FRESENIUS

Fresenius SE & Co. KGaA

Bad Homburg v.d.H.

2010

- Financial Statements
- Management Report
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- Convenience Translation -
The German version of these Financial Statements is legally binding

Fresenius SE & Co. KGaA, Bad Homburg v. d. Höhe

(until January 28, 2011: Fresenius SE)

Balance Sheet as of December 31, 2010

A s s e t s

	Note	December 31, 2010		December 31, 2009	
		kEUR	kEUR	kEUR	kEUR
A. Fixed assets	(4)				
I. Intangible assets			508		43
II. Tangible assets			64,320		73,041
III. Financial assets			3,717,519		3,708,736
			3,782,347		3,781,820
B. Current assets					
I. Accounts receivable and other assets					
1. Accounts receivable due from related parties	(5)	994,592		959,494	
2. Other assets	(5)	56,138	1,050,730	37,773	997,267
II. Cash and cash equivalents	(6)		191,107		33,562
			1,241,837		1,030,829
C. Deferred expense	(7)		1,443		1,161
			5,025,627		4,813,810

Liabilities and shareholders' equity

	Note	December 31, 2010		December 31, 2009	
		kEUR	kEUR	kEUR	kEUR
A. Shareholders' equity					
I. Subscribed capital	(8, 9, 10, 11, 12)				
1. Ordinary shares		81,225		80,658	
(conditional capital I kEUR 495; prev. yr. kEUR 656)					
(conditional capital II kEUR 1,743; prev. yr. kEUR 2,149)					
(conditional capital III kEUR 3,100; prev. yr. kEUR 3,100)					
2. Preference shares		81,225	162,450	80,658	161,316
(conditional capital I kEUR 495; prev. yr. kEUR 656)					
(conditional capital II kEUR 1,743; prev. yr. kEUR 2,149)					
(conditional capital III kEUR 3,100; prev. yr. kEUR 3,100)					
II. Capital reserves	(13)		1,869,988		1,832,808
III. Other reserves	(14)		854,245		777,645
IV. Retained earnings	(15)		139,758		121,842
			3,026,441		2,893,611
B. Special reserve for investment government grants	(16)		14		15
C. Accrued expense	(17)				
1. Pensions and similar obligations			31,156		20,983
2. Accruals for income taxes			29,310		28,510
3. Other accruals			139,220		39,826
			199,686		89,319
D. Liabilities	(18)				
1. Convertible bonds			431		616
2. Bank loans			196,000		204,228
3. Trade accounts payable			2,907		1,020
4. Liabilities to affiliated companies			1,597,963		1,614,504
5. Other liabilities			2,185		10,497
			1,799,486		1,830,865
			5,025,627		4,813,810

Fresenius SE & Co. KGaA, Bad Homburg v. d. Höhe

(until January 28, 2011: Fresenius SE)

Profit and Loss Statement
January 1 to December 31, 2010

	Note	2010	2009
		kTEUR	kEUR
1. Income from participations	(21)	390,386	263,329
2. Other operating income	(22)	78,115	89,497
3. Personnel expenses	(24)	-29,378	-26,215
4. Depreciation and amortization on intangible assets and on property, plant and equipment	(25)	-3,985	-3,929
5. Other operating expenses	(26)	-71,686	-71,093
6. Write-downs of financial assets	(27)	0	-1,671
7. Net interest	(29)	-49,685	-53,665
8. Other financial result	(30)	-90,103	-20,876
9. Profit from ordinary operations		223,664	175,377
10. Extraordinary result	(31)	-6,801	0
11. Income taxes	(32)	-297	-5,583
12. Other taxes		-256	-495
13. Net income		216,310	169,299
14. Retained earnings brought forward		48	43
15. Increase in other reserves		-76,600	-47,500
16. Retained earnings		139,758	121,842

<u>Notes Fresenius SE & Co. KGaA (until January 28, 2011: Fresenius SE)</u>

(1) Structure

The Fresenius Group is as of December 31, 2010 divided into four legally independent business segments:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius Helios
- Fresenius Vamed

Fresenius SE & Co. KGaA owns the stakes in the management companies and functions as an operating holding.

The reporting currency of Fresenius SE & Co. KGaA is the euro. In order to make the presentation clearer, amounts are shown in € thousand. Amounts which are lower than € 1,000.00 after they have been rounded are marked with „-“.

The list of investments of Fresenius SE & Co. KGaA, registered in Bad Homburg v.d.H., will be shown in the enclosure to the Notes.

(2) Change of Fresenius SE's legal form into a partnership limited by shares (Kommanditgesellschaft auf Aktien) and conversion of the preference shares into ordinary shares

On May 12, 2010, Fresenius SE's Annual General Meeting approved the change of Fresenius SE's legal form into a partnership limited by shares (Kommanditgesellschaft auf Aktien, KGaA) with the name Fresenius SE & Co. KGaA in combination with the conversion of all non-voting preference shares into voting ordinary shares. The change of legal form as well as the conversion of shares was also approved by the preference shareholders through a special resolution.

Upon registration with the commercial register of the local court in Bad Homburg v.d.H., the change of legal form into Fresenius SE & Co. KGaA became effective on January 28, 2011. According to the resolution passed, the holders of preference shares received one ordinary share of Fresenius SE & Co. KGaA for each preference share held in Fresenius SE; the ordinary shareholders received one ordinary share of Fresenius SE & Co. KGaA for each ordinary share held in Fresenius SE. The notional proportion of each non-par value share in the subscribed capital as well as the subscribed capital itself remained unchanged. The change of Fresenius SE's legal form into a KGaA neither led to the liquidation of the Company nor to the formation of a new legal entity. The legal and commercial identity of the Company was preserved.

The legal form of the KGaA enables Fresenius to achieve the benefits of a single share class while maintaining the control position of the Else Kröner-Fresenius-Foundation which held approximately 58% of the ordinary shares in Fresenius SE prior to the change. The European company limited by shares Fresenius Management SE, a wholly-owned subsidiary of the Else Kröner-Fresenius-Foundation, is the general partner (Komplementärin) of Fresenius SE & Co. KGaA. Concerning the personnel composition, the Management Board of Fresenius Management SE is identical to the previous Fresenius SE Management Board and has taken over the management of Fresenius SE & Co. KGaA. The Else Kröner-Fresenius-Foundation's right to provide the general partner is tied to the holding of more than 10% of the subscribed capital in Fresenius SE & Co. KGaA. In connection with the change of the legal form, the Dutch Calea Nederland N.V., a wholly-owned subsidiary of Fresenius SE was merged into Fresenius SE Co. KGaA. This cross border merger became effective immediately upon the change of the legal form taking effect and serves the purpose of simplifying the group structure. As a result the Fresenius SE & Co. KGaA will be able to maintain its well established governance structure with a Supervisory Board consisting of 12 members including employee representatives with an international composition.

In addition to the existing Conditional Capitals, three Authorized Capitals were created with the articles of association that were determined by the Annual General Meeting. These can be used as an alternative source of shares for Fresenius SE & Co. KGaA's three stock option plans.

The effects of the change of legal form are described in the respective notes.

The registration of the change of legal form with the commercial register was finally cleared following a court settlement of pending disputes initiated by minority shareholders.

In order to improve readability, the new legal form Fresenius SE & Co. KGaA, effective since January 28, 2011, is used in this report, if expedient.

(3) Accounting principles and standards of valuation

Due to the inclusion of the provisions introduced in the German Commercial Code (HGB) by the German Accounting Law Modernization Act (BilMoG), the accounting principles and standards of valuation used in previous years have not been followed to their full extent. Section 252 (1) Nr. 6 HGB new version is in so far not applicable. Section 265 (1) HGB new version on consistency in recognition and presentation and Section 284 (2) No. 3 HGB new version about the clarification of differences in accounting and valuation methods are, due to the first time implementation of the provisions changed by BilMoG not applicable either. The main changes from implementing the new accounting provisions are the following:

- Pension obligation is determined using the Projected Unit Credit-Method. Future expected remuneration and pension increases are taken into account in calculating the obligation. The discount rate used to calculate the pension obligation is the last-seven-year-average discount rate for an estimated remaining life of 15 years as determined and published by the German Federal Bank (Deutsche Bundesbank).

- The valuation of the rest of accruals takes future price and cost increases into account. Accruals with a remaining life over one year shall be discounted with the last-seven-year-average discount rate that reflects the remaining life of the accruals. This discount rate is published by the German Federal Bank (Deutsche Bundesbank).

- According to section 256a HGB new version assets and liabilities with a remaining life of up to a year and carried at foreign currencies will be translated at the average closing spot rate, which goes against prior realization, imparity and historical cost principles.

- The new regulation on hedge accounting in Section 254 HGB new version expands the previous accounting practice of the Company by allowing the combination and combined valuation in “anticipatory hedges” of hedging instruments to hedge future cash flows with the underlying transaction.

Pursuant to Art. 67 (8) sentence 2 1^{st} half sentence of the Act Introducing the German Commercial Code (EGHGB) prior-year figures have not been adjusted.

Additions to accruals from the first time implementation of Section 253 HGB new version are accounted for under “Extraordinary Expenses”.

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

The value of **investments in property, plant and equipment** is stated at the cost of the assets less regular linear or degressive depreciation.

The following useful lives were used for calculating amortization:

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

Low value fixed assets as defined in Section 6 (2) of the German Income Tax Law (EStG) with purchase or manufacturing cost of up to € 150.00 are fully written off in the year of addition.

Depreciable movable non-current assets with a value of more than € 150.00 and less than € 1,000.00 are grouped into a collective item which is dissolved through profit and loss by one fifth in the year of capitalization and the following four years each.

Extraordinary depreciation is carried out, provided that the carrying book value is other than temporarily impaired.

Financial assets are valued at purchase price or, if the asset is other than temporarily impaired the lower market value.

The lower value of non-current assets resulting from write-downs to fair value has to be reversed if the reasons for the extraordinary write-down no longer apply (Section 253 (5) HGB new version).

Accounts receivable and other assets are stated at nominal value reduced by individual allowance if necessary.

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

No **deferred tax** is to be recognized for temporary differences in valuations in the tax and financial reporting balance sheets as long as the net difference would result in an asset.

Subscribed capital is accounted for at its nominal amount.

The **special reserve with equity portion** that was build according to Section 247 (3) HGB old version in the previous years can be retained according to the option in Art. 67 (3) sentence 1 EGHGB.

The **pension obligation** is determined according to actuarial principles on the basis of biometric probabilities as in the reference tables by Dr. Klaus Heubeck 2005 (RT 2005 G) using the Projected Unit Credit-Method. Future expected remuneration and pension increases are taken into account in calculating the obligation. Remuneration is currently adjusted by between 3% and 4% and pensions by 1.75%. The company specific fluctuation rate that is also taken into consideration for the calculation was between 0% and 18%. The actuarial interest rate for discounting the pension obligation was 5.16%. This is the last-seven-year-average discount rate for an estimated remaining life of 15 years as determined and published by the German Federal Bank (Deutsche Bundesbank) (reference date: October 31, 2010).

Pursuant to Section 253 (1) sentence 3 HGB new version (security-based pension obligations), the value of the provisions for the employee financed life work time account (Demografiefonds) is based on the performance of the asset value of the corresponding plan reinsurance.

The asset values used to offset the provisions are calculated at their fair values.

Tax accruals and other accruals are built for recognizable risks and uncertain liabilities at the amounts to be paid and calculated on the basis of a reasonable commercial assessment. Long term accruals are accounted for taking into account future price and cost increases and are discounted with the last-seven-year-average discount rate that corresponds to the remaining life of the accrual.

Liabilities are valued at their settlement amounts.

Foreign currency items are translated at the mean rate at the time of origin or the hedging rate for hedging transactions.

According to section 256a HGB new version assets and liabilities with a remaining life of up to a year and carried at foreign currencies are translated at the average closing spot rate disregarding, against past practice, the realization principle. Unrealized earnings of € 11.7 thousand were recognized on January 1, 2010 for the first time.

Assets and liabilities with a remaining life of over one year and carried at foreign currencies are basically translated at inception at the foreign currency exchange rate, while at the balance sheet date the lowest closing spot rate is used for translating assets and the highest closing spot rate is used for translating liabilities. If the conditions to apply hedge accounting are met, the hedging financial instruments and the underlying transactions are combined in a hedge and valued using the exchange rate at inception (Einfrierungsmethode). Changes in the value of the hedged risks are not recognized in the balance sheet or statement of income.

Earnings and losses from translation to euro of items carried at foreign currencies are recognized in the statement of income under “Other operating income” or “Other operating expenses”.

Derivative financial instruments are contracted for hedging purposes only. Both interest rate and foreign currency derivatives are contracted for hedging.

Besides hedging instruments for Cashpool balances and loans in foreign currencies that Group Companies have borrowed from Fresenius SE & Co. KGaA or that Fresenius SE & Co. KGaA has borrowed from Group Companies or banks, Fresenius SE & Co. KGaA acquires hedging instruments from banks, that are mirrored by agreements between Fresenius SE & Co. KGaA and its affiliated companies at nearly the same conditions. The affiliated companies use these agreements to hedge their operating businesses against foreign currency risks.

