu)), (b) sent to the Trustee and (c) in the event the Notes are in the form of Definitive Registered Notes, sent, by first-class mail, with a copy to the Trustee, to each holder of the Notes at such holder's address as it appears on the registration books of the Registrar. If and so long as such Notes are listed on any other securities exchange, notices will also be given in accordance with any applicable requirements of such securities exchange. If and so long as any Notes are represented by one or

more Global Notes and ownership of Book-Entry Interests therein are shown on the records of Euroclear, Clearstream or any successor clearing agency appointed by the Common Depositary at the request of the Issuer, notices will also be delivered to such clearing agency for communication to the owners of such Book-Entry Interests. Notices given by publication will be deemed given on the first date on which any of the required publications is made and notices given by first-class mail, postage prepaid, will be deemed given five calendar days after mailing.

Certain Definitions

In the discussion below, the "Company" refers to Fresenius SE.

As used in the Indenture:

"Acquired Indebtedness" means Indebtedness of a Person existing at the time such Person becomes a Subsidiary or is merged into or consolidated with any other Person or that is assumed in connection with the acquisition of assets from such Person and, in each case, not Incurred by such Person in connection with, or in anticipation or contemplation of, such Person becoming a Subsidiary or such merger, consolidation or acquisition.

"Additional Assets" means:

(1) any property or assets (other than Indebtedness and Capital Stock) in a Related Business,

(2) the Capital Stock of a Person that becomes a Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Subsidiary, or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Subsidiary; *provided, however,* that any such Subsidiary described in clauses (2) or (3) above is primarily engaged in a Related Business.

"*Affiliate*" of any specified Person means:

(1) any other Person, directly or indirectly, controlling or controlled by, or

(2) under direct or indirect common control with such specified Person,

For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

For purposes of the provisions described under "— Certain Covenants — Limitation on Restricted Payments", "— Certain Covenants — Limitation on Affiliate Transactions" and "— Certain Covenants — Limitations on Sales of Assets and Subsidiary Stock" only, "Affiliate" shall also mean any beneficial owner of Capital Stock representing 10% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Capital Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Asset Disposition" means any direct or indirect sale, issuance, conveyance, transfer, lease (other than operating leases entered into in the ordinary course of business), assignment or other transfer for value by the Company or any of its Subsidiaries (including any Sale and Leaseback Transaction) to any Person other than the Company or a Subsidiary of the Company, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "disposition"), of:

(1) any shares of Capital Stock of any Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Subsidiary),

(2) all or substantially all the assets of any division or line of business of the Company or any Subsidiary, or

(3) any other assets of the Company or any Subsidiary outside of the ordinary course of business of the Company or such Subsidiary,

other than, in the case of (1), (2) and (3) above,

(A) a disposition of assets or issuance of Capital Stock by a Subsidiary to the Company or by the Company or a Subsidiary or a Person that becomes a Subsidiary at the time of such disposition or issue,

(B) for purposes of the covenant described under "— Certain Covenants — Limitation on Sales of Assets and Subsidiary Stock" only, a disposition that constitutes a Restricted Payment permitted by the covenant described under "— Certain Covenants — Limitation on Restricted Payments",

(C) transactions permitted under "Certain Covenants — Limitation on Mergers, Acquisitions and Sales of Assets", and

(D) dispositions in connection with Permitted Liens, foreclosures on assets and any release of claims which have been written down or written off.

"Average Life" means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing:

(1) the sum of the products of numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by

(2) the sum of all such payments.

"Board of Directors" means, with respect to the Issuer, the Company or a Subsidiary, as the case may be, the Board of Directors (or other body performing functions similar to any of those performed by a Board of Directors including those performed, in the case of a German stock corporation, by the Management Board) of such person or any committee thereof duly authorized to act on behalf of such Board (or other body).

"Business Day" means any day other than:

(1) a Saturday or Sunday,

(2) a day on which banking institutions in London, New York City, Frankfurt am Main, or Luxembourg are authorized or required by law or executive order to remain closed, or

(3) a day on which the corporate trust office of the Trustee is closed for business.

"Cash Management Arrangements" means the cash management arrangements of the Company and its Affiliates (including any Indebtedness arising thereunder) which arrangements are in the ordinary course of business consistent with past practice.

"Capital Lease Obligation" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"Change of Control" means the occurrence of one or more of the following events:

(1) any event the result of which is that (A) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than the Permitted Holder, is or becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that such

person or group shall be deemed to have "beneficial ownership" of all shares that any such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 35% of the total voting power of the Voting Stock of the Company and (B) the Permitted Holder does not "beneficially own" (as defined in Rules 13d-3 and 13d-5 of the Exchange Act), directly or indirectly, in the aggregate a greater percentage of the total voting power of the Voting Stock of the Company;

(2) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company to any Person or group of related Persons for purposes of Section 13(d) of the Exchange Act (a "Group"), together with any Affiliates thereof (whether or not otherwise in compliance with the provisions of the Indenture);

(3) the approval by the holders of Capital Stock of the Company of any plan or proposal for the liquidation or dissolution of the Company (whether or not otherwise in compliance with the provisions of the Indenture);

(4) during any period of two consecutive years, individuals who at the beginning of such period constituted the Supervisory Board of the Company (together with any new members of such board whose nomination or proposal for election by the shareholders of the Company was approved by action of the members of such Supervisory Board of the Company; *provided* that at such time a majority of the Supervisory Board is constituted of members who were either members of the Supervisory Board at the beginning of such period or whose nomination for election was previously so approved or were designees of the Permitted Holders or were nominated or proposed by such Permitted Holders or any of their designees) cease for any reason to constitute a majority of the Supervisory Board of the Company then in office; or

(5) any event following which the financial results of FMC are not fully consolidated with the financial results of the Company in accordance with GAAP; or

(6) any event following which the Company fails to own, directly or indirectly, 100% of the Capital Stock of either Fresenius Kabi AG or Fresenius ProServe GmbH and, concurrently therewith or at any time thereafter, the Note Guarantee in respect of such Subsidiary has been released.

"Change of Control Triggering Event" means the occurrence of a Change of Control other than in the case of the occurrence of the events specified in clauses (1), (4) and (6) of the definition of Change of Control where "Change of Control Triggering Event" means the occurrence of a Change of Control as specified therein and a Ratings Decline.

"Consolidated Coverage Ratio" of any Person as of any date of determination means the ratio of (x) the aggregate amount of EBITDA for such Person's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date of such determination to (y) Consolidated Interest Expense for such four fiscal quarters; *provided, however,* that:

(1) if such Person or any of its Subsidiaries has Incurred or repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness under any revolving credit facility unless such Indebtedness has been permanently repaid and any related commitment has been terminated) any Indebtedness since the beginning of such period that remains outstanding or discharged or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence or discharge of Indebtedness, or both, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been Incurred or discharged on the first day of such period and the Incurrence or discharge of any other Indebtedness as if such Incurrence or discharge had occurred on the first day of such period,

(2) if since the beginning of such period such Person or any of its Subsidiaries shall have made any Asset Disposition, the EBITDA for such period shall be reduced by an amount equal to the EBITDA (if positive) directly attributable to the assets which are the subject of such Asset

Disposition for such period, or increased by an amount equal to the EBITDA (if negative), directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of such Person or any of its Subsidiaries repaid, repurchased, defeased or otherwise discharged with respect to such Person and its continuing Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Subsidiary is sold, the Consolidated Interest Expense for such period of credit and directly attributable to the Indebtedness of such Subsidiary to the extent such Person and its continuing Subsidiaries are no longer liable for such Indebtedness after such sale),

(3) if since the beginning of such period such Person or any of its Subsidiaries (by merger or otherwise) shall have made an Investment in any Subsidiary (or any Person which becomes a Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period, and

(4) if since the beginning of such period any Person (that subsequently became a Subsidiary or was merged with or into such Person or any of its Subsidiaries since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to clause (2) or (3) above if made by such Person or a Subsidiary of such Person during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition occurred on the first day of such period.

For purposes of this definition (but not, for the avoidance of doubt, for the purpose of any other defined terms used in this definition): whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer of the Company, as applicable; if any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months); and, in the case of the Company, Subsidiaries will include FMC and its Subsidiaries.

"Consolidated Interest Expense" means, with respect to any Person for any period, the total interest expense of such Person (the "Relevant Person") and its consolidated Subsidiaries (which, in the case of the Company, will include FMC and its Subsidiaries), plus, to the extent not included in such total interest expense, and to the extent Incurred by such Relevant Person or its Subsidiaries,

(1) interest expense attributable to capital leases,

(2) amortization of debt discount and debt issuance cost,

(3) capitalized interest,

(4) non-cash interest expenses,

(5) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing,

(6) net costs associated with Hedging Obligations (including amortization of fees),

(7) Preferred Stock dividends in respect of all Preferred Stock held by Persons other than the Relevant Person or a Subsidiary of the Relevant Person,

(8) interest Incurred in connection with Investments in discontinued operations,

(9) interest accruing on any Indebtedness of any other Person to the extent such Indebtedness is Guaranteed by the Relevant Person or any of its Subsidiaries, and

(10) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Relevant Person) in connection with Indebtedness Incurred by such plan or trust.

Notwithstanding the above, for purposes of calculating Consolidated Interest Expense of the Company and its Subsidiaries, for so long as Consolidated Net Income of the Company does not include the full Consolidated Net Income of FMC and its Subsidiaries as a result of clause (3) of the definition thereof, the Consolidated Interest Expense of FMC and its Subsidiaries shall be excluded as well.

"Consolidated Net Income" means, with respect to any Person for any period, the net income of such Person (the "Relevant Person") and its consolidated Subsidiaries (which, in the case of the Company, will include FMC and its Subsidiaries); *provided, however,* that there shall not be included in such Consolidated Net Income:

(1) any net income of any Person if such Person is not a Subsidiary, except that (A) subject to the exclusion contained in clause (4) below, the Relevant Person's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Relevant Person or a Subsidiary of the Relevant Person as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Subsidiary, to the limitations contained in clause (3) below) and (B) the Relevant Person's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income,

(2) any net income (or loss) of any Person acquired by the Relevant Person or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition,

(3) any net income of any Subsidiary of the Relevant Person if such Subsidiary is subject to contractual, governmental or regulatory restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Subsidiary, directly or indirectly, to the Relevant Person, except that (A) subject to the exclusion contained in clause (4) below, the Relevant Person's equity in the net income of any such Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Subsidiary during such period to the Relevant Person or another of its Subsidiaries as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another Subsidiary, to the limitation contained in this clause) and (B) the Relevant Person's equity in a net loss of any such Subsidiary for such period shall be included in determining such Consolidated Net Income,

(4) any gain or loss realized upon the sale or other disposition of any assets of the Relevant Person or its consolidated Subsidiaries (including pursuant to any sale and leaseback arrangement) that is not sold or otherwise disposed of in the ordinary course of business and any gain or loss realized upon the sale or other disposition of any Capital Stock of any Person,

(5) extraordinary gains or losses, including any non cash deductions or additions arising out of adjustments to, or the mark to market valuation of, the (i) purchase price adjustment arising out of the CVRs and (ii) liabilities arising out of the Mandatory Exchangeable Bonds, and any other exceptional items quantified and described in the Company's public reporting, and

(6) the cumulative effect of a change in accounting principles.

"Consolidated Net Worth" means the total of the amounts shown on the balance sheet of the Company and its consolidated Subsidiaries (which, in the case of the Company, will include FMC and its Subsidiaries), determined on a consolidated basis in accordance with GAAP, as of the end of the Company's most recently

ended fiscal quarter for which internal financial statements are available prior to the taking of any action for the purpose of which the determination is being made, as:

(1) the par or stated value of all outstanding Capital Stock of the Company plus

(2) paid-in capital or capital surplus relating to such Capital Stock plus

(3) any retained earnings or earned surplus less (A) any accumulated deficit and (B) any amounts attributable to Disqualified Stock.

"Currency Agreement" means any foreign currency exchange contract, currency swap agreement or other similar agreement or arrangement.

"CVRs" means the 163,251,906 contingent value rights issued by Fresenius Kabi Pharmaceuticals Holdings, Inc. pursuant to the Contingent Value Rights Agreement, dated September 10, 2008, by and between Fresenius Kabi Pharmaceuticals Holdings, Inc. and The Bank of New York Mellon.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default (as defined herein).

"Designated Government Obligations" means direct non-callable and non-redeemable obligations (in each case, with respect to the issuer thereof) of any member state of the European Union that is a member of the European Union as of the date of the Indenture or of the United States of America (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is secured by the full faith and credit of the applicable member state or of the United States of America, as the case may be.

"Disqualified Stock" means, with respect to any Person, any Capital Stock that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

(1) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise,

(2) is convertible or exchangeable for Indebtedness or Disqualified Stock; or

(3) is redeemable at the option of the holder thereof, in whole or in part,

in each case on or prior to the first anniversary of the Stated Maturity of the Notes; *provided, however,* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the first anniversary of the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are not more favorable to the holders of such Capital Stock than the provisions described under "— Certain Covenants — Limitation on Sales of Assets and Subsidiary Stock" and "— Change of Control".

"EBITDA" for any Person for any period means the sum of Consolidated Net Income of such Person, plus Consolidated Interest Expense of such Person plus the following to the extent deducted in calculating such Consolidated Net Income:

(1) all income tax expense of such Person and its Subsidiaries (which, in the case of the Company, will include FMC and its Subsidiaries),

(2) depreciation expense, and

(3) amortization expense, in each case for such period.

Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization of, a Subsidiary shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion) that the net income of such Subsidiary was included in calculating Consolidated Net Income and only if a corresponding amount would be permitted at the date of determination to be dividended to such Person by such Subsidiary without prior approval (that has not been

obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Subsidiary or its stockholders.

"€" or *"euro"* means the single currency of the Participating Member States.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended.

"Finance Subsidiary" means the Issuer and any other Wholly Owned Subsidiary of the Company created for the sole purpose of issuing evidences of Indebtedness and which is subject to similar restrictions on its activities as the Issuer.

"FMC" means Fresenius Medical Care AG & Co. KGaA (or any successor thereto) but not any of its Subsidiaries.

"FSE EBITDA" means EBITDA for the Company but, for purposes of this definition, excluding the results of operations of FMC and its Subsidiaries in calculating Consolidated Interest Expense, Consolidated Net Income and EBITDA (but, for the avoidance of doubt, including any distributions actually paid to FSE or one of its Subsidiaries (other than FMC and its Subsidiaries) by FMC in the relevant period); *provided, however,* that:

(1) if since the beginning of such period the Company or any of its Subsidiaries (other than FMC and its Subsidiaries) shall have made any Asset Disposition, the EBITDA for such period shall be reduced by an amount equal to the EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period, or increased by an amount equal to the EBITDA (if negative), directly attributable thereto for such period,

(2) if since the beginning of such period the Company or any of its Subsidiaries (other than FMC and its Subsidiaries) (by merger or otherwise) shall have made an Investment in any Subsidiary (or any Person which becomes a Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA for such period shall be calculated after giving pro forma effect thereto as if such Investment or acquisition occurred on the first day of such period, and

(3) if since the beginning of such period the Company or any of its Subsidiaries (other than FMC and its Subsidiaries) (that subsequently became a Subsidiary or was merged with or into the Company or such Subsidiary since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to clause (1) or (2) above if made by the Company or such Subsidiary during such period, EBITDA for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition occurred on the first day of such period.

For purposes of this definition (but not, for the avoidance of doubt, for the purpose of any other defined terms used in this definition): whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer of the Company, as applicable.

"GAAP" means generally accepted accounting principles in the United States of America as in effect as of the Issue Date, including those set forth in:

(1) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants,

(2) statements and pronouncements of the Financial Accounting Standards Board,

(3) such other statements by such other entity as approved by a significant segment of the accounting profession, and

(4) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in periodic reports required to be filed pursuant to Section 13 of the

Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any Person (other than, in the case of subsidiaries, obligations which would not constitute Indebtedness) and any obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise), or

(2) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning. The term "Guarantor" shall mean any Person Guaranteeing any obligation.

"Guarantee Agreement" means, in the context of a consolidation, merger or sale of all or substantially all of the assets of a Guarantor, an agreement by which the Surviving Person from such a transaction expressly assumes all of the obligations of such Guarantor under its Note Guarantee.

"Guarantor" means each of the Company, Fresenius Kabi AG and Fresenius ProServe GmbH unless released from all obligations under their Note Guarantee in accordance with the terms of the Indenture.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

"Helios Group" means HELIOS Kliniken GmbH and its Subsidiaries.

"Incur" means issue, assume, Guarantee, incur or otherwise become liable for; *provided, however,* that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary. The term "Incurrence" when used as a noun shall have a correlative meaning. The accretion of principal of a non-interest bearing or other discount security shall be deemed the Incurrence of Indebtedness.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication):

(1) the principal of and premium (if any) in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable,

(2) all Capital Lease Obligations of such Person,

(3) all obligations of such Person issued or assumed as the deferred purchase price of property or services, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (other than (x) customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business, (y) trade debt Incurred in the ordinary course of business and not overdue by 90 days or more and (z) obligations Incurred under a pension, retirement or deferred compensation program or arrangement regulated under the Employee Retirement Income Security Act of 1974, as amended, or the laws of a foreign government, or referred to in clause (1) below),

(4) all obligations of such Person for the reimbursement of any obligor on any letter of credit, bank guarantee, banker's acceptance or similar credit transaction (except to the extent such reimbursement obligation relates to trade debt in the ordinary course of business and such reimbursement

obligation is paid within 30 days after payment of the trade debt or is referred to in clause (1) below),

(5) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any subsidiary of such Person, any Preferred Stock (but excluding, in each case, any accrued dividends),

(6) all obligations of the type referred to in clauses (1) through (5) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee,

(7) all obligations of the type referred to in clauses (1) through (6) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured, and

(8) to the extent not otherwise included in this definition, Hedging Obligations of such Person.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date. For the avoidance of doubt, the following will not be treated as Indebtedness:

(1) Indebtedness incurred in respect of workers' compensation claims, self insurance obligations, performance, surety and similar bonds and completion guarantees provided in the ordinary course of business;

(2) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, in each case, Incurred or assumed in connection with the disposition or acquisition of any business, assets or Capital Stock of a Subsidiary, *provided*, that the maximum aggregate liability in respect of all such Indebtedness (other than in respect of tax and environmental indemnities) shall at no time exceed, in the case of a disposition, the gross proceeds actually received by the Company and its Subsidiaries in connection with such disposition and, in the case of an acquisition, the fair market value of any business assets or Capital Stock acquired; and

(3) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business, *provided* that such Indebtedness is extinguished within five business days of the Incurrence.

"Interest Rate Agreement" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement.

"Investment" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of such Person) or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person; *provided, however,* that advances, loans or other extensions of credit arising under the Cash Management Arrangements shall not be deemed Investments.

"Investment Grade" means a rating of BBB− or higher by S&P and Baa3 or higher by Moody's or the equivalent of such ratings by S&P or Moody's and the equivalent in respect of Rating Categories of any Rating Agencies substituted for S&P or Moody's.

"Investment Grade Status" exists as of any time if at such time both (i) the rating assigned to the Notes by Moody's is at least Baa3 (or the equivalent) or higher and (ii) the rating assigned to the Notes by S&P is at least BBB− (or the equivalent) or higher.

"Issue Date" means the first date on which any Notes are issued.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"Mandatory Exchangeable Bonds" means the €554.4 million aggregate principal amount of 5.625% mandatory exchangeable bonds due 2011 issued by Fresenius Finance (Jersey) Ltd, in August 2008.

"Moody's" means Moody's Investors Service, Inc. and its successors.

"Net Available Cash" from an Asset Disposition means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other non-cash form) in each case net of:

(1) all legal, title and recording tax expenses, commissions and other fees and expenses Incurred, and all federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Disposition,

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be, repaid out of the proceeds from such Asset Disposition,

(3) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Disposition, and

(4) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed in such Asset Disposition and retained by the Company or any Subsidiary after such Asset Disposition.

"Net Cash Proceeds" with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Note Guarantee" means the Guarantee by a Guarantor of the Issuer's obligations with respect to the Notes and under the Indenture.

"Officers' Certificate" means a certificate signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of the Issuer or the Company, as applicable.

"Opinion of Counsel" means a written opinion from legal counsel, which opinion is acceptable to the Trustee. The counsel may be an employee of or counsel to the Issuer.

"Pari Passu Indebtedness" means, in the case of the Notes, any Indebtedness of the Issuer that ranks equally in right of payment with the Notes and, in the case of the Note Guarantees, any Indebtedness of the applicable Guarantor that ranks equally in right of payment to the Note Guarantee of such Guarantor.

"Participating Member State" means a member state of the European Union which has adopted or adopts the single currency in accordance with the Treaty establishing the European Community (as that Treaty is amended from time to time).

"Permitted Holder" means Vermögensverwaltungsgesellschaft Nachlass Else Kröner mbH.

"Permitted Investment" means an Investment by the Company or any Subsidiary in:

(1) a Person that will, upon the making of such Investment, be or become a Subsidiary; *provided, however,* that the primary business of such Subsidiary is a Related Business;

(2) a Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Subsidiary; *provided, however,* that such Person's primary business is a Related Business;

(3) Temporary Cash Investments;

(4) any demand deposit account;

(5) receivables owing to the Company or any Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided, however,* that such trade terms may include such concessionary trade terms as the Company or any such Subsidiary deems reasonable under the circumstances;

(6) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(7) loans or advances to employees made in the ordinary course of business consistent with past practices of the Company or such Subsidiary;

(8) the Company or any Subsidiary in stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Subsidiary or in satisfaction of judgments;

(9) any Person to the extent such Investment represents the non-cash portion of the consideration received for an Asset Disposition as permitted pursuant to the covenant described under "Certain Covenants — Limitation on Sales of Assets and Subsidiary Stock";

(10) any Affiliate (the primary business of which is a Related Business) that is not a Subsidiary of the Company; *provided,* that the aggregate of all such Investments made since the Issue Date outstanding at any one time under this clause (10) shall not exceed €200 million;

(11) prepayments in respect of assets acquired or in respect of leases of real property in the ordinary course of business;

(12) loans or advances to FMC or any of its Subsidiaries of up to €400 million in the aggregate at any time outstanding and Capital Stock of FMC issued by FMC to the Company or otherwise purchased by the Company from FMC; and

(13) guarantees and other assurances issued in accordance with the "— Certain Covenants — Limitation on Incurrence of Indebtedness".

"Permitted Liens" means, with respect to any Person:

(1) Liens on assets of the Company or any of its Subsidiaries securing Indebtedness permitted under paragraph (a) and clause (1), (7), (12) or (13) of paragraph (b) set forth under "— Limitation on Incurrence of Indebtedness" above;

(2) pledges or deposits by such Person under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits or cash or Government Obligations to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import or customs duties or for the payment of rent, in each case Incurred in the ordinary course of business;

(3) Liens imposed by law, including carriers', warehousemen's and mechanics' Liens, in each case for sums not yet due or being contested in good faith if a reserve or other appropriate provisions, if any, as are required by GAAP have been made in respect thereof;

(4) Liens for taxes, assessments or other governmental charges not yet subject to penalties for non-payment or which are being contested in good faith provided appropriate reserves, if any, as are required by GAAP have been made in respect thereof;

(5) Liens in favor of issuers of surety or performance bonds or letters of credit or bankers' acceptances issued pursuant to the request of and for the account of such Person in the ordinary course of its business;

(6) encumbrances, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties or liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(7) Liens securing Hedging Obligations so long as the related Indebtedness is, and is permitted to be under the Indenture, secured by a Lien on the same property securing such Hedging Obligation or Interest Rate Agreement;

(8) leases, subleases and licenses of real property which do not materially interfere with the ordinary conduct of the business of the Company or any of its Subsidiaries and leases, subleases and licenses of other assets in the ordinary course of business;

(9) judgment Liens not giving rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(10) Liens for the purpose of securing the payment (or the refinancing of the payment) of all or a part of the purchase price of, or Capitalized Lease Obligations with respect to, assets or property acquired or constructed for use in a Related Business; *provided* that:

  (a) the aggregate principal amount secured by such Liens is otherwise permitted to be Incurred under the Indenture or is not treated as Indebtedness under the Indenture and, in either case, does not exceed the cost of the assets or property so acquired or constructed; and

  (b) such Liens are created within 180 days of construction or acquisition of such assets or property (or, upon a refinancing, replace Liens created within such period) and do not encumber any other assets or property of the Company or any Subsidiary other than such assets or property and assets affixed or appurtenant thereto;

(11) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depositary institution; *provided* that such deposit account is not intended by the Company or any Subsidiary to provide collateral to the depository institution;

(12) Liens arising from United States Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Company and its Subsidiaries in the ordinary course of business;

(13) Liens existing on the Issue Date other than liens otherwise described in clause (1) above;

(14) Liens on property or shares of stock of a Person at the time such Person becomes a Subsidiary; *provided, however,* that such Liens are not created, Incurred or assumed in connection with, or in

contemplation of, such other Person becoming a Subsidiary; *provided further, however,* that any such Lien may not extend to any other property owned by the Company or any Subsidiary;

(15) Liens on property at the time the Company or a Subsidiary acquired the property, including any acquisition by means of a merger or consolidation with or into the Company or any Subsidiary; *provided, however,* that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such acquisition; *provided further, however,* that such Liens may not extend to any other property owned by the Company or any Subsidiary (except in the case of an acquisition made by the Helios Group, in which case the Liens may be granted in connection with, or in contemplation of, such acquisition on assets of any member of the Helios Group);

(16) Liens securing the Notes and all other Indebtedness which by its terms must be secured if the Notes are secured;

(17) Liens securing Indebtedness or other obligations of a Subsidiary owing to the Company or another Subsidiary;

(18) Liens securing Refinancing Indebtedness incurred to refinance Indebtedness that was previously secured; *provided,* that such Lien is limited to all or part of the same property or assets that secured the Indebtedness refinanced;

(19) Liens arising by operation of law or by agreement to the same effect in the ordinary course of business; and

(20) Liens on assets of any Subsidiary of the Company securing Indebtedness of such Subsidiary permitted under clauses (a), (b)(2), (b)(12) and (b)(13) set forth under "— Limitation on Incurrence of Indebtedness" which Indebtedness shall not exceed €600 million;

provided, however, that the sum of (i) the aggregate principal amount of Indebtedness secured by a Lien permitted under clause (1) above and (ii) the aggregate principal amount of Indebtedness owed to a Subsidiary that is not a Guarantor secured by a Lien permitted under clause (17) above may not exceed the greater of (i) $3,050 million and (ii) the multiple of two times FSE EBITDA at the time of the Incurrence of such Indebtedness.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency, instrumentality or political subdivision thereof, or any other entity.

"Preferred Stock", as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

"Principal" of a Note means the principal of such Note plus the premium, if any, payable on such Note which is due or overdue or is to become due at the relevant time.

"Public Equity Offering" means an offering by the Company of its Qualified Capital Stock where such Qualified Capital Stock is listed or quoted on a recognized securities exchange or inter dealer quotation system in any current member state of the European Union or the United States.

"Qualified Capital Stock" means any Capital Stock which is not Disqualified Capital Stock.

"Rating Agencies" means:

(1) S&P and

(2) Moody's, or

(3) if S&P or Moody's or both shall not make rating of the notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the company, which shall be substituted for S&P or Moody's or both, as the case may be.

"Rating Category" means:

(1) with respect to S&P, any of the following categories: BB, B, CCC, CC, C and D (or equivalent successor categories),

(2) with respect to Moody's, any of the following categories: Ba, B, Caa, Ca, C and D (or equivalent successor categories), and

(3) the equivalent of any such category of S&P or Moody's used by another rating agency in determining whether the rating of the notes has decreased by one or more gradations, gradations within rating categories (+ and − for S&P, 1, 2 and 3 for Moody's; or the equivalent gradations for another rating agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from BB+ to BB, as well as from BB-to B+, will constitute a decrease of one gradation).

"Rating Date" means the date which is 90 days prior to the earlier of (1) a Change of Control and (2) public notice of the occurrence of a Change of Control or of the intention by the Company or any Person to effect a Change of Control.

"Ratings Decline" means the occurrence on or within 90 days after the date of the first public notice of either the occurrence of a Change of Control or of a transaction which will effect a Change of Control, whichever is earlier (which period shall be extended so long as any of the Rating Agencies have publicly announced that it is considering a possible downgrade of the Notes) of: (1) in the event the Notes are rated by either Moody's or S&P on the Rating Date as Investment Grade, a decrease in the rating of the Notes by both Rating Agencies to a rating that is below Investment Grade, or (2) in the event the Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, a decrease in the rating of the Notes by either Rating Agency by one or more gradations (including gradations within Rating Categories as well as between Rating Categories), except in the case of clause (6) of the definition of Change of Control a Ratings Decline will include any such decrease that occurs on or within 90 days after the date of the first public announcement of the transaction in which the relevant Subsidiary fails to own, directly or indirectly, 100% of the Capital Stock of such Subsidiary, as well as any such decrease that occurs on or within 90 days after the date of the first public announcement of the release of the Note Guarantee of that Subsidiary.

"Refinance" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "Refinanced" and "Refinancing" shall have correlative meanings.

"Refinancing Indebtedness" means Indebtedness that Refinances any Indebtedness of the Company or any Subsidiary existing on the Issue Date or Incurred in compliance with the Indenture including Indebtedness that Refinances Refinancing Indebtedness; *provided, however,* that:

(1) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced,

(2) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced, and

(3) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accredit value) then outstanding or committed (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; *provided further, however,* that Refinancing Indebtedness shall not include (x) Indebtedness of a Subsidiary that Refinances Indebtedness of the Company or (y) Indebtedness of the Company or a Subsidiary that Refinances Indebtedness of another Subsidiary.

"Related Business" means the businesses of the Company and its Subsidiaries on the Issue Date and any business related, ancillary or complementary to such businesses.

"Restricted Payment" with respect to any Person means:

(1) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than dividends or distributions payable solely in its Qualified Capital Stock, other than dividends or distributions (including by way of profit and loss transfer arrangements) payable solely to the Company or a Subsidiary, and other than pro rata dividends or other distributions made by a Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation)),

(2) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company held by any Person or of any Capital Stock of a Subsidiary held by any Affiliate of the Company (other than a Subsidiary), including the exercise of any option to exchange any Capital Stock (other than into Qualified Capital Stock of the Company),

(3) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations (other than the purchase, repurchase or other acquisition of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition), or

(4) the making of any Investment in any Person (other than a Permitted Investment).

"Sale and Leaseback Transaction" means any direct or indirect arrangement with any Person or to which any such Person is a party, providing for the leasing to the Company or a Subsidiary of any property, whether owned by the Company or any Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Company or such Subsidiary to such Person or to any other Person from whom funds have been or are to be advanced by such Person on the security of such Property.

"SEC" means the U.S. Securities and Exchange Commission.

"Secured Indebtedness" means any Indebtedness of the Issuer or the Company secured by a Lien.

"Senior Credit Agreement" means the credit agreement, dated as of August 20, 2008, as amended, restated, varied, modified, extended, renewed and/or supplemented or as refinanced or replaced in full from time to time, among the Company, Deutsche Bank AG, London Branch, as administrative agent, the other borrowers, guarantors and lenders identified therein.

"Significant Subsidiary", with respect to any Person, means any Subsidiary of such Person that satisfies the criteria for a "significant subsidiary" set forth in Rule 1.02 of Regulation S-X under the Exchange Act.

"S&P" means Standard & Poor's Corporation and its successors.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"Subordinated Obligation" means any Indebtedness of the Issuer or the Company (whether outstanding on the Issue Date or thereafter Incurred) that is subordinate or junior in right of payment to the Notes pursuant to a written agreement to that effect.

"Subsidiary" means, with respect to any Person, any corporation, limited liability company, association, partnership or other business entity of which more than 50% of the total voting power of shares of Voting Stock is at the time owned or controlled, directly or indirectly, by:

(1) such Person;

(2) such Person and one or more Subsidiaries of such Person; or

(3) one or more Subsidiaries of such Person;

provided, however, that for purposes of the covenants described under "— Certain Covenants" above and the related definitions, and the events described under "— Events of Default" above and the related definitions, subsidiaries of the Company shall not include FMC and its Subsidiaries unless otherwise specified.

"Subsidiary Guarantor" means any person that executes the Indenture or who in the future executes a supplemental indenture in which such person agrees to be bound by the terms of the Indenture as a Subsidiary Guarantor.

"Surviving Person" means, with respect to any Person involved in any merger, consolidation or other business combination or the sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of such Person's assets, the Person formed by or surviving such transaction or the Person to which such disposition is made.

"Temporary Cash Investments" means any of the following:

(1) securities issued or directly and fully guaranteed or insured by (i) the United States of America or any agency or instrumentality thereof (*provided* that the full faith and credit of the United States of America is pledged in support thereof) and (ii) the governments of Germany and the United Kingdom, having in each case maturities of not more than twelve months from the date of acquisition,

(2) time deposits and certificates of deposit, Eurodollar time deposits and Eurodollar certificates of deposit of any United States, German, United Kingdom or Swiss commercial bank of recognized standing (y) having capital and surplus in excess of €500 million and (z) whose short-term commercial paper rating from S&P is at least A-1 or the equivalent thereof or from Moody's is at least P-1 or the equivalent thereof (any such bank being an "Approved Lender"), in each case with maturities of not more than 270 days from the date of acquisition,

(3) commercial paper and variable or fixed rate notes issued by an Approved Lender (or by the parent company thereof) and maturing within six months of the date of acquisition,

(4) repurchase agreements entered into by a Person with a bank or trust company or recognized securities dealer having capital and surplus in excess of €500 million for (i) direct obligations issued or fully guaranteed by the United States of America, (ii) time deposits or certificates of deposit described under subsection (2) above, or (iii) commercial paper or other notes described under subsection (3) above, in which, in each such case, such bank, trust company or dealer shall have a perfected first priority security interest (subject to no other Liens) and having, on the date of purchase thereof, a fair market value of at least 100% of the amount of the repurchase obligations,

(5) obligations of any state of the United States or any political subdivision thereof, the interest with respect to which is exempt from federal income taxation under Section 103 of the U.S. Internal Revenue Code, having a long term rating of at least AA- or Aa-3 by S&P or Moody's, respectively, and maturing within three years from the date of acquisition thereof,

(6) Investments in municipal auction preferred stock (i) rated AAA (or the equivalent thereof) or better by S&P or Aaa (or the equivalent thereof) or better by Moody's and (ii) with dividends that reset at least once every 365 days, and

(7) Investments, classified in accordance with GAAP as current assets, in money market investment programs (i) registered under the Investment Company Act of 1940, as amended, or (ii) operated by an investment company in Germany or the United Kingdom and subject to regulations under the laws of such jurisdiction, in each case which are administered by reputable financial institutions having capital of at least €100 million and the portfolios of which are limited to Investments of the character described in clauses (1), (2), (3), (4), (5) and (6) above.

"U.S. dollar" or "*$*" means the lawful currency of the United States.

"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"Wholly Owned Subsidiary" means a Subsidiary all the Capital Stock of which (other than directors' qualifying shares and shares held by other Persons to the extent such shares are required by applicable law to be held by a Person other than its parent or a Subsidiary of its parent) is owned by the relevant Person or by one or more Wholly Owned Subsidiaries of the relevant Person, or by the relevant Person and one or more of its Wholly Owned Subsidiaries.

TAXATION CONSIDERATIONS

German Tax Considerations

General

The following discussion of the tax consequences of an investment in the Notes is based on the laws in force on the date of this offering memorandum. We emphasize that the tax implications summarized here can be subject to alteration due to future changes in law.

The Business Tax Reform Act (*Unternehmensteuerreformgesetz 2008*) of August 14, 2007, BGBl. I 2007, page 1912 et seq., introduced the so-called final flat tax (*Abgeltungsteuer*), a new taxation regime for investment income that took effect on January 1, 2009.

Although this discussion reflects the opinion of the Issuer, it should not be misunderstood as a guarantee, and courts or other relevant authorities may arrive at different interpretations of applicable law. Further, this discussion is not intended as the sole basis for an investment in the Notes, and the individual tax position of the investor should always be investigated. Therefore, this statement is confined to a general discussion of certain German income tax consequences of an investment in the Notes. Prospective investors should consult their own tax advisors as to the tax consequences to them of an investment in the Notes.

Business Tax Reform 2008

General Remarks

The introduction of the final flat tax under the Business Tax Reform Act 2008 changes the taxation of investment income for private investors significantly, whereas the taxation of business investors in this regard remains, in principle, unchanged.

The new investment taxation regime should apply to both current interest payments under the Notes and gains from the sale or redemption of the Notes as of January 1, 2009.

Private Investors

Current interest payments and gains from the sale or redemption of the Notes qualify as investment income pursuant to Sec. 20 Income Tax Act and are subject to personal income tax at a rate of 25% (plus a 5.5% solidarity surcharge and, if applicable, church tax). Losses resulting from the sale or redemption of the Notes can only be off-set against other investment income. In the event that a set-off is not possible in the assessment period in which the losses have been realized, such losses can be carried forward into future assessment periods only and can be offset against investment income generated in future assessment periods.

Gains and losses are determined by taking the difference between the sales/redemption price (after the deduction of expenses incurred directly in connection with the sale/redemption) and the acquisition price of the Notes. If the Notes are denominated in USD, the sales/redemption price and the acquisition costs have to be converted into Euro on the basis of the foreign exchange rates prevailing on the acquisition date and the sale or redemption date respectively.

Withholding Tax

If the Notes are held in the custody of or administered by a German credit institution, financial services institution (including a German permanent establishment of such foreign institution), securities trading company or securities trading bank, a tax at a rate of 25% (plus a solidarity surcharge and, if applicable, church tax) should be withheld by such institution on current interest payments and upon sale or redemption of the Notes.

The withholding tax is imposed on the excess of the proceeds from the sale/redemption (after the deduction of expenses directly connected to the sale/redemption) over the acquisition costs for the Notes (if applicable converted into Euro terms on the basis of the foreign exchange rates as of the acquisition date and

the sale or redemption date respectively), if the Notes were held in custody by such institution since their acquisition. If custody has changed since the acquisition and the acquisition data is not proved, the tax at a rate of 25% (plus a 5.5% solidarity surcharge and, if applicable, church tax) will be imposed on an amount equal to 30% of the proceeds from the sale or redemption of the Notes (if applicable, converted into Euro terms as of the sale/redemption date).

The Issuer of the Notes, unless it qualifies as disbursing agent, is not obliged under German law to withhold any withholding tax (*Quellensteuer*) on current interest payments and upon the sale or redemption of the Notes.

For private investors the withholding tax is definitive. Private investors having a lower personal income tax rate may, upon application, include the capital investment income in their personal income tax return to achieve a lower tax rate. Income not subject to a definitive withholding tax must be included into the personal income tax return.

Business Investors

Current interest payments under the Notes and realized gains/losses from the investment in the Notes are subject to corporation tax/income tax and solidarity surcharge in the hands of a business investor at the investor's personal tax rate and have also to be considered for trade tax purposes.

Any withholding tax withheld is credited against the investor's personal income tax liability (and the solidarity surcharge) in the course of the tax assessment procedure, i.e. the withholding tax is not definitive. Any potential surplus will be refunded. No withholding tax deduction will apply on the gains from the sale or redemption of the Notes where the Notes are held by a corporation or, if the business investor proves to the institution that the Notes are held as business assets, exemption from the withholding tax deduction will apply to German business investors in general (cf. Annual Tax Act 2009 (*Jahressteuergesetz 2009*) of December 19, 2008, BGBl. I 2008, page 2794 et seq.).

Foreign Tax Residents

As a rule, investors not resident in Germany should not be taxable in Germany on income from the sale/redemption of the Notes, and no German withholding tax should be withheld from such income, even if the Notes are held in the custody of a German credit (or comparable) institution. Exceptions apply, e.g., when the Notes are held as business assets in a German permanent establishment of the investor.

EU Directive on the Taxation of Savings Income

On June 3, 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income (2003/48/EG). The directive has been implemented in Germany by the decree on the taxation of interest income (*Zinsinformationsverordnung*) which took effect on July 1, 2005. Under the directive, each Member State of the EU is required to provide the tax authorities of another Member State with details of interest payments or other similar income paid by a person within its jurisdiction to an individual resident in such other Member State. Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%.

U.S. Federal Income Tax Considerations

The following discussion is a summary based on present law of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. Present law may change, possibly with retroactive effect. There can be no assurance that the U.S. Internal Revenue Service ("IRS") will not challenge one or more of the tax consequences described in this discussion, and the Issuer has not obtained, and does not intend to obtain, a ruling from the IRS. If such challenge were successful, the consequences to a Holder could be different. This discussion addresses only Holders who purchase Notes in the original offering at the original offering price, hold the Notes as capital assets and, in the case of

U.S. Holders, use the U.S. dollar as their functional currency. This discussion is not a complete description of all U.S. tax considerations relating to the Notes and is not a substitute for tax advice. It does not address the tax treatment of prospective purchasers subject to special rules, such as banks, dealers, traders that elect to mark to market, insurance companies, investors liable for the alternative minimum tax, real estate investment trusts, regulated investment companies, grantor trusts, U.S. expatriates, tax-exempt entities or persons holding the Notes as part of a hedge, straddle, conversion or other integrated financial transaction. It also does not address U.S. federal estate and gift taxes or state and local tax law considerations. This discussion assumes that the Notes will be treated as debt of the Issuer for U.S. federal income tax purposes.

THE FOLLOWING STATEMENTS ABOUT U.S. FEDERAL TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE NOTES. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE NOTES UNDER THE LAWS OF GERMANY, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

For purposes of this discussion, a "Holder" is a beneficial owner of a Note. A "U.S. Holder" is a Holder that is, for purposes of U.S. federal income taxation, (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation and created or organized under the laws of the United States or its political subdivisions, (iii) a trust, if it is subject to the control of a U.S. person and the primary supervision of a U.S. court or if it has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source. A "Non-U.S. Holder" is any Holder that is an individual, corporation, estate or trust that is not a U.S. Holder.

If a partnership acquires or holds the Notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership that acquires or holds the Notes should consult its own tax advisors about the U.S. federal income tax consequences of acquiring, holding and disposing of the Notes.

Interest

Stated interest on the Notes, including Additional Amounts, if any, generally will be includible in the gross income of a U.S. Holder in accordance with its regular method of tax accounting.

The Notes will have original issue discount ("OID") to the extent that their stated redemption price at maturity exceeds their issue price (generally, the first price at which a substantial amount of the Notes are sold to investors (excluding sales to brokers or similar persons)), unless such excess is less than ¼ of 1% of the Notes' stated redemption price at maturity multiplied by the number of complete years to maturity. The stated redemption price at maturity of a debt instrument is generally equal to the sum of all payments required to be made under the terms of such debt instrument, other than payments of stated interest that are unconditionally payable in cash at least annually at a single fixed interest rate. A U.S. Holder must include OID in ordinary income on a constant yield to maturity basis regardless of its method of tax accounting and whether or not it receives cash payments. Interest, including Additional Amounts, if any, and any OID on the Notes will be ordinary income from sources within the United States.

A cash basis U.S. Holder that holds a Euro Note and receives interest in euros must include in income a U.S. dollar amount equal to the U.S. dollar value of each euro interest payment at the spot exchange rate on the date of receipt, whether or not the payment is converted into U.S. dollars at that time. Except as noted in the next paragraph, an accrual basis U.S. Holder (and a cash basis U.S. Holder, if any) generally must include in income the U.S. dollar value of the accrued euro interest (or OID, if any) at the average euro-U.S. dollar exchange rate for the accrual period (or, if an accrual period spans two taxable years, the partial period within each taxable year). Upon receipt of an interest payment (or disposition proceeds attributable to previously accrued interest or OID, if any) in euros, an accrual basis U.S. Holder generally will recognize foreign currency exchange gain or loss equal to the difference between the U.S. dollar amount of the interest (or OID,

if any) previously accrued and the U.S. dollar value of the euro payment received at the spot exchange rate on the date of receipt. All U.S. Holders that hold Euro Notes will recognize foreign currency gain or loss on the actual conversion of the euros at a rate different from the rate at which they previously took them into account. Such foreign currency exchange gain or loss generally will be U.S. source ordinary income or loss.

An accrual basis U.S. Holder (and a cash basis U.S. Holder in the case of OID, if any) may elect to convert accrued euro interest and any OID on a Euro Note into U.S. dollars at the spot exchange rate on the last day of the accrual period (or, if an accrual period spans two taxable years, at the spot exchange rate on the last day of the part of the accrual period within each taxable year). If accrued interest or any OID actually is received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder instead may convert the accrued interest or OID at the spot exchange rate on the date of actual receipt. Any currency conversion election made by an accrual basis U.S. Holder will apply to all debt instruments that the electing U.S. Holder holds or acquires during or after the first taxable year to which the election applies, and the election cannot be revoked without the consent of the IRS. A U.S. Holder may be required specifically to disclose any loss from disposition of foreign currency on its tax return under regulations on tax shelter transactions.

Interest paid to a Non-U.S. Holder and OID, if any, generally will be eligible for the portfolio interest exemption from U.S. withholding tax, provided that: (i) the Non-U.S. Holder does not actually or constructively own 10 percent or more of the combined voting power of all classes of the Issuer's voting stock; (ii) the Non-U.S. Holder is not a controlled foreign corporation related to the Issuer; (iii) the Non-U.S. Holder is not a bank that acquired a Note as an extension of credit entered into in the ordinary course of its trade or business, (iv) the interest and any OID are not effectively connected with the Holder's conduct of a trade or business in the United States and (v) the Non-U.S. Holder timely certifies (on IRS Form W-8BEN or other applicable form (or applicable successor forms)) that it is not a U.S. person. If a Non-U.S. Holder cannot satisfy the requirements described above, payments of interest (including any OID) made to such Holder will be subject to a 30 percent withholding tax unless the Holder provides the Issuer with a properly executed (i) IRS Form W-8BEN claiming an exemption from or reduction in withholding under the benefit of a tax treaty or (ii) IRS Form W-8ECI stating that interest (and any OID) paid on the Note is not subject to withholding tax because such interest (or OID) is effectively connected income. Interest (including OID) effectively connected with a Non-U.S. Holder's conduct of a U.S. trade or business is subject to the U.S. federal income tax on net income and, if the Non-U.S. Holder is a corporation, possible branch profits tax. If the Non-U.S. Holder is an entity treated as a trust for U.S. federal income tax purposes, interest (including OID) paid to it may be subject to U.S. withholding tax unless all of its beneficiaries can satisfy the conditions for exemption.

Interest (including OID) paid to a Non-U.S. Holder will not be subject to U.S. net income tax unless the interest is effectively connected with the Non-U.S. Holder's conduct of a U.S. trade or business (and, if a treaty applies, is attributable to a permanent establishment or a fixed base).

Disposition

A U.S. Holder generally will recognize gain or loss on the sale, redemption or other disposition of a Note in an amount equal to the difference between the U.S. dollar value of the amount realized (less any accrued but unpaid stated interest, which will be taxable as interest income to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Note. The U.S. dollar amount realized with respect to a Euro Note will be the U.S. dollar value of the euros received at the spot exchange rate on the date of disposition (or on the settlement date, if the Notes are traded on an established securities market and the holder is either a cash basis U.S. Holder or an electing accrual basis U.S Holder). A U.S. Holder's adjusted tax basis in a Note generally will be the amount the U.S. Holder paid for the Note plus any accrued OID. The amount paid for a Euro Note will be the U.S. dollar value of the euros used to purchase it at the spot exchange rate on the purchase date (or on the settlement date, if the Notes are traded on an established securities market and the holder is either a cash basis U.S. Holder or an electing accrual basis U.S. Holder).

Gain or loss on disposition of a Note by a U.S. Holder generally will be U.S. source capital gain or loss except to the extent of any foreign currency exchange gain or loss. Foreign currency exchange gain or loss

with respect to a Euro Note will be the difference between the U.S. dollar values of the U.S. Holder's purchase price for the Euro Note on the date of acquisition and the date of disposition (or, in each case, on the settlement date, if the Notes are traded on an established securities market and the holder is either a cash basis U.S. Holder or an electing accrual basis U.S. Holder). The foreign currency exchange gain or loss cannot exceed overall gain or loss on the Note. Foreign currency exchange gain or loss generally will be U.S. source ordinary income or loss. A U.S. Holder may have additional foreign currency gain or loss if it disposes of any foreign currency received for a Note on a date other than the date when it recognized gain or loss on the Note. A U.S. Holder may be required specifically to disclose any loss from the disposition of foreign currency on its tax return under regulations on tax shelter transactions.

A U.S. Holder's capital gain or loss (if any) will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year. The long-term capital gains of non-corporate U.S. Holders may be taxed at lower rates. Deductions for capital losses are subject to limitations.

Subject to the discussion of backup withholding below, gain realized by a Non-U.S. Holder on the disposition of a Note will not be subject to U.S. tax unless (i) the gain is effectively connected with the Holder's conduct of a U.S. trade or business (and, if a treaty applies, is attributable to a permanent establishment or a fixed base), in which case such gain will be subject to net income tax (and, if the Non-U.S. Holder is a corporation, possible branch profits tax) or (ii) the Holder is an individual present in the United States for at least 183 days during the taxable year of disposition and certain other conditions are met.

Information Reporting and Backup Withholding

Payments on the Notes and proceeds from the disposition of a Note generally will be reported to the IRS unless the holder is a corporation, provides a properly executed IRS Form W-8BEN or otherwise establishes a basis for exemption. Backup withholding tax will apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number and to certify that no loss of exemption from backup withholding has occurred. A holder can claim a credit against its U.S. federal income tax liability for the amount of any backup withholding tax and a refund of any excess.

THE ABOVE DISCUSSION IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES.

PLAN OF DISTRIBUTION

Under the terms and conditions contained in a purchase agreement to be dated the date of this offering memorandum, the Issuer will agree to sell the Notes to the initial purchasers, and, subject to certain conditions contained therein, the initial purchasers have agreed to purchase the Notes from the Issuer pursuant to the terms of the purchase agreement. The initial purchasers are obligated to purchase and accept delivery of all the Notes if any are purchased.

The following table sets forth the amount of Dollar Notes to be purchased by each initial purchaser in the offering.

Initial Purchaser[1]	Principal Amount of Dollar Notes
Deutsche Bank Securities Inc.	$150,000,000
J.P. Morgan Securities Inc.	$110,000,000
Credit Suisse Securities (Europe) Limited	$ 50,000,000
BNP Paribas	$ 22,500,000
Scotia Capital (USA) Inc.	$ 17,500,000
Banc of America Securities LLC	$ 15,000,000
Landesbank Baden-Württemberg	$ 15,000,000
WestLB AG	$ 15,000,000
Barclays Bank PLC	$ 12,500,000
Bayerische Hypo- und Vereinsbank AG	$ 12,500,000
Daiwa Securities SMBC Europe Limited	$ 12,500,000
Raiffeisen Zentralbank Österreich AG	$ 12,500,000
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main	$ 10,000,000
Société Générale	$ 10,000,000
The Royal Bank of Scotland plc	$ 10,000,000
Bayerische Landesbank	$ 7,500,000
Landesbank Hessen-Thüringen Girozentrale	$ 7,500,000
CALYON Crédit Agricole CIB	$ 5,000,000
Commerzbank Capital Markets Corp.	$ 5,000,000
Total	$500,000,000

(1) Sales made outside the United States may be made through affiliates of the initial purchasers noted in the table above.

The following table sets forth the amount of Euro Notes to be purchased by each initial purchaser in the offering.

Initial Purchaser[(1)]	Principal Amount of Euro Notes
Deutsche Bank AG, London Branch	€ 82,500,000
J.P. Morgan Securities Ltd.	€ 60,500,000
Credit Suisse Securities (Europe) Limited	€ 27,500,000
BNP Paribas	€ 12,375,000
Scotia Capital Inc.	€ 9,625,000
Banc of America Securities LLC	€ 8,250,000
Landesbank Baden-Württemberg	€ 8,250,000
WestLB AG	€ 8,250,000
Barclays Bank PLC	€ 6,875,000
Bayerische Hypo- und Vereinsbank AG	€ 6,875,000
Daiwa Securities SMBC Europe Limited	€ 6,875,000
Raiffeisen Zentralbank Österreich AG	€ 6,875,000
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main	€ 5,500,000
Société Générale	€ 5,500,000
The Royal Bank of Scotland plc	€ 5,500,000
Bayerische Landesbank	€ 4,125,000
Landesbank Hessen-Thüringen Girozentrale	€ 4,125,000
CALYON Crédit Agricole CIB	€ 2,750,000
Commerzbank Aktiengesellschaft	€ 2,750,000
Total	€275,000,000

(1) Sales made in the United States may be made through affiliates of the initial purchasers noted in the table above.

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act and may be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act and to certain persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act. Resales of the Notes are restricted as described under "Notice to Investors".

In addition, until 40 days after the later of (i) the commencement of the offering and (ii) the issue date of the Notes, an offer or sale of the Notes initially sold in reliance on Regulation S within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Resales of the Notes are restricted as described under "Notice to Investors".

Each initial purchaser will represent, warrant and agree that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000); and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Persons who purchase Notes from the initial purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page of this offering memorandum.

No action has been taken in any jurisdiction, including the United States and the United Kingdom, by us or the initial purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to us or the Notes in any jurisdiction where action for this purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This offering memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this offering memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the Notes, the distribution of this offering memorandum and resale of the Notes. See "Notice to Investors".

The Notes are a new issue of securities for which there currently is no market. The Issuer has applied to list the Notes on the Luxembourg Stock Exchange and trade the Notes on the Euro MTF market, however, the Issuer cannot assure you that the Notes will be approved for listing or that such listing will be maintained. The Dollar Notes are expected to be eligible for trading on the PORTAL[SM] Market. The initial purchasers have advised the Issuer that they intend to make a market in the Notes as permitted by applicable law. The initial purchasers are not obligated, however, to make a market in the Notes, and any market-making may be discontinued at any time at their sole discretion without notice. In addition, any such market-making activity will be subject to the limits imposed by the U.S. Securities Act and the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, the Issuer cannot assure you that any market for the Notes will develop, or that it will be liquid if it does develop.

In connection with this offering, J.P. Morgan Securities Inc. (the "Dollar Note Stabilizing Manager"), Deutsche Bank AG, London Branch (the "Euro Note Stabilizing Manager" and, together with the Dollar Note Stabilizing Manager, the "Stabilizing Managers") or any person acting for them may over-allot or effect transactions with a view to supporting the market price of the Dollar Notes, in respect of the Dollar Note Stabilizing Manager, or the Euro Notes, in respect of the Euro Note Stabilizing Manager, in each case at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on such Stabilizing Manager or its agent to do this. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

In connection with this offering, the Stabilizing Managers or any person acting for them may engage in over-allotment, stabilizing, transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

The initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions.

Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the Notes originally sold by that broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd., Credit Suisse Securities (Europe) Limited, BNP Paribas, Barclays Bank PLC and their respective affiliates have provided investment banking,

financial advisory and other services to Fresenius SE and its subsidiaries (including, in certain cases, Fresenius Medical Care and its subsidiaries) for which they have received customary compensation. The initial purchasers may in the future provide investment banking, financial advisory and other services to Fresenius SE and its subsidiaries (including Fresenius Medical Care and its subsidiaries). Deutsche Bank AG, London Branch, Credit Suisse, London Branch and J.P. Morgan plc are arrangers and joint book running managers and Deutsche Bank AG, London Branch serves as the administrative agent and collateral agent under the 2008 Senior Credit Facilities and the Bridge Facility. Certain of the initial purchasers (or their affiliates) will receive proceeds from the issuance of the Notes in their capacity as lenders under the Bridge Facility.

NOTICE TO INVESTORS

You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.

The Notes and the Guarantees have not been registered under the U.S. Securities Act, or any state securities laws, and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Notes offered hereby are being offered and sold only to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A under the U.S. Securities Act and in offshore transactions in reliance on Regulation S under the US Securities Act.

The Issuer has not registered and will not register the Notes or the Guarantees under the U.S. Securities Act and, therefore, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, the Issuer is offering and selling the Notes to the Initial Purchasers for re-offer and resale only:

- in the United States to "qualified institutional buyers", commonly referred to as "QIBs", as defined in Rule 144A in compliance with Rule 144A; and
- in offers and sales that occur outside the United States to foreign purchasers, (i.e., purchasers who are not U.S. persons).

The term "foreign purchasers" includes dealers or other professional fiduciaries in the United States acting on a discretionary basis for foreign beneficial owners, other than an estate or trust, in off-shore transactions meeting the requirements of Rule 903 of Regulation S. We use the terms "offshore transaction", "U.S. person" and "United States" with the meanings given to them in Regulation S.

If you purchase Notes, you will be deemed to have represented and agreed as follows:

(1) You understand and acknowledge that the Notes and the Guarantees have not been registered under the U.S. Securities Act or any other applicable state securities laws and that the Notes are being offered for resale in transactions not requiring registration under the U.S. Securities Act or any other state securities laws, including sales pursuant to Rule 144A, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable state securities laws, pursuant to an exemption therefrom, or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) You are not our "affiliate" (as defined in Rule 144A), you are not acting on our behalf and you are either:

  (a) a QIB and are aware that any sale of these Notes to you will be made in reliance on Rule 144A and such acquisition will be for your own account or for the account of another QIB; or

  (b) not a "U.S. person" as defined in Regulation S or purchasing for the account or benefit of a U.S. person (other than a distributor) and you are not purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) You acknowledge that none of the Issuer, the Guarantors, or the initial purchasers or any person representing any of them has made any representation to you with respect to us or the offer or sale of any of the Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to you and upon which you are relying in making your investment decision with respect to the Notes. You acknowledge that none of the initial purchasers or any person representing the initial purchasers makes any representation or warranty as to the accuracy or completeness of this offering memorandum. You have had access to such financial and other information concerning us and the Notes as you deemed necessary in connection with your

decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, the Issuer and the initial purchasers.

(4) You are purchasing these Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in convection with, any distribution thereof in violation of the U.S. Securities Act, subject to any requirement of law that the disposition of your property or the property of such investor account or accounts be at all times within your or their control and subject to your or their ability to resell these Notes pursuant to Rule 144A, Regulation S or any other available exemption from registration available under the U.S. Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing these Notes, and each subsequent holder of these Notes by its acceptance thereof will agree, to offer, sell or otherwise transfer such Notes prior to (x) the date which is two years (or such shorter period of time as permitted by Rule 144 under the U.S. Securities Act or any successor provision thereunder) after the later of the date of the original issue of these Notes and the last date on which we or any of our affiliates were the owner of such Notes (or any predecessor thereto) or (y) such later date, if any, as may be required by applicable law (the "Resale Restriction Termination Date") only:

(a) to us;

(b) pursuant to a registration statement which has been declared effective under the U.S. Securities Act;

(c) for so long as these Notes are eligible for resale pursuant to Rule 144A, to a person you reasonably believe is a QIB that purchases for its own account or for the account of a QIB to whom you give notice that the transfer is being made in reliance on Rule 144A;

(d) pursuant to offers and sales to non-U.S. persons occurring outside the United States within the meaning of Regulation S; or

(e) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act; subject in each of the foregoing cases to any requirements of law that the disposition of your property or the property of your investor account or accounts be at all times within your or their control and in compliance with any applicable state securities laws.

The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. You acknowledge that we, the Trustee, and the Registrar reserve the right prior to any offer, sale or other transfer pursuant to clause (d) prior to the end of the 40-day distribution compliance period within the meaning of Regulation S or pursuant to clause (e) above prior to the Resale Restriction Termination Date of the Notes to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to us, the Trustee, and the Registrar.

Each purchaser acknowledges that each Note will contain a legend substantially in the following form:

"THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) AGREES THAT IT WILL NOT PRIOR TO (X) THE

DATE WHICH IS TWO YEARS (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE U.S. SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF (OR OF ANY PREDECESSOR OF THIS NOTE) OR THE LAST DAY ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WERE THE OWNERS OF THIS NOTE (OR ANY PREDECESSOR OF THIS NOTE) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE "RESALE RESTRICTION TERMINATION DATE"), OFFER, SELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO THE ISSUER OR ANY SUBSIDIARY THEREOF (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE U.S. SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE U.S. SECURITIES ACT, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT THE ISSUER, THE TRUSTEE AND THE REGISTRAR SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) PRIOR TO THE END OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OR PURSUANT TO CLAUSE (E) PRIOR TO THE RESALE RESTRICTION TERMINATION DATE TO REQUIRE THAT AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER, THE TRUSTEE AND THE REGISTRAR IS COMPLETED AND DELIVERED BY THE TRANSFEROR. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE U.S. SECURITIES ACT.

THE FAILURE TO PROVIDE THE ISSUER, THE TRUSTEE AND ANY PAYING AGENT WITH THE APPLICABLE U.S. FEDERAL INCOME TAX CERTIFICATIONS (GENERALLY, A U.S. INTERNAL REVENUE SERVICE FORM W-9 (OR SUCCESSOR APPLICABLE FORM) IN THE CASE OF A PERSON THAT IS A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE CODE OR AN APPLICABLE U.S. INTERNAL REVENUE SERVICE FORM W-8 (OR SUCCESSOR APPLICABLE FORM) IN THE CASE OF A PERSON THAT IS NOT A "UNITED STATES PERSON" WITHIN THE MEANING OF SECTION 7701(A)(30) OF THE CODE) MAY RESULT IN U.S. FEDERAL WITHHOLDING FROM PAYMENTS TO THE HOLDER IN RESPECT OF THE NOTES REPRESENTED BY THIS CERTIFICATE".

If you purchase Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

(5) You acknowledge that the Registrar will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to us and the Registrar that the restrictions set forth herein have been complied with.

(6) You acknowledge that:

(a) the Issuer, the initial purchasers and others will rely upon the truth and accuracy of your acknowledgments, representations and agreements set forth herein and you agree that, if any of your acknowledgments, representations or agreements herein cease to be accurate and complete, you will notify us and the initial purchasers promptly in writing; and

(b) if you are acquiring any Notes as a fiduciary or agent for one or more investor accounts, you represent with respect to each such account that:

(i) you have sole investment discretion; and

(ii) you have full power to make, and make, the foregoing acknowledgments, representations and agreements.

(7) You agree that you will give to each person to whom you transfer these Notes notice of any restrictions on the transfer of the Notes.

(8) If you are a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, you acknowledge that until the expiration of the "distribution compliance period" (as defined below), you shall not make any offer or sale of these Notes to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902 under the U.S. Securities Act. The "distribution compliance period" means the 40-day period following the issue date for the Notes.

(9) You understand that no action has been taken in any jurisdiction (including the United States) by the Issuer or the initial purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to the Issuer or the Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth under "Plan of Distribution".

Each Note will also include the following legend:

"THIS NOTE MAY HAVE BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT ("OID") FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE ISSUE PRICE, AMOUNT OF OID, ISSUE DATE AND YIELD TO MATURITY OF THIS NOTE MAY BE OBTAINED BY WRITING TO:

Legal Department
Fresenius SE
Else-Kröner-Strasse 1,
61352 Bad Homburg vor der Höhe
Germany
TEL: +49 (0) 6172-608-0"

For more information see "Taxation Considerations — U.S. Federal Income Tax Considerations — Interest".

SERVICE OF PROCESS AND ENFORCEABILITY OF CIVIL LIABILITIES

Guarantors

Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH are German companies. Almost all of their directors and executive officers and certain of the experts named in this offering memorandum are residents of Germany. A substantial portion of our assets and those of such individuals is located outside the United States. As a result, it may be difficult or impossible for investors to effect service of process upon such persons within the United States with respect to matters arising under the U.S. federal securities laws or to enforce against them in U.S. courts judgments of such courts predicated upon the civil liability provisions of such federal securities laws. We have been advised by our German counsel, Freshfields Bruckhaus Deringer LLP, that there is doubt as to the enforceability in Germany of civil liabilities based on federal or state securities laws of the United States, either in an original action or in an action to enforce a judgment obtained in U.S. federal or state courts. The United States and the Federal Republic of Germany currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Consequently, a final judgment for payment given by any federal or state court in the United States, whether or not predicated solely upon U.S. federal or state securities laws, would not automatically be enforceable in Germany. A final judgment by a U.S. federal or state court, however, may be recognized and enforced in Germany in an action before a court of competent jurisdiction in accordance with the proceedings set forth by the German Code of Civil Procedure (*Zivilprozessordnung*). In such an action, a German court generally will not reinvestigate the merits of the original matter decided by a U.S. court, except as noted below. The recognition and enforcement of the U.S. judgment by a German court is conditional upon a number of factors, including the following:

- the judgment being final under U.S. law;
- the U.S. court having had jurisdiction over the original proceeding under German law;
- the complaint having been served duly and timely to allow the defendant to prepare its defense unless the defendant has responded to the complaint or has not invoked the fact that it has not responded to the compliant;
- the judgment of the U.S. court is not conflicting with any judgment of a German court or a judgment of a foreign court that has to be recognized in Germany and was handed down prior to the judgment of the U.S. court;
- the procedure on which the judgment of the U.S. court is not conflicting with the procedure of a matter pending before a German court, provided that such matter was pending before a German court earlier than the matter before the U.S. court;
- the enforcement of the judgment by the U.S. court being compatible with the basic principles of German public policy and law, in particular with the civil liberties (*Grundrechte*) guaranteed by virtue of the German Constitution (*Grundgesetz*); and
- generally, the guarantee of reciprocity.

Subject to the foregoing, purchasers of securities may be able to enforce judgments in civil and commercial matters obtained from U.S. federal or state courts against a German guarantor in Germany. The Issuer cannot, however, assure you that attempts to enforce judgments in Germany will be successful.

In addition, the recognition and enforcement of punitive damages is usually denied by German courts as incompatible with the basic principles of German law (public policy). Moreover, a German court may reduce the amount of damages granted by a U.S. court and recognize damages only to the extent that they are necessary to compensate actual losses or damages.

The service of process on persons in Germany is regulated by a multilateral treaty, The Hague Convention of November 15, 1965, guaranteeing service of writs and other legal documents in civil cases if the current address of the defendant is known.

While a German court may accept jurisdiction over an original action brought in Germany and based solely upon U.S. federal or state securities laws, it is doubtful whether a German court would impose civil liability in such a case.

Furthermore, U.S. law and the laws of several other common law jurisdictions provide for pre-trial discovery, a process by which parties to the proceedings may prior to trial compel the production of documents by adverse or third parties and the deposition of witnesses. Evidence obtained in this manner may be decisive in the outcome of any proceeding. No such pre-trial discovery process exists under German law. German civil procedure law differs substantially from U.S. law in a number of additional respects as well.

LEGAL MATTERS

The validity of the Notes will be passed upon for the Issuer by Freshfields Bruckhaus Deringer LLP, counsel to the Issuer as to matters of German, United States and New York law. Certain legal matters in connection with the offering will be passed upon for the initial purchasers by Cahill Gordon & Reindel LLP as to matters of United States and New York law and White & Case LLP as to matters of German law.

WHERE YOU CAN FIND OTHER INFORMATION

Each person receiving this offering memorandum and any related amendments or supplements to the offering acknowledges that:

(1) such person has been afforded an opportunity to request from the Issuer, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(2) such person has not relied on the initial purchasers or any person affiliated with the initial purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(3) except as provided pursuant to (1) above, no person has been authorized to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by the Issuer or the initial purchasers.

For so long as any of the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, the Issuer will, during any period in which it is not subject to Section 13 or 15(d) under the U.S. Exchange Act, nor exempt from reporting thereunder pursuant to Rule 12g3-2(b), make available to any holder or beneficial holder of a Note, or to any prospective purchaser of a Note designated by such holder or beneficial holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the U.S. Securities Act upon the written request of any such holder or beneficial owner. Such information will be available from the office of our listing agent in Luxembourg.

INDEPENDENT AUDITORS

The consolidated financial statements of Fresenius SE for the years ended December 31, 2005, December 31, 2006 and December 31, 2007 included in this offering memorandum have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, independent auditors, as stated in their reports appearing herein. The legal name of the auditors has since changed to KPMG AG. The auditors' address is Marie-Curie-Strasse 30, 60439 Frankfurt am Main, Germany.

The consolidated financial statements of APP Pharmaceuticals, Inc. as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007, included in this offering memorandum, have been audited by Ernst & Young LLP, independent registered public accounting firm, as stated in their report appearing herein.

LISTING AND GENERAL INFORMATION

Listing

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. Notice of any optional redemption or change of control of the Notes will published on the website of the Luxembourg Stock Exchange.

For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of that exchange require, copies of the following documents may be inspected and obtained free of charge at the specified office of the listing agent in Luxembourg during normal business hours of any weekday:

- the Indenture;
- articles of association and/or articles of incorporation of each of the Issuer and the Guarantors;
- most recent audited unconsolidated and consolidated financial statements published by Fresenius SE; and
- most recent interim quarterly consolidated financial statements published by Fresenius SE.

Financial notices concerning the Issuer and intended for holders of the Notes will be published on the website of the Luxembourg Stock Exchange www.bourse.lu.

We will maintain a paying and transfer agent in Luxembourg for as long as any of the Notes are listed on the Official List of the Luxembourg Stock Exchange. We reserve the right to vary such appointment and will publish notice on the website of the Luxembourg Stock Exchange.

As of the date of this offering memorandum, our most recent audited financial statements available were as of and for the year ended December 31, 2007. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, our auditor, has given and not withdrawn its consent to the inclusion in this offering memorandum of their audit reports for the years ended December 31, 2007, December 31, 2006 and December 31, 2005. Fresenius SE's unconsolidated financial statements are published annually and are audited.

Each of the Guarantors prepares its audited annual statutory financial statements in accordance with German GAAP. The audited German GAAP financial statements for each of the Guarantors for the year ended December 31, 2007 are available (or will be available) at the principal executive offices of Fresenius SE.

Clearing Information

The Dollar Notes sold pursuant to Regulation S and the Dollar Notes sold pursuant to Rule 144A of the U.S. Securities Act will be cleared through the facilities of DTC. The international securities identification number for the Dollar Notes sold pursuant to Regulation S is USU31436AD72 and the international securities identification number for the Dollar Notes sold pursuant to Rule 144A is US35804GAF54. The CUSIP number for the Dollar Notes sold pursuant to Regulation S is U31436AD7 and the CUSIP number for the Dollar Notes sold pursuant to Rule 144A is 35804GAF5. The common code for the Dollar Notes sold pursuant to Regulation S is 040586857 and the common code for the Dollar Notes sold pursuant to Rule 144A is 040586768.

The Euro Notes sold pursuant to Regulation S and the Euro Notes sold pursuant to Rule 144A of the U.S. Securities Act have been accepted for clearance through the facilities of Clearstream and Euroclear under common codes 039039834 and 039039842, respectively. The international securities identification number for the Euro Notes sold pursuant to Regulation S is XS0390398344 and the international securities identification number for the Euro Notes sold pursuant to Rule 144A is XS0390398427.

Litigation

Except as disclosed in this offering memorandum, none of the Issuer or the Guarantors has been involved in any litigation, administrative proceeding or arbitration relating to the claims or amounts which are material in the context of the issue of the Notes and, so far as we are aware, no such litigation, administrative proceeding or arbitration is pending or threatened.

Authorizations

The creation and issuance of the Notes have been authorized by a resolution of the Issuer's board of directors, dated on or around January 9, 2009 and approved by Fresenius SE as sole shareholder of the Issuer, by resolutions of the management board of Fresenius SE, dated on or around January 10, 2009 and a resolution, dated on or around January 8, 2009, of a special committee duly appointed by resolution of the supervisory board of Fresenius SE on July 3, 2008. The guarantees have been authorized by the resolution of the aforementioned special committee, by resolution of the management board of Fresenius SE, dated on or around January 10, 2009, by resolution of the supervisory board of Fresenius Kabi AG, dated on or around January 10, 2009, and by the shareholders' meeting of Fresenius ProServe GmbH, on or around January 10, 2009. The guarantees have also been authorized by resolutions of the management board of Fresenius Kabi AG and the management board meeting both dated January 15, 2009.

Other

Except as disclosed in this offering memorandum, there has been no material adverse change in the financial position of the Issuer since its incorporation or any of the Guarantors since December 31, 2007.

GLOSSARY

Healthcare Terms

Acute Care hospital

A hospital for the inpatient and outpatient of acute diseases and injuries as well as for scheduled surgery.

Antibodies

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

Ascites

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

Blood volume replacement

Infusion solution to compensate for blood loss.

Clinical nutrition

Medically administered nutritional support. When normal nutritional intake is insufficient, clinical nutrition is necessary. There are two types of clinical nutrition: parenteral nutrition and enteral nutrition.

Colloids

Blood and plasma substitutes.

Dialysis

A type of renal replacement therapy where a semi-permeable membrane — in peritoneal dialysis the peritoneum of the patient, and in hemodialysis 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.

Dialysis solution

Fluid used in the process of dialysis.

Dialyzer

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

Diagnosis related group (DRG)

A case-based reimbursement system for hospitals introduced in Germany in 2003 for in-patients.

End-Stage Renal Disease (ESRD)

Chronic kidney failure that is accompanied by severe complications, such as rental anaemia, high blood pressure and other cardiovascular problems, a well as bone diseases, loss of appetite and malnutrition.

Enteral nutrition

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

EPO

EPO stands for erythropoietin, which is a hormone that stimulates red blood cell production. Recombinant (i.e. artificially produced) human EPO is commonly prescribed to patients on dialysis who suffer from anaemia.