Derivative financial instruments are measured at fair value at balance sheet date. According to German Commercial Law accounting principles and standards of valuation any remeasurement losses are recognized in earnings while remeasurement gains are not taken into account. When the conditions for hedge accounting are met, the underlying asset and the hedging instrument are considered together so that effects of the hedge are only recognized in earnings when the underlying transaction takes place.

Notes on balance sheet

(4) Fixed assets

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

in thousand €	Acquisition and manufacturing costs				
	As of Jan. 01, 2010	Additions	Disposals	Reclassifica-tions	As of Dec. 31, 2010
Intangible Assets					
Concessions, industrial and similar rights and assets as well as licenses acquired for consideration	1,943	500	0	0	2,443
	1,943	500	0	0	2,443
Tangible Assets					
Land, leasehold and buildings including buildings on third party property	117,009	275	5,817	0	111,467
Plant and machinery	467	0	0	0	467
Other fixtures and fittings, tools and equipment	8,910	675	263	7	9,329
Payments on account and tangible assets in course of construction	101	97	0	-7	191
	126,487	1,047	6,080	0	121,454
Financial assets					
Shares in related parties	3,371,224	5,817	0	0	3,377,041
Loans to related parties	342,700	0	0	0	342,700
Securities	865	565	1,430	0	0
Other loans	1,000	0	0	0	1,000
	3,715,789	6,382	1,430	0	3,720,741
Non-current Assets	3,844,219	7,929	7,510	0	3,844,638

in thousand €	Depreciation: Cumulated depreciation as of Jan. 01, 2010	Additions	Disposals	Cumulated depreciation as of Dec. 31,2010	Carrying amount: Dec. 31, 2010	Dec. 31, 2009
Intangible Assets						
Concessions, industrial and similar rights and assets as well as licenses acquired for consideration	1,900	35	0	1,935	508	43
	1,900	35	0	1,935	508	43
Tangible Assets						
Land, leasehold and buildings including buildings on third party property	45,974	3,100	0	49,074	62,393	71,035
Plant and machinery	275	38	0	313	154	192
Other fixtures and fittings, tools and equipment	7,197	812	262	7.747	1,582	1,713
Payments on account and tangible assets in course of construction	0	0	0	0	191	101
	53,446	3,950	262	57,134	64,320	73,041
Financial assets						
Shares in related parties	188	0	0	188	3,376,853	3.371,036
Loans to related parties	6,660	0	3,626	3,034	339,666	336,040
Securities	205	0	205	0	0	660
Other loans	0	0	0	0	1,000	1,000
	7,053	0	3,831	3,222	3,717,519	3,708,736
Non-current Assets	62,399	3,985	4,093	62,291	3,782,347	3,781,820

Financial assets

As of December 31, 2010 Fresenius SE (since January 28, 2011 Fresenius SE & Co. KGaA) owns stakes in the following domestic management companies for business segments:

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

The percentage of Fresenius Medical Care AG & Co. KGaA´s (“FMC-AG & Co. KGaA”) total subscribed capital (ordinary and preference shares) held by Fresenius SE at the end of fiscal year 2010 was 35.27% (previous year 35.58%).

On December 31, 2010, Fresenius SE continued to hold all of the subscribed capital of the management companies of the business segments Fresenius Kabi (Fresenius Kabi AG) and Fresenius Helios as well as Fresenius Vamed (Fresenius ProServe GmbH).

Fresenius SE holds 100% in Fresenius Biotech Beteiligungs GmbH.

In addition, Fresenius SE holds all of the stakes of the following domestic property management and service companies as well as foreign finance companies:

- Fresenius Immobilien-Verwaltungs-GmbH
- Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt Schweinfurt KG
- Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt St. Wendel KG
- Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt St. Friedberg KG
- Hygieneplan GmbH
- Fresenius Versicherungsvermittlungs GmbH
- Fresenius Finance B.V.
- Fresenius Finance I S.A.
- Fresenius US Finance I, Inc.
- Fresenius US Finance II, Inc.

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

(5) Accounts receivable and other assets

	Dec. 31, 2010	Dec. 31, 2009
in thousand €		
Accounts receivable from related parties	994,592	959,494
(amount with a remaining term of more than one year)	(421,213)	(32,051)
Other assets	56,138	37,773
(amount with a remaining term of more than one year)	-	-
	1,050,730	997,267

The Accounts receivable from related parties are composed of loans and finance-related accounts of € 994,107 thousand (previous year € 958,961 thousand) and trade accounts receivable of € 485 thousand (previous year € 533 thousand).

Other assets mainly contain tax receivables. Also included are social security related receivables of € 1 thousand (previous year € 19 thousand).

(6) Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks of € 191,107 thousand (previous year € 33,562 thousand).

(7) Deferred expense

Deferred expense of € 1,443 thousand (previous year € 1,161 thousand) mainly concerns the prepayment of the Directors&Officers-Insurance (D&O-Insurance) for top managers.

(8) Subscribed capital

During the fiscal year 2010, 1,134,714 stock options were exercised. Accordingly, at December 31, 2010, the subscribed capital of Fresenius SE was divided into 81,225,045 bearer ordinary shares and 81,225,045 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.

As a result of Fresenius SE's change of legal form into Fresenius SE & Co. KGaA and its registration with the commercial register on January 28, 2011, all bearer preference shares were converted into bearer ordinary shares. Consequently, the subscribed capital of Fresenius SE & Co. KGaA now solely consists of bearer ordinary shares.

The subscribed capital developed as follows:

	2010	2009
in thousand €		
As of January 1	161,316	161,144
Increase due to exercise of stock options	1,134	172
As of December 31	162,450	161,316

(9) Own shares

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

The agreement reached between the Works Council and the Management Board in February 2008 is the basis for distributing the shares. The agreement awards € 1,749.00 of profit-sharing to each full-time employee for 2009 as well as the employer contribution for social security payments. About two-thirds of the profit-sharing payment is settled in shares and employees are given a choice of cash or additional shares for the remaining third. Employees that opt for additional shares are awarded one additional share. The price determination for the shares and bonus shares in the profit-sharing program was made on May 14, 2010.

To be eligible for the program, employees must have had three years of continuous employment at Fresenius SE on December 31, 2009, its direct affiliated companies or affiliated companies of Fresenius Kabi and certain other affiliated companies as identified in the Works Council agreement. At that time, eligible employees must have not been under notice or in an executive position, as defined by Fresenius. Intercompany transfers are counted in full.

The following preference shares were purchased and distributed or re-sold as part of the Fresenius SE profit-sharing program for 2009.

	Date	Number	Price in € per share
Purchase	May 21, 2010	21,000	51.86
Purchase	May 21, 2010	21,000	52.00
Disbursement	Nov. 30, 2010	40,200	53.00
Sale	Dec. 28, 2010	1,800	64.00

Purchased shares with a nominal value of € 42,000.00 and committed shares with a nominal value of € 40,200.00 represented 0.0259% and 0.0247% of the subscribed capital respectively.

The proceeds from the sale on December 28, 2010 have increased corporate funding.

As of December 31, 2010 no own shares were held.

(10) Notification by shareholders

After the change of legal form on January 28, 2011, Fresenius SE & Co. KGaA (formerly Fresenius SE) disclosed notifications in accordance with Section 26 (1) of the German Securities Trading Act (WpHG). The notifications relate to the subscribed capital of € 162,450,090.00 divided into 162,450,090 voting bearer shares as of January 28, 2011, and reflect the level of investments held:

Else Kröner-Fresenius-Stiftung, with its registered office in Bad Homburg, Germany, has notified Fresenius SE & Co. KGaA pursuant to section 21 (1) WpHG that on January 28, 2011, their percentage holding of the voting rights in Fresenius SE & Co. KGaA, Else-Kröner-Str. 1, 61352 Bad Homburg v.d.H., Germany, crossed below the thresholds of 50% and 30% and amounted to 28.85% (46,871,154 voting rights) on that day.

Allianz SE, with its registered office in Munich, Germany, has notified Fresenius SE & Co. KGaA pursuant to section 21 (1) WpHG that on January 28, 2011 their percentage holding of the voting rights in Fresenius SE & Co. KGaA, Else-Kröner-Str. 1, 61352 Bad Homburg v.d.H., Germany, crossed below the threshold of 5% and amounted to 4.26% (equivalent to 6,920,552 voting rights of a total of 162,450,090 voting rights). Thereof, 4.26% (6,919,271 voting rights) were attributable to Allianz SE pursuant to Section 22 (1) sentence 1 no. 1 WpHG and 0.0008% (1,281 voting rights) were attributable to Allianz SE pursuant to Section 22 (1) sentence 1 no. 6 WpHG.

The voting rights attributable to Allianz SE are held by the following companies controlled by Allianz SE; each of their percentage holding of voting rights in Fresenius SE & Co. KGaA exceeded 3% or more:

- Allianz Deutschland AG
- Jota Vermögensverwaltungsgesellschaft mbH
- Allianz Lebensversicherungs-AG

Artio Global Investors Inc., with its registered office in New York, United States, has notified Fresenius SE & Co. KGaA pursuant to Section 21 (1) WpHG that on January 28, 2011 their percentage holding of the voting rights in Fresenius SE & Co. KGaA, Else-Kröner-Str. 1, 61352 Bad Homburg v.d.H., Germany, crossed below the threshold of 3% and amounted to 2.36% (equivalent to 3,840,708 voting rights) 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 in the amount of 2.36% (equivalent to 3,840,708 voting rights) are entirely attributable to Artio Global Investors Inc. pursuant to Section 22 (1) sentence 1 no. 6 WpHG in connection with Section 22 (1) sentence 2 WpHG.

FMR LLC, Boston, Massachusetts, United States, has notified Fresenius SE & Co. KGaA pursuant to Section 21 (1) WpHG that on January 28, 2011 the voting rights held by FMR LLC crossed below the threshold of 3% of the voting rights in Fresenius SE & Co. KGaA, Else-Kröner-Straße 1, 61352 Bad Homburg v.d.H., Germany. On that date, FMR LLC held 1.69% of the voting rights in Fresenius SE & Co. KGaA, arising from 2,740,382 voting rights.

All voting rights in Fresenius SE & Co. KGaA were attributed to FMR LLC pursuant to Section 22 (1) sentence 1 no. 6 WpHG in connection with sentence 2 WpHG.

Furthermore, Fresenius SE (as of January 28, 2011: Fresenius SE & Co. KGaA) disclosed in 2010 the following notification in accordance with Section 26 (1) WpHG:

On July 13, 2010, Fidelity Investment Trust, Boston, Massachusetts, United States, notified Fresenius SE (since January 28, 2011: Fresenius SE & Co. KGaA) that on July 9, 2010, the voting rights held by Fidelity Investment Trust fell below 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 Investment Trust held 2.95% of the voting rights in Fresenius SE, arising from 2,387,886 voting rights.

All notifications by shareholders are published on the website of the Company www.fresenius.com under Investor Relations/The Fresenius Shares/Shareholder Structure.

(11) Authorised capital

At the Annual General Meeting on May 12, 2010, the articles of association of Fresenius SE & Co. KGaA were adopted with the following Authorized Capitals. Authorized Capitals I and II correspond in their scope to the Authorized Capitals of the former Fresenius SE. The Authorized Capitals I and II remain unchanged except that in the future only ordinary shares will be issued. The Authorized Capitals III, IV and V are solely to be used as an alternative source of ordinary shares for the stock option plans of 1998, 2003 and 2008 (see note 12, Stock options) as far as these plans are not filled from the Conditional Capitals I, II and III. The Conditional Capitals themselves have been adjusted to reflect the issuance of ordinary shares.

In accordance with the articles of association of Fresenius SE & Co. KGaA, the general partner Fresenius Management SE is authorized, with the approval of the Supervisory Board, until May 7, 2014,

- to increase Fresenius SE & Co. KGaA's subscribed capital by a total amount of up to € 12,800,000 through a single or multiple issue of new bearer ordinary shares against cash contributions (Authorized Capital I). A subscription right must be granted to the shareholders. The general partner is authorized to exclude the shareholders' subscription right for fractional amounts.

- to increase Fresenius SE & Co. KGaA's subscribed capital by a total amount of up to € 6,400,000 through a single or multiple issue of new bearer ordinary shares against cash contributions and / or contributions in kind (Authorized Capital II). The general partner is authorized, in each case with the consent of the Supervisory Board, to decide on the exclusion of the shareholders' subscription right. For cash contributions, the authorization can only be exercised if the issue price is not significantly below the stock exchange price. In case of a contribution in kind, the subscription right can be excluded only in order to acquire an undertaking, parts of an undertaking or a participation in an undertaking. The general partner is authorized to exclude the shareholders' subscription right for fractional amounts.