ESA

ESA stands for erythropoietin stimulating agents, which is the generic term for artificially produced human erythropoietin.

HACCP (Hazard Analysis Critical Control Point)

A process that proves conformity with valid norms.

Hemodiafiltration (HDF)

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

Hemodialysis (HD)

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

Immunosuppressive agent

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

Intraperitoneal

Administration of a drug directly into the peritoneal cavity.

Lipid emulsions/fatty emulsions

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

Parenteral nutrition

Application of nutrients directly into the blood-stream of the patient (intravenously).

Peritoneal dialysis (PD)

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

Polyclonal antibodies

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

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.

Triglyceride

Fats made up of one glycerine molecule and three fatty acids.

Products

ATG-FreseniusS (anti T-lymphocyte globulin)

Protein which suppresses T-lymphocytes.

EasyBag

Ready to use stand-up pouch for the administration of enteral tube feeding.

(This page intentionally left blank)

INDEX TO FINANCIAL STATEMENTS

Interim Report of Fresenius SE as of September 30, 2008 (US-GAAP, unaudited)

Consolidated statement of income . . . F-3
Consolidated balance sheet . . . F-4
Consolidated cash flow statement . . . F-5
Consolidated statement of shareholders' equity . . . F-6
Segment reporting first three quarters . . . F-8
Segment reporting third quarter . . . F-9
Notes . . . F-10

Consolidated Financial Statements of Fresenius SE for 2007 (US-GAAP)

Consolidated statement of income . . . F-39
Consolidated balance sheet . . . F-40
Consolidated cash flow statement . . . F-42
Consolidated statement of shareholders' equity . . . F-44
Segment reporting . . . F-46
Notes . . . F-48
Auditor's Report . . . F-113

Consolidated Financial Statements of Fresenius SE for 2006 (US-GAAP)

Consolidated statement of income . . . F-116
Consolidated balance sheet . . . F-117
Consolidated cash flow statement . . . F-119
Consolidated statement of shareholders' equity . . . F-121
Segment reporting . . . F-123
Notes . . . F-125
Auditor's Report . . . F-187

Consolidated Financial Statements of Fresenius SE for 2005 (US-GAAP)

Consolidated statement of income . . . F-190
Consolidated balance sheet . . . F-191
Consolidated cash flow statement . . . F-193
Consolidated statement of shareholders' equity . . . F-195
Segment reporting . . . F-197
Notes . . . F-199
Auditor's Report . . . F-253

Interim Report of Fresenius Kabi Pharmaceuticals Holding, Inc. as of September 30, 2008 (US-GAAP, unaudited)

Condensed consolidated balance sheets . . . F-256
Condensed consolidated statements of operations . . . F-257
Condensed consolidated statements of cash flows . . . F-259
Notes . . . F-260

Consolidated Financial Statements of APP Pharmaceuticals, Inc. as of December 31, 2007 (US-GAAP)

Report of independent registered public accounting firm . . . F-277
Consolidated balance sheets . . . F-278
Consolidated statements of operations . . . F-279
Consolidated statements of stockholders' equity . . . F-280
Consolidated statements of cash flows . . . F-282
Notes . . . F-283

Interim Report of Fresenius SE as of September 30, 2008
(US-GAAP, unaudited)

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

in million €	Q3/2008	Q3/2007	Q1-3/2008	Q1-3/2007
Sales	3,051	2,798	8,761	8,390
Cost of sales	−2,094	−1,874	−5,973	−5,642
Gross profit	**957**	**924**	**2,788**	**2,748**
Selling, general and administrative expenses	−458	−474	−1,415	−1,434
Research and development expenses	−227	−46	−320	−130
Operating income (EBIT)	**272**	**404**	**1,053**	**1,184**
Net interest	−104	−94	−271	−279
Other financial result	−34	0	−34	0
Financial result	**−138**	**−94**	**−305**	**−279**
Earnings before income taxes and minority interest	**134**	**310**	**748**	**905**
Income taxes	−94	−112	−308	−326
Minority interest	−99	−95	−287	−281
Net income	**−59**	**103**	**153**	**298**
Basic earnings per ordinary share in €	**−0.39**	**0.66**	**0.97**	**1.92**
Fully diluted earnings per ordinary share in €	**−0.38**	**0.66**	**0.96**	**1.90**
Basic earnings per preference share in €	**−0.39**	**0.66**	**0.98**	**1.93**
Fully diluted earnings per preference share in €	**−0.38**	**0.66**	**0.97**	**1.91**

See accompanying Notes to the unaudited Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	in million €	September 30, 2008	December 31, 2007
	Cash and cash equivalents	333	361
	Trade accounts receivable, less allowance for doubtful accounts	2,430	2,159
	Accounts receivable from and loans to related parties	16	8
	Inventories	1,149	875
	Prepaid expenses and other current assets	783	603
	Deferred taxes	306	285
I.	**Total current assets**	**5,017**	**4,291**
	Property, plant and equipment	3,354	2,971
	Goodwill	10,194	7,094
	Other intangible assets	1,051	546
	Other non-current assets	354	290
	Deferred taxes	144	132
II.	**Total non-current assets**	**15,097**	**11,033**
	Total assets	**20,114**	**15,324**
	Trade accounts payable	485	485
	Short-term accounts payable to related parties	4	5
	Short-term accrued expenses and other short-term liabilities	2,223	1,897
	Short-term borrowings	616	362
	Short-term loans from related parties	—	—
	Current portion of long-term debt and liabilities from capital lease obligations	374	115
	Current portion of Senior Notes	100	0
	Current portion of trust preferred securities of Fresenius Medical Care Capital Trusts	0	455
	Short-term accruals for income taxes	149	158
	Deferred taxes	41	26
A.	**Total short-term liabilities**	**3,992**	**3,503**
	Long-term debt and liabilities from capital lease obligations, less current portion	5,704	2,887
	Senior Notes, less current portion	1,344	1,434
	Mandatory Exchangeable Bonds	554	0
	Long-term accrued expenses and other long-term liabilities	432	326
	Trust preferred securities of Fresenius Medical Care Capital Trusts, less current portion	450	446
	Pension liabilities	283	270
	Long-term accruals for income taxes	141	87
	Deferred taxes	464	312
B.	**Total long-term liabilities**	**9,372**	**5,762**
I.	**Total liabilities**	**13,364**	**9,265**
II.	**Minority interest**	**2,905**	**2,644**
	Subscribed capital	161	155
	Capital reserve	2,043	1,739
	Other reserves	1,686	1,636
	Accumulated other comprehensive loss	−45	−115
III.	**Total shareholders' equity**	**3,845**	**3,415**
	Total liabilities and shareholders' equity	**20,114**	**15,324**

See accompanying Notes to the unaudited Consolidated Financial Statements,

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

in million €	Q1-3/2008	Q1-3/2007
Cash provided by/used for operating activities		
Net income	153	298
Minority interest	287	281
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Depreciation and amortization	521	301
Change in deferred taxes	31	25
Gain/loss on sale of fixed assets	−67	0
Changes in assets and liabilities, net of amounts from businesses acquired or disposed of		
Change in trade accounts receivable, net	−164	−62
Change in inventories	−96	−140
Change in prepaid expenses and other current and non-current assets	−109	7
Change in accounts receivable from/payable to related parties	−9	−1
Change in trade accounts payable, accruals and other short-term and long-term liabilities	154	160
Change in accruals for income taxes	35	43
Cash provided by/used for operating activities	**736**	**912**
Cash provided by/used for investing activities		
Purchase of property, plant and equipment	−513	−492
Proceeds from the sale of property, plant and equipment	17	31
Acquisitions and investments, net of cash acquired and net purchases of intangible assets	−2,961	−235
Proceeds from divestitures	86	49
Cash used for investing activities	**−3,371**	**−647**
Cash provided by/used for financing activities		
Proceeds from short-term borrowings	62	67
Repayments of short-term borrowings	−179	−40
Proceeds from borrowings from related parties	0	—
Proceeds from long-term debt and liabilities from capital lease obligations	2,401	580
Repayments of long-term debt and liabilities from capital lease obligations	−167	−470
Repayments of trust preferred securities of Fresenius Medical Care Capital Trusts	−443	0
Proceeds from the issuance of bearer ordinary shares	143	0
Proceeds from the issuance of bearer preference shares	146	0
Payments of additional costs of capital increase	−6	0
Proceeds from the issuance of mandatory exchangeable bonds	554	0
Changes of accounts receivable facility	297	−198
Proceeds from the exercise of stock options	33	42
Dividends paid	−235	−191
Change in minority interest	−3	0
Exchange rate effect due to corporate financing	—	14
Cash provided by/used for financing activities	**2,603**	**−196**
Effect of exchange rate changes on cash and cash equivalents	**4**	**−11**
Net decrease/increase in cash and cash equivalents	**−28**	**58**
Cash and cash equivalents at the beginning of the reporting period	**361**	**261**
Cash and cash equivalents at the end of the reporting period	**333**	**319**

See accompanying Notes to the unaudited Consolidated Financial Statements..

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Ordinary shares		Preference shares		Subscribed capital	
	Number of shares (thousand)	Amount (thousand €)	Number of shares (thousand)	Amount (thousand €)	Amount (thousand €)	Amount (million €)
As of December 31, 2006	**77,177**	**77,177**	**77,177**	**77,177**	**154,354**	**154**
Proceeds from the exercise of stock options	344	344	344	344	688	1
Compensation expense related to stock options						
Dividends paid						
Comprehensive income (loss)						
Net income						
Other comprehensive income (loss) related to						
Cash flow hedges						
Foreign currency translation						
Adjustments relating to pension obligation						
Comprehensive income (loss)						
As of September 30, 2007	**77,521**	**77,521**	**77,521**	**77,521**	**155,042**	**155**
As of December 31, 2007	**77,582**	**77,582**	**77,582**	**77,582**	**155,164**	**155**
Issuance of bearer ordinary and bearer preference shares	2,748	2,748	2,748	2,748	5,496	5
Proceeds from the exercise of stock options	238	238	238	238	476	1
Compensation expense related to stock options						
Dividends paid						
Comprehensive income (loss)						
Net income						
Other comprehensive income (loss) related to						
Cash flow hedges						
Foreign currency translation						
Adjustments relating to pension obligation						
Comprehensive income (loss)						
As of September 30, 2008	**80,568**	**80,568**	**80,568**	**80,568**	**161,136**	**161**

See accompanying Notes to the unaudited Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Reserves		Other comprehensive income (loss)			
	Capital reserve (million €)	Other reserves (million €)	Foreign currency translation (million €)	Cash flow hedges (million €)	Pensions (million €)	Total shareholders' equity (million €)
As of December 31, 2006	**1,702**	**1,315**	**34**	**30**	**−67**	**3,168**
Proceeds from the exercise of stock options	16					17
Compensation expense related to stock options	12					12
Dividends paid		−89				−89
Comprehensive income (loss)						
Net income		298				298
Other comprehensive income (loss) related to						
Cash flow hedges				−17		−17
Foreign currency translation			−79			−79
Adjustments relating to pension obligation					5	5
Comprehensive income (loss)		298	−79	−17	5	207
As of September 30, 2007	**1,730**	**1,524**	**−45**	**13**	**−62**	**3,315**
As of December 31, 2007	**1,739**	**1,636**	**−86**	**−9**	**−20**	**3,415**
Issuance of bearer ordinary and bearer preference shares	278					283
Proceeds from the exercise of stock options	12					13
Compensation expense related to stock options	14					14
Dividends paid		−103				−103
Comprehensive income (loss)						
Net income		153				153
Other comprehensive income (loss) related to						
Cash flow hedges				−11		−11
Foreign currency translation			83			83
Adjustments relating to pension obligation					−2	−2
Comprehensive income (loss)		153	83	−11	−2	223
As of September 30, 2008	**2,043**	**1,686**	**−3**	**−20**	**−22**	**3,845**

See accompanying Notes to the unaudited Consolidated Financial Statements.

SEGMENT REPORTING FIRST THREE QUARTERS

by business segment, in million €	Fresenius Medical Care			Fresenius Kabi			Fresenius Helios			Fresenius Vamed			Corporate/Other[4]			Fresenius Group		
	2008	2007	Change	2008	2007	Change	2008	2007[1]	Change	2008	2007[1]	Change	2008	2007[1]	Change	2008	2007	Change
Sales	5,184	5,320	−3%	1,734	1,494	16%	1,568	1,348	16%	290	234	24%	−15	−6	−150%	8,761	8,390	4%
thereof contribution to consolidated sales	5,181	5,318	−3%	1,707	1,461	17%	1,568	1,348	16%	290	234	24%	15	29	−48%	8,761	8,390	4%
thereof intercompany sales	3	2	50%	27	33	−18%	0	0	0%	0	0	0%	−30	−35	14%	0	0	
contribution to consolidated sales	59%	63%		20%	18%		18%	16%		3%	3%		0%	0%		100%	100%	
EBITDA	1,016	1,051	−3%	358	299	20%	183	149	23%	17	15	13%	0	−29	100%	1,574	1,485	6%
Depreciation and amortization	201	194	4%	68	57	19%	56	39	44%	3	4	−25%	193	7	—	521	301	73%
EBIT	815	857	−5%	290	242	20%	127	110	15%	14	11	27%	−193	−36	—	1,053	1,184	−11%
Net interest	−166	−209	21%	−64	−37	−73%	−44	−36	−22%	4	4	0%	−1	−1	0%	−271	−279	3%
Net income	396	387	2%	149	132	13%	59	44	34%	14	11	27%	−465	−276	−68%	153	298	−49%
Operating cash flow	470	662	−29%	144	119	21%	185	159	16%	0	19	−100%	−63	−47	−34%	736	912	−19%
Cash flow before acquisitions and dividends	147	395	−63%	69	33	109%	98	60	63%	−3	15	−120%	−71	−52	−37%	240	451	−47%
Total assets[2]	10,337	9,626	7%	6,293	2,310	172%	3,105	3,072	1%	383	390	−2%	−4	−74	95%	20,114	15,324	31%
Debt[2]	4,019	3,833	5%	4,151	1,121		1,082	1,136	−5%	2	0		−666	−391	−70%	8,588	5,699	51%
Capital expenditure	330	283	17%	73	76	−4%	88	112	−21%	3	4	−25%	8	6	33%	502	481	4%
Acquisitions	150	114	32%	3,564	41		4	84	−95%	12	6	100%	30	1	—	3,760	246	—
Research and development expenses	40	32	25%	71	61	16%	0	1	−100%	0	0	0%	209	36	—	320	130	146%
Employees (Per capita on balance sheet date)[2]	67,342	64,662	4%	20,504	16,964	21%	30,804	30,043	3%	1,833	1,767	4%	805	745	8%	121,288	114,181	6%
Key figures																		
EBITDA margin	19.6%	19.7%		20.6%	20.0%		11.7%	11.1%		5.9%	6.4%					17.6%[5]	17.7%	
EBIT margin	15.7%	16.1%		16.7%	16.2%		8.1%	8.2%		4.8%	4.7%					13.8%[5]	14.1%	
Depreciation and amortization in % of sales	3.9%	3.6%		3.9%	3.8%		3.6%	2.9%		1.0%	1.7%					3.8%[5]	3.6%	
Operating cash flow in % of sales	9.1%	12.4%		8.3%	8.0%		11.8%	11.8%		0.0%	8.1%					8.4%	10.9%	
ROOA[2]	12.5%	12.5%		8.5%	17.7%		6.1%	5.6%		13.8%	22.8%					9.5%[3]	11.4%	

[1] Prior year's segment data have been adjusted according to the new company structure as of January 1, 2008.

[2] 2007: December 31

[3] The underlying pro-forma EBIT does not include special items relating to the APP acquisition.

[4] including special items from the APP acquisition

[5] before special items from the APP acquisition

The segment reporting is an integral part of the Notes.

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

SEGMENT REPORTING THIRD QUARTER

by business segment, in million €	Fresenius Medical Care			Fresenius Kabi			Fresenius Helios			Fresenius Vamed			Corporate/Other[2]			Fresenius Group		
	2008	2007	Change	2008	2007	Change	2008	2007[1]	Change	2008	2007[1]	Change	2008	2007[1]	Change	2008	2007	Change
Sales	1,802	1,766	2%	613	508	21%	528	458	15%	113	74	53%	−5	−8	38%	3,051	2,798	9%
thereof contribution to consolidated sales	1,801	1,765	2%	603	497	21%	528	458	15%	113	74	53%	6	4	50%	3,051	2,798	9%
thereof intercompany sales	1	1	0%	10	11	−9%	0	0	0%	0	0	0%	−11	−12	8%	0	0	
contribution to consolidated sales	59%	63%		20%	18%		17%	16%		4%	3%		0%	0%		100%	100%	
EBITDA	352	354	−1%	135	102	32%	63	58	9%	6	4	50%	20	−10	—	576	508	13%
Depreciation and amortization	71	65	9%	26	19	37%	19	16	19%	1	2	−50%	187	2	—	304	104	192%
EBIT	281	289	−3%	109	83	31%	44	42	5%	5	2	150%	−167	−12	—	272	404	−33%
Net interest	−58	−69	16%	−30	−13	−131%	−14	−13	−8%	1	2	−50%	−3	−1	—	−104	−94	−11%
Net income	137	132	4%	52	45	16%	22	18	22%	5	3	67%	−275	−95	−189%	−59	103	−157%
Operating cash flow	208	280	−26%	54	57	−5%	63	54	17%	−41	−5	—	−29	−27	−7%	255	359	−29%
Cash flow before acquisitions and dividends	102	191	−47%	25	25	0%	37	13	185%	−42	−7	—	−31	−29	−7%	91	193	−53%
Capital expenditure	106	96	10%	36	32	13%	26	46	−43%	1	1	0%	1	4	−75%	170	179	−5%
Acquisitions	62	22	182%	3,401	3	—	4	0	—	1	0	—	0	−2	100%	3,468	23	—
Research and development expenses	14	11	27%	27	21	29%	0	0	0%	0	0	0%	186	14	—	227	46	—
Key figures																		
EBITDA margin	19.5%	20.0%		22.0%	20.1%		11.9%	12.7%		5.3%	5.4%					18.0%[3]	18.2%	
EBIT margin	15.6%	16.4%		17.8%	16.3%		8.3%	9.2%		4.4%	2.7%					14.0%[3]	14.4%	
Depreciation and amortization in % of sales	3.9%	3.7%		4.2%	3.7%		3.6%	3.5%		0.9%	2.7%					3.9%[3]	3.7%	
Operating cash flow in % of sales	11.6%	15.9%		8.8%	11.2%		11.9%	11.8%		−36.3%	−6.8%					8.4%	12.8%	

[1] Prior year's segment data have been adjusted according to the new company structure as of January 1, 2008.

[2] including special items from the APP acquisition

[3] before special items from the APP acquisition

The segment reporting is an integral part of the Notes.

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

GENERAL NOTES

1. PRINCIPLES

I. GROUP STRUCTURE

Fresenius is a worldwide operating health care group with products and services for dialysis, the hospital and the medical care of patients at home. Further areas of activity are hospital operations as well as engineering and services for hospitals and other health care facilities. In addition to the activities of Fresenius SE, the operating activities were split into the following legally-independent business segments (subgroups) as of September 30, 2008:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius Helios
- Fresenius Vamed

As of January 1, 2008, Fresenius has reorganized its hospital business. The business segment Fresenius ProServe has been replaced by the two new business segments — Fresenius Helios and Fresenius Vamed, which so far have formed Fresenius ProServe. Fresenius Helios is focused on hospital operations. Fresenius Vamed offers engineering and services for hospitals and other health care facilities.

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 € 1 million after they have been rounded are marked with "— ".

II. BASIS OF PRESENTATION

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

Since January 1, 2005, Fresenius SE as a stock exchange listed company with a domicile in a member state of the European Union fulfills its obligation to prepare and publish the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applying Section 315a of the German Commercial Code (HGB). Simultaneously, the Fresenius Group voluntarily prepares and publishes the consolidated financial statements in accordance with US GAAP.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements for the first three quarters and the third quarter ended September 30, 2008 have not been audited and should be read in conjunction with the notes included in the consolidated financial statements as of December 31, 2007, published in the 2007 Annual Report. In addition to the reported acquisitions (see Note 2, Acquisitions), there have been no other major changes in the entities consolidated.

The consolidated financial statements for the first three quarters and the third quarter ended September 30, 2008 include all adjustments that, in the opinion of the Management Board, are of a normal and recurring nature, necessary to provide an appropriate view of the assets and liabilities, financial position and results of operations of the Fresenius Group.

The results of operations for the first three quarters ended September 30, 2008 are not necessarily indicative of the results of operations for the fiscal year 2008 ending December 31, 2008.

Classification

Certain items in the prior year's quarterly financial reports and the prior year's consolidated financial statements have been reclassified to conform with the current year's presentation. The prior year's segment data have been adjusted according to the new company structure. The data reported for Fresenius ProServe in the year 2007 have mainly been allocated to the new segments Fresenius Helios and Fresenius Vamed. The holding functions of Fresenius ProServe have been incorporated into the segment Corporate/Other.

Use of estimates

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

IV. NEW ACCOUNTING STANDARDS

In February 2007, the Financial Accounting Standards Board (FASB) issued **Statement No. 159**, The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115 (FAS 159), which gives the company the irrevocable option to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date.

The fair value option:

- may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method;
- is irrevocable (unless a new election date occurs); and
- is applied only to entire instruments and not to portions of instruments.

This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Fresenius Group has not opted to measure any eligible items at fair value at this time.

In December 2007, FASB issued **Statement No. 160**, Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51 (FAS 160), which establishes a framework for reporting of noncontrolling or minority interests, the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. FAS 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Fresenius Group is currently evaluating the impact of this standard on its consolidated financial statements.

In December 2007, FASB issued **Statement No. 141** (revised), Business Combinations (FAS 141®). This Statement replaces FASB Statement No. 141, Business Combinations and retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control.

In general, the main points of this Statement are that the assets acquired, liabilities assumed and noncontrolling interests in the acquiree are stated at fair value as of the date of acquisition, that assets acquired and liabilities assumed arising from contractual contingencies are recognized as of the acquisition date, measured at their acquisition date fair values and that contingent consideration is recognized at the acquisition date, measured at its fair value at that date.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity

may not apply it before that date. The effective date of this Statement is the same as that of the related FAS 160. The Fresenius Group is currently evaluating the impact of this standard on its consolidated financial statements.

In March 2008, FASB issued **Statement No. 161**, Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133 (FAS 161). This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

The requirements of this Statement are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages comparative disclosures for earlier periods at initial adoption. The Fresenius Group is currently evaluating the impact of this standard on its consolidated financial statements.

In June 2008, FASB issued **Emerging Issues Task Force (EITF) Issue No. 08-3**, Accounting by Lessees for Maintenance Deposits under Lease Arrangements. EITF 08-3 rules how to account for maintenance deposits when the excess amounts on the deposit at the expiration of the lease are to be retained by the lessor (non-refundable maintenance deposits). According to EITF 08-3, all non-refundable maintenance deposits shall be accounted for as deposits. For the Fresenius Group, this standard is effective for interim periods and fiscal years beginning after December 15, 2008. The Fresenius Group is currently evaluating the impact of this standard on its consolidated financial statements.

2. ACQUISITIONS

The Fresenius Group made acquisitions of € 3,760 million and € 246 million in the first three quarters of 2008 and the first three quarters of 2007, respectively. Of this amount, € 2,961 million were paid in cash and € 796 million were assumed obligations in the first three quarters of 2008.

In the first three quarters of 2008, acquisition spending of Fresenius Medical Care in an amount of € 150 million related mainly to the purchase of dialysis clinics and the license agreements described in the following.

In July 2008, Fresenius Medical Care entered into two separate and independent license and distribution agreements, one for the US and one for certain countries in Europe and the Middle East, to market and distribute Galenica Ltd.'s and Luitpold Pharmaceuticals, Inc.'s intravenous iron products, such as Venofer® and Ferinject® for dialysis treatment. In North America, the license agreement among Fresenius Medical Care Holdings, Inc. (FMCH), Luitpold Pharmaceuticals, Inc., American Regent, Inc. and Vifor (International), Inc. provides FMCH with exclusive rights to manufacture and distribute Venofer® to freestanding (non-hospital based) US dialysis facilities. In addition, it grants FMCH similar rights for Injectafer® (ferric carboxymaltose), a proposed new IV iron medication currently under clinical study in the US. The US license agreement has a term of ten years, includes FMCH extension options, and requires payment by FMCH over the ten year term of aggregate royalties of approximately US$ 2 billion, subject to certain early termination provisions.

In the first three quarters of 2008, Fresenius Kabi spent € 3,564 million which mainly referred to the acquisitions of APP Pharmaceuticals, Inc. (APP), United States, and Dabur Pharma Ltd., India.

In July 2008, Fresenius Kabi has signed definitive agreements to acquire 100% of the share capital of APP. APP is a leading manufacturer of intravenously administered generic drugs (I.V. generics) in North America. Through the acquisition of APP, Fresenius Kabi enters the US pharmaceuticals market and achieves a leading position in the global I.V. generics market.

APP focuses on I.V. generics for hospital use and distributes its products in the US and Canada. The company employs around 1,400 people and has modern production facilities in Illinois, New York and Puerto

Rico as well as a distribution company in Toronto, Canada. In 2007, APP achieved sales of US$ 647 million and an adjusted EBITDA of US$ 253 million.

After receipt of all necessary regulatory approvals and fulfillment of further closing conditions, Fresenius Kabi has completed the acquisition of APP on September 10, 2008.

APP shareholders received a Cash Purchase Price of US$ 23.00 per share. Based on the Cash Purchase Price, the transaction values the fully diluted equity capital of APP at approximately US$ 3.7 billion. Furthermore, the shareholders received a registered and tradable Contingent Value Right (CVR) that could deliver up to US$ 6.00 per share additionally, payable in 2011, if APP exceeds a cumulative adjusted EBITDA target for 2008 to 2010.

The acquisition is financed with a mix of debt and equity. On July 17, 2008, the Fresenius Group launched an issue of mandatory exchangeable bonds with an aggregate nominal amount of € 554.4 million (see Note 13, Mandatory Exchangeable Bonds). As a further financing component, Fresenius SE completed a capital increase in an amount of approximately € 289 million on August 15, 2008 (see Note 17, Shareholders' Equity).

Furthermore, Fresenius SE syndicated senior secured credit facilities in an amount of US$ 2.45 billion to finance the acquisition of APP on August 20, 2008. Thereof, US$ 2.25 billion were used for the purchase price, the refinancing of APP's existing debt, transaction fees and expenses. In October 2008, Fresenius SE has increased the facilities by converted US$ 500 million to US$ 2.95 billion (see Note 11, Debt and liabilities from capital lease obligations).

In addition, the Fresenius Group entered into a Bridge Credit Agreement of US$ 1.3 billion on August 20, 2008. In October 2008, the Bridge Credit Agreement was reduced to US$ 650 million using the proceeds of the increase of the senior secured credit facilities and with funds obtained under other existing credit facilities (see Note 11, Debt and liabilities from capital lease obligations).

The Fresenius Group has consolidated APP with a net income of € −160 million as of September 1, 2008. Included therein are special revenues in an amount of € 36 million resulting from the valuation of the CVR (see Note 4, Other financial result) as well as special charges in an amount of € 200 million in connection with the first-time consolidation and the financing of the acquisition.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition. This preliminary allocation of the purchase price is based upon the best information available to management at present. Due to the relatively short interval between the closing date of the acquisition and the balance sheet date, this information may be incomplete. Any adjustments to the preliminary allocation, net of related income tax effects, will be recorded with a corresponding adjustment to goodwill.

The preliminary purchase price allocation is as follows:

in million US$	
Net working capital and other assets	183
Property, plant and equipment	133
In-process research and development	252
Identifiable intangible assets	610
Deferred tax liability, net	−126
Non-current assets	128
Non-current liabilities	−4
Goodwill	3,732
Total	**4,908**

The acquisition increased the total assets of the Fresenius Group by € 3.5 billion. The identifiable intangible assets acquired in an amount of US$ 610 million mainly comprise product rights and have an average useful life of 15 years. The capitalized goodwill in an amount of US$ 3.7 billion is not deductible for tax purposes.

The following financial information on a pro forma basis reflects the consolidated results of operations as if the acquisition of APP had been consummated at the beginning of 2008 and 2007, respectively. To achieve better comparability, special items were solely adjusted in 2008. The pro forma information includes adjustments mainly for interest expense on acquisition debt and income taxes. The pro forma financial information is not necessarily indicative of the results of operations as it would have been had the acquisition of APP been consummated at the beginning of the respective periods.

	Q1-3/2008		Q1-3/2007	
in million €	**as reported**	**pro forma**	**as reported**	**pro forma**
Sales	**8,761**	**9,066**	8,390	8,723
Adjusted net income[1)]	**324**	**282**	298	221
Net income	**153**	**95**	298	221
Basic earnings per ordinary share in €	**0.97**	**0.60**	1.92	1.42
Fully diluted earning per ordinary share in €	**0.96**	**0.59**	1.90	1.40
Basic earnings per preference share in €	**0.98**	**0.61**	1.93	1.43
Fully diluted earning per preference share in €	**0.97**	**0.60**	1.91	1.41

1) Before special items relating to the APP acquisition (for details see management report, chapter "Results of operations, financial position, assets and liabilities")

In April 2008, Fresenius Kabi has entered into agreements to acquire 73.3 % of the share capital of the Indian company Dabur Pharma Ltd. for a price of Indian rupee 76.50 per share in cash (total amount: € 139 million). In accordance with Indian regulations, Fresenius Kabi also announced a public offer to acquire up to a further 20% shareholding for a price of Indian rupee 76.50 per share in cash. Meanwhile, the public offer was successfully completed. After closing of the transaction on August 11, 2008, Fresenius Kabi holds about 90% of the shares. The total cash purchase price of Dabur Pharma Ltd. was € 177 million.

In the first quarter of 2008, in the segment Corporate/Other additional shares of HELIOS Kliniken GmbH, Germany, were acquired for a purchase price of € 31 million.

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

The consolidated statement of income for the first three quarters of 2008 includes several special items relating to the acquisition of APP. These special items are explained in the chapter "Results of operations, financial position, assets and liabilities" of the management report. Including special items, EBIT is € 1,053 million and net income is € 153 million. EBIT before special items and net income before special items were € 1,209 million and € 324 million, respectively.

3. SALES

Sales by activity were as follows:

in million €	Q1-3/2008	Q1-3/2007
Sales of services	5,548	5,485
Sales of products and related goods	3,088	2,765
Sales from long-term production contracts	125	140
Other sales	—	0
Sales	**8,761**	**8,390**

4. OTHER FINANCIAL RESULT

The item other financial result includes the following special charges and revenues with regard to the acquisition of APP and its financing:

The registered and tradable Contingent Value Rights awarded to the APP shareholders are traded at the NASDAQ Stock Exchange in the United States. The corresponding liability is therefore valued with the current stock exchange price at the reporting date. This valuation resulted in a revenue of € 36 million as of September 30, 2008.

Due to its contractual definition, the issued Mandatory Exchangeable Bonds include derivative financial instruments that have to be measured at fair value. This measurement resulted in an expense of € 38 million as of September 30, 2008. However, this measurement does not cause a change of the Mandatory Exchangeable Bonds' nominal amount of € 554.4 million that has to be settled in ordinary shares of Fresenius Medical Care AG&Co. KGaA (FMC-AG&Co. KGaA) upon maturity, but merely reflects the share price development of these shares (see Note 13, Mandatory Exchangeable Bonds).

Furthermore, in the third quarter of 2008, the Fresenius Group incurred special financing expenses in an amount of € 32 million relating to the APP acquisition.

5. TAXES

The German Business Tax Reform Act (Unternehmensteuerreformgesetz 2008) was enacted in the third quarter of 2007 resulting in a reduction of the corporate income tax rate from 25% to 15% for German companies. This reduction together with technical changes to trade tax rules reduced Fresenius Group's German entities' combined corporate income tax rate to an average of 29.8 % effective as of January 1, 2008. Deferred tax assets and liabilities for German entities which will be realized in 2008 and beyond are calculated with the new enacted tax rate.

Fresenius SE and its subsidiaries are subject to tax audits on a regular basis. On May 28, 2008, Fresenius Medical Care entered into a settlement agreement with the Internal Revenue Service (IRS) to resolve its appeal of the IRS's disallowance of deductions for the civil settlement payments made to qui tam relators in connection with the resolution of the 2000 investigation. As a result of this settlement agreement, Fresenius Medical Care received a refund in September 2008 of US$ 37 million (€ 26 million) inclusive of interest. The settlement agreement preserves Fresenius Medical Care's right to continue to pursue claims in the US Federal courts for refund of all other disallowed deductions. For the tax year 1997, Fresenius Medical Care recognized an impairment of one of its subsidiaries which the German tax authorities have disallowed in the audit for the years 1996 and 1997. Fresenius Medical Care disagrees with such conclusion, believes it has valid arguments

and has filed a complaint with the appropriate German court to challenge the tax authority's decision. An adverse determination in this litigation could have a material adverse effect on Fresenius Medical Care's results of operations in the relevant reporting period. Furthermore, during the first three quarters of 2008, there were no material changes according to tax audits, unrecognized tax benefits as well as recognized and accrued payments for interest and penalties. Explanations regarding the tax audits and further information can be found in the consolidated financial statements in the 2007 Annual Report.

6. EARNINGS PER SHARE

The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations and shows the basic and fully diluted earnings per ordinary and preference share for the first three quarters ending September 30.

in million €	Q1-3/2008	Q1-3/2007
Numerators		
Net income	153	298
less preference on preference shares	1	1
less effect from dilution due to Fresenius Medical Care shares	—	1
Income available to all classes of shares	152	296
Denominators in number of shares		
Weighted-average number of ordinary shares outstanding	78,283,473	77,338,119
Weighted-average number of preference shares outstanding	78,283,473	77,338,119
Weighted-average number of shares outstanding of all classes	156,566,946	154,676,238
Potentially dilutive ordinary shares	655,800	837,431
Potentially dilutive preference shares	655,800	837,431
Weighted-average number of ordinary shares outstanding assuming dilution	78,939,273	78,175,550
Weighted-average number of preference shares outstanding assuming dilution	78,939,273	78,175,550
Weighted-average number of shares outstanding of all classes assuming dilution	157,878,546	156,351,100
Basic earnings per ordinary share in €	**0.97**	**1.92**
Preference per preference share in €	**0.01**	**0.01**
Basic earnings per preference share in €	**0.98**	**1.93**
Fully diluted earnings per ordinary share in €	**0.96**	**1.90**
Preference per preference share in €	**0.01**	**0.01**
Fully diluted earnings per preference share in €	**0.97**	**1.91**

7. CASH AND CASH EQUIVALENTS

As of September 30, 2008 and December 31, 2007, cash and cash equivalents were as follows:

in million €	September 30, 2008	December 31, 2007
Cash	325	349
Securities (with a maturity of up to 90 days)	8	12
Cash and cash equivalents	**333**	**361**

As of September 30, 2008 and December 31, 2007, committed funds of € 74 million and € 65 million, respectively, were included in cash and cash equivalents.

8. TRADE ACCOUNTS RECEIVABLE

As of September 30, 2008 and December 31, 2007, trade accounts receivable were as follows:

in million €	September 30, 2008	December 31, 2007
Trade accounts receivable	2,679	2,382
less allowance for doubtful accounts	249	223
Trade accounts receivable, net	**2,430**	**2,159**

9. INVENTORIES

As of September 30, 2008 and December 31, 2007, inventories consisted of the following:

in million €	September 30, 2008	December 31, 2007
Raw materials and purchased components	285	200
Work in process	172	125
Finished goods	692	550
Inventories	**1,149**	**875**

10. GOODWILL AND OTHER INTANGIBLE ASSETS

As of September 30, 2008 and December 31, 2007, intangible assets, split into amortizable and non-amortizable intangible assets, consisted of the following:

Amortizable intangible assets

	September 30, 2008			December 31, 2007		
in million €	Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated Amortization	Carrying amount
Non-compete agreements	153	98	55	144	88	56
Technology	70	7	63	68	3	65
Other	1,056	448	608	347	239	108
Total	**1,279**	**553**	**726**	**559**	**330**	**229**

Non-amortizable intangible assets

	September 30, 2008			December 31, 2007		
in million €	Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated amortization	Carrying amount
Tradenames	172	0	172	168	0	168
Management contracts	153	0	153	149	0	149
Goodwill	10,198	4	10,194	7,098	4	7,094
Total	**10,523**	**4**	**10,519**	**7,415**	**4**	**7,411**

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

in million €	Q4/2008	2009	2010	2011	2012	Q1-3/2013
Estimated amortization expenses	21	71	67	62	60	41

The carrying amount of goodwill has developed as follows:

Carrying amount as of January 1, 2008	**7,094**
Additions	2,957
Disposals	−6
Foreign currency translation	149
Carrying amount as of September 30, 2008	**10,194**

11. DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

SHORT-TERM BORROWINGS

Short-term borrowings of € 616 million and € 362 million at September 30, 2008 and December 31, 2007, respectively, consisted of € 241 million borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks and US$ 537 million (€ 375 million) outstanding short-term borrowings under the accounts receivable facility of Fresenius Medical Care. In addition, Fresenius SE has a commercial paper program which was not utilized at September 30, 2008.

The rise of short-term borrowings mainly refers to the increase of Fresenius Medical Care's short-term borrowings under its accounts receivable facility. Fresenius Medical Care used the proceeds, together with borrowings under its other existing long-term credit facilities, to redeem its trust preferred securities that became due on February 1, 2008.

LONG-TERM DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

As of September 30, 2008 and December 31, 2007, long-term debt and liabilities from capital lease obligations consisted of the following:

in million €	September 30, 2008	December 31, 2007
Fresenius Medical Care 2006 Senior Credit Agreement	2,337	2,151
2008 Senior Credit Agreement	1,468	0
Bridge Credit Agreement	909	0
Euro Notes	800	440
European Investment Bank Agreements	312	169
Capital lease obligations	41	42
Other	211	200
Subtotal	6,078	3,002
less current portion	374	115
Long-term debt and liabilities from capital lease obligations, less current portion	**5,704**	**2,887**

2008 Senior Credit Agreement

In connection with the acquisition of APP, the Fresenius Group entered into a US$ 2.45 billion syndicated credit agreement (2008 Senior Credit Agreement) on August 20, 2008.

The 2008 Senior Credit Agreement consists of:

- five-year Term Loan A Facilities in the aggregate principal amount of US$ 1,000 million (of which US$ 500 million is available to Fresenius US Finance I, Inc., a wholly-owned subsidiary of Fresenius SE, and US$ 500 million is available to APP Pharmaceuticals, LLC). The Term Loan A Facilities

amortize and are repayable in 10 unequal semi-annual installments commencing on June 10, 2009 with a final maturity date on September 10, 2013;

- six-year Term Loan B Facilities in the aggregate principal amount of US$ 1,000 million (of which US$ 502.5 million is available to Fresenius US Finance I, Inc., a wholly-owned subsidiary of Fresenius SE, and US$ 497.5 million is available to APP Pharmaceuticals, LLC). The Term Loan B Facilities amortize and are repayable in 11 substantially equal semi-annual installments commencing on June 10, 2009 with a final bullet payment equal to 94.25% of such loans on September 10, 2014; and
- five-year Revolving Credit Facilities in the aggregate principal amount of US$ 450 million (of which US$ 150 million is available to APP Pharmaceuticals, LLC and US$ 300 million is available as multicurrency facility to Fresenius Finance I S.A., a wholly-owned subsidiary of Fresenius SE).

The interest rate on each borrowing under the 2008 Senior Credit Agreement is a rate per annum equal to the aggregate of (a) the applicable margin (as described below) and (b) LIBOR or, in relation to any loan in euro, EURIBOR for the relevant interest period, subject, in the case of Term Loan B, to a minimum LIBOR of 3.25% per annum. The applicable margin for Term Loan A Facilities and the Revolving Credit Facilities is variable and depends on the Leverage Ratio as defined in the 2008 Senior Credit Agreement.

Subject to certain exceptions and threshold amounts, mandatory prepayments are required to be made on the 2008 Senior Credit Agreement upon the occurrence of certain events, including asset dispositions, incurrence of additional indebtedness, equity issuances and intercompany loan repayments.

The 2008 Senior Credit Agreement is guaranteed by Fresenius SE, Fresenius ProServe GmbH and Fresenius Kabi AG. The obligations of APP Pharmaceuticals, LLC under the 2008 Senior Credit Agreement that refinance outstanding indebtedness under the former APP credit facility are secured by the assets of APP and its subsidiaries and guaranteed by APP's subsidiaries on the same basis as the former APP credit facility. The lenders also benefit from indirect security through pledges over the shares of certain subsidiaries of Fresenius Kabi AG and pledges over certain intercompany loans.

The 2008 Senior Credit Agreement contains a number of customary affirmative and negative covenants and other payment restrictions. These covenants include, among others, limitations on liens, sale of assets, incurrence of debt, investments and acquisitions and restrictions on the payment of dividends. The 2008 Senior Credit Agreement also includes financial covenants — as defined in the agreement — that require Fresenius SE and its subsidiaries (other than Fresenius Medical Care and its subsidiaries) to maintain a maximum leverage ratio, a minimum fixed charge coverage ratio, a minimum interest coverage ratio and limits amounts spent on capital expenditure.

The following table shows the available and outstanding amounts under the 2008 Senior Credit Agreement at September 30, 2008:

	Maximum amount available		Balance outstanding	
	in million US$	in million €	in million US$	in million €
Revolving Credit Facilities	450	315	100	70
Term Loan A Facilities	1,000	699	1,000	699
Term Loan B Facilities	1,000	699	1,000	699
Total	**2,450**	**1,713**	**2,100**	**1,468**

In October 2008, the 2008 Senior Credit Agreement was amended to increase the Term Loan B Facility available to Fresenius US Finance I, Inc. by US$ 210.5 million and € 200 million (US$ 273 million). The proceeds were used for the bridge credit agreement described on the following pages.

Fresenius Medical Care 2006 Senior Credit Agreement

Fresenius Medical Care entered into a US$ 4.6 billion syndicated credit agreement (Fresenius Medical Care 2006 Senior Credit Agreement) with Bank of America, N.A.; Deutsche Bank AG New York Branch; The

Bank of Nova Scotia; Credit Suisse, Cayman Islands Branch; JP Morgan Chase Bank, National Association; and certain other lenders on March 31, 2006 which replaced a prior credit agreement.

The following table shows the available and outstanding amounts under the Fresenius Medical Care 2006 Senior Credit Agreement at September 30, 2008 and December 31, 2007:

	Maximum amount available		Balance outstanding	
in million US$	Sept 30, 2008	Dec 31, 2007	Sept 30, 2008	Dec 31, 2007
Revolving Credit	1,000	1,000	248	38
Term Loan A	1,521	1,550	1,521	1,550
Term Loan B	1,574	1,578	1,574	1,578
Total	**4,095**	**4,128**	**3,343**	**3,166**

In addition, at September 30, 2008 and December 31, 2007, US$ 100 million and US$ 87 million, respectively, were utilized as letters of credit which are not included as part of the balances outstanding at those dates.

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

As of September 30, 2008, Fresenius Medical Care was in compliance with all financial covenants under the Fresenius Medical Care 2006 Senior Credit Agreement.

On July 2, 2007, Fresenius Medical Care voluntarily repaid portions of the term loans outstanding utilizing a portion of the proceeds from the issuance of senior notes in an amount of US$ 500 million. Under the terms of the Fresenius Medical Care 2006 Senior Credit Agreement, advance payments on the term loans are applied first against the next four quarterly payments due with any amounts in excess of the four quarterly payments applied on a pro-rata basis against any remaining payments. As a result of the advance payments on the Term Loans, no payments were made or were due for either Term Loan A or B until the end of the third quarter of 2008.

On January 31, 2008, the Fresenius Medical Care 2006 Senior Credit Agreement was amended to increase certain types of permitted borrowings and to remove all limitations on capital expenditures.

Bridge Credit Agreement

On August 20, 2008, the Fresenius Group entered into a Bridge Credit Agreement of US$ 1.3 billion to fund part of the purchase price of APP. The facility is available to Fresenius US Finance II, Inc., a wholly-owned subsidiary of Fresenius SE, and was fully drawn down on September 10, 2008.

In October 2008, the Bridge Credit Agreement was reduced to US$ 650 million using proceeds of the increase of the Term Loan B Facilities under the 2008 Senior Credit Agreement and with funds obtained under other existing credit facilities.

The Bridge Credit Agreement is guaranteed on a senior basis by Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH and contains covenants substantially identical to those contained in the 2008 Senior Credit Agreement.

If the initial loans under the Bridge Credit Agreement are not paid in full on or before September 10, 2009, the loans will convert into extended term loans maturing on September 10, 2015, provided that certain events of default have not occurred. Holders of any of the extended term loans may choose to exchange the loans for exchange notes maturing on September 10, 2015.

Interest on the initial loans is variable and is based on LIBOR plus applicable margin.

Prepayments of the Bridge Credit Agreement will be required under specified circumstances, including upon specified non-ordinary course asset sales, specified incurrences of debt, and equity issuances by Fresenius or its subsidiaries (in each case, other than by Fresenius Medical Care or any of its subsidiaries) and

upon a change of control or the issuance of debt securities for the purpose of refinancing the Bridge Credit Agreement.

Euro Notes

As of September 30, 2008, Euro Notes (Schuldscheindarlehen) of the Fresenius Group consisted of the following:

	Maturity	Interest rate	Notional amount in million €
Fresenius Finance B.V. 2007/2012	July 2, 2012	5.51%	26
Fresenius Finance B.V. 2007/2012	July 2, 2012	variable	74
Fresenius Finance B.V. 2007/2014	July 2, 2014	5.75%	38
Fresenius Finance B.V. 2007/2014	July 2, 2014	variable	62
Fresenius Finance B.V. 2008/2012	April 2, 2012	5.59%	62
Fresenius Finance B.V. 2008/2012	April 2, 2012	variable	138
Fresenius Finance B.V. 2008/2014	April 2, 2014	5.98%	112
Fresenius Finance B.V. 2008/2014	April 2, 2014	variable	88
FMC Finance S.à.r.l. Luxembourg IV 2005/2009	July 27, 2009	4.57%	126
FMC Finance S.à.r.l. Luxembourg IV 2005/2009	July 27, 2009	variable	74
Euro Notes			**800**

The notional amount of the Euro Notes equals the book value. In April 2008, Fresenius Finance B.V. issued Euro Notes in an amount of € 400 million in four tranches with four and six year terms. The proceeds from the issuance of the Euro Notes were mainly utilized to redeem Euro Notes of € 40 million that were due in May 2008 as well as for the repayment of short-term debt and general corporate purposes. The Euro Notes issued by FMC Finance S.à.r.l. Luxembourg IV have been reclassified as short-term debt and shown as current portion in the balance sheet.

European Investment Bank Agreements

The following table shows the outstanding amounts under the European Investment Bank (EIB) facilities as of September 30, 2008:

	Maximum amount available in million €	Maturity	Book value in million €
Fresenius SE	96	2013	96
FMC-AG & Co. KGaA	221	2013/2014	124
HELIOS Kliniken GmbH	96	2019	92
Loans from EIB	**413**		**312**

Some advances under these agreements can be denominated in certain foreign currencies including US dollars. Accordingly, the liabilities of FMC-AG&Co. KGaA comprise loans of US$ 49 million and € 90 million. FMC-AG&Co. KGaA issued this € 90 million loan as part of a credit agreement with the EIB as of December 2006. This facility was fully drawn down on February 1, 2008, at an initial interest rate of 4.35%. The interest rate is variable and changes quarterly. The term loan matures on February 1, 2014, with interest payments due quarterly.

CREDIT LINES

In addition to the financial liabilities described before, the Fresenius Group maintains additional credit facilities which have not been utilized, or have only been utilized in part as of reporting date. As of September 30, 2008, the additional financial cushion resulting from unutilized credit facilities was approximately € 1.2 billion.

12. SENIOR NOTES

As of September 30, 2008, Senior Notes of the Fresenius Group consisted of the following:

	Notional amount	Maturity	Interest rate	Book value in million €
Fresenius Finance B.V. 2003/2009	€ 100 million	April 30, 2009	7.50%	100
Fresenius Finance B.V. 2006/2013	€ 500 million	Jan 31, 2013	5.00%	500
Fresenius Finance B.V. 2006/2016	€ 500 million	Jan 31, 2016	5.50%	500
FMC Finance III S.A. 2007/2017	US$ 500 million	July 15, 2017	6⅞%	344
Senior Notes				**1,444**

As of September 30, 2008, the Fresenius Group was in compliance with all financial covenants under the terms of its Senior Notes. The Senior Notes issued by Fresenius Finance B.V. which mature on April 30, 2009 are classified as short-term liability and shown as current portion in the balance sheet.

13. MANDATORY EXCHANGEABLE BONDS

To finance the acquisition of APP, the Fresenius Group launched Mandatory Exchangeable Bonds (MEB) in an aggregate nominal amount of € 554.4 million. Fresenius Finance B.V. subscribed for the MEB issued by Fresenius Finance (Jersey) Ltd. at 100% of their principal amount and on-lent the MEB to Fresenius SE who placed the MEB in the market. The bonds carry a coupon of 5⅝% per annum and will mature on August 14, 2011. Upon maturity, the bonds will be mandatorily exchangeable into ordinary shares of FMC-AG&Co.KGaA with a maximum of 16.80 million and a minimum of 14.24 million shares being deliverable, subject to anti-dilution adjustments with respect to FMC-AG&Co.KGaA (e.g. in case of corporate actions). The MEB are not redeemable in cash.

The initial minimum exchange price equaling the reference share price was set to € 33.00 and the initial maximum exchange price was set to € 38.94 (i.e. 118% of the initial minimum exchange price). Pursuant to the terms and conditions of the MEB, both the holder and the issuer may procure for the exchange of the bonds before maturity. In principal, the issuer, Fresenius Finance (Jersey) Ltd., may procure the exchange of all of the outstanding MEB for shares of FMC-AG&Co. KGaA at the maximum exchange ratio calculated on the relevant exchange date plus payment of any accrued and unpaid interest and a make whole amount. Furthermore, the MEB shall be mandatorily exchangeable at the maximum exchange ratio plus such payments if the corporate credit ratings of Fresenius SE fall below certain benchmarks and such benchmarks are subsequently not reinstated. Moreover, in the event of a change of control of Fresenius SE or FMC-AG&Co.KGaA, each holder of the MEB may elect to exchange its MEB at the maximum exchange ratio plus such payments. Each holder of the MEB may also exchange his MEB at the minimum exchange ratio calculated on the relevant exchange date without payment of accrued interest or any make-whole amount.

Fresenius SE guarantees in favor of Fresenius Finance (Jersey) Ltd. the payment of certain interest payments by Fresenius Finance B.V. and, via a pledge agreement, secures the delivery of the underlying shares for exchange. In addition, the terms and conditions of the MEB include a negative pledge in relation to certain capital market indebtedness.

The derivative financial instruments embedded in the MEB are measured at fair value and are shown separately under the balance sheet item “long-term accrued expenses and other long-term liabilities”.

14. PENSIONS AND SIMILAR OBLIGATIONS

DEFINED BENEFIT PENSION PLANS

At September 30, 2008, the pension liability of the Fresenius Group was € 293 million. The current portion of the pension liability in an amount of € 10 million is recognized in the balance sheet as short-term accrued expenses and other short-term liabilities. The non-current portion of € 283 million is recorded as pension liabilities. At September 30, 2008, prepaid pension costs in an amount of € 8 million related to the North American pension plan and are recorded within other non-current assets.

71% of the pension liabilities in an amount of € 293 million relate to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1988, which applies for most of the German entities of the Fresenius Group except Fresenius Helios. The rest of the pension liabilities relates to individual plans from entities of Fresenius Helios in Germany and non-German Group entities. Fresenius Medical Care Holdings, Inc., a subsidiary of Fresenius Medical Care, has a defined benefit pension plan for its employees in the United States and supplemental executive retirement plans.

Contributions to the Fresenius Group's pension fund were € 4 million in the first three quarters of 2008. The Fresenius Group expects approximately € 6 million contributions to the pension fund during 2008.

Defined benefit pension plans' net periodic benefit costs of € 22 million were comprised of the following components:

in million €	Q1-3/2008	Q1-3/2007
Interest cost	21	20
Service cost	11	13
Amortization of unrealized actuarial losses, net	1	4
Amortization of prior service costs	—	—
Amortization of transition obligations	—	—
Settlement loss	0	—
Expected return on plan assets	−11	−12
Net periodic benefit cost	**22**	**25**

The following weighted-average assumptions were used in determining net periodic benefit cost for the first three quarters ended September 30:

in %	Q1-3/2008	Q1-3/2007
Discount rate	5.80	5.02
Expected return of plan assets	7.03	7.07
Rate of compensation increase	3.66	3.75

Pension liabilities at September 30, 2008 and December 31, 2007 related to the following geographical regions:

in million €	December 31, 2007	September 30, 2008
Germany	257	244
Europe (excluding Germany)	35	34
North America	0	0
Asia-Pacific	—	—
Latin America	1	1
Africa	0	0
Total pension liabilities	**293**	**279**

15. TRUST PREFERRED SECURITIES

Fresenius Medical Care issued trust preferred securities through Fresenius Medical Care Capital Trusts. The sole asset of each trust is a senior subordinated note of FMC-AG&Co. KGaA or a wholly-owned subsidiary of FMC-AG&Co. KGaA. As of September 30, 2008, Fresenius Medical Care was in compliance with all covenants under all trust preferred securities agreements.

The trust preferred securities outstanding as of September 30, 2008 and December 31, 2007 were as follows:

	Year issued	Stated amount	Interest rate	Mandatory redemption date	Sept 30, 2008 in million €	Dec 31, 2007 in million €
Fresenius Medical Care Capital Trust II	1998	US$ 450 million	7⅞%	Feb 1, 2008	0	301
Fresenius Medical Care Capital Trust III	1998	DM 300 million	7⅜%	Feb 1, 2008	0	154
Fresenius Medical Care Capital Trust IV	2001	US$ 225 million	7⅞%	Jun 15, 2011	152	149
Fresenius Medical Care Capital Trust V	2001	€ 300 million	7⅜%	Jun 15, 2011	298	297
Trust preferred securities					**450**	**901**

The trust preferred securities of Fresenius Medical Care Capital Trust II und III were due on February 1, 2008 and were therefore classified as a short-term liability and shown as current portion in an amount of € 455 million at December 31, 2007. Fresenius Medical Care used existing credit facilities for the repayment on February 1, 2008.

16. MINORITY INTEREST

Minority interest in the Group was as follows:

in million €	September 30, 2008	December 31, 2007
Minority interest in FMC-AG&Co. KGaA	2,651	2,426
Minority interest in HELIOS Kliniken GmbH	4	8
Minority interest in VAMED AG	26	25
Minority interest in the business segments		
Fresenius Medical Care	101	72
Fresenius Kabi	30	27
Fresenius Helios	92	85
Fresenius Vamed	1	1
Corporate/Other	—	—
Total minority interest	**2,905**	**2,644**

In the first three quarters of 2008, minority interest increased by € 261 million to € 2,905 million. The change resulted from currency effects as well as first-time consolidations in a total amount of € 106 million and from the minorities' share of profit of € 287 million as well as proportionate dividend payments of € 132 million.

17. SHAREHOLDERS' EQUITY

SUBSCRIBED CAPITAL

On August 15, 2008, Fresenius SE successfully closed a capital increase to finance the acquisition of APP. In connection with the capital increase, 2,748,057 new ordinary shares were issued at a price of € 52.00 and 2,748,057 new preference shares were issued at a price of € 53.00. The transaction has generated gross proceeds of approximately € 289 million. The new shares will have full dividend entitlement for the fiscal year 2008.

During the first three quarters of 2008, 475,152 stock options were exercised.

Accordingly, at September 30, 2008, the subscribed capital of Fresenius SE was divided into 80,568,018 bearer ordinary shares and 80,568,018 non-voting bearer preference shares. The shares are issued as non-par value shares. The proportionate amount of the subscribed capital is € 1.00 per share.

CONDITIONAL CAPITAL

Corresponding to the stock option plans, the Conditional Capital of Fresenius SE is divided into Conditional Capital I, Conditional Capital II and Conditional Capital III which exist to secure the subscription rights in connection with already issued stock options on bearer ordinary shares and bearer preference shares of the stock option plans of 1998, 2003 and 2008 (see Note 23, Stock options).

On May 21, 2008, Fresenius SE's Annual General Meeting has resolved upon the Fresenius SE Stock Option Plan 2008 (2008 Plan) by authorizing the granting of subscription rights to members of the Management Board and managerial employees of the Company and affiliated companies. To fulfill the subscription rights under the 2008 Plan, the subscribed capital of Fresenius SE was increased conditionally by up to € 6.2 million through the issue of up to 3.1 million no par value bearer ordinary shares and 3.1 million no par value bearer preference shares (Conditional Capital III). The change in Fresenius SE's Articles of Association with regard to the Conditional Capital III became effective after its registration in the commercial register on July 11, 2008.

The following table shows the development of the Conditional Capital:

in €	Ordinary Shares	Preference Shares	Total
Conditional Capital I Fresenius AG Stock Option Plan 1998	768,306.00	768,306.00	1,536,612.00
Conditional Capital II Fresenius AG Stock Option Plan 2003	2,364,711.00	2,364,711.00	4,729,422.00
Total Conditional Capital as of January 1, 2008	**3,133,017.00**	**3,133,017.00**	**6,266,034.00**
Fresenius AG Stock Option Plan 1998 — options exercised	−84,087.00	−84,087.00	−168,174.00
Fresenius AG Stock Option Plan 2003 — options exercised	−153,489.00	−153,489.00	−306,978.00
Conditional Capital I as of September 30, 2008	684,219.00	684,219.00	1,368,438.00
Conditional Capital II as of September 30, 2008	2,211,222.00	2,211,222.00	4,422,444.00
Conditional Capital III as of September 30, 2008	3,100,000.00	3,100,000.00	6,200,000.00
Total Conditional Capital as of September 30, 2008	**5,995,441.00**	**5,995,441.00**	**11,990,882.00**

CAPITAL RESERVES

In the third quarter of 2008, the capital reserves increased by € 284 million in connection with Fresenius SE's capital increase to finance the acquisition of APP. The accrued expenses in an amount of € 6 million were charged against the capital reserves.

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 SE as reported in its balance sheet determined in accordance with the German Commercial Code (HGB).

In May 2008, a dividend of € 0.66 per bearer ordinary share and € 0.67 per bearer preference share was approved by Fresenius SE's shareholders at the Annual General Meeting and paid. The total dividend payment was € 103 million.

OTHER NOTES

18. LEGAL PROCEEDINGS

The Fresenius Group is routinely involved in numerous claims, lawsuits, regulatory and tax audits, investigations and other legal matters arising, for the most part, in the ordinary course of its business of providing healthcare services and products. The outcome of litigation and other legal matters is always difficult to accurately predict and outcomes that are not consistent with the Fresenius Group's view of the merits can occur. The Fresenius Group believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or more of the legal matters currently pending or threatened could have a material adverse effect on its business, results of operations and financial condition.

COMMERCIAL LITIGATION

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

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

In 2003, Fresenius Medical Care reached agreement with the asbestos creditors' committees on behalf of the W. R. Grace & Co. bankruptcy estate and W. R. Grace & Co. in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to Fresenius Medical Care that arise out of the bankruptcy of W. R. Grace & Co. Under the terms of the settlement agreement as amended (Settlement Agreement), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and Fresenius Medical Care will receive protection against existing and potential future W. R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W. R. Grace & Co. consolidated tax group upon confirmation of a W. R. Grace & Co. bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, Fresenius Medical Care will pay a total of US$ 115 million without interest to the W. R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation.

No admission of liability has been or will be made. The Settlement Agreement has been approved by the U.S. District Court. Subsequent to the Merger, W. R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (Sealed Air, formerly: Grace Holding, Inc.). Fresenius Medical Care is engaged in litigation with Sealed Air to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by Fresenius Medical Care relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of Fresenius Medical Care's payment obligation, this litigation will be dismissed with prejudice.

In April 2008, W. R. Grace & Co. announced an agreement in principle with the asbestos creditors' and equity security holders' committees in the Grace Chapter 11 Proceedings to settle all present and future asbestos-related personal injury claims. The agreement in principle and W. R. Grace & Co.'s related bankruptcy reorganization plan are subject to conditions including resolution of claims of other creditors and Bankruptcy Court and District Court approvals.

On April 4, 2003, FMCH filed a suit in the U.S. District Court for the Northern District of California, styled 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 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 the use of touch screen interfaces for hemodialysis machines. Baxter filed counterclaims against FMCH seeking more than US$ 140 million in monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. On July 17, 2006, the court entered judgment on a jury

verdict in favor of FMCH finding that all the asserted claims of the Baxter patents are invalid as obvious and/or anticipated in light of prior art. On February 13, 2007, the court granted Baxter's motion to set aside the jury's verdict in favor of FMCH and reinstated the patents and entered judgment of infringement. Following a trial on damages, the court entered judgment on November 6, 2007 in favor of Baxter on a jury award of US$ 14.3 million. On April 4, 2008, the court denied Baxter's motion for a new trial, established a royalty payable to Baxter of 10% of the sales price for continuing sales of FMCH's 2008K hemodialysis machines and 7% of the sales price of related disposables, parts and service beginning November 7, 2007, and enjoined sales of the 2008K machine effective January 1, 2009. Fresenius Medical Care has appealed the court's rulings to the Court of Appeals for the Federal Circuit. Fresenius Medical Care is confident that it will prevail on appeal and has made no provision in its financial statements for any potential liability in this matter. If Fresenius Medical Care is unsuccessful on all appeals, including any appeal of the royalty, the royalties payable to Baxter on the machines and disposable supplies that are subject to the court's order are estimated to be in the range of US$ 2 million to US$ 4 million per month. In the interim period until its appeal is decided, Fresenius Medical Care is funding a court-approved escrow account at the rate noted above. If Fresenius Medical Care wins the appeal, the escrowed funds will be returned to it with interest. Fresenius Medical Care is pursuing design modifications to the 2008K machine that it expects will limit the scope of royalty payment exposure and permit the continued sale of the modified 2008K machine after the January 1, 2009 injunction effective date, irrespective of the outcome of Fresenius Medical Care's appeal.

On April 28, 2008, Baxter filed suit in the U.S. District Court for the Northern District of Illinois, Eastern Division (Chicago), styled Baxter International, Inc. and Baxter Healthcare Corporation v. Fresenius Medical Care Holdings, Inc. and Fresenius USA, Inc., Case No. CV 2389, asserting that FMCH's hemodialysis machines infringe four recently issued patents (late 2007-2008), all of which are based on one of the patents at issue in the April 2003 Baxter case described above. The new patents expire in April 2011 and relate to trend charts shown on touch screen interfaces and the entry of ultrafiltration profiles (ultrafiltration is the removing of liquid from a patient's body using pressure). The court has stayed the case pending the outcome of the appeal in the April 2003 Baxter case. Fresenius Medical Care believes that its hemodialysis machines do not infringe any valid claims of the Baxter patents at issue.

On October 17, 2006, Baxter and Deka Products Ltd. (Deka) filed suit in the U.S. District Court for the Eastern District of Texas which was subsequently transferred to the Northern District of California, styled Baxter Healthcare Corporation and DEKA Products Limited Partnership v. Fresenius Medical Care Holdings, Inc. d/b/a Fresenius Medical Care North America and Fresenius USA, Inc., Case No. CV 438 TJW. The complaint alleges that FMCH's Liberty peritoneal cyclers infringe certain patents owned by or licensed to Baxter. Sales of the Liberty cyclers commenced in July 2008. Fresenius Medical Care believes that the Liberty peritoneal cycler does not infringe any valid claims of the Baxter/DEKA patents.

Gambro Pty Limited and Gambro Lundia AB (Gambro AB, together with Gambro Pty Limited: Gambro Group) commenced litigation against FMC-AG&Co. KGaA's Australian subsidiary, Fresenius Medical Care Australia Pty Limited (Fresenius Medical Care Australia) regarding infringement and damages with respect to a Gambro AB patent protecting intellectual property in relation to a system for preparation of dialysis or replacement fluid, the Gambro Bicart device in Australia (Gambro Patent). As a result of the commercialization of a system for the preparation of dialysis fluid based on the Fresenius Medical Care Bibag device in Australia, the Australian courts concluded that Fresenius Medical Care Australia infringed the Gambro Patent. In May 2008, the Gambro Group and Fresenius Medical Care Australia and FMC-AG&Co. KGaA entered into a Deed of Settlement and Release pursuant to which Fresenius Medical Care made certain cash payments to the Gambro Group and pursuant to which the proceedings and all claims under the Gambro Patent, including any claims for relief for losses alleged to have been incurred after the expiry of the Gambro Patent, were resolved.

Two patent infringement actions have been pending in Germany between Gambro Industries (Gambro) on the one side and Fresenius Medical Care Deutschland GmbH (FMC D-GmbH), one of Fresenius Medical Care's German subsidiaries, and FMC-AG&Co. KGaA on the other side (hereinafter collectively: Fresenius Medical Care). Gambro herein alleged patent infringements concerning a patent on a device for the preparation of medical solutions by Fresenius Medical Care. The first case was dismissed as being unfounded.

Such decision has already become final. In the second case, the District Court of Mannheim rendered a judgment on June 27, 2008 deciding in favor of Gambro and declaring that Fresenius Medical Care has infringed a patent claim. Accordingly, the court ordered Fresenius Medical Care to pay compensation (to be determined in a separate court proceeding) for alleged infringement and to stop offering the alleged patent infringing technology in its original form in Germany. Such verdict could be enforced provisionally by way of security to be deposited by Gambro, however, Fresenius Medical Care has received no notice that Gambro has applied for provisional enforceability, as yet. FMC D-GmbH brought an invalidity action in the Federal German Patent Court (BPatG) against Gambro's patent. This case is currently pending with the Federal Court of Justice as the court of appeal. Fresenius Medical Care has also filed an appeal against the District Court's verdict. Irrespective of the outcome of the appeal, Fresenius Medical Care has developed design modifications to the concerned devices which are an alternative technical solution. In view of the pending appeal against BPatG's verdict and Fresenius Medical Care's appeal against the District Court's verdict, Fresenius Medical Care continues to believe that the alleged patent infringing technology does not infringe any valid patent claims of Gambro.

OTHER LITIGATION AND POTENTIAL EXPOSURES

Renal Care Group, Inc. (RCG) was named as a nominal defendant in a second amended complaint filed September 13, 2006, in the Chancery Court for the State of Tennessee Twentieth Judicial District at Nashville against former officers and directors of RCG which purports to constitute a class action and derivative action relating to alleged unlawful actions and breaches of fiduciary duty in connection with Fresenius Medical Care's acquisition of RCG (the RCG acquisition) and in connection with alleged improper backdating and/or timing of stock option grants. The amended complaint was styled Indiana State District Council of Laborers and Hod Carriers Pension Fund, on behalf of itself and all others similarly situated and derivatively on behalf of RCG, Plaintiff, vs. RCG, Gary Brukardt, William P. Johnston, Harry R. Jacobson, Joseph C. Hutts, William V. Lapham, Thomas A. Lowery, Stephen D. McMurray, Peter J. Grua, C. Thomas Smith, Ronald Hinds, Raymond Hakim, and R. Dirk Allison, Defendants. The complaint sought damages against former officers and directors and did not state a claim for money damages directly against RCG. On August 30, 2007, this suit was dismissed by the trial court without leave to amend. Plaintiff subsequently appealed and the matter remains pending in the appellate court of Tennessee.

In October 2004, FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of New York, in connection with a civil and criminal investigation, which requires production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents relating to laboratory testing for parathyroid hormone (PTH) levels and vitamin D therapies. Fresenius Medical Care is cooperating with the government's requests for information. Fresenius Medical Care believes that it has fulfilled all requests for information made by government investigators in this matter, and that it has complied with applicable laws relating to PTH testing and use of vitamin D therapies.

FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. FMCH received its subpoena in April 2005. RCG received its subpoena in August 2005. The subpoenas require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relationships, joint ventures, and anemia management programs, RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, and RCG's purchase of dialysis equipment from FMCH. The Office of the Inspector General of the U.S. Department of Health and Human Services and the U.S. Attorney's office for the Eastern District of Texas have also confirmed that they are participating in the review of the anemia management program issues raised by the U.S. Attorney's office for the Eastern District of Missouri. On July 17, 2007, the U.S. Attorney's office filed a civil complaint against RCG and FMCH in its capacity as RCG's current corporate parent in the United States District Court, Eastern District of Missouri. The complaint seeks monetary damages and penalties with respect to issues arising out of the operation of RCG's Method II

supply company through 2005, prior to the date of FMCH's acquisition of RCG. The complaint is styled United States of America ex rel. Julie Williams et al. vs. Renal Care Group, Renal Care Group Supply Company and FMCH. Fresenius Medical Care believes that RCG's operation of its Method II supply company was in compliance with applicable law and will defend this litigation vigorously. Fresenius Medical Care will continue to cooperate in the ongoing investigation.

In May 2006, RCG received a subpoena from the U.S. Department of Justice, Southern District of New York, in connection with an investigation into RCG's administration of its stock option programs and practices, including the procedure under which the exercise price was established for certain of the option grants. The subpoena required production of a broad range of documents relating to the RCG stock option program prior to the RCG acquisition. Fresenius Medical Care believes that it has fulfilled all requests for information made by government investigators in this matter, and that RCG complied with applicable laws relating to the issuance of stock options.

In August 2007, the Sheet Metal Workers National Pension Fund filed a complaint in the United States District Court for the Central District of California, Western Division (Los Angeles), alleging that Amgen, Inc., Fresenius Medical Care and Davita, Inc. marketed Amgen's products, Epogen® and Aranesp®, to hemodialysis patients for uses not approved by the FDA and thereby caused a putative class of commercial insurers to pay for unnecessary prescriptions of these products. Although the court dismissed the original allegations against Fresenius Medical Care, it granted plaintiff leave to amend and this litigation was subsequently consolidated with other cases in the Epogen® and Aranesp® Off-Label Marketing and Sales Practices Multidistrict Litigation and assigned to the Central District of California. On July 2, 2008, a consolidated complaint was filed in the Multidistrict Litigation that renews allegations against Fresenius Medical Care and DaVita, in addition to those against Amgen.

On November 27, 2007, the United States District Court for the Western District of Texas (El Paso) unsealed and permitted service of two complaints previously filed under seal by a qui tam relator, a former FMCH local clinic employee (Qui tam is a legal provision under the United States False Claims Act, which allows for private individuals to bring suit on behalf of the U.S. federal government, as far as such individuals believe to have knowledge of presumable fraud committed by third parties). The first complaint alleges that a nephrologist unlawfully employed in his practice an assistant to perform patient care tasks that the assistant was not licensed to perform and that Medicare billings by the nephrologist and FMCH therefore violated the False Claims Act. The second complaint alleges that FMCH unlawfully retaliated against the relator by discharging her from employment constructively. The United States Attorney for the Western District of Texas declined to intervene and to prosecute on behalf of the United States. Counsel for the nephrologist asserted that a criminal investigation of the relator's allegations was in process and therefore moved the Court to stay all activity in the qui tam until the alleged criminal investigation concluded. The Court denied the nephrologist's motion to stay and the litigation is processing.

In the ordinary course of Fresenius Group's operations, the Fresenius Group is subject to litigation, arbitration and investigations relating to various aspects of its business. The Fresenius Group regularly analyzes current information about such claims for probable losses and provides accruals for such matters, including estimated expenses for legal services, as appropriate.

ACCRUED SPECIAL CHARGE OF FRESENIUS MEDICAL CARE FOR LEGAL MATTERS

At December 31, 2001, Fresenius Medical Care recorded a pre-tax special charge of US$ 258 million to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. With the exception of the proposed US$ 115 million (€ 80 million) payment under the Settlement Agreement, all other matters included in the special charge have been resolved. While Fresenius Medical Care believes that its remaining accrual reasonably estimates its currently anticipated costs related to the continued defense and resolution of this matter, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual.

19. FINANCIAL INSTRUMENTS

VALUATION OF FINANCIAL INSTRUMENTS

Fair value of financial instruments

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), which establishes a framework for reporting fair value and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. FASB Staff Position No. 157-2 (FSP 157-2) issued February 12, 2008 delayed application of this Statement for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Fresenius Group adopted this standard, except for those sections affected by FSP 157-2, as of January 1, 2008.

The Fresenius Group holds interest rate swaps and foreign exchange contracts which are carried at fair value initially and on a recurring basis. The fair value of interest rate swaps is calculated by discounting the future cash flows on the basis of the market interest rates applicable for the remaining term of the contract as of the balance sheet date. To determine the fair value of foreign exchange forward contracts, the contracted forward rate is compared to the current forward rate for the remaining term of the contract as of the balance sheet date. The result is then discounted on the basis of the market interest rates prevailing at the balance sheet date for the respective currency. Under FAS 157, the Fresenius Group is now required to take into account credit risks when measuring the fair value of derivative financial instruments. In accordance with these requirements, the credit risk is incorporated in the fair value estimation of interest rate derivatives that are liabilities. For foreign exchange forward derivatives that are liabilities, due to the relatively short length of the contracts, the Fresenius Group did not take into account its credit risk in the fair value estimation. Counterparty credit-risk adjustment is negligible due to the high credit ratings of the counterparties and is therefore not factored into the valuation of derivatives that are assets.

The following table presents the carrying amounts and fair values of the Group's financial instruments as of September 30, 2008 and December 31, 2007, respectively.

	September 30, 2008		December 31, 2007	
in million €	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	333	333	361	361
Assets recognized at carrying amount	2,446	2,446	2,167	2,167
Liabilities recognized at carrying amount	9,036	8,829	6,147	6,118
Derivatives	−35	−35	−16	−16

For the fair value measurement of derivatives, significant other observable inputs are used. Therefore, they are classified as Level-2 in accordance with FAS 157 and were recognized at gross values as other current assets in an amount of € 4 million and other liabilities in an amount of € −39 million.

MARKET RISK

General

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

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

Derivative financial instruments

Foreign exchange risk management

Solely for the purpose of hedging foreign exchange transaction exposures, the Fresenius Group enters into foreign exchange forward contracts and, on a small scale, foreign exchange options. As of September 30, 2008, the notional amounts of foreign exchange contracts totaled € 1,209 million with a fair value of € −9 million. These foreign exchange contracts included foreign exchange options with a nominal value of € 14 million and a market value of € 0 million.

These foreign exchange contracts have been entered into to hedge risks from operational business and in connection with intercompany loans in foreign currency. The predominant part of the foreign exchange forward contracts to hedge risks from operational business was recognized as cash flow hedge.

As of September 30, 2008, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 27 months.

Interest rate risk management

The Fresenius Group enters into interest rate swaps and, on a small scale, into interest rate options in order to hedge against interest rate exposures arising from medium-term and long-term borrowings at variable rates by swapping them into fixed rates. In addition, the Fresenius Group used interest rate swaps to hedge against changes of the fair value of the underlying fixed rate financial liabilities.

The Fresenius Group enters into interest rate swaps that are designated as cash flow hedges. The US dollar interest rate swaps and the Euro interest rate swaps have a notional volume of US$ 4,350 million (€ 3,041 million) and € 403 million and a fair value of US$ −43 million (€ −30 million) and € 4 million, respectively. These interest rate derivatives include interest rate swaps with a notional amount of US$ 800 million and US$ 600 million, respectively, entered into in connection with the acquisition of APP in the third quarter of 2008. These swaps fix the variable interest rate exposure on a large portion of the US dollar denominated loans under the 2008 Senior Credit Agreement (see Note 11, Debt and liabilities from capital lease obligations).

At December 31, 2007, US dollar interest rate swaps designated as fair value hedges at Fresenius Medical Care had a notional volume of US$ 450 million. On February 1, 2008, the fair value hedges of Fresenius Medical Care expired together with the mandatory redemption of the underlying debt. At September 30, 2008, no further fair value hedges existed within the Fresenius Group.

20. SUPPLEMENTARY INFORMATION ON CAPITAL MANAGEMENT

The Fresenius Group has a solid financial profile. As of September 30, 2008, the equity ratio (including minority interest) was 33.56% and the debt ratio 42.70%. The adjusted net debt/EBITDA ratio before one-time items resulting from the acquisition of APP was 3.7.

The aims of the capital management and further information can be found in the consolidated financial statements in the 2007 Annual Report.

The Fresenius Group is covered by both of the two leading rating agencies, Moody's and Standard & Poor's. Following the announcement of the acquisition of APP, Standard & Poor's revised the outlook of the company rating to negative on July 9, 2008. Moody's announced on July 7, 2008 that the rating has been placed on a review for a possible downgrading in connection with the acquisition of APP. On August 28, 2008, Moody's confirmed the Ba1 company rating of Fresenius SE. The outlook has been changed from stable to negative.

The following table shows the company rating of Fresenius SE and the ratings for the major financial liabilities of the Fresenius Group.

	Standard & Poor's	Moody's
Company rating	BB	Ba1
Outlook	negative	negative
Senior Notes Fresenius Finance B.V	BB	Ba1
2008 Senior Credit Agreement	BBB-	Baa3
Fresenius Medical Care 2006 Senior Credit Agreement	BBB-	Baa3

21. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

The cash flow statement is shown on page F-5. The following summaries provide additional information on the consolidated cash flow statement:

in million €	Q1-3/2008	Q1-3/2007
Interest paid	297	317
Income taxes paid	267	247

Cash paid for acquisitions consisted of the following:

in million €	Q1-3/2008	Q1-3/2007
Assets acquired	6,157	321
Liabilities assumed	−2,377	−69
Notes assumed in connection with acquisitions	−764	−11
Cash paid	3,016	241
Cash acquired	−99	−10
Cash paid for acquisitions, net	**2,917**	**231**

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

in million €	Q1-3/2008	Q1-3/2007
Operating cash flow	**736**	**912**
Purchase of property, plant and equipment	−513	−492
Proceeds from sale of property, plant and equipment	17	31
Cash flow before acquisitions and dividends	**240**	**451**
Purchase/sale of shares in related companies, investments and intangible assets, net	−2,875	−186
Cash flow before dividends	**−2,635**	**265**
Dividends paid	**−235**	−191
Free cash flow after dividends	**−2,870**	**74**

22. NOTES ON SEGMENT REPORTING

GENERAL

The segment reporting shown on pages F-8 and F-9 is an integral part of the Notes.

The Fresenius Group has identified the business segments Fresenius Medical Care, Fresenius Kabi, Fresenius Helios and Fresenius Vamed which corresponds to the internal organizational and reporting structures (Management Approach) at September 30, 2008.

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

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

The business segments were identified in accordance with FAS 131, Disclosures about Segments of an Enterprise and Related Information, which defines the segment reporting requirements in the annual financial statements and interim reports with regard to the operating business, product and service businesses and regions. The business segments of the Fresenius Group are as follows:

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats 181,937 patients in its 2,349 own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care to treat critically and chronically ill patients. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

As of January 1, 2008, Fresenius ProServe was replaced by two new business segments — Fresenius Helios and Fresenius Vamed, which so far have formed Fresenius ProServe. Fresenius Helios is a leading German, private hospital operator with 61 facilities. Fresenius Vamed offers engineering and services for hospitals and other health care facilities.

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

NOTES ON THE BUSINESS SEGMENTS

Explanations regarding the notes on the business segments can be found in the consolidated financial statements in the 2007 Annual Report.

Reconciliation of key figures to consolidated earnings

in million €	Q1-3/2008	Q1-3/2007
Total EBITDA of reporting segments	1,574	1,514
Depreciation and amortization	−521	−301
General corporate expenses Corporate/Other (EBITDA)	0	−29
Net interest	−271	−279
Other financial result	−34	0
Total earnings before income taxes and minority interest	**748**	**905**
Total EBIT of reporting segments	1,246	1,220
General corporate expenses Corporate/Other (EBIT)	−193	−36
Net interest	−271	−279
Other financial result	−34	0
Total earnings before income taxes and minority interest	**748**	**905**
Depreciation and amortization of reporting segments	328	294
Depreciation and amortization Corporate/Other	193	7
Total depreciation and amortization	**521**	**301**

Reconciliation of net debt with the consolidated balance sheet

in million €	September 30, 2008	December 31, 2007
Short-term borrowings	616	362
Short-term liabilities and loans from related parties	—	—
Current portion of long-term debt and liabilities from capital lease obligations	374	115
Current portion of Senior Notes	100	0
Current portion of trust preferred securities of Fresenius Medical Care Capital Trusts	0	455
Long-term debt and liabilities from capital lease obligations, less current portion	5,704	2,887
Senior Notes, less current portion	1,344	1,434
Trust preferred securities of Fresenius Medical Care Capital Trusts, less current portion	450	446
Debt	**8,588**	**5,699**
less cash and cash equivalents	333	361
Net debt	**8,255**	**5,338**

23. STOCK OPTIONS

COMPENSATION COST IN CONNECTION WITH THE STOCK OPTION PLANS OF THE FRESENIUS GROUP

In the first three quarters of 2008, the Fresenius Group recognized compensation cost in an amount of € 23 million for stock options granted since 1998. For stock incentive plans which are performance based, the Fresenius Group recognizes compensation cost over the vesting periods, based on the then current market values of the underlying stock.

FAIR VALUE OF STOCK OPTIONS

Fresenius Group's determination of the fair value of grants is based on a binomial option pricing model. To incorporate the effects of expected early exercise in the model, an early exercise of vested options was assumed as soon as the share price exceeds 150% of the exercise price.

The weighted-average assumptions for the calculation of the fair value of grants under the Fresenius SE Stock Option Plan 2008 (2008 Plan) made during the year 2008 are as follows:

	2008
Expected dividend yield	1.63 %
Risk-free interest rate	4.20%
Expected volatility	27.82%
Expected life of options	7 years
Exercise price per option in €	53.56

FRESENIUS SE STOCK OPTION PLANS

On September 30, 2008, Fresenius SE had three stock option plans in place — the stock option based plan of 1998 (1998 Plan), the 2003 Plan which is based on convertible bonds and the new stock option based plan of 2008. The latter is currently the only plan under which stock options can be granted.

Fresenius SE Stock Option Plan 2008

On May 21, 2008, Fresenius SE's Annual General Meeting has resolved upon the Fresenius SE Stock Option Plan 2008 (2008 Plan) by authorizing the granting of subscription rights to members of the Management Board and managerial employees of the Company and affiliated companies. To fulfill the

subscription rights under the 2008 Plan, the subscribed capital of Fresenius SE was increased conditionally by up to € 6.2 million through the issue of up to 3.1 million no par value bearer ordinary shares and 3.1 million no par value bearer preference shares.

Under the 2008 Plan, up to 6.2 million options can be issued, which carry entitlement to obtain 3.1 million ordinary shares and 3.1 million preference shares. Up to 1.2 million options are designated for members of the Management Board of Fresenius SE, up to 3.2 million options are designated for members of the management of directly or indirectly affiliated companies (except for Fresenius Medical Care) and up to 1.8 million options are designated for managerial staff members of Fresenius SE and its affiliated companies (except for Fresenius Medical Care). With respect to the members of Fresenius SE's Management Board, the Supervisory Board has sole authority to grant stock options and administer the 2008 Plan. The Management Board of Fresenius SE has such authority with respect to all other participants in the 2008 Plan. Options under the 2008 Plan can be granted in five tranches with effect as of the first bank working day in July and/or the first bank working day in December. The exercise price of options shall be the average closing price of Fresenius SE's ordinary shares and preference shares, respectively, on the Frankfurt Stock Exchange during the 30 calendar days immediately prior to each grant date. Options granted have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is mandatorily subject to the condition, in each case, that the annual success target within the three-year vesting period is achieved. For each such year, the success target is achieved if the consolidated net income of the Fresenius Group, adjusted for extraordinary effects, has increased by at least 8% compared to the respective adjusted net income of the previous fiscal year. For each year in which the success target has not been met, one-third of the options granted shall forfeit. The adjusted net income shall be calculated on the basis of the calculation method of the accounting principles according to US GAAP. For the purposes of the 2008 Plan, the adjusted net income is determined and will be verified bindingly by Fresenius SE's auditor during the audit of the consolidated financial statements. Upon exercise of vested options, Fresenius SE has the right to grant treasury shares or a cash payment in lieu of increasing capital by the issuance of new shares. If all conditions are fulfilled, stock options may be exercised throughout the year with the exception of certain pre-determined black-out periods.

Transactions during the first three quarters of 2008

In the first three quarters of 2008, Fresenius SE awarded 997,572 stock options under the 2008 plan, including 180,600 to members of the Management Board of Fresenius SE, at a weighted-average exercise price of € 53.56, a weighted-average fair value of € 15.80 each and a total fair value of € 16 million, which will be amortized evenly over three years.

During the first three quarters of 2008, Fresenius SE received € 13 million from the exercise of 475,152 stock options.

At September 30, 2008, out of 647,658 outstanding and exercisable options issued under the 1998 Plan, 25,800 were held by the members of the Fresenius SE Management Board. The number of outstanding stock options issued under the 2003 Plan was 3,020,832, of which 1,263,008 were exercisable. The members of the Fresenius SE Management Board held 514,500 options.

Stock option transactions are summarized as follows:

Options for ordinary shares	Number of options	Weighted-average exercise price in €
Balance at December 31, 2007	**2,121,996**	**34.93**
granted	498,786	54.69
exercised	237,576	26.33
forfeited	50,175	34.86
Balance at September 30, 2008	**2,333,031**	**40.04**

Options for preference shares	Number of options	Weighted-average exercise price in €
Balance at December 31, 2007	**2,121,996**	**35.74**
granted	498,786	52.43
exercised	237,576	27.77
forfeited	50,175	36.16
Balance at September 30, 2008	**2,333,031**	**40.12**

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at September 30, 2008:

	Number of options	Average remaining contractual life in years	Weighted-average exercise price in €
Options for ordinary shares	955,333	5.0	26.01
Options for preference shares	955,333	5.0	27.09

At September 30, 2008, total unrecognized compensation costs related to non-vested options granted under the 2003 Plan and the 2008 Plan were € 26 million. These costs are expected to be recognized over a weighted-average period of 2.4 years.

Fresenius Medical Care Stock Option Plans

On July 28, 2008, Fresenius Medical Care awarded 2,499,021 options under the Fresenius Medical Care AG&Co. KGaA Stock Option Plan 2006, including 398,400 to members of the Management Board of Fresenius Medical Care Management AG, Fresenius Medical Care's general partner, at an exercise price of € 35.49, a fair value of € 9.80 each and a total fair value of € 24 million which will be amortized over the three year vesting period.

24. RELATED PARTY TRANSACTIONS

Dr. Gerhard Rupprecht, a member of the Supervisory Board of Fresenius SE, is a member of the management board of Allianz SE and the chairman of the management board of Allianz Deutschland AG. Dr. Gerd Krick, chairman of the Supervisory Board of Fresenius SE, is a member of the supervisory board of Allianz Private Krankenversicherungs-AG. In the first three quarters of 2008, the Fresenius Group paid € 5 million for insurance premiums to Allianz. Furthermore, the Fresenius Group paid € 2 million for services in connection with the commitment relating to the financing for the APP acquisition to Dresdner Bank, a wholly-owned subsidiary of Allianz. Moreover, the Fresenius Group keeps business accounts under customary conditions with Dresdner Bank.

Dr. Dieter Schenk, deputy chairman of the Supervisory Board of Fresenius SE, is a partner in the law firm Nörr Stiefenhofer Lutz that provides legal services to the Fresenius Group. In the first three quarters of 2008, the Fresenius Group paid this law firm €1 million for services rendered.

Prof. Dr. h. c. Roland Berger, a member of the Supervisory Board of Fresenius SE, is the chairman of the supervisory board of Roland Berger Strategy Consultants. In the first three quarters of 2008, the Fresenius Group paid this company € 2 million for consulting services rendered.

Klaus-Peter Müller, a member of the Supervisory Board of Fresenius SE, is the chairman of the supervisory board of Commerzbank AG. In the first three quarters of 2008, the Fresenius Group paid € 2 million for services in connection with the commitment relating to the financing for the APP acquisition to Commerzbank. Furthermore, the Fresenius Group keeps business accounts with Commerzbank under customary conditions.

25. SUBSEQUENT EVENTS

There were no significant changes in the Group position or environment sector since the end of the first three quarters of 2008. At present, the Fresenius Group is not planning to carry out any significant changes in its structure, administration or legal form or in the area of personnel.

26. CORPORATE GOVERNANCE

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

Consolidated Financial Statements of Fresenius SE for 2007
(US-GAAP)

CONSOLIDATED STATEMENT OF INCOME

January 1 to December 31, in million €	Note	2007	2006
Sales	3	11,358	10,777
Cost of sales	4	−7,680	−7,351
Gross profit		**3,678**	**3,426**
Selling, general and administrative expenses	7	−1,885	−1,815
Research and development expenses		−184	−167
Operating income (EBIT)		**1,609**	**1,444**
Interest income	8	27	23
Interest expenses	8	−395	−418
Earnings before income taxes and minority interest		**1,241**	**1,049**
Income taxes	9	−448	−414
Minority interest	23	−383	−305
Net income		**410**	**330**
Basic earnings per ordinary share in €	**10**	**2.64**	**2.15**
Fully diluted earnings per ordinary share in €	**10**	**2.61**	**2.12**
Basic earnings per preference share in €	**10**	**2.65**	**2.16**
Fully diluted earnings per preference share in €	**10**	**2.62**	**2.13**

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

CONSOLIDATED BALANCE SHEET

ASSETS

	as of December 31, in million €	Note	2007	2006
	Cash and cash equivalents	11	361	261
	Trade accounts receivable, less allowance for doubtful accounts	12	2,159	2,088
	Accounts receivable from and loans to related parties		8	8
	Inventories	13	875	761
	Prepaid expenses and other current assets	14	603	730
	Deferred taxes	9	285	258
I.	**Total current assets**		**4,291**	**4,106**
	Property, plant and equipment	15	2,971	2,712
	Goodwill	16	7,094	7,107
	Other intangible assets	16	546	548
	Other non-current assets	14	290	378
	Deferred taxes	9	132	173
II.	**Total non-current assets**		**11,033**	**10,918**
	Total assets		**15,324**	**15,024**

LIABILITIES AND SHAREHOLDERS' EQUITY

as of December 31, in million €		Note	2007	2006
	Trade accounts payable		485	464
	Short-term accounts payable to related parties		5	2
	Short-term accrued expenses and other short-term liabilities	17,18	1,897	1,808
	Short-term borrowings	19	362	330
	Short-term loans from related parties		—	1
	Current portion of long-term debt and liabilities from capital lease obligations	19	115	265
	Current portion of trust preferred securities of Fresenius Medical Care Capital Trusts	22	455	0
	Short-term accruals for income taxes		158	159
	Deferred taxes	9	26	29
A.	**Total short-term liabilities**		**3,503**	**3,058**
	Long-term debt and liabilities from capital lease obligations, less current portion	19	2,887	3,230
	Senior Notes	20	1,434	1,100
	Long-term liabilities and loans from related parties		0	—
	Long-term accrued expenses and other long-term liabilities	17, 18	326	300
	Trust preferred securities of Fresenius Medical Care Capital Trusts, less current portion	22	446	946
	Pension liabilities	21	270	310
	Long-term accruals for income taxes		87	0
	Deferred taxes	9	312	352
B.	**Total long-term liabilities**		**5,762**	**6,238**
I.	**Total liabilities**		**9,265**	**9,296**
II.	**Minority interest**	**23**	**2,644**	**2,560**
	Subscribed capital	24	155	154
	Capital reserve	24	1,739	1,702
	Other reserves	24	1,636	1,315
	Accumulated other comprehensive income (loss)	25	−115	−3
III.	**Total shareholders' equity**		**3,415**	**3,168**
	Total liabilities and shareholders' equity		**15,324**	**15,024**

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

CONSOLIDATED CASH FLOW STATEMENT

January 1 to December 31, in million €	Note	2007	2006
Cash provided by/used for operating activities			
Net income		410	330
Minority interest	23	383	305
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities			
Cash inflow from hedging		—	9
Depreciation and amortization	14, 15, 16	421	399
Loss on sale of investments		0	2
Change in deterred taxes	9	12	77
Gain/Loss on sale of fixed assets		−1	14
Change in assets and labilities, net of amounts from businesses acquired or disposed of			
Change in trade accounts receivable, net	12	−112	−86
Change in inventories	13	−125	−49
Change in prepaid expenses and other current and non-current assets	14	76	−101
Change in accounts receivable from/payable to related parties		−1	4
Change in trade accounts payable, accruals and other short-term and long-term liabilities		152	187
Change in accruals for income taxes		81	13
Tax payments related to divestitures and acquisitions		0	−52
Cash provided by operating activities		**1,296**	**1,052**
Cash provided by/used for investing activities			
Purchase of property, plant and equipment		−704	−589
Proceeds from the sale of property, plant and equipment		38	18
Acquisitions and investments, net of cash acquired	2, 29	−444	−3,657
Proceeds from divestitures	2	52	438
Cash used for investing activities		**−1,058**	**−3,790**

January 1 to December 31, in million €	Note	2007	2006
Cash provided by/used for financing activities			
Proceeds from short-term borrowings	19	175	54
Repayments of short-term borrowings	19	−108	−70
Repayments of borrowings from ralated parties		0	−1
Proceeds from long-term debt and liabilities from capital lease obligations	19	224	3,323
Repayments of long-term debt and liabilities from capital lease obligations	19	−495	−1,514
Proceeds from liabilities from Senior Notes	20	353	978
Repayments of liabilities from Senior Notes	20	0	−314
Changes of accounts receivable facility	19	−132	137
Proceeds from the exercise of stock options	31	55	75
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares		0	258
Dividends paid		−205	−171
Change in minority interest	23	—	1
Exchange rate effect due to corporate financing		11	4
Cash provided by/used for financing activities		**−122**	**2,760**
Effect of exchange rate changes on cash and cash equivalents		**−16**	**−13**
Net increase in cash and cash equivalents		**100**	**9**
Cash and cash equivalents at the beginning of the year	**11**	**261**	**252**
Cash and cash equivalents at the end of the year	**11**	**361**	**261**

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Note	Ordinary shares		Preference shares		Subscribed capital	
		Number of shares (thousand)	Amount (thousand €)	Number of shares (thousand)	Amount (thousand €)	Amount (thousand €)	Amount (thousand €)
As of December 31, 2005		**76,083**	**76,083**	**76,083**	**76,083**	**152,166**	**152**
Issuance of bearer ordinary and bearer preference shares	24	530	530	530	530	1,060	1
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares							
Proceeds from the exercise of stock options	31	564	564	564	564	1,128	1
Compensation expense related to stock options	31						
Dividends paid	24						
Comprehensive income (loss)							
Net income							
Other comprehensive income (loss) related to							
Cash flow hedges	25,27						
Foreign currency translation	25						
Adjustments relating to pension obligation	21,25						
Comprehensive income (loss)							
As of December 31, 2006		**77,177**	**77,177**	**77,177**	**77,177**	**154,354**	**154**
Proceeds from the exercise of stock options	31	405	405	405	405	810	1
Compensation expense related to stock options	31						
Dividends paid	24						
Comprehensive income (loss)							
Net income							
Other comprehensive income (loss) related to							
Cash flow hedges	25,27						
Foreign currency translation	25						
Adjustments relating to pension obligation	21,25						
Comprehensive income (loss)							
As of December 31, 2007		**77,582**	**77,582**	**77,582**	**77,582**	**155,164**	**155**

	Note	Reserves		Other comprehensive income (loss)			
		Capital reserve (million €)	Other reserves (million €)	Foreign currency translation (million €)	Cash flow hedges (million €)	Pensions (million €)	Total (million €)
As of December 31, 2005		**1,524**	**1,061**	**161**	**14**	**−71**	**2,841**
Issuance of bearer ordinary and bearer preference shares	24	41					42
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares		94					94
Proceeds from the exercise of stock options	31	31					32
Compensation expense related to stock options	31	12					12
Dividends paid	24		−76				−76
Comprehensive income (loss)							
Net income			330				330
Other comprehensive income (loss) related to							
Cash flow hedges	25, 27				16		16
Foreign currency translation	25			−127			−127
Adjustments relating to pension obligation	21, 25					4	4
Comprehensive income (loss)			330	−127	16	4	223
As of December 31, 2006		**1,702**	**1,315**	**34**	**30**	**−67**	**3,168**
Proceeds from the exercise of stock options	31	20					21
Compensation expense related to stock options	31	17					17
Dividends paid	24		−89				−89
Comprehensive income (loss)							
Net income			410				410
Other comprehensive income (loss) related to							
Cash flow hedges	25, 27				−39		−39
Foreign currency translation	25			−120			−120
Adjustments relating to pension obligation	21, 25					47	47
Comprehensive income (loss)			410	−120	−39	47	298
As of December 31, 2007		**1,739**	**1,636**	**−86**	**−9**	**−20**	**3,415**

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

SEGMENT REPORTING

by business segment

in million €	Fresenius Medical Care			Fresenius Kabi			Fresenius ProServe			thereof Fresenius Helios	thereof Fresenius Vamed	Corporate/Other			Fresenius Group		
	2007	2006	Change	2007	2006	Change	2007	2006	Change	2007	2007	2007	2006	Change	2007	2006	Change
Sales	7,093	6,768	5%	2,030	1,893	7%	2,268	2,155	5%	1,841	408	−33	−39	15%	11,358	10,777	5%
thereof contribution to consolidated sales	7,089	6,763	5%	1,986	1,853	7%	2,264	2,145	6%	1,841	408	19	16	19%	11,358	10,777	5%
thereof intercompany sales	4	5	−20%	44	40	10%	4	10	−60%	0	0	−52	−55	5%	0	0	
contribution to consolidated sales	62%	63%		18%	17%		20%	20%		16%	4%	0%	0%		100%	100%	
EBITDA	1,418	1,295	9%	408	370	10%	250	218	15%	220	31	−46	−40	−15%	2,030	1,843	10%
Depreciation and amortization	265	245	8%	76	79	−4%	69	64	8%	65	5	11	11	0%	421	399	6%
EBIT	1,153	1,050	10%	332	291	14%	181	154	18%	155	26	−57	−51	−12%	1,609	1,444	11%
Net interest	−271	−280	3%	−49	−70	30%	−47	−40	−18%	−53	6	−1	−5	80%	−368	−395	7%
Net income	523	427	22%	183	143	28%	81	75	8%	64	23	−377	−315	−20%	410	330	24%
Operating cash flow	875	723	21%	179	202	−11%	274	176	56%	202	72	−32	−49	35%	1,296	1,052	23%
Cash flow before acquisitions and dividends	475	365	30%	67	101	−34%	133	73	82%	65	68	−45	−58	22%	630	481	31%
Total assets	9,626	9,905	−3%	2,310	1,965	18%	3,329	3,108	7%	3,072	390	59	46	28%	15,324	15,024	2%
Debt	3,833	4,236	−10%	1,121	880	27%	1,045	932	12%	1,136	0	−300	−176	−70%	5,699	5,872	−3%
Capital expenditure	423	372	14%	116	113	3%	153	106	44%	149	4	13	9	44%	705	600	18%
Acquisitions	257	3,561	−93%	178	14	—	175	139	26%	174	6	3	0	—	613	3,714	−83%
Research and development expenses	49	41	20%	86	77	12%	1	1	0%	1	0	48	48	0%	184	167	10%
Employees (per capita on balance sheet (date))	64,662	59,996	8%	16,964	15,591	9%	31,815	28,615	11%	30,043	1,767	740	670	10%	114,181	104,872	9%
Key figures																	
EBITDA margin	20.0%	19.1%		20.1%	19.5%		11.0%	10.1%		12.0%	7.6%				17.9%	17.1%	
EBIT margin	16.3%	15.5%		16.4%	15.4%		8.0%	7.1%		8.4%	6.4%				14.2%	13.4%	
Depreciation and amortization in % of sales	3.7%	3.6%		3.7%	4.2%		3.0%	3.0%		3.5%	1.2%				3.7%	3.7%	
Operating cash flow in % of sales	12.3%	10.7%		8.8%	10.7%		12.1%	8.2%		11.0%	17.6%				11.4%	9.8%	
ROOA	12.5%	11.3%[1]		17.7%	17.3%		6.5%	5.6%		5.6%	22.8%				11.4%	10.4%[1]	

(1) Calculation is based on the pro forma EBIT excluding the gain on the sale of dialysis clinics of Fresenius Medical Care

The segment reporting is an integral part of the notes.

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

SEGMENT REPORTING

by region

in million €	Europe			North America			Asia-Pacific			Latin America			Africa			Fresenius Group		
	2007	2006	Change	2007	2006	Change	2007	2006	Change	2007	2006	Change	2007	2006	Change	2007	2006	Change
Sales	4,852	4,536	7%	4,932	4,862	1%	802	696	15%	488	452	8%	284	231	23%	11,358	10,777	5%
contribution to consolidated sales	43%	43%		43%	45%		7%	6%		4%	4%		3%	2%		100%	100%	
EBIT	557	497	12%	843	772	9%	119	103	16%	52	48	8%	38	24	58%	1,609	1,444	11%
Depreciation and amortization	219	213	3%	162	147	10%	23	20	15%	14	16	−13%	3	3	0%	421	399	6%
Total assets	6,726	6,256	8%	7,354	7,691	−4%	720	573	26%	450	446	1%	74	58	28%	15,324	15,024	2%
Capital expenditure	381	288	32%	245	245	0%	34	25	36%	39	38	3%	6	4	50%	705	600	18%
Acquisitions	328	150	119%	194	3,544	−95%	72	4	—	17	13	31%	2	3	−33%	613	3,714	−83%
Employees (per capita on balance sheet date)	56,830	52,062	9%	40,076	38,597	4%	6,917	4,968	39%	9,481	8,499	12%	877	746	18%	114,181	104,872	9%

The segment reporting is an integral part of the notes.

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

GENERAL NOTES

1. PRINCIPLES

I. GROUP STRUCTURE

Fresenius is a worldwide operating health care group with products and services for dialysis, the hospital and the medical care of patients at home. Further areas of activity are hospital operations as well as engineering and services for hospitals and other health care facilities. In addition to the activities of Fresenius SE, the operating activities were split into the following legally-independent business segments (subgroups) in the fiscal year 2007:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats 173,863 patients in its 2,238 own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care to treat critically and chronically ill patients. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe is a leading German, private hospital operator with 60 facilities. Moreover, the company offers engineering and services for hospitals and other health care facilities. As of January 1, 2008, Fresenius ProServe was replaced by two new business segments — Fresenius Helios and Fresenius Vamed, which so far have formed Fresenius ProServe. Fresenius Helios is focused on hospital operations. Fresenius Vamed offers engineering and services for hospitals and other health care facilities.

Fresenius SE owned 36.41% of the ordinary voting shares of Fresenius Medical Care AG&Co.KGaA (FMC-AG&Co.KGaA) and 35.95% of the total subscribed capital of FMC-AG&Co.KGaA at the end of the fiscal year 2007. Fresenius Medical Care Management AG (FMC Management AG), the general partner of FMC-AG & Co. KGaA, is a wholly-owned subsidiary of Fresenius SE. Due to this structure, FMC-AG & Co. KGaA is fully consolidated in the consolidated financial statements of the Fresenius Group. Fresenius SE 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, 2007. In addition, Fresenius SE holds interests in companies with holding functions regarding real estate, financing and insurance, as well as in Fresenius Netcare GmbH which offers services in the field of information technology and in Fresenius Biotech Beteiligungs GmbH.

The reporting currency in the Fresenius Group is the euro. In order to make the presentation clearer, amounts are mostly shown in million euros. Amounts which are lower than € 1 million after they have been rounded are marked with "— ".

II. CONVERSION OF FRESENIUS AG INTO A EUROPEAN COMPANY (SE) AND NEW DIVISION OF THE SUBSCRIBED CAPITAL

On December 4, 2006, at the Extraordinary General Meeting, Fresenius AG's shareholders approved the proposal to convert the Company's legal form from a German stock corporation (Aktiengesellschaft) into a European Company (Societas Europaea — SE). The conversion became effective on July 13, 2007 upon the registration in the commercial register after the successful completion of the procedure for the involvement of the employees. Fresenius AG's name after the conversion is Fresenius SE. The conversion of Fresenius AG into a SE neither leads to a liquidation of the Company nor to the formation of a new legal entity. The Company's corporate structure and management organization as well as the interests of the shareholders in the Company continue to exist unchanged because of the identity of the legal entity. In the Articles of Association

of Fresenius SE, the existing two-tier system consisting of Management Board and Supervisory Board will remain unchanged. The Supervisory Board of Fresenius SE continues to have twelve members.

Furthermore, Fresenius AG's shareholders approved at the Extraordinary General Meeting to conduct a new division of the subscribed capital of Fresenius AG (share split) in connection with a capital increase from the Company's funds without the issuance of new shares. As a result, the number of ordinary shares and preference shares issued tripled. The share split in connection with an increase of the subscribed capital became effective upon the registration in the commercial register on January 24, 2007. Before the registration in the commercial register, the subscribed capital of Fresenius AG amounted to € 131,715,307.52 and was divided in 25,725,646 ordinary shares and 25,725,646 preference shares. Through a conversion of capital reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided in 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is € 1.00 per share. Following the share split, every holder of an ordinary share holds three ordinary shares and every holder of a preference share holds three preference shares.

III. BASIS OF PRESENTATION

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

Since January 1, 2005, Fresenius SE as a stock exchange listed company with a domicile in a member state of the European Union fulfills its obligation to prepare and publish the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applying Section 315a of the German Commercial Code (HGB). Simultaneously, the Fresenius Group voluntarily prepares and publishes the consolidated financial statements in accordance with US GAAP.

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

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

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

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

Capital consolidation is performed according to FAS 141 (Business Combinations) and FAS 142 (Goodwill and Other Intangible Assets) by offsetting investments in subsidiaries against the underlying equity at the date of acquisition. The identifiable assets and liabilities of subsidiaries are recognized at their fair values. Any remaining debit balance is recognized as goodwill and is tested at least once a year for impairment.

The equity method is performed according to APB No. 18 (The Equity Method of Accounting for Investments in Common Stock).

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

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

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

Minority interest comprises the interest of minority shareholders in the consolidated equity of group entities. Profits and losses attributable to the minority shareholders are separately disclosed in the statement of income.

b) Composition of the Group

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

Fresenius Medical Care enters into various arrangements with certain dialysis clinics to provide management services, financing and product supply. Clinics that are VIEs under FIN 46R (Consolidation of Variable Interest Entities (revised)) in which Fresenius Medical Care is determined to be the primary beneficiary generated approximately € 70 million (US$96 million) and € 61 million (US$77 million) in revenue in 2007 and 2006, respectively. The interest held by the other shareholders in these consolidated VIEs is reported as minority interest in the consolidated balance sheet at December 31, 2007.

Fresenius Vamed participates in long-term project entities which are set up for long-term defined periods of time and for the specific purpose of constructing and operating thermal centers. Some of these project entities qualify as VIEs, in which Fresenius Vamed is not the primary beneficiary. The project entities generated approximately €43 million in annual revenue in 2007. From today's perspective and due to the contractual situation, Fresenius Vamed is not exposed to any material risk of loss from these VIEs.

The consolidated financial statements of 2007 include, in addition to Fresenius SE, 133 (2006: 123) German and 854 (2006: 838) foreign companies.

The composition of the Group changed as follows:

	Germany	Abroad	Total
December 31, 2006	**123**	**838**	**961**
Additions	16	56	72
of which newly founded	2	8	10
of which acquired	9	38	47
Disposals	6	40	46
of which no longer consolidated	4	21	25
of which merged	2	19	21
December 31, 2007	**133**	**854**	**987**

18 companies (2006: 13) were accounted for under the equity method.

The complete list of the investments of Fresenius SE, registered office in Bad Homburg v. d. H., will be submitted to the electronic Federal Gazette and the electronic companies register.

In 2007, the following fully consolidated German subsidiaries of the Fresenius Group applied the exemption provided in Section 264 (3) of the German Commercial Code (HGB).

Name of the company	Registered office
Fresenius Kabi	
Fresenius HemoCare GmbH	Bad Homburg v. d. H.
Fresenius HemoCare Beteiligungs GmbH	Frankfurt am Main
Fresenius HemoCare Deutschland GmbH	Bad Homburg v. d. H.
Fresenius Kabi AG	Frankfurt am Main
Fresenius Kabi Deutschland GmbH	Bad Homburg v. d. H.
Hosped GmbH	Friedberg
MC MedizintechnikGrnbH	Alzenau
V. Krütten Medizinische Einmalgeräte GmbH	Idstein
Fresenius Helios	
HELIOS Agnes Karll Krankenhaus GmbH	Bad Schwartau
HELIOS Care GmbH	Berlin
HELIOS Catering GmbH	Berlin
HELIOS Kids in Pflege GmbH	Geesthacht
HELIOS Klinik Dresden-Wachwitz GmbH	Dresden
HELIOS Klinik Geesthacht GmbH	Geesthacht
HELIOS Kliniken GmbH	Berlin
HELIOS Kliniken Leipziger Land GmbH	Borna
HELIOS Klinikum Bad Saarow GmbH	Bad Saarow
HELIOS Klinikum Erfurt GmbH	Erfurt
HELIOS Pflege Dresden GmbH	Dresden
HELIOS Privatkliniken GmbH	Berlin
HELIOS Schlossbergklinik Oberstaufen GmbH	Oberstaufen
HELIOS Service GmbH	Berlin
HELIOS Vogtland-Klinikum Plauen GmbH	Plauen
HUMAINE Kliniken GmbH	Berlin
Senioren- und Pflegeheim Erfurt GmbH	Erfurt
St. Josefs-Hospital GmbH	Bochum
Corporate/Other	
Fresenius Biotech GmbH	Gräfelfing
Fresenius Biotech Beteiligungs GmbH	Frankfurt am Main
Fresenius Netcare GmbH	Berlin
Fresenius ProServe GmbH	Bad Homburg v. d. H.
Fresenius ProServe Beteiligungs GmbH	Bad Homburg v. d. H.

c) Classifications

Certain items in the prior year's consolidated financial statements have been reclassified to conform with the current year's presentation. The calculation of earnings per share (see Note 10, Earnings per share) has been adjusted due to the share split of Fresenius SE (formerly: Fresenius AG) recorded in the commercial register on January 24, 2007 for the increased number of shares in the fiscal year 2006.

d) Sales recognition policy

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

Product sales are recognized when title to the product passes to the customers, either at the time of shipment, upon receipt by the customer or upon any other terms that clearly define passage of title. As product

returns are not typical, no return allowances are established. In the event a return is required, the appropriate reductions to sales, cost of sales and accounts receivable are made. Sales are stated net of discounts, allowances and rebates.

In the business segment Fresenius Vamed, sales are recognized for long-term production contracts depending on the individual agreement and in accordance with the percentage of completion (PoC) 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, milestones laid down in the contract or the percentage of completion. Profits are only recognized when the outcome of a production contract accounted for using the PoC method can be measured reliably.

Any tax assessed by a governmental authority that is incurred as a result of a revenue transaction is reported on a net basis, i.e. excluded from revenues.

e) Government grants

Public sector grants are not recognized until there is reasonable assurance that the respective conditions are met and the grants will be received. At first, the grant is recorded as a liability and as soon as the asset is acquired it is offset against the acquisition costs. Expense-related grants are recognized as income in the periods in which related costs occur.

f) Research and development expenses

Research is the original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the technical and commercial implementation of research findings. Research and development costs are expensed as incurred.

g) Impairment

The Fresenius Group reviews the carrying amount of its property, plant and equipment, its intangible assets with definite useful lives as well as other non-current assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in accordance with FAS 144 (Accounting for the Impairment or Disposal of Long-Lived Assets). Recoverability of these assets is measured by a comparison of the carrying amount of an asset to the future net cash flow directly associated with the asset. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying amount exceeds the fair value of the asset. The Fresenius Group uses a discounted cash flow approach or other methods, if appropriate, to assess fair value. In accordance with FAS 144, long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell and depreciation is ceased.

h) Capitalized Interest

The Fresenius Group includes capitalized interest as part of the cost of the asset if they are directly attributable to the acquisition, construction or manufacture of qualifying assets in accordance with FAS 34 (Capitalization of Interest Costs).

For the fiscal years 2007 and 2006, interest of € 6 million and € 5 million, based on an average interest rate of 5.60% and 5.58%, respectively, was recognized as a component of the cost of assets.

i) Deferred taxes

In accordance with FAS 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. Furthermore, deferred taxes are recognized on consolidation procedures affecting net income. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of existing tax losses available for carryforward where future recoverability is more likely than not.

Deferred taxes are computed using enacted or adopted tax rates in the relevant national jurisdictions when the amounts are recovered. Tax rates, which will be valid in the future, but are not adopted till the balance sheet date, are not considered.

The recoverability of the carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. The reduction is reversed to the date and extent that it becomes probable that sufficient taxable profit will be available.

j) Earnings per ordinary share and preference share

Basic earnings per ordinary share and preference share for all years presented have been calculated in accordance with FAS 128 (Earnings per Share) using the two-class method based upon the weighted-average number of ordinary and preference shares outstanding. Basic earnings per ordinary share is computed by dividing net income less preference amounts by the weighted-average number of ordinary shares and preference shares outstanding during the year. Basic earnings per preference share is derived by adding the preference per preference share to the basic earnings per ordinary share. Diluted earnings per share include the effect of all potentially dilutive instruments on ordinary shares and preference shares that would have been outstanding during the fiscal year. The awards granted under Fresenius' and Fresenius Medical Care's stock option plans can result in a dilutive effect.

k) Cash and cash equivalents

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

l) Trade accounts receivable

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

m) Inventories

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

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

n) Property, plant and equipment

Property, plant and equipment are stated at acquisition and manufacturing cost less accumulated depreciation. Significant improvements are capitalized; repair and maintenance costs that do not extend the useful lives of the assets are charged to expense as incurred. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 4 to 50 years for buildings and improvements (with a weighted-average life of 15 years) and 3 to 20 years for machinery and equipment (with a weighted-average life of 10 years).

o) Intangible assets with definite useful lives

In accordance with FAS 142 (Goodwill and Other Intangible Assets), intangible assets with definite useful lives, for example non-compete agreements and technology, are amortized using the straight-line

method over their respective useful lives to their residual values and reviewed for impairment in accordance with FAS 144 (Accounting for Impairment or Disposal of Long-Lived Assets) (see Note 1.IV.g, Impairment). Non-compete agreements with definite useful lives have useful lives ranging from 7 to 25 years with an average useful life of 8 years. Technology has a useful live of 15 years. All other intangible assets are amortized over their individual estimated useful lives between 2 and 40 years.

Impairment losses are recognized in the event of losses in value of a lasting nature.

p) Goodwill and other intangible assets with indefinite useful lives

Intangible assets such as tradenames and certain qualified management contracts acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by FAS 141 (Business Combinations). They are recorded at acquisition costs. Goodwill and intangible assets with indefinite useful lives are not amortized but tested for impairment annually or when an event becomes known that could trigger an impairment (Impairment Test).

To perform the annual impairment test of goodwill, the Fresenius Group identified several reporting units in accordance with FAS 142 and determined the carrying amount of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. At least once a year, the Fresenius Group compares the fair value of each reporting unit to the reporting unit's carrying amount. The fair value of a reporting unit is determined using a discounted cash flow approach based upon the cash flow expected to be generated by the reporting unit. In case that the fair value of the reporting unit is less than its carrying amount the difference is at first recorded as an impairment of the fair value of the goodwill.

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

The recoverability of goodwill and other separable intangible assets with indefinite useful lives recorded in the Group's consolidated balance sheet was verified. As a result, the Fresenius Group did not record any impairment losses in 2007 and 2006.

q) Leases

Leased assets assigned to the Fresenius Group based on the risk and rewards approach (finance leases) are recognized as property, plant and equipment in accordance with FAS 13 (Accounting for Leases) and measured on receipt date at their present values of lease payments as long as their fair values are not lower. Leased assets are depreciated in straight-line over their useful lives. If there is doubt as to whether title to the asset passes at a later stage and there is no opportune purchase option the asset is depreciated over the lease term, if this is shorter. An impairment loss is recognized if the recoverable amount is lower than the amortized cost of the leased asset.

Finance lease liabilities are measured at the present value of the future lease payments and are recognized as financial liability.

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

r) Financial instruments

The Fresenius Group classifies its financial instruments as follows: cash and cash equivalents, assets recognized at carrying amount, liabilities recognized at carrying amount and derivatives. The class of assets recognized at carrying amount corresponds to the balance sheet item trade accounts receivable (including intercompany receivables). Liabilities recognized at carrying amount comprise trade accounts payable, short-term accounts payable to related parties, short-term borrowings (including intercompany borrowings), the current and non-current portion of debt and liabilities from capital lease obligations, Senior Notes and the

current and non-current portion of trust preferred securities of the Fresenius Medical Care Capital Trusts (without capital lease obligations).

In accordance with FAS 133 (Accounting for Derivative Instruments and Hedging Activities), derivative financial instruments which primarily include foreign currency forward contracts and interest rate swaps are recognized as assets or liabilities at fair value in the balance sheet. Changes in the fair value of derivative financial instruments classified as fair value hedges and in the corresponding underlyings are recognized periodically in earnings. The effective portion of changes in fair value of cash flow hedges is recognized in accumulated other comprehensive income (loss) in shareholders' equity (see Note 27, Financial instruments). The non-effective portion of cash flow hedges is recognized in earnings immediately.

s) Liabilities

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

t) Legal contingencies

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

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

u) Other accrued expenses

In accordance with FAS 5 (Accounting for Contingencies), accruals for taxes and other obligations are recognized when there is a present obligation to a third party arising from past events, it is probable that the obligation will be settled in the future and the amount can be reliably estimated.

Tax accruals include obligations for the current year and for prior years.

v) Pension liabilities and similar obligations

The Fresenius Group recognizes the underfunded status of its defined benefit plans, measured as the difference between the benefit obligation and plan assets at fair value, as a liability as of December 31, 2007. Changes in the funded status of a plan, net of tax, resulting from actuarial gains or losses, prior service costs or costs that are not recognized as components of the net periodic benefit cost, will be recognized through accumulated other comprehensive income (loss) in the year in which they occur. Actuarial gains or losses and prior service costs are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of the standards.

w) Debt issuance costs

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

x) Stock option plans

Effective January 1, 2006, the Fresenius Group adopted the provisions of Statement of Financial Accounting Standard No. 123R (revised 2004), Share-Based Payment (FAS 123(R)) using the modified prospective transition method. Under this transition method, compensation cost recognized in 2006 and in

2007 include applicable amounts of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of FAS 123 and previously presented in Fresenius Group's pro forma footnote disclosures); (b) compensation cost for all stock-based payments subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of FAS 123(R)).

y) Self-insurance programs

Under the insurance programs for professional, product and general liability, auto liability and worker's compensation claims, the largest subsidiary of the Fresenius Group, located in North America, is partially self-insured for professional liability claims. For all other coverages, this subsidiary assumes responsibility for incurred claims up to predetermined amounts above which third party insurance applies. Reported liabilities for the year represent estimated future payments 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.

z) Foreign currency translation

The reporting currency is the euro. The Fresenius Group follows the provisions of FAS 52 (Foreign Currency Translation). Substantially all assets and liabilities of the foreign subsidiaries are translated at mid-closing rate on balance sheet date, while revenues and expenses are translated at average exchange rates. Adjustments due to foreign currency translation fluctuations are excluded from net earnings and are reported in accumulated other comprehensive income (loss). In addition, the translation adjustments of certain intercompany borrowings, which are considered foreign equity investments, are also reported in accumulated other comprehensive income (loss).

Gains and losses arising from the translation of foreign currency positions as well as those arising from the elimination of foreign currency intercompany loans are recorded as general and administrative expenses, as far as they are not considered foreign equity instruments. Out of this transaction only immaterial losses resulted in the fiscal year 2007.

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

	Year-end exchange rate[1] Dec 31, 2007	Year-end exchange rate[1] Dec 31, 2006	Average exchange rate 2007	Average exchange rate 2006
US dollar per €	1.4721	1.3170	1.3705	1.2558
Pound sterling per €	0.7334	0.6715	0.6845	0.6817
Swedish krona per €	9.4415	9.0404	9.2507	9.2530
Chinese renminbi per €	10.7524	10.2793	10.4183	10.0099
Japanese yen per €	164.93	156.93	161.26	146.06

(1) mid-closing rate on balance sheet date

aa) Use of estimates

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

bb) Receivables management

The entities of the Fresenius Group perform ongoing evaluations of the financial situation of their customers and generally do not require a collateral from the customers for the supply of products and

provision of services. Approximately 22% and 24% of the Fresenius Group's sales were earned and subject to the regulations under governmental health care programs, Medicare and Medicaid, administered by the United States government in 2007 and 2006, respectively.

cc) Recent pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued **Statement No. 157**, Fair Value Measurements (FAS 157), which establishes a framework for reporting fair value and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Fresenius Group adopted this standard as of January 1, 2008 and is still determining its impact on its consolidated financial statements.

In February 2007, FASB issued **Statement No. 159**, The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115 (FAS 159), which gives the company the irrevocable option to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date.

The fair value option:

- may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method;
- is irrevocable (unless a new election date occurs); and
- is applied only to entire instruments and not to portions of instruments.

This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FAS 157. The Fresenius Group has decided not to adopt the provisions of this standard for its consolidated financial statements.

In December 2007, FASB **issued Statement No. 160**, Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51 (FAS 160), which establishes a framework for reporting of noncontrolling or minority interests, the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. FAS 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Fresenius Group is currently evaluating the impact of this standard on its consolidated financial statements.

In December 2007, FASB issued **Statement No. 141** (revised), Business Combinations (FAS 141(R)). This Statement replaces FASB Statement No. 141, Business Combinations and retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control.

In general, the main points of this Statement are that the assets acquired, liabilities assumed and non-controlling interests in the acquiree are stated at fair value as of the date of acquisition, that assets acquired and liabilities assumed arising from contractual contingencies are recognized as of the acquisition date, measured at their acquisition date fair values and that contingent consideration is recognized at the acquisition date, measured at its fair value at that date.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The effective date of this Statement is the same as that of the related FAS 160. The Fresenius Group is currently evaluating the impact of this standard on its consolidated financial statements.

V. CRITICAL ACCOUNTING POLICIES

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

a) Recoverability of goodwill and intangible assets with indefinite useful lives

The amount of intangible assets, including goodwill, tradenames and management contracts, represents a considerable part of the total assets of the Fresenius Group. At December 31, 2007 and December 31, 2006, the carrying amount of goodwill and non-regularly amortizable intangible assets with indefinite useful lives was € 7,411 million and € 7,457 million, respectively. This represented 48% and 50%, respectively, of total assets.

In accordance with FAS 142 (Goodwill and Other Intangible Assets), an impairment test of goodwill and non-amortizable intangible assets with indefinite useful lives is performed at least once a year, or if events occur or circumstances change that would indicate the carrying amount might be impaired (Impairment test).

To comply with the regulations of FAS 142 and determine possible impairments of these assets, the fair value of the reporting units determined in accordance with FAS 142 is compared to the reporting units' carrying amount. The fair value of each reporting unit is determined using estimated future cash flows for the unit discounted by a weighted-average cost of capital (WACC) specific to that reporting unit. Estimating the discounted future cash flows involves significant assumptions, especially regarding future reimbursement rates and sales prices, number of treatments, sales volumes and costs. In determining discounted cash flows, the Fresenius Group utilizes for every reporting unit its three-year budget, projections for years 4 to 10 and a corresponding growth rate for all remaining years. These growth rates are 0% to 4% for Fresenius Medical Care, 2% for Fresenius Kabi and 1% for Fresenius ProServe. This discount factor is determined by the WACC of the respective reporting unit. Fresenius Medical Care's WACC consisted of a basic rate of 7.34% for 2007. This basic rate is then adjusted by a country specific risk rate within each reporting unit for determining the reporting unit's fair value. In 2007, this rate ranged from 0% to 7%. In the business segments Fresenius ProServe and Fresenius Kabi the WACC was 7.57%, country specific adjustments did not occur. If the fair value of the reporting unit is less than its carrying amount, the difference is recorded as an impairment of the fair value of the goodwill at first. An increase of the WACC by 0.5% would not have resulted in the recognition of an impairment loss in 2007.

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 unit's economic environment could result in impairment charges to goodwill and other intangible assets with indefinite lives which could mate-rially and adversely affect the Group's future operating results.

b) Legal contingencies

The Fresenius Group is involved in several legal matters arising from the ordinary course of its business. The outcome of these matters may have a material effect on the financial position, results of operations or cash flows of the Fresenius Group. For details, please see Note 26, Commitments and contingent liabilities.

The Fresenius Group regularly analyzes current information about such claims for probable losses and provides accruals for such matters, including estimated expenses for legal services, as appropriate. The Fresenius Group utilizes its internal legal department as well as external resources for these assessments. In making the decision regarding the need for a loss accrual, the Fresenius Group considers the degree of probability of an unfavorable outcome and its ability to make a reasonable estimate of the amount of loss.

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

c) Allowance for doubtful accounts

Trade accounts receivable are a significant asset and the allowance for doubtful accounts is a significant estimate made by the Management. Trade accounts receivable were € 2,159 million and € 2,088 million in 2007 and 2006, respectively, net of allowance. Approximately two thirds of receivables derive from the business segment Fresenius Medical Care and mainly relate to the dialysis care business in North America.

The major debtors or debtor groups of trade accounts receivable were US Medicare and Medicaid health care programs with 13% as well as private insurers in the US with 17% at December 31, 2007. Other than that, the Fresenius Group has no significant risk concentration, due to its international and heterogenous customer structure.

The allowance for doubtful accounts was € 223 million and € 218 million as of December 31, 2007 and December 31, 2006, respectively.

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

Deterioration in the ageing of receivables and collection difficulties could require that Fresenius Group 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

Under the insurance programs for professional, product and general liability, auto liability and worker's compensation claims, the largest subsidiary of the Fresenius Group, located in North America, is partially self-insured for professional liability claims. For further details regarding the accounting policies for self-insurance programs, please see Note 1.IV.y, Summary of significant accounting policies.

2. ACQUISITIONS AND DIVESTITURES

ACQUISITIONS AND DIVESTITURES

The Fresenius Group made acquisitions of € 613 million and €3,714 million in 2007 and 2006, respectively. Of this amount, € 444 million were paid in cash and € 169 million were assumed obligations in 2007.

Fresenius Medical Care made acquisitions of € 257 million in 2007. The main acquisition took place on November 26, 2007, as Fresenius Medical Care completed the acquisition of all of the common stock of Renal Solutions, Inc., (RSI), an Indiana corporation with principal offices in Warrendale, Pennsylvania, United States. The RSI acquisition agreement provides for total consideration of up to US$204 million, consisting of US$20 million, previously advanced to RSI in the form of a loan, US$100 million paid at closing, US$60 million payable after the first year which was recorded as a liability at closing, US$3 million receivable related to a working capital adjustment and up to US$30 million in mile-stone payments over the next three years, contingent upon the achievement of certain performance criteria. Fresenius Medical Care recorded a liability of US$27.4 million representing the net present value of the US$30 million milestone payments as it was deemed beyond reasonable doubt that the future performance criteria will be achieved. Furthermore, acquisitions of € 108 million are mainly attributable to the purchase of dialysis centers.

Fresenius Medical Care sold the perfusion business unit of Fresenius Medical Care Extracorporeal Alliance (FMCEA) during the second quarter of 2007. In 2006, FMCEA's perfusion business contributed revenue of approximately € 83 million. The US perfusion business was deconsolidated effective May 9, 2007.

In 2006, acquisitions of Fresenius Medical Care in an amount of € 3,561 million related mainly to the purchase of Renal Care Group, Inc. (RCG), a Delaware corporation with principal offices in Nashville, Tennessee, United States. On March 31, 2006, the acquisition was completed for an all cash purchase price, net of cash acquired, of US$4,158 million for all of the outstanding common stock and the retirement of RCG stock options. The purchase price included the concurrent repayment of US$658 million indebtedness of RCG. The operations of RCG are included in Fresenius Group's consolidated statements of income and cash flows from April 1, 2006; therefore, the results of 2007 are not comparable with the results of 2006.

On November 14, 2006, Fresenius Medical Care acquired the worldwide rights to the PhosLo® phosphate binder product business and its related assets of Nabi Biopharmaceuticals, Inc. PhosLo® is an oral application calcium acetate phosphate binder for treatment of hyperphosphatemia primarily in end-stage renal disease patients. Fresenius Medical Care paid cash of US$65.3 million including related direct costs of US$0.3 million plus a US$8 million milestone payment in December 2006 and a US$2.5 million milestone payment in 2007. An additional milestone payment of US$10.5 million will be paid over the next two to three years, contingent upon the achievement of certain performance criteria. The purchase price was allocated to technology with an estimated useful live of 15 years (US$64.8 million), and in-process research and development project (US$2.8 million) which is immediately expensed, goodwill (US$7.3 million) and other net assets (US$0.9 million).

In connection with the transaction, Fresenius Medical Care also acquired worldwide rights to a new product formulation currently under development, which Fresenius Medical Care expects will be submitted for approval in the United States during 2009. Following the successful launch of this new product formulation, Fresenius Medical Care will pay Nabi Biopharmaceuticals, Inc. royalties on sales of the new product formulation commencing upon the first commercialization of the new product and continuing until November 13, 2016. Total consideration, consisting of initial payment, milestone payments and royalties will not exceed US$150 million.

In 2007, Fresenius Kabi spent € 178 million on acquisitions mainly related to the acquisition of Nestlé's enteral nutrition businesses in France (Novartis Nutrition S.A.S.) and in Spain (Nestlé España S.A.), the artificial colloid product business of Kyorin Pharmaceuticals Co. Ltd., Japan, the purchase of the remaining shares in Pharmatel Fresenius Kabi Pty Ltd., Australia, as well as the acquisition of all shares of Laboratorios Filaxis S.A., Argentina. In December 2007, Fresenius Kabi has reached an agreement to acquire Laboratorio Sanderson S.A., Chile, and Ribbon S.r.L., Italy. Both acquisitions were closed in January 2008.

In 2006, Fresenius Kabi made acquisitions of € 14 million, mainly referring to subsequent costs for the acquisition of Endomed Laboratório Farmacéutico Ltda., Brazil, as well as the take over of a dis-tributor in South Africa.

In 2007, Fresenius ProServe spent € 175 million on acquisitions mainly related to the acquisition of the remaining 40% of the shares of HUMAINE Kliniken GmbH (HUMAINE), Germany, and the acquisition of a majority stake of 75% in the Krefeld Municipal Hospitals, Germany, by HELIOS Kliniken GmbH (HELIOS).

In the first quarter of 2007, Fresenius ProServe closed the divestiture of its subsidiary Pharmaplan GmbH, Germany, to NNE A/S, Denmark. Furthermore, Fresenius ProServe sold its subsidiary Pharmatec GmbH, Germany, to Robert Bosch GmbH, Germany. This transaction was completed on June 30, 2007.

Fresenius ProServe made acquisitions in an amount of € 139 million, which mainly referred to the acquisition of 60% of the stakes in HUMAINE by HELIOS and additional stakes in HELIOS in 2006. Since the beginning of the third quarter of 2006, HUMAINE has been consolidated.

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

IMPACTS ON THE FRESENIUS GROUP'S CONSOLIDATED FINANCIAL STATEMENTS RESULTING FROM ACQUISITIONS

In the fiscal year 2007, all acquisitions have been accounted for applying the purchase method and accordingly have been consolidated starting with the date of acquisition. Each single acquisition is not material. The excess of the total acquisition costs over the fair value of the net assets acquired was € 585 million and € 2,811 million in 2007 and 2006, respectively.

The purchase price allocations are not yet finalized for all acquisitions. Based on preliminary purchase price allocations, the recognized goodwill was € 495 million and the other intangible assets were € 90 million. Of this goodwill, € 210 million is attributable to the acquisitions of Fresenius Medical Care, € 163 million to Fresenius Kabi's acquisitions and € 122 million to Fresenius ProServe's acquisitions.

The acquisitions completed in 2007 or included in the consolidated statements for the first time for a full year, contributed the following amounts to the development of sales and earnings:

in million €	2007
Sales	538
EBITDA	97
EBIT	77
Net interest	−51
Net income	5

The acquisitions increased the total assets of the Fresenius Group by € 618 million.

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

3. SALES

Sales by activity were as follows:

in million €	2007	2006
Sales of services	7,293	7,018
Sales of products and related goods	3,786	3,426
Sales from long-term production contracts	278	333
Other sales	1	—
Sales	**11,358**	**10,777**

A sales analysis by business segment and region is shown in the segment information on pages F-43 to F-44.

4. COST OF SALES

Cost of sales comprised the following:

in million €	2007	2006
Costs of services	5,489	5,249
Manufacturing cost of products and related goods	1,965	1,835
Cost of long-term production contracts	226	267
Other cost of sales	—	—
Cost of sales	**7,680**	**7,351**

5. COST OF MATERIALS

Cost of materials comprised cost of raw materials, supplies and purchased components and of purchased services as follows:

in million €	2007	2006
Costs of raw materials, supplies and purchased components	3,266	3,250
Cost of purchased services	503	459
Cost of materials	**3,769**	**3,709**

6. PERSONNEL EXPENSES

Cost of sales, selling, general and administrative expenses and expenses on research and development included personnel expenses of € 4,052 million and € 3,804 million in 2007 and 2006, respectively.

Personnel expenses comprised the following:

in million €	2007	2006
Wages and salaries	3,252	3,073
Social security contributions, cost of retirement pensions and social assistance	800	731
thereof retirement pensions	103	96
Personnel expenses	**4,052**	**3,804**

The Fresenius Group's annual average number of employees by function is shown below:

	2007	2006
Production and service	86,898	79,025
Administration	12,965	12,922
Sales and marketing	7,429	6,852
Research and development	970	888
Total employees (per capita)	**108,262**	**99,687**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses were € 467 million (2006: € 433 million) and mainly included expenditures for sales personnel of € 223 million (2006: € 209 million).

General and administrative expenses amounted to € 1,418 million (2006: € 1,382 million) and are related to expenditures for administrative functions not attributable to research and development, production or selling.

8. NET INTEREST

The net interest expenses of € 368 million included interest expenses of € 395 million and interest income of € 27 million. Interest expenses resulted mainly from the Fresenius Group's financial liabilities.

9. TAXES

INCOME TAXES

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

in million €	2007	2006
Germany	264	192
International	977	857
Total	**1,241**	**1,049**

Income tax expenses (benefits) for 2007 and 2006 consisted of the following:

in million €	Germany	International	2007 Total	Germany	International	2006 Total
Current taxes	112	324	436	119	218	337
Deferred taxes	6	6	12	−26	103	77
Income taxes	**118**	**330**	**448**	**93**	**321**	**414**

In 2007 and 2006, Fresenius SE was 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 Business Tax Reform Act (Unternehmensteuerreformgesetz 2008) was enacted in the third quarter of 2007 resulting in a reduction of the corporate income tax rate from 25% to 15% for German companies. This reduction together with technical changes to trade tax rules will reduce Fresenius Group's German entities' combined corporate income tax rate effective as of January 1, 2008. Deferred tax assets and liabilities for German entities which will be realized in 2008 and beyond were revalued to reflect the new enacted tax rate. The revaluation of deferred tax assets and liabilities resulted in deferred tax expenses of € 5 million which have been included in operations for the year 2007.

A reconciliation between the expected and actual income tax expense is shown on the following page. The expected corporate income tax expense is computed by applying the German corporation tax rate (including the solidarity surcharge) and the effective trade tax rate on income before income taxes and minority interest. The respective combined tax rates were 38.05% for the fiscal year 2007 and 37.36% for the fiscal year 2006.

in million €	2007	2006
Computed "expected" income tax expense	472	392
Increase (reduction) in income taxes resulting from:		
Items not recognized for tax purposes	10	18
Foreign tax rate differential	−35	−25
Tax-free income	−41	−26
Taxes for prior years	36	47
Taxes in connection with divestitures	0	23
Changes in valuation allowances on deferred tax assets	4	−9
Change of German tax rate	5	0
Other	−3	−6
Income tax	**448**	**414**
Effective tax rate	36.1%	39.5%

DEFERRED TAXES

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

in million €	2007	2006
Deferred tax assets		
Accounts receivable	35	36
Inventories	47	39
Other current assets	8	4
Other non-current assets	82	65
Accrued expenses	223	206
Other short-term liabilities	20	17
Other liabilities	11	20
Benefit obligations	16	28
Losses carried forward from prior years	108	127
Deferred tax assets, before valuation allowance	**550**	**542**
Less valuation allowance	68	73
Deferred tax assets	**482**	**469**
Deferred tax liabilities		
Accounts receivable	11	10
Inventories	8	12
Other current assets	4	0
Other non-current assets	321	283
Accrued expenses	22	43
Other short-term liabilities	30	33
Other liabilities	7	38
Deferred tax liabilities	**403**	**419**
Accumulated deferred taxes	**79**	**50**

In the balance sheet, the accumulated amounts of deferred tax assets and liabilities are included as follows:

in million €	2007	thereof long-term	2006	thereof long-term
Deferred tax assets	417	132	431	173
Deferred tax liabilities	338	312	381	352
Accumulated deferred taxes	**79**	**−180**	**50**	**−179**

As of December 31, 2007 Fresenius Medical Care has not recognized a deferred tax liability on approximately € 1.1 billion of undistributed earnings of its foreign subsidiaries, because those earnings are intended to be indefinitely reinvested.

NET OPERATING LOSSES

The expiration of net operating losses is as follows:

for the fiscal years	in million €
2008	13
2009	6
2010	4
2011	9
2012	21
2013	10
2014	11
2015	11
2016	7
2017	9
Thereafter	10
Total	**111**

The total remaining operating losses of € 288 million can mainly be carried forward for an unlimited period.

In assessing the realizability of deferred tax assets, the Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Management of Fresenius Group believes it is more likely than not that the Fresenius Group will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2007.

UNRECOGNIZED TAX BENEFITS

The Fresenius Group adopted FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109, Accounting for Income Taxes (FAS 109) as of January 1, 2007. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109. FIN 48 prescribes a two step approach to the recognition and measurement of all tax positions taken or expected to be taken in a tax return. The enterprise must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If the threshold is met, the tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement and is recognized in the financial statements. The implementation of this interpretation had no impact on the assets and liabilities of the Fresenius Group.

Fresenius SE and its subsidiaries are subject to tax audits on a regular basis.

In Germany, the tax audit for the years 1998 until 2001 has substantially been finalized and the results of this tax audit are sufficiently recognized in the financial statements as of December 31, 2006. The fiscal years 2002 to 2005 are currently under audit. With respect to HELIOS-Kliniken-Group, the years 2001 to 2004 are currently under audit. For the Group, all further fiscal years are open to tax audits. Fresenius Medical Care filed a lawsuit against the decision of the tax authority regarding the disallowance of certain deductions taken for fiscal year 1997 and has included the related unrecognized tax benefit in the total unrecognized tax benefit noted on the following page.

In the United States, except for refund claims Fresenius Medical Care has filed relative to the dis-allowance of tax deductions with respect to certain civil settlement payments for 2000 and 2001, the federal tax audit for the years 1999 through 2001 is completed. The tax has been paid and all results are recognized in the consolidated financial statements as of December 31, 2006. The unrecognized tax benefit relating to these deductions is included in the total unrecognized tax benefit noted on the following page. The Federal tax audit for the years 2002 through 2004 has been completed and the Internal Revenue Service has issued its report. The audit report includes disallowance of a material amount of deductions taken during the audit period for interest expense related to intercompany mandatorily redeemable preferred securities. Fresenius Medical Care has filed a protest over the disallowed deductions and will avail itself of all remedies. An adverse determination with respect to any of the disputed disallowances could have a material adverse effect on Fresenius Group's cash flows, tax expenses, net income and earnings per share. Fiscal years 2005 and 2006 are currently under audit. There are a number of state audits in progress and various years are open to audit in other states. All expected results have been recognized in the consolidated financial statements.

Subsidiaries of Fresenius SE in a number of countries outside of Germany and the United States are also subject to tax audits. The Fresenius Group estimates that the tax effects of such audits are not material to the consolidated financial statements.

Upon adoption of FIN 48, the Fresenius Group had € 250 million of unrecognized tax benefits including the amounts relating to the tax audit items for Germany and the United States noted before.

The following table shows the changes to unrecognized tax benefits during the year 2007:

in million €	**2007**
Balance at January 1, 2007	250
Increase in unrecognized tax benefits prior periods	25
Decrease in unrecognized tax benefits prior periods	−7
Increase in unrecognized tax benefits current periods	15
Changes related to settlements with tax authorities	−2
Reduction as a result of a lapse of the statute of limitations	0
Foreign currency translation	−12
Balance at December 31, 2007	**269**

The vast majority of these unrecognized tax benefits would reduce the effective tax rate if recognized. The Fresenius Group is currently not in a position to forecast the timing and magnitude of changes in the unrecognized tax benefits.

It is Fresenius Group's policy to recognize interest and penalties related to its tax positions as income tax expense. During the fiscal year 2007, the Fresenius Group recognized € 15 million in interest and penalties. Fresenius Group had € 53 million for the payment of interest and penalties accrued at December 31, 2007.

10. EARNINGS PER SHARE

The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations and shows the basic and fully diluted earnings per ordinary and preference share, retroactively considering the share split of Fresenius SE (formerly: Fresenius AG) entered into the commercial register on January 24, 2007, for the years ending December 31.

in million €, except amounts per share (€)	2007	2006
Numerators		
Net income	410	330
less preference on preference shares	1	1
less effect from dilution due to Fresenius Medical Care shares	1	1
Income available to all classes of shares	408	328
Denominators (number of shares)		
Weighted-average number of ordinary shares outstanding	77,394,080	76,503,006
Weighted-average number of preference shares outstanding	77,394,080	76,503,006
Weighted-average number of shares outstanding of all classes	154,788,160	153,006,012
Potentially dilutive ordinary shares	792,851	758,400
Potentially dilutive preference shares	792,851	758,400
Weighted-average number of shares outstanding of all classes assuming dilution	156,373,862	154,522,812
Weighted-average number of ordinary shares outstanding assuming dilution	78,186,931	77,261,406
Weighted-average number of preference shares outstanding assuming dilution	78,186,931	77,261,406
Basic earnings per ordinary share	**2.64**	**2.15**
Preference per preference share	**0.01**	**0.01**
Basic earnings per preference share	**2.65**	**2.16**
Fully diluted earnings per ordinary share	**2.61**	**2.12**
Preference per preference share	**0.01**	**0.01**
Fully diluted earnings per preference share	**2.62**	**2.13**

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

NOTES ON THE CONSOLIDATED BALANCE SHEET

11. CASH AND CASH EQUIVALENTS

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

in million €	2007	2006
Cash	349	259
Securities (with a maturity of up to 90 days)	12	2
Total cash and cash equivalents	**361**	**261**

As of December 31, 2007 and December 31, 2006, committed funds of € 65 million and € 32 million, respectively, were included in cash and cash equivalents.

12. TRADE ACCOUNTS RECEIVABLE

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

in million €	2007	2006
Trade accounts receivable	2,382	2,306
less allowance for doubtful accounts	223	218
Trade accounts receivable, net	**2,159**	**2,088**

All trade accounts receivable are due within one year.

The following table shows the development of the allowance for doubtful accounts during the fiscal year:

in million €	2007	2006
Allowance for doubtful accounts at the beginning of the year	**218**	**200**
Change in valuation allowances as recorded in the consolidated statement of income	152	155
Write-offs and recoveries of amounts previously written-off	−132	−119
Foreign currency translation	−15	−18
Allowance for doubtful accounts at the end of the year	**223**	**218**

The following table shows the ageing analysis of trade accounts receivable and their allowance for doubtful accounts:

in million €	not overdue	up to 3 months overdue	3 to 6 months overdue	6 to 12 months overdue	more than 12 months overdue	Total
Trade accounts receivable	1,315	463	182	168	254	2,382
less allowance for doubtful accounts	12	18	23	35	135	223
Trade accounts receivable, net	**1,303**	**445**	**159**	**133**	**119**	**2,159**

13. INVENTORIES

As of December 31, inventories consisted of the following:

in million €	2007	2006
Raw materials and purchased components	209	191
Work in process	129	103
Finished goods	579	512
less reserves	42	45
Inventories, net	**875**	**761**

The companies of the Fresenius Group are obliged to purchase approximately € 288 million of raw materials and purchased components under fixed terms, of which € 192 million was committed at December 31, 2007 for 2008. The terms of these agreements run one to seven years. Advance payments from customers of € 6 million have been offset against inventories.

Inventories as of December 31, 2007 and December 31, 2006 included approximately € 21 million and approximately € 35 million, respectively, of the product Erythropoietin (EPO), which is supplied by a single source supplier in the United States. Delays, stoppages, or interruptions in the supply of EPO could adversely affect the operating results of Fresenius Medical Care. In October 2006, Fresenius Medical Care entered into a five-year exclusive sourcing and supply agreement with its EPO supplier. Revenues from EPO accounted for approximately 8% and 9% of total sales of the Fresenius Group in 2007 and 2006, respectively.

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

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

in million €	2007	thereof short-term	2006	thereof short-term
Accounts receivable resulting from German "Krankenhausfinanzierungsgesetz"	150	120	220	160
Tax receivables	116	113	126	124
Investments and long-term loans	52	0	51	0
Derivative financial instruments	18	17	64	10
Advances made	20	20	17	17
Prepaid expenses	77	16	74	13
Re-insurance claims	29	0	23	0
Accounts receivable from management contracts in clinics	10	10	10	10
Other assets	432	314	531	403
Prepaid expenses and other assets, gross	**904**	**610**	**1,116**	**737**
less allowances	11	7	8	7
Prepaid expenses and other assets, net	**893**	**603**	**1,108**	**730**

The receivables resulting from the German "Krankenhausfinanzierungsgesetz" primarily contain approved but not yet received earmarked subsidies of the Fresenius Helios operations. The approval is evidenced in a letter written by the granting authorities that Fresenius Helios has already received.

Depreciations on other non-current assets in an amount of € 5 million and € 6 million were recognized in the fiscal years 2007 and 2006, respectively. In 2007 as well as in 2006, there were no reclassifications to other non-current assets.