In addition, pursuant to the articles of association of Fresenius SE & Co. KGaA, the general partner is authorized, with the approval of the Supervisory Board, until May 11, 2015,

- to increase Fresenius SE & Co. KGaA's subscribed capital by a total amount of up to € 1,313,000 through a single or multiple issue of new bearer ordinary shares against cash contributions (Authorized Capital III). The general partner may only make use of the Authorized Capital III to the extent that subscription rights for bearer ordinary shares were issued under the 1998 Stock Option Plan, the holders of these rights make use of their exercise right and provided that no Conditional Capital is used to satisfy the subscription rights.

- to increase Fresenius SE & Co. KGaA's subscribed capital by a total amount of up to € 4,298,442 through a single or multiple issue of new bearer ordinary shares against cash contributions and / or contributions in kind (Authorized Capital IV). The general partner may only make use of the Authorized Capital IV to the extent that convertible bonds on bearer ordinary shares were issued under the 2003 Stock Option Plan, the holders of these convertible bonds exercise their conversion right and provided that no Conditional Capital is used to satisfy the conversion rights.

- to increase Fresenius SE & Co. KGaA's subscribed capital by a total amount of up to € 6,200,000 through a single or multiple issue of new bearer ordinary shares against cash contributions (Authorized Capital V). The general partner may only make use of the Authorized Capital V to the extent that subscription rights for bearer ordinary shares were or are issued under the 2008 Stock Option Plan, the holders of these rights make use of their exercise right, Fresenius SE & Co. KGaA does not grant own shares or exercise its right to pay a cash compensation in order to satisfy these subscription rights and provided that no Conditional Capital is used to satisfy the subscription rights.

The shareholders' subscription right is excluded for the Authorized Capitals III, IV and V.

The resolved changes to the Authorized Capital became effective after registration of the new articles of association with the commercial register on January 28, 2011.

Two shareholder complaints (Anfechtungsklagen) were lodged against the resolutions of the Annual General Meeting held on May 8, 2009 creating the Authorized Capitals I and II. The Frankfurt Regional Court (Landgericht) has decided in favor of one complaint through judgment dated February 2, 2010, the other complaint was rejected. On February 15, 2011 the Higher Regional Court (Oberlandesgericht Frankfurt am Main) confirmed the validity of the resolutions creating the Authorized Capitals I and II.

The clearance procedure (Freigabeverfahren) pursuant to Section 246a of the German Stock Corporation Act (AktG) initiated by Fresenius SE in order to secure the Authorized Capitals I and II already entered in the commercial register was decided by the Higher Regional Court (Oberlandesgericht) of Frankfurt am Main in favor of Fresenius SE on March 30, 2010. Through this, the entry of the Authorized Capitals I and II into the commercial register had already been final and conclusive.

The authorized capitals have developed as follows in 2010:

Authorized Capital I	2010	2009
in thousand €		
As of January 1	12,800	12,800
As of December 31	12,800	12,800

Authorized Capital II	2010	2009
in thousand €		
As of January 1	6,400	0
Increase due to resolution of the General Meeting	0	6,400
As of December 31	6,400	6,400

Authorized Capital III	2010	2009
in thousand €		
As of January 1	0	0
Increase due to resolution of the General Meeting	1,313	0
As of December 31	1,313	0

Authorized Capital IV	2010	2009
in thousand €		
As of January 1	0	0
Increase due to resolution of the General Meeting	4,298	0
As of December 31	4,298	0

Authorized Capital V	2010	2009
in thousand €		
As of January 1	0	0
Increase due to resolution of the General Meeting	6,200	0
As of December 31	6,200	0

(12) Conditional capital

Corresponding to the stock option plans, the Conditional capital of Fresenius SE (since January 28, 2011: Fresenius SE & Co. KGaA) is divided into Conditional Capital I, Conditional Capital II and Conditional Capital III. These are used to satisfy the subscription rights in connection with already issued stock options or convertible bonds, as the case may be, on bearer ordinary shares under the stock option plans of 1998, 2003 and 2008.

After the registration of the change of legal form with the commercial register on January 28, 2011, the Conditional Capitals in the articles of association of Fresenius SE & Co. KGaA correspond in their scope to the Conditional Capitals of the former Fresenius SE, adjusted for stock options that have been exercised in the meantime.

Due to the conversion of all preference shares into ordinary shares, the Conditional Capital was amended to the effect that only subscription rights for bearer ordinary shares are granted.

The Conditional Capital I for the Fresenius AG Stock Option Plan 1998 has developed as follows:

Conditional Capital I	Ordinary shares	Preference shares
	€	€
As of January 1, 2010	656,550	656,550
Decrease due to exercise of stock options	-161,295	-161,295
As of December 31, 2010	495,255	495,255

The Conditional Capital II for the Fresenius AG Stock Option Plan 2003 has developed as follows:

Conditional Capital II	Ordinary shares	Preference shares
	€	€
As of January 1, 2010	2,149,221	2,149,221
Decrease due to exercise of stock options	-406,062	-406,062
As of December 31, 2010	1,743,159	1,743,159

The Conditional Capital III for the Fresenius SE Stock Option Plan 2008 with an amount of € 6.2 million is unchanged in relation to the previous year.

Fresenius SE stock option plans

Description of the Fresenius SE & Co. KGaA stock option plans in place

On December 31, 2010, Fresenius SE (since January 28, 2011: Fresenius SE & Co. KGaA) had three stock option plans in place; the Fresenius AG stock option based plan of 1998 (1998 Plan), the Fresenius AG Stock Option Plan 2003 (2003 Plan) which is based on convertible bonds and the stock option based Fresenius SE Stock Option Plan 2008 (2008 Plan). During 2010, stock options were only granted under the 2008 Plan.

The following descriptions reflect the stock option plans at December 31, 2010 whereas the changes resulting from the conversion of the subscribed capital into bearer ordinary shares in combination with the change of legal form are shown in a separate chapter thereafter.

Stock Option Plan 2008

During 2008, Fresenius SE adopted the 2008 Plan to grant subscription rights to members of the Management Board and managerial employees of the Company and affiliated companies.

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. The options 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 trading days immediately prior to each grant date. For participants in the United States, the exercise price may be the average closing price of both classes of shares during the 30 calendar days immediately prior to the grant date, if these are higher. 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 attributable to Fresenius SE, adjusted for extraordinary effects, has increased by at least 8% compared to the respective adjusted net income attributable to Fresenius SE 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 attributable to Fresenius SE shall be calculated on the basis of the calculation method of the accounting principles according to U.S. GAAP. For the purposes of the 2008 Plan, the adjusted net income attributable to Fresenius SE is determined and will be verified bindingly by Fresenius SE's auditor during the audit of the consolidated financial statements. The performance targets for 2009 and 2010 were met. 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.

Stock Option Plan 2003

During 2003, Fresenius AG adopted the 2003 Plan for members of the Management Board and executive employees. This incentive plan which is based on convertible bonds was replaced by the 2008 Plan and no options have been granted since 2008. Under the 2003 Plan, eligible employees have the right to acquire ordinary and preference shares of Fresenius SE. 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. 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 in 2007: $^{1}/_{3}$ of the initial value) by at least 25%. If converted after the share split, the conversion price which entitles to three ordinary shares or preference shares, respectively, is equal to the triple of one third of the initial value.

The initial value is the joint average stock exchange price of bearer ordinary shares and non-voting bearer preference shares during the last 30 trading days prior to the date of grant. The conversion price of options without a stock price target is the initial value. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15% less than if the employee elected options subject to the stock price target. Each convertible bond granted after the share split entitles to subscribe one ordinary or preference share, subject to payment of the conversion price. Bonds granted and converted prior to the share split were entitled to subscribe one ordinary or preference share, conversion after the share split entitles to three ordinary or preference shares.

Stock Option Plan 1998

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. At December 31, 2010, all options were exercisable. 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.

Adaptations of the stock option plans due to the change of legal form

Upon registration of Fresenius SE’s change of legal form into Fresenius SE & Co. KGaA with the commercial register on January 28, 2011, adaptations of the three stock option plans were required. Due to the conversion of all preference shares into ordinary shares in combination with the change of legal form, all already issued subscription rights under the respective stock option plan are to be satisfied, in case of exercise, with ordinary shares. Furthermore, the beneficiaries under the 2008 Plan are exclusively granted subscription rights for ordinary shares. With regard to the eligible beneficiaries, the members of Fresenius Management SE’s Management Board replace the previous members of the Fresenius SE Management Board for future stock option grants. With regard to the 2008 Plan, the Supervisory Board of Fresenius Management SE determines the grants for the Management Board members of that company. All other plan participants will be determined by the Management Board of Fresenius Management SE. In addition, due to the discontinuation of the preference shares, the success target of the 2003 Plan was adjusted to the effect, that it is deemed to be achieved if and when the sum of the following price increases amounts to at least 25%:

- increase of the joint average stock exchange price of ordinary and preference shares from the day of the issuance until the day when the change of legal form took effect

- increase of the stock exchange price of ordinary shares since the change of legal form took effect

Whereas the number of stock options remains unchanged, in future, the exercise price of the stock options corresponds to the stock exchange price of the ordinary share without considering the stock exchange price of the preference share.

The resolved changes to the stock option plans became effective upon the Management Board's resolution on September 27, 2010 with the approval of the Supervisory Board on October 12, 2010.

Transactions during 2010

In 2010, Fresenius SE (since January 28, 2011: Fresenius SE & Co. KGaA) awarded 1,109,738 stock options, including 198,660 options to members of the Management Board of Fresenius SE (since January 28, 2011: Fresenius SE & Co. KGaA), at a weighted-average exercise price of € 53.57, a weighted-average fair value of € 12.95 each and a total fair value of € 14 million, which will be amortized over the three-year vesting period.

During the fiscal year 2010, Fresenius SE (since January 28, 2011: Fresenius SE & Co. KGaA) received cash of € 38 million from the exercise of 1,134,714 stock options. The average stock price at the exercise date was € 57.56 for ordinary shares and € 58.61 for preference shares. The intrinsic value of options exercised in 2010 was € 27 million.

Under the 1998 Plan, 134,452 stock options were outstanding and exercisable at December 31, 2010. No options were held by the members of the Fresenius SE (since January 28, 2011: Fresenius SE & Co. KGaA) Management Board. 1,958,284 convertible bonds were outstanding under the 2003 Plan, of which 1,679,338 were exercisable. The members of the Fresenius SE (since January 28, 2011: Fresenius SE & Co. KGaA) Management Board held 419,100 convertible bonds. Out of 3,196,586 outstanding stock options issued under the 2008 Plan, 559,860 were held by the members of the Fresenius SE (since January 28, 2011: Fresenius SE & Co. KGaA) Management Board.

Stock option transactions are summarized as follows:

	Ordinary shares	Preference shares
	number	number
Number as of December 31, 2009	2,696,726	2,696,726
plus new issues	554,869	554,869
less forfeited options	-39,577	-39,577
less exercises	-567,357	-567,357
Number as of December 31, 2010	2,644,661	2,664,661

(13) Capital reserves

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

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

	2010	2009
in thousand €		
As of January 1	1,832,808	1,828,610
Increase due to exercise of stock options	37,180	4,198
As of December 31	1,869,988	1,832,808

The capital reserve of 10% of the subscribed capital conforms with the legal reserve as in section 150 (1) and (2) of the German Stock Corporation Act (AktG).

(14) Other reserves

Other reserves developed as follows:

	2010	2009
in thousand €		
As of January 1	777,645	641,984
Increase in other reserves from net income of the period	76,600	47,500
Increase in other reserves from retained earnings of the previous period	0	88,161
As of December 31	854,245	777,645

According to the restrictions in Section 268 (8) HGB new version € 3.5 thousand shall not be distributed. This amount relates exclusively to the fair value of the securities held to cover partial retirement agreement obligations in case of insolvency. Given that the amount of capital and other reserves is sensibly higher than this amount, there is no distribution restriction for retained earnings.

(15) Retained earnings

Accumulated profits from the prior year of € 48.4 thousand are included in retained earnings in accordance with the decision taken at the Annual General Meeting on May 12, 2010.

(16) Special reserve for investment government grants

Special reserves primarily comprise government investment grants and subsidies according to sections 1, 4 and 4b of the German Investment Subsidy Code (InvZulG). Dissolution of grants and subsidies is spread over the useful life of the subsidized assets. The yearly dissolution (€ 1 thousand) is included in the profit and loss statement under “Other operating income”.

(17) Accrued expenses

The pension obligation has been determined according to the method described under Note (3) “Accounting principles and standards of valuation”. The new calculation of pension provisions required by BilMoG as of January 1, 2010 resulted in an underfunded status of € 6,670 thousand. The Company allocated the full amount to the provision in 2010 according to Art. 67 (1) sentence 1 EGHGB. The expense related to this increase is included in extraordinary result in the statement of income.

In accordance with legal regulations the employee credit balances of partial retirement agreements are secured against insolvency. To fulfil this purpose the company buys shares of a money-market-similar investment fund in the amount of the cumulated credit balances. The securitization is done via pledging the investment fund shares to a trustee, hence the securities have the sole purpose of fulfilling the obligations derived from the partial retirement agreements and are not available to other creditors. In 2010 they have been netted with their matching obligations for the first time following Section 246 (2) sentence 2 HGB new version. The fair value of these securities has been derived from the stock exchange price at the balance sheet date.