15. PROPERTY, PLANT AND EQUIPMENT

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

ACQUISITION AND MANUFACTURING COSTS

in million €	As of January 1, 2007	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of December 31, 2007
Land and land facilities	171	−1	0	9	−9	2	168
Buildings and improvements	1,837	−81	60	170	195	73	2,108
Machinery and equipment	2,405	−94	50	297	118	178	2,598
Machinery, equipment and rental equipment under capital leases	135	0	0	6	1	5	137
Construction in progress	412	−13	3	217	−314	5	300
Property, plant and equipment	**4,960**	**−189**	**113**	**699**	**−9**	**263**	**5,311**

DEPRECIATION

in million €	As of January 1, 2007	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of December 31, 2007
Land and land facilities	0	0	0	2	0	0	2
Buildings and improvements	709	−34	1	130	0	54	752
Machinery and equipment	1,483	−47	11	242	0	163	1,526
Machinery, equipment and rental equipment under capital leases	55	1	0	8	0	5	59
Construction in progress	1	0	0	0	0	0	1
Property, plant and equipment	**2,248**	**−80**	**12**	**382**	**0**	**222**	**2,340**

ACQUISITION AND MANUFACTURING COSTS

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

DEPRECIATION

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

CARRYING AMOUNTS

in million €	December 31, 2007	December 31, 2006
Land and land facilities	166	171
Buildings and improvements	1,356	1,128
Machinery and equipment	1,072	922
Machinery, equipment and rental equipment under capital leases	78	80
Construction in progress	299	411
Property, plant and equipment	**2,971**	**2,712**

Depreciation on property, plant and equipment for the years 2007 and 2006 was € 382 million and € 351 million, respectively. They are allocated within cost of sales, selling, general and administrative expenses and research and development expenses, depending upon the area in which the asset is used.

LEASING

Machinery and equipment as of December 31, 2007 and 2006 included 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 in an amount of € 187 million and € 142 million, respectively.

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

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

16. GOODWILL AND OTHER INTANGIBLE ASSETS

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

ACQUISITION COST

in million €	As of January 1, 2007	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of December 31, 2007
Goodwill	7,111	−528	408	93	15	1	7,098
Tradenames	185	−17	0	0	0	0	168
Non-compete agreements	154	−15	5	0	0	0	144
Technology	49	−7	25	1	0	0	68
Other	496	−33	24	35	−7	19	496
Goodwill and other intangible assets	**7,995**	**−600**	**462**	**129**	**8**	**20**	**7,974**

AMORTIZATION

in million €	As of January 1, 2007	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of December 31, 2007
Goodwill	4	0	0	0	0	0	4
Tradenames	0	0	0	0	0	0	0
Non-compete agreements	90	−10	0	8	0	0	88
Technology	0	0	0	3	0	0	3
Other	246	−12	0	23	−1	17	239
Goodwill and other intangible assets	**340**	**−22**	**0**	**34**	**−1**	**17**	**334**

ACQUISITION COST

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

AMORTIZATION

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

CARRYING AMOUNTS

in million €	December 31, 2007	December 31, 2006
Goodwill	7,094	7,107
Tradenames	168	185
Non-compete agreements	56	64
Technology	65	49
Other	257	250
Goodwill and other intangible assets	**7,640**	**7,655**

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

AMORTIZABLE INTANGIBLE ASSETS

	December 31, 2007			December 31, 2006		
in million €	Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated amortization	Carrying amount
Non-compete agreements	144	88	56	154	90	64
Technology	68	3	65	49	0	49
Other	347	239	108	331	246	85
Total	**559**	**330**	**229**	**534**	**336**	**198**

NON-AMORTIZABLE INTANGIBLE ASSETS

	December 31, 2007			December 31, 2006		
in million €	Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated amortization	Carrying amount
Tradenames	168	0	168	185	0	185
Management contracts	149	0	149	165	0	165
Goodwill	7,098	4	7,094	7,111	4	7,107
Total	**7,415**	**4**	**7,411**	**7,461**	**4**	**7,457**

Amortization on intangible assets amounted to € 34 million and € 42 million for the years 2007 and 2006, respectively. They are allocated within cost of sales, selling, general and administrative expenses and research and development expenses, depending upon the area in which the asset is used.

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

in million €	2008	2009	2010	2011	2012
Estimated amortization expenses	32	28	25	23	20

The carrying amount of goodwill has developed as follows:

in million €	
Carrying amount as of January 1, 2007	**7,107**
Additions	501
Disposals	−1
Reclassifications	15
Foreign currency translation	−528
Carrying amount as of December 31, 2007	**7,094**

17. OTHER ACCRUED EXPENSES

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

in million €	2007	2007 thereof short-term	2006	2006 thereof short-term
Personnel expenses	364	320	295	291
Invoices outstanding	101	101	96	96
Self-insurance programs	100	100	94	94
Special charge for legal matters	78	78	87	87
Legal matters, advisory and audit fees	50	50	49	49
Bonuses and discounts	48	48	47	47
Warranties and complaints	24	19	26	22
Commissions	17	17	20	20
Physician compensation	11	11	14	14
All other accrued expenses	299	271	281	213
Other accrued expenses	**1,092**	**1,015**	**1,009**	**933**

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

in million €	As of January 1, 2007	Foreign Currency translation	Changes in entities consolidated	Additions	Reclassifications	Utilized	Reversed	As of December 31, 2007
Personnel expenses	295	−18	12	174	38	−122	−15	364
Invoices outstanding	96	−1	—	77	—	−57	−14	101
Self-insurance programs	94	−10	—	17	0	−1	—	100
Special charge for legal matters	87	−9	0	0	0	0	0	78
Legal matters, advisory and audit fees	49	−1	—	24	3	−23	−2	50
Bonuses and discounts	47	−1	—	49	—	−43	−4	48
Warranties and complaints	26	—	1	13	—	−11	−5	24
Commissions	20	−1	—	17	0	−17	−2	17
Physician compensation	14	−1	0	0	0	−2	0	11
All other accrued expenses	281	−5	32	154	−40	−90	−33	299
Total	**1,009**	**−47**	**45**	**525**	**1**	**−366**	**−75**	**1,092**

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

In 2001, Fresenius Medical Care recorded a US$258 million special charge to address legal matters relating to transactions pursuant to the Agreement and Plan of Reorganization dated as of February 4, 1996 by and between W. R. Grace & Co. and Fresenius AG (Merger), estimated liabilities and legal expenses arising in connection with the W. R. Grace & Co. Chapter 11 proceedings (Grace Chapter 11 Proceedings) and the cost of resolving pending litigation and other disputes with certain commercial insurers. During the second quarter of 2003, the court supervising the Grace Chapter 11 Proceedings approved a definitive settlement agreement entered into among Fresenius Medical Care, the committee representing the asbestos creditors and

W. R. Grace & Co. Under the settlement agreement, Fresenius Medical Care will pay US$115 million (€ 78 million), without interest, upon plan confirmation (see Note 26, Commitments and contingent liabilities). With the exception of the proposed US$115 million settlement payment, all other matters included in the special charge have been resolved.

18. OTHER LIABILITIES

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

in million €	2007	thereof short-term	2006	thereof short-term
Accounts payable resulting from German "Krankenhausfinanzierungsgesetz"	187	172	194	168
Personnel liabilities	66	64	95	91
Tax liabilities	99	96	89	86
Interest liabilities	75	75	64	64
Advance payments from customers	82	57	63	58
Accounts receivable credit balance	83	24	59	18
Derivative financial instruments	34	10	25	13
All other liabilities	505	384	510	377
Other liabilities	**1,131**	**882**	**1,099**	**875**

The payables resulting from the German "Krankenhausfinanzierungsgesetz" primarily contain earmarked subsidies received but not yet spent appropriately by Fresenius Helios. The amount not yet spent appropriately is classified as liability.

Of the total amount of other non-current liabilities € 249 million at December 31, 2007, € 198 million were due between one and five years and € 51 million were due later than five years. The balance sheet line item "long-term accrued expenses and other long-term liabilities" of € 326 million also includes long-term accrued expenses of € 77 million as of December 31, 2007.

19. DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

SHORT-TERM BORROWINGS

Borrowings

Short-term borrowings of € 362 million and € 330 million at December 31, 2007, and 2006, respectively, consisted of € 304 million borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks and € 58 million outstanding short-term borrowings under the accounts receivable facility described below. The average interest rates on these borrowings (excluding the accounts receivable facility) at December 31, 2007 and 2006 were 5.15% and 4.45%, respectively.

Accounts receivable facility

Fresenius Medical Care has an asset securitization facility (accounts receivable facility), which is typically renewed in October of each year and was renewed most recently in October 2007. The accounts receivable facility currently provides borrowings up to a maximum of US$650 million (€ 442 million). Under the accounts receivable facility, certain receivables are sold to NMC Funding Corp. (NMC Funding), a wholly-owned subsidiary of Fresenius Medical Care. NMC Funding then assigns percentage ownership interests in the accounts receivable to certain bank investors. Under the terms of the accounts receivable facility, NMC Funding retains the right to recall all transferred interests in the accounts receivable assigned to the banks under the facility. As Fresenius Medical Care has the right at any time to recall the then outstanding interests, the receivables remain on the consolidated balance sheet and the proceeds from the transfer of percentage ownership interests are recorded as short-term borrowings.

At December 31, 2007, there were outstanding short-term borrowings under the accounts receivable facility of US$85 million (€ 58 million). NMC Funding pays interest to the bank investors, calculated based

on the commercial paper rates for the particular tranches selected. The average interest rate at December 31, 2007 was 5.44%. Annual refinancing fees, which include legal costs and bank fees (if any), are amortized over the term of the facility.

LONG-TERM DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

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

in million €	2007	2006
Fresenius Medical Care 2006 Senior Credit Agreement	2,151	2,707
Euro Notes	440	366
European Investment Bank Agreements	169	164
Capital lease obligations	42	39
Other	200	219
Subtotal	3,002	3,495
Less current portion	115	265
Long-term debt and liabilities from capital lease obligations, less current portion	**2,887**	**3,230**

Maturities of long-term debt and liabilities from capital lease obligations are shown in the following table:

in million €	up to 1 year	1 to 5 years	more than 5 years
Fresenius Medical Care 2006 Senior Credit Agreement	45	1,848	258
Euro Notes	40	300	100
European Investment Bank Agreements	8	32	129
Capital lease obligations	8	21	13
Other	14	176	10
Long-term debt and liabilities from capital lease obligations	**115**	**2,377**	**510**

Aggregate annual repayments applicable to the above listed long-term debt and liabilities from capital lease obligations for the five years subsequent to December 31, 2007 are:

For the fiscal years	in million €
2008	115
2009	462
2010	141
2011	895
2012	879
Subsequent years	510
Total	**3,002**

Fresenius Medical Care 2006 Senior Credit Agreement

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

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

	Maximum amount available		Balance outstanding	
in million US$	2007	2006	2007	2006
Revolving Credit	1,000	1,000	38	68
Term Loan A	1,550	1,760	1,550	1,760
Term Loan B	1,578	1,737	1,578	1,737
Total	**4,128**	**4,497**	**3,166**	**3,565**

In addition, at December 31, 2007, US$87 million and at December 31, 2006, US$85 million were utilized as letters of credit which are not included as part of the balances outstanding at those dates.

The Fresenius Medical Care 2006 Senior Credit Agreement consists of:

- A 5-year US$1 billion revolving credit facility (of which up to US$250 million is available for letters of credit, up to US$300 million is available for borrowings in certain non-US currencies, up to US$150 million is available as swing line loans in US dollars, up to US$250 million is available as a competitive loan facility and up to US$50 million is available as swing line loans in certain non-US currencies, the total of which cannot exceed US$1 billion) which will be due and payable on March 31, 2011.
- A 5-year term loan facility (Term Loan A) of US$1,850 million, also scheduled to mature on March 31, 2011. The Fresenius Medical Care 2006 Senior Credit Agreement requires 19 quarterly payments on Term Loan A of US$30 million each that permanently reduce the term loan facility which began June 30, 2006 and continue through December 31, 2010. The remaining amount outstanding is due on March 31, 2011.
- A 7-year term loan facility (Term Loan B) of US$1,750 million scheduled to mature on March 31, 2013. The terms of the Fresenius Medical Care 2006 Senior Credit Agreement require 28 quarterly payments on Term Loan B that permanently reduce the term loan facility. The repayment began June 30, 2006. The first 24 quarterly payments will be equal to one quarter of one percent (0.25%) of the original principal balance outstanding, payments 25 through 28 will be equal to twenty-three and one half percent (23.5%) of the original principal balance outstanding with the final payment due on March 31, 2013, subject to an early repayment requirement on March 1, 2011 if the Trust Preferred Securities due June 15, 2011 are not repaid or refinanced or their maturity is not extended prior to that date.

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

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

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

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

The Fresenius Medical Care 2006 Senior Credit Agreement contains other affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Certain

of the covenants limit indebtedness of Fresenius Medical Care and investments by Fresenius Medical Care, and require Fresenius Medical Care to maintain certain financial ratios defined in the agreement. Additionally, the Fresenius Medical Care 2006 Senior Credit Agreement provides for a limitation on dividends and other restricted payments which is US$260 million for dividends paid in 2008, and increases in subsequent years. Fresenius Medical Care paid dividends of US$188 million (€ 137 million) in May of 2007 which was in compliance with the restrictions set forth in the Fresenius Medical Care 2006 Senior Credit Agreement. In default, the outstanding balance under the Fresenius Medical Care 2006 Senior Credit Agreement becomes immediately due and payable at the option of the Lenders. As of December 31, 2007, Fresenius Medical Care was in compliance with all financial covenants under the Fresenius Medical Care 2006 Senior Credit Agreement.

Fresenius Medical Care incurred fees of approximately US$86 million in conjunction with the Fresenius Medical Care 2006 Senior Credit Agreement which are being amortized over the life of this agreement.

On July 2, 2007, Fresenius Medical Care voluntarily repaid portions of the term loans outstanding utilizing a portion of the proceeds from the issuance of senior notes (see Note 20, Senior Notes). Under the terms of the Fresenius Medical Care 2006 Senior Credit Agreement, advance payments on the term loans are applied first against the next four quarterly payments due with any amounts in excess of the four quarterly payments applied on a pro-rata basis against any remaining payments. As a result of the advance payments on the Term Loans, no payments will be made or will be due for either Term Loan A or B until the third quarter of 2008.

In June 2007, the Fresenius Medical Care 2006 Senior Credit Agreement was amended in order to enable Fresenius Medical Care to issue US$500 million in Senior Notes (see Note 20, Senior Notes). Furthermore, on January 31, 2008, it was amended to increase certain types of permitted borrowings and to remove all limitations on capital expenditures.

Euro Notes

As of December 31, 2007, Euro Notes (Schuldscheindarlehen) of the Fresenius Group consisted of the following:

	Maturity	Interest rate	Notional amount in million €
Fresenius Finance B.V. 2004/2008	May 18, 2008	variable	40
Fresenius Finance B.V. 2007/2012	July 2, 2012	5.51%	26
Fresenius Finance B.V. 2007/2012	July 2, 2012	variable	74
Fresenius Finance B.V. 2007/2014	July 2, 2014	5.75%	38
Fresenius Finance B.V. 2007/2014	July 2, 2014	variable	62
FMC Finance S.à.r.l. Luxembourg IV 2005/2009	July 27, 2009	4.57%	126
FMC Finance S.à.r.l. Luxembourg IV 2005/2009	July 27, 2009	variable	74
Euro Notes			**440**

The book value of the Euro Notes equals the notional amount.

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

The Euro Notes of FMC Finance S.à.r.l. Luxembourg IV are guaranteed by FMC-AG & Co. KGaA.

Interest of the floating-rate tranches of the Euro Notes is based on EURIBOR plus applicable margin. For a large portion of these tranches interest rate swaps have been arranged (see Note 27, Financial instruments). Only the floating-rate tranche of the Euro Notes of FMC Finance S.à.r.l. Luxembourg IV in an amount of € 74 million is exposed to the risk of interest rate increases.

European Investment Bank Agreements

Various subsidiaries of the Fresenius Group maintain credit facilities with the European Investment Bank (EIB). The EIB is the not-for-profit long-term lending institution of the European Union and loans funds at favorable rates for the purpose of capital investment and research and development projects. The facilities were granted to refinance certain research and development projects, to invest in ex-pansion and the optimization of existing production facilities in Germany and for the construction of a hospital.

The following table shows the outstanding amounts under the EIB facilities as of December 31, 2007:

	Maximum amount available in million €	Maturity	Balance outstanding	Book value in million €
Fresenius SE	96	2013	€ 40 million	40
FMC-AG&Co.KGaA	221	2013/2014	US$49 million	33
HELIOS Kliniken GmbH	96	2019	€ 96 million	96
Loans from EIB	**413**			**169**

Repayment of the loan of HELIOS Kliniken GmbH already started in December 2007 and will continue through December 2019 with constant half-yearly payments.

Some advances under these agreements can be denominated in certain foreign currencies including US dollar. The above mentioned loans bear variable interest rates that change quarterly. The US dollar borrowings of Fresenius Medical Care had an interest rate of 4.92% as of December 31, 2007, the euro borrowings of Fresenius SE and of HELIOS Kliniken GmbH bore an interest rate of 4.93% as of December 31, 2007. To some extent, the borrowers may opt to convert those interest rates into fixed rates. The loans under these EIB Agreements are secured by bank guarantees and have customary covenants.

Capital lease obligations

Details of capital lease obligations are given below:

in million €	2007
Capital lease obligations (minimum lease payments)	**49**
due within one year	9
due between one and five years	25
due later than five years	15
Interest component included in future minimum lease payments	**7**
due within one year	1
due between one and five years	4
due later than five years	2
Present value of capital lease obligations (minimum lease payments)	**42**
due within one year	8
due between one and five years	21
due later than five years	13

CREDIT LINES

In addition to the financial liabilities described before, the Fresenius Group maintains additional credit facilities which have not been utilized, or have only been utilized in part as of reporting date. As of December 31, 2007, the additional financial cushion resulting from unutilized credit facilities was more than € 1.5 billion.

Syndicated credit facilities accounted for € 944 million. This portion comprises the Fresenius Medical Care 2006 Senior Credit Agreement in the amount of US$875 million (€ 594 million) and a syndicated credit facility of Fresenius SE in the amount of € 350 million. The latter was arranged with a group of European banks in 2006 and has a term of five years. Furthermore, bilateral facilities of approximately € 620 million were available. They include the above mentioned credit facilities with the EIB and credit facilities which

subsidiaries of the Fresenius Group have arranged with commercial banks. These credit facilities are used for general corporate purposes and are usually unsecured.

In addition, Fresenius SE has a commercial paper program under which up to € 250 million in short-term notes can be issued. As of December 31, 2007, no commercial papers were outstanding.

Additional financing of up to US$650 million can be provided using the Fresenius Medical Care accounts receivable facility which had been utilized by US$85 million as of December 31, 2007.

20. SENIOR NOTES

As of December 31, 2007, Senior Notes of the Fresenius Group consisted of the following:

	Notional amount	Maturity	Interest rate	Book value in million €
Fresenius Finance B.V. 2003/2009	€ 100 million	April 30, 2009	7.50%	100
Fresenius Finance B.V. 2006/2013	€ 500 million	Jan 31, 2013	5.00%	500
Fresenius Finance B.V. 2006/2016	€ 500 million	Jan 31, 2016	5.50%	500
FMC Finance III S.A. 20072017	US$500 million	July 15, 2017	6⅞%	334
Senior Notes				**1,434**

The Senior Notes of Fresenius Finance B.V. maturing in 2016 may be redeemed at the option of the issuer from January 31, 2011 onwards. The respective redemption prices have already been fixed at the date of issuance in the indentures.

On July 2, 2007, FMC Finance III S.A., a wholly-owned subsidiary of FMC-AG & Co. KGaA, issued US$500 million aggregate principal amount of 6⅞% senior notes due 2017 at a discount resulting in an effective interest rate of 7⅛%. The Senior Notes are guaranteed on a senior basis jointly and severally by FMC-AG & Co. KGaA and by its subsidiaries Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Deutschland GmbH. Fresenius Medical Care may redeem the Senior Notes at any time at 100% of principal amount plus accrued interest and a premium calculated pursuant to the terms of the indenture. The holders have a right to request that Fresenius Medical Care repurchases the Senior Notes at 101% of principal amount plus accrued interest upon the occurrence of a change of control followed by a decline in the rating of the Senior Notes. The proceeds, net of discounts, bank fees and other offering related expenses were approximately US$484 million, of which US$150 million was used to reduce the 5-year term loan facility (Term Loan A) and US$150 million to reduce the 7-year term loan facility (Term Loan B) under Fresenius Medical Care's US$4.6 billion Fresenius Medical Care 2006 Senior Credit Agreement. The remaining US$184 million was applied to the outstanding balance under its short-term accounts receivable facility. The discount is being amortized over the life of the Senior Notes using.

All Senior Notes of Fresenius Finance B.V. are guaranteed by Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius SE has agreed to a number of covenants to provide protection to the bondholders, which, under certain circumstances, partly restrict the scope of action of Fresenius SE and its subsidiaries (excluding FMC-AG & Co. KGaA and its subsidiaries). These covenants include, amongst other things, restrictions on further debt that can be raised, the payment of dividends, the volume of capital expenditure, the redemption of subordinated liabilities and the mortgaging or sale of assets. Some of these restrictions are lifted automatically when the rating of Fresenius SE reaches investment grade. In the event of non-compliance with the terms of the Senior Notes, the bond-holders (owning in aggregate more than 25% of the outstanding Senior Notes) are entitled to call the Senior Notes and demand immediate repayments plus interest. As of December 31, 2007, the Fresenius Group was in compliance with all of its covenants.

21. PENSIONS AND SIMILAR OBLIGATIONS

GENERAL

The Fresenius Group recognizes pension costs and related pension liabilities for current and future benefits to qualified current and former employees of the Fresenius Group. Fresenius Group's pension plans are structured differently according to the legal, economic and fiscal circumstances in each country. The

Fresenius Group currently has two types of plans, defined benefit and defined contribution plans. In general, plan benefits in defined benefit plans are based on all or a portion of the employees' years of services and final salary. Plan benefits in defined contribution plans are determined by the amount of contribution by the employee and the employer, both of which may be limited by legislation, and the returns earned on the investment of those contributions.

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

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

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

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

DEFINED BENEFIT PENSION PLANS

At December 31, 2007, the benefit obligation (PBO) of the Fresenius Group of € 498 million (2006: € 553 million) included € 219 million (2006: € 235 million) funded by plan assets and € 279 million (2006: € 318 million) covered by pension provisions. The current portion of the pension liability in an amount of € 9 million is recognized in the balance sheet as short-term accrued expenses and other short-term liabilities. The non-current portion of € 270 million is recorded as non-current pension liability. At December 31, 2007, prepaid pension costs in an amount of € 7 million related to the North American pension plan and are recorded within other non-current assets.

70% of the pension liabilities in an amount of € 279 million relate to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1988 (Pension plan 1988), which applies for most of the German entities of the Fresenius Group except Fresenius Helios. The rest of the pension liabilities relates to individual plans from Fresenius ProServe entities in Germany and 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 benefit obligations of the German entities of the Fresenius Group are unfunded. The German Pension plan 1988 does not have a separate pension fund.

Fresenius Medical Care Holdings, Inc. (FMCH), a subsidiary of Fresenius Medical Care, has a defined benefit pension plan for its employees in the United States and supplemental executive retirement plans. During the first quarter of 2002, FMCH curtailed these pension plans. Under the curtailment amendment for substantially all employees eligible to participate in the plan, benefits have been frozen as of the curtailment date and no additional defined benefits for future services will be earned. FMCH has retained all employee benefit obligations as of the curtailment date. Each year FMCH contributes at least the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. There was no minimum

funding requirement for FMCH for the defined benefit plan in the year 2007. FMCH voluntarily contributed US$1.2 million (€ 0.9 million) during the year 2007. Expected funding for 2008 is US$0.9 million (€ 0.6 million).

The Fresenius Group's benefit obligations relating to fully or partly funded pension plans were € 229 million. Benefit obligations relating to unfunded pension plans were € 269 million.

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

The funded status has developed as follows:

in million €	2007	2006
Benefit obligations at the beginning of the year	**553**	**571**
Changes in entities consolidated	1	2
Foreign currency translation	−21	−20
Service cost	17	18
Prior service cost	2	0
Interest cost	27	26
Contributions by plan participants	1	1
Transfer of plan participants	—	—
Curtailments/settlements	−3	−6
Actuarial losses/gains	−60	−19
Benefits paid	−19	−13
Divestitures	0	−7
Amendments	—	0
Benefit obligations at the end of the year	**498**	**553**
thereof vested	427	481
Fair value of plan assets at the beginning of the year	**235**	**232**
Changes in entities consolidated	—	0
Foreign currency translation	−21	−18
Actual return on plan assets	14	19
Contributions by the employer	8	12
Contributions by plan participants	1	1
Settlements	0	0
Transfers	—	−6
Benefits paid	−11	−5
Fair value of plan assets at the end of the year	**226**	**235**
Funded status as of December 31	**272**	**318**

As of December 31, 2007, the fair value of plan assets relating to the North American pension plan exceeded the corresponding benefit obligations. The resulting amount of € 7 million was recognized as an asset. For all the remaining pension plans of the Fresenius Group the benefit obligations exceeded the fair value of plan assets and resulted in a total amount of € 279 million recognized as a pension liability.

The discount rates for all plans are based upon yields of portfolios of highly rated equity and debt instruments with maturities that mirror the plan's benefit obligation. Fresenius Group's discount rate is the weighted average of these plans based upon their benefit obligations.

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

in %	2007	2006
Discount rate	5.80	5.02
Rate of compensation increase	3.66	3.75
Rate of pension increase	1.80	1.60

The accumulated benefit obligations for all defined benefit pension plans were € 430 million (2006: € 506 million).

The following table relates to pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets:

in million €	2007	2006
Projected benefit obligation (PBO)	350	553
Accumulated benefit obligation (ABO)	283	506
Fair value of plan assets	71	235

The pre-tax changes of other comprehensive income (loss) relating to pension liabilities during the years 2007 and 2006 are provided in the following tables:

in million €	As of January 1, 2007	Releases[1]	Additions	Foreign currency translation	As of December 31, 2007
Actuarial gains and losses	−112	5	57	3	−47
Prior service cost	6	1	—	0	7
Transition obligation	−1	—	—	0	−1
Adjustments related to pension liabilities	−107	6	57	3	−41

(1) effects recognized in the consolidated statement of income

in million €	As of January 1, 2006	Additions/ releases	Adjustments FAS 158	Foreign currency translation	As of December 31, 2007
Additional minimum pension liability	−108	25	77	6	0
Actuarial gains and losses	0	0	−112	0	−112
Prior service cost	0	0	6	0	6
Transition obligation	0	0	−1	0	−1
Adjustments related to pension liabilities	−108	25	−30	6	−107

For the tax effects on other comprehensive income at December 31, 2007 see Note 25, Other comprehensive income (loss).

The Fresenius Group expects the following amounts to be amortized from other comprehensive income into net periodic pension cost in the year 2008:

in million €	2008
Actuarial gains and losses	1
Prior service cost	—
Transition obligation	—

Defined benefit pension plans' net periodic benefit costs of € 35 million (2006: € 37 million) were comprised of the following components for each of the years ended December 31:

in million €	2007	2006
Components of net periodic benefit cost		
Service cost	17	18
Interest cost	27	26
Expected return on plan assets	−16	−16
Amortization of unrealized actuarial losses, net	5	9
Amortization of prior service costs	1	—
Amortization of transition obligations	—	—
Settlement loss	1	—
Net periodic benefit cost	**35**	**37**

Net periodic benefit cost is allocated as personnel expense within cost of sales or selling, general and administrative expenses as well as research and development expenses. The allocation depends upon the area in which the beneficiary is employed.

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

in %	2007	2006
Discount rate	5.02	4.70
Expected return of plan assets	7.03	7.07
Rate of compensation increase	3.75	3.50

Changes in the discount factor, inflation and mortality assumptions used for the actuarial computation resulted in actuarial losses in 2007 which increased the fair value of the defined benefit obligation. Unrecognized actuarial losses outside the 10% corridor for each defined benefit plan were € 47 million (2006: € 112 million).

The following table shows the expected future benefit payments:

For the fiscal years	in million €
2008	15
2009	16
2010	17
2011	18
2012	20
2013 to 2017	125
Total expected benefit payments for the next 10 years	**211**

The Fresenius Group uses December 31, 2007 as the measurement date in determining the funded status of all plans.

Pension liabilities at December 31, 2007 and 2006 related to the following geographical regions:

in million €	2007	2006
Germany	244	260
Europe (excluding Germany)	34	53
North America	0	5
Asia-Pacific	—	0
Latin America	1	0
Africa	0	0
Total pension liabilities	**279**	**318**

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

PLAN INVESTMENT POLICY AND STRATEGY

For the North America funded plan, Fresenius Group periodically reviews the assumptions for long-term expected return on pension plan assets. As part of the assumptions review, independent consulting actuaries determine a range of reasonable expected investment returns for the pension plan as a whole based on their analysis of expected future returns for each asset class weighted by the allocation of the assets. The range of returns developed relies both on forecasts, which include the actuarial firm's expected long-term rates of return for each significant asset class or economic indicator, and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class. As a result, the expected rate of return on pension plan assets of the North American pension plan was 7.50% for the year 2007.

The investment policy, utilizing a target investment allocation of 35.80% equity and 64.20% long-term US bonds, considers that there will be a time horizon for invested funds of more than five years. The total portfolio will be measured against a policy index that reflects the asset class benchmarks and the target asset allocation. The plan policy does not allow investments in securities of FMC-AG & Co. KGaA or other related party securities. The performance benchmarks for the separate asset classes include: S&P 500 Index, Russell 2000 Growth Index, MSCI EAFE Index, Lehman U.S. Long Government/Credit bond Index and the HFRI Fund of Funds Index.

The following schedule describes Fresenius Group's allocation for its funded plans.

in %	Allocation 2007	Allocation 2006	Target allocation
Categories of plan assets			
Equity securities	36.20	40.05	38.63
Debt securities	60.81	57.34	59.52
Real estate	0.41	1.07	0.74
Other	2.58	1.54	1.11
Total	**100.00**	**100.00**	**100.00**

The overall expected long-term rate of return on assets of the Fresenius Group amounts to 7.06% compounded annually. Contributions to plan assets for the fiscal year 2008 are expected to amount to € 4 million.

DEFINED CONTRIBUTION PLANS

Fresenius Group's total expense under defined contribution plans for 2007 was € 20 million (2006: € 18 million). The main part relates to the North American savings plan, which employees of FMCH can join. Employees can deposit up to 75% of their pay up to an annual maximum of US$15,500 if under 50 years old (US$20,500 if 50 or over) under this savings plan. Fresenius Medical Care will match 50% of the employee deposit up to a maximum Company contribution of 3% of the employee's pay. Fresenius Medical Care's total expense under this defined contribution plan for the years ended December 31, 2007 and 2006 was € 17 million and € 16 million, respectively.

22. TRUST PREFERRED SECURITIES

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

The trust preferred securities entitle the holders to distributions at a fixed annual rate of the stated amount and are mandatorily redeemable after ten years. Earlier redemption at the option of the holders may also occur

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

The indentures governing the notes held by the Fresenius Medical Care Capital Trusts contain affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Some of the covenants limit Fresenius Medical Care's indebtedness and its investments, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. As of December 31, 2007, Fresenius Medical Care was in compliance with all financial covenants under all trust preferred securities agreements.

The trust preferred securities outstanding as of December 31, 2007 and 2006 were as follows:

	Year issued	Stated amount	Interest rate	Mandatory redemption date	2007 in million €	2006 in million €
Fresenius Medical Care Capital Trust II . .	1998	US$450 million	7⅞%	Feb 1, 2008	301	330
Fresenius Medical Care Capital Trust III. .	1998	DM300 million	7⅜%	Feb 1, 2008	154	154
Fresenius Medical Care Capital Trust IV. .	2001	US$225 million	7⅞%	Jun 15, 2011	149	165
Fresenius Medical Care Capital Trust V . .	2001	€ 300 million	7⅜%	Jun 15, 2011	297	297
Trust preferred securities					**901**	**946**

The trust preferred securities of Fresenius Medical Care Capital Trust II und III were due on February 1, 2008 and are therefore classified as a short-term liability and shown as current portion in an amount of € 455 million at December 31, 2007. Fresenius Medical Care used existing credit facilities for the repayment on February 1, 2008.

23. MINORITY INTEREST

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

in million €	2007	2006
Minority interest in FMC-AG &Co. KGaA	**2,426**	**2,362**
Minority interest in the business segments		
Fresenius Medical Care.	72	57
Fresenius Kabi	27	23
Fresenius ProServe	119	119
Corporate/Other	—	−1
Total minority interest	**2,644**	**2,560**

Minority interest increased in 2007 by € 84 million to € 2,644 million. The change resulted from the minorities' share of profit of € 383 million, dividend payments of € 116 million and from negative currency effects as well as first-time consolidations in a total amount of € 183 million.

24. SHAREHOLDERS' EQUITY

SUBSCRIBED CAPITAL

Development of subscribed capital

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

On December 4, 2006, at the Extraordinary General Meeting, Fresenius AG's shareholders approved a new division of the subscribed capital in connection with a capital increase from the Company's funds. The registration in the commercial register took place on January 24, 2007. Through a conversion of capital

reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided into 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is € 1.00 per share. (See Note 1.II, Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital.)

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

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

Notification by shareholders

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

Fidelity International, with its registered office in Great Britain, Tadworth, has notified Fresenius SE in the name of and on behalf of FIL Limited, Hamilton, Bermuda, which changed its name from Fidelity International Limited to FIL Limited with effect from February 1, 2008, pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) of the following: On February 4, 2008, FIL Limited exceeded the thresholds of 3% and 5% of the voting rights in Fresenius SE, Else-Kröner-Strasse 1, 61352 Bad Homburg v.d.H., Germany. On that date, FIL Limited held 6.03% of the voting rights in Fresenius SE arising from 4,675,538 voting rights. All voting rights in Fresenius SE were attributed to FIL Limited pursuant to section 22 (1) sentence 1 No. 6 WpHG.

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

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

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

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

Julius Baer Investment Management LLC, with registered offices in New York, 330 Madison Avenue, United States, notified Fresenius AG in accordance with Section 21 (1) WpHG that its voting rights in Fresenius AG, Else-Kröner-Strasse 1, Bad Homburg v.d.H., Germany, exceeded the threshold of 3% on February 22, 2007 and amounted to 3,03% (exact number of voting rights: 2,342,190 shares) both in relation to the total number of voting rights of the issuer and in relation to all voting shares of the same share class. The voting rights are entirely attributable to Julius Baer Investment Management LLC, 330 Madison Avenue, NY 10017 New York, United States, pursuant to Section 22 (1) sentence 1 No. 6 WpHG.

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

APPROVED CAPITAL

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

- to increase Fresenius SE's subscribed capital by a nominal total amount of up to € 12,800,000.00 through a single or multiple issue of new bearer ordinary shares and/or non-voting bearer preference shares against cash contributions (Approved Capital I). A subscription right must be granted to shareholders.
- to increase Fresenius SE's subscribed capital by a nominal total amount of up to € 6,400,000.00 through a single or multiple issue of new bearer ordinary shares and/or non-voting bearer preference shares against cash contributions and/or contributions in kind (Approved Capital II). The Management Board is authorized, with the consent of the Supervisory Board, to decide on the exclusion of the shareholders' subscription right (§§ 203 (2), 186 (3) sentence 4 of the German Stock Corporation Act (AktG)). As of December 31, 2006, the Approved Capital II decreased by € 903,884.80 to € 5,496,115.20 due to the payment in shares in connection with the acquisition of HUMAINE.

CONDITIONAL CAPITAL

Corresponding to the stock option plans, the Conditional Capital of Fresenius SE is divided into Conditional Capital I and Conditional Capital II. Both exist to secure the subscription rights in connection with already issued stock options on bearer ordinary shares and bearer preference shares of the stock option plans of 1998 and 2003 (see Note 31, Stock options).

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

The following table shows the development of the Conditional Capital:

in €	Ordinary shares	Preference shares	Total
Conditional Capital I Fresenius AG Stock Option Plan 1998	985,983.00	985,983.00	1,971,966.00
Conditional Capital II Fresenius AG Stock Option Plan 2003	2,552,481.00	2,552,481.00	5,104,962.00
Total Conditional Capital as of January 1, 2007	**3,538,464.00**	**3,538,464.00**	**7,076,928.00**
Fresenius AG Stock Option Plan 1998 — options exercised	–217,677.00	–217,677.00	–435,354.00
Fresenius AG Stock Option Plan 2003 — options exercised	–187,770.00	–187,770.00	–375,540.00
Total Conditional Capital as of December 31, 2007	**3,133,017.00**	**3,133,017.00**	**6,266,034.00**

CAPITAL RESERVES

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

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

OTHER RESERVES

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

DIVIDENDS

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

At the Annual General Meeting in May 2007, a resolution was passed to pay a dividend of € 0.57 per bearer ordinary share and € 0.58 per bearer preference share, i.e. a total dividend of € 88.8 million was resolved and paid.

25. OTHER COMPREHENSIVE INCOME (LOSS)

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

Changes in the components of other comprehensive income (loss) in 2007 and 2006 were as follows:

	2007			2006		
in million €	Amount before taxes	Tax effect	Amount after taxes	Amount before taxes	Tax effect	Amount after taxes
Unrealized gains/losses on securities	—	—	—	—	—	—
Changes in unrealized gains/losses on derivative financial instruments	−65	26	−39	24	−8	16
Change in unrealized gains/losses	−62	25	−37	21	−7	14
Realized gains/losses due to reclassifications	−3	1	−2	3	−1	2
Benefit obligation adjustment	66	−19	47	1	3	4
Foreign currency translation adjustment	−120	0	−120	−127	0	−127
Other comprehensive income (loss)	**−119**	**7**	**−112**	**−102**	**−5**	**−107**

OTHER NOTES

26. COMMITMENTS AND CONTINGENT LIABILITIES

OPERATING LEASES AND RENTAL PAYMENTS

Fresenius Group's subsidiaries lease office and manufacturing buildings as well as machinery and equipment under various lease agreements expiring on dates through 2101. Rental expense recorded for operating leases for the years ended December 31, 2007 and 2006 was € 372 million and € 369 million, respectively.

Future minimum rental payments under non-cancellable operating leases for the years subsequent to December 31, 2007 are:

for the fiscal years	in million €
2008	267
2009	235
2010	199
2011	165
2012	133
Thereafter	406
Total	**1,405**

As of December 31, 2007, future investment commitments existed up to the year 2015 from the acquisition contracts for hospitals at projected costs of up to € 226 million. Thereof € 36 million relate to the year 2008.

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

LEGAL PROCEEDINGS

Commercial litigation

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

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

In 2003, Fresenius Medical Care reached agreement with the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate and W. R. Grace & Co. in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to Fresenius Medical Care that arise out of the bankruptcy of W. R. Grace & Co. Under the terms of the settlement agreement as amended (Settlement Agreement), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and Fresenius Medical Care

will receive protection against existing and potential future W. R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W. R. Grace & Co. consolidated tax group upon confirmation of a W. R. Grace & Co. bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, Fresenius Medical Care will pay a total of US$115 million without interest to the W. R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation.

No admission of liability has been or will be made. The Settlement Agreement has been approved by the U.S. District Court. Subsequent to the Merger, W. R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (Sealed Air, formerly: Grace Holding, Inc.). Fresenius Medical Care is engaged in litigation with Sealed Air to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by Fresenius Medical Care relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of Fresenius Medical Care's payment obligation, this litigation will be dismissed with prejudice.

On April 4, 2003, FMCH filed a suit in the U.S. District Court for the Northern District of California, styled 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 the use of touch screen interfaces for hemodialysis machines. Baxter filed counterclaims against FMCH seeking more than US$140 million in monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. On July 17, 2006, the court entered judgment on a jury verdict in favor of FMCH finding that all the asserted claims of the Baxter patents are invalid as obvious and/or anticipated in light of prior art. On February 13, 2007, the court granted Baxter's motion to set aside the jury's verdict in favor of FMCH and reinstated the patents and its prior infringement findings. Following a retrial on damages, the court entered judgment on November 6, 2007 in favor of Baxter on a jury award of US$14.3 million. Fresenius Medical Care intends to appeal the court's rulings.

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

Other litigation and potential exposures

RCG was named as a nominal defendant in a second amended complaint filed September 13, 2006, in the Chancery Court for the State of Tennessee Twentieth Judicial District at Nashville against former officers and directors of RCG which purports to constitute a class action and derivative action relating to alleged unlawful actions and breaches of fiduciary duty in connection with the RCG acquisition and in connection with alleged improper backdating and/or timing of stock option grants. The amended complaint was styled Indiana State District Council of Laborers and Hod Carriers Pension Fund, on behalf of itself and all others similarly situated and derivatively on behalf of RCG, Plaintiff, vs. RCG, Gary Brukardt, William P. Johnston, Harry R. Jacobson, Joseph C. Hutts, William V. Lapham, Thomas A. Lowery, Stephen D. McMurray, Peter J. Grua, C. Thomas Smith, Ronald Hinds, Raymond Hakim, and R. Dirk Allison, Defendants. The complaint sought damages against former officers and directors and did not state a claim for money damages directly against RCG. On August 30, 2007, this suit was dismissed by the trial court without leave to amend. Plaintiff subsequently appealed and the matter remains pending in the appellate court of Tennessee.

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

FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), received a subpoena from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. FMCH received its subpoena in April 2005. RCG received its subpoena in August 2005. The subpoenas require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relationships, joint ventures, and anemia management programs, RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, and RCG's purchase of dialysis equipment from FMCH. The Office of the Inspector General of the U.S. Department of Health and Human Services and the U.S. Attorney's office for the Eastern District of Texas have also confirmed that they are participating in the review of the anemia management program issues raised by the U.S. Attorney's office for the Eastern District of Missouri. On July 17, 2007, the U.S. Attorney's office filed a civil complaint against RCG and FMCH in its capacity as RCG's current corporate parent in the United States District Court, Eastern District of Missouri. The complaint seeks monetary damages and penalties with respect to issues arising out of the operation of RCG's Method II supply company through 2005, prior to the date of FMCH's acquisition of RCG. The complaint is styled United States of America ex rel. Julie Williams et al. vs. Renal Care Group, Renal Care Group Supply Company and FMCH. Fresenius Medical Care believes that RCG's operation of its Method II supply company was in compliance with applicable law and will defend this litigation vigorously. Fresenius Medical Care will continue to cooperate in the ongoing investigation. An adverse determination in this investigation or litigation or any settlement arising out of this investigation or litigation could result in significant financial penalties, and any adverse determination in any litigation arising out of the investigation could have a material adverse effect on Fresenius Medical Care's business, financial condition and results of operations.

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

In August 2007, the Sheet Metal Workers National Pension Fund filed a complaint in the United States District Court for the Central District of California, Western Division (Los Angeles), alleging that Amgen, Inc., Fresenius Medical Care and Davita, Inc. marketed Amgen's products, Epogen® and Aranesp®, to hemodialysis patients for uses not approved by the FDA and thereby caused a putative class of commercial insurers to pay for unnecessary prescriptions of these products. Motions have been filed to consolidate this case with others against Amgen alone in a single case under the federal rules for multidistrict litigation. FMCH intends to contest and defend this litigation vigorously. An adverse determination in this litigation could have a material adverse effect on Fresenius Medical Care's business, financial condition and results of operations.

On November 27, 2007, the United States District Court for the Western District of Texas (El Paso) unsealed and permitted service of two complaints previously filed under seal by a qui tam relator, a former FMCH local clinic employee. (Qui tam is a legal provision under the United States False Claims Act, which allows for private individuals to bring suit on behalf of the U.S. federal government, as far as such individuals believe to have knowledge of presumable fraud committed by third parties.) The first complaint alleges that a

nephrologist unlawfully employed in his practice an assistant to perform patient care tasks that the assistant was not licensed to perform and that Medicare billings by the nephrologist and FMCH therefore violated the False Claims Act. The second complaint alleges that FMCH unlawfully retaliated against the relator by discharging her from employment constructively. The United States Attorney for the Western District of Texas has declined to intervene and to prosecute on behalf of the United States. Counsel for the nephrologist has asserted that a criminal investigation of the relator's allegations is continuing. FMCH has received no other notice of the pendency of any criminal investigation related to this matter. FMCH intends to defend vigorously against the allegations in the two complaints. The outcome of this litigation, or of any related investigation, cannot be predicted at this time.

Accrued special charge of Fresenius Medical Care for legal matters

At December 31, 2001, Fresenius Medical Care recorded a pre-tax special charge of US$258 million to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. With the exception of the proposed US$115 million (€ 78 million) payment under the Settlement Agreement, all other matters included in the special charge have been resolved. While Fresenius Medical Care believes that its remaining accrual reasonably estimates its currently anticipated costs related to the continued defense and resolution of this matter, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual.

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

27. FINANCIAL INSTRUMENTS

VALUATION OF FINANCIAL INSTRUMENTS

Fair value of financial instruments

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

in million €	Carrying amount	2007 Fair value	Carrying amount	2006 Fair value
Cash and cash equivalents	361	361	261	261
Assets recognized at carrying amount	2,167	2,167	2,096	2,096
Liabilities recognized at carrying amount	6,147	6,118	6,299	6,384
Derivatives	−16	−16	39	39

Derivatives were recognized at gross values as other current assets in an amount of € 18 million and other liabilities in an amount of € 34 million.

Estimation of fair values of financial instruments

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

Cash and cash equivalents are stated at nominal value which equals the fair value.

Short-term financial instruments like accounts receivable and payable and short-term borrowings are valued at their carrying amounts, which are reasonable estimates of the fair value due to the relatively short period to maturity of these instruments.

The fair values of senior notes and trust preferred securities are based on market prices and quotes as of the balance sheet date. The fair values of other fixed-rate financial liabilities, for which market quotes are not

available, are calculated as present value of the respective future cash flows. To determine these present values, the prevailing interest rates and credit spreads for the Fresenius Group as of the balance sheet date are used.

The fair values of financial liabilities with floating interest rates approximate their carrying amounts as the interest rates for these liabilities are predominantly updated every three months with interest rates reflecting actual market conditions at the time of update.

Derivates consisting of interest rate swaps and foreign exchange forward contracts are valued as follows: The fair value of interest rate swaps is calculated by discounting the future cash flows on the basis of the market interest rates applicable for the remaining term of the contract as of the balance sheet date. To determine the fair value of foreign exchange forward contracts, the contracted forward rate is compared to the current forward rate for the remaining term of the contract as of the balance sheet date. The result is then discounted on the basis of the market interest rates prevailing at the balance sheet date for the respective currency.

Effects of non-derivative financial instruments recorded in the consolidated statement of income

The effects of non-derivative financial instruments recorded in the consolidated statements of income consisted of interest income of € 27 million and interest expenses of € 395 million, as well as allowance for doubtful accounts in an amount of € 152 million.

MARKET RISK

General

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

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

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

The Fresenius Group defines benchmarks for individual exposures in order to quantify interest and foreign exchange risks. The benchmarks are derived from achievable and reasonable market rates. Depending on the individual benchmarks, hedging strategies are determined and implemented.

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

Derivative financial instruments

Foreign exchange risk management

The Fresenius Group has determined the euro as its financial reporting currency. Therefore, foreign exchange translation risks resulting from the fluctuation of exchange rates between the euro and the local

currencies in which the financial statements of the foreign subsidiaries are prepared have an impact on results of operations and financial positions reported in the consolidated financial statements.

Besides translation risks, foreign exchange transaction risks exist, which mainly relate to transactions such as purchases and sales as well as engineering and services provided by Fresenius Group which are denominated in foreign currencies. A major part of transaction risks arise from products manufactured in Fresenius Group's worldwide production sites which are usually denominated in the local currency of the respective manufacturer and are delivered worldwide to various Fresenius Group entities. These intragroup sales are mainly denominated in euros, US dollars and yens. Therefore, Group companies are exposed to changes of the foreign exchange rates between the invoicing currencies and the local currencies in which they conduct their businesses. For the purpose of hedging existing and foreseeable foreign exchange transaction exposures, the Fresenius Group enters into foreign exchange forward contracts and, on a small scale, foreign exchange options. Foreign exchange forward contracts and options are not used for purposes other than hedging foreign exchange exposures. At December 31, 2007, the Fresenius Group had no foreign exchange options.

As of December 31, 2007, the notional amounts of foreign exchange contracts totaled € 739 million with a fair value of € 14 million. These foreign exchange contracts have been entered into to hedge risks from operational business and in connection with intercompany loans in foreign currency. The predominant part of the foreign exchange forward contracts to hedge risks from operational business was recognized as cash flow hedge.

The hedge-effective portion of changes in the fair value of foreign exchange forward contracts that are designated and qualified as cash flow hedges of forecasted product purchases and sales is reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of cost of sales or as selling, general and administrative expenses as well as interest income or expenses in the same period in which the hedged transaction affects earnings. After-tax gains of € 6 million (€ 8 million pre-tax) for the year ended December 31, 2007 are deferred in accumulated other comprehensive income and will mainly be reclassified into earnings during 2008. During 2007, the Fresenius Group reclassified after-tax unrealized gains of € 1 million (€ 2 million pre-tax) from accumulated other comprehensive income (loss) into the profit and loss statement.

As of December 31, 2007, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 24 months.

In order to estimate and quantify the transaction risks from foreign currencies, the Fresenius Group considers the cash flows reasonably expected for the following three months as the relevant assessment basis for a sensitivity analysis. For this analysis, the Fresenius Group assumes that all foreign exchange rates in which the Group had unhedged positions as of reporting date would be negatively impacted by 10%. By multiplying the calculated unhedged risk positions with this factor, the maximum possible negative impact of the foreign exchange transaction risks on the Group's results of operations would be € 10 million.

Interest rate risk management

Fresenius Group's interest rate risks mainly arise from money market and capital market transactions of the Group for financing its business activities. Interest rate hedging transactions are primarily concluded by Fresenius SE and FMC-AG & Co. KGaA.

The Fresenius Group enters into interest rate swaps and, on a small scale, into interest rate options in order to hedge against interest rate exposures arising from short-term and long-term borrowings at variable rates by swapping them into fixed rates. In addition, the Fresenius Group uses interest rate swaps to hedge against changes of the fair value of the underlying fixed rate financial liabilities.

For purposes of analyzing the impact of changes in the relevant reference interest rates on Fresenius Group's results of operations, the Group calculates the portion of financial debt which bears variable interest rate and which has not been hedged by means of interest rate swaps or options against rising interest rates, plus the portion of financial debt which bears fixed interest rates and which has been converted into floating

rate debt by using interest rate swaps. For this particular part of its liabilities, the Fresenius Group assumes an increase in the reference rates of 0.5% compared to the actual rates as of the balance sheet date. The corresponding additional annual interest expense is then compared to the Group net income. This analysis shows that an increase of 0.5% in the relevant reference rates would have an effect of less than 1% on the Group's consolidated net income.

Cash Flow Hedge

The Fresenius Group enters into interest rate swaps that are designated as cash flow hedges effectively converting certain variable interest rate payments, resulting from existing revolving loans and Euro Notes (Schuldscheindarlehen) mainly denominated in US dollars or euros, into fixed interest rate payments. The US dollar interest rate swaps with a notional volume of US$3,465 million and a fair value of US$-35 million expire at various dates between 2008 and 2012. These interest rate derivatives include interest rate swaps with a notional amount of US$650 million entered into in 2007, which will become effective as of March 31, 2008. Until that date, interest rate swaps with a notional amount of US$515 million will expire. The Euro interest rate swaps with a notional volume of € 217 million and a fair value of € –2 million expire between 2008 and 2014. The US dollar interest rate swaps bear an average interest rate of 4.43% and the Euro interest rate swaps bear an average interest rate of 4.56%.

At December 31, 2007, pre-tax losses of € 26 million (2006: pre-tax gains of € 45 million), were recognized in accumulated other comprehensive income (loss). The equivalent amounts of after-tax losses and after-tax gains were € 16 million and € 28 million, respectively. Interest payables and interest receivables in connection with the swap agreements are accrued and recorded as an adjustment to the interest expense at each reporting date.

Fair Value Hedge

Fresenius Medical Care entered into US dollar interest rate swaps designated as fair value hedges to hedge the risk of changes in the fair value of parts of its US dollar fixed rate borrowings. These interest rate swaps effectively convert the fixed interest payments on Fresenius Medical Care Capital Trust II trust preferred securities denominated in US dollars into variable interest rate payments. Since the critical terms of the interest rate swap agreements are identical to the terms of Fresenius Medical Care Capital Trust II trust preferred securities, the hedging relationship is highly effective and no ineffectiveness affects earnings. These interest rate swaps are reported at fair value in the balance sheet. The reported amount of the hedged portion of fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. The effect of hedged underlyings recognized in the income statement amounted to € -7 million (2006: € –3 million) and was mainly offset by the effect of the hedging instruments recognized in the income statement in an amount of € 7 million (2006: € 3 million). At December 31, 2007, the notional volume and fair value of these swaps at Fresenius Medical Care was US$450 million (€ 306 million) and US$-6 million (€ –4 million), respectively. On February 1, 2008, the fair value hedges of Fresenius Medical Care expired together with the mandatory redemption of the underlying debt.

CREDIT RISK

The Fresenius Group is exposed to potential losses in the event of non-performance by counterparties to derivative financial instruments. With respect to derivative financial instruments it is not expected that any counterparty fails to meet its obligations as the counterparties are highly rated financial institutions. The maximum credit exposure of derivatives is represented by the fair value of those contracts with a positive fair value amounting to € 0.4 million for interest rate derivatives and € 19 million for foreign exchange derivatives at December 31, 2007. The maximum credit risk resulting from the use of non-derivative financial instruments is defined as the total amount of all receivables. In order to control this credit risk, the Management of the Fresenius Group performs an ageing analysis of trade accounts receivable. For details on the ageing analysis and on the allowance for doubtful accounts, please see Note 12, Trade accounts receivable.

LIQUIDITY RISK

The liquidity risk is defined as the risk that a company is potentially unable to meet its financial obligations. The Management of the Fresenius Group manages the liquidity of the Group by means of effective working capital and cash management as well as an anticipatory evaluation of refinancing alternatives. The Management of the Fresenius Group believes that existing credit facilities as well as the cash generated by operating activities and additional short-term borrowings are sufficient to meet the Company's foreseeable demand for liquidity (see Note 19, Debt and liabilities from capital lease obligations).

28. SUPPLEMENTARY INFORMATION ON CAPITAL MANAGEMENT

Fresenius has a solid financial profile. Capital management includes both equity and debt. A principal objective of Fresenius Group's capital management is to optimize the weighted average cost of capital. Further, it is sought to achieve a balanced mix of equity and debt. To secure growth on a long-term basis the use of a capital increase may also be considered in exceptional cases, for instance to finance a major acquisition.

Due to the Company's diversification within the health care sector and the strong market positions of the business segments in global, growing and non-cyclical markets, high, stable, predictable and sustainable cash flows are generated. They allow a reasonable proportion of debt, i.e. the employment of an extensive mix of financial liabilities. Moreover, Fresenius Group's customers are almost invariably of high credit quality.

Equity and debt have developed as follows:

SHAREHOLDERS' EQUITY AND TOTAL ASSETS

in million €	December 31, 2007	December 31, 2006
Shareholders' equity including minority interest	6,059	5,728
Total assets	15,324	15,024
Equity ratio	39.54%	38.13%

Fresenius SE is not subject to any capital requirements provided for in its Articles of Association. Fresenius SE has obligations to issue shares out of the Conditional Capital relating to the exercise of stock options and convertible bonds on the basis of the existing 1998 and 2003 stock option plans (see Note 31, Stock options).

DEBT

in million €	December 31, 2007	December 31, 2006
Debt	5,699	5,872
Total liabilities and shareholders' equity	15,324	15,024
Debt ratio	37.19%	39.08%

Assuring financial flexibility is the top priority in the Group's financing strategy. This flexibility is achieved through a wide range of financing instruments and a high degree of diversification of the investors. The Fresenius Group's maturity profile displays a broad spread of maturities with a high proportion of medium and long-term financings. In the choice of financing instruments market capacity, investor diversification, flexibility, credit conditions and the existing maturity profile are taken into account.

A key financial performance indicator for the Fresenius Group is the net debt/EBITDA ratio, which is measured on the basis of US GAAP figures. This ratio was 2.6 as of December 31, 2007. The aim is to reduce this further. To achieve this goal, Fresenius Group's focus is primarily on earnings growth and sustained strong cash flows as well as debt reduction. In the medium term, the Fresenius Group plans to reach a net debt/EBITDA ratio of 2.5. This target is on the assumption that no major acquisition opportunities arise.

Fresenius Group's financing strategy is reflected in its credit ratings. Fresenius is covered by both of the two leading rating agencies, Moody's and Standard & Poor's. Fresenius SE currently has a BB rating from Standard & Poor's and a Ba2 rating from Moody's.

	Standard & Poor's	Moody's
Company rating	BB	Ba2
Senior debt	BB	Ba2
Outlook	stable	positive

29. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

The cash flow statements of the Fresenius Group for the fiscal years 2007 and 2006 are shown on pages F-39 to F-40.

Cash funds reported in the cash flow statement and in the balance sheet comprise cash on hand, checks, securities and cash at bank which are readily convertible within three months and are subject to insignificant risk of changes in value.

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

in million €	2007	2006
Interest paid	388	393
Income taxes paid	323	401

Cash paid for acquisitions consisted of the following:

in million €	2007	2006
Assets acquired	779	4,196
Liabilities assumed	−135	−402
Minority interest	−9	−45
Notes assumed in connection with acquisitions	−169	−24
Cash paid	466	3,725
Cash acquired	−22	−68
Cash paid for acquisitions, net	**444**	**3,657**

30. NOTES ON SEGMENT REPORTING

GENERAL

The segment reporting tables shown on pages F-43 to F-44 of this annual report are an integral part of the Notes.

The Fresenius Group has identified the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe which corresponds to the internal organizational and reporting structures (Management Approach) at December 31, 2007.

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

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

The business segments were identified in accordance with FAS 131 (Disclosures about Segments of an Enterprise and Related Information), which defines the segment reporting requirements in the annual financial

statements and interim reports with regard to the operating business, product and service businesses and regions. The business segments of the Fresenius Group are as follows:

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats 173,863 patients in its 2,238 own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care to treat critically and chronically ill patients. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe is a leading German, private hospital operator with 60 facilities. Moreover the company offers engineering and services for hospitals and other health care facilities. As of January 1, 2008, Fresenius ProServe was replaced by two new business segments — Fresenius Helios and Fresenius Vamed, which so far have formed Fresenius ProServe. Fresenius Helios is focused on hospital operations. Fresenius Vamed offers engineering and services for hospitals and other health care facilities.

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

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

NOTES ON THE BUSINESS SEGMENTS

The key figures used by the Management Board to assess segment performance, have been selected in such a way that they include all items of income and expenses which fall under the area of responsibility of the business segments. The Management Board is convinced that the most suitable performance indicator is the operating income (EBIT). The Management Board believes that, in addition to the operating income, the figure for earnings before interest, taxes and depreciation/amortization (EBITDA) can also help investors to assess the ability of the Fresenius Group to generate cash flows and to meet its financial obligations. The EBITDA figure is also the basis for assessing Fresenius Group's compliance with the terms of its credit agreements (e.g. the Fresenius Medical Care 2006 Senior Credit Agreement).

Depreciation and amortization is presented for the intangible assets with definite useful lives and property, plant and equipment of the respective business segment.

Net interest comprises interest expenses and interest income.

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

The operating cash flow is the cash provided by/used for operating activities.

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

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

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

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

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

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

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

In addition, the key indicators "Depreciation and amortization in% of sales" and "Operating cash flow in% of sales" are also disclosed.

Reconciliation of key figures to consolidated earnings

in million €	2007	2006
Total EBITDA of reporting segments	2,076	1,883
Depreciation and amortization	−421	−399
General corporate expenses Corporate/Other (EBITDA)	−46	−40
Interest expenses	−395	−418
Interest income	27	23
Total earnings before income taxes and minority interest	**1,241**	**1,049**
Total EBIT of reporting segments	1,666	1,495
General corporate expenses Corporate/Other (EBIT)	−57	−51
Interest expenses	−395	−418
Interest income	27	23
Total earnings before income taxes and minority interest	**1,241**	**1,049**
Depreciation and amortization of reporting segments	410	388
Depreciation and amortization Corporate/Other	11	11
Total depreciation and amortization	**421**	**399**

Reconciliation of net debt with the consolidated balance sheet

in million €	December 31, 2007	December 31, 2006
Short-term borrowings	362	330
Short-term liabilities and loans from related parties	—	1
Current portion of long-term debt and liabilities from capital lease obligations	115	265
Current portion of trust preferred securities of Fresenius Medical Care Capital Trusts	455	0
Long-term debt and liabilities from capital lease obligations, less current portion	2,887	3,230
Senior Notes	1,434	1,100
Trust preferred securities of Fresenius Medical Care Capital Trusts	446	946
Debt	**5,699**	**5,872**
less cash and cash equivalents	361	261
Net debt	**5,338**	**5,611**

The following table shows the non-current assets by geographical region:

in million €	December 31, 2007	December 31, 2006
Germany	2,711	2,282
Europe (excluding Germany)	1,838	1,653
North America	5,765	6,297
Asia-Pacific	358	265
Latin America	192	162
Africa	36	32
Total non-current assets[1]	**10,900**	**10,691**

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

In 2007, the Fresenius Group generated sales of € 2,476 million (2006: € 2,322 million) in Germany.

31. STOCK OPTIONS

COMPENSATION COST IN CONNECTION WITH THE STOCK OPTION PLANS OF THE FRESENIUS GROUP

The Fresenius Group recognized compensation cost in an amount of € 28 million for stock options granted since 1998. For stock incentive plans which are performance based, the Fresenius Group recognizes compensation cost over the vesting periods, based on the then current market values of the underlying stock.

FAIR VALUE OF STOCK OPTIONS

The Fresenius Group elected to adopt FAS 123(R) prospectively.

Fresenius Group's determination of the fair value of grants is based on the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for estimating the fair values of options that have no vesting restrictions. Option valuation models require the input of highly subjective assumptions including expected stock price volatility. Fresenius Group's assumptions are based upon its past experiences, market trends and the experiences of other entities of the same size and in similar industries. Fresenius Group's stock options have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option.

The weighted-average assumptions for the calculation of the fair value of grants made during the years 2007 and 2006 are as follows:

	2007	2006
Expected dividend yield	0.94%	1.50%
Risk-free interest rate	4.48%	3.80%
Expected volatility	29.06%	35.50%
Expected life of options	5.3 years	5.3 years
Exercise price per option in €	56.74	40.45[1]

(1) Before the share split became effective on January 24, 2007, the exercise price per option was € 121.36.

The expected volatility results from the historical volatility calculated over the expected life of options. The volatility was determined when the fair value of stock options was calculated for the first time and since then has been controlled every year upon issuance of a new tranche.

FRESENIUS SE STOCK OPTION PLANS

Description of the Fresenius SE stock option plans in place

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

Under the 2003 Plan, 1,440,000 convertible bonds with a par value of € 2.56 each could be granted in total until the entry of the share split on January 24, 2007 (see Note 1.II, Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital). After the share split (ratio 1 (old) : 3 (in the future)), 1,080,000 convertible bonds with a par value of € 1.00 each could be granted in total during 2007. The bonds were granted exclusively to the members of the Management Board of Fresenius SE, to members of the management of affiliated companies, to employees of Fresenius SE and to employees of its affiliated companies. Members of the Management Board and employees of FMC-AG & Co. KGaA and its affiliated companies which are only affiliated with Fresenius SE through FMC-AG & Co. KGaA were excluded. The convertible bonds entitle to the subscription of up to 1,260,000 bearer ordinary shares and up to 1,260,000 non-voting bearer preference shares of Fresenius SE. Members of the Management Board of Fresenius SE were entitled, in total, up to 560,000 convertible bonds giving the right to subscribe up to 280,000 bearer ordinary shares and the same number of non-voting bearer preference shares. Employees were entitled, in total, up to 1,960,000 convertible bonds giving the right to subscribe up to 980,000 bearer ordinary shares and the same number of non-voting bearer preference shares.

The convertible bonds bear interest at a rate of 5.5%. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of the convertible bond. Fresenius SE has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by Fresenius SE and are not reflected in the consolidated financial statements. The bonds expire in ten years and one third of them can be exercised beginning after two, three and four years after the grant date, respectively. Bonds which were not financed by a note from Fresenius SE are recognized as a liability on Fresenius Group's consolidated balance sheet.

Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target corresponds to the stock exchange quoted price of the ordinary or preference shares upon the first time the stock exchange quoted price exceeds the initial value (after the share split 1/3 of the initial value) by at least 25%. If converted after the share split the conversion price which entitles to three ordinary shares or preference shares, respectively, is equal to the triple of one third of the initial value. The initial value is the joint average stock exchange price of bearer ordinary shares and non-voting bearer preference shares during the last 30 trading days prior to the date of grant. The conversion price of options with-out a stock price target is the initial value. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15% less than if the employee elected options subject to the stock price target. Each convertible bond granted after the share split entitles to subscribe one ordinary or preference share, subject to payment of the conversion price. Bonds granted and converted prior to the share split were entitled to subscribe one ordinary or preference share, conversion after the share split entitles to three ordinary or preference shares. Up to 20% of the total amount available for the issuance of awards under the 2003 Plan could be issued each year.

During 1998, Fresenius AG adopted the 1998 Plan for members of the Management Board and executive employees. This stock incentive plan was replaced by the 2003 Plan and no options have been granted since 2003. Under the 1998 Plan, eligible employees have the right to acquire ordinary and preference shares of Fresenius SE. Options granted under this plan have a ten-year term, and one third of them vest on each of the second, third and fourth anniversary of the grant date. Prior to the share split, one ordinary or one preference share could be acquired for each option. After the share split in 2007, each option entitles to acquire three ordinary or preference shares. The maximum number of ordinary or preference shares to be issued to the members of the Management Board or executive employees has been adjusted accordingly.

Transactions during the year 2007

In 2007, Fresenius SE awarded 913,420 stock options, including 131,580 options to members of the Management Board of Fresenius SE, at a weighted-average exercise price of € 56.74, a weighted-average fair value of € 19.22 each and a total fair value of € 18 million, one third of which will be amortized evenly over two, three and four years, respectively.

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

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

Stock option transactions are summarized as follows:

Ordinary shares December 31	**Number of options**	**Weighted-average exercise price in €**	**Number of options exercisable**
Balance 2005	2,295,885	24.56	1,085,940
Granted	451,380	39.98	
Exercised	563,898	25.87	
Forfeited	92,961	24.42	
Balance 2006	2,090,406	27.97	855,960
Granted	456,710	56.90	
Exercised	405,447	23.90	
Forfeited	19,673	32.51	
Balance 2007	2,121,996	34.93	822,094

Preference shares December 31	**Number of options**	**Weighted-average exercise price in €**	**Number of options exercisable**
Balance 2005	2,295,885	26.97	1,085,940
Granted	451,380	39.98	
Exercised	563,898	25.87	
Forfeited	92,961	24.42	
Balance 2006	2,090,406	29.21	855,960
Granted	456,710	56.58	
Exercised	405,447	25.68	
Forfeited	19,673	33.10	
Balance 2007	2,121,996	35.74	822,094

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at December 31, 2007:

Options for ordinary shares

	Options outstanding			Options exercisable		
Range of exercise price in €	Number of options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Number of options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €
10.01 – 15.00	153,756	5.50	13.65	153,756	5.50	13.65
15.01 – 20.00	142,557	4.59	19.64	142,557	4.59	19.64
20.01 – 25.00	262,232	5.58	22.05	161,603	5.01	22.10
25.01 – 30.00	391,391	6.90	28.40	132,627	5.81	28.07
30.01 – 35.00	220,260	3.11	30.72	220,260	3.11	30.72
35.01 – 40.00	481,836	8.39	39.26	11,291	7.50	35.51
45.01 – 50.00	13,254	8.50	48.81	0		
55.01 – 60.00	441,433	9.50	56.43	0		
70.01 – 75.00	15,277	9.50	70.54	0		
	2,121,996	7.00	34.93	822,094	4.68	23.55

Options for preference shares

	Options outstanding			Options exercisable		
Range of exercise price in €	Number of options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Number of options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €
10.01 – 15.00	167,169	5.50	12.04	167,169	5.50	12.04
15.01 – 20.00	214,178	6.50	19.00	113,549	6.50	19.00
20.01 – 25.00	129,144	4.50	21.13	129,144	4.50	21.13
25.01 – 30.00	439,445	6.31	28.91	180,681	4.66	28.31
30.01 – 35.00	125,073	3.58	34.73	125,073	3.58	34.73
35.01 – 40.00	50,724	7.50	38.52	11,291	7.50	38.52
40.01 – 45.00	526,299	7.41	40.83	95,187	2.50	42.12
50.01 – 55.00	13,254	8.50	53.01	0		
55.01 – 60.00	441,433	9.50	56.11	0		
70.01 – 75.00	15,277	9.50	70.14	0		
	2,121,996	7.00	35.74	822,094	4.68	25.30

At December 31, 2007, total unrecognized compensation costs related to non-vested options granted under the Fresenius SE plans were € 18 million. These costs are expected to be recognized over a weighted-average period of 2.2 years.

FRESENIUS MEDICAL CARE STOCK OPTION PLANS

Fresenius Medical Care AG&Co.KGaA Stock Option Plan 2006

On May 9, 2006, as amended on May 15, 2007, the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 (2006 Plan) was established by resolution of FMC-AG & Co. KGaA's Annual General Meeting with a conditional capital increase up to € 15 million subject to the issue of up to 15 million no par value bearer ordinary shares with a nominal value of € 1.00 each. Under the 2006 Plan, up to 15 million options can be issued, each of which can be exercised to obtain one ordinary share, with up to three million options designated for members of the Management Board of FMC Management AG, the General Partner, up to three million options designated for members of management boards of direct or indirect subsidiaries of FMC-AG & Co. KGaA and up to nine million options designated for managerial staff members of FMC-AG & Co. KGaA and such subsidiaries. With respect to participants who are members of the FMC

Management AG's Management Board, its Supervisory Board has sole authority to grant stock options and exercise other decision making powers under the 2006 Plan (including decisions regarding certain adjustments and forfeitures). The FMC Management AG has such authority with respect to all other participants in the 2006 Plan.

Options under the 2006 Plan can be granted the last Monday in July and/or the first Monday in December. The exercise price of options granted under the 2006 Plan shall be the average closing price on the Frankfurt Stock Exchange of FMC-AG & Co. KGaA's ordinary shares during the 30 calendar days immediately prior to each grant date. Options granted under the 2006 Plan have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is subject to satisfaction of success targets measured over a three-year period from the grant date. For each such year, the success target is achieved if FMC-AG & Co. KGaA's adjusted basic income per ordinary share (EPS), as calculated in accordance with the 2006 Plan, increases by at least 8% year over year during the vesting period, beginning with EPS for the year of grant as compared to EPS for the year preceding such grant. Calculation of EPS under the 2006 Plan excluded, among other items, the costs of the transformation of Fresenius Medical Care's legal form and the conversion of preference shares into ordinary shares. For each grant, one-third of the options granted are forfeited for each year in which EPS does not meet or exceed the 8% target. The success target for 2007 and 2006 was met. Vesting of the portion or portions of a grant for a year or years in which the success target is met does not occur until completion of the entire three-year vesting period. Upon exercise of vested options, FMC-AG & Co. KGaA has the right to issue ordinary shares it owns or that it purchases in the market in place of increasing capital by the issuance of new shares.

Options granted under the 2006 Plan to US participants are non-qualified stock options under the United States Internal Revenue Code of 1986, as amended. Options under the 2006 Plan are not transferable by a participant or a participant's heirs, and may not be pledged, assigned, or otherwise disposed of.

Fresenius Medical Care 2001 International Stock Option Plan

Under the Fresenius Medical Care 2001 International Stock Incentive Plan (2001 Plan), options in the form of convertible bonds with a principal of up to € 12 million were issued to the members of the Management Board and other employees of FMC-AG & Co. KGaA representing grants for up to 12 million non-voting preference shares. The convertible bonds have a par value of € 1.00 and bear interest at a rate of 5.5%. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of and secured by the bond. FMC-AG & Co. KGaA has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by FMC-AG & Co. KGaA and are not reflected in the consolidated financial statements. The options expire ten years from issuance and can be exercised beginning two, three or four years after issuance. Compensation costs related to awards granted under this plan are amortized on a straight-line basis over the vesting period for each separately vesting portion of the awards. Bonds issued to Management Board members who did not issue a note to FMC-AG & Co. KGaA are recognized as a liability on the Group's balance sheet.

Upon issuance of the option, the employees had the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target corresponds to the stock exchange quoted price of the preference shares upon the first time the stock exchange quoted price exceeds the initial value by at least 25%. The initial value is the average price of the preference shares during the last 30 trading days prior to the date of grant. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15% less than if the employee elected options subject to the stock price target. The conversion price of the options without a stock price target is the initial value. Each option entitles the holder thereof, upon payment of the respective conversion price, to acquire one preference share. Effective May 2006, no further grants can be issued under the 2001 Plan and no options were granted under the 2001 Plan during 2006 and 2007.