	2010
in thousand €	
Amount to be paid for partial retirement agreements	1,770
Fair value of matching securities	1,130
Funded status (surplus of obligations over assets)	640
Acquisition cost of securities	1,036

In the statement of income, net interest includes € 95 thousand of netted expense and income from the valuation of the securities and the provision.

On the basis of a Works Council Agreement from 2009 and starting on January 1, 2010, employees can participate in a demography fund (Demografiefonds) by contributing part of their compensation or working time to an account run by Fresenius SE in exchange of time-off in the future. The credit balances of the employees are invested in an insurance product via a trust agreement so that Fresenius SE and its creditors do not have access to the funds. This construction is a security-based pension obligation in the sense of Section 253 (1) sentence 3 HGB new version. The amount provisioned for the time balances of the employees corresponds to the fair value of the insurance product. The fair value results from the forecasted actuarial reserves of the insurance company plus the present profit sharing on the surplus.

	2010
in thousand €	
Amount to be paid for obligations from the demography fund	75
Fair value of matching insurance	75
Funded status (surplus of assets over obligations)	0
Acquisition cost of insurance	73

The statement of income includes € 1 thousand of netted expense and income respectively from the valuation of the insurance product and the provision.

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

Other accruals are primarily established to cover personnel costs, insurance fees, process risks, indemnity claims as well as outstanding invoice liabilities.

This position also includes accruals of € 110,980 thousand for the market value of the on-lent Mandatory Exchangeable Bond of Fresenius Finance B.V.

(18) Liabilities

	2010				2009	
		thereof with a remaining term of				thereof with a remaining term of up to 1 year
	Total	up to 1 year	1 year to 5 years	over 5 years	Total	
in thousand €						
Convertible bonds	431	431	0	0	616	569
Bank loans	196,000	0	196,000	0	204,228	8,228
(thereof amount secured)	(196,000)	(0)	(196,00)	(0)	(196,000)	(0)
Trade accounts payable	2,907	2,907	0	0	1,020	1,020
Accounts payable to related parties	1,597,963	855,300	420,393	322,270	1,614,504	315,241
Other liabilities	2,185	2,185	0	0	10,497	10,497
	1,799,486	860,823	616,393	322,270	1,830,865	335,555
(thereof amount secured)	(196,000)	(0)	(196,000)	(0)	(196,000)	(0)

Convertible bonds

Liabilities result from the issuance of convertible bonds worth € 431 thousand as part of the Fresenius AG 2003 Stock Option Plan.

Bank loans

European Investment Bank Agreement

Fresenius SE & Co. KGaA has access to a revolving credit facility from the European Investment Bank (EIB) of € 96 million until June 2013. As of December 31, 2010 this credit facility was used in an amount of € 96 million.

Fresenius SE & Co. KGaA has access to a further revolving credit facility from the EIB of € 100 million until September 2013. As of December 31, 2010 this credit facility was used in an amount of € 100 million.

The above described credit facilities have quarterly adjusted variable interest rates. As of December 31, 2010 Fresenius SE (since January 28, 2011 Fresenius SE & Co. KGaA) paid 1.156% and 3.295% of interest for the € 96 million and the € 100 million borrowings respectively. The drawing of € 96 million under the credit facility is secured by bank guarantees. The drawing of € 100 million under the credit facility is guaranteed by Fresenius Kabi AG and Fresenius ProServe GmbH. Furthermore the facility contains common obligations and commitments. The EIB is the non-profit-oriented financing institution of the European Union which provides long-term financing for specific investment and research projects at advantageous conditions – usually up to 50% of the project volume.

Liabilities to affiliated companies

Liabilities to affiliated companies comprise loans and financing accounts with affiliated companies in an amount of € 1,597,854 thousand (previous year € 1,614,460 thousand) and trade accounts payable amounting to € 109 thousand (previous year € 44 thousand).

In the reporting year an expense of € 90,103 thousand resulted from the market value of the liability of € 554.4 million against Fresenius Finance B.V for the on-lent Mandatory Exchangeable Bonds (MEB) that has to be mandatorily exchanged against shares of FMC-AG & Co. KGaA upon maturity. The expense is included in the profit and loss statement in “Other financial result” and in the balance sheet in “Other accruals”.

Other liabilities

Other liabilities include primarily tax liabilities, interest liabilities as well as payroll liabilities.

Tax liabilities amount to € 1,613 thousand (previous year € 3,678 thousand).

(19) Contingent Liabilities

	2010	2009
in thousand €		
Contingencies from indemnity agreements and guarantees	4,556,574	4,403,976
(thereof amount in favor of and from affiliated companies)	(4,556,574)	(4,403,976)

Fresenius SE & Co. KGaA has committed itself to exempt on certain preconditions various members of the managing boards of foreign affiliates from claims, in case such claims were made due to their function as members of the managing board of the affiliates concerned, and these claims were based on the law of the respective country.

Fresenius SE & Co. KGaA committed itself, to the extent legally admissible, to indemnify the members of the Management Board against claims against them arising from their work for the Company and its affiliates, if such claims exceed their responsibilities under German law. To secure such obligations, the Company concluded a 'Directors&Officers' insurance (D&O insurance) with an appropriate excess. The indemnity applies for the time in which each member of the Management Board is in office and for claims in this connection after the ending of the membership of the Management Board in each case.

Fresenius SE & Co. KGaA guarantees the main liabilities of its wholly-owned subsidiaries Fresenius Finance B.V. and Fresenius US Finance II, Inc. The following table shows these liabilities of the two companies as of December 31, 2010:

Issuer	Nominal Value	Maturity Date	Nominal Interest
Euro Notes			
Fresenius Finance B.V. 2007/2012	€ 26 million	Jul 2, 12	5.51%
Fresenius Finance B.V. 2007/2012	€ 74 million	Jul 2, 12	variable
Fresenius Finance B.V. 2007/2014	€ 38 million	Jul 2, 14	5.75%
Fresenius Finance B.V. 2007/2014	€ 62 million	Jul 2, 14	variable
Fresenius Finance B.V. 2008/2012	€ 62 million	Apr 2, 12	5.59%
Fresenius Finance B.V. 2008/2012	€ 138 million	Apr 2, 12	variable
Fresenius Finance B.V. 2008/2014	€ 112 million	Apr 2, 14	5.98%
Fresenius Finance B.V. 2008/2014	€ 88 million	Apr 2, 14	variable
Senior Notes			
Fresenius Finance B.V. 2006/2013	€ 500 million	Jan 31, 13	5.00%
Fresenius Finance B.V. 2006/2016	€ 650 million	Jan 31, 16	5.50%
Fresenius US Finance II, Inc. 2009/2015	€ 275 million	Jul 15, 15	8.75%
Fresenius US Finance II, Inc. 2009/2015	US$ 500 million	Jul 15, 15	9.00%

The Euro Notes of Fresenius Finance B.V. are guaranteed by Fresenius SE & Co. KGaA.

In June 2009, Fresenius Finance B.V. has placed a tap in an amount of € 150 million to the Senior Notes which are due in 2016. The proceeds were used to repay short-term debt.

The Senior Notes issued by Fresenius Finance B.V. which matured on April 30, 2009 were repaid on schedule.

Fresenius US Finance II, Inc., a wholly-owned subsidiary of Fresenius SE & Co. KGaA, has issued unsecured Senior Notes in January 2009. The Notes comprise a US dollar tranche with a notional amount of US$ 500 million and a euro tranche with a notional amount of € 275 million. Both tranches will mature in 2015. Proceeds of the Senior Notes offering in an amount of approximately US$ 800 million were used to repay the bridge credit agreement entered into in connection with the acquisition of APP Pharmaceuticals, Inc., to repay other debt and for general corporate purposes.

All Senior Notes of Fresenius Finance B.V. and of Fresenius US Finance II, Inc. are guaranteed by Fresenius SE & Co. KGaA, Fresenius Kabi AG and Fresenius ProServe GmbH. The holders have the right to request that the issuers repurchase the Senior Notes at 101% of principal plus accrued interest upon the occurrence of a change of control followed by a decline in the rating of the respective Senior Notes. Since January 31, 2011 the Senior Notes of Fresenius Finance B.V. maturing in 2016 may be redeemed at the option of the issuer at prices that have already been fixed at the date of issuance in the indentures. All other Senior Notes of Fresenius Finance B.V. and of Fresenius US Finance II, Inc. may be redeemed prior to their maturity at the option of the issuers, in whole but not in part, at a price of 100% plus accrued interest and a premium calculated pursuant to the terms of the indentures under observance of certain notice periods.

Fresenius SE & Co. KGaA 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 & Co. KGaA and its subsidiaries (excluding Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) and its subsidiaries). These covenants include 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, among other items. Some of these restrictions are lifted automatically when the rating of the respective Notes reaches investment grade. In the event of non-compliance with the terms of the Senior Notes, the bondholders (owning in aggregate more than 25% of the outstanding Senior Notes) are entitled to call the Senior Notes and demand immediate repayments plus interest. As of December 31, 2010, the Fresenius Group was in compliance with all of its covenants.

On August 20, 2008, in connection with the acquisition of APP Pharmaceuticals, Inc. (APP), the Fresenius Group entered into a syndicated credit agreement (2008 Senior Credit Agreement) in an original amount of US$ 2.45 billion.

Since that date, amendments and voluntary prepayments were made which resulted in a change of the total amount available under this facility. In December 2009 and February 2010, voluntary prepayments of Term Loan B were made which amounted to US$ 199.7 million and € 33 million. Amendments of the 2008 Senior Credit Agreement related to the financial covenants as defined in the agreement, among other things. In addition, the amendment in March 2010 led to a replacement of Term Loan B by Term Loan C. Both Term Loan facilities merely differ in terms of the applicable interest rate. The minimum LIBOR or EURIBOR was set for 1.50% (previously Term Loan B: 3.25%).

As of December 31, 2010, the 2008 Senior Credit Agreement consisted of:

- Revolving Credit Facilities in the aggregate principal amount of US$ 550 million (of which US$ 150 million is available to APP Pharmaceuticals, LLC and US$ 400 million is available as multicurrency facility to Fresenius Finance I S.A., a wholly-owned subsidiary of Fresenius SE & Co. KGaA) which will be due and payable on September 10, 2013.

- Term Loan Facilities (Term Loan A) in the aggregate principal amount of US$ 782 million (of which equal shares are available to Fresenius US Finance I, Inc., a wholly-owned subsidiary of Fresenius SE & Co. KGaA, and to APP Pharmaceuticals, LLC). Term Loan A amortizes and is repayable in unequal semi-annual installments with a final maturity date on September 10, 2013.

- Term Loan Facilities (Term Loan C) in the aggregate principal amount of US$ 983.5 million and € 162.5 million (of which US$ 579.3 million and € 162.5 million are available to Fresenius US Finance I, Inc. and US$ 404.2 million is available to APP Pharmaceuticals, LLC). Term Loan C amortizes and is repayable in equal semi-annual installments with a final bullet payment on September 10, 2014.

The 2008 Senior Credit Agreement is guaranteed by Fresenius SE & Co. KGaA, Fresenius ProServe GmbH and Fresenius Kabi AG.

Moreover Fresenius SE & Co. KGaA together with Kabi AG guarantee a loan of € 24.1 million from Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt Friedberg KG entered into in 2010 and that has the same value on December 31, 2010.

Mandatory Exchangeable Bonds

To finance the acquisition of APP Pharmaceuticals, Inc., Mandatory Exchangeable Bonds (MEB) in an aggregate nominal amount of € 554.4 million were launched in July 2008. Fresenius Finance B.V. subscribed for these MEB issued by Fresenius Finance (Jersey) Ltd. at 100% of their principal amount. Afterwards, the MEB were on-lent to Fresenius SE (since January 28, 2011: Fresenius SE & Co. KGaA) who placed the MEB in the market. The bonds carry a coupon of 5 5/8% 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 (FMC-AG & Co. KGaA) with a maximum of 17.42 million and a minimum of 14.76 million shares (based on the current exchange price) 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 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). Due to the dividend payments in May 2010 and 2009, the minimum exchange price and the maximum exchange price decreased to € 31.83 and € 37.56, respectively. 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 rating of Fresenius SE & Co. KGaA falls below certain benchmarks and such benchmarks are subsequently not reinstated. Moreover, in the event of a change of control of Fresenius SE & Co. KGaA 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 & Co. KGaA guarantees in favor of Fresenius Finance (Jersey) Ltd. the payment of certain interest payments by Fresenius Finance B.V. Furthermore, it secures the delivery of the underlying shares of FMC-AG & Co. KGaA for exchange via a pledge agreement. In addition, Fresenius SE & Co. KGaA has undertaken to the holders of the bonds that neither it nor any of its material subsidiaries provides any security of its assets for certain capital market indebtedness, without at the same time having the holders share equally and rateably in such security.