Transactions during the year 2007

During 2007, Fresenius Medical Care awarded 2,395,962 options, including 398,400 to members of the Management Board of FMC Management AG, at a weighted-average exercise price of € 33.91, a weighted-average fair value of € 9.71 each and a total fair value of € 23 million, which will be amortized on a straight-line basis over the three-year vesting period.

During 2007, FMC-AG & Co. KGaA received € 28 million from the exercise of stock options and € 6 million from a related tax benefit. The intrinsic value of options exercised in 2007 was € 20 million.

At December 31, 2007, the Management Board members of the FMC Management AG, held 1,922,628 stock options for ordinary shares and employees of FMC-AG & Co. KGaA held 8,050,813 stock options for ordinary shares and 275,426 stock options for preference shares under the various stock-based compensation plans of Fresenius Medical Care.

The table below provides reconciliations for options outstanding at December 31, 2007 as compared to December 31, 2006.

	Number of options in thousand	Weighted-average exercise price in €
Balance at December 31, 2006 (options for ordinary shares)	**9,222**	**20.39**
Granted	2,396	33.91
Exercised	1,337	20.18
Forfeited	308	27.64
Balance at December 31, 2007 (options for ordinary shares)	**9,973**	**26.64**
Balance at December 31, 2006 (options for preference shares)	**368**	**16.19**
Exercised	67	15.10
Forfeited	26	19.23
Balance at December 31, 2007 (options for preference shares)	**275**	**16.16**

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at December 31, 2007:

	Number of options in thousand	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Aggregate intrinsic value in million €
Options for ordinary shares	3,335	4.88	20.40	54
Options for preference shares	202	3.58	14.77	4

At December 31, 2007, total unrecognized compensation costs related to non-vested options granted under all plans were € 34 million. These costs are expected to be recognized over a weighted-average period of 1.6 years.

32. RELATED PARTY TRANSACTIONS

Dr. Gerhard Rupprecht, a member of the Supervisory Board of Fresenius SE, is a member of the management board of Allianz SE and the chairman of the management board of Allianz Deutschland AG. Dr. Gerd Krick, chairman of the Supervisory Board of Fresenius SE, is a member of the supervisory board of Allianz Private Krankenversicherungs-AG. In 2007, the Fresenius Group paid € 6 million for insurance premiums to Allianz.

Dr. Gerd Krick is a member of the advisory board of HDI Haftpflichtverband der deutschen Industrie V.a.G. that belongs to the Talanx Group. In 2007, this group received € 9 million for insurance premiums.

Dr. Dieter Schenk, deputy chairman of the Supervisory Board of Fresenius SE, is a partner in the law firm Nörr Stiefenhofer Lutz that provides legal services to the Fresenius Group. In 2007, the Fresenius Group paid this law firm € 1 million for services rendered.

33. SUBSEQUENT EVENTS

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

Other than that, there were no significant changes in the Group position or environment sector since the end of the year of 2007. At present, the Fresenius Group is not planning to carry out any significant changes in its structure, administration or legal form or in the area of personnel.

NOTES IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

34. COMPENSATION REPORT

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

COMPENSATION OF THE MANAGEMENT BOARD OF FRESENIUS SE

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

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

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

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

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

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

The non-performance-related compensation was paid in twelve monthly installments as basic salary in the fiscal year 2007. In addition, the members of the Management Board received additional benefits consisting mainly of insurance premiums, the private use of company cars, special payments such as rent supplements and refunds of charges and contributions to pension and health insurance.

The performance-related compensation will also be granted for the fiscal year 2007 as a variable bonus. The amount of the bonus in each case depends on the achievement of the individual targets relating to the net income of the Fresenius Group and its segments. For the total performance-related compensation, the maximum achievable bonus is fixed.

For the fiscal years 2007 and 2006, the amount of cash payment of the Management Board of Fresenius SE consisted of the following:

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

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

(2) Dr. Ben Lipps receives his compensation only by Fresenius Medical Care, of which Fresenius SE held 35.95% of the total subscribed capital. As Dr. Ben Lipps is a member of the Management Board of Fresenius SE, his compensation has to be included in the compensation report of the Fresenius Group.

In the fiscal year 2007, convertible bonds and stock options based on the Fresenius AG Stock Option Plan 2003 and the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 were granted as components with long-term incentive effects. The principles of both plans are described in more detail in Note 31, Stock options.

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

	Long-term incentive components			
	Convertible bonds[1]			
	Number		Value in thousand €	
	2007	2006	2007	2006
Dr. Ulf M. Schneider	43,860	43.860	838	700
Rainer Baule	21,930	21,930	419	350
Andreas Gaddum	21,930	21,930	419	350
Dr. Jürger Götz (since July 1, 2007)	21,930		419	
Dr. Ben Lipps	99,600	99,600	967	985
Stephan Sturm	21,930	21,930	419	350
Total	**231,180**	**209,250**	**3,481**	**2,735**

(1) Convertible bonds that were granted in 2007 and 2006 under the stock option plan of Fresenius SE. Dr. Ben Lipps received stock options under the Fresenius Medical Care stock option plan.

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

As the financial targets of the year 2007 were achieved, Dr. Ben Lipps is entitled to a stock-based compensation in an amount of € 910 thousand (2006: € 791 thousand). The entitlement is based on the development of the ordinary share of Fresenius Medical Care and has a three years vesting period.

At the end of the fiscal year 2007, the members of the Management Board held a total of 567,120 (2006: 446,340) stock options and convertible bonds of Fresenius SE and 824,280 (2006: 760,149) stock options and convertible bonds of FMC-AG & Co. KGaA.

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

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

(1) Prior year values have been reclassified to conform with the current year's presentation which corresponds to the values at the grant date. In 2006, expenses recognized were included in the total compensation.

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

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

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

COMMITMENTS TO MEMBERS OF THE MANAGEMENT BOARD IN THE EVENT OF THE TERMINATION OF THEIR APPOINTMENT

There are individual contractual pension commitments for the Management Board members Rainer Baule and Stephan Sturm (since 2008). With regard to these pension commitments, the Fresenius Group had pension obligations of € 2,028 thousand as of December 31, 2007 (2006: € 1,753 thousand). The addition to pension liability in the fiscal year 2007 amounted to € 275 thousand (2006: € 319 thousand). Each of the pension commitments provides a pension and survivor benefit, depending on the amount of the most recent basic

salary, from the 63rd year of life, or, in the case of termination because of professional or occupational incapacity, from the time of ending active work. The starting percentage of 30% increases with every year of service by 1.5 percentage points, 45% being the attainable maximum. 30% of the gross amount of any later income from an occupation of the Management Board member is set-off against the pension.

With the Management Board member Dr. Ben Lipps, there is an individual agreement, instead of a pension provision, to the effect that, taking account of a competitive restriction after the ending of the service agreement between him and Fresenius Medical Care Management AG, he can, for a period of ten years, act in a consultative capacity for the Company. The consideration to be granted annually by Fresenius Medical Care Management AG in return would amount to approximately 46% of the non-performance related compensation components paid to him in the fiscal year 2007.

At December 31, 2007, Andreas Gaddum resigned from the Management Board of Fresenius SE. Until the expiration of his service agreement on June 30, 2008, he will receive his stipulated non-performance-related compensation in an amount of € 162,500 as well as related benefits and a performance-related compensation on a pro rata basis according to the service agreement. For the period from July 1, 2008 to June 30, 2009, Andreas Gaddum will obtain a waiting allowance of € 262,500 for the agreed non-competition clause.

The service agreements of the members of the Management board contain no express provisions for the case of a change of control and for the event of the ending of their service agreement.

MISCELLANEOUS

In the fiscal year 2007, no loans or advance payments of future compensation components were made to members of the Management Board of Fresenius SE.

As far as legally permitted, Fresenius SE undertook to indemnify the members of the Management Board against claims against them arising out of their work for the Company and its affiliates, if such claims exceed their responsibilities under German law. To secure such obligations, the Company concluded a Directors' & Officers' insurance with an appropriate excess. The indemnity applies for the time in which each member of the Management Board is in office and for claims in this connection after the ending of the membership of the Management Board in each case.

To former members of the Management Board and their surviving dependents € 483 thousand and € 588 thousand was paid in the years 2007 and 2006, respectively. The benefit obligation for these persons amounted to € 9,870 thousand in 2007 (2006: € 9,696 thousand).

35. INFORMATION ON THE SUPERVISORY BOARD

The Supervisory Board appoints the members of the Management Board and supervises and advises the Management Board in managing the Company. However, the Supervisory Board is fundamentally prohibited from managing the Company in any way. The compensation of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in Section 14 of the Articles of Association of Fresenius SE. Compensation for the time after the conversion into a SE at July 13, 2007 is pending on the approval at the Annual General Meeting in May 2008. Each member of the Supervisory Board shall receive a fixed compensation of € 13 thousand. The members of the Audit Committee and the Personnel Committee of the Supervisory Board receive an additional € 10 thousand each and the Chairman of the committee a further € 10 thousand. For each full fiscal year, the remuneration increases by 10% for each percentage point that the dividend paid on each ordinary share for that year (gross dividend according to the resolution of the Annual General Meeting) exceeds 3.6% of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. The Chairman receives twice this amount and the deputies to the Chairman one and a half times the amount of a Supervisory Board member. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board. Fresenius SE provides to the members of the Supervisory Board insurance coverage in an adequate amount (relating to their function) and on an adequate excess amount basis.

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

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

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

36. D & O INSURANCE

Fresenius SE has concluded a consequential loss liability insurance policy (D&O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of Fresenius SE and for all representative bodies of affiliates in Germany and elsewhere. The D&O policy applies throughout the world and runs until the end of June 2008. The policy covers the legal defense costs of a member of a representative body when a claim is made and, where relevant, any damages to be paid which are covered by the policy.

37. AUDITOR'S FEES

In 2007 and 2006, fees for the auditor KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin, and its affiliates were expensed as follows:

in million €	2007		2006	
	Total	Germany	Total	Germany
Audit fees	11	4	11	4
Audit-related fees	1	—	—	—
Tax consulting fees	—	—	1	—
Other fees	—	—	—	—
Total auditor's fees	**12**	**4**	**12**	**4**

38. CORPORATE GOVERNANCE

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

39. PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

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

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

40. RESPONSIBILITY STATEMENT

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

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

The Management Board



Dr. U. M. Schneider



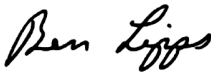
R. Baule



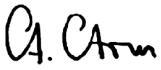
Dr. F. De Meo



Dr. J. Götz



Dr. B. Lipps



S. Sturm



Dr. E. Wastler

AUDITOR'S REPORT

To the Fresenius Societas Europaea, Bad Homburg v.d.Höhe

We have audited the consolidated financial statements prepared by the Fresenius Societas Europaea, Bad Homburg v. d. Höhe, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. In addition we have been engaged to express an opinion as to whether the voluntarily prepared group management report is in agreement with the group management report of Fresenius Societas Europaea, Bad Homburg v. d. Höhe, prepared in accordance with § 290 and § 315 HGB [Handelsgesetzbuch "German Commercial Code"] apart from appropriate incorporation of U.S. GAAP financial data.

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

Our audit has not led to any reservations.

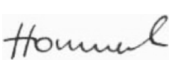
In our opinion, based on the findings of our audit, the consolidated financial statements comply with U.S. GAAP and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The voluntarily prepared group management report is consistent with the consolidated financial statements prepared in accordance with U.S. GAAP and is, apart from appropriate incorporation of U.S. GAAP financial data, in agreement with the group management report of Fresenius Societas Europaea prepared in accordance with § 290 and § 315 HGB, on which we have issued an unqualified statutory audit opinion. Based on this the group management report as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 22, 2008

KPMG Deutsche Treuhand-Gesellschaft,
Aktiengesellschaft,
Wirtschaftsprüfungsgesellschaft



Hölzl
German Public Auditor



Hommel
German Public Auditor

(This page intentionally left blank)

Consolidated financial statements of Fresenius SE for 2006
(US-GAAP)

CONSOLIDATED STATEMENT OF INCOME

January 1 to December 31, in million €	Note	2006	2005
Sales	3	10,777	7,889
Cost of sales	4	−7,351	−5,300
Gross profit		**3,426**	**2,589**
Selling, general and administrative expenses	6	−1,815	−1,471
Research and development expenses		−167	−149
Operating income (EBIT)		**1,444**	**969**
Interest income	7	23	20
Interest expenses	7	−418	−223
Earnings before income taxes and minority interest		**1,049**	**766**
Income taxes	8	−414	−298
Minority interest	21	−305	−246
Net income		**330**	**222**
Basic earnings per ordinary share in €	**9**	**2.15**	**1.76**
Fully diluted earnings per ordinary share in €	**9**	**2.12**	**1.75**
Basic earnings per preference share in €	**9**	**2.16**	**1.77**
Fully diluted earnings per preference share in €	**9**	**2.13**	**1.76**

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

CONSOLIDATED BALANCE SHEET

ASSETS

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

LIABILITIES AND SHAREHOLDERS' EQUITY

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

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

CONSOLIDATED CASH FLOW STATEMENT

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

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

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Note	Ordinary shares		Preference shares		Subscribed capital	
		Number of shares (thousand)	Amount (thousand €)	Number of shares (thousand €)	Amount (thousand €)	Amount (thousand €)	Amount (million €)
As of December 31, 2004		**20,486**	**52,443**	**20,486**	**52,443**	**104,886**	**105**
Issuance of bearer ordinary and bearer preference shares	22	4,700	12,032	4,700	12,032	24,064	24
Proceeds from the exercise of stock options	28	175	449	175	449	898	1
Compensation expense related to stock options	28						
Dividends paid	22						
Comprehensive income (loss)							
Net income							
Other comprehensive income (loss) related to							
Cash flow hedges	23,25						
Foreign currency translation	23						
Adjustments relating to pension obligation	19,23						
Comprehensive income (loss)							
As of December 31, 2005		**25,361**	**64,924**	**25,361**	**64,924**	**129,848**	**130**
Issuance of bearer ordinary and bearer preference shares	22	177	453	177	453	906	1
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares	1						
Proceeds from the exercise of stock options	28	188	481	188	481	962	1
Compensation expense related to stock options	28						
Dividends paid	22						
Comprehensive income (loss)							
Net income							
Other comprehensive income (loss) related to							
Cash flow hedges	23, 25						
Foreign currency translation	23						
Adjustments relating to pension obligation	19,23						
Comprehensive income (loss)							
As of December 31, 2006		**25,726**	**65,858**	**25,726**	**65,858**	**131,716**	**132**

	Note	Reserves		Other comprehensive income (loss)			
		Capital reserve (million €)	Other reserves (million €)	Foreign currency translation (million €)	Cash flow hedges (million €)	Pensions (million €)	Total (million €)
As of December 31, 2004		**645**	**895**	**20**	**−18**	**−44**	**1,603**
Issuance of bearer ordinary and bearer preference shares	22	872					896
Proceeds from the exercise of stock options	28	25					26
Compensation expense related to stock options	28	4					4
Dividends paid	22		−56				−56
Comprehensive income (loss)							
Net income			222				222
Other comprehensive income (loss) related to							
Cash flow hedges	23, 25				32		32
Foreign currency translation	23			141			141
Adjustments relating to pension obligation	19, 23					−27	−27
Comprehensive income (loss)			222	141	32	−27	368
As of December 31, 2005		**1,546**	**1,061**	**161**	**14**	**−71**	**2,841**
Issuance of bearer ordinary and bearer preference shares	22	41					42
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares	1	94					94
Proceeds from the exercise of stock options	28	31					32
Compensation expense related to stock options	28	12					12
Dividends paid	22		−76				−76
Comprehensive income (loss)							
Net income			330				330
Other comprehensive income (loss) related to							
Cash flow hedges	23, 25				16		16
Foreign currency translation	23			−127			−127
Adjustments relating to pension obligation	19, 23					4	4
Comprehensive income (loss)			330	−127	16	4	223
As of December 31, 2006		**1,724**	**1,315**	**34**	**30**	**−67**	**3,168**

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

SEGMENT REPORTING

by business segment

in million €	Fresenius Medical Care			Fresenius Kabi			Fresenius ProServe			Corporate/Other			Fresenius Group		
	2006	2005	Change	2006	2005	Change	2006	2005	Change	2006	2005	Change	2006	2005	Change
Sales	6,768	5,443	24%	1,893	1,681	13%	2,155	809	166%	−39	−44	11%	10,777	7,889	37%
thereof contribution to consolidated sales	6,763	5,418	25%	1,853	1,651	12%	2,145	804	167%	16	16	0%	10,777	7,889	37%
thereof intercompany sales	5	25	−80%	40	30	33%	10	5	100%	−55	−60	8%	0	0	0%
contribution to consolidated sales	63%	69%		17%	21%		20%	10%		0%	0%		100%	100%	
EBITDA	1,295	957	35%	370	318	16%	218	45	—	−40	−31	−29%	1,843	1,289	43%
Depreciation and amortization	245	202	21%	79	84	−6%	64	25	156%	11	9	22%	399	320	25%
EBIT	1,050	755	39%	291	234	24%	154	20	—	−51	−40	−28%	1,444	969	49%
Net interest	-280	−139	−101%	−70	−51	−37%	−40	−10	—	−5	−3	−67%	−395	−203	−95%
Net income	427	366	17%	143	111	29%	75	2	—	−315	−257	−23%	330	222	49%
Operating cash flow	723	539	34%	202	237	−15%	176	19	—	−49	−15	—	1,052	780	35%
Cash flow before acquisitions and dividends	365	300	22%	101	167	−40%	73	7	—	−58	−25	−132%	481	449	7%
Debt	4,236	1,857	128%	880	903	−3%	932	229		−176	513	−134%	5,872	3,502	68%
Total assets	9,905	6,767	46%	1,965	1,867	5%	3,108	2,859	9%	46	101	−54%	15,024	11,594	30%
Capital expenditure	372	253	47%	113	77	47%	106	12	—	9	11	−18%	600	353	70%
Acquisitions	3,561	108	—	14	274	−95%	139	1,507	−91%	0	5	−100%	3,714	1,894	96%
Research and development expenses	41	41	0%	77	64	20%	1	1	0%	48	43	12%	167	149	12%
Employees (per capita on balance sheet date)	59,996	50,250	19%	15,591	14,453	8%	28,615	26,664	7%	670	604	11%	104,872	91,971	14%
Key figures															
EBITDA margin	19.1%	17.6%		19.5%	18.9%		10.1%	5.6%					17.1%	16.3%	
EBIT margin	15.5%	13.9%		15.4%	13.9%		7.1%	2.5%					13.4%	12.3%	
ROOA	11.3%[1]	12.6%		17.3%	14.5%		6.9%	3.6%[2]					10.4%[1]	11.7%[2]	
Depreciation and amortization in % of sales	3.6%	3.7%		4.2%	5.0%		3.0%	3.1%					3.7%	4.1%	

(1) Calculation is based on the pro forma EBIT excluding the gain on the sale of Fresenius Medical Care's dialysis clinics (See Note 2, Acquisitions and divestitures)

(2) Operating assets excluding HELIOS Kliniken.

The segment reporting is an integral part of the Notes.

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

SEGMENT REPORTING

by region

in million €	Europe			North America			Asia-Pacific			Latin America			Africa			Fresenius Group		
	2006	2005	Change	2006	2005	Change	2006	2005	Change	2006	2005	Change	2006	2005	Change	2006	2005	Change
Sales	4,536	3,032	50%	4,862	3,746	30%	696	557	25%	452	354	28%	231	200	16%	10,777	7,889	37%
contribution to consolidated sales	43%	38%		45%	47%		6%	7%		4%	5%		2%	3%		100%	100%	
EBIT	497	337	47%	772	522	48%	103	59	75%	48	31	55%	24	20	20%	1,444	969	49%
Depreciation and amortization	213	170	25%	147	112	31%	20	22	−9%	16	14	14%	3	2	50%	399	320	25%
Total assets	6,256	5,784	8%	7,691	4,747	62%	573	556	3%	446	431	3%	58	76	−24%	15,024	11,594	30%
Capital expenditure	288	179	61%	245	141	74%	25	14	79%	38	17	124%	4	2	100%	600	353	70%
Acquisitions	150	1,791	−92%	3,544	62	—	4	33	−88%	13	7	86%	3	1	200%	3,714	1,894	96%
Employees (per capita on balance sheet date)	52,062	48,169	8%	38,597	31,031	24%	4,968	4,296	16%	8,499	7,772	9%	746	703	6%	104,872	91,971	14%

The segment reporting is an integral part of the Notes.

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

1. PRINCIPLES

I. GROUP STRUCTURE

Fresenius is a worldwide operating health care group with products and services for dialysis, the hospital and the medical care of patients at home. Further areas of activity are hospital operations as well as engineering and services for hospitals. In addition to the activities of the Fresenius AG, the operating activities are split into the following legally-independent business segments (sub-groups) as of December 31, 2006:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats 163,517 patients in its 2,108 own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

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

Fresenius AG owned 36.6% of the ordinary voting shares of Fresenius Medical Care AG&Co. KGaA (FMC-AG & Co. KGaA) and Fresenius AG's share of the total subscribed capital of FMC-AG & Co. KGaA continued to be 36.1% at the end of the fiscal year 2006. Fresenius Medical Care Management AG (FMC Management AG), the general partner of FMC-AG & Co. KGaA, is a wholly-owned subsidiary of Fresenius AG. Due to this structure, FMC-AG & Co. KGaA is fully consolidated in the consolidated financial statements of the Fresenius Group. Fresenius AG continued to hold 100% of the management companies of business segments Fresenius Kabi (Fresenius Kabi AG) and Fresenius ProServe (Fresenius ProServe GmbH) on December 31, 2006. In addition, Fresenius AG holds interests in companies with holding functions regarding real estate, financing and insurance, as well as in Fresenius Netcare GmbH which offers services in the field of information technology and in Fresenius Biotech Beteiligungs GmbH.

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

II. CONVERSION OF FRESENIUS AG INTO A EUROPEAN COMPANY (SE) AND NEW DIVISION OF THE SUBSCRIBED CAPITAL

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

Furthermore, Fresenius AG's shareholders approved at the Extraordinary General Meeting to conduct a new division of the subscribed capital of Fresenius AG (share split) in connection with a capital increase from the company's funds without the issuance of new shares. As a result, the number of ordinary shares and

preference shares issued tripled. The share split in connection with an increase of the subscribed capital became effective upon the registration in the commercial register on January 24, 2007. The subscribed capital of Fresenius AG amounted to € 131,715,307.00 before the registration in the commercial register and was divided into 25,725,646 ordinary shares and 25,725,646 preference shares. Through a conversion of capital reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided into 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is € 1,00 per share. After the share split, every holder of an ordinary share holds three ordinary shares and every holder of a preference share holds three preference shares.

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

On February 10, 2006, Fresenius Medical Care completed and registered in the commercial register of the local court in Hof an der Saale, the transformation of its legal form under German law from a stock corporation (Aktiengesellschaft) to a partnership limited by shares (Kommanditgesellschaft auf Aktien) with the name Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA). The transformation was approved by its shareholders during an Extraordinary General Meeting held on August 30, 2005 (EGM). Fresenius Medical Care as a KGaA is the same legal entity under German law, rather than a successor to the AG. FMC Management AG, a wholly-owned subsidiary of Fresenius AG, the majority voting shareholder of Fresenius Medical Care AG prior to the transformation, is the general partner of FMC-AG&Co. KGaA. FMC Management AG assumed the management of Fresenius Medical Care through its position as general partner. FMC Management AG was formed for the sole purpose of serving as the general partner of FMC-AG & Co. KGaA and managing the business of FMC-AG & Co. KGaA. FMC Management AG has the same duty to FMC-AG & Co. KGaA as the Management Board of a stock corporation has to the corporation. The Management Board of FMC Management AG must carefully conduct the business of FMC-AG & Co. KGaA and is liable for any breaches of its obligations. The Supervisory Board of FMC Management AG, elected by Fresenius AG, must carefully supervise the Management Board of FMC Management AG in the conduct of the business of FMC-AG & Co. KGaA. The Supervisory Board of FMC-AG & Co. KGaA, which is elected by Fresenius Medical Care's shareholders (other than Fresenius AG), oversees the management of the business of Fresenius Medical Care, but has less power and scope for influence than the supervisory board of a stock corporation. Upon effectiveness of the transformation of legal form, the share capital of Fresenius Medical Care AG became the share capital of FMC-AG & Co. KGaA, and persons who were shareholders of Fresenius Medical Care AG became shareholders of the company in its new legal form.

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

Prior to registration of the transformation of legal form, Fresenius Medical Care AG offered holders of its non-voting preference shares (including preference shares represented by American Depositary Shares (ADSs)) the opportunity to convert their shares into ordinary shares at a conversion ratio of one preference share plus a conversion premium of € 9.75 per ordinary share. Fresenius Medical Care received a total of € 258 million in premiums from the holders upon the conversion of their preference shares, net of costs of € 2 million.

Several ordinary shareholders challenged the resolutions adopted at the EGM approving the conversion of the preference shares into ordinary shares, the adjustment of the employee participation programs, the creation of authorized capital and the transformation of the legal form of Fresenius Medical Care AG, with the objective of having the resolutions declared null and void. On December 19, 2005, Fresenius Medical Care AG and the claimants agreed to a settlement with the participation of Fresenius AG and FMC Management AG, and all proceedings were terminated. Fresenius Medical Care agreed to bear court fees and shareholder legal expenses in connection with the settlement. The total costs of the settlement were estimated to be € 5.9 million. A further part of the settlement agreement and German law require that these costs be borne by Fresenius AG and FMC Management AG. Under accounting principles, however, these costs must be reflected by the entity benefiting from the actions of its controlling shareholder. The actual total costs of all ex gratia payments and all payments to shareholders who voted against the conversion proposal and who filed written claims in a timely fashion incurred in the settlement were € 5.2 million. The difference of € 0.7 million was

recorded as a reduction of selling, general and administrative expense and additional paid in capital within shareholders' equity in the year 2006.

IV. BASIS OF PRESENTATION

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

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

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

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

V. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

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

Capital consolidation is performed according to SFAS No. 141 (Business Combinations) and SFAS No. 142 (Goodwill and other intangible assets) by offsetting investments in subsidiaries against the underlying equity at the date of acquisition. The identifiable assets and liabilities of subsidiaries are recognized at their fair values. Any remaining debit balance is recognized as goodwill and is tested at least once a year for impairment.

The equity method is performed according to APB No. 18 (The Equity Method of Accounting for Investments in Common Stock).

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

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

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

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

b) Composition of the Group

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

Fresenius Medical Care enters into various arrangements with certain dialysis clinics to provide management services, financing and product supply. Some of these clinics are VIEs. Under FIN 46R (Consolidation of Variable Interest Entities (revised)) these clinics are consolidated if Fresenius Medical Care is determined to be the primary beneficiary. These VIEs in which Fresenius Medical Care is the primary beneficiary, generated approximately € 61 million (US$77 million) and € 48 million (US$59 million) in

revenue in 2006 and 2005, respectively. The interest held by the other shareholders in these consolidated VIEs is reported as minority interest in the consolidated balance sheet at December 31, 2006.

Fresenius ProServe participates in long-term project entities which are set up for long-term defined periods of time and for the specific purpose of constructing and operating thermal centers. Some of these project entities qualify as VIEs, whereby Fresenius ProServe is not the primary beneficiary. The project entities generated approximately € 31 million in annual revenue in the year 2006. From today's perspective and due to the contractual situation, Fresenius ProServe is not exposed to any material risk of loss from these VIEs.

The consolidated financial statements of the year 2006 include, in addition to Fresenius AG, 123 (2005: 117) German and 838 (2005: 634) foreign companies.

The composition of the Group changed as follows:

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

13 companies (2005: 17) were accounted for under the equity method.

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

c) Classifications

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

d) Sales recognition policy

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

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

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

e) Research and development expenses

Research costs are incurred in conjunction with original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the technical and commercial implementation of research findings. Research and development expenses are expensed as incurred.

f) Impairment

The Fresenius Group reviews the carrying amount of its property, plant and equipment, its intangible assets with definite useful lives as well as other non-current assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in accordance with SFAS No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets). Recoverability of these assets is measured by a comparison of the carrying amount of an asset to the future net cash flow directly associated with the asset. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying amount exceeds the fair value of the asset. The Fresenius Group uses various valuation factors, including market prices and present value techniques to assess fair value. In accordance with SFAS No. 144, long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell and depreciation is ceased. Long-lived assets to be disposed of other than by sale are considered to be held and used until disposal.

g) Interest

The Fresenius Group includes capitalized interest as part of the cost of the asset if they are directly attributable to the acquisition, construction or manufacture of qualifying assets in accordance with SFAS No. 34 (Capitalization of Interest Costs).

For the fiscal years 2006 and 2005, interest of € 5 million and € 2 million, based on an average interest rate of 7.9% and 7.2%, respectively, was recognized as a component of the cost of assets.

h) Deferred taxes

In accordance with SFAS No. 109 (Accounting for Income Taxes), deferred tax assets and liabilities are recognized for the future consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis as well as on consolidation procedures affecting net income. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of existing tax losses available for carryforward where future recoverability is probable.

Deferred taxes are computed using enacted or adopted tax rates in the relevant national jurisdictions when the amounts are recovered. Tax rates, which will be valid in the future, but are not adopted till the balance sheet date, are not considered.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. The reduction is reversed to the date and extent that it becomes probable that sufficient taxable profit will be available (see Note 8, Income taxes).

i) Earnings per ordinary share and preference share

Basic earnings per ordinary share and preference share for all years presented have been calculated in accordance with SFAS No. 128 (Earnings per Share) using the two-class method based upon the weighted-average number of ordinary and preference shares outstanding. Basic earnings per ordinary share is computed by dividing net income less preference amounts by the weighted-average number of ordinary shares and preference shares outstanding during the year. Basic earnings per preference share is derived by adding the preference per preference share to the basic earnings per ordinary share. Diluted earnings per share include the

effect of all potentially dilutive instruments on ordinary shares and preference shares that would have been outstanding during the year. The awards granted under Fresenius' and Fresenius Medical Care's stock incentive plans (see Note 28, Stock options) can result in a dilutive effect.

j) Cash and cash equivalents

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

k) Trade accounts receivable

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

l) Inventories

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

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

m) Property, plant and equipment

Property, plant and equipment are stated at acquisition and manufacturing cost less accumulated depreciation. Significant improvements are capitalized; repair and maintenance costs that do not extend the useful lives of the assets are charged to expense as incurred. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years for buildings and improvements (with a weighted-average life of 15 years) and 3 to 15 years for machinery and equipment (with a weighted-average life of 10 years).

n) Intangible assets with definite useful lives

In accordance with SFAS No. 142 (Goodwill and Other Intangible Assets), intangible assets with definite useful lives, for example technology, patents and distribution rights, are amortized over their respective useful lives to their residual values and reviewed for impairment in accordance with SFAS No. 144 (Accounting for Impairment or Disposal of Long-Lived Assets) (see Note 1.V.f, Impairment). Non-compete agreements have useful lives ranging from 7 to 25 years with an average useful life of 8 years. Technology has a useful live of 15 years. All other intangible assets are amortized over their individual estimated useful lives between 3 and 40 years.

Impairment losses are recognized in the event of losses in value of a lasting nature.

o) Goodwill and other intangible assets with indefinite useful lives

Intangible assets such as tradenames and certain qualified management contracts acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141 (Business Combinations). They are recorded at acquisition costs. Goodwill and intangible assets with indefinite useful lives are not amortized but tested for impairent annually or when an event becomes known that could trigger an impairment (impairment test).

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

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

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

p) Leases

Leased assets assigned to the Fresenius Group based on the risk and rewards approach (finance leases) are recognized as property, plant and equipment in accordance with SFAS No. 13 (Accounting for Leases) and measured on receipt date at their present values of lease payments as long as their fair values are not lower. Leased assets are depreciated in straight-line over their useful lives. If there is doubt as to whether title to the asset passes at a later stage and there is no purchase option the asset is depreciated over the lease term, if this is shorter. The payment obligations relating to future lease instalments are recognized as financial liabilities. An impairment loss is recognized if the recoverable amount is lower than the amortized cost of the leased asset.

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

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

q) Derivative financial instruments

In accordance with SFAS No. 133 (Accounting for Derivative Instruments and Hedging Activities), derivative financial instruments which primarily include foreign currency forward contracts and interest rate swaps are recognized as assets or liabilities at fair value in the balance sheet. Changes in the fair value of derivative financial instruments classified as fair value hedges and in the corresponding underlyings are recognized periodically in earnings. The effective portion of changes in fair value of cash flow hedges is recognized in accumulated other comprehensive income (loss) in shareholders' equity (see Note 25, Financial instruments). The non-effective portion of cash flow hedges is recognized in earnings immediately.

r) Liabilities

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

s) Legal contingencies

From time to time, during the ordinary course of Fresenius Group's operations, the Fresenius Group is party to litigation and arbitration and is subject to investigations relating to various aspects of its business. The Fresenius Group regularly analyzes current information about such claims for probable losses and provides accruals for such matters, including the estimated legal expenses, as appropriate. The Fresenius Group utilizes its internal legal department as well as external resources for these assessments. In making the decision

regarding the need for loss accrual, the Fresenius Group considers the degree of probability of an unfavorable outcome and its ability to make a reasonable estimate of the amount of loss. These accruals include expenses for legal and consulting services in connection with these legal issues.

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

t) Other accrued expenses

In accordance with SFAS No. 5 (Accounting for Contingencies), accruals for taxes and other obligations are recognized when there is a present obligation to a third party arising from past events, it is probable that the obligation will be settled in the future and a reliable estimate can be made of the amount.

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

u) Pension liabilities and similar obligations

Pension obligations for post-employment benefits are measured using the projected unit credit method, taking into account future salary and trends for pension increase. Actuarial gains and losses that exceed a corridor of 10% of the present value of the defined benefit obligation are spread over the expected average remaining working lives of the employees participating in the plans, adjusted for fluctuation. As of December 31, 2006, the Fresenius Group adopted FASB Statement No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R) (see Note 19, Pensions and similar obligations).

v) Debt issuance costs

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

w) Stock option plans

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

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

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

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

x) Self-insurance programs

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

y) Foreign currency translation

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

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

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

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

* mid-closing rate on balance sheet date.

z) Use of estimates

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

aa) Receivables management

The entities of the Fresenius Group perform ongoing evaluations of the financial situation of their customers and generally do not require a collateral from the customers for the supply of products and provision of services. Approximately 24% and 25% of the sales of the Fresenius Group were earned and subject to the regulations under governmental health care programs, primarily Medicare and Medicaid, administered by the United States government in 2006 and 2005, respectively.

bb) Recent pronouncements

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

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

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

VI. CRITICAL ACCOUNTING POLICIES

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

a) Recoverability of goodwill and intangible assets with indefinite useful lives

Fresenius Group's acquisitions in the fiscal year have created a significant amount of intangible assets, including goodwill, tradenames and management contracts. At December 31, 2006 and December 31, 2005, the carrying amount of goodwill and non-amortizable intangible assets with indefinite useful lives amounted to € 7,457 million and € 5,069 million, respectively, which represented 50% and 44%, respectively, of total assets.

In accordance with SFAS No. 142 (Goodwill and Other Intangible Assets), an impairment test of goodwill and non-amortizable intangible assets with indefinite useful lives is performed at least once a year, or if events occur or circumstances change that would indicate the carrying amount might be impaired (impairment test).

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

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

b) Legal contingencies

The Fresenius Group is involved in several legal matters arising from the ordinary course of Fresenius Group's business. For details, please see Note 24, Commitments and contingent liabilities.

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

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

c) Allowance for doubtful accounts

Trade accounts receivable are a significant asset and the allowance for doubtful accounts is a significant estimate made by the Management. Trade accounts receivable were € 2,088 million and € 1,871 million in 2006 and 2005, respectively, net of allowance. More than two thirds of receivables derives from the business segment Fresenius Medical Care and mainly relates to the dialysis care business in North America.

The allowance for doubtful accounts was € 218 million and € 200 million as of December 31, 2006 and December 31, 2005, respectively.

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

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

d) Self-insurance programs

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

2. ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

The Fresenius Group made acquisitions amounting to € 3,714 million and € 1,894 million in 2006 and 2005, respectively. Of this amount, € 3,657 million were paid in cash and € 17 million were assumed obligations in the year 2006. Futhermore, € 42 million were paid in stocks, and a purchase price in an amount of € 7 million is still outstanding. In connection with an acquisition in the first quarter of 2005, purchase price considerations in an amount of € 30 million were due in subsequent years, whereof € 9 million were paid in 2006.

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

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

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

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition. This preliminary allocation of the purchase price is based upon the best information

available to the Management. Any adjustments to the preliminary allocation, net of related income tax effects, will be recorded with a corresponding adjustment to goodwill.

The preliminary purchase price allocation is as follows:

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

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

On November 14, 2006, Fresenius Medical Care acquired the worldwide rights to the PhosLo® phos-phate binder product business and its related assets of Nabi Biopharmaceuticals, Inc. PhosLo® is an oral application calcium acetate phosphate binder for treatment of hyperphosphatemia primarily in end-stage renal disease patients. Fresenius Medical Care paid cash of US$65.3 million including related direct costs of US$0.3 million plus a US$8 million milestone payment in December 2006 and a US$2.5 million milestone payment in 2007. An additional milestone payment of US$10.5 million will be paid over the next two to three years, contingent upon the achievement of certain performance criteria. The purchase price was allocated to technology with an estimated useful live of 15 years (US$64.8 million), and in-process research and development project (US$2.8 million) which is immediately expensed, goodwill (US$7.3 million) and other net assets (US$0.9 million).

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

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

In 2006, Fresenius Kabi made acquisitions of € 14 million, referring mainly to subsequent costs for the acquisition of Endomed Laboratório Farmacéutico Ltda., Brazil, as well as the taking over of a distributor in

South Africa. In September 2006, Fresenius Kabi has agreed to acquire all stakes in Filaxis, Argentina, and made a down payment. The acquisition still requires approval by the antitrust authorities.

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

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

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

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

IMPACTS ON THE FRESENIUS GROUP RESULTING FROM ACQUISITIONS

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

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

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

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

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

DIVESTITURES

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

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

3. SALES

Sales by activity are as follows:

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

An analysis of sales by business segment and region is shown in the segment information on pages F-119 to F-120.

4. COST OF SALES

Cost of sales comprises the following:

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

5. PERSONNEL EXPENSES

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

Personnel expenses comprise the following:

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

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

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

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

7. NET INTEREST

The negative net interest in an amount of € 395 million, resulting from interest income of € 23 million and interest expenses of € 418 million, includes interest income on interest-bearing securities and loans, gains and losses relating to current securities and all interest expenses. It also includes profit-share and dividend income from current and non-current securities.

8. INCOME TAXES

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

in million €	2006	2005
Germany	192	90
Abroad	857	676
Total	**1,049**	**766**

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

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

In the years 2006 and 2005, Fresenius AG is subject to German federal corporation income tax at a base rate of 25% plus a solidarity surcharge of 5.5% on federal corporation taxes payable.

A reconciliation between the expected and actual income tax expense is shown below. The expected corporate income tax expense is computed by applying the German corporation tax rate (including the solidarity surcharge) and the effective trade tax rate on income before income taxes and minority interest. The respective combined tax rates are 37.36% for the fiscal year 2006 and 37.31% for the fiscal year 2005.

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

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

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

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

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

The expiration of net operating losses is as follows:

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

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

In assessing the realizability of deferred tax assets, the Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Management of Fresenius Group believes it is more likely than not that the Fresenius Group will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2006.

Provision has not been made for additional taxes on approximately € 846 million undistributed earnings of foreign subsidiaries of Fresenius Medical Care as these earnings are considered permanently reinvested.

9. EARNINGS PER SHARE

The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations and shows the basic and fully diluted earnings per ordinary and preference share, retroactively considering the share split of Fresenius AG entered into the commercial register on January 24, 2007, for the years ending December 31.

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

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

NOTES ON THE CONSOLIDATED BALANCE SHEET

10. CASH AND CASH EQUIVALENTS

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

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

11. TRADE ACCOUNTS RECEIVABLE

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

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

All trade accounts receivable are due within one year.

12. INVENTORIES

As of December 31, inventories consist of the following:

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

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

Inventories as of December 31, 2006 and December 31, 2005 include approximately € 35 million and approximately € 23 million, respectively, of the product Erythropoietin (EPO), which is supplied by a single source supplier in the United States. Delays, stoppages, or interruptions in the supply of EPO could adversely affect the operating results of Fresenius Medical Care. In October 2006, Fresenius Medical Care entered into a five-year exclusive sourcing and supply agreement with its EPO supplier. Revenues from EPO accounted for approximately 9% and 10% of total sales of the Fresenius Group for 2006 and 2005, respectively.

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

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

in million €	2006	thereof short-term	2005	thereof short-term
Accounts receivable resulting from German "Krankenhausfinanzierungsgesetz"	220	160	175	105
Tax receivables	126	124	118	115
Investments and long-term loans	51	0	69	0
Derivative financial instruments	64	10	52	9
Advances made	17	17	43	22
Prepaid expenses	74	13	39	10
Re-insurance claims	23	0	24	0
Accounts receivable from management contracts in clinics	10	10	18	18
Other assets	531	403	306	205
Prepaid expenses and other assets, gross	**1,116**	**737**	**844**	**484**
less allowances	8	7	7	6
Prepaid expenses and other assets, net	**1,108**	**730**	**837**	**478**

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

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

14. PROPERTY, PLANT AND EQUIPMENT

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

ACQUISITION AND MANUFACTURING COSTS

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

DEPRECIATION

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

CARRYING AMOUNTS

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

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

LEASING

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

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

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

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

15. GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

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

ACQUISITION COST

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

AMORTIZATION

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

CARRYING AMOUNTS

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

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

REGULARLY AMORTIZABLE INTANGIBLE ASSETS

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

NON-REGULARLY AMORTIZABLE INTANGIBLE ASSETS

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

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

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

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

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

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

The carrying amount of goodwill has developed as follows:

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

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

16. OTHER ACCRUED EXPENSES

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

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

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

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

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

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

17. OTHER LIABILITIES

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

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

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

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

18. DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

SHORT-TERM BORROWINGS

Lines of credit and short-term borrowings

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

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

Accounts receivable facility

Fresenius Medical Care has an asset securitization facility (accounts receivable facility), which is typically renewed in October of each year and was most recently renewed and increased in October 2006. The accounts receivable facility currently provides borrowings up to a maximum of US$650 million (€ 494 million) (US$460 million (€ 349 million) through October 18, 2006). Under the accounts receivable facility, certain receivables are sold to NMC Funding Corp. (NMC Funding), a wholly-owned subsidiary of Fresenius Medical Care. NMC Funding then assigns undivided ownership interests in the accounts receivable to certain bank investors. Under the terms of the accounts receivable facility, NMC Funding retains the right to recall all

transferred interests in the accounts receivable assigned to the banks under the facility. As Fresenius Medical Care has the right at any time to recall the then outstanding interests, the receivables remain on the consolidated balance sheet and the proceeds from the transfer of undivided interests are recorded as short-term borrowings.

At December 31, 2006, there are outstanding short-term borrowings under the accounts receivable facility of US$266 million (€ 202 million). NMC Funding pays interest to the bank investors, calculated based on the commercial paper rates for the particular tranches selected. The average interest rate at December 31, 2006 was 5.31%. Annual refinancing fees, which include legal costs and bank fees (if any), are amortized over the term of the facility.

LONG-TERM DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

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

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

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

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

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

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

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

Fresenius Medical Care 2006 Senior Credit Agreement

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

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

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

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

The Fresenius Medical Care 2006 Senior Credit Agreement consists of:

- A 5-year US$1 billion revolving credit facility (of which up to US$250 million is available for letters of credit, up to US$300 million is available for borrowings in certain non-US currencies, up to US$150 million is available as swing line loans in US dollars, up to US$250 million is available as a competitive loan facility and up to US$50 million is available as swing line loans in certain non-US currencies, the total of which cannot exceed US$1 billion) which will be due and payable on March 31, 2011.
- A 5-year term loan facility (Loan A) of US$1,850 million, also scheduled to mature on March 31, 2011. The Fresenius Medical Care 2006 Senior Credit Agreement requires 19 quarterly payments on Loan A of US$30 million each that permanently reduce the term loan facility which began June 30, 2006 and continue through December 31, 2010. The remaining amount outstanding is due on March 31, 2011.
- A 7-year term loan facility (Loan B) of US$1,750 million scheduled to mature on March 31, 2013. The terms of the Fresenius Medical Care 2006 Senior Credit Agreement require 28 quarterly payments on Loan B that permanently reduce the term loan facility. The repayment began June 30, 2006. The first 24 quarterly payments will be equal to one quarter of one percent (0.25%) of the original principal balance outstanding, payments 25 through 28 will be equal to twenty-three and one half percent (23.5%) of the original principal balance outstanding with the final payment due on March 31, 2013, subject to an early repayment requirement on March 1, 2011 if the Trust Preferred Securities due June 15, 2011 are not repaid or refinanced or their maturity is not extended prior to that date.

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

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

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

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

The Fresenius Medical Care 2006 Senior Credit Agreement contains affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Certain of the

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

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

Euro Bonds

In April 2003, Fresenius Finance B.V. issued Euro Bonds for a total amount of € 400 million in two tranches in order to repay short-term bank loans. Both tranches have a tenor of six years. The first tranche of €300 million bore interest at 7.75% p.a. and was callable by the issuer for the first time on April 30, 2006. The redemption prices were fixed at the date of issue. The Fresenius Group issued a tender offer to repurchase the bonds in January 2006 and 71% of the volume of the first tranche were actually repurchased. At the end of March, Fresenius Finance B.V. has exercised its option to redeem the remaining outstanding amount. The redemption price was 103.875% or € 1,038.75 per € 1,000 nominal value of the Notes, plus accrued interest. The redemption was effective on April 30, 2006 and payment was made on May 2, 2006. The second tranche of € 100 million bears interest at 7.5% p.a. and is not callable before maturity.

In October 2005, Fresenius AG entered into an agreement pursuant to which two banks agreed to provide a loan facility in the amount of € 700 million with a term of 364 days to bridge the issuance of a bond. The bridge financing facility is shown under the balance sheet caption long-term debt as of December 31, 2005, as it belongs to this long-term bond. The loan facility was guaranteed by Fresenius Kabi AG and Fresenius ProServe GmbH and was used in addition to the proceeds from the capital increase placed at the end of 2005 to fund the acquisition of HELIOS Kliniken GmbH and the business of Clinico GmbH. From December 1, 2005, the bridge loan facility was reduced by € 100 million to € 600 million because the proceeds from the capital increase exceeded the amount according to the original finance concept. At the end of December 2005, the loan facility was fully used for the payment of the purchase prices of the acquisitions, and was repaid at the end of January 2006 using the proceeds of the bond issuance.

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

The Euro Bonds of Fresenius Finance B.V. are guaranteed by Fresenius AG, Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius AG has agreed to a number of covenants to provide protection to the bondholders, which, under certain circumstances, partly restrict the scope of action of Fresenius AG and its subsidiaries (excluding FMC-AG & Co. KGaA and its subsidiaries). These covenants include, amongst other things, restrictions in the amount of further debt that can be raised, the payment of dividends, the volume of capital expenditure, the redemption of subordinated liabilities and the mortgaging or sale of assets. Some of these restrictions are lifted automatically when the rating of the company reaches investment grade. In the event of non-compliance with the terms of the Euro Bonds, the bondholders (owning in aggregate more than 25% of the outstanding Euro Bonds) are entitled to call the Euro Bonds and demand immediate repayments plus interest. As of December 31, 2006, the Fresenius Group is in compliance with all of its covenants.

Euro Notes

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

On July 27, 2005, Fresenius Medical Care issued new Euro Notes (Schuldscheindarlehen) totaling € 200 million with a € 126 million tranche at a fixed interest rate of 4.57% and a € 74 million tranche with a floating rate at EURIBOR plus applicable margin resulting in an interest rate of 5.49% at December 31, 2006. The Euro Notes mature on July 27, 2009. The proceeds were used to liquidate € 129 million of Euro Notes issued in 2001 that were due in July 2005 and for working capital.

European Investment Bank Agreements

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

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

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

Capital lease obligations

Details of capital lease obligations are given below:

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

19. PENSIONS AND SIMILAR OBLIGATIONS

GENERAL

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

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

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

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

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

As of December 31, 2006, the Fresenius Group adopted the recognition provisions of FASB Statement of Financial Accounting Standards No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158). The

Fresenius Group recognized the underfunded status of its defined benefit plans, measured as the difference between plan assets at fair value and the benefit obligation, as a liability as of December 31, 2006. Changes in the funded status of a plan, net of tax, resulting from actuarial gains or losses and prior service costs or credits that are not recognized as components of the net periodic benefit cost will be recognized through accumulated other comprehensive income (loss) in the year in which they occur. In addition, SFAS No. 158 requires measurement of the funded status of all plans as of year-end balance sheet date no later than 2008. The Fresenius Group already uses December 31 as the measurement date when measuring the funded status of all plans.

DEFINED BENEFIT PENSION PLANS

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

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

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

Fresenius Medical Care currently has two principal pension plans, one for German employees, and the other covering employees in the United States. During the first quarter of 2002, Fresenius Medical Care's North America subsidiary, Fresenius Medical Care Holdings, Inc. (FMCH), curtailed its defined benefit and supplemental executive retirement plans. Under the curtailment amendment for substantially all employees eligible to participate in the plan, benefits have been frozen as of the curtailment date and no additional defined benefits for future services will be earned. FMCH has retained all employee benefit obligations as of the curtailment date. Each year FMCH contributes at least the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. There was no minimum funding requirement for FMCH for the defined benefit plan in the year 2006. FMCH voluntarily contributed US$11 million (€ 9 million) during the year 2006.

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

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

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

The funded status has developed as follows:

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

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

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

The additional minimum pension liability* is calculated as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The following table shows the expected future benefit payments:

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

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

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

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

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

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

Plan investment policy and strategy

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

The investment policy, utilizing a target investment allocation of 36% equity and 64% long-term US bonds, considers that there will be a time horizon for invested funds of more than five years. The total portfolio will be measured against a policy index that reflects the asset class benchmarks and the target asset allocation. The Plan policy does not allow investments in securities of FMC-AG & Co. KGaA or other related party securities. The performance benchmarks for the separate asset classes include: S&P 500 Index, Russell 2000 Growth Index, MSCI EAFE Index, Lehman U.S. Long Government/Credit bond Index and the HFRI Fund of Funds Index. The Fresenius Group expects to contribute US$1 million (€ 0.8 million) to plan assets during 2007.

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

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

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

DEFINED CONTRIBUTION PLANS

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

20. TRUST PREFERRED SECURITIES

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

Fresenius Medical Care and Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Deutschland GmbH.

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

The indentures governing the notes held by the Fresenius Medical Care Capital Trusts contain affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Some of the covenants limit Fresenius Medical Care's indebtedness and its investments, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. As of December 31, 2006, Fresenius Medical Care is in compliance with all financial covenants under all trust preferred securities agreements.

The trust preferred securities outstanding as of December 31, 2006 and 2005 are as follows:

	Year issued	Stated amount	Interest rate	Mandatory redemption date	2006 in million €	2005 in million €
Fresenius Medical Care Capital Trust II	1998	US$450 million	7⅞%	Feb 1, 2008	330	366
Fresenius Medical Care Capital Trust III	1998	DM 300 million	7⅜%	Feb 1, 2008	154	154
Fresenius Medical Care Capital Trust IV	2001	US$225 million	7⅞%	Jun 15, 2011	165	183
Fresenius Medical Care Capital Trust V	2001	€ 300 million	7⅜%	Jun 15, 2011	297	297
Trust preferred securities					**946**	**1,000**

21. MINORITY INTEREST

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

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

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

22. SHAREHOLDERS' EQUITY

SUBSCRIBED CAPITAL

Development of subscribed capital

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

shares and the new preference shares were offered to the shareholders at a ratio of 9:2 in each case. The subscription price per new ordinary share and per new preference share was € 93 and € 102, respectively. The capital increase generated gross proceeds of € 919 million. The registration of the capital increase with the commercial register in Bad Homburg v.d.H. took place on November 29, 2005.

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

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

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

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

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

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

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

APPROVED CAPITAL

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

- to increase Fresenius AG's subscribed capital by a nominal total amount of up to € 12,800,000.00 through a single or multiple issue of new bearer ordinary shares and/or non-voting bearer preference shares against cash contributions (Approved Capital I). A subscription right must be granted to shareholders.

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

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

CONDITIONAL CAPITAL

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

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

The following table shows the development of the conditional capital:

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

CAPITAL RESERVES

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

In the year 2006, the capital reserve increased by € 41 million in connection with the acquisition of HUMAINE. The costs of the share capital increase of € 23 million in 2005 have been set off against the capital reserves directly without any impact on the consolidated statement of income.

OTHER RESERVES

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

CHANGE IN SHAREHOLDERS' EQUITY AFTER THE BALANCE SHEET DATE

On December 4, 2006, at the Extraordinary General Meeting, Fresenius AG's shareholders approved a new division of the subscribed capital in connection with a capital increase from the company's funds. The registration in the commercial register took place on January 24, 2007. Through a conversion of capital reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided into 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is € 1.00 per share. The conditional capital increased in the same proportion as the

subscribed capital by operation of law (cf. § 218 sentence 1 of German Stock Corporation Act (AktG)) and is divided into Conditional Capital I in an amount of € 1,971,966.00 and Conditional Capital II in an amount of € 5,104,962.00 after the share split (see Note 1.II, Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital).

DIVIDENDS

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

At the Annual General Meeting on May 10, 2006, a resolution was passed to pay a dividend of € 1.48 per bearer ordinary share and € 1.51 per bearer preference share, i.e. a total dividend of € 76 million was resolved.

23. OTHER COMPREHENSIVE INCOME (LOSS)

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

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

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

OTHER NOTES

24. COMMITMENTS AND CONTINGENT LIABILITIES

OPERATING LEASES AND RENTAL PAYMENTS

The companies of the Fresenius Group lease office and manufacturing buildings as well as machinery and equipment under various lease agreements expiring on dates through 2026. Rental expense recorded for operating leases for the years ended December 31, 2006 and 2005 was € 369 million and € 297 million, respectively.

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

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

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

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

LEGAL PROCEEDINGS

Commercial litigation

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

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

In 2003, Fresenius Medical Care reached agreement with the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate and W.R. Grace & Co. in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to Fresenius Medical Care that arise out of the bankruptcy of W.R. Grace & Co. Under the terms of the settlement agreement as amended (Settlement Agreement), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and Fresenius Medical Care will receive protection against existing and potential future W.R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC

members of the W.R. Grace & Co. consolidated tax group upon confirmation of a W.R. Grace & Co. final bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, Fresenius Medical Care will pay a total of US$115 million to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation. No admission of liability has been or will be made. The Settlement Agreement has been approved by the U.S. District Court. Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (Sealed Air, formerly known as Grace Holding, Inc.). Fresenius Medical Care is engaged in litigation with Sealed Air to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by Fresenius Medical Care relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of Fresenius Medical Care's payment obligation, this litigation will be dismissed with prejudice.

On April 4, 2003, FMCH filed a suit in the U.S. District Court for the Northern District of California, (Fresenius USA, Inc., et al., v. Baxter International, Inc., et al.), Case No. C 03-1431, seeking a declaratory judgment that FMCH does not infringe on patents held by Baxter International, Inc. and its subsidiaries and affiliates (Baxter), that the patents are invalid, and that Baxter is without right or authority to threaten or maintain suit against FMCH for alleged infringement of Baxter's patents. In general, the alleged patents concern touch screens, conductivity alarms, power failure data storage, and balance chambers for hemodialysis machines. Baxter filed counterclaims against FMCH seeking monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. On July 17, 2006, the court entered judgement in favor of FMCH finding that all the asserted claims of the Baxter patents are invalid as obvious and/or anticipated in light of prior art. On February 13, 2007, the court granted Baxter's motion to set aside the jury's verdict in favor of FMCH and retry certain aspects of the case. Fresenius Medical Care will appeal the court's rulings. An adverse judgment in any new trial could have a material adverse impact on the business, financial condition and results of operations of Fresenius Medical Care.

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

Other litigation and potential exposures

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

FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. FMCH received its subpoena in April 2005. RCG received its subpoena in August 2005. The subpoenas require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relationships, joint ventures, anemia management programs, RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, and RCG's purchase of dialysis equipment from FMCH. Fresenius Medical Care is cooperating with the government's requests for information. An adverse determination in this investigation could have a material adverse effect on Fresenius Medical Care's business, financial condition and results of operations.

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

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

Accrued special charge of Fresenius Medical Care for legal matters

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

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

25. FINANCIAL INSTRUMENTS

MARKET RISK

I.) General

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

changes in variable interest rates and the risk of changes in the fair value of balance sheet items bearing fixed interest rates.

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

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

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

As of December 31, 2006, the notional amounts of Fresenius Group's foreign exchange derivatives amounted to € 1,186 million and the notional amounts of interest rate derivatives amounted to € 2,911 million. In the case of interest rate derivatives, it should be noted that the notional amounts generally only represent the base for contract specific computations and not necessarily the exchange of those amounts by the parties. Therefore, a potential risk resulting from the use of interest rate derivatives cannot be measured solely on the bases of the notional amounts of the contracts.

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

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

II.) Fair value of financial instruments

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

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

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

Estimation of fair values

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

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

Long-term bank debt of Fresenius Medical Care is valued at its carrying amount because the actual drawings under the Fresenius Medical Care 2006 Senior Credit Agreement carry interest on a variable basis, mainly with an interest rate fixed for three months. The interest rates reflect actual money market conditions, plus specific margins which represent company-related financial ratios as well as the entire set of terms and conditions including covenants as determined in the Fresenius Medical Care 2006 Senior Credit Agreement.

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

The fair value of financial instruments is defined as the amount at which the instrument could be exchanged between willing parties. Market quotes are available for all material financial instruments of the Fresenius Group.

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

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

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

Foreign exchange risk management

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

Fresenius Group's foreign exchange transaction risks mainly relate to transactions such as sales and purchases as well as project business denominated in foreign currency. Particularly products manufactured in Fresenius Group's worldwide production sites are mainly denominated in the local currency of the respective manufacturer and are delivered worldwide to various Fresenius Group entities. These intragroup sales are mainly denominated in euro, US dollar and yen. Group companies are therefore exposed to changes of the foreign exchange rates between the invoicing currencies and the local currencies in which they conduct their businesses. For the purpose of hedging existing and foreseeable foreign exchange transaction exposures, the Fresenius Group enters into foreign exchange forward contracts and, on a small scale, foreign exchange options. Foreign exchange forward contracts and options are not used for purposes other than hedging foreign exchange exposures. As at December 31, 2006, the Fresenius Group had no foreign exchange options.

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

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

Recognition in equity

		Cash flow hedges of forecasted product purchases		Cash flow hedges associated with foreign currency denominated inter-company financing transaction	
	Balance sheet date	in million €	Affecting net income probably in	in million €	Affecting net income probably in
Income/loss before tax	December 31, 2006	2.9	2007	—	—
	December 31, 2005	−6.7	2006-2009	—	—
Income/loss after tax	December 31, 2006	1.7	2007	—	—
	December 31, 2005	−5.0	2006-2009	—	—

Recognition in the consolidated statement of income

	Fiscal year	Cash flow hedges of forecasted product purchases in million €	Cash flow hedges associated with foreign currency denominated inter-company financing transaction in million €
Income/loss before tax	2006	1.0	—
	2005	0.7	—
Income/loss after tax	2006	0.7	—
	2005	0.6	—

As of December 31, 2006, the notional volume and fair value of foreign exchange contracts relating to foreign currency intercompany loans amounted to € 654 million and € 0 million, respectively. Hedge accounting is not applied to these foreign exchange contracts. Accordingly, the respective foreign exchange contracts are recognized as assets or liabilities and changes in fair values are recognized against earnings, thus offsetting with changes in fair values of the underlying foreign currency denominated intercompany loans.

As of December 31, 2006, the notional amounts of foreign exchange forward contracts in place to hedge risks from operational business totalled € 532 million with a fair value of € 4 million.

As of December 31, 2006, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 36 months.

Interest rate risk management

Fresenius Group's interest rate risks mainly arise from money market and capital market transactions of Fresenius Group for financing its business activities. Interest rate hedging transactions are primarily concluded by Fresenius AG and FMC-AG & Co. KGaA.

The Fresenius Group enters into interest rate swaps and, on a small scale, into interest rate options in order to hedge against interest rate exposures arising from short-term and long-term borrowings and accounts receivable securitization programs at variable rates by swapping them into fixed rates or to hedge against changes of the fair value of the underlying fixed rate financial liabilities.

Cash Flow Hedge

The Fresenius Group enters into interest rate swaps that are designated as cash flow hedges effectively converting certain variable interest rate payments, resulting from existing revolving loans, Euro Notes (Schuldscheindarlehen) and an accounts receivable facility mainly denominated in US dollar or euro, into fixed interest rate payments. The US dollar interest rate swaps with a notional volume of US$3,165 million expire at various dates between 2007 and 2012. The Euro interest rate swaps with a notional volume of € 166 million expire in 2007 and 2008. The US dollar interest rate swaps bear an average interest rate of 4.50% and the Euro interest rate swaps bear an average interest rate of 3.06%, plus an applicable margin each.

At December 31, 2006, after-tax gains of € 28.0 million (pre-tax € 44.7 million) were recognized in accumulated other comprehensive income (loss). At December 31, 2005, the equivalent amounts were € 18.8 million and € 30.6 million. Interest payables and interest receivables under the swap agreements are accrued or deferred as appropriate and recorded as an adjustment to the interest expense at each reporting date.

Fair Value Hedge

Fresenius Medical Care entered into US dollar interest rate swaps designated as fair value hedges to hedge the risk of changes in the fair value of parts of its fixed rate borrowings. These interest rate swaps effectively convert the fixed interest payments on Fresenius Medical Care Capital Trust II trust preferred securities denominated in US dollars into variable interest rate payments. Since the critical terms of the

interest rate swap agreements are identical to the terms of Fresenius Medical Care Capital Trust II trust preferred securities, the hedging relationship is expected to be highly effective and no ineffectiveness affects earnings. The interest rate swaps are reported at fair value in the balance sheet. The reported amount of the hedged portion of fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts and trust preferred securities offset each other in the income statement. At December 31, 2006, the notional volume of these swaps at Fresenius Medical Care was US$450 million (€ 342 million).

CREDIT RISK

The Fresenius Group is exposed to potential losses in the event of non-performance by counterparties to financial instruments but does not expect any counterparty to fail to meet its obligations as the counterparties are highly rated financial institutions. In the opinion of Fresenius Group's Management, all other credit risks are covered by the allowance for doubtful accounts in an amount of € 218 million (see Note 11, Trade accounts receivable).

26. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

The cash flow statements of the Fresenius Group for the fiscal years 2006 and 2005 are shown on pages F-115 to F-116.

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

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

in million €	2006	2005
Interest paid	393	208
Income taxes paid	401	360

The increase in interest paid related mainly to higher interest payments in connection with the acquisition of RCG, payments in connection with the issuance of the Eurobond 2006, the repurchase of the Eurobond 2003 as well as interest payments for the financing of the acquisition of HELIOS Kliniken.

The increase in income taxes paid mainly referred to one-time effects. In 2006, Fresenius Medical Care made a single tax payment of € 52 million (US$64 million) related to the acquisition of RCG as well as tax payments of € 79 million (US$99 million) for tax audit adjustments related to Fresenius Medical Care's 2000 and 2001 US tax filings. In the previous year, Fresenius Medical Care made a single tax payment of € 96 million (US$119 million). Without these one-time effects, the income taxes paid were nearly unchanged.

Cash paid for acquisitions consists of the following:

in million €	2006	2005
Assets acquired	4,196	2,695
Liabilities assumed	−402	−602
Minority interest	−45	−61
Notes assumed in connection with acquisitions	−24	−193
Cash paid	3,725	1,839
Cash acquired	−68	−231
Cash paid for acquisitions, net	**3,657**	**1,608**

27. NOTES ON SEGMENT REPORTING

GENERAL

The segment reporting tables shown on pages F-119 to F-120 of this annual report are an integral part of the Notes.

The Fresenius Group has identified the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe which corresponds to the internal organizational and reporting structures (Management Approach) at December 31, 2006.

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

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

The business segments were identified in accordance with SFAS No. 131 (Disclosures about Segments of an Enterprise and Related Information), which defines the segment reporting requirements in annual financial statements and interim reports with regard to the operating business, product and service businesses and regions. The business segments of the Fresenius Group are as follows:

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats 163,517 patients in its 2,108 own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

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

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

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

NOTES ON THE BUSINESS SEGMENTS

The key figures used by the Management Board to assess segment performance, have been selected in such a way that they include all items of income and expenses which fall under the area of responsibility of the business segments. The Management Board is convinced that the most suitable performance indicator is the operating income (EBIT). The Management Board believes that, in addition to the operating income, the figure for earnings before interest, taxes and depreciation/amortization (EBITDA) can also help investors to assess the ability of the Fresenius Group to generate cash flows and to meet its financial obligations. The EBITDA figure is also the basis for assessing Fresenius Medical Care's compliance with the terms of the 2006 Senior Credit Agreement and other obligations concerning trust preferred securities, the credit agreement with the European Investment Bank and that of Fresenius AG in conjunction with the Eurobonds.

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

Net interest comprises interest and other similar expenses and income.

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

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

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

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

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

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

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

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

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

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

Reconciliation of key figures to consolidated earnings

in million €	2006	2005
Total EBITDA of reporting segments	1,883	1,320
Depreciation and amortization	−399	−320
General corporate expenses Corporate/Other	−40	−31
Interest expenses	−418	−223
Interest income	23	20
Total earnings before income taxes and minority interest	**1,049**	**766**
Total EBIT of reporting segments	1,495	1,009
General corporate expenses Corporate/Other	−51	−40
Interest expenses	−418	−223
Interest income	23	20
Total earnings before income taxes and minority interest	**1,049**	**766**
Depreciation and amortization of reporting segments	388	311
Depreciation and amortization Corporate/Other	11	9
Total depreciation and amortization	**399**	**320**

Reconciliation of net debt

in million €	December 31, 2006	December 31, 2005
Short-term borrowings	330	224
Short-term liabilities and loans from related parties	1	1
Current portion of long-term debt and liabilities from capital lease obligations	265	222
Long-term debt and liabilities from capital lease obligations, less current portion	4,330	2,055
Trust preferred securities of Fresenius Medical Care Capital Trusts	946	1,000
Debt	**5,872**	**3,502**
less cash and cash equivalents	261	252
Net debt	**5,611**	**3,250**

Non-current assets by geographical region

in million €	December 31, 2006	December 31, 2005
Germany	2,282	2,154
Europe (excluding Germany)	1,653	1,592
North America	6,297	3,684
Asia-Pacific	265	168
Latin America	162	262
Africa	32	33
Total non-current assets*	**10,691**	**7,893**

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

28. STOCK OPTIONS

CHANGE IN ACCOUNTING FOR STOCK OPTIONS

Effective January 1, 2006, the Fresenius Group adopted the provisions of SFAS No. 123(R) (revised 2004) (Share-Based Payment), using the modified prospective transition method. Under this transition method, compensation cost recognized in 2006 includes applicable amounts of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 and previously presented in Fresenius Group's pro forma footnote disclosures), and (b) compensation cost for all stock-based payments subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123(R)).

COMPENSATION COST IN CONNECTION WITH STOCK OPTION PLANS OF THE FRESENIUS GROUP

The Fresenius Group recognized compensation cost in an amount of € 20 million for stock options granted since 1998. For stock incentive plans which are performance based, the Fresenius Group recognizes compensation cost over the vesting periods, based on the then current market values of the underlying stock.

FAIR VALUE OF STOCK OPTIONS

The Fresenius Group elected to adopt SFAS No. 123(R) prospectively. Compensation cost in the year 2005 has been recognized in accordance with the provisions of Accounting Principles Board Opinion No. 25 (Accounting for Stock Issued to Employee) (APB No. 25).

Fresenius Group's determination of the fair value of grants is based on the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair values of options that have no vesting restrictions. Option valuation models require the input of highly subjective assumptions including expected stock price volatility. Fresenius Group's assumptions are based upon its past experiences, market trends and the experiences of other entities of the same size and in similar industries. Fresenius Group's stock options have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option.

The weighted-average assumptions for the calculation of the fair value of grants made during the year ending December 31, 2006 are as follows:

Weighted-average assumptions of Fresenius AG	2006
Expected dividend yield	1.50%
Risk-free interest rate	3.80%
Expected volatility	35.50%
Expected life of options	5.3 years
Exercise price per option in €	121.36

Weighted-average assumptions of Fresenius Medical Care	2006
Expected dividend yield	1.64%
Risk-free interest rate	3.78%
Expected volatility	30.03%
Expected life of options	7 years
Exercise price per option in €	91.63

The weighted-average assumptions for the calculation of the fair value of grants made during the year ending December 31, 2005 are as follows:

Weighted-average assumptions of Fresenius AG	2005
Expected dividend yield	2.10%
Risk-free interest rate	2.50%
Expected volatility	40.00%
Expected life of options	5.3 years
Exercise price per option in €	92.26

Weighted-average assumptions of Fresenius Medical Care	2005
Expected dividend yield	2.88%
Risk-free interest rate	2.76%
Expected volatility	40.00%
Expected life of options	5.3 years
Exercise price per option in €	62.36

The expected volatility results from the historical volatility calculated over the expected live of options. The volatility was determined when the fair value of stock options was calculated for the first time and since then has been controlled every year upon issuance of a new tranche.

FRESENIUS AG STOCK OPTION PLANS

Description of the Fresenius AG stock option plans in place

On December 31, 2006, Fresenius AG has two stock option plans in place; the stock option based plan of 1998 and the currently active plan from the year 2003 which is based on convertible bonds. The latter is currently the only plan under which options in the form of convertible bonds are granted.

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

Employees are entitled, in total, up to 1,400,000 convertible bonds given the right to subscribe up to 700,000 bearer ordinary shares and the same number of non-voting bearer preference shares.

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

Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target corresponds to the stock exchange quoted price of the ordinary or preference shares upon the first time the stock exchange quoted price exceeds the initial value by at least 25%. The initial value is the joint average stock exchange price of bearer ordinary shares and non-voting bearer preference shares during the last 30 trading days prior to the date of grant. The conversion price of options without a stock price target is the initial value. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15% less than if the employee elected options subject to the stock price target. Each option entitles the holder thereof, upon payment of the respective conversion price, to acquire one ordinary or one preference share. Up to 20% of the total amount available for the issuance of awards under the 2003 Plan may be issued each year. At December 31, 2006, the number of outstanding stock options issued under the 2003 Plan was 962,850, thereof 139,886 were exercisable.

During 1998, Fresenius AG adopted a stock incentive plan (1998 Plan) for Fresenius AG's key management and executive employees. This stock incentive plan was replaced by the 2003 Plan and no options have been granted since 2003. Under the 1998 Plan, eligible employees have the right to acquire ordinary and preference shares of Fresenius AG. Options granted under this plan have a ten-year term, and one third of them vest on each of the second, third and fourth anniversaries of the award date. One ordinary or one preference share can be acquired for each option. At December 31, 2006, the number of outstanding and exercisable stock options issued under the 1998 Plan was 430,754.

Changes due to capital measures

Due to the capital increase completed in December 2005 which involved the granting of subscription rights to stockholders, the exercise prices under the 1998 Plan and, for the past, the conversion prices of the 2003 Plan were reduced in line with the provisions of both stock option plans. The amount of reduction corresponded to an amount calculated on the basis of the average price of the stockholders' subscription right during their entire trading period on the Frankfurt Stock Exchange — rounded to the nearest full € 0.05. For ordinary shares, this meant a reduction of the exercise or conversion price of € 1.90 per share and for preference shares of € 2.05 per share.

At December 4, 2006, the Extraordinary General Meeting of Fresenius AG resolved to newly divide the subscribed capital of Fresenius AG at a ratio of 1 (previously) : 3 (in the future) (share split). Furthermore, the General Meeting agreed to a capital increase from Fresenius AG's funds in order to attain, after the share split, a proportionate nominal value of € 1.00 per ordinary and preference share to the subscribed capital. The entry of both measures into the commercial register on January 24, 2007 resulted in the following consequences for the two stock option plans:

Under the 1998 Plan, upon exercise, one granted option now entitles to receipt of three instead of one ordinary or preference share of Fresenius AG, respectively. The maximum number of ordinary or preference shares to be issued to the members of the Management Board or senior employees of Fresenius AG is adjusted accordingly. The calculation of the exercise price remains unaffected.

Under the 2003 Plan, a convertible bond granted prior to entry of the share split in the commercial register but converted after the commercial registration, now entitles to receipt of three instead of one ordinary or preference share of Fresenius AG, respectively. The calculation of the conversion price remains unaffected for all convertible bonds without stock price target.

Regarding convertible bonds with stock price target, the stock price target is reached if the applicable stock price target has been reached prior to the commercial register entry of the share split, or if, after the commercial registration, the stock exchange quoted average price of the ordinary and preference shares reaches on one day a 25% increase against one third of the average stock exchange rate of the ordinary and preference shares on the grant date. The calculation of the conversion price remains unaffected if the stock price target has been reached prior to the date of entry into the commercial register. If the stock price target is reached for the first time after the commercial registration the conversion price for receipt of three ordinary shares or preference shares, respectively, per each convertible bond, shall be the triple of one third of the initial value.

After entry of the share split into the commercial register, each convertible bond granted has a nominal value of € 1.00, instead of previously € 2.56. The number of convertible bonds with a nominal value of € 1.00 each, still to be issued under the 2003 Plan, increases to 1,080,000, of which 240,000 are attributable to the members of the Management Board and 840,000 to the senior employees.

Transactions during the year 2006

In the year 2006, the Fresenius Group awarded 300,920 stock options, including 36,550 to members of the Management Board of Fresenius AG, at a weighted-average exercise price of € 121.36, a weighted-average fair value of € 47.99 each and a total fair value of € 14 million, one third of which will be amortized evenly over two, three and four years, respectively.

At December 31, 2006, of 430,754 outstanding options issued under the 1998 Plan, 17,200 were held by the members of the Fresenius AG Management Board. The number of outstanding stock options issued under the 2003 Plan was 962,850, of which 131,580 were held by the members of the Fresenius AG Management Board.

During the year 2006, Fresenius AG received € 32 million from the exercise of 375,932 stock options. The intrinsic value of options exercised in the year 2006 was € 19 million.

Stock option transactions are summarized as follows:

Ordinary shares December 31	Number of options	Weighted-average exercise price in €	Number of options exercisable
Balance 2004	836,265	72.75	433,251
Granted	155,101	90.49	
Exercised	175,621	70.71	
Forfeited	50,450	74.12	
Balance 2005	765,295	73.67	361,980
Granted	150,460	119.93	
Exercised	187,966	77.61	
Forfeited	30,987	73.25	
Balance 2006	696,802	83.90	285,320

Preference shares December 31	Number of options	Weighted-average exercise price in €	Number of options exercisable
Balance 2004	836,265	79.72	433,251
Granted	155,101	94.03	
Exercised	175,621	78.28	
Forfeited	50,450	82.13	
Balance 2005	765,295	80.91	361,980
Granted	150,460	122.78	
Exercised	187,966	90.72	
Forfeited	30,987	73.16	
Balance 2006	696,802	87.64	285,320

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at December 31, 2006:

	Number of options in thousand	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Aggregate intrinsic value in million €
Options for ordinary shares	285,320	4.73	72.28	23
Options for preference shares	285,320	4.73	81.21	23

At December 31, 2006, there was € 14 million of total unrecognized compensation costs related to non-vested options granted under the Fresenius AG plans. These costs are expected to be recognized over a weighted-average period of 2.2 years.

FRESENIUS MEDICAL CARE STOCK OPTION PLANS

Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006

On May 9, 2006, the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 (2006 Plan) was established by resolution of FMC-AG & Co. KGaA's annual general meeting with a conditional capital increase up to € 13 million subject to the issue of up to five million no par value bearer ordinary shares with a nominal value of € 2.56 each. Under the 2006 Plan, up to five million options can be issued, each of which can be exercised to obtain one ordinary share, with up to one million options designated for members of the Management Board of FMC Management AG, FMC-AG & Co. KGaA's General Partner, up to one million options designated for members of management boards of direct or indirect subsidiaries of FMC-AG & Co. KGaA and up to three million options designated for managerial staff members of FMC-AG & Co. KGaA and such affiliates. With respect to participants who are members of FMC Management AG's Management Board, its Supervisory Board has sole authority to grant stock options and exercise other decision making powers under the 2006 Plan (including decisions regarding certain adjustments and forfeitures). FMC Management AG has such authority with respect to all other participants in the 2006 Plan.

Options under the 2006 Plan can be granted the last Monday in July and/or the first Monday in December. The exercise price of options granted under the 2006 Plan shall be the average closing price on the Frankfurt Stock Exchange of FMC-AG & Co. KGaA's ordinary shares during the 30 calendar days immediately prior to each grant date. Options granted under the 2006 Plan have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is subject to satisfaction of success targets measured over a three-year period from the grant date. For each such year, the success target is achieved if FMC-AG & Co. KGaA's adjusted basic income per ordinary share (EPS), as calculated in accordance with the 2006 Plan, increases by at least 8% year over year during the vesting period, beginning with EPS for the year of grant as compared to EPS for the year preceding such grant. Calculation of EPS under the 2006 Plan excludes, among other items, the costs of the transformation of Fresenius Medical Care's legal form and the conversion of preference shares into ordinary shares. For each grant, one-third of the options granted are forfeited for each year in which EPS does not meet or exceed the 8% target. The success target for the year 2006 was met. Vesting of the portion or portions of a grant for a year or years in which the

success target is met does not occur until completion of the entire three-year vesting period. Upon exercise of vested options, FMC-AG & Co. KGaA has the right to issue ordinary shares it owns or that it purchases in the market in place of increasing capital by the issuance of new shares.

Options granted under the 2006 Plan to US participants are non-qualified stock options under the United States Internal Revenue Code of 1986, as amended. Options under the 2006 Plan are not transferable by a participant or a participant's heirs, and may not be pledged, assigned, or otherwise disposed of.

Fresenius Medical Care 2001 International Stock Option Plan

Under the Fresenius Medical Care 2001 International Stock Incentive Plan (2001 Plan), options in the form of convertible bonds with a principal of up to € 10 million were issued to the members of the Management Board and other employees of FMC-AG & Co. KGaA representing grants for up to four million non-voting preference shares. The convertible bonds have a par value of € 2.56 and bear interest at a rate of 5.5%. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of and secured by the bond. FMC-AG & Co. KGaA has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by FMC-AG & Co. KGaA and are not reflected in the consolidated financial statements. The options expire ten years from issuance and can be exercised beginning two, three or four years after issuance. Compensation costs related to awards granted under this plan are amortized on a straight-line basis over the vesting period for each separately vesting portion of the awards. Bonds issued to Management Board members who did not issue a note to FMC-AG & Co. KGaA are recognized as a liability on Fresenius Group's balance sheet.

Upon issuance of the option, the employees had the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target corresponds to the stock exchange quoted price of the preference shares upon the first time the stock exchange quoted price exceeds the initial value by at least 25%. The initial value is the average price of the preference shares during the last 30 trading days prior to the date of grant. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15% less than if the employee elected options subject to the stock price target. The conversion price of the options without a stock price target is the initial value. Each option entitles the holder thereof, upon payment of the respective conversion price, to acquire one preference share. Effective May 2006, no further grants can be issued under the 2001 Plan and no options were granted under the 2001 Plan during the year 2006.

Transactions during the year 2006

During the year 2006, Fresenius Medical Care awarded 772,280 options, including 132,800 to members of the Management Board of FMC Management AG, at a weighted-average exercise price of € 91.63, a weighted-average fair value of € 29.65 each and a total fair value of € 23 million, which will be amortized on a straight line basis over the three year vesting period.

At December 31, 2006, the Management Board members of FMC Management AG held 548,197 stock options for ordinary shares and employees of FMC-AG & Co. KGaA held 2,525,659 stock options for ordinary shares and 122,697 stock options for preference shares.

During the year 2006, FMC-AG & Co. KGaA received € 37 million from the exercise of stock options and € 6 million from a related tax benefit. The intrinsic value of options exercised in the year 2006 was € 22 million.

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

The table below provides reconciliations for options outstanding at December 31, 2006, as compared to December 31, 2005 taking in consideration the conversion, options exercised and forfeited.

	Number of options in thousand	Weighted-average exercise price in €
Balance at December 31, 2005 (options for preference shares)	**4,103**	**47.88**
Forfeited prior to conversion	5	41.00
Eligible for conversion	4,098	47.94
Options not converted	235	49.18
Options converted	3,863	
Reduction due to impact of conversion ratios	1,014	
Balance of options outstanding after conversion into options for ordinary shares as of February 10, 2006	2,849	64.22
Granted	772	91.63
Exercised	520	61.39
Forfeited	27	68.94
Balance at December 31, 2006 (options for ordinary shares)	**3,074**	**61.18**
Balance of options not converted as of February 10, 2006	**235**	**49.18**
Exercised	104	49.82
Forfeited	8	50.61
Balance at December 31, 2006 (options for preference shares)	**123**	**48.56**

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at December 31, 2006:

	Number of options in thousand	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Aggregate intrinsic value in million €
Options for ordinary shares	959	4.86	59.10	40
Options for preference shares	71	3.63	43.37	4

At December 31, 2006, there was € 29 million of total unrecognized compensation costs related to non-vested options granted under all plans. These costs are expected to be recognized over a weighted-average period of 1.7 years.

29. RELATED PARTY TRANSACTIONS

Dr. Gerhard Rupprecht, a member of the Supervisory Board of Fresenius AG, is the Chief Executive Officer of Allianz Deutschland AG. Dr. Gerd Krick, chairman of the Supervisory Board of Fresenius AG, is a member of the Supervisory Board of Allianz Private Krankenversicherungs-AG. In the year 2006, the Fresenius Group paid € 2.1 million for insurance premiums to the Allianz Group. Furthermore, the Allianz Group received € 2.15 million for services mainly in connection with the commitment relating to the new Fresenius Medical Care 2006 Senior Credit Agreement and the issuance of a corporate bond.

Dr. Gerd Krick is also a member of the Advisory Board of HDI Haftpflichtverband der deutschen Industrie V. a. G. In the year 2006, this insurance company received € 6.3 million for insurance premiums

Dr. Dieter Schenk is a member of the Supervisory Board of Fresenius AG and a partner in the law firm Nörr Stiefenhofer Lutz that provides legal services to the Fresenius Group. In the year 2006, the Fresenius Group paid this law firm € 1.9 million.

30. SUBSEQUENT EVENTS

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

NOTES IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

31. COMPENSATION REPORT

COMPENSATION OF THE MANAGEMENT BOARD OF FRESENIUS AG

The compensation report of Fresenius AG summarizes the principles applied to the determination of the compensation of the Management Board members of Fresenius AG and explains the amount and structure of the Management Board compensation. The compensation report is based mainly on the recommendations of the German Corporate Governance Code and also provides the information which is part of the notes (§ 285 German Commercial Code) and the consolidated notes (§ 314 German Commercial Code) or the management report (§ 289 German Commercial Code) and the consolidated management report (§ 315 German Commercial Code) according to the German Act on the Disclosure of Management Board Compensation.

The principles for the compensation of the Management Board were determined by the Supervisory Board of Fresenius AG, its structure and amount by the personnel committee of the Supervisory Board of Fresenius AG. The personnel committee is composed of the Supervisory Board members Dr. Gerd Krick, Dr. Karl Schneider and Volker Weber.

The objective of the compensation system is to enable the members of the Management Board to participate in the development of the business in accordance with their tasks and performance and the successes in the structuring of the economic and financial situation of the company taking account of its comparable environment.

The compensation of the Management Board is, as a whole, performance oriented and consists in the fiscal year 2006 of three elements:

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

Furthermore, in the period under report, there is a valid pension commitment applicable to one member of the Management Board.

The composition of the individual elements is as follows:

The non-performance-related compensation was paid in fiscal year 2006 in twelve monthly installments as non-performance-related basic salary. In addition, the members of the Management Board received additional benefits consisting mainly of insurance premiums, the private use of company cars, special payments such as rent supplements and refunds of charges and contributions to pension and health insurance.

The performance-related compensation will be granted for the fiscal year 2006 as a variable bonus. The amount of the bonus in each case depends on the achievement of the individual targets relating to the net income of the Fresenius Group and its segments. For the total performance-related compensation, the maximum achievable bonus is fixed.

For the fiscal year 2006, the amount of cash payment of the Management Board of Fresenius AG consists of the following:

	Non-performance related compensation		Performance related compensation	Cash compensation (without long-term incentive components)
	Salary € thousand	Other[1] € thousand	Bonus € thousand	€ thousand
Dr. Ulf M. Schneider	600	41	954	1,595
Rainer Baule	425	43	825	1,293
Andreas Gaddum	325	86	498	909
Dr. Ben Lipps[2]	836	150	1,627	2,613
Stephan Sturm	425	87	756	1,268
Total	**2,611**	**407**	**4,660**	**7,678**

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

(2) Dr. Ben Lipps receives his compensation only by Fresenius Medical Care, of which Fresenius AG held 36,1% of the total subscribed capital. As Dr. Ben Lipps is a member of the Management Board of Fresenius AG, his compensation has to be included in the compensation report of the Fresenius Group.

As elements of long-term incentives in the fiscal year 2006, convertible bonds and stock options on the basis of the Fresenius AG Stock Option Plan 2003 and the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 were granted. The principles of both plans are described in Note 28, Stock options.

For the fiscal year 2006, the number and value of convertible bonds and stock options issued and the value of the share price-related compensation is shown in the following table:

	Components with long-term incentive effects	
	Number	Value in € thousand
Dr. Ulf M. Schneider	14,620	700
Rainer Baule	7,310	350
Andreas Gaddum	7,310	350
Dr. Ben Lipps[1]	33,200	985
Stephan Sturm	7,310	350
Total	**69,750**	**2,735**

(1) Dr. Ben Lipps received stock options under the Fresenius Medical Care stock option plan.

The values of convertible bonds and stock options granted to members of the Management Board in the fiscal year 2006 stated above correspond to their fair value at the time of their having been granted, namely a value of € 47.90 per convertible bond of Fresenius AG and € 29.67 per stock option of FMC-AG & Co. KGaA. The exercise price for the granted convertible bonds of Fresenius AG is € 120.38 and for the granted stock options of FMC-AG & Co. KGaA is € 91.48.

On the basis of the financial targets achieved in the fiscal year 2006, Dr. Ben Lipps, in connection with a bonus agreement of Fresenius Medical Care, earned rights to share price-related compensation at a value of € 791 thousand. The entitlement is based on the development of the ordinary share of Fresenius Medical Care and has a three years vesting period.

At the end of the fiscal year 2006, the members of the Management Board held a total of 148,780 stock options and convertible bonds of Fresenius AG and 253,383 stock options and convertible bonds of FMC-AG & Co. KGaA.

The components with long-term incentive effect can be exercised only after the expiry of the vesting period. The value is recognized over the vesting period as expense in the respective fiscal year. The expenses

attributable to the fiscal year 2006 are stated in the following table and are included in the overall compensation of the Management Board of Fresenius AG.

	Cash compensation (without long-term incentive components) € thousand	Expenses 2006 for long-term incentive components € thousand	Compensation (including long-term incentive components) Total € thousand
Dr. Ulf M. Schneider	1,595	444	2,039
Rainer Baule	1,293	224	1,517
Andreas Gaddum	909	233	1,142
Dr. Ben Lipps[1]	2,613	385	2,998
Stephan Sturm	1,268	233	1,501
Total	**7,678**	**1,519**	**9,197**

(1) Dr. Ben Lipps received stock options under the Fresenius Medical Care stock option plan.

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

Commitments to Members of the Management Board for the event of the ending of their appointment

There is an individual contractual pension commitment for the Management Board member Rainer Baule. With regard to this pension commitment, the Fresenius Group had pension obligations of € 1,753 thousand as of December 31, 2006. The addition to pension liability in the year under report amounts to € 319 thousand. The pension commitment provides a pension and survivor benefit, depending on the amount of the basic salary, from the 63rd year of life, or, in the case of leaving because of professional or occupational incapacity, from the time of leaving active work. The starting percentage of 30% increases with every year of service by 1.5 percentage points, whereby the maximum attainable amount is 45%. 30% of the gross amount of any later income from an occupation of the Management Board member is credited against the pension.

With the Management Board member Dr. Ben Lipps an individual agreement exists instead of a pension provision, to the effect that, taking account of a competitive restriction after the ending of the service agreement between him and Fresenius Medical Care Management AG, he can, for a period of ten years, act in a consultative capacity for the company. The consideration to be granted by Fresenius Medical Care Management AG in return would amount per annum in value to approximately 46% of the non-performance related compensation elements paid to him in the fiscal year 2006.

The service agreements of the Management board members contain no express provisions for the case of a change of control and for the event of the ending of their service agreement.

Miscellaneous

In the fiscal year 2006, no loans or advance payments of future compensation components were made to members of the Management Board of Fresenius AG. No member of the Management Board received in the fiscal year 2006 payments or commitments from third parties in relation to his work as Management Board member.

Fresenius AG undertook, to the extent legally admissible, to indemnify the members of the Management Board against claims against them arising out of their work for the company and its affiliates, if such claims exceed their responsibilities under German law. To secure such obligations, the company concluded a Directors' & Officers' insurance (D&O insurance) with an appropriate excess. The indemnity applies for the time in which each member of the Management Board is in office and for claims in this connection after the ending of the membership of the Management Board in each case.

To former members of the Management Board and their surviving dependents € 588 thousand was paid in the year 2006. The pension obligation for these persons amounts to € 9,696 thousand.

32. INFORMATION ON THE SUPERVISORY BOARD

The Supervisory Board appoints the members of the Management Board and supervises and advises the Management Board in managing the company. However, the Supervisory Board is fundamentally prohibited from managing the company in any way. The remuneration of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in § 13 of the statutes of Fresenius AG. The total remuneration of the members of the Supervisory Board of Fresenius AG in 2006 was € 1,127 thousand.

This included € 253 thousand relating to fixed and € 874 thousand relating to variable components. The fixed remuneration per Supervisory Board member was equivalent to € 13 thousand, whereby the Chairman receives double of this amount and the deputy to the Chairman receives one and half times the amount of a Supervisory Board member. The members of the Audit Committee and the Personnel Committee of the Supervisory Board receive an additional € 10 thousand each and the Chairman of the committee receives a further € 10 thousand. For each full fiscal year, the variable remuneration increases by 10% for each percentage point that the dividend paid on each ordinary share for that year (gross dividend according to the resolution of the Annual General Meeting) exceeds 13% of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. Thus, the variable remuneration per Supervisory Board member amounted to € 73 thousand for the year 2006. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board.

One subsidiary paid € 11 thousand to the surviving dependents of a former Supervisory Board member.

33. D & O INSURANCE

Fresenius AG has concluded a consequential loss liability insurance policy (D&O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of Fresenius AG and for all representative bodies of affiliates in Germany and elsewhere. The D&O policy applies throughout the world and runs until the end of June 2007. The policy covers the legal defense costs of a member of a representative body when a claim is made and, where relevant, any damages to be paid which are covered by the policy.

34. FEES FOR THE AUDITOR

In 2006 and 2005, fees for the auditor in Germany were expensed as follows:

in million €	2006	2005
Audit fees	4	4
Tax consulting fees	—	—
Audit- related fees	—	—
Other fees	—	1
Total auditor fees	**4**	**5**

35. CORPORATE GOVERNANCE

The members of the Management Boards and the Supervisory Boards of Fresenius AG and FMC-AG & Co. KGaA have submitted the Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act (AktG) in accordance with the German Corporate Governance Code dated June 12, 2006 and made this permanently available to the shareholders.

36. PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The Management Board of Fresenius AG proposes to the Annual General Meeting that the earnings for 2006 of Fresenius AG be distributed as follows:

in €

Payment of a dividend of €0.57 per bearer ordinary share on the 77,176,938 ordinary shares entitled to dividend	43,990,854.66
Payment of a dividend of €0.58 per bearer preference share on the 77,176,938 preference shares entitled to dividend	44,762,624.04
Balance to be carried forward	330,806.07
	89,084,284.77

Bad Homburg v.d.H., February 27, 2007

The Management Board

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

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Fresenius Aktiengesellschaft, Bad Homburg v.d. Höhe, comprising the balance sheet, the income statement, the statements of changes in shareholders' equity, cash flows and notes to the consolidated financial statements together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US GAAP) and the group management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

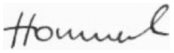
Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with Accounting Principles Generally Accepted in the United States of America (US GAAP), and give a true and fair view of the net assets, financial position and the results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 27, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft





Hölzl
German Public Auditor

Hommel
German Public Auditor

(This page intentionally left blank)

Consolidated financial statements of Fresenius SE for 2005
(US-GAAP)

CONSOLIDATED STATEMENT OF INCOME

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

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

CONSOLIDATED BALANCE SHEET

ASSETS

as of December 31, in million €	Note	2005	2004
Cash and cash equivalents	10	252	140
Trade accounts receivable, less allowances for doubtful accounts	11	1,871	1,528
Accounts receivable and loans from related parties		15	17
Inventories	12	727	619
Prepaid expenses and other current assets	13	478	283
Deferred taxes	8	188	168
I. Total current assets		**3,531**	**2,755**
Property, plant and equipment	14	2,356	1,696
Goodwill	15	4,680	2,905
Other intangible assets	15	541	480
Other non-current assets	13	359	234
Deferred taxes	8	127	118
II. Total non-current assets		**8,063**	**5,433**
Total assets		**11,594**	**8,188**

LIABILITIES AND SHAREHOLDERS' EQUITY

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

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

CONSOLIDATED CASH FLOW STATEMENT

January 1 to December 31, in million €	Note	2005	2004
Cash provided by/used for operating activities			
Net income		222	168
Minority interest	21	246	215
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities			
Cash inflow from hedging		0	12
Depreciation and amortization		320	315
Gain from sale of investments		0	−14
Change in deferred taxes		10	25
Gain/loss on sale of fixed assets		7	−1
Change in assets and liabilities, net of amounts from businesses acquired or disposed of			
Change in trade accounts receivable, net	11	−42	−20
Change in inventories	12	−12	9
Change in prepaid expenses and other current and non-current assets	13	−101	100
Change in accounts receivable from/payable to related parties		6	4
Change in trade accounts payable, accruals and other short-term and long-term liabilities		195	36
Change in accruals for income taxes		−71	2
Cash provided by operating activities		**780**	**851**
Cash provided by/used for investing activities			
Purchase of property, plant and equipment		−353	−308
Proceeds from the sale of property, plant and equipment		22	22
Purchase of shares in related companies and investments, net	2, 26	−1,608	−100
Proceeds from the sale of shares in related companies and investments, net	26	2	10
Cash used for investing activities		**−1,937**	**−376**

January 1 to December 31, in million €	Note	2005	2004
Cash provided by/used for financing activities			
Proceeds from short-term borrowings	18	37	87
Repayments of short-term borrowings	18	−70	−77
Proceeds from short-term and long-term borrowings from related parties		0	1
Repayments of short-term and long-term borrowings from related parties		−4	−1
Proceeds from long-term debt and capital lease obligations	18	945	607
Repayments of long-term debt and capital lease obligations	18	−310	−1,096
Changes of accounts receivable facility	18	−194	143
Proceeds from exercise of stock options		90	3
Dividends paid		−132	−122
Proceeds from issuance of bearer ordinary shares	22	438	0
Proceeds from issuance of bearer preference shares	22	481	0
Payments of additional costs of capital increase	22	−22	0
Change in minority interest	21	−1	−
Payments on hedge contracts for intercompany loans in foreign currency		−2	−3
Cash provided by/used for financing activities		**1,256**	**−458**
Effect of exchange rate changes on cash and cash equivalents		**13**	**−2**
Net increase in cash and cash equivalents		**112**	**15**
Cash and cash equivalents at the beginning of the year	**10**	**140**	**125**
Cash and cash equivalents at the end of the year	**10**	**252**	**140**

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Note	Ordinary shares		Preference shares		Subscribed capital	
		Number of shares (thousand)	Amount (thousand €)	Number of shares (thousand)	Amount (thousand €)	Amount (thousand €)	Amount (thousand €)
As of December 31, 2003		**20,485**	**52,441**	**20,485**	**52,441**	**104,882**	**105**
Issuance of bearer ordinary and bearer preference shares	22						
Proceeds from exercise of stock options	28	1	2	1	2	4	–
Compensation expense related to stock options	28						
Dividends paid	22						
Comprehensive income (loss)							
Net income							
Other comprehensive income (loss) related to							
Cash flow hedges	23, 25						
Foreign currency translation	23						
Minimum pension liability	19, 23						
Comprehensive income (loss)							
As of December 31, 2004		**20,486**	**52,443**	**20,486**	**52,443**	**104,886**	**105**
Issuance of bearer ordinary and bearer preference shares	22	4,700	12,032	4,700	12,032	24,064	24
Proceeds from the exercise of stock options	28	175	449	175	449	898	1
Compensation expense related to stock options	28						
Dividends paid	22						
Comprehensive income (loss)							
Net income							
Other comprehensive income (loss) related to							
Cash flow hedges	23, 25						
Foreign currency translation	23						
Minimum pension liability	19, 23						
Comprehensive income (loss)							
As of December 31, 2005		**25,361**	**64,924**	**25,361**	**64,924**	**129,848**	**130**

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

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

SEGMENT REPORTING

by business segments

in million €	Fresenius Medical Care			Fresenius Kabi			Fresenius ProServe			Corporate/Other			Fresenius Group		
	2005	2004	Change	2005	2004	Change	2005	2004	Change	2005	2004	Change	2005	2004	Change
Sales	5,443	5,007	9%	1,681	1,491	13%	809	813	0%	−44	−40	−10%	7,889	7,271	8%
thereof contribution to consolidated sales	5,418	4,979	9%	1,651	1,465	13%	804	811	−1%	16	16	0%	7,889	7,271	8%
thereof intercompany sales	25	28	−11%	30	26	15%	5	2	150%	−60	−56	−7%	0	0	
contribution to consolidated sales	69%	69%		21%	20%		10%	11%		0%	0%		100%	100%	
EBITDA	957	872	10%	318	258	23%	45	39	15%	−31	−9	—	1,289	1,160	11%
Depreciation and amortization	202	187	8%	84	82	2%	25	30	−17%	9	16	−44%	320	315	2%
EBIT	755	685	10%	234	176	33%	20	9	122%	−40	−25	−60%	969	845	15%
Net interest	−139	−147	5%	−51	−46	−11%	−10	−11	9%	−3	−5	40%	−203	−209	3%
Net income	366	323	13%	111	79	41%	2	−10	120%	−257	−224	−15%	222	168	32%
Operating cash flow	539	665	−19%	237	170	39%	19	23	−17%	−15	−7	−114%	780	851	−8%
Cash flow before acquisitions and dividends	300	456	−34%	167	121	38%	7	−1	—	−25	−11	−127%	449	565	−21%
Debt	1,857	1,820	2%	903	709	27%	229	222	3%	513	−16	—	3,502	2,735	28%
Total assets	6,767	5,845	16%	1,867	1,518	23%	2,859	742	285%	101	83	22%	11,594	8,188	42%
Capital expenditure	253	224	13%	77	55	40%	12	25	−52%	11	4	—	353	308	15%
Acquisitions	108	96	13%	274	13	—	1,507	4	—	5	0	—	1,894	113	—
Research and development expenses	41	41	0%	64	56	14%	1	0	—	43	36	19%	149	133	12%
Employees (per capita on balance sheet date)	50,250	46,949	7%	14,453	11,577	25%	26,664	9,398	184%	604	570	6%	91,971	68,494	34%
Key figures															
EBITDA margin	17.6%	17.4%		18.9%	17.3%		5.6%	4.8%					16.3%	16.0%	
EBIT margin	13.9%	13.7%		13.9%	11.8%		2.5%	1.1%					12.3%	11.6%	
ROOA	12.6%	11.8%		14.5%	13.4%		3.6%	1.5%					11.7%	11.1%	
Depreciation and amortization in % of sales	3.7%	3.7%		5.0%	5.5%		3.1%	3.7%					4.1%	4.3%	

The segment reporting is integral part of the Notes.

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

SEGMENT REPORTING

by region

in million €	Europe			North America			Asia-Pacific			Latin America			Africa			Fresenius Group		
	2005	2004	Change	2005	2004	Change	2005	2004	Change	2005	2004	Change	2005	2004	Change	2005	2004	Change
Sales	3,032	2,802	8%	3,746	3,478	8%	557	547	2%	354	272	30%	200	172	16%	7,889	7,271	8%
contribution to consolidated sales	38%	39%		47%	48%		7%	7%		5%	4%		3%	2%		100%	100%	
EBIT	337	295	14%	522	478	9%	59	36	64%	31	19	63%	20	17	18%	969	845	15%
Depreciation and amortization	170	182	−7%	112	102	10%	22	19	16%	14	10	40%	2	2	0%	320	315	2%
Total assets	5,784	3,269	77%	4,747	4,046	17%	556	472	18%	431	330	31%	76	71	7%	11,594	8,188	42%
Capital expenditure	179	145	23%	141	132	7%	14	14	0%	17	13	31%	2	4	−50%	353	308	15%
Acquisitions	1,791	41	—	62	52	19%	33	15	120%	7	0	—	1	5	−80%	1,894	113	—
Employees (per capita on balance sheet date)	48,169	27,373	76%	31,031	29,690	5%	4,296	3,633	18%	7,772	7,126	9%	703	672	5%	91,971	68,494	34%

The segment reporting is integral part of the Notes.

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

1. PRINCIPLES

I. GROUP STRUCTURE

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

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

III. BASIS OF PRESENTATION

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

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

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

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

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

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

Capital consolidation is performed according to SFAS No. 141 (Business Combinations) and SFAS No. 142 (Goodwill and other intangible assets) by offsetting investments in subsidiaries against the underlying equity at the dates of acquisition. The identifiable assets and liabilities of subsidiaries are included at their fair values. Any remaining debit balance is recognized as goodwill and is tested at least once a year for impairment.

The equity method is performed according to APB No. 18 (The Equity Method of Accounting for Investments in Common Stock).

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

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

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

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

b) Composition of the Group

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

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

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

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

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

The composition of the Group changed as follows:

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

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

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

c) Classifications

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

d) Sales recognition policy

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

Product sales are recognized when title to the product passes to the customers either at the time of shipment, upon receipt by the customer or upon any other terms that clearly define passage of title. As product returns are not typical, an appropriate reduction to sales, cost of sales and accounts receivable is made in the event a return is actual.

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

e) Research and development expenses

Research and development expenses are expensed as incurred.

f) Impairment

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

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

g) Interest

The Fresenius Group includes interests which are directly attributable to the acquisition, construction or manufacture of qualifying assets in accordance with SFAS No. 34 (Capitalization of Interest Costs).

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

h) Income taxes

In accordance with SFAS No. 109 (Accounting for Income Taxes), deferred tax assets and liabilities are recognized for the future consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis as well as on consolidation procedures affecting net income. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of existing tax losses available for carryforward where future recoverability is probable.

Deferred taxes are computed using enacted or adopted tax rates in the relevant national jurisdictions when the amounts are recovered. Tax rates, which will be valid in the future, but are not adopted till the balance sheet date, are not considered.

The carrying amount of a deferred tax asset shall be reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Reduction shall be reversed to the date and extent that it becomes probable that sufficient taxable profit will be available (See Note 8, Income taxes).

i) Earnings per share

Basic earnings per ordinary share and preference share for all years presented have been calculated in accordance with SFAS No. 128 (Earnings per Share) using the two-class method based upon the weighted average number of ordinary and preference shares outstanding. Basic earnings per ordinary share are computed by dividing net income less preference amounts by the weighted average number of ordinary shares and preference shares outstanding during the year. For the purposes of computing earnings per preference share, the additional amount payable on preference shares is added to earnings per ordinary share. Diluted earnings per share include the effect of all potentially dilutive instruments on ordinary shares and preference shares that would have been outstanding during the year. The awards granted under the Fresenius' and Fresenius Medical Care's stock incentive plans (see Note 28, Stock options), are potentially dilutive equity instruments.

j) Cash and cash equivalents

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

k) Trade accounts receivable

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

l) Inventories

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

m) Property, plant and equipment

Property, plant and equipment are stated at acquisition and manufacturing cost less accumulated depreciation. Significant improvements are capitalized; repair and maintenance costs that do not extend the useful lives of the assets are charged to expenses as incurred. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years for buildings and improvements (with a weighted average life of 19 years) and 3 to 15 years for machinery and equipment (with a weighted average life of 10 years).

n) Intangible assets with definite useful lives

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

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

Impairment losses are recognized in the event of losses in value of a lasting nature.

o) Goodwill and other intangible assets with indefinite useful lives

Intangible assets such as tradenames and management contracts acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141 (Business Combinations). They are recorded at acquisition costs.

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

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

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

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

p) Leases

Leased assets, assigned to Fresenius Group based on chances and risks (i.e. finance leases) are recognized as property, plant and equipment in accordance with SFAS No. 13 (Accounting for Leases) and measured on receipt date at their present values of lease payments as long as their fair values are not lower. Leased assets are depreciated in straight-line over their useful lives. If there is doubt as to whether title to the asset passes at a later stage and there is no purchase option the asset is depreciated over the lease term, if this is shorter. The payment obligations relating to future lease instalments are recognized as financial liabilities. An impairment loss is recognized if the recoverable amount is lower than the amortized cost of the leased asset.

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

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

q) Derivative financial instruments

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

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

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

r) Liabilities

Liabilities are stated generally at present value which normally corresponds to the value of products or services which are delivered. Short time liabilities are measured as a general rule at their repayment amount.

s) Legal costs

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

t) Other accrued expenses

In accordance with SFAS No. 5 (Accounting for Contingencies), accruals for taxes and other obligations are recognized when there is a present obligation to a third party arising from past events, it is probable that the obligation will be settled in the future and a reliable estimate can be made of the amount.

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

u) Pension accruals and similar obligations

Pension accruals for post-employment benefits are measured using the projected unit credit method in accordance with SFAS No. 87 (Employers' Accounting for Pensions), taking into account future salary and pension increase trends. Actuarial gains and losses that exceed a corridor of 10% of the present value of the defined benefit obligation are spread over the expected average remaining working lives, adjusted for fluctuation, of the employees participating in the plans.

v) Debt issuance costs

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

w) Stock option plans

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

Fair Value of Stock Options

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

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

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

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

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

x) Self-insurance programs

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

experience includes both the rate of claims incidence (number) and claim severity (cost) and is combined with individual claim expectations to estimate the reported amounts.

y) Foreign currency translation

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

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

	Year-end exchange rate* Dec 31, 2005	Year-end exchange rate* Dec 31, 2004	Average exchange rate 2005	Average exchange rate 2004
US dollar per €	1.1797	1.3621	1.2442	1.2439
Pound sterling per €	0.6853	0.7051	0.6839	0.6787
Swedish krona per €	9.3885	9.0206	9.2816	9.1243
Chinese renminbi per €	9.5204	11.2891	10.1639	10.1813
Japanese yen per €	138.90	139.65	136.86	134.44

* mean rate on balance sheet date

z) Use of estimates

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

aa) Receivables management

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

bb) Recent pronouncements and accounting changes

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

In December 2004, the Financial Accounting Standards Board issued its final standard on accounting for share-based payments, SFAS No. 123R (Share-Based Payment (SBP) (revised)), that requires companies to expense the cost of employee stock options and similar awards. SFAS No. 123R requires determining the cost that will be measured at fair value on the date of the SBP awards based upon an estimate of the number of

awards expected to vest. There will be no right of reversal of cost if the awards expire without being exercised. Fair value of the SBP awards will be estimated using an optionpricing model that appropriately reflects the specific circumstances and economics of the awards. Compensation cost for the SBP awards, which are not deductable according to German tax law, will be recognized as they vest. The Fresenius Group will have two alternative transition methods, each having a different reporting implication. The effective date is for interim and annual periods beginning after June 15, 2005. The Fresenius Group adopted SFAS No. 123R as of January 1, 2006 and is in the process of determining the transition method it is going to adopt and the potential impact on its consolidated financial statement.

In May 2005, the FASB issued SFAS No. 154 (Accounting Changes and Error Corrections) — a replacement of APB No. 20 (Accounting Changes) and FASB Statement No. 3 (Reporting Accounting Changes in Interim Financial Statements). This Statement changes the requirements for the accounting for and reporting of a change in accounting principle. It applies to all voluntary changes in accounting principle, error corrections and required changes due to new accounting pronouncements which do not specify a certain transition method. SFAS No. 154 generally requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. This Statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for on a prospective basis. This Statement also carries forward without change the guidance contained in APB No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. The effective date is for all fiscal years beginning after December 15, 2005. The Fresenius Group adopted this standard as of January 1, 2006 and will report future accounting changes and error corrections, if any, in accordance with this standard.

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

V. CRITICAL ACCOUNTING POLICIES

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

a) Recoverability of goodwill and intangible assets with indefinite useful lives

Fresenius Group's acquisitions in the fiscal year have created a significant amount of intangible assets, including goodwill, tradenames and management contracts. At December 31, 2005 and December 31, 2004, the carrying amount of goodwill and non-amortizable intangible assets amounted to € 5,069 million and € 3,244 million, respectively, which represented 44% and 40%, respectively, of total assets.

In accordance with SFAS No. 142 (Goodwill and Other Intangible Assets) an impairment test of goodwill and non-amortizable intangible assets is performed at least once a year, or if events occur or circumstances

change that would indicate the carrying value might be impaired (see Note 1. IV. o, Goodwill and other intangible assets with indefinite useful lives).

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

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

b) Legal contingencies

The Fresenius Group is involved in several legal matters arising from the ordinary course of Fresenius Groups business. Furthermore, Fresenius Medical Care is party to litigation in connection with the NMC transaction in 1996 for the purchase of the National Medical Care, Inc. For details, please see Note 24, Commitments and contingent liabilities.

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

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

c) Allowance for doubtful accounts

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

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

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

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

d) Self-insurance programs

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

2. ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

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

All acquisitions have been accounted for by the purchase method and accordingly have been consolidated from the date of acquisition. The excess of the total acquisition costs over the fair value of the net assets acquired amounted to € 1,493 million and € 88 million in 2005 and 2004, respectively.

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

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

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

In connection with the Acquisition, Fresenius Medical Care has entered into a commitment letter pursuant to which Bank of America, N.A. (BofA) and Deutsche Bank AG (DB) have agreed, subject to certain conditions, to underwrite an aggregate US$5 billion in principal amount of term and revolving loans to be syndicated to other financial institutions. Funding is subject to customary closing conditions and BofA's and DB's acquiescence to any material modification to the merger agreement and any waiver of any material conditions precedent under that agreement. Interest on the new senior credit facilities will be at the option of Fresenius Medical Care at a rate equal to either (i) LIBOR plus an applicable margin, or (ii) the higher of

BofA's prime rate or the Federal Funds rate plus 0.5% plus an applicable margin. The applicable margin is variable and depends on the consolidated leverage ratio of Fresenius Medical Care (Margin). The financing will be available to Fresenius Medical Care, among other uses, to pay the purchase price and related expenses for the proposed acquisition of RCG, to refinance outstanding indebtedness under the Fresenius Medical Care 2003 Senior Credit Agreement (see Note 18, Debt and capital lease obligations) and certain indebtedness of RCG, and for general corporate purposes. In conjunction with the forecasted utilization of the new senior credit facilities and the related variable rate based interest payments, Fresenius Medical Care entered into forward starting interest rate swaps in the notional amount of US$2,465 million. These instruments, designated as cash flow hedges, effectively convert forecasted LIBOR based interest payments into fixed rate based interest payments which fix the interest rates on US$2,465 million of the forecasted financing under the new senior credit facility at 4.32% plus Margin.

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

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

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

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

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

Fresenius Medical Care made acquisitions in 2004 amounting to € 96 million, of which € 84 million was paid in cash. Consideration paid in the form of debt waivers amounted to € 7 million. Purchase price

consideration of € 5 million will be paid in subsequent years. The majority of this amount (€ 83 million) was used to purchase dialysis clinics. The largest single acquisition related to the acquisition of dialysis clinics in Memphis, USA, for a consideration of € 24 million.

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

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

In December 2005 Fresenius AG acquired HELIOS Kliniken GmbH, Fulda, Germany (HELIOS). The hospitals of HELIOS and the Fresenius hospitals of the Wittgensteiner Group will operate under the leadership and brand of HELIOS in the business segment Fresenius ProServe. The purchase price for 100% of the HELIOS shares is € 1.5 billion plus € 100 million for the net cash position. Fresenius AG acquired 94% of the HELIOS shares while 6% continued to be held by the HELIOS management. In December 2005, Fresenius AG assigned its share in HELIOS Kliniken GmbH, Fulda, to Fresenius ProServe GmbH. In addition to the contractually agreed purchase price, Fresenius AG also incurred additional acquisition costs amounting to € 2 million. The excess of the purchase price (including additional acquisition costs) over the group's share of equity was recognized as goodwill with an initial carrying amount of € 1,190 million. The acquisitions of the HELIOS Kliniken GmbH and of the business of Clinico GmbH were financed by a share capital increase (see Note 22, Shareholders equity) and a bond (see Note 32, Subsequent events). Bridge financing arrangements were put in place for the period between the announcement of the acquisition of HELIOS Kliniken GmbH and the issue of the bond (see Note 18, Debt and capital lease obligations).

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

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

DIVESTITURES

In 2005, there have been no significant divestitures.

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

IMPACTS ON THE FRESENIUS GROUP RESULTING FROM ACQUISITIONS

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

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

The acquisitions increased the total assets of the Fresenius Group by € 2,466 million.

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

in million €	as reported	pro forma
Sales	7,889	9,086
EBITDA	1,289	1,424
EBIT	969	1,073
Net interest	−203	−239
Net income	222	265

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

3. SALES

Sales by activity are as follows:

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

An analysis of sales by business segment and region is shown in the segment information on pages F-193 to F-194.

4. COST OF SALES

Cost of sales comprises the following:

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

5. PERSONNEL EXPENSES

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

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

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

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

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

7. NET INTEREST

The negative net interest in an amount of € 203 million, resulting from interest income in an amount of € 20 million and interest expenses in an amount of € 223 million, includes interest income on interest-bearing securities and loans, gains and losses relating to current securities and all interest expenses. It also includes profit-share and dividend income from current and non-current securities.

8. INCOME TAXES

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

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

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

	2005			2004		
in million €	Germany	Abroad	Total	Germany	Abroad	Total
Current taxes	37	251	288	44	180	224
Deferred taxes	−12	22	10	−5	34	29
Income taxes	**25**	**273**	**298**	**39**	**214**	**253**

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

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

in million €	2005	2004
Computed “expected” income tax expense	286	238
Increase (reduction) in income taxes resulting from:		
Items not recognized for tax purposes	31	14
Foreign tax rate differential	−23	3
Tax-free income	−18	−23
Taxes for prior years	23	13
Changes in valuation allowances on deferred tax assets	17	28
Other	−18	−20
Income taxes	**298**	**253**
Effective tax rate	38.9%	39.8%

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

in million €	2005	2004
Deferred tax assets		
Accounts receivable	25	27
Inventories	40	33
Other current assets	7	2
Other non-current assets	32	55
Accrued expenses	175	137
Other short-term liabilities	14	12
Other liabilities	10	6
Pension obligations	25	16
Losses carried forward from previous years	157	151
Deferred tax assets, before valuation allowance	**485**	**439**
less valuation allowance	112	95
Deferred tax assets	**373**	**344**
Deferred tax liabilities		
Accounts receivable	10	10
Inventories	12	12
Other current assets	2	3
Other non-current assets	270	225
Accrued expenses	22	36
Other short-term liabilities	47	15
Other liabilities	25	20
Deferred tax liabilities	**388**	**321**
Accumulated deferred taxes	**−15**	**23**

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

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

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

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

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

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

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

9. EARNINGS PER SHARE

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

in million €, except for amounts per share (€)	2005	2004
Numerators		
Net income	222	168
less preference on preference shares	1	1
Income available to all class of shares	221	167
Denominators (number of shares)		
Weighted average number of ordinary shares outstanding	20,940,208	20,484,955
Weighted average number of preference shares outstanding	20,940,208	20,484,955
Total weighted average number of shares outstanding of all classes	41,880,416	40,969,910
Potentially dilutive ordinary shares	162,749	61,747
Potentially dilutive preference shares	162,749	61,747
Total weighted average shares outstanding of all classes assuming dilution	42,205,914	41,093,404
Total weighted average ordinary shares assuming dilution	21,102,957	20,546,702
Total weighted average preference shares assuming dilution	21,102,957	20,546,702
Basic earnings per ordinary share	**5.28**	**4.08**
Preference per preference share	**0.03**	**0.03**
Basic earnings per preference share	**5.31**	**4.11**
Fully diluted earnings per ordinary share	**5.24**	**4.07**
Preference per preference share	**0.03**	**0.03**
Fully diluted earnings per preference share	**5.27**	**4.10**

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

NOTES ON THE CONSOLIDATED BALANCE SHEET

10. CASH AND CASH EQUIVALENTS

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

11. TRADE ACCOUNTS RECEIVABLE

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

All trade accounts receivable are due within one year.

12. INVENTORIES

As of December 31, inventories consist of the following:

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

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

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

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

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

in million €	2005	thereof short-term	2004	thereof short-term
Accounts receivable resulting from German "Krankenhausgesetz"	175	105	4	4
Tax receivables	118	115	73	71
Investments and long-term loans	69	0	53	0
Derivative financial instruments	52	9	53	14
Advances made	43	22	25	23
Prepaid expenses	39	10	39	7
Re-insurance claims	24	0	19	0
Accounts receivable from management contracts in clinics	18	18	14	14
Other assets	306	205	245	155
Prepaid expenses and other assets, gross	**844**	**484**	**525**	**288**
less allowances	7	6	8	5
Prepaid expenses and other assets, net	**837**	**478**	**517**	**283**

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

14. PROPERTY, PLANT AND EQUIPMENT

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

ACQUISITION AND MANUFACTURING COSTS

in million €	As of January 1, 2005	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of December 31, 2005
Land and land facilities	97	2	69	1	0	3	166
Buildings and improvements	1,144	71	350	58	27	33	1,617
Machinery and equipment	1,743	94	167	152	34	108	2,082
Machinery, equipment and rental equipment under capital leases	167	0	3	15	−1	11	173
Construction in progress	99	4	94	122	−60	2	257
Property, plant and equipment	**3,250**	**171**	**683**	**348**	**0**	**157**	**4,295**

DEPRECIATION

in million €	As of January 1, 2005	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of December 31, 2005
Land and land facilities	0	0	0	0	0	0	0
Buildings and improvements	423	28	92	74	4	23	598
Machinery and equipment	1,061	42	77	188	−4	99	1,265
Machinery, equipment and rental equipment under capital leases	69	2	0	13	0	9	75
Construction in progress	1	1	0	0	0	1	1
Property, plant and equipment	**1,554**	**73**	**169**	**275**	**0**	**132**	**1,939**

CARRYING AMOUNTS

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

The depreciation expense for 2005 and 2004 amounted to € 275 million and € 265 million, respectively.

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

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

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

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

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

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

15. GOODWILL AND OTHER INTANGIBLE ASSETS

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

ACQUISITION COST

in million €	As of January 1, 2005	Foreign currency translation	Changes in entities consolidated	Additions	Rectassifications	Disposals	As of December 31, 2005
Goodwill	2,909	349	107	1,328	0	9	4,684
Patient relationships	202	24	12	1	1	103	137
Tradenames and patents	223	26	0	1	1	1	250
Distribution rights	20	0	3	1	0	0	24
Other	346	43	12	13	−2	25	387
Goodwill and other intangible assets	**3,700**	**442**	**134**	**1,344**	**0**	**138**	**5,482**

AMORTIZATION

in million €	As of January 1, 2005	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of December 31, 2005
Goodwill	4	0	0	0	0	0	4
Patient relationships	166	19	0	14	0	103	96
Tradenames and patents	31	0	0	4	0	2	33
Distribution rights	7	0	2	5	0	0	14
Other	107	7	7	19	0	26	114
Goodwill and other intangible assets	**315**	**26**	**9**	**42**	**0**	**131**	**261**

CARRYING AMOUNTS

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

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

REGULARLY AMORTIZABLE INTANGIBLE ASSETS

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

NON-AMORTIZABLE INTANGIBLE ASSETS

	December 31, 2005			December 31, 2004		
in million €	Acquisition cost	Accumulated amortization	Carrying amounts	Acquisition cost	Accumulated amortization	Carrying amounts
Tradenames	204	0	204	179	0	179
Management contracts	185	0	185	160	0	160
Subtotal	389	0	389	339	0	339
Goodwill	4,684	4	4,680	2,909	4	2,905
Total	**5,073**	**4**	**5,069**	**3,248**	**4**	**3,244**

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

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

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

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

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

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

in million €	2006	2007	2008	2009	2010
Estimated amortization expenses for the next five fiscal years	37	30	22	17	13

The carrying amount of goodwill has developed as follows:

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

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

16. OTHER ACCRUED EXPENSES

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

in million €	2005	2005 thereof short-term	2004	2004 thereof short-term
Personnel expenses	242	242	198	198
Special charge for legal matters	100	100	90	90
Advances received	85	85	58	58
Self-insurance programs	64	64	42	42
Bonuses and discounts	38	38	34	34
Legal matters, advisory and audit fees	23	23	18	18
Warranties and complaints	21	21	19	19
Commissions	20	20	21	21
Physician compensation	18	18	16	16
All other accrued expenses	262	193	126	101
Other accured expenses	**873**	**804**	**622**	**597**

Other accrued expenses develop in the fiscal year as follows:

in million €	As of January 1, 2005	Changes in entities consolidated	Additions	Reclassifications	Utilized	Reversed	Foreign currency translation	As of December 31, 2005
Personnel expenses	198	21	107	0	71	12	−1	242
Special charge for legal matters	90	0	0	0	4	0	14	100
Advances received	58	15	93	1	68	12	−2	85
Self-insurance programs	42	0	16	0	0	0	6	64
Bonuses and discounts	34	3	29	−2	24	3	1	38
Legal matters, advisory and audit fees	18	3	14	0	10	2	0	23
Warranties and complaints	19	0	17	1	8	6	−2	21
Commissions	21	0	20	0	20	2	1	20
Physician compensation	16	0	0	0	0	0	2	18
All other accrued expenses	126	92	137	0	74	8	−11	262
Total	**622**	**134**	**433**	**0**	**279**	**45**	**8**	**873**

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

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

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

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

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

During the second quarter of 2003, the court supervising the Grace Chapter 11 Proceedings approved the definitive settlement agreement entered into among Fresenius Medical Care, the committee representing the asbestos creditors and W.R. Grace & Co (see Note 24, Commitments and contingent liabilities). Under the settlement agreement, Fresenius Medical Care will pay US$115 million upon plan confirmation. Based on these developments, Fresenius Medical Care reduced its estimate in 2003 for the settlement and related costs of the Grace Chapter 11 Proceedings by US$39 million. This reduction of the provision for the W.R. Grace & Co. matter has been applied to the other components of the special charge (i.e. reserves for settlement obligations and disputed accounts receivable from commercial insurers and other merger-related legal matters described in this Note).

17. OTHER LIABILITIES

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

in million €	2005	2005 thereof short-term	2004	2004 thereof short-term
Accounts receivable resulting from German "Krankenhausgesetz"	172	127	5	5
Personnel liabilities	113	110	66	49
Advance payments from customers	87	82	66	66
Tax liabilities	80	77	53	51
Accounts receivable credit balance	44	13	33	9
Derivative financial instruments	39	15	74	15
Interest liabilities	27	27	20	20
Accounts payable to government institutions	2	2	26	26
All other liabilities	389	265	181	148
Other liabilities	**953**	**718**	**524**	**389**

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

18. DEBT AND CAPITAL LEASE OBLIGATIONS

SHORT-TERM BORROWINGS

Lines of credit and short-term borrowings

Short-term borrowings of € 224 million and € 391 million at December 31, 2005, and 2004, respectively, represent amounts borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks. The average interest rates on these borrowings in 2005 and 2004 was 4.7% and 3.8% p.a., respectively.

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

Accounts receivable facility

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

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

LONG-TERM DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

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

in million €	2005	2004
Bridge loan facility	600	0
Euro Notes	460	389
Euro Bonds	400	400
Fresenius Medical Care 2003 Senior Credit Agreement	399	356
European Investment Bank agreement	41	0
Capital lease obligations	40	41
Other	337	223
Subtotal	2,277	1,409
less current portion	222	190
Long-term debt and capital lease obligations, less current portion	**2,055**	**1,219**

Aggregate annual repayments applicable to the Euro Notes, Fresenius Medical Care 2003 Senior Credit Agreement, Bonds, capital leases and other borrowings for the five years subsequent to December 31, 2005 (excluding borrowings underlying trust preferred securities, see Note 20, Trust preferred securities) are:

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

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

in %	2005	2004
Liabilities to banks	6.1	6.7
Capital lease obligations	5.7	5.6

Bridge loan facility

In October 2005, Fresenius AG entered into an agreement pursuant to which two banks agreed to provide a loan facility in the amount of € 700 million with a term of 364 days to bridge the issuance of the Notes (see Note 32, Subsequent events). The loan facility was guaranteed by Fresenius Kabi AG and Fresenius ProServe GmbH and was used in addition to the proceeds from the capital increase (see Note 22, Shareholders' equity) to fund the acquisition of HELIOS Kliniken GmbH and the business of Clinico GmbH. From December 1, 2005, the bridge loan facility was reduced by € 100 million to € 600 million because the proceeds from the capital increase exceeded the amount according to the original finance concept. At the end of December 2005, the loan facility was fully used for the purchase of the acquisitions and was repaid by the proceeds of the Notes issuance at the end of January 2006 (see Note 32, Subsequent events). The bridge financing facility is shown under the balance sheet caption long-term debt as of December 31, 2005, as it belongs to this long-term Note.

Euro Notes

Euro Notes (Schuldscheindarlehen) issued by Fresenius Finance B.V. amounting to € 260 million have residual terms to maturity of up to 3 years. Interest rates are linked to EURIBOR. The Euro Notes

(Schuldscheindarlehen), which are mostly hedged through interest swaps, carried interest rates of between 3.95% and 5.61% during the year 2005.

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

Euro Bonds

In April 2003, Fresenius Finance B.V. issued Euro Bonds for a total amount of € 400 million in two tranches in order to repay short-term bank loans. Both tranches have a maturity of six years. The first tranche of € 300 million bears interest at 7.75% p.a. and is three years non-callable by the issuer (for the first time on April 30, 2006). If the company decides to apply its right to give notice to redeem the Euro Bonds early, the redemption will be effected at different price levels which, depending on the date on which notice is given, could exceed the issue price. The redemption prices were fixed at the date of issue. The second tranche of € 100 million bears interest at 7.5% p.a. and is not callable before maturity. The Fresenius Group applied to its right to give notice to redeem the bonds earlier in January 2006 and 71% of the volume of the first tranche were repurchased (see Note 32, Subsequent events).

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

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

Fresenius Medical Care 2003 Senior Credit Agreement

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

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

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

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

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

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

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

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

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

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

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

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

European Investment Bank agreement

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

Capital lease obligations

Details of capital lease obligations are given below:

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

19. PENSIONS AND SIMILAR OBLIGATIONS

GENERAL

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

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

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

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

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

to the fund. A pension liability is recognized if the defined benefit obligation exceeds the fair value of plan assets. This liability is reported under pension provisions.

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

DEFINED BENEFIT PENSION PLANS

More than half of the pension obligations totaling € 305 million relate to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1988, which applies for most of the German entities of the Group. Approximately one tenth of the pension obligations relates to the Fresenius Medical Care Retention Plan in the United States and a further third relates to individual pension plans, mostly for non-German Group entities.

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

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

The defined benefit obligation amounting to € 571 million (2004: € 427 million) includes € 232 million (2004: € 178 million) which is funded by plan assets and € 339 million (2004: € 249 million) which is covered by pension provisions.

Pension obligations have developed as follows:

in million €	2005	2004
Defined benefit obligations at the beginning of the year	427	388
Changes in entities consolidated	40	0
Foreign currency translation	26	−13
Current service costs	13	11
Interest cost	24	22
Other changes	1	−2
Transfer of plan participants	1	1
Change in amendments	−6	0
Actuarial losses	56	30
Benefits paid	−11	−10
Defined benefit obligations at the end of the year	571	427
thereof vested	478	239

Pension obligations amounting to € 571 million (2004: € 427 million) include € 253 million (2004: € 208 million) relating to funded defined obligation pension plans.

The funded status of the plans has developed as follows:

in million €	2005	2004
Fair value of plan assets at the beginning of the year	178	156
Changes in entities consolidated	−1	0
Foreign currency translation	21	−10
Actual return on plan assets	14	13
Employee contribution	25	24
Benefits paid	−5	−5
Fair value of plan assets at the end of the year	**232**	**178**

The pension provision is derived as follows:

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

The additional minimum pension liability* is calculated as follows:

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

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

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

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

The following assumptions for pension benefit obligations are applied:

in %	2005	2004
Weighted-average assumptions for pension benefit obligations as of December 31		
Discount rate	4.7	5.4
Rate of compensation increase	3.5	3.7
Rate of pension increase	1.4	1.5

Defined benefit pension plans gave rise to a net periodic benefit cost of € 28 million (2004: € 27 million) for the Fresenius Group, comprising the following components:

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

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

The following assumptions for net periodic benefit cost are applied:

in %	2005	2004
Weighted-average assumptions for the net periodic benefit cost, as of December 31		
Discount rate	5.4	5.5
Expected return on plan assets	7.1	7.1
Rate of compensation increase	3.7	3.6

Changes in the discount factor, inflation and mortality assumptions used for the actuarial computation resulted in actuarial losses in 2005 which increased the fair value of the defined benefit obligation. Unrecognized actuarial losses outside the 10% corridor for each defined benefit plan amounted to € 148 million (2004: € 87 million).

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

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

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

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

in million €	2005	2004
Germany	229	139
Europe (excluding Germany)	49	51
North America	27	36
Asia-Pacific	0	2
Latin America	0	—
Africa	0	0
Total pension obligations	**305**	**228**

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

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

PLAN INVESTMENT POLICY AND STRATEGY

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

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

The following schedule describes the Fresenius Group's allocation of its plan assets.

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

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

DEFINED CONTRIBUTION PLANS

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

20. TRUST PREFERRED SECURITIES

Fresenius Medical Care issued trust preferred securities through Fresenius Medical Care Capital Trusts, statutory business trusts organized under the laws of the State of Delaware/USA. Fresenius Medical Care owns

all of the common securities of these trusts. The sole asset of each trust is a senior subordinated note of Fresenius Medical Care AG or a wholly-owned subsidiary of Fresenius Medical Care AG. FMC-AG & Co. KGaA, Fresenius Medical Care Deutschland GmbH and Fresenius Medical Care Holdings, Inc. (Fresenius Medical Care Deutschland GmbH and Fresenius Medical Care Holdings, Inc., being the Guarantor Subsidiaries) have guaranteed payment and performance of the senior subordinated notes to the respective Fresenius Medical Care Capital Trusts. The trust preferred securities are guaranteed by Fresenius Medical Care through a series of undertakings by Fresenius Medical Care and the Guarantor Subsidiaries.

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

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

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

	Year issued	Stated amount	Interest rate	Mandatory redemption date	2005 in million €	2004 in million €
Fresenius Medical Care Capital Trust II	1998	US$450 million	7⅞ %	Feb 1, 2008	366	324
Fresenius Medical Care Capital Trust III	1998	DM300 million	7⅜%	Feb 1, 2008	154	154
Fresenius Medical Care Capital Trust IV	2001	US$225 million	7⅞%	Jun 15, 2011	183	158
Fresenius Medical Care Capital Trust V	2001	€300 million	7⅜%	Jun 15, 2011	297	297
Trust preferred securities					**1,000**	**933**

21. MINORITY INTEREST

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

in million €	2005	2004
Minority interest in Fresenius Medical Care AG	**2,144**	**1,684**
Minority interest in the business segments		
Fresenius Medical Care	12	13
Fresenius Kabi	25	27
Fresenius ProServe	108	19
Corporate/Other	—	1
Total minority interest	**2,289**	**1,744**

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

22. SHAREHOLDERS' EQUITY

SUBSCRIBED CAPITAL

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

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

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

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

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

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

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

APPROVED CAPITAL

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

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

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

CONDITIONAL CAPITAL

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

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

Conditional capital develop as follows:

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

CAPITAL RESERVES

Capital reserves comprise the premium paid on the issue of shares and stock options (additional paid-in capital). The costs of the share capital increase in an amount of € 23 million in 2005 have been set off against the capital reserves directly without any impact on the consolidated statement of income.

OTHER RESERVES

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

DIVIDENDS

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

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

23. OTHER COMPREHENSIVE INCOME (LOSS)

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

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

	2005			2004		
in million €	Amount before taxes	Tax effect	Amount after taxes	Amount before taxes	Tax effect	Amount after taxes
Change in unrealized gains/losses	56	−23	33	−29	11	−18
Realized gains/losses due to reclassifications	−1	−	−1	−7	3	−4
Change in unrealized gains/losses on derivative financial instruments	55	−23	32	−36	14	−22
Minimum pension liability	−44	17	−27	−13	4	−9
Foreign currency translation adjustment	141	0	141	−20	0	−20
Other comprehensive income (loss)	**152**	**−6**	**146**	**−69**	**18**	**−51**

OTHER NOTES

24. COMMITMENTS AND CONTINGENT LIABILITIES

OPERATING LEASES AND RENTAL PAYMENTS

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

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

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

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

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

Other commitmens than the above mentioned contingent liabilities are immaterial.

LEGAL PROCEEDINGS

Commercial litigation

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

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

taxpayer in a similar situation W.R. Grace & Co. has paid US$21 million of tax and interest related to COLI deductions taken in tax years prior to 1993.

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

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

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

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

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

For information regarding the settlement of shareholder litigation that challenged the resolutions approving Fresenius Medical Care's transformation of legal form and the conversion of preference shares to

ordinary shares, see Note 1. II, Transformation of Fresenius Medical Care's legal form and conversion of its preference shares.

Other litigation and potential exposures

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

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

Accrued special charge of Fresenius Medical Care for legal matters

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

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

25. FINANCIAL INSTRUMENTS

MARKET RISK

I.) General

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

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

In general, the Fresenius Group conducts its derivative financial instrument activities under the control of a single centralized department. The Fresenius Group has established guidelines derived from best practice standards in the banking industry for risk assessment procedures and supervision concerning the use of

financial derivatives. These guidelines require, amongst other things a clear segregation of duties in the areas of execution, administration, accounting and controlling.

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

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

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

II.) Fair Value of Financial Instruments

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

	2005		2004	
in million €	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Non-derivatives				
Assets				
Cash and cash equivalents	252	252	140	140
Accounts receivable	1,871	1,871	1,528	1,528
Liabilities				
Trade accounts payable (including related parties)	355	355	274	274
Income taxes payable	146	146	195	195
Long-term loans (excluding trust preferred securities, notes and bonds)	1,417	1,417	620	620
Short-term loans (including related parties)	225	225	393	393
Trust preferred securities	1,000	1,082	933	1,048
Euro Notes	460	460	389	389
Bonds	400	427	400	441
Derivatives				
Foreign exchange contracts	−3	−3	17	17
thereof short-term	−2	−2	10	10
Dollar interest rate hedges	19	19	−34	−34
thereof short-term	—	—	—	—
Euro interest rate hedges	−1	−1	−3	−3
thereof short-term	—	—	—	—
Other interest rate hedges	—	—	−1	−1
thereof short-term	—	—	—	—

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

Estimation of fair values

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

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

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

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

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

III.) Accounting for and Reporting of Non-Derivative Financial Instruments

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

IV.) Accounting for and Reporting of Derivative Financial Instruments (and Hedge Accounting)

Foreign Exchange Risk Management

The Fresenius Group has determined the euro as its financial reporting currency. Therefore, foreign exchange translation risks resulting from the fluctuation of exchange rates between the euro and the local currencies in which the financial statements of the foreign subsidiaries are maintained, have an impact on results of operations and financial position reported in the consolidated financial statements p.74.

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

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

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

Recognized in Equity

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

Recognized in the Consolidated Statement of Income

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

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

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

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

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

Interest rate risk management

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

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

Cash Flow Hedge

The Fresenius Group enters into interest rate swaps that are designated as cash flow hedges effectively converting certain variable interest rate payments, resulting from existing revolving loans, Euro Notes

(Schuldscheindarlehen) and an accounts receivable facility mainly denominated in US dollar or euro, into fixed interest rate payments. The US dollar interest rate swaps with a notional volume of US$800 million bear an average interest rate of 5.26% and expire at various dates between 2006 and 2009, while the Euro interest rate swaps with a notional volume of € 222 million bear an average interest rate of 3.17% and expire at various dates between 2007 and 2009.

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

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

Fair Value Hedge

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

CREDIT RISK

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

26. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

The cash flow statements of the Fresenius Group for the fiscal years 2005 and 2004 are shown on pages F-189 to F-190.

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

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

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

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

in million €	2005	2004
Assets acquired	2,695	137
Liabilities assumed	−602	−11
Minority interest	−61	0
Notes assumed in connection with acquisitions	−193	−13
Cash paid	1,839	113
Cash acquired	−231	−13
Cash paid for acquisitions, net	**1,608**	**100**

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

27. NOTES ON SEGMENT REPORTING

GENERAL

The segment reporting tables shown on pages F-193 to F-194 of this annual report are an integral part of the Notes.

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

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

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

The business segments were identified in accordance with SFAS No. 131 (Disclosures about Segments of an Enterprise and Related Information), which defines the segment reporting requirements in annual financial statements and interim reports with regard to the operating business, product and service businesses and regions. The business segments of the Fresenius Group are as follows:

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

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

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

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

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

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

NOTES ON THE BUSINESS SEGMENTS

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

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

Net interest comprises interest and other similar expenses and income.

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

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

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

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

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

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

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

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

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

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

Reconciliation of key figures to consolidated earnings

in million €	2005	2004
Total EBITDA of reporting segments	1,320	1,169
Depreciation and amortization	−320	−315
General corporate expenses Corporate/Other	−31	−9
Interest expenses	−223	−224
Interest income	20	15
Total earnings before income taxes and minority interest	**766**	**636**
Total EBIT of reporting segments	1,009	870
General corporate expenses Corporate/Other	−40	−25
Interest expenses	−223	−224
Interest income	20	15
Total earnings before income taxes and minority interest	**766**	**636**
Depreciation and amortization of reporting segments	311	299
Depreciation and amortization Corporate/Other	9	16
Total depreciation and amortization	**320**	**315**

Reconciliation of net debt

in million €	December 31, 2005	December 31, 2004
Short-term borrowings	224	391
Short-term liabilities and loans from related parties	1	2
Current portion of long-term debt and capital lease obligations	222	190
Long-term debt and liabilities from capital lease obligations, less current portion	2,055	1,219
Trust preferred securities of Fresenius Medical Care Capital Trusts	1,000	933
Debt	**3,502**	**2,735**
less cash and cash equivalents	252	140
Net debt	**3,250**	**2,595**

Non-current assets by geographical region

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

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

28. STOCK OPTIONS

FRESENIUS AG STOCK OPTION PLANS

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

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

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

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

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

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

ordinary shares, this means a reduction of the exercise or conversion price of € 1.90 per share and for preference shares € 2.05 per share.

Stock option transactions are summarized as follows:

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

Preference shares December 31	Number of options	Average exercise price in €	Number of options exercisable
Balance 2003	738,684	82.60	316,300
Granted	131,226	60.70	
Exercised	677	65.45	
Forfeited	32,968	82.09	
Balance 2004	836,265	79.72	433,251
Granted	155,101	94.03	
Excercised	175,621	78.28	
Forfeited	50,450	82.13	
Balance 2005	765,295	80.91	361,980

The following table provides information with respect to stock options outstanding and exercisable at December 31, 2005:

Ordinary shares Range of exercise price in €	Number of options outstanding	Average remaining contractual life	Average exercise price in €	Number of options exercisable	Average exercise price in €
40.01 – 45.00	89,303	7.50	40.96	20,601	40.96
50.01 – 55.00	16,426	7.50	54.54	3,017	54.54
55.01 – 60.00	84,523	6.50	59.36	41,252	59.36
65.01 – 70.00	159,367	6.92	66.33	50,298	67.33
80.01 – 85.00	56,675	4.06	80.40	42,512	80.36
85.01 – 90.00	132,774	9.50	85.95	0	85.95
90.01 – 95.00	204,300	5.60	92.15	204,300	92.15
105.01 – 110.00	21,927	9.50	106.54	0	106.54
	765,295	6.91	73.67	361,980	80.35

Ordinary shares Range of exercise price in €	Number of options outstanding	Average remaining contractual life	Average exercise price in €	Number of options exercisable	Average exercise price in €
35.01 – 40.00	89,303	7.50	35.47	20,601	35.47
40.01 – 45.00	16,426	7.50	43.58	3,017	43.58
55.01 – 60.00	109,069	8.50	57.00	0	57.00
60.01 – 65.00	84,523	6.50	63.40	41,252	63.40
75.01 – 80.00	64,461	4.60	77.48	50,298	77.37
85.01 – 90.00	175,286	7.82	88.53	42,512	88.81
100.01 – 105.00	108,272	6.58	104.18	108,272	104.18
115.01 – 120.00	21,927	9.50	115.55	0	115.55
125.01 – 130.00	96,028	4.50	126.37	96,028	126.37
	765,295	6.91	80.91	361,980	95.47

FRESENIUS MEDICAL CARE STOCK OPTION PLANS

At December 31, 2005, Fresenius Medical Care has awards outstanding under the terms of various stock-based compensation plans, including the Fresenius Medical Care 2001 plan, which is the only plan of Fresenius Medical Care with stock option awards currently available for grant. Under the Fresenius Medical Care 2001 plan, convertible bonds with a principal of up to € 10.24 million may be issued to the members of the Management Board and other employees of Fresenius Medical Care representing grants for up to 4 million non-voting preference shares. The convertible bonds have a par value of € 2.56 and bear interest at a rate of 5.5%. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of and secured by the bond. Fresenius Medical Care has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by Fresenius Medical Care and are not reflected in Fresenius Medical Care's consolidated financial statements. The options expire in ten years and can be exercised beginning after two, three or four years. Bonds issued to Management Board members, who did not issue a note to Fresenius Medical Care, are recognized as a liability on Fresenius Medical Care's balance sheet.

Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target becomes the stock exchange quoted price of the preference shares upon the first time the stock exchange quoted price exceeds the Initial Value by at least 25%. The Initial Value is the average price of the preference shares during the last 30 trading days prior to the date of grant. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15% less than if the employee elected options subject to the stock price target. The conversion price of the options without a stock price target is the Initial Value. Each option entitles the holder thereof, upon payment the respective conversion price, to acquire one preference share. Up to 20% of the total amount available for the issuance of awards under the Fresenius Medical Care 2001 plan may be issued each year through May 22, 2006. At December 31, 2005, options for up to 172,224 preference shares are still available for grant through May 22, 2006 under the Fresenius Medical Care 2001 Plan.

During 1998, Fresenius Medical Care adopted two stock incentive plans (Fresenius Medical Care 98 Plan 1 and Fresenius Medical Care 98 Plan 2) for Fresenius Medical Care's key management and executive employees. These stock incentive plans were replaced by the Fresenius Medical Care 2001 plan and no options have been granted since 2001. Under these plans eligible employees had the right to acquire preference shares of Fresenius Medical Care AG. Options granted under these plans have a ten-year term, and one third of them vest on each of the second, third and fourth anniversaries of the award date. Each option can be exercised for one preference share.

Stock option transactions are summarized as follows:

Preference shares December 31	Number of options (in thousand)	Average exercise price in €	Number of options exercisable (in thousand)
Balance 2003	3,989	43.34	2,147
Granted	1,021	44.81	
Exercised	83	33.92	
Forfeited	266	46.74	
Balance 2004	4,661	43.60	2,393
Granted	1,044	62.36	
Exercised	1,466	44.51	
Forfeited	136	44.94	
Balance 2005	4,103	47. 88	1,537

The following table provides information with respect to stock options outstanding and exercisable at December 31, 2005:

Ordinary shares Range of exercise price in €	Number of options outstanding	Average remaining contractual life	Average exercise price in €	Number of options exercisable	Average exercise. price in €
25.01 – 35.00	1,154,792	6.42	31.16	572,967	31.23
35.01 – 45.00	1,035,044	7.75	43.40	186,221	42.51
45.01 – 55.00	162,365	4.79	49.60	162,365	49.60
55.01 – 65.00	1,176,695	7.19	56.97	501,859	57.81
65.01 – 90.00	573,643	8.98	70.76	113,505	73.38
	4,102,539	7.27	47.92	1,536,917	46.33

In connection with the conversion of the Fresenius Medical Care's preference shares into ordinary shares, holders of options to acquire preference shares had the opportunity to convert their options so that they would be exercisable to acquire ordinary shares. Holders of 234,311 options elected not to convert. Holders of 3,863,470 options converted resulting in 2,849,318 options for ordinary shares (see Note 1. II, Transformation of Fresenius Medical Care's legal form and conversion of its preference shares).

Personnel Expenses in Connection With Stock Option Plans of the Fresenius Group

The Fresenius Group applies APB Opinion No. 25 in accounting for stock compensation and, accordingly, recognized compensation expenses of € 4 million in 2005 and € 1 million in 2004 for stock options granted since 1998. The tax effect of differences between compensation expense for financial statement and income tax purposes is recorded in income. Additional tax credits available upon exercise of non-qualified stock options are recognized as a credit to additional paid-in capital.

29. ADDITIONAL INFORMATION RELATING TO THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

MANAGEMENT BOARD

The Management Board conducts the business and represents the company in dealings with third parties. The Management Board has five members. According to the Management Board's rules of procedure, each member is accountable for his area of responsibility. However, the members have joint responsibility for the management of the Group. For the year ended December 31, 2005, the total remuneration of the Management Board paid in cash for carrying out their duties in Fresenius AG and its subsidiaries amounted to € 5,482 thousand. Of this amount, € 2,998 thousand was paid as fixed salary and € 2,484 thousand was paid in the

form of variable income. The amount of the variable income depends on the earnings of the Fresenius Group and/or the business segments.