According to our judgment the affected companies can meet the underlying obligations in any case and assertion of the claim is currently not expected.

(20) Other financial commitments

in thousand €	2010	2009
Commitments from building leases, and leasing commitments		
due 2010 (prior year: 2009)	1,213	1,250
due 2011-2014 (prior year 2010-2013)	1,204	1,556
due after 2014 (prior year: after 2013)	-	-
	2,417	2,806
Commitments from ongoing capital expenditures	209	206
(thereof amount to affiliated companies)	(-)	(-)
Other Commitments	17,201	13,276
(thereof amount to affiliated companies)	(17,201)	(13,276)
	19,827	16,288

Other financial commitments comprise commitments from the transfer of pension obligations from operating divisions of the business segments and future payment-obligations from subsidiaries resulting from acquisitions.

According to our judgment the affected companies can meet the underlying obligations in any case and assertion of the claim is currently not expected.

Notes on the profit and loss statement

(21) Income from participations

	2010	2009
in thousand €		
Income from profit transfer agreements	353,310	242,947
Income from participations	73,922	72,024
(thereof amount from affiliated companies)	(65,028)	(72,024)
Expenses from loss transfer agreements	-36,846	-51,642
	390,386	263,329

(22) Other operating income

Other operating income of € 78,115 thousand in total (previous year € 89,497 thousand) is comprised primarily of cost transfers to group companies of € 49,137 thousand (previous year € 48,162 thousand), service contracts with other subsidiaries, sales of property, plant and equipment from other accounting periods of € 45 thousand (previous year € 60 thousand), as well as other income from other accounting periods mainly income from the dissolution of short-term accruals in the amount of € 695 thousand (previous year € 1,472 thousand) and from foreign currency gains of € 25,303 thousand (previous year € 39,076 thousand). The main reason for the decrease in other operating income is a decrease in foreign currency gains.

The total income from other accounting periods was € 809 thousand in the fiscal year (previous year € 1,599 thousand).

(23) Reversals of write-offs for financial assets

In 2010 additions to financial assets came from the reversal of a write-off for a loan to an affiliated company. € 3,626 thousand were added to reflect the positive foreign exchange rate trend for the US $ loan receivable against that affiliate.

(24) Personnel expenses

	2010	2009
in thousand €		
Salaries and wages	23,621	21,457
Social securities and costs of retirement pensions and social assistance	5,757	4,758
(thereof amount of retirement pensions)	(3,139)	(2,294)
	29,378	26,215

The annual average number of employees of Fresenius SE & Co. KGaA by function is divided into the following groups:

	2010	2009
Wage earners	18	13
Salaried employees	210	175
Apprentices	109	98
	337	286

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

Depreciation of intangible assets and property, plant and equipment of € 3,985 thousand (previous year € 3,929 thousand) is regular depreciation.

(26) Other operating expenses

Other operating expenses of € 71,686 thousand in total (previous year € 71,093 thousand) were primarily foreign currency losses of € 24,027 thousand (previous year € 34,272 thousand). IT-related expenses, insurance premiums and consulting expenses were also included.

Total expenses from other accounting periods were € 501 thousand in the fiscal year (previous year € 1,178 thousand).

In 2010 and 2009, fees for the auditor were expensed as follows:

	2010	2009
in thousand €		
Audit fees	441	445
Tax consulting fees	0	0
Other fees	217	99
	658	544

(27) Write-downs of financial assets

Write-downs of financial assets in 2009 mainly referred to the write-down of a loan to an affiliated company. The US$ loan receivable had to be written down by € 1,631 thousand due to negative exchange rate effects.

(28) Earnings before interest and taxes (EBIT)

	2010	2009
in thousand €		
Profit on ordinary activities	223,664	175,377
Net interest	49,685	53,665
Other financial result	90,103	20,876
Other taxes	-256	-495
EBIT	**363,196**	**249,423**

(29) Net interest

in thousand €	2010	2009
Interest income from long-term loans	45,235	40,536
(thereof amount from affiliated companies)	(45,235)	(40,536)
Income from discounting provisions	0	0
Other interest and similar income	34,964	13,268
(thereof amount from affiliated companies)	(33,556)	(8,316)
Interest and similar expenses	-128,444	-107,469
(thereof amount from affiliated companies)	(-86,841)	(-81,352)
Expense from interest accrued for provisions	-1,440	0
	-49,685	-53,665

In 2010 interest and similar expenses include compensation payment in an amount of € 31,330 thousand (previous year € 31,328 thousand) in connection with the mandatory exchangeable bond on-lent from Fresenius Finance B.V.

(30) Other financial result

Other financial result includes the expense from the market value of the liability in connection with the on-lent Mandatory Exchangeable Bonds.

(31) Extraordinary result

in thousand €	2010
Expense from additions to pension provisions	-6,670
Income from foreign currency valuations	13
Merger loss	-144
Extraordinary result	-6,801

Effects from the first time implementation of the new German accounting legislation (BilMoG) added € -6,657 thousand to the extraordinary result.

(32) Income taxes

Income taxes in the amount of € 297 thousand (previous year € 5,583 thousand) resulted from current tax expense of € 2,017 thousand (previous year € 4,407 thousand) as well as taxes from other accounting periods in the amount of € -1,720 thousand (previous year € 1,176 thousand).

The deferred tax for the Tax Group is calculated with a tax rate of 29%, which is the tax rate expected to be applicable at the time the temporary differences reverse. Deferred tax liabilities arise from differences in the valuation of accounts receivables and from other assets not recognized for tax purposes. Differences in the valuation of pensions and other provisions generate deferred tax assets that exceed the amount of deferred tax liabilities. Moreover, as of December 31, 2010 Fresenius SE (since January 28, 2011 Fresenius SE & Co. KGaA) has further deferred tax assets that arise from operating losses that can be carried forward for an unlimited period. The Company makes use of the option to not recognize a net deferred asset.

(33) Derivatives

Fresenius SE & Co. KGaA uses derivative financial instruments to hedge against existing or highly probable future interest and currency risks. Derivative financial instruments are contracted exclusively for hedging purposes. As the critical terms of the underlying transactions basically match those of the derivative financial instruments it can be assumed that hedges are highly effective. Fresenius SE has approved guidelines for assessing risks and to control the use of financial instruments. The guidelines require a clear separation between the execution function on the one side and the clearing, accounting and control on the other hand. Fresenius SE uses derivative financial instruments to reduce fluctuations in earnings and cash flows caused by changes in foreign currency exchange rates and interest rates.

Foreign exchange risk

The company uses foreign exchange forward contracts to hedge foreign exchange risk.

Fresenius SE & Co. KGaA entered into foreign exchange forward contracts with external partners to hedge foreign currency risks from accounts receivable and liabilities as well as highly probable forecasted transactions from the Company and its affiliates. On the balance sheet date, the Company had mainly US$ and € currency derivatives with a nominal value of € 833,094 thousand and fair value of € -4,479 thousand with a maximum maturity of 22 months.

Hedges were build for foreign exchange forward contracts with banks closed to hedge the foreign exchange risk of Fresenius SE & Co. KGaA Group companies' and the underlying transactions with an offsetting fair value, as far as the contracts were passed down to the affected Group companies via Group internal transactions. The Company does not revaluate these hedges for financial reporting purposes until maturity (Einfrierungsmethode). The net fair value of internal and external hedges was € -4,749 thousand. As of December 31, 2010, the notional amount of these transactions totalled € 787,369 thousand. A provision for contingent losses of € -4,749 thousand has been build within "Other provisions". The offsetting cash flows will level after 22 months the latest.

Further hedges were built for cashpool balances and loans in foreign currencies that Group Companies have borrowed from the Company or that the Company has borrowed from Group Companies, and their offsetting foreign exchange forward contracts closed for hedging purposes. The cashpool balances, loan receivables and payment obligations hedged against currency risk had a net book value of € -30,342 thousand (liability). External foreign currency hedging contracts for the cashpool balances, individual loans receivables and payment obligations had a net fair value of € 96 thousand. The changes in value of both the loan receivables and payment obligations and the foreign currency hedging contracts have been recognized as income (Durchbuchungsmethode). The offsetting cash flows will nearly level after 3 months the latest.

The rest of the currency derivative contracts had positive and negative fair values. Positive fair values of € 197 thousand were not recognized for financial reporting purposes. A provision for contingent losses of € -23 thousand was build for negative fair values.

Interest rate risk

The Company entered into interest rate swap transactions with banks with a nominal value of € 1,524,586 thousand and a negative fair value on the balance sheet date of € 64,818 thousand. These transactions are mainly offset by interest rate swaps with the same nominal value and a positive fair value of € 61,857 thousand, through hedging transactions with affiliated companies. These transactions build a hedge that is not revaluated for financial reporting purposes until maturity (Einfrierungsmethode). External transactions with a nominal value of € 88,310 thousand and a negative fair value of € 1,976 thousand on the balance sheet date were not offset by internal transactions and a provision for contingent losses was build for the negative fair value. Moreover, a bank loan of the Company, has an interest rate hedge with a nominal value of € 40,000 thousand and a fair value on the balance sheet date of € 985 thousand. This hedge is not recognized in the period. The fair values are presented without accrued interest.

Standards of valuation

The fair values of derivative financial instruments are valuated according to customary standards that take market information (market values) on the balance sheet date into account. In detail following principles are used:

- The fair value is based on the market value that could be reached in voluntary transactions by independent parties without taking forced or liquidation sales into account.
- To determine the market 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 date of the balance sheet. The result is then discounted on the basis of the market interest rates prevailing at the date of the statement of financial position for the respective currency.
- The 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 date of the balance sheet.

The effectiveness of hedging relationships is measured with the Critical Term Match-Method and the Dollar Offset-Method for foreign exchange forward contracts and with the Dollar Offset-Method for interest rate swaps.

(34) Compensation of the Management Board and Supervisory Board

Individualized information regarding the compensation of the members of the Management Board and of the Supervisory Board is disclosed in the audited Compensation Report (see enclosure to the Management Report) which is part of the Management Report.

The Management Board's compensation is, as a whole, performance-oriented and consisted of three components in 2010: non-performance-related compensation (basic salary), performance-related compensation (variable bonus), long-term incentive component (stock options).

The cash compensation paid to the Management Board for the performance of its responsibilities was € 9,398 thousand (previous year € 9,345 thousand). Thereof, € 4,105 thousand (previous year € 3,635 thousand) is not performance-related and € 4,685 thousand (previous year € 5,204 thousand) is performance-related. The amount of the performance-related compensation depends on the achievement of targets relating to the net income of the Fresenius Group and business segments. As a long-term incentive component, the members of the Management Board received 198,660 stock options under the Fresenius SE Stock Option Plan 2008 and 99,600 stock options under the Fresenius Medical AG & Co. KGaA Stock Option Plan 2006.

The payment of a part of the performance-related compensation in an amount of € 897 thousand was postponed by two years as a long-term incentive component. The payment depends on the achievements of targets relating to the net income attributable to Fresenius SE & Co. KGaA of the years 2011 and 2012.

The compensation paid to the Supervisory Board and its committees was € 1,782 thousand in 2010 (previous year € 1,584 thousand). Of this amount, € 183 thousand was fixed compensation (previous year € 183 thousand), € 100 thousand was compensation for committees services (previous year € 100 thousand), and € 1,499 thousand was variable compensation (previous year € 1,301 thousand).

In 2010, € 776 thousand (previous year € 744 thousand) was paid to former members of the Management Board. The pension obligation for these persons amounted to € 11,039 thousand in 2010 (previous year € 9,878 thousand).

In the fiscal years 2010 and 2009, no loans or advance payments of future compensation components were made to members of the Management Board of the general partner of Fresenius SE & Co. KGaA.

(35) Corporate Governance

For each consolidated stock exchange listed entity, the declaration pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz) has been issued and made available to shareholders on the website of Fresenius SE & Co. KGaA www.fresenius.com under Who we are / Corporate Governance / Declaration of Conformity and of Fresenius Medical Care AG & Co. KGaA www.fmc-ag.com under Investor Relations / Corporate Governance / Declaration of Compliance, respectively.

(36) Proposal for the distribution of earnings

The Management Board of the General Partner of Fresenius SE & Co. KGaA proposes to the Annual General Meeting that the earnings for 2010 of Fresenius SE be distributed as follows:

Payment of a dividend of € 0.86 per bearer ordinary share on the 162,450,090 ordinary shares entitled to dividend	€ 139,707,077.40
Balance to be carried forward	€ 50,880.80
	€ 139,757,958.20

(37) 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 23, 2011

Fresenius SE & Co. KGaA,
represented by:
Fresenius Management SE, its General Partner

The Management Board

Dr. U. M. Schneider R. Baule Dr. F. De Meo

Dr. J. Götz Dr. B. Lipps S. Sturm Dr. E. Wastler

BOARDS

SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

Dr. Gerd Krick

Königstein

Former Chairman of Fresenius AG

Chairman

Offices

Supervisory Board
Fresenius Management SE
(since March 11, 2010; Chairman since May 12, 2010)
Fresenius Medical Care AG & Co. KGaA (Chairman)
Fresenius Medical Care Management AG
Fresenius SE (until January 28, 2011; Chairman)
VAMED AG, Austria (Chairman)

Prof. Dr. med. D. Michael Albrecht

Dresden

Medical director and Spokesman of the Management Board of the Universitätsklinikum Carl Gustav Carus Dresden

Offices

Supervisory Board
GÖK Consulting AG
HELIOS Kliniken GmbH (until May 31, 2010)
Universitätsklinikum Aachen
Universitätsklinikum Magdeburg
Universitätsklinikum Rostock

Prof. Dr. h. c. Roland Berger

Munich

Management consultant

Offices

Supervisory Board
Fresenius Management SE (since May 12, 2010)
Fresenius SE (until January 28, 2011)
Live Holding AG (until August 31, 2010; Chairman)
Prime Office AG (Chairman)
Roland Berger Strategy Consultants Holding GmbH
(Chairman until August 1, 2010;
Honorary Chairman as of August 1, 2010)
Schuler AG
Senator Entertainment AG (until April 16, 2010)
Wilhelm von Finck AG (Deputy Chairman)
WMP EuroCom AG (Chairman)

Administrative Board
Wittelsbacher Ausgleichsfonds

Board of Directors
3W Power Holdings S.A., Luxembourg (Chairman)
(former SPAC Germany 1 Acquisition Limited, Guernsey)
Fiat S.p.A., Italy
Italy 1 Investment S.A., Luxembourg
(since August 26, 2010; Deputy Chairman)
Loyalty Partner Holdings S.A., Luxembourg
RCS Mediagroup S.p.A., Italy (since December 17, 2010)
Telecom Italia S.p.A., Italy

Dario Anselmo Ilossi

(as of January 31, 2011)

Rome, Italy

Trade union officer FEMCA Cisl – Energy, Fashion and Chemicals

Offices

Supervisory Board
Fresenius SE (until January 28, 2011)

Konrad Kölbl

(as of January 31, 2011)

Hof am Laithagebirge, Austria

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

Corporate Offices

Supervisory Board
Fresenius SE (until January 28, 2011)
VAMED-KMB Krankenhausmanagement und
Betriebsführungsges. m.b.H., Austria

Klaus-Peter Müller

Bad Homburg v. d. H.

Chairman of the Supervisory Board of Commerzbank AG

Offices

Supervisory Board
Commerzbank AG (Chairman)
Fraport AG (until December 31, 2010)
Fresenius Management SE (since May 12, 2010)
Fresenius SE (until January 28, 2011)
Linde AG

Administrative Board
Assicurazioni Generali S.p.A., Italy (until April 24, 2010)
Landwirtschaftliche Rentenbank

Board of Directors
Parker Hannifin Corporation, USA

Gerhard Roggemann

Hannover

Vice Chairman (Mitglied der Geschäftsleitung) Hawkpoint Partners Ltd., Great Britain

Offices

Supervisory Board
Deutsche Beteiligungs AG (since March 24, 2010)
Deutsche Börse AG (Deputy Chairman)
GP Günter Papenburg AG (Chairman)

Board of Directors
F & C Asset Management plc, Great Britain
Friends Provident Holdings (UK) plc, Great Britain
Resolution Ltd., Guernsey

Dr. Gerhard Rupprecht

Gerlingen

Member of the Management Board Allianz SE (until December 31, 2010)

Chairman of the Management Board Allianz Deutschland AG (until June 30, 2010)

Deputy Chairman

Offices

Supervisory Board
Allianz Beratungs- und Vertriebs-AG
(until June 30, 2010; Chairman)
Allianz Deutschland AG (from July 1, 2010 until
December 31, 2010; Chairman)
Allianz Elementar Lebensversicherungs-AG
(until December 31, 2010; Chairman)
Allianz Elementar Versicherungs-AG
(until December 31, 2010; Chairman)
Allianz Investmentbank AG
(until December 31, 2010; Deputy Chairman)
Allianz Lebensversicherungs-AG
(until June 30, 2010; Chairman)
Allianz Private Krankenversicherungs-AG
(until June 30, 2010; Chairman)
Allianz Suisse Lebensversicherungs-AG, Switzerland
(until December 31, 2010)
Allianz Suisse Versicherungs-AG, Switzerland
(until December 31, 2010)
Allianz Versicherungs-AG
(until June 30, 2010; Chairman)
Fresenius Management SE (since May 12, 2010)
Fresenius SE (until January 28, 2011)
Heidelberger Druckmaschinen AG

SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

Wilhelm Sachs

(as of January 31, 2011)
Friedrichsdorf
Full-time Works Council member

Deputy Chairman of the Works Council Friedberg plant

Member of the Joint Works Council Fresenius SE & Co. KGaA/Friedberg plant

Chairman of the General Works Council Fresenius SE & Co. KGaA

Corporate Offices
Supervisory Board
Fresenius SE (until January 28, 2011)

Stefan Schubert

(as of January 31, 2011)
Limburg-Staffel
Hospital nurse and full-time Works Council member

Chairman of the Works council of HELIOS Klinik Bad Schwalbach and of HELIOS Klinik Idstein

Chairman of the Group Works Council of Wittgensteiner Kliniken GmbH

Corporate Offices
Supervisory Board
Fresenius SE (until January 28, 2011)
Wittgensteiner Kliniken GmbH

Rainer Stein

(as of January 31, 2011)
Berlin
Full-time Works Council member

Chairman of the Group Works Council HELIOS Kliniken GmbH

Corporate Offices
Supervisory Board
Fresenius SE (until January 28, 2011)
HELIOS Kliniken GmbH

Niko Stumpfögger

(as of January 31, 2011)
Zeuthen
Secretary of the trade union ver.di, Betriebs- und Branchenpolitik im Bereich Gesundheit und Soziales
Deputy Chairman

Offices
Supervisory Board
Fresenius SE (until January 28, 2011; Deputy Chairman)
HELIOS Kliniken GmbH (Deputy Chairman)

COMMITTEES OF THE SUPERVISORY BOARD

Personnel Committee (until 28.01.2011)

Dr. Gerd Krick (Chairman) [1]
Wilhelm Sachs [1]
Dr. Karl Schneider [1,2]

The KGaA has no Personnel Committee.

Nomination Committee

Dr. Gerd Krick (Chairman) [1,3]
Prof. Dr. h. c. Roland Berger [3]
Dr. Gerhard Rupprecht [3]
Dr. Dieter Schenk [1,2]
Dr. Karl Schneider [1,2]

Audit Committee

Prof. Dr. h. c. Roland Berger (Chairman) [1,3]
Konrad Kölbl [1,3]
Dr. Gerd Krick [1,3]
Gerhard Roggemann [3]
Rainer Stein [1,3]
Dr. Karl Schneider [1,2]

[1] Committee member of the Supervisory Board of the legal predecessor Fresenius SE until January 28, 2011
[2] Member of the Management Board of the legal predecessor Fresenius SE until January 28, 2011
[3] Committee member of the Supervisory Board of Fresenius SE & Co. KGaA since March 11, 2011

MANAGEMENT BOARD FRESENIUS MANAGEMENT SE

(General Partner of Fresenius SE & Co. KGaA)

Dr. Ulf M. Schneider[1]

Frankfurt am Main

Chairman

Corporate Offices
Supervisory Board
Fresenius HemoCare Netherlands B.V., Netherlands
Fresenius Kabi AG (Chairman)
Fresenius Kabi Austria GmbH, Austria
(until June 30, 2010)
Fresenius Kabi España S.A., Spain
Fresenius Medical Care Groupe France S.A.S., France
(Chairman)
Fresenius Medical Care Management AG (Chairman)
HELIOS Kliniken GmbH (Chairman)

Board of Directors
APP Pharmaceuticals, Inc., USA
FHC (Holdings), Ltd., Great Britain
Fresenius Kabi Pharmaceuticals Holding, Inc., USA

Rainer Baule[1]

Ettlingen

Business Segment Fresenius Kabi

Corporate Offices
Supervisory Board
Fresenius HemoCare Netherlands B.V., Netherlands
(Chairman)
Fresenius Kabi Austria GmbH, Austria (Chairman)
Fresenius Kabi España S.A., Spain
Labesfal – Laboratórios Almiro, S.A., Portugal

Administrative Board
Fresenius Kabi Groupe France S.A., France (Chairman)
Fresenius Kabi Italia S.p.A., Italy

Board of Directors
APP Pharmaceuticals, Inc., USA
Dabur Pharma (Thailand) Co. Ltd., Thailand
FHC (Holdings) Ltd., Great Britain
Fresenius Kabi Asia Pacific Ltd., Hong Kong
Fresenius Kabi Oncology Inc., USA (until March 24, 2010)
Fresenius Kabi Oncology Plc., Great Britain
Fresenius Kabi Pharmaceuticals Holding, Inc., USA
Fresenius Kabi (Singapore) Pte Ltd., Singapore

Dr. Francesco De Meo[1]

Petersberg

Business Segment Fresenius Helios

Corporate Offices
Supervisory Board
HELIOS Klinikum Bad Saarow GmbH (Chairman)
HELIOS Klinikum Emil von Behring GmbH (Chairman)
HELIOS Klinikum Erfurt GmbH
(Chairman since January 12, 2010)
HELIOS Klinikum Krefeld GmbH (until October 31, 2010)
HELIOS Kliniken Leipziger Land GmbH
(Chairman since January 15, 2010)
HELIOS Kliniken Mansfeld-Südharz GmbH
(since January 12, 2010; Chairman since March 4, 2010)
HELIOS Kliniken Schwerin GmbH (Chairman)
HELIOS Spital Überlingen GmbH (Chairman)

Offices
Supervisory Board
Allianz Private Krankenversicherungs-AG

Dr. Jürgen Götz[1]

Bad Soden am Taunus

Chief Legal and Compliance Officer,

and Labour Relations Director

Corporate Offices
Supervisory Board
HELIOS Kliniken GmbH
Wittgensteiner Kliniken GmbH (Chairman)

Dr. Ben Lipps[1]

Boston, Massachusetts (USA)

Business Segment

Fresenius Medical Care

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

Stephan Sturm[1]

Hofheim am Taunus

Chief Financial Officer

Corporate Offices
Supervisory Board
Fresenius HemoCare Netherlands B.V., Netherlands
Fresenius Kabi AG (Deputy Chairman)
Fresenius Kabi España S.A., Spain
HELIOS Kliniken GmbH
Labesfal – Laboratórios Almiro, S.A., Portugal
VAMED AG, Austria (Deputy Chairman)
Wittgensteiner Kliniken GmbH

Administrative Board
Fresenius Kabi Groupe France S.A., France

Board of Directors
FHC (Holdings) Ltd., Great Britain

Dr. Ernst Wastler[1]

Linz, Austria

Business Segment Fresenius Vamed

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

[1] Member of the Management Board of Fresenius SE until January 28, 2011.

SUPERVISORY BOARD FRESENIUS MANAGEMENT SE

(General Partner of Fresenius SE & Co. KGaA)

Dr. Gerd Krick

Königstein

Chairman

Prof. Dr. h. c. Roland Berger

Munich

Klaus-Peter Müller

Bad Homburg v. d. H.

Dr. Gerhard Rupprecht

Gerlingen

Dr. Dieter Schenk

Munich

Lawyer and tax consultant

Deputy Chairman

Offices

Supervisory Board
Fresenius Medical Care AG & Co. KGaA
(Deputy Chairman)
Fresenius Medical Care Management AG
(Deputy Chairman)
Fresenius SE (until January 28, 2011; Deputy Chairman)
Gabor Shoes AG (Chairman)
Greiffenberger AG (Deputy Chairman)
TOPTICA Photonics AG (Vorsitzender)

Administrative Board
Else Kröner-Fresenius-Stiftung (Chairman)

Dr. Karl Schneider

Mannheim

Former Spokesman of Südzucker AG

Offices

Supervisory Board
Fresenius SE (until January 28, 2011)

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

Management Report for Fresenius SE

Operations and business environment

Group structure and business

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

The annual general meeting of Fresenius SE on May 12, 2010 approved the change of the Company's legal form into an SE & Co. KGaA (a partnership limited by shares). The change was registered with the commercial register and thereby became effective on January 28, 2011. Fresenius SE has since been operating as Fresenius SE & Co. KGaA. The change of legal form neither led to a liquidation of the Company nor to the formation of a new legal entity. The Company's legal and economic identity remains unchanged. As part of the transaction, all non-voting preference shares in Fresenius SE were mandatorily converted into voting ordinary shares at a 1:1 exchange ratio. The Company's total share capital remained unchanged.

The operating business comprises the **business segments**, all of which are legally independent entities managed by the operating parent company Fresenius SE & Co. KGaA. This Group structure has not changed in the reporting period.