In addition in 2005, the members of the Management Board received 51,170 convertible bonds under the 2003 Fresenius AG Stock Option Plan. At the end of the fiscal year 2005, the members of the Management Board held 143,336 stock options and 134,018 convertible bonds. In fiscal year 2005, 110,936 stock options were exercised.

As of December 31, 2005 pension obligations of € 1,434 thousand are recognized by the Fresenius Group to cover pension entitlements of current members of the Management Board.

€ 716 thousand was paid to former members of the Management Board and their surviving dependents. The pension accrual for these persons amounts to €10,079 thousand.

Fresenius AG has undertaken to exempt members of the Management Board of Fresenius AG from claims that may arise due to their work for Fresenius AG and related companies and that may be supported by foreign law as long as the claims extend beyond German law. To insure against this risk, the Company has taken out Directors and Officers Insurance in a reasonable amount. The exemption is valid for the tenure of respective Management Board members on the Management Board and claims that may result from this time period after their tenure has ended.

SUPERVISORY BOARD

The Supervisory Board appoints the members of the Management Board and supervises and advises the Management Board in managing the company. However, the Supervisory Board is fundamentally prohibited from managing the company in any way. The remuneration of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in § 13 of the statutes of Fresenius AG. The total remuneration of the Supervisory Board of Fresenius AG in 2005 was € 1,027 thousand. This included € 249 thousand relating to fixed and € 778 thousand relating to variable components. The fixed remuneration per Supervisory Board member was equivalent to € 13 thousand, whereby the Chairman receives double of this amount and the deputy to the Chairman receives one and half times the amount of a Supervisory Board member. The members of the Audit Committee and the Personnel Committee of the Supervisory Board receive an additional € 10 thousand each and the Chairman of the committee receives a further € 10 thousand. For each full financial year of service, the remuneration increases by 10% for each percentage point that the dividend paid on each ordinary share for that year (gross dividend according to the resolution of the Annual General Meeting) exceeds 13% of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. Thus, the variable remuneration per Supervisory Board member amounted to € 65 thousand for 2005. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board.

One subsidiary paid € 22 thousand to the surviving dependents of a former Supervisory Board member. The subsidiary accrued a pension provision for this purpose of € 48 thousand.

D&O INSURANCE

Fresenius AG has concluded a consequential loss liability insurance policy (D&O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of Fresenius AG and for all representative bodies of affiliates in Germany and elsewhere. The D&O policy applies throughout the world and runs until the end of June 2006. The policy covers the legal defense costs of a member of a representative body when a claim is made and, where relevant, any damages to be paid which are covered by the policy.

30. RELATED PARTY TRANSACTIONS

A member of the Supervisory Board of Fresenius AG is a member of the Management Board of a bank, while an other Member of the Supervisory Board of Fresenius AG is a member of the Management Board of

a sister company to this bank, which received € 3.9 million for services relating to the capital increase and being the arrangeur for an Euro Note.

A member of the Supervisory Board of Fresenius AG is a member of the Advisory Board of an insurance company which received a premium of € 4.3 million.

A member of the Supervisory Board of Fresenius AG is a partner in a law firm that provided services to the Fresenius Group. The Fresenius Group paid to this law firm approximately € 1.9 million in the year 2005.

31. FEES FOR THE AUDITOR

In 2005 and 2004 fees for the auditor were expensed as follows:

in million €	2005	2004
Audit fees	4	3
Tax consulting fees	—	1
Audit-related fees	—	—
Other fees	1	—
Total auditor fees	**5**	**4**

32. SUBSEQUENT EVENTS

In January 2006, Fresenius issued a bond with a total value of € 1 billion through its wholly-owned subsidiary Fresenius Finance B.V. The proceeds from the bond, together with the capital increase at the end of 2005, were used to finance the purchase of HELIOS, to replace a € 300 million bond due in the year 2009 and callable in the year 2006, 71% of which was redeemed for cash, and for general company purposes. The new bond comprises one tranche with a nominal value of € 500 million, a maturity of 7 years and an annual interest rate of 5.0% and a second tranche with a nominal value of € 500 million, a maturity of 10 years and an annual interest rate of 5.5% as well as a call option for the issuer after five years. Fresenius AG, Fresenius Kabi AG and Fresenius ProServe GmbH are the guarantees for this issue.

On February 10, 2006, Fresenius Medical Care AG completed the change in legal form, resolved by the shareholders at the Extraordinary General Meeting held on August 30, 2005. In conjunction with the conversion offer approximately 96% of its preference shares have been converted into ordinary shares at the same date. The Company now operates as an AG & Co. KGaA (see Note 1. II, Transformation of Fresenius Medical Care's legal form and conversion of its preference shares).

Significant events relating to the proposed acquisition of RCG are described in Note 2, Acquisitions and divestitures.

There have been no further significant changes in the group position or environment sector since the beginning of the fiscal year 2006. At present, the Fresenius Group is not planning to carry out any significant changes in its structure, administration or legal form or in the area of personnel.

33. CORPORATE GOVERNANCE

The Management Boards and the Supervisory Boards of Fresenius AG and FMC-AG & Co. KGaA have submitted the Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act (AktG) in accordance with the German Corporate Governance Code dated June 2, 2005 and made this permanently available to the shareholders.

34. PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The Management Board of Fresenius AG proposes to the Annual General Meeting that the earnings for 2005 of Fresenius AG be distributed as follows:

in €

Payment of a dividend of €1.48 per bearer ordinary share on the 25,361,140 ordinary shares entitled to dividend	37,534,487.20
Payment of a dividend of €1.51 per bearer preference share on the 25,361,140 preference shares entitled to dividend	38,295,321.40
Balance to be carried forward	222,908.07
	76,052,716.67

Bad Homburg v.d.H., February 24, 2006

The Management Board

Dr. U. M. Schneider	R. Baule	A. Gaddum	Dr. B. Lipps	S. Sturm

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Fresenius Aktiengesellschaft, Bad Homburg v.d. Höhe, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2005 to December 31, 2005. The preparation of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US-GAAP) and the group management report are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Art. 317 HGB (Handelsgesetzbuch "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US-GAAP) and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with Accounting Principles Generally Accepted in the United States of America (US-GAAP) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 24, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft





Hölzl
German Public Auditor

Steckhan
German Public Auditor

(This page intentionally left blank)

Interim Report of Fresenius Kabi Pharmaceuticals Holding, Inc. as of September 30, 2008
(US-GAAP, unaudited)

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FRESENIUS KABI PHARMACEUTICALS HOLDING, INC.

Condensed Consolidated Balance Sheets
(Unaudited)

	Successor September 30, 2008	Predecessor December 31, 2007
	(in thousands, except share data) (Unaudited)	(Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,994	$ 31,788
Accounts receivable, net	78,637	85,209
Inventories	220,408	149,191
Prepaid expenses and other current assets	13,354	13,531
Current receivables from related parties	—	6,996
Income taxes receivable	23,734	—
Deferred income taxes	11,479	17,109
Total current assets	350,606	303,824
Property, plant and equipment, net	143,970	132,528
Intangible assets, net	606,611	463,154
Goodwill	3,731,172	160,239
Deferred financing costs and other non-current assets, net	114,989	17,842
Total assets	$4,947,348	$1,077,587
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 47,371	$ 36,502
Accrued liabilities	43,260	45,595
Current portion of long-term debt	17,231	5,000
Total current liabilities	107,862	87,097
Long-term debt	980,269	995,000
Deferred income taxes, non-current	145,401	71,011
Payable to Parent Company	2,922,601	—
Other non-current liabilities	109,562	4,250
Total liabilities	4,265,695	1,157,358
Stockholders' equity (deficit):		
Common stock — $0.001 par value; 1,000 and 350,000,000 shares authorized; 1,000 and 160,069,196 shares issued and outstanding in 2008 and 2007	—	160
Additional paid-in capital	900,000	(96,357)
(Accumulated deficit) retained earnings	(218,355)	13,715
Accumulated other comprehensive income	8	2,711
Total stockholders' equity (deficit)	681,653	(79,771)
Total liabilities and stockholders' equity	$4,947,348	$1,077,587

See accompanying notes to condensed consolidated financial statements

FRESENIUS KABI PHARMACEUTICALS HOLDING, INC.

Condensed Consolidated Statements of Operations
(Unaudited)

	Successor	Predecessor	
	July 2 through September 30, 2008	July 1 through September 9, 2008	Three Months ended September 30, 2007
		(in thousands)	
Net revenue	$ 48,080	$149,800	$153,179
Cost of sales	34,778	68,452	85,055
Gross profit	13,302	81,348	68,124
Operating expenses:			
Research and development	2,066	8,970	11,351
Selling, general and administrative	5,508	18,305	22,061
Amortization of merger in-process research & development	252,000	—	—
Amortization of merger related intangibles	3,389	2,571	3,856
Merger related costs	1,188	43,611	—
Separation related costs	—	235	352
Total operating expenses	264,151	73,692	37,620
(Loss) income from operations	(250,849)	7,656	30,504
Interest expense	(27,866)	(14,497)	(3,831)
Change in the fair value of contingent rights	52,241	—	—
Interest (expense) income and other	(16)	231	886
(Loss) income from continuing operations before income taxes	(226,490)	(6,610)	27,559
(Benefit) provision for income taxes from continuing operations	(8,135)	16,896	13,449
(Loss) income from continuing operations	(218,355)	(23,506)	14,110
Net loss from discontinued operations, net of taxes	—	—	(22,495)
Net loss	$(218,355)	$ (23,506)	$ (8,385)

See accompanying notes to condensed consolidated financial statements

FRESENIUS KABI PHARMACEUTICALS HOLDING, INC.

Condensed Consolidated Statements of Operations
(Unaudited)

	Successor	Predecessor	
	July 2 through September 30, 2008	January 1 through September 9, 2008	Nine Months ended September 30, 2007
		(in thousands)	
Net revenue	$ 48,080	$495,797	$452,774
Cost of sales	34,778	247,637	239,063
Gross profit	13,302	248,160	213,711
Operating expenses:			
Research and development	2,066	35,133	33,994
Selling, general and administrative	5,508	62,896	66,800
Amortization of merger in-process research & development	252,000	—	—
Amortization of merger related intangibles	3,389	10,283	11,568
Merger related costs	1,188	44,220	—
Separation related costs	—	2,239	1,056
Total operating expenses	264,151	154,771	113,418
(Loss) income from operations	(250,849)	93,389	100,293
Interest expense	(27,866)	(45,124)	(12,747)
Change in the fair value of contingent rights	52,241	—	—
Interest (expense) income and other	(16)	1,593	1,816
(Loss) income from continuing operations before income taxes	(226,490)	49,858	89,362
(Benefit) provision for income taxes from continuing operations	(8,135)	40,315	38,843
(Loss) income from continuing operations	(218,355)	9,543	50,519
Net loss from discontinued operations, net of taxes	—	—	(24,693)
Net (loss) income	$(218,355)	$ 9,543	$ 25,826

See accompanying notes to condensed consolidated financial statements

FRESENIUS KABI PHARMACEUTICALS HOLDING, INC.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Successor	Predecessor	
	July 2 through September 30, 2008	January 1 through September 9, 2008	Nine Months ended September 30, 2007
		(in thousands)	
Cash flows from operating activities:			
Net (loss) income from continuing operations	$ (218,355)	$ 9,543	$ 50,519
Net loss from discontinued operations, net of taxes	—	—	(24,693)
Net (loss) income	(218,355)	9,543	25,826
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation	1,633	12,503	21,642
Amortization	790	1,633	584
Amortization of product rights	4	10,960	12,330
Amortization of merger related inventory step-up	12,588	—	—
Amortization of merger related in-process research and development charge	252,000	—	—
Amortization of merger related intangibles	3,389	10,284	40,527
Change in fair value contingent value rights	(52,241)	—	—
Write-off of pre-merger deferred financing fees	12,241	—	—
Stock-based compensation	—	5,749	24,330
Non-cash legal expense	—	—	14,763
Loss on disposal of property, plant and equipment	—	87	590
Excess tax benefit from stock-based compensation	—	(493)	(597)
Stock option grants/forfeitures	—	(328)	(2,267)
Deferred income taxes	19,492	(2,054)	(16,935)
Equity in net income of Drug Source Company, LLC, net of dividends received	—	—	(2,301)
Changes in operating assets and liabilities (excluding the effects of acquisition):			
Accounts receivable, net	(42)	5,816	(18,424)
Inventories	(1,109)	(32,344)	(11,265)
Prepaid expenses and other current assets	2,914	(1,460)	(6,949)
Non-current receivables from related parties	—	37,223	—
Deferred revenue	—	—	(29,382)
Minimum royalties payable	—	—	(992)
Other non-current liabilities	(1,518)	314	(314)
Income taxes payable	—	6,696	(74,343)
Accounts payable and accrued liabilities	(96,606)	41,386	33,459
Net cash (used in) provided by operating activities	(64,820)	105,515	10,282
Cash flows from investing activities:			
Purchases of property, plant and equipment	(12,645)	(13,039)	(76,290)
Purchases of other non-current assets	(26,566)	(800)	(1,505)
Assets acquired, net of cash	(3,626,203)	—	—
Net cash used in investing activities	(3,665,414)	(13,839)	(77,795)
Cash flows from financing activities:			
Proceeds from the exercise of stock options	—	7,815	2,634
Proceeds from issuance of debt	3,856,243	—	356,000
Proceeds from the sale of stock under employee retirement and stock purchase plans	—	—	3,797
Notes payable	—	—	(66,735)
Excess tax benefit from stock-based compensation	—	493	597
Repayment of borrowings	(997,500)	(2,500)	(236,000)
Payment of deferred financing costs, excluding amount paid by Fresenius	(25,523)	(792)	(369)
Equity contribution from Fresenius	900,000	—	—
Net cash (used in) provided by financing activities	3,733,220	5,016	59,924
Effect of exchange rates on cash	8	(2,283)	2,312
Net (decrease) increase in cash and cash equivalents	2,994	94,409	(5,277)
Cash and cash equivalents, beginning of period	—	31,788	39,297
Cash and cash equivalents, end of period	$ 2,994	$126,197	$ 34,020

See accompanying notes to condensed consolidated financial statements

FRESENIUS KABI PHARMACEUTICALS HOLDING, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Unaudited)

(1) Summary of Significant Accounting Policies

Basis of Presentation

On September 10, 2008, APP Pharmaceuticals, Inc. ("APP" or, "the Predecessor"), became a direct, wholly-owned operating subsidiary of Fresenius Kabi Pharmaceuticals Holding, Inc. ("FKP Holdings" or, "the Company"), and an indirect wholly-owned subsidiary of Fresenius SE ("Fresenius"), a societas europaea organized under the laws of the European Union and Germany, upon completion of the merger (the "Merger") of a wholly-owned subsidiary of FKP Holdings ("Merger Sub") with and into APP pursuant to the Agreement and Plan of Merger dated July 6, 2008 (the "Merger Agreement") by and among Fresenius, FKP Holdings, Merger Sub and APP.

FKP Holdings is a newly formed Delaware limited liability company and an indirect wholly-owned subsidiary of Fresenius. FKP Holdings was formed on July 2, 2008, and prior to the Merger had not carried on any activities or operations except for those activities incidental to its formation and in connection with the transactions related to the Merger. Following the Merger, the assets and business of FKP Holdings consist exclusively of those of APP. Accordingly, for accounting purposes FKP Holdings is considered the successor to APP and the accompanying condensed consolidated results of operations are presented for two distinct periods: the periods preceding the Merger, or "predecessor" periods (from July 1, 2008 through September 9, 2008 and from January 1, 2008 through September 9, 2008), and the period after the merger, or "successor" period (from the inception of FKP Holdings (July 2, 2008) through September 30, 2008, which include the results of APP from September 10, 2008, the date of acquisition). The Company applied purchase accounting to the opening balance sheet and results of operations on September 10, 2008 as the merger occurred on that date. The Merger resulted in a new basis of accounting for the assets acquired and liabilities assumed in connection with the acquisition of APP beginning on September 10, 2008.

The Company incurred indebtedness in connection with the Merger, the aggregate proceeds of which were sufficient to pay the aggregate Merger consideration, repay a portion of the Company's then outstanding indebtedness and pay fees and expenses related to the Merger. The Company also issued contingent value rights ("CVRs") to the holders of APP common stock and the holders of stock options and restricted stock issued by APP prior to the Merger. The term "Transactions" refers to, collectively, (1) the Merger, (2) the incurrence of the initial merger-related indebtedness, and (3) the issuance of the CVRs.

These accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the predecessor and successor periods described above are not necessarily indicative of the results that may be expected for the year ended December 31, 2008, or for any other future periods. In addition, the results of the successor period are not comparable to the results of the predecessor period due to the difference in the basis of presentation due to the application of purchase accounting as compared to historical cost, as well as the effect of the Transactions as described above.

The balance sheet information at December 31, 2007 has been derived from the audited consolidated financial statements of APP at that date, but does not include all of the information and notes required by GAAP for complete financial statements. All material intercompany balances and transactions have been eliminated in consolidation and certain balances in prior periods have been reclassified to conform to the presentation adopted in the current period. These interim condensed consolidated financial statements of the Company and its Predecessor should be read in conjunction with the financial statements of the Company

included in its Registration Statement on Form S-4/A (Registration No. 333-152690) filed on August 15, 2008, and the consolidated financial statements of its Predecessor for the year ended December 31, 2007 included in the APP's Annual Report on Form 10-K.

On November 13, 2007, APP Pharmaceuticals, Inc., formerly known as American Pharmaceutical Partners, Inc., and Abraxis Bioscience ("Old Abraxis") separated into two independent publicly-traded companies: APP, which owns and operates the hospital-based business; and Abraxis BioScience, Inc. ("New Abraxis") which owns and operates the proprietary business. The historical operating results of Old Abraxis through the date of the separation are presented as discontinued operations. Refer to Note 5 — *Discontinued Operations — Spin-off of New Abraxis,* for further details.

Principles of Consolidation

The unaudited condensed consolidated financial statements of FKP Holdings include: (a) the assets, liabilities and results of operations of FKP Holdings, and (b) the assets, liabilities and results of operations of APP and its wholly owned subsidiaries (Pharmaceutical Partners of Canada, Inc. and APP Pharmaceuticals Manufacturing, LLC). APP is a wholly owned subsidiary of FKP Holdings, which itself is a wholly-owned subsidiary of its sole stockholder Fresenius Kabi AG. Fresenius Kabi AG is a wholly-owned subsidiary of Fresenius.

Use of Estimates

The preparation of financial statements in conformity with 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. Estimates may also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In April 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets," and requires enhanced disclosures relating to: (a) the entity's accounting policy on the treatment of costs incurred to renew or extend the term of a recognized intangible asset; (b) in the period of acquisition or renewal, the weighted-average period prior to the next renewal or extension (both explicit and implicit), by major intangible asset class; and (c) for an entity that capitalizes renewal or extension costs, the total amount of costs incurred in the period to renew or extend the term of a recognized intangible asset for each period for which a statement of financial position is presented, by major intangible asset class. FSP 142-3 must be applied prospectively to all intangible assets acquired as of and subsequent to fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We currently are evaluating the impact that FSP No. 142-3 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment to FASB Statement No. 133". SFAS 161 expands the disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," requiring qualitative disclosures about the objectives and strategies for using derivatives, quantitative disclosures about the fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The effective date for adoption of SFAS 161 by the Company is

the first quarter of 2009. We are currently assessing the impact that the adoption of SFAS 161 will have on our consolidated financial statements.

Our Predecessor adopted SFAS No. 157, "Fair Value Measurements," on January 1, 2008 for financial assets and liabilities measured at fair value on a recurring basis. SFAS No. 157 essentially redefines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies where other accounting pronouncements require or permit fair value measurements, and the effects of its adoption were determined by the types of instruments carried at fair value in our financial statements at the time of adoption as well as the methods utilized to determine their fair values prior to adoption. The adoption of SFAS No. 157 on January 1, 2008 did not have a significant impact on the consolidated financial statements of our Predecessor. Our Predecessor applied the fair value measurement guidance of SFAS No. 157 in the valuation of its interest rate swap, which it entered into on February 14, 2008 and settled in September 2008 prior to the completion of the Merger. Refer to Note 8 — *Fair Value Measurements.*

Our Predecessor adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115," on January 1, 2008. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are recognized in earnings at each subsequent reporting date. The adoption of this new standard on January 1, 2008 did not impact the accompanying condensed consolidated financial statements, as the fair value option was not elected for any of the instruments existing as of the adoption date.

In December 2007, the FASB issued Statement No. 141(R), "Business Combinations" (SFAS 141R) and Statement No. 160, "Accounting and Reporting of Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51" (SFAS 160). These new standards will significantly change the accounting for and reporting of business combination transactions and non-controlling (minority) interests in consolidated financial statements. SFAS 141R and SFAS 160 are required to be adopted simultaneously and are effective with the first quarter of 2009. SFAS 141R and SFAS 160 will be effective for business combination transactions completed and non-controlling (minority) interests created on or after January 1, 2009.

(2) Merger with APP

On September 10, 2008, FKP Holdings completed the Merger, following which APP became a wholly-owned subsidiary of FKP Holdings. The results of APP's operations have been included in the consolidated financial statements of FKP Holdings since September 10, 2008. Effective with the Merger, each outstanding share of common stock of APP and certain stock options and restricted stock units of APP were converted into the right to receive $23.00 in cash, without interest, and one Contingent Value Right ("CVR"), issued by FKP Holdings and representing the right to receive a cash payment, without interest, of up to $6.00 determined in accordance with the terms of the CVR Agreement. Refer to Note 3 — *The Contingent Value Rights Agreement,* for further details. As of September 10, 2008, there were approximately 163,251,906 shares of APP common stock outstanding, approximately 2,264,708 of these shares were a result of the conversion of outstanding options and restricted stock units (RSUs) granted under APP's various stock compensation plans.

The aggregate consideration paid in the Merger was $4,908.3 million (including assumed APP debt), comprised as follows (in millions):

Purchase of outstanding common stock (cash portion)	$3,702.7
Buy out of restricted stock units and stock options under stock compensation plans	27.7
Estimated fair value of CVRs	158.4
Direct acquisition costs	22.0
Fair value of consideration paid	3,910.8
Assumption of APP debt	997.5
Total aggregate consideration	$4,908.3

The CVRs were issued on the acquisition date and trade on the NASDAQ Capital Market. The fair value of the CVRs at the date of the acquisition was estimated based on the average of their closing prices for the five trading days following the acquisition. Direct costs of the acquisition include investment banking fees, legal and accounting fees and other external costs directly related to the acquisition.

The acquisition was accounted for under the purchase method of accounting with the Company treated as the acquiring entity in accordance with SFAS No. 141, "Business Combinations." Accordingly, the consideration paid by the Company to complete the acquisition has been allocated preliminarily to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of acquisition. The excess of the purchase price over the estimated fair values of assets acquired and liabilities assumed was recorded as goodwill. Goodwill is non-amortizing for financial statement purposes and is not tax deductible.

As a result of closing the Merger late in the third quarter, the purchase price allocation is preliminary and is subject to future adjustment during the allocation period as defined in SFAS No. 141. The primary areas of the purchase price allocation that could be subject to future adjustment relate to the valuation of inventories, in-process R&D and other identifiable intangible assets, pre-acquisition contingencies, income taxes and residual goodwill. Additionally, the Company is in the process of making assessments in other areas that could affect the final purchase price allocation. The following summarizes the estimates of the fair values of the assets acquired and liabilities assumed at the acquisition date, which are subject to change (in millions):

Net working capital and other assets	$ 320.1
Property, plant and equipment	133.0
In-process research and development	252.0
Identifiable intangible assets	610.0
Deferred tax liability, net	(138.0)
Long-term debt	(997.5)
Goodwill	3,731.2
Total	$3,910.8

Approximately $252.0 million of the purchase price represents the estimated fair value of acquired in-process research and development (R&D) projects that had not yet reached technological feasibility and had no alternative future use. Accordingly, this amount was immediately expensed in the consolidated statement of operations on the acquisition date. The value assigned to purchased in-process R&D was determined by project using a discounted cash flow model. The discount rates used take into consideration the stage of

completion and the risks surrounding the successful development and commercialization of each of the purchased in-process R&D projects that were valued.

Identifiable intangible assets consist of developed product technology and are amortized using the straight-line method over the estimated useful life of the asset of 15 years.

In the successor period (i.e., the period following the Merger), the Company expensed $252.0 million in in-process R&D recorded in purchase accounting, recognized $12.6 million of expense in cost of sales reflecting the portion of the purchase accounting step-up in inventory attributable to inventory sold during the period, and recorded $3.4 million in amortization expense associated with the other intangibles recognized in purchase accounting.

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information presents the combined historical results of the operations of the Company and APP as if the acquisition had occurred on the first day of the periods presented. Certain adjustments have been made to reflect changes in depreciation, amortization and income taxes based on the Company's preliminary estimate of fair values recognized in the application of purchase accounting, and interest expense on borrowings to finance the acquisition. These adjustments are subject to change as the initial estimates are refined over time.

Unaudited pro forma results of operations are as follows (in thousands):

	Three months ended September 30, 2008	Nine months ended September 30,	
		2008	2007
Sales	$ 197,880	$ 543,877	$ 452,774
Gross profit	$ 72,527	$ 235,930	$ 181,613
Net (loss)	$(290,134)	$(343,626)	$(128,665)

This unaudited pro forma financial information is not intended to represent or be indicative of what would have occurred if the transaction had taken place on the dates presented and is not indicative of what the Company's actual results of operations would have been had the acquisition been completed at the beginning of the periods indicated above. The unaudited pro forma information includes $252.0 million of in-process R&D and $12.6 million of expense in cost of sales due to inventory step up. Further, the pro forma combined results do not reflect special costs relating to fully merging and operating the combined organization more efficiently, or anticipated synergies expected to result from the combination and should not be relied upon as being indicative of the future results that the Company will experience.

(3) Contingent Value Rights (CVR)

In connection with the Merger, each APP shareholder was issued one contingent value right of FKP Holdings. The CVRs are intended to give holders an opportunity to participate in any excess Adjusted EBITDA, as defined in the CVR Indenture, generated by FKP Holdings during the three years ending December 31, 2010, referred to as the "CVR measuring period," in excess of a threshold amount. Each CVR represents the right to receive a pro rata portion of an amount equal to 2.5 times the amount by which cumulative Adjusted EBITDA of APP and FKP Holdings and their subsidiaries on a consolidated basis, exceeds $1.267 billion for the three years ending December 31, 2010. If Adjusted EBITDA for the CVR measuring period does not exceed this threshold amount, no amounts will be payable on the CVRs and the CVRs will expire valueless. The maximum amount payable under the CVR Indenture is $6.00 per CVR. The

cash payment on the CVRs, if any, will be determined after December 31, 2010, and will be payable June 30, 2011, except in the case of a change of control of FKP Holdings, which may result in an acceleration of any payment. The acceleration payment, if any, is payable within six months after the change of control giving rise to the acceleration payment.

The CVRs do not represent equity, or voting securities of FKP Holdings, and they do not represent ownership interests in FKP Holdings. Holders of the CVRs are not entitled to any rights of a stockholder or other equity or voting securities of FKP Holdings, either at law or in equity. Similarly, holders of CVRs are not entitled to any dividends declared or paid with respect to any equity security of FK Holdings. A holder of a CVR is entitled only to those rights set forth in the CVR indenture. Additionally, the right to receive amounts payable under the CVRs, if any, is subordinated to all senior obligations of FKP Holdings. The CVRs trade on NASDAQ under the symbol "APCVZ".

There are numerous risks associated with the CVRs, including whether APP and FK Holdings will generate sufficient Adjusted EBITDA to require any payment under the CVRs, and there is no assurance that the minimum Adjusted EBITDA threshold will be met or exceeded. For a further discussion of these risks and uncertainties see Part III, Item A, "Risk Factors."

Because any amount payable to the holders of CVRs must be settled in cash, the CVRs are classified as liabilities in the condensed consolidated financial statements. The estimated fair value of the CVRs at the date of acquisition was included in the cost of the acquisition. At each reporting date, the CVRs are marked-to-market based on the closing price of a CVR as reported by NASDAQ, and the change in the fair value of the CVR for the reporting period is included in operations.

(4) Adjusted EBITDA Calculation for Contingent Value Rights

Under the CVR Indenture, Adjusted EBITDA is measured without taking into account the Merger and assuming that APP would have remained a stand-alone company with its existing assets; it also excludes (i) costs, expenses, and revenue from sales outside the U.S. and Canada, and (ii) costs, expenses and revenue for sales of product not currently under development by APP.

Adjusted EBITDA, as defined in the CVR Indenture, consists of consolidated net income determined in accordance with U.S. GAAP *plus:*

- interest expense, the provision for income taxes, and depreciation and amortization;
- non-cash charges or losses resulting from (i) the sale or other disposal of assets; (ii) impairment charges or asset write-offs related to intangible assets, long-lived assets, and investments in debt and equity securities; (iii) losses from investments recorded using the equity method; and (iv) non-cash expenses relating to the vesting of warrants;
- any extraordinary, unusual or non-recurring expenses or losses related to FKP Holdings' acquisition of APP, and expenses (not to exceed $1 million in the aggregate) arising out of the spin-off of Abraxis BioScience from APP to APP's stockholders on November 13, 2007;
- any costs and expenses incurred in connection with any management equity plan;
- any non-cash increase in expenses resulting from the revaluation of inventory, non-cash charges due to any change in accounting policy, or increased expenses due to purchase accounting associated with the Merger, including the issuance of the CVRs;
- expenses with respect to liability or casualty events or business interruption only to the extent of any reasonably anticipated insurance recovery, and only to the extent that such recovery has not already been recorded in consolidated net income;
- certain research and development expenses relating to the build-out of facilities and costs incurred to transfer production to or start-up any facilities not to exceed $34.9 million;
- any deductions attributable to minority interests; and
- any expenses or losses arising out of the consulting agreement among FKP Holdings, Dr. Soon-Shiong and Fresenius.

And less:

- extraordinary and unusual or non-recurring cash gains;
- non-cash gains;
- gains on sales of fixed assets;
- any net after-tax income from the early extinguishment of indebtedness or hedging obligations or other derivative instruments; and
- all one-time gains from investments recorded using the equity method.

A description of the amounts included and excluded in the calculation of Adjusted EBITDA together with a calculation of cumulative Adjusted EBITDA for the measuring period through September 30, 2008, is set forth in *Item 2 — Managements Discussion and Analysis of Financial Condition and Results of Operations, Sources of Financing and Capital Requirements,* "The CVRs."

(5) Discontinued Operations — Spin-off of New Abraxis

On November 13, 2007, Old Abraxis was separated into two independent publicly-traded companies: APP, which owns and operates the hospital-based business; and the New Abraxis which owns and operates the proprietary business. APP continued to operate the hospital-based business under the name APP Pharmaceuticals, Inc., which on September 10, 2008, became a wholly-owned subsidiary of FKP Holdings. For accounting purposes, the historical operating results of the proprietary business are presented as discontinued operations.

Summarized financial information for discontinued operations is as follows (in thousands):

	For the periods ended September 30, 2007	
	Three Months	Nine Months
Net revenue	$ 87,791	$242,901
Loss before taxes	(37,089)	(49,232)
Income taxes	(14,594)	(24,539)
Net loss	(22,495)	(24,693)

APP and New Abraxis also entered into a series of agreements in connection with the separation, including a separation and distribution agreement, a transition services agreement, an employee matters agreement, a tax allocation agreement, a manufacturing agreement and various real estate leases. Refer to Note 9 — *Related Party Transactions.* Also, in connection with the separation, APP incurred $1 billion of indebtedness and, in addition, entered into a $150 million revolving credit facility, each of which was extinguished as part of the Merger. Refer to Note 7 — *Long-Term Debt and Credit Facility.* There were no costs and expenses incurred related to discontinued operation expenses during the predecessor periods from July 1, 2008 through September 9, 2008 and from January 1, 2008 through September 9, 2008 and the successor period from July 2, 2008 through September 30, 2008.

(6) Inventories

Inventories are valued at the lower of cost or market as determined under the first-in, first-out, or FIFO method, as follows (in thousands):

	For the Period Ended					
	September 30, 2008 (Successor)			December 31, 2007 (Predecessor)		
	Approved	Pending Regulatory Approval	Total Inventory	Approved	Pending Regulatory Approval	Total Inventory
	(in thousands)					
Finished goods	$117,281	—	$117,281	$ 58,787	—	$ 58,787
Work in process	25,159	1,541	26,700	20,097	354	20,451
Raw materials	70,822	5,605	76,427	68,202	1,751	69,953
	$213,262	$7,146	$220,408	$147,086	$2,105	$149,191

Inventories consist of products currently approved for marketing and costs related to certain products that are pending regulatory approval. From time to time, we capitalize inventory costs associated with products prior to regulatory approval based on our judgment of probable future regulatory approval, commercial success and realizable value. Such judgment incorporates our knowledge and best judgment of where the product is in the regulatory review process, our required investment in the product, market conditions, competing products

and our economic expectations for the product post-approval relative to the risk of manufacturing the product prior to approval. In evaluating the market value of inventory pending regulatory approval as compared to the capitalized cost, we considered the market, pricing and demand for competing products, our anticipated selling price for the product and the position of the product in the regulatory review process. If final regulatory approval for such products is denied or delayed, we revise our estimates and judgments about the recoverability of the capitalized costs and, where required, provide reserves for or write-off such inventory in the period those estimates and judgments change.

At September 30, 2008 and December 31, 2007, inventory included $7.1 and $2.1 million, respectively, in costs related to products pending FDA approval at our Melrose Park, Grand Island and Puerto Rico facilities.

We routinely review our inventory and establish reserves when the cost of the inventory is not expected to be recovered or the cost of a product exceeds estimated net realizable value. In instances where inventory is at or approaching expiration, is not expected to be saleable based on our quality and control standards, or is selling for a price below cost, we reserve for any inventory impairment based on the specific facts and circumstances. Provisions for inventory reserves are reflected in the unaudited condensed consolidated financial statements as an element of cost of sales; inventories are presented net of related reserves.

(7) Long-Term Debt and Credit Facility

Spin-off Senior Secured Credit Agreement

On November 13, 2007, APP and certain of its wholly-owned subsidiaries entered into a senior secured credit agreement (the "Spin-off Credit Agreement") with certain lenders and Deutsche Bank AG New York Branch, as Administrative Agent. The Spin-off Credit Agreement provided for two term loan facilities: a Term Loan A facility for $500 million and a Term Loan B facility for $500 million. The Credit Agreement also provided for a revolving credit facility of $150 million. The term loan facilities were scheduled to mature on November 13, 2013, and the revolving credit facility was scheduled to expire on November 13, 2012. A portion of the proceeds from the debt financing was used to repay APP's existing indebtedness and fees and expenses related to the financing, and $700 million was contributed to New Abraxis immediately prior to the separation.

Additionally, on February 14, 2008, APP entered into interest rate swap agreements with an aggregate notional principal amount of $990 million. Under these agreements, APP paid interest to the counterparty at a fixed rate of 3.04% on the notional amount, and received interest at a variable rate equal to one-month LIBOR. The interest rate swaps were scheduled to expire in February, 2009. APP formally designated these swaps as hedges of its exposure to variability in future cash flows attributable to the LIBOR-based interest payments due on the credit facilities. Accordingly, the interest rate swaps were reported at fair value in the balance sheet and changes in the fair values of the interest rate swaps were initially recorded in accumulated comprehensive income in the balance sheet and recognized in operations each period when the hedged item impacted results. Effective January 1, 2008, APP measured the fair value of the interest rate swaps under the guidance of SFAS 157 —*"Fair Value Measurements"*. Through June 30, 2008 APP had recorded an unrecognized loss on the interest rate swaps of $1.4 million in accumulated other comprehensive income.

All amounts owing under these credit facilities became due and payable and the agreements terminated upon the closing of the Merger on September 10, 2008. The interest rate swap was terminated on September 5, 2008 resulting in a recognized loss on of $2.7 million, which is included in interest expense of the predecessor period. There were no penalties associated with the early pay-off of the debt or termination of the interest rate swap agreements.

Fresenius Merger — Credit Agreements

On September 10, 2008, in connection with the acquisition of APP described in Note 2, Fresenius entered into a $2.45 billion credit agreement with Deutsche Bank AG, London Branch, as administrative agent, Deutsche Bank AG, London Branch, Credit Suisse, London Branch, and J.P. Morgan plc, as arrangers and book running managers, and the other lenders party thereto (the "Senior Credit Facilities Agreement") and a $1.3 billion bridge credit agreement with Deutsche Bank AG, London Branch, as the administrative agent, Deutsche Bank AG, London Branch, Credit Suisse, London Branch, and J.P. Morgan plc, as arrangers and book running managers, and the other lenders party thereto (the "Bridge Facility Agreement") to assist in the funding of the transaction. The $2.45 billion Senior Credit Facilities Agreement includes a $1 billion term loan A, a $1 billion term loan B, and revolving credit facilities of $300 million and $150 million. Proceeds from borrowings under these credit facilities, together with other available funds provided by Fresenius through equity contributions and loans to FKP Holdings and its subsidiaries, were utilized to complete the purchase of APP.

The Senior Facilities Agreement provides APP Pharmaceuticals, LLC, a wholly owned subsidiary of APP, with two term loan facilities: a Tranche A2 Term Loan ("Term Loan A2") for $500 million and Tranche B2 Term Loan ("Term Loan B2") for $497.5 million. Proceeds from the borrowings under Term Loans A2 and B2 were used to repay and replace the borrowings outstanding under the Spin-off Credit Agreement Term Loans A and B that were assumed in the Merger. The Senior Facilities Agreement also provides APP Pharmaceuticals, LLC with a $150 million revolving credit facility, which replaces the Spin-off Credit Agreement revolving credit facility. The revolving credit facility includes a $50 million sub-limit for swingline loans and a $20 million sub-limit for letters of credit. The Term Loan A2 and B2 loan facilities mature on September 10, 2013 and September 10, 2014, respectively, and the revolving credit facility expires on September 10, 2013. We incurred and capitalized approximately $25 million in debt issue costs in connection with the Senior Facilities Agreement.

Pursuant to the Senior Credit Facilities Agreement, Fresenius Kabi Pharmaceuticals, LLC (which was merged with and into APP Pharmaceuticals, Inc. upon consummation of the Merger) entered into an intercompany loan with the borrower of the $500 million Tranche A1 Term Loan and the $502.5 million Tranche B1 Term Loan, and an affiliate of FKP Holdings entered into an intercompany loan with the borrower under the $300 million revolving facility under the Senior Credit Facilities Agreement (collectively, the "Senior Intercompany Loans"), the amount, maturity and other financial terms of which correspond to those applicable to the loans provided to such borrowers under the Senior Credit Facilities Agreement described above. The Senior Intercompany Loans are guaranteed by FKP Holdings and certain of its affiliates and subsidiaries and secured by the assets of FKP Holdings, and certain of its affiliates and subsidiaries. The Senior Intercompany Loans provide for an event of default and acceleration if there is an event of default and acceleration under the Senior Credit Facilities Agreement, but acceleration of the Senior Intercompany Loans may not occur prior to acceleration of the loans under the Senior Credit Facilities Agreement. By entering into a certain Senior Intercompany Loan with Fresenius Kabi Pharmaceuticals, LLC, Fresenius effectively pushed-down its Merger-related term loan borrowings under the Senior Credit Facilities Agreement to the FKP Holdings group. The Senior Intercompany Loans bear interest at a variable rate based on the rates applicable to the corresponding loans under the Senior Credit Facilities Agreement, plus a margin, and are due in 2013 and 2014, as applicable. In addition to the term loans mentioned above, on September 10, 2008, the borrower of the $300 million revolving facility borrowed $100 million and on-lent the proceeds to an affiliate of FKP Holdings. The balance of the Senior Intercompany Loans outstanding at September 30, 2008 was $1,102.5 million.

Pursuant to the Bridge Facility Agreement, FKP Holdings entered into an intercompany loan (the "Bridge Intercompany Loan") with an affiliate of FKP Holdings who is the borrower under the Bridge Facility Agreement, the amount, maturity, and other financial terms of which correspond to those applicable to the loans provided to such borrower under the Bridge Facility Agreement. The Bridge Intercompany Loan is guaranteed by FKPH Holdings and certain affiliates and subsidiaries of FKP Holdings and secured by the assets of FKP Holdings and certain of its affiliates and subsidiaries. The Bridge Intercompany Loan provides for an event of default and acceleration if there is an event of default and acceleration under the Bridge Facility Agreement, but acceleration of the Bridge Intercompany Loan may not occur prior to acceleration of the loans under the Bridge Facility Agreement. By entering into the Bridge Intercompany Loan with FKP Holdings, Fresenius effectively pushed-down its Merger-related borrowings under the Bridge Credit Facility Agreement to FKP Holdings. The Bridge Intercompany Loan bears interest at the rate applicable to the corresponding loan under the Bridge Facility Agreement, plus a margin and is due in 2009 or 2015, if extended. The balance of the Bridge Intercompany Loan outstanding at September 30, 2008 was $1,300 million.

In addition, Fresenius SE made two other intercompany loans totaling $456.2 million to FKP Holdings as part of the acquisition. These intercompany loans include fixed interest rates and mature on September 10, 2014. The balance outstanding on these two intercompany loans at September 30, 2008 was $456.2 million.

In connection with the intercompany loans described above, Fresenius also pushed-down to the Company approximately $85.0 million in fees and costs incurred in connection with establishing the Senior Credit Facilities Agreement and Bridge Facilities Agreement, the proceeds of which were used to finance the Merger.

The interest rate on each borrowing under the Senior Credit Facilities Agreement is a rate per annum equal to the aggregate of (a) the applicable margin (as described below) and (b) LIBOR or EURIBOR for the relevant interest period, subject, in the case of Term Loan B, to a minimum LIBOR or EURIBOR. The applicable margin for Term Loan A Facilities and the Revolving Credit Facilities is variable and depends on the Leverage Ratio as defined in the Senior Credit Facilities Agreement.

The Senior Facilities Agreement contains a number of affirmative and negative covenants that are assessed at the Fresenius level and are not separately assessed at APP Pharmaceuticals, LLC.

The obligations of APP Pharmaceuticals, LLC under the Senior Credit Facilities Agreement are unconditionally guaranteed by Fresenius SE, Fresenius Kabi AG, Fresenius ProServe GmbH and APP Pharmaceuticals, Inc. and are secured by a first-priority security interest in substantially all tangible and intangible assets of APP Pharmaceuticals, Inc. and APP Pharmaceuticals, LLC.

The following is the repayment schedule for Term Loans A2 and B2 and intercompany notes as of September 30, 2008:

Loan Repayments — Cumulative for each calendar year (in thousands)

	Term Loan A2	Term Loan B2	Intercompany	Total
2008	$ —	$ —	$ —	$ —
2009	37,500	6,219	43,781	87,500
2010	71,500	4,975	76,525	153,000
2011	122,500	4,975	127,525	255,000
2012	150,000	4,975	155,025	310,000
2013	118,500	4,975	123,525	247,000
2014 and thereafter	—	471,381	2,332,362	2,803,743
	$500,000	$497,500	$2,858,743	$3,856,243

On October 6, 2008, the amount of the senior credit facilities under the Senior Credit Facilities Agreement was increased by approximately $500 million to approximately $2,950 million through an increase in the amount of the Tranche B1 Term Loan facility by approximately $500 million to approximately $1,205 million. Simultaneously, the full amount of the increase to the Tranche B1 Term Loan facility was drawn down under the Senior Credit Facilities Agreement, and in connection therewith, the corresponding intercompany term loan agreement was amended to reflect the changes to the Senior Credit Facilities Agreement. The additional funds were used to repay a portion of the $1.3 billion outstanding under the Bridge Facility Agreement. The Bridge Credit Facility was paid down by an additional $150 million from other sources so that the aggregate amount outstanding under that facility, after these repayments, is approximately $650 million. These changes to the Senior Credit Facilities Agreement and Bridge Credit Facility had mirror effects on the Senior Intercompany Loans and Bridge Intercompany Loan, and will result in the write-off of approximately $30.1 million in debt issuance costs in the fourth quarter of 2008.

(8) Fair Value Measurements

The Predecessor adopted SFAS 157 —"Fair Value Measurements" on January 1, 2008 for financial assets and liabilities measured at fair value on a recurring basis. SFAS 157 essentially redefines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies where other accounting pronouncements require or permit fair value measurements. The adoption of SFAS No. 157 on January 1, 2008 did not have a significant impact on the consolidated financial statements of our Predecessor. Our Predecessor applied the fair value measurement guidance of SFAS No. 157 in the valuation of its interest rate swaps, which it entered into on February 14, 2008 and settled in September 2008 prior to the completion of the Merger.

In establishing a fair value, SFAS No. 157 sets a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The basis of the fair value measurement is categorized in three levels, in order of priority, as described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or financial instruments for which all significant inputs are observable; either directly or indirectly.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable; thus, reflecting assumptions about the market participants.

Assets and liabilities recorded at fair value are valued using quoted market prices, or under a market approach, using other relevant information generated by market transactions involving identical or comparable instruments. At September 30, 2008, the Company's only financial assets or liabilities subject to the measurement guidance of SFAS No. 157 were the CVRs. The CVRs were issued on the acquisition date and trade on the NASDAQ Capital Market. The fair value of the CVRs at the date of the acquisition was estimated based on the average of their closing prices for the five trading days following the acquisition. At each reporting date, the CVRs are marked-to-market based on the closing price of a CVR as reported by NASDAQ (a Level 1 measurement).

(9) Related Party Transactions

Net receivables and payables due from (to) related parties for the successor period ended September 30, 2008 pertain to amounts due from (to) Fresenius and its direct and indirectly owned subsidiaries, while related party amounts for the predecessor periods pertain to balances and transactions with New Abraxis, which was spun-off by APP on November 13, 2007. See below for a detailed discussion of these transactions.

Transactions with Fresenius

In connection with the Merger and associated financing transactions, FKP Holdings and its subsidiaries entered into a number of intercompany loan agreements with financing subsidiaries of Fresenius, the Company's parent, as described in *Note 7 — Long-Term Debt and Credit Facility.* At September 30, 2008, the principal amount outstanding under these loans was $2,858.7 million. Interest expense recognized on these intercompany loans during the successor period was $11.6 million, and accrued interest of $11.6 million was due on these intercompany loans at September 30, 2008. In addition, during the successor period ended September 30, 2008, Fresenius pushed-down approximately $85.0 million in issue costs associated with these intercompany loans. These costs are expected to be repaid and are therefore included in the payable to Parent Company balance reflected in the accompanying condensed consolidated financial statements.

On September 29, 2008, FKP Holdings received three short-term notes receivable totaling $26.6 million ($7.0 million, $19.6 million and $6.1 million respectively) from Fresenius in exchange for a short-term cash deposit. The $7.0 million and $19.6 million notes receivable became due and payable on October 1, 2008. The interest rates on the notes receivable were 4% and 4.75% and 0%, respectively, and were set based on lender country's one-month LIBOR. The $7.0 million and $19.6 million notes were repaid at maturity on October 1, 2008. These three notes receivables are netted against the outstanding balance of intercompany loans and are included in Payable to Parent Company in the condensed consolidated balance sheet at September 30, 2008.

Transactions with New Abraxis

In connection with the November 13, 2007 separation, APP entered into a number of agreements that govern its relationship with New Abraxis for a period of time after the separation. These agreements were entered into while New Abraxis was still a wholly owned subsidiary of Old Abraxis. These agreements include (i) a tax allocation agreement, (ii) a dual officer agreement, (iii) an employee matters agreement, (iv) a

transition services agreement, (v) a manufacturing agreement, and (vi) various real estate leases. Transactions relating to these agreements are summarized in the following table:

	July 1 through September 9, 2008	January 1 through September 9, 2008
	(in thousands)	
Transition service income	$ 299	$ 275
Facility management fees	575	2,075
Net rental expense	(425)	(1,912)
Margins on the manufacture and distribution of Abraxane®	439	1,490

(10) Accrued Liabilities

Accrued liabilities consisted of the following at September 30, 2008 and December 31, 2007:

	(Successor) September 30, 2008	(Predecessor) December 31, 2007
	(in thousands)	
Sales and marketing	$16,847	$13,814
Payroll and employee benefits	15,340	12,357
Legal and insurance	4,040	10,213
Accrued separation costs	429	1,993
Accrued interest	3,465	4,024
Other	3,139	3,194
	$43,260	$45,595

(11) Income Taxes

On January 1, 2007, our Predecessor adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). This interpretation clarifies the criteria that must be met prior to the recognition of the financial statement benefit of a position taken or expected to be taken in a tax return in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The effect of the implementation of FIN 48 was not material. As of September 30, 2008, the total amount of gross unrecognized tax benefits, which are reported in other liabilities in our unaudited condensed consolidated balance sheet, was $3.1 million. This entire amount would impact goodwill, if recognized. In addition, we accrue interest and any necessary penalties related to unrecognized tax positions in our provision for income taxes. For the nine month period ended September 30, 2008, $0.3 million of such interest was accrued, principally in the predecessor period.

For the successor period ended September 30, 2008, FKP Holdings reported an income tax benefit of $8.1 million on a pretax loss from continuing operations of $226.5 million, or an effective benefit rate of 3.6%. This rate differs from the statutory U.S. federal tax rate of 35% due primarily to the inclusion in pretax loss from continuing operations of $252 million related to the write-off of in-process R&D costs recognized in accounting for the Merger and a $52.2 million gain related to the change in fair value of the CVRs during the period, which are not included in the determination of taxable income, as well as the effect of state and foreign income taxes.

Tax expense on pretax income from continuing operations for the predecessor period from January 1, 2008 through September 9, 2008 was $40.3 million, an effective rate of 80.9%. This rate differs from the statutory U.S. federal tax rate of 35% due primarily to the inclusion in pretax income from continuing operations of approximately $42 million of nondeductible costs incurred by APP and relating to the acquisition of APP by Fresenius, as well as the effect of state and foreign income taxes. The effective tax rate for the predecessor nine-month period ended September 30, 2007 was 43.5%. This rate differs from the statutory U.S. federal tax rate of 35% due primarily to the effect of state and foreign income taxes.

Deferred tax assets are recognized if, in management's judgment, it is more likely than not such assets will be realized. In August 2008, APP management determined that it could not conclude that it was more likely than not that deferred tax assets related to carryovers of net operating losses in Puerto Rico would be realized. Accordingly, APP recorded a valuation allowance of $1.0 million in the predecessor period ended September 9, 2008. This amount represents the entire deferred tax asset resulting from the Puerto Rican loss carryovers.

Through the date of the Merger, APP and its subsidiaries filed income tax returns in the US Federal jurisdiction, Canada, Puerto Rico, and various state jurisdictions. APP is currently under state income tax examinations in California, Illinois, Massachusetts and North Carolina for various tax years. Although not currently under examination or audit, APP's US federal income tax returns for calendar years 2006 and 2007, its Canadian income tax returns for the 2005 through 2007 tax years, its Puerto Rican income tax returns for the 2006 and 2007 tax years and its state income tax returns for the 2003 through 2007 tax years remain open for possible examination by the appropriate governmental agencies. APP has received notice of intent of the Internal Revenue Service to examine its federal income tax return for the year ended December 31, 2006. The examination began in the third quarter of 2008. There are no other open federal, state, or foreign government income tax audits at this time.

On September 10, 2008, the date of the Merger, a wholly-owned subsidiary of FKP Holdings merged with and into APP pursuant to and by the Agreement and Plan of Merger dated July 6, 2008. Accordingly, FKP Holdings became the parent company of APP and its subsidiaries. For periods beginning September 10, 2008, APP and its subsidiaries, will be included in the consolidated US Federal income tax return of FKP Holdings.

(12) Other Comprehensive Income

Elements of other comprehensive income, net of income taxes, were as follows:

	Successor	Predecessor		Successor	Predecessor	
	July 2 through September 30, 2008	July 1 through September 9, 2008	Three months Ended September 30, 2007	July 2 through September 30, 2008	January 1 through September 9, 2008	Nine months Ended September 30, 2007
Foreign currency translation adjustments	$ 8	$ (1,389)	$ 1,303	$ 8	$(2,302)	$ 2,388
Change in fair value of interest rate swaps	—	1,280	—	—	—	—
Unrealized gain on marketable equity securities	—	—	(107)	—	—	41
Other comprehensive gain (loss), net of tax	8	(109)	1,196	8	(2,302)	2,429
Net (loss) income	(218,355)	(23,506)	(8,385)	(218,355)	9,543	25,826
Comprehensive (loss) income	$(218,347)	$(23,615)	$(7,189)	$(218,347)	$ 7,241	$28,255

At September 30, 2008 and 2007, we had cumulative foreign currency translation gain adjustments of $0 million and $0.4 million, respectively. During the predecessor periods ended September 30, 2008, APP reclassified the cumulative unrecognized loss on its interest rate swaps of $1.3 million to operations in connection with the settlement of the swaps on September 5, 2008.

(13) Contingencies

Litigation

We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims have included assertions that our products infringe existing patents, allegations of product liability and claims that the use of our products has caused personal injuries. We intend to defend vigorously any such litigation that may arise and to use all defenses that would be available to us. In the opinion of management, the ultimate outcome of proceedings of which management is aware, even if adverse to us, will not have a material adverse effect on our consolidated financial position or results of operations.

Regulatory Matters

We are subject to regulatory oversight by the United States Food and Drug Administration and other regulatory authorities with respect to the development and manufacture of our products. Failure to comply with regulatory requirements can have a significant effect on our business and operations. Management has designed and operates a system of controls to attempt to ensure compliance with applicable regulatory requirements.

(14) Revenue by Product Line

Total revenues by product line were as follows (in thousands):

	Successor	Predecessor		Successor	Predecessor	
	July 2 through September 30, 2008	July 1 through September 9, 2008	Three months Ended September 30, 2007	July 2 through September 30, 2008	January 1 through September 9, 2008	Nine months Ended September 30, 2007
Critical care	$29,606	$100,008	$ 91,584	$29,606	$304,722	$265,858
Anti-infective	13,792	40,023	43,032	13,792	142,279	133,561
Oncology	4,294	7,169	14,073	4,294	39,916	39,927
Contract manufacturing and other	388	2,600	4,490	388	8,880	13,428
Total revenue	$48,080	$149,800	$153,179	$48,080	$495,797	$452,774

Consolidated Financial Statements of APP Pharmaceuticals, Inc. as of December 31, 2007
(US-GAAP)

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
APP Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of APP Pharmaceuticals, Inc. and subsidiaries (previously known as Abraxis BioScience, Inc.) as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of APP Pharmaceuticals, Inc. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Chicago, Illinois
March 17, 2008

APP PHARMACEUTICALS, INC.

Consolidated Balance Sheets

	December 31, 2007	December 31, 2006
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,788	$ 39,297
Accounts receivable, less allowances for doubtful accounts of $100 in 2007 and 2006, and net chargebacks of $101,177 and $92,427 in 2007 and 2006	85,209	84,684
Inventories	149,191	218,280
Prepaid expenses and other current assets	13,531	15,570
Current receivables from related parties	6,996	
Deferred income taxes	17,109	27,168
Total current assets	303,824	384,999
Property, plant and equipment, net	132,528	217,819
Investment in Drug Source Company, LLC	—	5,504
Intangible assets, net of accumulated amortization of $51,336 and $47,482 in 2007 and 2006	463,154	738,440
Goodwill	160,239	401,600
Non-current receivables from related parties	—	39
Deferred financing costs and other non-current assets, net of accumulated amortization of $299 and $281 in 2007 and 2006	17,842	25,320
Total assets	$1,077,587	$1,773,721
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 36,502	$ 65,471
Accrued liabilities	45,595	61,428
Income taxes payable	—	80,054
Deferred revenue	—	39,225
Minimum royalties payable	—	1,017
Notes payable	—	72,248
Short term portion of debt	5,000	—
Total current liabilities	87,097	319,443
Long-term debt	995,000	165,000
Deferred income taxes, non-current	71,011	90,776
Long-term portion of deferred revenue	—	158,135
Other non-current liabilities	4,250	7,006
Total liabilities	1,157,358	740,360
Stockholders' equity (deficit):		
Common stock — $0.001 par value; 350,000,000 shares authorized; 160,069,196 and 165,928,134 shares issued in 2007 and 2006	160	166
Additional paid-in capital	(96,357)	1,085,196
Retained earnings	13,715	4,483
Accumulated other comprehensive income	2,711	1,257
Less treasury stock at cost, 6,705,116 common shares were outstanding in 2006	—	(57,741)
Total stockholders' (deficit) equity	(79,771)	1,033,361
Total liabilities and stockholders' equity (deficit)	$1,077,587	$1,773,721

APP PHARMACEUTICALS, INC.

Consolidated Statements of Operations

	Year Ended December 31,		
	2007	2006	2005
	(in thousands, except per share data)		
Net revenue	$647,374	$ 583,201	$385,082
Cost of sales	332,046	288,079	203,436
Gross profit	315,328	295,122	181,646
Operating expenses:			
Research and development	46,497	27,787	18,454
Selling, general and administrative	90,229	80,669	69,059
Amortization of merger related intangibles	15,418	10,926	—
Separation related costs	3,024	—	—
Merger related in-process research and development charge	—	22,330	—
Other merger related costs	—	12,613	7,863
Total operating expense	155,168	154,325	95,376
Income from operations	160,160	140,797	86,270
Interest income and other	2,182	3,557	470
Interest expense	(25,162)	(9,186)	—
Minority interests	—	(11,383)	(25,875)
Income from continuing operations before income taxes	137,180	123,785	60,865
Provision for income taxes from continuing operations	55,001	68,559	30,409
Net income from continuing operations	82,179	55,226	30,456
Net loss from discontinued operations, net of taxes	(47,821)	(102,123)	(12,799)
Net income (loss)	$ 34,358	$ (46,897)	$ 17,657
Basic income (loss) per common share:			
Continuing operations	$ 0.51	$ 0.35	$ 0.19
Discontinued operations	(0.29)	(0.65)	(0.08)
Net income (loss) per common share:	$ 0.22	$ (0.30)	$ 0.11
Diluted income (loss) per common share:			
Continuing operations	$ 0.51	$ 0.35	$ 0.19
Discontinued operations	(0.30)	(0.64)	(0.08)
Net income (loss) per common share:	$ 0.21	$ (0.29)	$ 0.11
The composition of stock-based compensation from continuing operations included above is as follows:			
Cost of sales	$ 2,502	$ 2,668	$ 2,947
Research and development	602	554	465
Selling, general and administrative	8,977	7,902	8,625
	$ 12,081	$ 11,124	$ 12,037

APP PHARMACEUTICALS, INC.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2007, 2006 and 2005

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount	Shares	Amount	Shares	Amount				Shares	Amount	
						(in thousands)						
Balance, January 1, 2005	10,000,000	$ 10,000	22,500,000	$ 22,500	172,888,327	$173	$ 137,062	$ 53,723	$ 234	(6,646,398)	$(56,274)	135,322
Effect of equity transactions by American Pharmaceutical Partners, Inc.	—	—	—	—	—	—	24,826	—	—	—	—	24,826
Purchase of common stock	—	—	—	—	(7,896,226)	(8)	(67,492)	—	—	—	—	(67,500)
Purchase of preferred stock A	(10,000,000)	(10,000)	—	—	—	—	(7,125)	—	—	—	—	(17,125)
Purchase of preferred stock B	—	—	(22,500,000)	(22,500)	—	—	(16,031)	—	—	—	—	(38,531)
Distribution of equity to acquire Transplant Research Institute	—	—	—	—	—	—	—	(20,000)	—	—	—	(20,000)
Comprehensive income:												
Net income	—	—	—	—	—	—	—	17,657	—	—	—	17,657
Unrealized gain on available-for-sale securities, net of tax	—	—	—	—	—	—	—	—	1,066	—	—	1,066
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	329	—	—	329
Comprehensive income	—	—	—	—	—	—	—	—	—	—	—	19,052
Balance, December 31, 2005	—	—	—	—	164,992,101	165	71,240	51,380	1,629	(6,646,398)	(56,274)	68,140
Effect of merger between APP and ABI	—	—	—	—	—	—	979,245	—	—	—	—	979,245
Exercise of Stock Options	—	—	—	—	643,578	1	7,975	—	—	—	—	7,976
Issuance of stock for employee retirement and stock purchase plan	—	—	—	—	157,792	—	3,274	—	—	—	—	3,274
Unvested restricted stock and stock options forfeited	—	—	—	—	(5,449)	—	—	—	—	—	—	—
Issuance of vested stock	—	—	—	—	140,112	—	(41)	—	—	—	—	(41)
Purchase of treasury stock	—	—	—	—	—	—	—	—	—	(58,718)	(1,467)	(1,467)
Stock compensation expense	—	—	—	—	—	—	19,436	—	—	—	—	19,436
Tax benefit of stock compensation plants	—	—	—	—	—	—	4,067	—	—	—	—	4,067
Comprehensive income:												
Net income	—	—	—	—	—	—	—	(46,897)	—	—	—	(46,897)
Unrealized gain on available-for-sale securities, net of tax	—	—	—	—	—	—	—	—	(1,089)	—	—	(1,089)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	717	—	—	717
Comprehensive income	—	—	—	—	—	—	—	—	—	—	—	(47,269)
Balance, December 31, 2006	—	—	—	—	165,928,134	166	1,085,196	4,483	1,257	(6,705,116)	(57,741)	1,033,361
Distribution of New Abraxis	—	—	—	—	—	—	(1,173,518)	(25,043)	(773)	—	—	(1,199,334)
Exercise of stock options	—	—	—	—	439,325	—	3,450	—	—	—	—	3,450
Issuance of stock for employee retirement and stock purchase plan	—	—	—	—	220,010	—	3,801	—	—	—	—	3,801

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount	Shares	Amount	Shares	Amount				Shares	Amount	
						(in thousands)						
Cumulative effect adjustment of adoption of FIN 48	—	—	—	—	—	—		(83)	—	—	—	(83)
Purchase/(retirement) of treasury stock	—	—	—	—	(6,689,148)	(6)	(57,735)	—	—	6,705,116	57,741	—
Issuance of shares in conjunction with legal settlement	—	—	—	—	43,500	—	14,763	—	—	—	—	14,763
Stock compensation related to restricted stock unit vesting	—	—	—	—	127,375	—	(2,611)	—	—	—	—	(2,611)
Stock compensation expense	—	—	—	—	—	—	28,136	—	—	—	—	28,136
Excess tax benefit of stock compensation plans	—	—	—	—	—	—	1,083	—	—	—	—	1,083
Tax benefit of licensing agreement and other					—	—	1,078	—	—	—	—	1,078
Comprehensive income:												
Net income	—	—	—	—	—	—	—	34,358	—	—	—	34,358
Unrealized gain on available-for-sale securities, net of tax	—	—	—	—	—	—	—	—	(460)	—	—	(460)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	2,687	—	—	2,687
Comprehensive income	—	—	—	—	—	—	—	—	—	—	—	36,585
Balance, December 31, 2007	—	—	—	—	160,069,196	$160	$ (96,357)	$ 13,715	$ 2,711	—	—	$ (79,771)

APP PHARMACEUTICALS, INC.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2007	2006	2005
	(in thousands)		
Cash flows from operating activities:			
Net income from continuing operations	$ 82,179	$ 55,226	$ 30,456
Net loss from discontinued operations, net of taxes	(47,821)	(102,123)	(12,798)
Net income (loss)	34,358	(46,897)	17,658
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	28,460	19,108	14,224
Amortization	1,796	1,608	1,149
Amortization of product rights	16,440	8,220	—
Amortization of merger related inventory step-up	—	12,480	—
Amortization of merger related intangibles	50,811	38,275	—
Merger related in-process R&D charge	—	105,777	—
Stock-based compensation	28,598	35,023	16,409
Non-cash issuance for legal expenses	14,763	—	—
Loss on disposal of property, plant and equipment	797	189	941
Excess tax benefit from stock-based compensation	(1,083)	(4,067)	(15,687)
Stock option grants/forfeitures	(2,611)		
Deferred income taxes	(10,142)	(83,199)	(9,127)
Minority interest	—	11,383	25,875
Equity in net income of Drug Source Company, LLC, net of dividends received	(3,291)	(2,776)	3,528
Changes in operating assets and liabilities, net of effects of spin off:			
Accounts receivable, net	(42,199)	(22,816)	(46,351)
Inventories	(12,165)	(42,998)	(23,847)
Prepaid expenses and other current assets	(7,900)	(2,004)	(2,226)
Non-current receivables (due to) from related parties	(6,997)	610	(2)
Deferred revenue	(33,945)	178,956	18,366
Minimum royalties payable	(984)	(3)	(82)
Other non-current liabilities	2,607	(1,565)	872
Income taxes payable	(80,031)	73,062	(2,597)
Accounts payable and accrued expenses	35,071	46,611	35,363
Net cash provided by operating activities	12,353	324,977	34,466
Cash flows from investing activities:			
Purchases of property, plant and equipment	(86,160)	(84,486)	(51,107)
Purchases of other non-current assets	(2,862)	(13,972)	—
Purchase of product rights	—	(328,797)	(4,085)
Net sale (purchase) of short-term investments	—	54,455	12,020
Net cash (used in) investing activities	(89,022)	(372,800)	(43,172)
Cash flows from financing activities			
Proceeds from the exercise of stock options	3,450	7,975	11,547
Proceeds from issuance of senior secured credit agreement	1,000,000	—	—
Proceeds from issuance from unsecured credit facility	366,000	204,500	190,000
Proceeds from the sale of stock under employee retirement and stock purchase plan	3,801	3,274	3,129
Notes payable	(66,735)	72,248	—
Excess tax benefit from stock-based compensation	1,083	4,065	15,687
Repayment of borrowings on unsecured credit facility	(531,000)	(229,500)	(42,750)
Payment of deferred financing costs	(13,275)	(1,704)	(585)
Distribution of equity to acquire TRI	—	—	(20,000)
Repurchase of preferred stock	—	—	(55,656)
Retirement of treasury stock	—	(1,467)	(67,500)
Separation asset transfer	(696,431)	—	—
Net cash provided by financing activities	66,893	59,391	33,872
Effect of exchange rates on cash	2,267	(1,089)	329
Net (decrease) increase in cash and cash equivalents	(7,509)	10,479	25,495
Cash and cash equivalents, beginning of year	39,297	28,818	3,323
Cash and cash equivalents, end of year	$ 31,788	$ 39,297	$ 28,818
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 17,552	$ 13,165	$ 7,674
Cash paid for income taxes, net of refunds	122,501	33,490	33,690

See accompanying notes to consolidated financial statements

APP PHARMACEUTICALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

1. Description of Business

We are a pharmaceutical company that develops, manufactures and markets injectable pharmaceutical products. We believe that we are the only independent U.S. public company with a primary focus on the injectable oncology, anti-infective and critical care markets, and we further believe that we offer one of the most comprehensive injectable product portfolios in the pharmaceutical industry. We manufacture products in each of the three basic forms in which injectable products are sold: liquid, powder and lyophilized, or freeze-dried.

We began in 1996 with an initial focus on U.S. marketing and distribution of generic pharmaceutical products manufactured by others. In June 1998, we acquired Fujisawa USA, Inc.'s generic injectable pharmaceutical business, including manufacturing facilities in Melrose Park, Illinois and Grand Island, New York and our research and development facility in Melrose Park, Illinois. We also acquired additional assets in this transaction, including inventories, plant and equipment and abbreviated new drug applications that were approved by or pending with the FDA.

Our products are generally used in hospitals, long-term care facilities, alternate care sites and clinics within North America. Unlike the retail pharmacy market for oral products, the injectable pharmaceuticals marketplace is largely made up of end users who have relationships with group purchasing organizations, or GPOs, and/or specialty distributors who distribute products within a particular end-user market, such as oncology clinics. GPOs and specialty distributors generally enter into collective product purchasing agreements with pharmaceutical suppliers in an effort to secure more favorable drug pricing on behalf of their members.

We are a Delaware corporation that was formed in 2001 as successor to a California corporation formed in 1996. On April 18, 2006, we completed a merger with American BioScience, Inc., or ABI, our former parent. In connection with the closing of that merger, our certificate of incorporation was amended to change our original name of American Pharmaceutical Partners, Inc. to Abraxis BioScience, Inc. which we refer to as "Old Abraxis." Old Abraxis operated in two distinct business segments: Abraxis BioScience (ABI), representing the combined operations of Abraxis Oncology and Abraxis Research; and Abraxis Pharmaceutical Products (APP), representing the hospital-based operations.

On November 13, 2007, Old Abraxis separated into two independent publicly-traded companies, one holding the Abraxis Pharmaceutical Products business, focusing primarily on manufacturing and marketing our oncology, anti-infective and critical care hospital-based generic injectable products and marketing our proprietary anesthetic/analgesic products (which we refer to collectively as the "hospital-based business"), and the other holding the Abraxis Oncology and Abraxis Research businesses (which we refer to as the "proprietary business"). We refer to the proprietary business following the separation as "New Abraxis," which subsequently changed its name to Abraxis BioScience, Inc. We continue to operate the hospital-based business (which we refer to as "New APP") under the name APP Pharmaceuticals, Inc.

New APP and New Abraxis have entered into a series of agreements, including a separation and distribution agreement, a transition services agreement, an employee matters agreement, a tax allocation agreement, a manufacturing agreement and various real estate leases. Please refer to *Note 7 — Related Parties* for additional information on the separation related agreements. Also, in connection with the separation, we incurred $1 billion of indebtedness and, in addition, entered into a $150 million revolving credit facility that is currently unused. Approximately $276 million of the proceeds of this indebtedness was used to repay in full our prior revolving credit facility; approximately $12 million was used to pay fees and expenses related to the debt financing; and $700 million was contributed to New Abraxis. New APP is solely responsible for servicing the debt following the transactions. Please refer to *Note 3 — Spin-off of New Abraxis.*

2. Summary of Significant Accounting Policies

Basis of Accounting and Consolidation

On November 13, 2007, Old Abraxis separated into two independent publicly-traded companies: our company, APP Pharmaceuticals, Inc. (New APP), and New Abraxis. The consolidated financial statements include: (a) the assets, liabilities and results of operations of APP Pharmaceuticals, Inc. and our wholly owned subsidiaries, Pharmaceutical Partners of Canada, Inc. and APP Pharmaceuticals Manufacturing, LLC; and (b) for periods prior to the spin-off, the historical operations of New Abraxis and its subsidiaries. The historical operating results of New Abraxis are now presented as discontinued operations. Please refer to *Note 3- Spin-off of New Abraxis*.

Accordingly, prior to our separation, the consolidated assets and liabilities include the results of Old Abraxis and the wholly owned subsidiaries, Pharmaceutical Partners of Canada, Inc., APP Pharmaceuticals Manufacturing, LLC, Pharmaceutical Partners Switzerland, GmbH, VivoRx AutoImmune, Inc., Chicago BioScience, LLC and Transplant Research Institute, as well as the majority-owned subsidiary, Resuscitation Technologies, LLC, Cenomed, and investment in Drug Source Company, LLC, which is accounted for using the equity method.

Certain amounts in the accompanying financial statements were reclassified to conform to the current year presentation, including the reclassification of $52 million of current deferred tax assets to reduction in non-current deferred tax liability.

Fiscal Year

For years ended December 31, 2007 and 2006, APP Pharmaceuticals and its subsidiary use a calendar fiscal year, beginning on January 1 and ending on December 31. For year ended December 31, 2005, the company used a 52-week fiscal year, which ended on December 31, 2005.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Estimates may also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Short-term Investments

It is our policy to include cash and investments having a maturity of three months or less at the time of acquisition in cash and cash equivalents. Short-term investments consist of highly-liquid, available-for-sale, municipal variable rate demand notes which are recorded at cost, and may be redeemed at par upon seven days notice. The cost of these short-term investments closely approximates their fair market value due to their variable interest rates, which typically reset every seven days. We have never incurred realized or unrealized holding gains or losses on these securities and income resulting from our short-term investments is recorded as interest income.

Accounts Receivable and Concentration of Credit Risk

We typically have multi-year contractual agreements with GPOs and individual hospital groups to supply our products to end-user hospital and alternate site customers. As is traditional in the pharmaceutical industry, a significant amount of our generic pharmaceutical products are sold to end users under GPO contracts

through a relatively small number of drug wholesalers, which comprise the primary pharmaceutical distribution chain in the United States. Three wholesalers collectively, and approximately proportionately, represented 74%, 73% and 77% of our sales in fiscal 2007, 2006 and 2005, respectively, and represented 86% and 88% of accounts receivable at December 31, 2007 and 2006, respectively. To help control our credit exposure, we routinely monitor the creditworthiness of our customers, review outstanding customer balances and record allowances for bad debts as necessary. We insure all, or a portion of, gross receivables from our largest customers to protect against risk of significant credit loss. Historical credit loss has been insignificant.