- Fresenius Medical Care is the world's leading dialysis company, with products and services for patients with chronic kidney failure. As of December 31, 2010, Fresenius Medical Care treated 214,648 patients at 2,757 dialysis clinics.
- Fresenius Kabi specializes in infusion therapies, intravenously administered drugs (IV drugs), and clinical nutrition for critically and chronically ill people in hospitals and outpatient care. The company is also a leading supplier of medical devices and products in the area of transfusion technology.
- Fresenius Helios is one of the largest private hospital operators in Germany. The HELIOS-Kliniken Group operates 63 proprietary clinics, of which 62 are located in Germany and one in Switzerland. HELIOS has a total of more than 18,500 beds.
- Fresenius Vamed provides engineering and services for hospitals and other health care facilities internationally.
- The segment Corporate/ Other comprises the holding activities of Fresenius SE & Co. KGaA, the IT service provider Fresenius Netcare, and Fresenius Biotech. Fresenius Biotech is active in research and development in the field of antibody therapies. Corporate/ Other also includes the consolidation measures conducted among the business segments.

The Fresenius Group operates internationally and all business segments have a regional and decentralized structure. Responsibilities are clearly defined in line with the Company's "entrepreneur in the enterprise" management principle. Additionally, management accountability is reinforced by an earnings-oriented and target-linked compensation system. Fresenius has an international sales network and maintains over 80 production sites around the globe. Large production sites are located in the United States, China, Japan, Germany, and Sweden. Production plants are also located in other European countries, in Latin America, Asia-Pacific, and South Africa. This international production network allows us to implement our business model while meeting the most exacting logistical and regulatory requirements. The decentralized structure of the production sites also substantially reduces transportation costs and currency exposure.

Management and control

Until the change of legal form took effect, the corporate bodies of Fresenius SE were the Management Board, the Supervisory Board, and the General Meeting. Fresenius SE had a **two-tier management and control system**, consisting of the Management Board and the Supervisory Board. The management board conducted the business on its own responsibilityThe Supervisory Board appointed the members of the Management Board, advised and supervised the Management Board, and was directly involved in decisions of fundamental importance for the Company.

Since the **change of legal form** to a **KGaA** took effect, the Company's corporate bodies are the General Meeting, the Supervisory Board, and the General Partner, Fresenius Management SE. Fresenius Management SE is wholly owned by the Else Kröner-Fresenius Foundation. The KGaA also has a **two-tier management system** – management and control are strictly separated, as in the former SE.

The **Management Board of the General Partner** conducts the business and represents the Company in dealings with third parties. It has seven members, whose composition is identical to that of the former Management Board of Fresenius SE. According to the Management Board's rules of procedure, each member is accountable for his own area of responsibility. However, the members have joint responsibility for the management of the Group. In addition to the Supervisory Board of Fresenius SE & Co. KGaA, Fresenius Management SE has its own Supervisory Board. The Management Board is required to report to the Supervisory Board of Fresenius Management SE regularly, in particular on its corporate policy and strategies, business profitability, current operations, and any other matters that could be of significance for the Company's profitability and liquidity. The Supervisory Board of Fresenius Management SE also advises and supervises the Management Board in its management of the Company. It is prohibited from managing the Company directly. However, the Management Board's rules of procedure require it to obtain the approval of the Supervisory Board of Fresenius Management SE for specific activities.

The **Supervisory Board of Fresenius SE & Co. KGaA** advises and supervises the management of the Company's business by the General Partner, reviews the annual financial statements and the consolidated financial statements, and performs the other functions assigned to it by law and the Company's articles of association. It is involved in corporate planning and strategy, and in all matters of fundamental importance for the Company.

The Supervisory Board of Fresenius SE & Co. KGaA has –like the former Supervisory Board of Fresenius SE – six shareholders' representatives and six employees' representatives. All twelve members of the Supervisory Board are appointed by the General Meeting, with six of the members, who can come from various European countries, being appointed on the basis of a proposal put forward by the employees. The General Meeting is bound by the employees' proposal.

The Supervisory Board must meet at least twice per calendar half-year.

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

The Company's annual corporate governance declaration can be found on our website www.fresenius.com, see Who we are – Corporate Governance. The description of both the compensation structure and individual amounts paid to the Management Board and

Supervisory Board are included in the Compensation Report(see exhibit Compensation Report) The Compensation Report is part of the Group's Management Report..

Key products and services

Fresenius Medical Care offers a comprehensive range of products for hemodialysis and peritoneal dialysis and provides dialysis care at its own dialysis clinics in over 35 countries. Dialyzers, dialysis machines and renal pharmaceuticals are among the most important product lines in the dialysis products business. These products are sold to Group clinics as well as to external dialysis care providers in more than 120 countries. In the United States, the company also performs clinical laboratory tests. Fresenius Kabi is one of the few companies to offer a comprehensive range of enteral and parenteral nutrition therapies. The company also offers a broad spectrum of products for fluid and blood volume replacement as well as an extensive portfolio of generic IV drugs. Fresenius Kabi's portfolio consists of more than 100 product families. The company sells its products mainly to hospitals in over 170 countries. Fresenius Helios treats approximately 600,000 inpatients and about 1.7 million outpatients each year at its hospitals. Fresenius Vamed provides engineering and services for hospitals and other health care facilities internationally.

Important markets and competitive position

Fresenius operates in about 70 countries through its subsidiaries. The **main markets** are Europe and North America. Fresenius generates 44% of its sales in North America and 41% in Europe.

Fresenius Medical Care is the worldwide leader in dialysis. The company holds the leading position in dialysis care, with a market share of 18% in revenue terms, treats the most dialysis patients, and operates the largest number of dialysis clinics. In dialysis products, Fresenius Medical Care is also the leading supplier, with a market share of 33%. Fresenius Kabi holds leading market positions in Europe and has strong positions in the growth markets of Asia-Pacific and Latin America. In the United States, Fresenius Kabi is the second largest suppliers of generic IV drugs. Fresenius Helios is one of the top three private hospital operator in Germany. Fresenius Vamed is one of the world's leading companies specializing in engineering and services for hospitals and other health care facilities.

Legal and economic factors

The markets of the Fresenius Group are fundamentally stable and relatively independent of economic cycles due to the intrinsic importance of the life-saving and life-sustaining products and treatments that the Group offers. The markets in which we offer our products and services are expanding, mainly for three reasons:

- **demographic trends**
- **demand for innovative therapies** in the industrialized countries
- **increasing availability of high-quality health care** in the developing and newly industrializing countries.

Furthermore, the diversification across four business segments provides additional stability for the Group.

The statement of income and the balance sheet can be influenced by currency translation effects as a result of exchange rate fluctuations, especially in the rate of the US dollar to the euro. In 2010, this had a positive impact on the statement of income due to the altered average annual exchange rate between the US dollar and the euro of 1.33 in 2010 as compared to 1.39 in 2009. In the balance sheet, the changed spot rate of 1.34 as of December 31, 2010 – compared to 1.44 as of December 31, 2009 – had a marked impact.

There were no legal aspects that significantly impacted business performance in 2010.

On the whole, the legal and economic factors for the Fresenius Group were largely unchanged, so the Group's operating business was not materially affected.

Capital, shareholders, articles of association

The summary below shows the subscribed capital of Fresenius SE. SE & Co. KGaA (as of December 31, 2010 of Fresenius SE).

	January 28, 2011		December 31, 2010		December 31, 2009	
	Number of shares	Subscribed capital in €	Number of shares	Subscribed capital in €	Number of shares	Subscribed capital in €
Ordinary shares/ capital	162,450,090	162,450,090.00	81,225,045	81,225,045.00	80,657,688	80,657,688.00
Preference shares/ capital	0	0	81,225,045	81,225,045.00	80,657,688	80,657,688.00
Total	162,450,090	162,450,090.00	162,450,090	162,450,090.00	161,315,376	161,315,376.00

The shares of Fresenius SE & Co. KGaA are non-par-value bearer shares. Shareholders' rights are regulated by the German Stock Corporation Act (AktG – Aktiengesetz). The change of legal form to a KGaA was registered with the commercial register on January 28, 2011, and thereby became effective. In accordance with the resolution of the General Meeting and the articles of association of Fresenius SE & Co. KGaA, all the ordinary shares of Fresenius SE thereby became ordinary shares of Fresenius SE & Co. KGaA. At the same time, all nonvoting preference shares of Fresenius SE were mandatorily converted at a 1:1 exchange ratio into voting ordinary shares of Fresenius SE & Co. KGaA. The Company's total share capital remained unchanged. Accordingly, the listing of the two classes of Fresenius SE share was discontinued on January 28, 2011. The ordinary shares of Fresenius SE & Co. KGaA commenced trading on January 31.

At the Annual General Meeting on May 12, 2010, the articles of association of Fresenius SE & Co. KGaA were adopted with the following **Authorized Capitals**. Authorized Capitals I and II correspond in their scope to the Authorized Capitals of the former Fresenius SE. Authorized Capitals III to V for servicing the 1998, 2003, and 2008 stock option plans are to be used only as an alternative to the Conditional Capitals. Accordingly, Fresenius Management SE, as General Partner, is authorized, subject to the consent of the Supervisory Board of Fresenius SE & Co. KGaA:

- to increase the subscribed capital by a total amount of up to € 12,800,000.00 by May 7, 2014, through a single or multiple issuance of bearer ordinary shares against cash contributions (Authorized Capital I), and
- to increase the subscribed capital by a total amount of up to € 6,400,000.00 by May 7, 2014, through a single or multiple issuance of bearer ordinary shares

against cash contributions and/ or contributions in kind (Authorized Capital II). Shareholders' pre-emptive rights of subscription can be excluded.

- to increase the subscribed capital by a total amount of up to € 1,313,000.00 by May 11, 2015, through a single or multiple issuance of bearer ordinary shares against cash contributions (Authorized Capital III). Shareholders' preemptive rights of subscription are excluded. Approved Capital III may only be executed to the extent that subscription rights to bearer ordinary shares were issued under the 1998 Stock Option Plan, the holders of these subscription rights exercise their rights, and the subscription rights are not serviced from Conditional Capital.

- to increase the subscribed capital by a total amount of up to € 4,298,442.00 by May 11, 2015, through a single or multiple issuance of bearer ordinary shares against cash contributions and/ or contributions in kind (Authorized Capital IV). Shareholders' pre-emptive rights of subscription are excluded. Authorized Capital IV may only be executed to the extent that convertible bonds for bearer ordinary shares were issued under the 2003 Stock Option Plan, the holders of these convertible bonds exercise their conversion rights, and the conversion rights are not serviced from Conditional Capital.

- to increase the subscribed capital by a total amount of up to € 6,200,000.00 by May 11, 2015, through a single or multiple issuance of bearer ordinary shares against cash contributions (Authorized Capital V). Shareholders' preemptive rights of subscription are excluded. Authorized Capital V may only be executed to the extent that subscription rights to bearer ordinary shares were or will be issued under the 2008 Stock Option Plan, the holders of these subscription rights exercise their rights, the Company does not use its own treasury shares to service the subscription rights or does not exercise its right to make payment in cash, and the subscription rights are not serviced from Conditional Capital.

In addition, there are the following **Conditional Capitals**, which correspond in their scope to the conditional capitals of the former Fresenius SE, adjusted for stock options that have been exercised in the meantime

- The subscribed capital is conditionally increased by up to € 990,510.00 through the issuance of new bearer ordinary shares (Conditional Capital I). The conditional capital increase will only be executed to the extent that subscription rights have been issued under the 1998 Stock Option Plan and the holders of these subscription rights exercise their rights.

- The subscribed capital is conditionally increased by up to € 3,486,318.00 through the issuance of new bearer ordinary shares (Conditional Capital II). The conditional capital increase will only be executed to the extent that convertible bonds for ordinary shares have been issued under the 2003 Stock Option Plan and the holders of these convertible bonds exercise their conversion rights.

- The subscribed capital is conditionally increased by up to € 6,200,000.00 through the issuance of new bearer ordinary shares (Conditional Capital III). The conditional capital increase will only be executed to the extent that subscription rights have been or will be issued under the 2008 Stock Option Plan, the holders of these subscription rights exercise their rights, and the Company does not use its own treasury shares to service the subscription rights or does not exercise its right to make payment in cash, whereby the granting of subscription rights to the Management Board of the General Partner, and their settlement, shall be solely and exclusively the responsibility of its Supervisory Board.

Fresenius SE & Co. KGaA does not have **a share buyback program**.

Direct and indirect ownership interests in Fresenius SE & Co. KGaA are listed in Note 10 of the Notes. The Else Kröner-Fresenius Foundation, as the largest shareholder, informed the Company that it held 46,871,154 ordinary shares of Fresenius SE & Co. KGaA on January 28, 2011. This corresponds to an equity interest of 28.85%.

Amendments to the articles of association are made in accordance with Section 278 (3), Section 179 (2) of the German Stock Corporation Act (AktG) in conjunction with Section 17 (3) of the articles of association of Fresenius SE & Co. KGaA. Unless mandatory legal provisions require otherwise, amendments of the articles of association require a simple majority of the subscribed capital represented in the resolution. If the voting results in a tie, a motion is deemed rejected. Furthermore, in accordance with Section 285 (2) sentence 1 of the German Stock Corporation Act (AktG), amendments to the articles of association require the consent of the General Partner, Fresenius Management SE. The Supervisory Board is entitled to make such amendments to the articles of association which only concern their wording without a resolution of the General Meeting.