Inventories

Inventories are valued at the lower of cost or market as determined under the first-in, first-out, or FIFO, method, as follows:

	December 31,					
	2007			2006		
	Approved	Pending Regulatory Approval	Total Inventory	Approved	Pending Regulatory Approval	Total Inventory
	(in thousands)					
Finished goods	$ 58,787		$ 58,787	$ 55,248		$ 55,248
Work in process	20,097	354	20,451	26,698	3,566	30,264
Raw materials	68,202	1,751	69,953	110,642	22,126	132,768
	$147,086	$2,105	$149,191	$192,589	$25,692	$218,280

Inventories consist of products currently approved for marketing and may include certain products pending regulatory approval. From time to time, we capitalize inventory costs associated with products prior to regulatory approval based on our judgment of probable future commercial success and realizable value. Such judgment incorporates our knowledge and best judgment of where the product is in the regulatory review process, our required investment in the product, market conditions, competing products and our economic expectations for the product post-approval relative to the risk of manufacturing the product prior to approval. If final regulatory approval for such products is denied or delayed, we may need to provide for and expense such inventory.

At December 31, 2007 and December 31, 2006, inventory included $2.1 and $25.7 million respectively in cost relating to products pending FDA and European approval. Included in the amount pending approval at December 31, 2006 was approximately $17.7 million of paclitaxel (whole plant) and other Abraxane® related products associated with New Abraxis' operations, at our Grand Island facility.

We routinely review our inventory and establish reserves when the cost of the inventory is not expected to be recovered or our product cost exceeds realizable market value. In instances where inventory is at or approaching expiry, is not expected to be saleable based on our quality and control standards or for which the selling price has fallen below cost, we reserve for any inventory impairment based on the specific facts and circumstances. In evaluating the market value of inventory pending regulatory approval as compared to its cost, we considered the market, pricing and demand for competing products, our anticipated selling price for the product and the position of the product in the regulatory review process. Provisions for inventory reserves are reflected in the financial statements as an element of cost of sales with inventories presented net of related reserves.

Property, Plant and Equipment

Property, plant and equipment is stated on the basis of cost or allocated acquisition value. Provisions for depreciation are computed for financial reporting purposes using the straight-line method over the estimated useful life of the related asset and for leasehold improvements the lesser of the estimated useful life of the related asset or the term of the related lease as follows:

Buildings and improvements	10-30 years
Machinery and equipment	3-10 years
Furniture and fixtures	5-7 years
Aircraft	15 years

Depreciation expense from continuing operations was $19.1 million, $13.6 million and $11.4 million for the years ended December 31, 2007, 2006 and 2005, respectively. Depreciation expense increased $5.5 million in 2007 as compared to 2006, due primarily to our Puerto Rico facility. Depreciation expense increased $2.2 million in 2006 as compared to 2005, due primarily to an overall increase in capital expenditures.

Property, plant, and equipment consist of the following:

	December 31,	
	2007	2006
	(in thousands)	
Land	$ 3,619	$ 6,636
Building and improvements	41,743	80,253
Machinery and equipment	81,252	124,559
Furniture and fixtures	50,725	40,599
Construction in progress	32,185	49,702
	209,524	301,749
Less allowance for depreciation	(76,996)	(83,930)
	$132,528	$217,819

Approximately $145 million of the reduction from 2006 related to the spin-off of New Abraxis, as described in Note 3.

Deferred Financing Costs

Costs incurred in connection with the issuance and amendments to our credit facilities are capitalized and amortized using the straight-line methods over the term of the related facility, which approximates the effective interest method. Unamortized debt issue costs are written-off in conjunction with the refinancing or termination of the applicable debt arrangement prior to its scheduled maturity. We capitalized deferred financing costs of $13.3 million and $1.7 million in 2007 and 2006, respectively, associated with our new senior secured credit agreement entered into in November 2007 and our prior $450 million unsecured credit facility entered into in 2006. In addition, we wrote-off $0.8 million in 2007 and $0.5 million in 2006 of unamortized deferred financing costs relating to terminated debt.

Goodwill and Intangible Assets

We are required to perform impairment tests related to our goodwill under SFAS No. 142, “Goodwill and Other Intangible Assets” annually, which we perform on October 1, and whenever events or changes in circumstances suggest that it is more likely than not that the fair value of the reported units are below their

carrying values. We completed the 2007 annual impairment tests for our goodwill and determined that goodwill allocated to our reporting units was not impaired and that no impairment charges were required. The change in goodwill during 2007 was due to the spin-off of New Abraxis as detailed in Note 3.

Intangible assets are recorded at acquisition cost and are amortized on a straight-line basis over the period estimated revenues are expected to be derived from such assets (weighted average amortization period of approximately seventeen years). We review our intangible assets for impairment whenever events or changes in circumstance indicate that the carrying amount of an intangible asset may not recoverable.

Product Revenue recognition

We recognize revenue from the sale of a product and for contract manufacturing when title and risk of loss have transferred to the customer, collection is reasonably assured and we have no further performance obligation. This is typically when the product is received by the customer. At the time of sale, as further described below, we reduce sales and provide for estimated chargebacks, contractual allowances or customer rebates, product returns and customer credits and cash discounts. Our methodology used to estimate and provide for theses sales provisions was consistent across all periods presented. Historically, Medicaid rebates issued have not been material. Accruals for sales provisions are presented in our financial statements as a reduction of revenues and accounts receivable and, for contractual allowances, in accrued liabilities. We regularly review information related to these estimates and adjust our reserves accordingly if, and when, actual experience differs from estimates.

We have extensive, internal historical information on chargebacks, rebates and customer returns and credits which we use as the primary factor in determining the related reserve requirements. As further described below, due to the nature of our generic injectable products and their primary use in hospital and clinical settings with generally consistent demand, we believe that this internal historical data, in conjunction with periodic review of available third-party data (as described below) and updated for any applicable changes in available information provides a reliable basis for such estimates.

Sales to our three major wholesale customers comprised 74%, 73%, and 77% of our 2007, 2006 and 2005 net revenue respectively. We periodically, as we believe warranted, review the wholesale supply levels of our significant products by reviewing inventory reports purchased or available from wholesalers, evaluating our unit sales volume, and incorporating data from third-party market research firms and periodic visits to wholesalers' warehouses. Based on these activities, we attempt to keep a consistent wholesale stocking level of approximately two- to six-weeks across our generic products. The buying patterns of our customers do vary from time to time, both from customer to customer and product to product, but we believe that historic wholesale stocking or speculative buying activity in our generic distribution channel has not had a significant impact on our historic sales comparisons or sales provisions.

From time to time we enter into inventory management agreements with our wholesale customers which require us to pay a fee in connection with their distribution of our products or other services, possibly including sales data and other services and contractual rights for us. In addition, we may be required to enter into such agreements in the future in order to maintain our relationships with other such wholesalers. We are unable to ascertain the potential impact of any such future agreements on our sales, but do not believe that such agreements would result in a substantial change in wholesale stocking levels of our products as compared to current levels.

Our sales provisions totaled $1,107.3 million, $759.9 million, and $573.8 million in 2007, 2006 and 2005, respectively, and related reserves totaled $125.1 million and $112.5 million and $84.5 million at December 31, 2007, 2006 and 2005, respectively.

Deferred Revenue

Other deferred revenue pertains to Old Abraxis (pre spin-off) upfront payments earned from our co-promotion agreement with AstraZeneca and our agreement with Taiho Pharmaceutical Co. Ltd. Such deferred revenue was recognized ratibly over the term of the agreement and is recorded as a component of discontinued operations in our statement of operations.

Chargebacks

The estimated provision for chargebacks is our most complex sales allowance. Following industry practice, we typically sell our product to independent pharmaceutical wholesalers at wholesale list price. The wholesaler in turn sells our product to an end user, normally a hospital or alternative healthcare facility, at a lower contractual price previously established between ourselves and the end user via a group purchasing organization, or GPO. GPOs enter into collective purchasing contracts with pharmaceutical suppliers to secure more favorable product pricing on behalf of their end-user members.

Our initial sale to the wholesaler, and the resulting receivable, are recorded at our wholesale list price. As most of these list selling prices will be reduced to a lower end-user contract price, we then reduce reported sales and receivables by the difference between the list price and estimated end-user contract price. Then, when the wholesaler ultimately sells the product to the end user at the end-user contract price, the wholesaler charges us, a chargeback, for the difference between the list price and the end-user contract price and such chargeback is offset against our initial estimated provision. On a monthly basis, we compare the unit and price components of our recorded chargeback provision to estimated ending wholesale units in the distribution channel pending chargeback under end-user contracts and estimated end-user contract prices and adjust the chargeback provision as necessary.

The most significant estimates inherent in the initial chargeback provision relate first to wholesale units pending chargeback and, second, to the ultimate end-user contract-selling price. We base our estimation for these factors on internal, product-specific sales and chargeback processing experience, estimated wholesaler inventory stocking levels, current contract pricing, our expectation for future contract pricing changes and IMS data. Key factors which complicate the chargeback calculation include the time lags between the date the product is sold to the wholesaler and the dates the wholesaler sells the product to the end-user customer and the related reporting of that final sale enabling us to process the chargeback. Our chargeback provision is also potentially impacted by a number of market conditions including: competitive pricing, competitive products and changes impacting demand in both the distribution channel and healthcare provider.

Due to information constraints in the distribution channel, it has not been practical, and has not been necessary, for us to capture and quantify the impact of current versus prior year activity on the chargeback provision. Information constraints within the distribution channel primarily relate to our inability to track product through the channel on a unit or specific lot basis. In addition, for the most part, we do not receive information from our customers with respect to what level of their sales are subject to chargeback. The lack of information on a specific lot basis precludes us from tracking actual chargeback activity to the period of its initial sale. As a result, we rely on internal data, external IMS data and management estimates in order to estimate the amount of inventory in the channel subject to future chargeback. The amount of product in the channel is comprised of product at the distributor and that the distributor has yet to report as end user sales. Physical inventory in the channel is estimated by our evaluation of our monthly sales to our wholesalers and our knowledge of inventory turnover at our major wholesalers. We estimate yet to be reported end user sales based on a historical average number of days to process chargeback activities from the date of the end user sale. We also review current year chargeback activity to determine whether material changes in the provision relate to prior period sales, such changes have not been material to the statement of operations. A one percent decrease in our estimated end-user contract-selling prices would reduce net revenue for the twelve months

ended December 31, 2007 by $0.2 million and a one percent increase in wholesale units pending chargeback for the twelve months ended December 31, 2007 would reduce net revenue by less than $0.5 million.

The provision for chargebacks is presented in our financial statements as a reduction of sales:

	Year Ended December 31,		
	2007	2006	2005
		(in thousands)	
Balance at beginning of year	$ 92,427	$ 47,841	$ 97,382
Provision for chargebacks	1,003,577	713,241	519,750
Credit or checks issued to third parties	(994,095)	(668,655)	(569,291)
Balance transferred at separation	(732)	—	—
Balance at end of year	$ 101,177	$ 92,427	$ 47,841

Contractual allowances, returns and credits, cash discounts and bad debts

Contractual allowances, generally rebates or administrative fees, are offered to certain wholesale customers, GPOs and end-user customers, consistent with pharmaceutical industry practices. Settlement of rebates and fees may generally occur from one to 15 months from date of sale. We provide a general provision for contractual allowances at the time of sale based on the historical relationship between sales and such allowances. Upon receipt of chargeback, due to the availability of product and customer specific information on these programs, we then establish a specific provision for fees or rebates based on the specific terms of each agreement. A one percent increase in the estimated rate of contractual allowances to sales at December 31, 2007 would decrease net revenues by $0.8 million. Contractual allowances are reflected in the financial statements as a reduction of revenues and as a current accrued liability. The accrual for customer credits and product returns is presented in the financial statements as a reduction of revenues and accounts receivable. Our provision for contractual allowances during each of the three years ended December 31, 2007 was as follows:

	Year Ended December 31,		
	2007	2006	2005
		(in thousands)	
Balance at beginning of year	$ 16,555	$ 12,152	$ 11,433
Provision for contractual allowances and customer rebates	49,320	33,525	33,572
Credit issued to third parties	(50,265)	(29,122)	(32,853)
Balance transferred at separation	(5,470)	—	—
Balance at end of year	$ 10,140	$ 16,555	$ 12,152

Consistent with industry practice, our return policy permits our customers to return products within a window of time before and after the expiration of product dating. We provide for product returns and other customer credits at the time of sale by applying historical experience factors, generally based on our historic data on credits issued by credit category or product, relative to related sales and we provide specifically for known outstanding returns and credits. At December 31, 2007, a one-percent increase in the estimated reserve requirements for customer credits and product returns would have decreased 2007 net revenues by $1.7 million.

Our provision for customer credits and product returns during each of the three years ended December 31, 2007 was as follows:

	Year Ended December 31,		
	2007	2006	2005
		(in thousands)	
Balance at beginning of year	$ 9,762	$ 16,272	$ 9,397
Provision for customer credits and product returns	7,871	20,386	27,010
Credit issued to third parties	(8,347)	(26,896)	(20,135)
Balance transferred at separation	(444)	—	—
Balance at end of year	$ 8,842	$ 9,762	$ 16,272

We generally offer our customer a standard cash discount on generic injectable products for prompt payments and, from time-to-time, may offer a greater discount and extended terms in support of product launches or other promotional programs. Our wholesale customers typically pay within terms and a provision for cash discount is established at the time of sale based on the terms of sale and adjusted for historical experience factors.

We establish a reserve for bad debts based on general and identified customer credit exposure. Our actual loss due to bad debts in each of the three-year period ended December 31, 2007 was less than $0.1 million.

Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are recognized in revenues. Other shipping and handling costs are included in cost of sales.

Income Taxes

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as net operating loss and capital loss carry forwards. 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. The effect of deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated financial statements in the period that includes the legislative enactment date.

Since our 2001 initial public offering and continuing through the year-ended December 31, 2005 we have filed separate, stand-alone federal income tax returns. For state purposes, depending upon the applicable state laws, we may have filed a separate or a consolidated tax return with American BioScience.

Due to the tax free merger with American BioScience in 2006, we filed final stand-alone federal and consolidated state income tax returns for American Pharmaceutical Partners, Inc. For tax year 2006 we included pre- and post-merger income from American BioScience, and post-merger income from American Pharmaceutical Partners, Inc. in new stand-alone federal and state tax return filings. For tax purposes, the downstream merger of parent into subsidiary was treated as a reverse acquisition whereby, American BioScience was the surviving entity.

New APP and New Abraxis entered into a series of agreements in connection with the separation, including a tax allocation agreement. Refer to *Note 7 — Related Party Transactions* for further details.

Research and Development Costs

Research and development costs are expensed as incurred or consumed and consist of pre-production manufacturing scale-up activities and related salaries and other personnel-related expenses, depreciation, facilities, raw material and production costs and professional services.

Equity-Based Compensation

We account for stock-based compensation in accordance with FAS 123(R), which requires the recognition of compensation cost for all share-based payments (including employee stock options) at fair value. Effective January 1, 2006, we adopted the provisions of FAS 123(R) using a modified version of retrospective application. As a result, stock-based employee compensation for options is recorded as an expense based on the fair value method under FAS 123(R) (FAS 123 for 2005). We use the straight-line attribution method to recognize share-based compensation expense over the vesting period of the award. Options currently granted generally expire ten years from the grant date and vest ratably over a four-year period, while restricted stock units currently granted vest ratably over a four-year period. Awards under the APP Pharmaceuticals, Inc. Restricted Stock Unit Plan ("the RSU Plan") generally vest with respect to one half of the units on the second anniversary of the 2006 Merger and with respect to one half of the units on the fourth anniversary of the 2006 Merger.

Stock-based compensation recognized under FAS 123(R), as well as expense associated with the retrospective application, uses the Black-Scholes option pricing model to estimate the fair value of options granted under our equity incentive plans and rights to acquire stock granted under our stock participation plan. Compensation expense related to equity awards of restricted stock units is based upon the market price on the date of grant. Excluding the effects of discontinued operations, pre-tax stock-based compensation costs for the years ended December 31, 2007, 2006 and 2005 were $12.1 million, $11.1 million and $12.0 million, respectively.

Refer to *Note 13 — Stock Options,* for a detail of financial statement changes caused by the retrospective application.

Fair Value of Financial Instruments

Our financial instruments consist mainly of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and our credit facility. Cash equivalents include investments with maturities of three months or less at the time of acquisition. Short-term investments consist of highly-liquid, available-for-sale, municipal variable rate demand notes, which are recorded at cost, and may be redeemed at par upon seven days notice. At December 31, 2007 and 2006, the carrying amounts of items comprising current assets and current liabilities approximate fair value due to the short-term nature of these financial instruments. The interest rates on borrowings under the bank credit facility are revised periodically to reflect market rate fluctuations; as such, the carrying amount of the bank credit facility approximate fair value.

As of December 31, 2007, we did not have any derivatives or other foreign currency or interest rate hedging instruments.

Per Share Information

Basic income per common share is computed by dividing net income by the weighted-average number of common shares outstanding. Dilutive income per common share is computed by dividing net income by the weighted-average number of common shares used for the basic calculations plus potentially dilutive shares for the portion of the year that the shares were outstanding. Potentially dilutive common shares resulted from

outstanding stock options. Calculations of basic and diluted income per common share information are based on the following:

	Year Ended December 31,		
	2007	2006	2005
	(in thousands, except per share data)		
Basic and dilutive numerator:			
Net income (loss)	$ 34,358	$ (46,897)	$ 17,657
Denominator:			
Weighted average common shares outstanding — basic	159,643	158,937	157,694
Net effect of dilutive securities:			
Stock options and restricted stock awards	1,363	—	2,048
Weighted average common shares outstanding — diluted	161,006	158,937	159,742
Income from continuing operations per common share — basic	0.51	0.35	0.19
Loss from discontinued operations per common share — basic	(0.29)	(0.65)	(0.08)
Net income (loss) per common share — basic	$ 0.22	$ (0.30)	$ 0.11
Income from continuing operations per common share — diluted	0.51	0.35	0.19
Loss from discontinued operations per common share — diluted	(0.30)	(0.64)	(0.08)
Net income (loss) per common share — diluted	$ 0.21	$ (0.29)	$ 0.11

Employee stock options for which the exercise price exceeded the average market price of our common stock in the respective fiscal years were excluded from the computation of diluted income per common share as follows:

	Year Ended December 31,		
	2007	2006	2005
	(in thousands, except per share data)		
Number of options excluded	1,941	2,706	535
Range of exercise prices per share	$10.27 – $28.73	$2.00 – $56.02	$45.86 – $56.02

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141(R), "Business Combination" (SFAS 141R) and Statement No. 160, "Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS 160). These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests consolidated financial statements. SFAS 141R and SFAS 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. Earlier application is not permitted. SFAS 141R and SFAS 160 could have a significant impact on our accounting for future business combinations and other business arrangements after the implementation of these statements.

In June 2007, the FASB ratified the consensus reached by the EITF on EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities" (or "EITF 07-3"). EITF 07-3 states that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred or capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related

services performed. If an entity does not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. EITF 07-3 is effective for fiscal years beginning after December 15, 2007 and earlier application is not permitted. We often enter into agreements for research and development goods and service. We are presently evaluating the impact that the adoption of EITF 07-3 will have on our condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our company January 1, 2008. We are evaluating the impact that the adoption of SFAS No. 159 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157 which redefines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. SFAS No. 157 applies where other accounting pronouncements require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The effects of adoption will be determined by the types of instruments carried at fair value in our financial statements at the time of adoption as well as the methods utilized to determine their fair values prior to adoption. Based on our current use of fair value measurements, SFAS No. 157 is not expected to have a material effect on our results of operations or financial position.

3. Spin-off of New Abraxis

On November 13, 2007, Old Abraxis, Inc. was separated into two independent publicly-traded companies: our company, APP Pharmaceuticals, Inc., which owns and operates the hospital-based business; and the other which owns and operates the proprietary business. We refer to the proprietary business following the separation as "New Abraxis," which subsequently changed its name to Abraxis BioScience, Inc. We continue to operate the hospital-based business (which we refer to as "New APP" following the separation) under the name APP Pharmaceuticals, Inc.

New APP and New Abraxis entered into a series of agreements in connection with the separation, including a separation and distribution agreement, a transition services agreement, an employee matters agreement, a tax allocation agreement, a manufacturing agreement and various real estate leases. Also, in connection with the separation, we incurred $1 billion of indebtedness and, in addition, entered into a $150 million revolving credit facility that is currently unused. Please refer to *Note 7 — Related Parties* for additional information on the separation related agreements. $700 million of the proceeds from this indebtedness was contributed to New Abraxis, approximately $12 million was used to pay fees and expenses related to the debt financing and approximately $276 million of the proceeds was used to repay in full the then existing revolving credit facility. New APP is solely responsible for servicing the debt.

Summarized financial information for discontinued operations is as follows:

	2007	2006	2005
		(in thousands)	
Net revenues	$ 293,415	$ 182,287	$ 135,675
Earnings before taxes	(67,831)	(141,383)	(5,218)
Income tax (benefit) expense	(20,010)	(39,260)	7,580
Net earnings	(47,821)	(102,123)	(12,798)

The financial information above includes the operations of New Abraxis through November 30, 2007. Note: November 30, 2007 was used as the transaction date versus the November 13 date to ensure proper cutoffs were obtained. Operating results between November 13 and November 30 were not material. As a consequence, the results for the full year 2007 include eleven months of the operations of New Abraxis. The results of the discontinued operations also include direct transaction costs of approximately $14.3 million, net of tax, in 2007.

The following is a summary of the assets and liabilities transferred to New Abraxis on November 30, 2007. The December 31, 2006 balances represent assets and liabilities that are included in the accompanying consolidated balance sheet.

	November 30, 2007	December 31, 2006
	(in millions)	
Cash	$ 696	$ 1
Receivables	28	28
Inventory	80	80
Prepaid expenses, deferred income taxes, and other receivables	19	28
Net property and equipment	145	116
Net intangibles	208	243
Goodwill	241	241
Other assets	46	27
Total assets	$1,463	$764
Trade accounts payable, salaries and other accruals	$ 82	$ 71
Deferred revenue, long and short term	163	197
Deferred income taxes, non-current	14	29
Other long-term liabilities	5	8
Total liabilities	$ 264	$305
Net assets transferred to New Abraxis	$1,199	

For the twelve month periods ended December 31, 2007, 2006 and 2005, we have allocated interest expense of $0.2 million, $4.8 million and $6.6 million, respectively, to discontinued operations. The amounts allocated in 2006 and 2005 represents the interest expense for American BioScience, Inc. prior to the merger with American Pharmaceutical Partners, Inc.

4. Merger

On April 18, 2006, we completed a merger with American BioScience, Inc., or ABI, our former parent, pursuant to the terms of the Agreement and Plan of Merger dated November 27, 2005 that we entered into with ABI and certain shareholders of ABI.

For accounting purposes, the merger between us and ABI was treated as a downstream merger with ABI viewed as the surviving entity, although we were the surviving entity for legal purposes. As such, effective as of the merger date, the merger was accounted for in our consolidated financial statements as an implied acquisition of our minority interests using the purchase method of accounting. Therefore, the historical book value of the minority interests was stepped up to its estimated fair values and the historical shareholders'

equity of the accounting acquirer, ABI, was retroactively restated for the equivalent number of shares received in the merger.

At the April 18, 2006 acquisition date, the minority shareholders owned 34.17% of our total outstanding common shares. Based on a $39.14 price for our common stock, representing the weighted average price of our common stock for the period three trading days prior to and three trading days subsequent to the merger announcement date, the fair value of the minority interests as of April 18, 2006 totaled approximately $974.8 million. This amount represented the estimated fair market value assigned to the shares owned by minority interests and will be referred to as the purchase price attributed to minority interests. The purchase price attributed to minority interests was allocated to the minority interests' pro-rata share of our tangible and identifiable intangible assets and liabilities based on their estimated fair values at the acquisition date. The excess of the purchase price attributed to minority interests over the minority interests' pro-rata share of the fair values of our assets and our liabilities has been reflected as goodwill. The amount allocated to goodwill will not be deductible for tax purposes.

The allocation of the purchase price to the estimated fair values of the assets and liabilities attributable to our minority interests as of the acquisition date was as follows (in thousands):

Working capital and other assets, net	$ 132,562
Property, plant and equipment	49,152
Deferred tax assets	9,282
In-process research and development	105,777
Identifiable intangible assets	455,370
Goodwill	401,600
Deferred tax liability	(178,953)
Total	$ 974,790

The estimated step-up of the minority interests to fair value has been assigned to the following categories (in thousands):

Inventory	$ 12,480
Deferred tax assets	9,282
In-process research and development	105,777
Identifiable intangible assets	455,370
Goodwill	401,600
Deferred tax liability	(178,953)
Total	$ 805,556

The above purchase price allocation was based in part on a third-party valuation of certain tangible and intangible assets, including in-process research and development and identifiable intangible assets.

In-process research and development

Approximately $105.8 million of the purchase price was allocated to in-process research and development and represents the minority interests' share of the estimated fair value of in-process research and development assets for projects that, as of the acquisition date, had not yet reached technological or regulatory feasibility and had no alternative future uses in their current states. The values assigned to in-process research and development projects include unapproved indications for Abraxane. All of the $105.8 million of in-process research and development was expensed in the second quarter of 2006, of which $22.3 million related to continuing operations.

The estimated fair values of these projects were determined based on a discounted cash flow model prepared by an independent third party, KPMG LLP. The estimated cash flows for each project were probability adjusted to take into account the risks associated with the successful commercialization of the projects. The estimated after-tax cash flows were then discounted using discount rates of approximately 20%.

The major risks and uncertainties associated with the timely and successful completion of the acquired in-process research and development projects consist of the ability to confirm the safety and efficacy of the technology based on the data from clinical trials and obtaining necessary regulatory approvals. The major risks and uncertainties associated with the core technology consist of successfully utilizing the technology in future research projects. No assurance can be given that the underlying assumptions used to forecast the cash flows or the timely and successful completion of the projects will materialize, as estimated. For these reasons, among others, actual results may vary significantly from the estimated results.

Identifiable intangible assets

Acquired identifiable intangible assets primarily include core technology associated with Abraxane, customer relationships and trade name.

The amounts assigned to each intangible asset class as of the acquisition date and the related weighted average amortization periods are as follows:

	Value of acquired intangibles	Weighted-Average amortization period
	(in thousands)	
Core technology	$158,863	7 yrs
Developed product technology	146,002	9 yrs
Customer relationships	124,027	11 yrs
Tradename	26,478	7 yrs
Total	$455,370	

Pro forma results of operations

The following unaudited pro forma information presents a summary of our consolidated results of operations as if the acquisition had taken place at the beginning of each period presented (in thousands, except per share data):

	Year Ended December 31,	
	2006	2005
Total revenue	$765,488	$520,757
Net income	60,531	2,459
Pro forma income per share:		
Basic	0.38	0.02
Diluted	0.38	0.02

The pro forma net income and income per share for each period above excludes the acquired in-process research and development charge of $105.8 million, or approximately $0.67 per share. In addition, the pro forma results of operations for the twelve months ended December 31, 2006 include a non-recurring tax benefit of $17.9 million related to the removal of our valuation allowance against certain deferred tax assets.

The pro forma information is not necessarily indicative of results that would have been achieved had the acquisition occurred as of January 1, 2006 and 2005, or indicative of results that may be achieved in the future.

5. Goodwill and Other Intangibles

As of December 31, 2007 and 2006, goodwill had a carrying value of $160.2 million and $401.6 million, respectively, resulting from the merger, as fully described in *Note 4 — Merger*, between ABI and APP on April 18, 2006 and the carrying value related to continuing operations has not changed since then. Substantially all of our intangible assets, other than goodwill, are subject to amortization. Amortization expense from continuing operations on intangible assets was $33.6 million, $19.3 million, and $1.1 million for the years ended December 31, 2007, 2006 and 2005, respectively. At December 31, 2007 the weighted average expected lives of intangibles was approximately 17.3 years.

The following table reflects the components of intangible assets, which have finite lives, as of December 31:

	2007		2006		
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Category Amortization Period
	(in thousands)		(in thousands)		
Product rights	$328,797	$24,660	$328,797	$ 8,220	20 years
Customer relationships	100,439	14,299	124,027	8,316	12 years
Developed product technology	84,663	12,053	146,002	4,997	12 years
Other	591	324	1,755	988	5 years
Core technology	—	—	158,863	22,282	
Tradename	—	—	26,478	2,679	
Total	514,490	51,336	785,922	47,482	

Approximately $208 million of the decrease in net intangible assets was due to the asset transfer to New Abraxis, which was made on November 30, 2007. Please refer to Note 3- “Spin-off of Abraxis BioScience”. Estimated amortization expense for identifiable intangible assets, other than goodwill, in each of the five succeeding years is approximately $31.9 million.

6. Acquisition of Assets

We entered into an Asset Purchase Agreement with AstraZeneca UK Limited on April 26, 2006 to acquire AstraZeneca’s U.S. anesthetics and analgesic product portfolio, which includes Diprivan® (propofol), Naropin® (ropivacaine), as well as a variety of local anesthetics including EMLA® (Eutectic Mixture of Lidocaine and Prilocaine), Xylocaine® (lidocaine), Polocaine® (mepivacaine), Nesacaine® (chloroprocaine HCl Injection, USP), Sensorcaine® (bupivacaine), and Astramorph® (morphine sulfate injection, USP). Under the agreement, we paid AstraZeneca approximately $259 million at closing and paid $75 million upon the first anniversary of closing, June 28, 2007, and these costs are being amortized, on a straight line basis, over twenty years. At the closing, AstraZeneca entered into an exclusive supply agreement with us under which AstraZeneca will supply these products to us for an initial term of five years. In addition, AstraZeneca has agreed that we will be its preferred partner for consideration of certain proprietary injectable products when patents on these products expire. Under the terms of the agreement, AstraZeneca has also granted us a right of first offer to purchase or license AstraZeneca’s anesthetics and analgesics portfolio outside of the U.S. should AstraZeneca decide to divest these assets. This transaction closed on June 28, 2006.

With respect to the products purchased from AstraZeneca we have recorded intangible assets of approximately $329 million which will be amortized over the estimated lives of the products, or twenty years. In determining the appropriate amortization period and method for these acquired products, we considered, among other things, the nature of the products, the anticipated timing of cash flows and the relatively high barriers to entry for competition due to the complex development and manufacturing processes. In particular, some of the products have been on the market since 1948 (and all since 1996), and they have generally experienced minimal price erosion and stable product sales. In addition, the products all share similar attributes in that they have a favorable risk profile (e.g., minimal side effects, adverse experiences, etc.) and are easy to administer to patients. Based on the risk profile, ease of use and already low pricing, we do not expect new competing products will enter the market in the foreseeable future and the barriers to entry should help protect the market positions of the products and preserve their useful lives. Accordingly, as future cash flows with respect to these products are expected to exceed 20 years and remain relatively stable, we have utilized a straight-line 20 year amortization period.

7. Related Party Transactions

At December 31, 2007 and 2006, net receivable from related parties totaled $7.0 million and $0 million, respectively. Of the $7.0 million net receivable from related parties at December 31, 2007, $6.9 million related to activities provided under the agreements noted below, $0.1 related to charges associated with services rendered under these agreements. For December 31, 2007, net receivable from related party related primarily to transactions involving New Abraxis, which was spun-off from us on November 13, 2007. See below for a detailed discussion of these transactions with New Abraxis. For 2006, receivables from related parties consist of a note receivable from a former employee bearing interest at 3.44% per annum.

In connection with the separation and related transactions, we entered into a number of agreements that governs the relationship between New Abraxis and us for a period of time after the separation. The agreements were entered into while New Abraxis was still our wholly owned subsidiary. These agreements include:

- Tax allocation agreement
- Dual officer agreement
- Employee matters agreement
- Transition services agreement
- Manufacturing agreement
- Various real estate leases

Tax Allocation Agreement

The tax allocation agreement allocates the liability for taxes. Under the tax allocation agreement, we are responsible for and have agreed to indemnify New Abraxis against all tax liabilities to the extent they relate to our hospital-based products business, and New Abraxis is responsible for and have agreed to indemnify us against all tax liabilities to the extent they relate to New Abraxis' proprietary products business. The tax allocation agreement also provides the extent to which, and the circumstances under which, the parties would be liable if the distribution were not to constitute a tax-free distribution under Section 355 and Section 368(a)(1)(D) of the Internal Revenue Code. In general, New Abraxis would be required to indemnify us for any taxes resulting from a failure of the distribution to so qualify, unless such failures results solely from our specified acts.

Dual Officer Agreement

We entered into an agreement with New Abraxis under which we and New Abraxis acknowledged and agreed that Dr. Soon-Shiong and Ms. Gopala may serve as an officer of both companies and receive compensation from either or both companies. We also acknowledge and agree in this agreement that neither Dr. Soon-Shiong nor Ms. Gopala will have any obligation to present to us any business or corporate opportunity that may come to his or her attention, other than certain business opportunities relating to the manufacture or sale of products that either were manufactured and sold by the hospital-based products business prior to the separation or were the subject of an ANDA filed by New APP prior to the separation and related transactions. This agreement does not ensure the continued services of either Dr. Soon-Shiong or Ms. Gopala following the separation and related transactions, restrict these individuals from resigning from our company or restrict our board of directors from terminating their employment with us. In connection with the private letter ruling, Old Abraxis has represented to the Internal Revenue Service that no person will serve as an executive officer of both New Abraxis and us one year following the distribution.

Employee Matters Agreement

We entered into an employee matters agreement with New Abraxis, providing our respective obligations to employees and former employees who are or were associated with our respective businesses, and for other employment and employee benefit matters. Under the terms of the employee matters agreement, we generally assumed all liabilities and obligations related to employee benefits for current and former employees who are or were associated with the hospital-based products business, and New Abraxis generally assumed all liabilities and obligations related to employee benefits for current and former employees who are or were associated with the proprietary products business. Under the employee matters agreement, the parties have agreed to reimburse one another for all indemnifiable losses that each may incur on behalf of the other as a result of any of the benefit plans or any of the termination or severance obligations.

Transition Services Agreement

Pursuant to the transition services agreement, New Abraxis and we will continue to provide to one another various services on an interim, transitional basis, for periods up to 24 months depending on the particular service. Services that New Abraxis provides to us include legal services (e.g., assistance with SEC filings, labor and employment matters, and litigation support), financial services and corporate development. Services that we provide to New Abraxis include information technology support, tax services, accounts payable services, internal audit services, accounts receivable services, general legal services, accounting related assistance, corporate insurance and franchise tax services, human resources, customer operations, sales and marketing support, corporate purchasing and facility services and regulatory support (including assistance with state and federal license renewals). Payments made under the transition services agreement are based on the providing party's actual costs of providing a particular service. This agreement will terminate after a period of 24 months, but generally may be terminated earlier by either party as to specific services on certain conditions. For the year ended December 31, 2007, we incurred net transition service costs of $0.1 million with New Abraxis. As of December 31, 2007, we had a net receivable related to transition services of $0.1 million with New Abraxis.

Manufacturing Agreement

We entered into a manufacturing agreement with New Abraxis, through our wholly-owned subsidiary, New APP LLC, for the manufacture of Abraxane® and certain of New Abraxis' pipeline products by New APP LLC for New Abraxis at the Melrose Park and Grand Island manufacturing facilities. Under the terms of the manufacturing agreement, New Abraxis will perform certain manufacturing activities with respect to

Abraxane® or other pipeline products, principally related to the formulation and compounding of the active pharmaceutical ingredients in such products, and New APP LLC will undertake the remainder of the manufacturing processes. As part of the manufacturing services, New APP LLC will also provide New Abraxis with training related to proper manufacturing practices and other related training, assistance with quality assurance and control and information technology support related to manufacturing operations. With regard to the Melrose Park and Grand Island facilities, New APP LLC will be responsible for obtaining and maintaining necessary approvals to manufacture Abraxane® or other pipeline products in compliance with the regulatory requirements applicable as to the jurisdictions in which such products are sold, subject to the right to receive reimbursement from New Abraxis for the costs of such approvals in certain circumstances. New Abraxis will be responsible for obtaining and maintaining the remainder of the regulatory approvals required to sell and distribute Abraxane® both in the United States and in other jurisdictions and New Abraxis will be responsible for the final release of the product for sale at the completion of the manufacturing process.

In the manufacturing agreement, New APP LLC agreed with New Abraxis to cap the manufacturing growth over the term of the agreement of Abraxane® and other pipeline products that New APP LLC is required to manufacture under the agreement. Further, in the event of capacity constraints at the Melrose Park or Grand Island facilities, the manufacturing agreement will provide that the available capacity will be prorated between New Abraxis and New APP LLC according to the parties' then current use of New APP LLC's manufacturing capacity. While the manufacturing agreement allows New Abraxis to override these proration provisions, New Abraxis may only do so by paying New APP LLC additional fees under the manufacturing agreement. The fee New Abraxis would be required to pay New APP LLC to override the proration provisions of the manufacturing agreement is equal to the profit lost by New APP LLC as a result of New Abraxis' election to override the proration provisions.

New Abraxis will pay New APP LLC a customary margin on its manufacturing costs. In addition, during each of the first three years of the manufacturing agreement, New Abraxis will pay New APP LLC a facility management fee equal to $3 million. The amount of this fee may be offset to the extent New APP employees are transferred to New Abraxis based upon the amount of compensation paid to such transferred employees. The term of the manufacturing agreement will end on December 31, 2011, which will be automatically extended for one year if either New APP exercises its right to extend the lease on New Abraxis' Melrose Park manufacturing facility for an additional year or New Abraxis exercises its right to extend the lease for New APP's Grand Island manufacturing facility for an additional year. (See "— Real Estate Leases" below).

The manufacturing agreement includes customary confidentiality provisions pursuant to which New Abraxis and New APP LLC will keep confidential all confidential information of the other party, subject to certain exceptions.

In addition, the manufacturing agreement contains the following indemnification provisions. New Abraxis will indemnify New APP LLC, its affiliates and its officers, directors and employees and agents (which are referred to as the "APP indemnified parties") from any damages incurred by or assessed against them resulting from a third-party claim caused by or alleged to be caused by (i) New Abraxis' failure to perform its obligations under the manufacturing agreement (ii) any product liability claim arising from the negligence, fraud or intentional misconduct of New Abraxis or any of its affiliates or any product liability claim arising from its manufacturing obligations (or any failure or deficiency in New Abraxis' manufacturing obligations) under the manufacturing agreement; (iii) any claim that the manufacture, use or sale of Abraxane® or New Abraxis pipeline products infringes a patent or any other proprietary right of a third party; or (iv) any recall, product liability claim or other third-party claim not arising from the gross negligence or bad faith of, or intentional misconduct or intentional breach of the manufacturing agreement by, the APP indemnified parties by reason of the $100 million limitation of liability described below. New Abraxis will also indemnify the APP indemnified parties for liabilities that they become subject to as a result of their activities under the

manufacturing agreement and for which they are not responsible under the terms of the manufacturing agreement. New APP LLC will indemnify New Abraxis, and its affiliates, and their respective officers, directors, employees and agents from any damages incurred or assessed against them resulting from a third-party claim caused by or alleged to be caused by (i) New APP LLC's gross negligence, bad faith, intentional misconduct or intentional failure to perform its obligations under the manufacturing agreement; and (ii) any product liability claim arising from the gross negligence or bad faith of, or intentional misconduct or intentional breach of the manufacturing agreement by, New APP LLC or its affiliates. The APP indemnified parties will not have any liability for monetary damages to New Abraxis or its affiliates or third parties in connection with the manufacturing agreement for damages in excess of $100 million in the aggregate, except to the extent that the damages are the result of (i) one of New APP LLC's or New Abraxis' executive officers in bad faith affirmatively instructing their employees to intentionally breach New APP LLC's obligation to manufacture Abraxane® or pipeline products under the manufacturing agreement or (ii) any intentional failure by New APP LLC, in bad faith, to cure any material breach of its obligation to manufacture Abraxane® or pipeline products under the manufacturing agreement following notice of this breach.

For the period ended December 31, 2007, we had no earned margins relating to the manufacture of Abraxane for New Abraxis and recorded $0.3 million of facility management fees.

Real Estate Leases

Following the distribution, New Abraxis owns the manufacturing facility located on Ruby Street, Melrose Park, Illinois, and the research and development and the warehouse facility, both located in the same building on N. Cornell Avenue, Melrose Park, Illinois. We own the manufacturing facility located in Grand Island, New York. Following the distribution, the parties entered into a series of lease agreements to facilitate continued production of their respective pharmaceutical products while a manufacturing transition plan is being implemented. Under the terms of the lease agreements, New Abraxis leases the Ruby Street facility, consisting of approximately 122,000 square feet of office, warehouse and pharmaceutical manufacturing space, to us. The initial term of the lease expires on December 31, 2011 and may be renewed at New Abraxis' option for one additional year if we are manufacturing a certain level of our products at the Ruby Street facility in the period prior to the expiration of the lease. During the term of the lease, New Abraxis will have access to the Ruby Street facility to perform certain elements of the manufacturing processes of Abraxane® and other nab™ technology product candidates under the manufacturing agreement as well as, under certain circumstances, to provide contract manufacturing services to third parties. See "Manufacturing Agreement" above. In order to provide sufficient warehouse space to us during the term of the Ruby Street lease, New Abraxis also leased the Cornell Warehouse facility, consisting of approximately 71,000 square feet of warehouse space, to us. The initial term of the lease will be until December 31, 2011, and may be renewed at our option for one additional year if the lease for the Ruby Street manufacturing facility is extended. New Abraxis also leased the Cornell R&D facility, consisting of approximately 48,000 square feet of research and development space, to us. The initial term of the lease will be until December 31, 2010 and may be terminated upon twelve months written notice from and after January 1, 2009. This lease has no option to extend the term of the lease.

New Abraxis leased a portion of our Grand Island facility, consisting of approximately 5,700 square feet of pharmaceutical manufacturing space, to allow New Abraxis to perform its obligations under the manufacturing agreement. The initial term of the lease will be until December 31, 2011, and may be renewed at New Abraxis' option for one additional year if New Abraxis has not received regulatory approvals from the European Medicines Agency (or "EMEA"), the European equivalent to the FDA, to manufacture Abraxane® in at least two facilities (not including our Grand Island facility) by June 30, 2011.

For the period ended December 31, 2007, we incurred $0.2 million in net rental payments relating to these real estate leases.

From time to time in the ordinary course of business, we purchase active pharmaceutical ingredients or final dosage forms from Interchem Corporation and World Gen, LLC. Joseph M. Pizza, who became a director on December 19, 2007, is the president and chief executive officer of these entities. During the year ended December 31, 2007, we purchased a total of $20.7 million of products from these entities. As of December 31, 2007, we had approximately $3.8 million in accounts payable to these entities.

8. Accrued Liabilities

Accrued liabilities consist of the following at:

	December 31,	
	2007	2006
	(in thousands)	
Sales and marketing	$13,814	$26,876
Payroll and employee benefits	12,357	27,417
Legal and insurance	10,213	2,045
Accrued Separation Costs	1,993	—
Accrued Interest	4,024	92
Other	3,194	4,998
	$45,595	$61,428

9. Long-Term Debt and Credit Facilities

Senior Secured Credit Agreement

On November 13, 2007, we, our wholly-owned operating subsidiary APP Pharmaceuticals, LLC ("New APP LLC") and APP Pharmaceuticals Manufacturing, LLC, a wholly-owned subsidiary of New APP LLC ("P.R. Borrower" and together with New APP LLC, the "Borrowers") entered into a senior secured credit agreement (the "Credit Agreement") with certain lenders and Deutsche Bank AG New York Branch, as Administrative Agent. The Credit Agreement provides for two term loan facilities: a Term Loan A facility for $500 million and a Term Loan B facility for $500 million. The Credit Agreement also provides for a revolving credit facility of $150 million. A portion of the proceeds from the debt financing was used to repay our existing indebtedness including fees and expenses related to the debt financing and $700 million was contributed to New Abraxis immediately prior to the separation.

Loan Repayments — Cumulative for each calendar year (in thousands)

	Term Loan A	Term Loan B	Total
2008	$ —	$ 5,000	$ 5,000
2009	12,500	5,000	17,500
2010	50,000	5,000	55,000
2011	75,000	5,000	80,000
2012	100,000	5,000	105,000
2013	262,500	475,000	737,500
	$500,000	$500,000	$1,000,000

The term loan facilities mature on November 13, 2013, and the revolving credit facility matures on November 13, 2012. The Term Loan A facility amortizes based on the following schedule: 0% in year one; 2.5% in year two; 10% in year three; 15% in year four; 20% in year five; and 52.5% in year six. The Term Loan B facility amortizes 1% in each of the first six years, with a balloon payment due at maturity. Amounts drawn under the term loan facilities or revolving credit facility bear the following annual interest rates: for the Term Loan A facility and the revolving credit facility, a rate at either an adjusted LIBOR, plus a margin of 2.25%, or an alternate base rate plus a margin of 1.25%; and for the Term Loan B facility, a rate at either an adjusted LIBOR, plus a margin of 2.50%, or an alternate base rate plus a margin of 1.50%. The revolving credit facility includes a $40 million sub-limit for swingline loans and a $20 million sub-limit for letters of credit. The interest rate margins are subject to step downs based on, among other things, our total leverage ratio. Effective February 14, 2008, we entered into interest rate swap agreements with an aggregate notional principal amount of $990 million to pay interest at a fixed rate of 3.04% and to receive interest at variable rate of one-month LIBOR. The interest rate swaps expire in February 2009.

The Credit Agreement contains a number of negative covenants restricting, among other things, indebtedness, liens, merger or transfer of substantially all assets of our company or the Borrowers, asset dispositions, distributions, dividends and repurchases of capital stock, prepayment or modification of certain other debt, acquisitions and investments, affiliate transactions, and limitations on dividends or other payments to subsidiaries or the parent company, APP Pharmaceuticals, Inc. We are required to comply with a senior secured leverage ratio test. The Credit Agreement contains customary events of default.

Beginning in December 2008, the Credit Agreement requires the Borrowers to prepay any outstanding loans, subject to specified exceptions, with (i) 50% of excess cash flow (with step downs to 0% based on our total leverage ratio), (ii) 100% of the net proceeds of non-ordinary course asset sales and any insurance or condemnation proceeds (with step downs to 75% based on our total leverage ratio), and (iii) 100% of the proceeds of any indebtedness not otherwise permitted to be incurred or issued under the Credit Agreement, subject to our total leverage ratio.

The obligations of New APP LLC under the term loan facilities and revolving credit facility are unconditionally guaranteed on a senior secured basis by our company and each direct and indirect wholly-owned domestic restricted subsidiary of New APP LLC (each, a "Subsidiary Guarantor"). The obligations of P.R. Borrower are unconditionally guaranteed by our company, New APP LLC and each future wholly-owned subsidiary of P.R. Borrower (each, a "P.R. Subsidiary Guarantor). The obligations and guarantees of the Borrowers are secured by a first-priority security interest in substantially all tangible and intangible assets (including a pledge of capital stock, limited to 65% for pledges of stock of foreign subsidiaries) of our company, New APP LLC and each Subsidiary Guarantor and, in the case of P.R. Borrower, such assets of P.R. Borrower and P.R. Subsidiary Guarantor.

As of December 31, 2007, $1 billion was outstanding on the term loans at a weighted average interest rate of 7.63%. There was no outstanding balance on the revolving credit facility. We were in compliance with all covenants at December 31, 2007.

$450 million Unsecured Credit Facility

On April 18, 2006, in connection with the closing of our merger with ABI, the prior APP and ABI facilities were replaced with a three-year, $450 million, unsecured credit facility, with a sub-limit of $10 million for standby and commercial letters of credit and $20 million for swing line loans. In connection with the closing of the merger, the amount outstanding under the ABI facility was repaid with borrowings from the new facility. There was no outstanding balance under the APP facility as of such date. Interest rates under the new facility vary depending on the type of loan made and our leverage ratio as defined in the agreement. The agreement contains various restrictive covenants pertaining to the maintenance of minimum net worth, leverage and interest coverage ratios. In addition, the agreement restricts our ability to declare or pay dividends, make future loans to third parties and incur other indebtedness. Fees of $1.7 million associated with the new agreement were capitalized and will be amortized over the term of the agreement and the remaining $0.6 million in unamortized debt acquisition costs related to the prior facilities were written off in the second quarter of 2006 in conjunction with the closing of the merger.

As of December 31, 2006, $165 million was outstanding on our credit facility at a weighted average interest rate of 6.1%. In November 2007, in connection with the closing of the separation, we repaid in full the outstanding balance on the unsecured credit facility and wrote off $0.8 million in unamortized deferred financing costs.

Note Payable

In connection with the Asset Purchase Agreement with AstraZeneca UK Limited, we agreed to pay $75 million of the purchase price upon the first year anniversary of the closing. At December 31, 2006, $75 million was outstanding on the note which was repaid in full in July of 2007.

No interest was capitalized during the years ended December 31, 2007, 2006 and 2005

10. Leases and Commitments

We have entered into various operating lease agreements for warehouses, office space, automobiles, communications, information technology equipment and software, and office equipment including the real estate leases, as described in *Note 7 — Related Party Transactions*. Rental expense for continuing operations amounted to $3.2 million, $2.6 million and $2.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

As of December 31, 2007, total future annual minimum lease payments related to non-cancelable operating leases including amounts pertaining to related party leases as disclosed in Note 7 are as follows:

Year	Total Amount	Related Parties
	(in thousands)	
2008	$ 7,384	$2,588
2009	5,118	2,588
2010	4,323	2,588
2011	3,138	1,675
2012	875	—
Thereafter	2,982	—
	$23,820	$9,438

11. Employee Benefit Plan

We sponsor a 401(k) defined-contribution plan, or 401(k) Plan, covering substantially all eligible employees. Employee contributions to the 401(k) Plan are voluntary. In January 2005, we adopted an enhanced 401(k) defined-contribution plan to replace the previous plan. Under the new plan, we contribute a qualified non-elective contribution in an amount equal to 3% of all eligible employee's compensation, regardless of participation in the plan with such employer contributions vesting immediately. Participants' contributions are limited to their annual tax deferred contribution limit as allowed by the Internal Revenue Service. Our total matching contributions to the 401(k) Plan on a continuing operations basis were $2.1 million, $1.9 million, and $1.7 million for the years ended December 31, 2007, 2006 and 2005, respectively. We may contribute additional amounts to the 401(k) Plan at our discretion although, we have never made a discretionary contribution to the 401(k) Plan.

12. Stockholders' Equity

For accounting purposes, the 2006 merger between APP and ABI was accounted for as a downstream merger with ABI viewed as the surviving entity, although APP was the surviving entity for legal purposes. The merger was accounted for as an implied acquisition of APP's minority ownership interest by ABI. As such, the historical carrying value of APP's minority ownership interest was stepped up to its estimated fair value and that increase in value was recorded in additional paid-in-capital on the balance sheet.

Additionally, pre-acquisition stockholders' equity and earnings per share were retroactively restated for the equivalent number of shares received by the accounting acquirer in the 2006 merger, with differences between the par value of the issuers and accounting acquirer's stock recorded in paid-in-capital.

Common Stock Voting Rights

The holders of our common stock are entitled to one vote for each share held of record upon such matters and in such manner as may be provided by law.

Preferred Stock

We are authorized to issue up to 6,000,000 shares of preferred stock that is not designated as a particular class. Our Board of Directors may authorize and cause the issuance of the undesignated preferred stock in one or more series, determine the powers, preferences and rights and the qualifications, limitations or restrictions granted to or imposed upon any wholly unissued series of undesignated preferred stock and to fix the number

of shares constituting any series and the designation of the series, without any further vote or action by our stockholders.

Dividends

As part of the separation and distribution, we distributed on a pro rata basis to holders of record of our common stock on November 13, 2007 one share of New Abraxis common stock for every four shares of our common stock held on that date, or 39.9 million common stock shares (see *Note 3 — Spin-off of New Abraxis* above for more information). The distribution did not otherwise change the number of, or the rights associated with, outstanding shares of our common stock.

Other than the distribution of New Abraxis, we have never paid a dividend on any class of stock and have restrictions on the paying of cash dividends in the future. Our senior secured credit agreement limits cash dividend payments, subject to certain limitations, generally up to a maximum aggregate to $10 million. In the event that we liquidate, dissolve or wind-up, the holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and liquidation preferences of any outstanding share of preferred stock. Holders of our common stock have no preemptive rights or rights to convert their common stock into any other securities.

Registration Rights

We granted registration rights to the former ABI shareholders with respect to all shares of our common stock they received in the 2006 merger. These holders of registrable securities have the right to require us to register all or a portion of the shares of our common stock they received in the merger. In addition, these holders of registrable securities may require us to include their shares in future registration statements that we file and may require us to register their shares for resale on a Form S-3 registration statement. Upon registration, the registered shares generally will be freely tradeable in the public market without restriction. However, in connection with any underwritten offering, the holders of registrable securities have agreed to lock up any other shares for up to 90 days and have agreed to a limit on the maximum number of shares that can be registered for the account of the holders of registrable securities under so-called “shelf” registration statements.

Except for underwriters’ discounts and commissions and certain marketing expenses, we will be obligated to pay all expenses for the first eight registration statements filed upon the request of a holder of registrable securities, and any other or additional expenses of registration are to be borne by the holders of registrable securities on a pro rata basis. These registration rights are subject to some conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares included in registration. We will be obligated to indemnify the holders of these registration rights, and each selling holder will be obligated to indemnify us, against specified liabilities under the Securities Act of 1933, the Securities Exchange Act of 1934 and other applicable federal or state law.

Treasury Stock

We repurchased 58,718 of our shares in the 2006 third quarter for $1.5 million. The repurchase was funded using our internal cash resources and was held as treasury shares to be used for general corporate purposes. In aggregate, the 6,705,116 common shares held as treasury stock at December 31, 2006 had a cost basis of $8.61 per share. All treasury shares were cancelled as part of the separation and distribution of New Abraxis on November 13, 2007.

Increase in Authorized Shares

In connection with our 2006 merger with ABI, our Board of Directors approved an amendment to our certificate of incorporation to increase the authorized number of shares of common stock to 350,000,000, $0.001 par value per share. This charter amendment also was approved by the requisite vote of our stockholders pursuant to an action by written consent. Before giving effect to this charter amendment, our certificate of incorporation authorized us to issue 100,000,000 shares of common stock, $0.001 par value per share, and 6,000,000 shares of preferred stock, $0.001 par value per share. The authorized number of shares of preferred stock was not affected by the charter amendments.

13. Stock Options

We sponsor the following stock compensation plans:

1997 Stock Option Plan

Under the 1997 Stock Option Plan, or the 1997 Plan, options to purchase shares of our common stock were granted to certain employees and the directors with an exercise price equal to the estimated fair market value of our common stock on the date of grant. The 1997 Plan stock options vested upon completion of our initial public offering in December 2001.

2001 Stock Incentive Plan

The 2001 Stock Incentive Plan, or the 2001 Plan, provides for the grant of incentive stock options and restricted stock to our employees, including officers and employee directors, non-qualified stock options to employees, directors and consultants and other types of awards. At December 31, 2007, there were 18,210,995 options available for grant and 22,060,177 common shares reserved for the exercise of stock options under the 2001 Plan. Except as determined by our compensation committee, the number of shares reserved for issuance increases annually on the first day of each fiscal year by an amount equal to the lesser of a) 6,000,000 shares, b) 5% of the total number of shares outstanding as of that date or c) a number of shares as determined by our Board of Directors.

The compensation committee of our Board of Directors administers the 2001 Plan and has the authority to determine the terms and conditions of awards, including the types of awards, the number of shares subject to each award, the vesting schedule of the awards and the selection of the grantees. The exercise price of all options granted under the 2001 Plan will be determined by the compensation committee of our Board of Directors, but in no event will this price be less than the fair market value of our common stock on the date of grant.

2001 Non-Employee Director Stock Option Program

The 2001 Non-Employee Director Stock Option Program, or the 2001 Program, was adopted as part, and is subject to the terms and conditions, of the 2001 Plan. The 2001 Program establishes a program for the automatic grant of awards to our non-employee directors at the time that they initially join the board and at each annual meeting of the stockholders at which they are elected.

Restricted Stock

At December 31, 2007, 487,397 restricted units were outstanding under our 2001 Stock Incentive Plan with a weighted average per share market value of $12.56 and with vesting dates ranging from March 2008 to June 2011. Upon vesting, each restricted unit entitles the holder to one share of common stock. Compensation expense related to restricted stock grants is based upon the market price on the date of grant and is charged to

earnings on a straight-line basis over the applicable vesting period. Restricted stock units currently granted generally vest ratably over a four year period. Restricted stock awards relating to the 2001 Stock Incentive Plan are accounted for under the equity method per FAS 123(R).

Restricted Unit Plan

In connection with the separation, we assumed the restricted units previously granted to our employees under the American BioScience Restricted Unit Plan II. Those awards are now governed under the APP Pharmaceuticals, Inc. Restricted Stock Unit Plan (the "RSU Plan"). Shares of our common stock are issuable upon the vesting of these units. The units issued under the RSU Plan vest one-half on April 18, 2008 (which is the second anniversary of the closing of the merger between Old Abraxis, then known as American Pharmaceutical Partners, and American BioScience). The balance of the shares will vest on April 18, 2010. The restricted stock units entitle their holders to receive a number of our shares of common stock on each vesting date determined by taking the value of the vested portion of the award divided by our average trading price over the three days prior to vesting; except that if the average trading price of our stock price is less than $14.47, then the notional price is divided by $14.47. The maximum number of our shares that may be issuable under this restricted unit plan is 345,542 shares.

Pursuant to an agreement between Old Abraxis and RSU Plan LLC ("RSU LLC"), RSU LLC has agreed that prior to the date on which restricted stock units issued pursuant to the RSU Plan become vested, RSU LLC will deliver, or cause to be delivered, to us the number of our shares of common stock or cash (or a combination thereof) in an amount sufficient to satisfy the obligations to participants under the RSU Plan of the vested restricted units. We are required to satisfy our obligations under the RSU Plan by paying to the participants cash and/or shares of our common stock in the same proportion as was delivered by the RSU LLC. The intention of this agreement is to have RSU LLC satisfy our obligations under the RSU Plan so that there would not be any further dilution to our stockholders as a result of our assumption of certain awards under the American BioScience Restricted Unit Plan II.

Excluding the effects of discontinued operations stock based compensation costs for RSU awards for the years ended December 31, 2007, 2006 and 2005 were $6.0 million, $2.0 million and $1.0 million, respectively. As of December 31, 2007, there was $5.4 million of total unrecognized compensation expense related to restricted stock granted under the company's equity incentive plans which is expected to be recognized over a weighted average period of 1.86 years.

Employee Stock Purchase Plan

Under the 2001 Employee Stock Purchase Plan, or the ESPP, eligible employees may contribute up to 10% of their base earnings toward the semi-annual purchase and issuance of our common stock. The employees' purchase price is the lesser of 85% of the fair market value of the stock on the first business day of the offer period or 85% of the fair market value of the stock on the last business day of the semi-annual purchase period. Employees can purchase no more than 625 shares of our common stock within any given purchase period. An aggregate of 9,238,726 shares of our common stock were reserved for issuance under the ESPP at December 31, 2007. The ESPP provides for annual increases in the number of shares of our common stock issuable under the ESPP equal to the lesser of: a) 3,000,000 shares; b) a number of shares equal to 2% of the total number of shares outstanding; or c) a number of shares as determined by our Board of Directors. During the year ended December 31, 2007, approximately 220,000 shares of our stock were issued under the ESPP for an aggregate purchase price of $3.8 million. On August 7, 2007, in connection with the separation of Old Abraxis' proprietary products business, Old Abraxis' Compensation Committee indefinitely suspended the ESPP from and after completion of the purchase period that ended on July 31, 2007.

Stock Options

We account for stock-based compensation in accordance with FAS 123(R), which requires the recognition of compensation cost for all share-based payments, including employee stock options, at fair value. We use the straight-line attribution method to recognize share-based compensation expense over the vesting period of the award. Options currently granted generally expire ten years from the grant date and vest ratably over a four-year period.

In accordance with FAS 123(R), we adjust stock-based compensation on a quarterly basis for revisions to the estimated rate of equity award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization after January 1, 2005 will be recognized in the period the forfeiture estimate is changed. During the fourth quarter of 2007, we revised the forfeiture rate with respect to stock options. The effect of the change in the forfeiture rate resulted in a reduction in stock compensation expense of $2.1 million in the quarter. No changes in estimated rate of forfeitures were made during 2005 or 2006.

As of December 31, 2007, there was $7.0 million of total unrecognized compensation expense related to stock options granted under the company's equity incentive plans which is expected to be recognized over a weighted average period of 2.15 years.

The fair values of options granted during the years ended December 31, 2007, 2006 and 2005 were determined using the Black-Scholes option pricing model, which incorporates various assumptions. The risk-free rate of interest for the average contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is zero as we do not anticipate paying any dividends. The expected term of awards granted is based upon the historical exercise patterns of the participants in our plans and expected volatility is based on the historical volatility of our stock over the expected term of the award. The weighted average estimated values of employee stock option grants and rights granted under our employee stock purchase plan as well as the weighted average assumptions that were used in calculating such values during the last three years were based on estimates at the date of grant as follows:

	Twelve Months Ended December 31,		
	2007	2006	2005
Stock Options			
Risk-free rate	4.1%	3.9%	3.9%
Dividend yield	—	—	—
Expected life in years	5	5	5
Volatility	55%	59%	46%
Fair value of options granted	$1,440,389	$21,395,865	$15,583,788
Weighted average grant date fair value of options granted	$ 5.76	$ 13.23	$ 20.01
Employee Stock Purchase Plan			
Risk-free rate	4.0%	2.8%	2.2%
Dividend yield	—	—	—
Expected life in years	1.2	1.2	1.2
Volatility	60%	48%	46%

Our stock options outstanding that have vested and are expected to vest as of December 31, 2007 were as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intinsic Value[1]
Vested	1,695,836	$10.83	5.39	$18,365,299
Expected to Vest	1,411,880	15.49	8.35	21,869,890
Total	3,107,716	$12.95	6.73	$40,235,189

(1) These amounts represent the difference between the exercise price and $10.27, the closing price of APP Pharmaceuticals stock on December 31, 2007 for in-the-money options.

The above options outstanding that are expected to vest are net of estimated future option forfeitures in accordance with the provisions of FAS 123(R). Options with a fair value of $5.9 million and $8.3 million and with weighted average grant date fair values of $7.62 and $13.62 vested during the twelve months ended December 31, 2007 and 2006, respectively. Options with a fair value of $0.7 million and $5.6 million, weighted average grant date fair values of $3.83 and $8.68 and aggregate intrinsic values of $1.1 million and $10.6 million were exercised during the twelve months ended December 31, 2007 and 2006, respectively. Non-vested options totalling 1,411,885 and 2,188,175 shares with weighted average grant date fair values of $7.59 and $15.02 were outstanding at December 31, 2007 and 2006, respectively.

Additional information with respect to our stock option activity is as follows:

	Options Outstanding		Exercisable Options	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2004	4,970,137	$13.24	2,625,886	$ 5.62
Granted	778,800	$45.91		
Exercised	(1,760,444)	$ 6.92		
Forfeited	(416,496)	$31.23		
Outstanding at December 31, 2005	3,571,997	$21.36	1,774,537	$11.31
Granted	1,617,550	$28.40		
Exercised	(644,030)	$12.46		
Forfeited	(573,646)	$34.18		
Outstanding at December 31, 2006	3,971,871	$23.81	1,783,696	$14.94
Granted	437,000	$23.41		
Exercised	(398,871)	$ 8.17		
Forfeited	(363,285)	$35.15		
Outstanding at November 13, 2007	3,646,715	$24.39	1,960,183	$20.18
Separation Conversion[(1)]	(514,245)			
Granted	42,500	$10.28		
Exercised	(39,468)	$ 4.91		
Forfeited	(27,786)	$15.67		
Outstanding at December 31, 2007	3,107,716	$12.95	1,695,836	$10.83

(1) As part of the separation, stock options relating to employees of New Abraxis were eliminated and stock options for our employees were converted to reflect the adjusted value of the options post-separation. The number of options outstanding on the split date and the associated exercise prices were converted at a rate of 1.9533, which was based on our closing stock price for the 10 consecutive trading days preceding and 10 consecutive trading days following the separation. No additional stock compensation expense resulted from the modifications made due to the anti-dilutive provisions related to the plan.

The following table summarizes information about our stock options outstanding at December 31, 2007:

	Options Outstanding			Options Exercisable	
Exercise Price Ranges	Number of Shares	Weighted Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 0.00 – $ 2.70	290,312	1.4	$ 1.30	290,312	$ 1.30
$ 2.70 – $ 5.40	112,663	4.1	$ 4.11	112,663	$ 4.11
$ 5.40 – $ 8.10	393,416	5.0	$ 6.48	393,416	$ 6.48
$ 8.10 – $10.80	138,693	8.9	$10.27	31,370	$10.27
$10.80 – $13.50	460,808	7.7	$12.49	212,648	$12.80
$13.50 – $16.21	1,193,814	8.1	$15.23	363,980	$15.24
$16.21 – $18.91	97,115	6.3	$17.80	62,197	$17.81
$18.91 – $21.61	109,131	7.2	$20.63	65,671	$20.46
$21.61 – $24.31	243,650	7.0	$23.60	128,914	$23.59
$24.31 – $27.01	68,114	7.0	$25.68	34,665	$25.70
	3,107,716	6.7	$12.95	1,695,836	$10.83

14. Income Taxes

The provisions for income tax for continuing operations consists of the following:

	Year Ended December 31,		
	2007	2006	2005
		(in thousands)	
Current:			
Federal	$49,925	$ 86,709	$ 42,172
State	8,788	5,069	4,205
Foreign	4,376	2,970	1,696
Total current	63,089	94,748	48,073
Deferred:			
Federal	(7,381)	(26,610)	(16,080)
State	(707)	421	(1,584)
Total deferred	(8,088)	(26,189)	(17,664)
Total provision for income taxes	$55,001	$ 68,559	$ 30,409

A reconciliation of the federal statutory rate to our effective tax rate is as follows (in %):

	Year Ended December 31,		
	2007	2006	2005
Tax provision at statutory federal rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	3.8	3.7	3.4
In-process research and development	—	6.9	—
Research and development tax credits	(0.7)	(3.6)	(2.7)
Minority interest	—	3.5	16.3
Foreign rate differential	6.2	3.3	—
Domestic production activities deduction	(2.1)	(1.8)	(2.1)
Stock based compensation	1.0	0.1	—
Other items	(2.3)	8.3	0.2
Change in FIN 48 liability	(0.8)	—	—
Income tax expense	40.1%	55.4%	50.1%

Deferred tax assets and liabilities consist of the following:

	December 31,	
	2007	2006
	(in thousands)	
Deferred tax assets:		
Inventory	$ 8,500	$ 11,770
Milestone payment	—	3,578
Deferred revenue	—	79,341
Net operating loss and credit carryforwards	—	753
Amortization of stock-based compensation	4,190	4,017
Other accruals and reserves	4,419	8,265
Total deferred tax assets	17,109	107,724
Deferred tax liabilities:		
Intangible asset amortization	(64,239)	(157,479)
Depreciation	(5,305)	(13,725)
Foreign exchange	(1,374)	—
Other accruals and reserves	(93)	(128)
Total deferred tax liabilities	(71,011)	(171,332)
Net deferred tax liability	$(53,902)	$ (63,608)

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), on January 1, 2007. This interpretation clarifies what criteria must be met prior to the recognition of the financial statement benefit of a position taken in a tax return in accordance with FASB Statement No. 109, Accounting for Income Taxes. The effect of the implementation of FIN 48 was not material.

Following is a reconciliation of our total gross unrecognized tax benefits for the year-to-date at December 31, 2007 (in thousands). All of the total tax benefits of $3.0 million, if recognized, would affect our effective tax rate in future periods.

Balance, January 1, 2007	$ 4,557
Additions for tax positions related to current year	835
Additions for tax positions related to prior years	662
Reductions for tax periods of prior years	(3,095)
Balance, December 31, 2007	$ 2,959

We recognize interest and penalties related to unrecognized tax benefits in its income tax expense. At December 31, 2007, we had accrued $0.1 million for the payment of such interest.

We and our subsidiaries file income tax returns in the US Federal jurisdiction, Canada, Puerto Rico, and various state jurisdictions. We are subject to US federal income tax examinations for calendar years 2006 and 2007. We are also subject to Canadian income tax examinations for 2005 through 2007 tax years, and to Puerto Rican income tax examinations for 2006 and 2007 tax years. Additionally, we are subject to various state income tax examinations for the 2003 through 2007 tax years. We are currently under state income tax examinations in California, Illinois, Massachusetts and North Carolina for various tax years. There are no other open federal, state, or foreign government income tax audits at this time.

15. Regulatory Matters

We are subject to regulatory oversight by the United States Food and Drug Administration and other regulatory authorities with respect to the development and manufacturing of its products. Failure to comply with regulatory requirements can have a significant effect on our business and operations. Management has designed and operates a system of controls to attempt to ensure compliance with regulatory requirements.

16. Litigation

In October 2007, Old Abraxis entered into a settlement agreement and release with respect to all disputes with a former officer and employee of ABI. Under the separation and distribution agreement, New Abraxis assumed all liabilities relating to litigation with this individual. Pursuant to the indemnification provisions of the definitive agreements for the 2006 merger, the former ABI shareholders indemnified Old Abraxis for approximately two-thirds of the obligations under the settlement agreement and the amount is recorded in our statement of cash flows as non-cash issuance for legal expenses while the entire settlement is reflected in our statement of operations as discontinued operations.

We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims have included assertions that our products infringe existing patents, product liability and also claims that the use of our products has caused personal injuries. We intend to defend vigorously any such litigation that may arise under all defenses that would be available to us. In the opinion of management, the ultimate outcome of proceedings of which management is aware, even if adverse to us, will not have a material adverse effect on our consolidated financial position or results of operations.

17. Total Revenue by Product Line

With the spin-off of New Abraxis, we currently maintain only one operating segment, hospital-based. Total revenue by product line were as follows:

	2007	2006	2005
		(in thousands)	
Critical care	$382,772	$302,244	$163,581
Anti-infective	193,704	213,490	169,818
Oncology	55,308	57,872	51,084
Contract manufacturing and other	15,590	9,595	599
Total revenue	$647,374	$583,201	$385,082

18. Unaudited Quarterly Financial Data

Selected quarterly data for 2007 and 2006 is as follows:

	Year Ended December 31, 2007			
	First	Second	Third	Fourth
	(in thousands, except per share data)			
Net revenue	$140,268	$159,327	$153,179	$194,600
Gross profit	65,437	80,150	68,124	101,617
Income (loss) from continuing operations	13,617	22,792	14,110	31,660
Net Income (Loss)	$ 11,115	$ 23,096	$ (8,385)	$ 8,532
Income (loss) from continuing operations per common share:				
Basic	$ 0.09	$ 0.14	$ 0.09	$ 0.20
Diluted	$ 0.08	$ 0.14	$ 0.09	$ 0.20
Net income (loss) per common share:				
Basic	$ 0.07	$ 0.14	$ (0.05)	$ 0.05
Diluted	$ 0.07	$ 0.14	$ (0.05)	$ 0.05

During the 4th quarter of 2007, we revised our forfeiture rate with respect to stock options. As a result of this change in estimate, the 4th quarter includes a benefit of $2.1 million relating to stock compensation.

	Year Ended December 31, 2006			
	First	Second	Third	Fourth
	(in thousands, except per share data)			
Net revenue	$113,472	$120,255	$149,768	$199,706
Gross profit	$ 59,950	$ 58,371	$ 68,355	$108,446
Income (loss) from continuing operations	$ 14,211	$ (11,959)	$ 16,344	$ 36,629
Net Income (Loss)	$ 1,884	$ (90,787)	$ 13,557	$ 28,449
Income (loss) from continuing operations per common share:				
Basic	$ 0.09	$ (0.08)	$ 0.11	$ 0.23
Diluted	$ 0.09	$ (0.08)	$ 0.11	$ 0.23
Net income (loss) per common share:				
Basic	$ 0.01	$ (0.57)	$ 0.09	$ 0.18
Diluted	$ 0.01	$ (0.57)	$ 0.09	$ 0.18

Executive Office of the Issuer

1501 E. Woodfield Road
Suite 300 E
Schaumburg, Illinois 60173
United States

Principal Executive Offices of the Guarantors

Fresenius SE
Else-Kröner Strasse 1
61352 Bad Homburg
Germany

Fresenius Kabi AG
Else-Kröner Strasse 1
61352 Bad Homburg
Germany

Fresenius ProServe GmbH
Else-Kröner Strasse 1
61352 Bad Homburg
Germany

Legal Adviser to Fresenius SE and the Issuer

As to United States, New York and German Law:

Freshfields Bruckhaus Deringer LLP
Bockenheimer Anlage 44
60322 Frankfurt am Main
Germany

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
United Kingdom

Legal Adviser to the Initial Purchasers

As to United States, New York and German Law:

Cahill Gordon & Reindel LLP
Augustine House
6A Austin Friars
London EC2N 2HA
United Kingdom

White & Case LLP
Bockenheimer Landstrasse 20
60323 Frankfurt am Main
Germany

Trustee and Principal Paying Agent

The Bank of New York Mellon
One Canada Square
London E14 5AL
United Kingdom

Luxembourg Listing Agent, Paying Agent and Transfer Agent

The Bank of New York (Luxembourg) S.A.
Aerogolf Center, 1A, Hoehenhof
1736 Senningerberg
Luxembourg

(This page intentionally left blank)

(This page intentionally left blank)

(This page intentionally left blank)


FRESENIUS