A change of control as the result of a takeover bid under certain circumstances could impact some of our long-term financing agreements embodying change of control agreements. These agreements are customary change of control clauses that grant creditors the right of premature call in the event of a change of control. However, the right of premature call usually only becomes effective if the change of control is followed by a downgrading of the Company's rating.

Strategy and goals

Our goal is to build Fresenius into a leading global provider of products and therapies for critically and chronically ill people. We are concentrating our business segments on a few health care areas. Thanks to this clear focus, we have developed unique competencies. We are following our long-term strategies consistently and are seizing our opportunities. Our aim is:

- to provide best-in-class treatment
- to grow with new products and services
- to expand in growth markets
- to increase our profitability on a sustainable basis

The key elements of Fresenius Group's strategy and goals are:

- To **expand our market position**: Fresenius' goal is to ensure the long-term future of the Company as a leading international provider of products and services in the health care industry and to grow its market share. Fresenius Medical Care is the largest dialysis company in the world, with a strong market position in the United States. Future opportunities in dialysis will arise from further international expansion in dialysis care and products and in renal pharmaceuticals. Fresenius Kabi is the market leader in infusion therapy and clinical nutrition in Europe and in the key markets in Asia-Pacific and Latin America. In the United States, Fresenius Kabi is one of the leading players in the market for generic IV drugs through APP Pharmaceuticals. To strengthen its position, Fresenius Kabi plans to roll out more products from its portfolio to the growth markets. Market share is also to be expanded through the launch of new products in the field of generic IV drugs and new medical devices for infusion therapy and clinical nutrition. In addition, products from the existing portfolio are to be launched on the U.S. market. Fresenius Helios is in a strong position to take advantage of the further growth opportunities offered by the continuing privatization process in the German hospital market. Investment decisions are based on the continued existence and long-term potential of the clinics to be acquired. Fresenius Vamed will be further strengthening its position as a global specialist provider of engineering and services for hospitals and other health care facilities.

- To **extend our global presence**: in addition to sustained organic growth in markets where Fresenius is already established, our strategy is to diversify into new growth markets worldwide, especially in the region Asia-Pacific and in Latin America. With our brand name, product portfolio, and existing infrastructure, we intend to focus on markets that offer attractive growth potential. Apart from organic growth, Fresenius also plans to make further small to mid-sized selective acquisitions to improve the Company's market position and to diversify its business geographically.

- To **strengthen innovation**: Fresenius' strategy is to continue building on its strength in technology, its competence and quality in patient care, and its ability to manufacture cost-effectively. We are convinced that we can leverage our competence in research and development in our operations to develop products and systems that provide a high level of safety and user-friendliness and enable tailoring to individual patient needs. We intend to continue to meet the requirements of best-in-class medical standards by developing and producing more effective products and treatment methods for the critically and chronically ill. Fresenius Helios' goal is to widen brand recognition for its health care services and innovative therapies. Fresenius Vamed's goal is to realize further projects in integrated health care services to support patient-oriented health care systems more efficiently.

- To **enhance profitability**: our goal is to continue to improve Group profitability. To contain costs, we are concentrating particularly on making our production plants more efficient, exploiting economies of scale, leveraging the existing marketing and distribution infrastructure more intensively, and practicing strict cost control. By focusing on our operating cash flow and employing efficient working capital management, we will increase our investment flexibility and improve our balance sheet ratios. Another goal is to optimize our weighted average cost of capital (WACC) by deliberately employing a balanced mix of equity and debt funding. In present capital market conditions we optimize our cost of capital if we hold the net debt / EBITDA ratio within a range of 2.5 to 3.0. It was 2.6 as of December 31, 2010. We expect the ratio to remain within this range in 2011.

We report on our goals in detail in the Outlook section on pages 31f.

Overall business development

Economic Environment

In 2010, the world economy continued to recover from its deepest recession since the end of World War II. The marked economic improvement is attributable to three main factors:

- expansive monetary and fiscal policy in the industrial countries

- robust demand of the emerging market economies

Sources: German Council of Economic Experts – Annual Report 2010/ 2011, bank research

- catch-up effects on the demand side and by inventory building

Global GDP grew by 4.7% in 2010 after contracting by 1.2% in 2009. At 7.4%, GDP growth in the emerging market economies was much stronger than in the industrial countries (2.6%). All in all, about two-thirds of the economic recovery in 2010 was attributable to the developing and emerging market economies, especially China.

Europe

After a sharp decline in 2009, the economic development in the Eurozone gathered momentum and GDP grew overall by 1.7% in 2010 (2009: -4.1%). The growth was attributable especially to the dynamic of imports, which were up 10.0% (2009: -11.9%), and exports, which were up 9.7% (2009: -13.2%). However, there were marked differences from country to country: while the German economy was particularly strong, the recovery in Spain and Italy was slower than average. In Greece, GDP even continued to contract year over year due to the still strained public finance situation.

The pronounced rise in the jobless rate in the Eurozone (2010e: 10.1%) hindered a stronger revival of private consumption demand. Two-thirds of the rise is attributable to the growth in the number of unemployed in Portugal, Spain, Ireland, and Greece.

The situation with regard to public finances deteriorated considerably throughout the currency area in 2010, with the government debt ratio rising to 84.7% of nominal GDP. In 2007, the figure was 66.2%. Virtually none of the countries of the Eurozone are therefore likely to have met the Maastricht Treaty debt criteria in 2010. Exceptions are Finland, Slovenia, and Slovakia.

In 2010, the economic upswing in **Germany** was stronger than expected: GDP grew by 3.6% (2009: - 4.7%) and was largely driven by the positive development of the world economy. Germany's export-oriented industry was able to respond swiftly to the increased demand because, despite underutilized capacities, it had held on to much of its workforce during the crisis through short-time working. With low unemployment, a comparatively moderate price fall in the property sector, and modest rise in public debt, Germany managed to weather the crisis relatively well.

Among the emerging economies of **Eastern Europe**, which had already seen high current account deficits as well as rising levels of public debt before the global recession, only the particularly competitive countries, such as Poland and the Czech Republic, or resource-rich countries, such as Russia, were able to stage a significant rebound. A number of countries in **South-Eastern Europe**, on the other hand, remain affected by the abrupt worsening of refinancing conditions and capital outflows and are still in recession.

United States

The U.S. economy managed to recover appreciably in 2010. However, the upswing initiated at the beginning of the year lost momentum in summer. By gathering further momentum afterwards, the GDP grew by 2.9% in 2010 (2009: -2.6%). The growth was mainly driven by domestic demand and inventory building, while the contribution to growth from net exports remains negative, as it was already before the crisis.

The ailing U.S. real estate market continued to be hampered by high surplus supply in 2010. The government was able to stem a further fall in property prices through various support measures, such as tax relief and a more flexible adjustment of installment rates for mortgage loans. Nonetheless, in summer 2010, the prices for private residential properties were still roughly 20% and those for commercial properties still more than 40% below their respective highs.

There are tentative signs that the country may end its expansive monetary and fiscal policy. Given the fragile economic recovery and the problems on the labor and real estate markets, the U.S. government passed another comprehensive round of economic support measures in 2010. Further purchases of U.S. Treasuries are also planned in order to stimulate the economy.

Asia

After growth slowed temporarily in 2009, the Asian emerging economies have returned to the positive trend before the financial crisis and provided considerable stimulus for world production. Asia continues to be the fastest growing region in the world. GDP in Asia (excluding Japan) grew by 9.2% in 2010 (2009: 5.7%). The strongest growth in 2010 was again in China, where GDP was increased by 10.0% (2009: 9.1%), followed by Taiwan with 10.0% (2009: -2.0%), and India with 9.8% (2009: 5.7%).

The growth in **China** was driven not only by strong foreign demand but also by booming domestic demand. Given rising inflation, and to prevent overheating, the Chinese government introduced various measures to control lending. This included a further hike of the federal funds rate by the Bank of China. Midway through the year China's administration also indicated that it was willing to adopt a more flexible stance on the yuan's exchange rate versus the U.S. dollar. This led to a nominal appreciation of the Chinese currency versus the U.S. dollar by about 3.0% through to year-end 2010.

Development in **India** was marked primarily by stable domestic demand. The contribution from net exports of goods and services, on the other hand, was slightly negative. The growing capital inflows from abroad are placing strong upward pressure on the currency and increasing the risk of inflated asset values on the financial and property markets.

In **Japan**, the economic recovery was mainly supported by buoyant exports, especially to neighboring Asian countries, and by a favorable trend in private consumption. However, the effects of the financial crisis are still visible, especially in the high jobless rate and high public debt. Japan's GDP exceeded expectations and grew by 4.2% in 2010 (2009: -5.2%).

The other Asian countries were hit only to a small extent by the financial crisis. Most of these countries were also able to benefit more than proportionately from the revival of world trade. This positive growth environment and the structural catch-up process explain the much higher growth rates in some cases compared to the developed industrial countries.

Latin America

Having already regained their pre-crisis levels at the end of 2009, the emerging economies of Latin America then gathered further momentum in 2010. Thanks to their experience from earlier recessions, these countries rebounded relatively quickly. They had ample foreign exchange reserves to avoid balance of payments problems and their banking systems were less involved in high-risk business. Commodity and food exports continued to be the main drivers. Overall, the region's GDP grew by 6.0% in 2010 (2009: - 2.7%).

Mexico was hit the hardest by the global financial and economic crisis due to its strong trade ties with the United States. After a strong decline of 6.5% in 2009, GDP grew by 5.0% in 2010. This positive development was mainly on the back of buoyant imports and exports.

Although **Argentina** was the Latin American country the second hardest hit by the crisis after Mexico, it posted the strongest GDP growth in 2010 of 9.1% (2009: - 3.1%). This growth was driven above all by an expansive monetary and fiscal policy. However, Argentina also benefited from the global upswing. Higher agricultural prices and the economic boom in neighboring Brazil provided positive stimulus for Argentina's economy.

Brazil weathered the financial crisis well thanks to robust domestic demand and the broad geographical and sectoral diversification of its exports. Brazil's GDP grew by 7.7% in 2010 (2009: -0.2%). The main factors behind this strong growth were the low interest rate environment, high credit availability, and fiscal stimulus.

Health care industry

The health care sector is one of the world's largest industries. It is relatively insensitive to economic fluctuations compared to other sectors and has posted above-average growth over the past years.

The main **growth factors** are:

- rising medical needs deriving from aging populations
- stronger demand for innovative products and therapies
- advances in medical technology
- growing health consciousness, which increases the demand for health care services and facilities

In the **emerging countries** additional drivers are:

- expanding availability and correspondingly greater demand for primary health care
- increasing national incomes and hence higher spending on health care

At the same time, the cost of health care is rising and claiming an ever-increasing share of national income. Health care spending averaged 9.0% of GDP in the OECD countries in 2008, with an average of US$ 3,060 spent per capita. The United States had the highest per capita spending (US$ 7,538), as in the previous years, followed by Norway (US$ 5,003) and Switzerland (US$ 4,627). Germany ranked ninth among the OECD countries with per capita spending of US$ 3,737.

Per capita health care spending in the OECD countries grew at an average annual rate of 4.2% between 2000 and 2008. In Germany, per capita health care spending increased by 1.6% per year over the same period. This is the smallest increase among all OECD countries during this period. The relatively slow growth in health care spending in Germany is due in particular to the introduction of cost-containment measures.

On average, public sources funded 72.8% of health care expenditures in the OECD countries in 2008. The United States and Mexico have the lowest level of public funding, with less than 50%. In Germany, 76.8% was publicly funded in 2008, which was virtually the same as in 2007.

Most of the OECD countries have enjoyed large gains in life expectancy over the past decades thanks to improved living standards, public health interventions, and progress in medical care. In 2008, the average life expectancy in the OECD countries was 79.4 years. In Germany, life expectancy of 80.2 years was nearly a year more than the OECD average. Japan has the highest life expectancy of all OECD countries with 82.7 years.

Health care structures are being reviewed and possible cost-cutting potential identified in order to contain the steadily rising health care expenditures. Market-based elements are being introduced increasingly in the health care system to create incentives for cost and quality-conscious behavior. Overall treatment costs shall be reduced through improved quality standards and optimized medical processes. In addition, ever greater importance is being placed on disease prevention and innovative reimbursement models linked to treatment quality standards.

In the United States, our biggest single market, the government passed a sweeping health care reform in 2010. It is planned to phase-in health insurance coverage for the roughly 45 million people who are currently not insured. Basic health insurance is to be compulsory from 2014 onwards. Larger companies must offer their employees health insurance coverage, while small companies and low-income households will receive government assistance to take out health insurance. Through these measures the U.S. government plans to increase the proportion of the population covered by health insurance from currently around 85% to 95% by the year 2019.

Our most important markets developed as follows:

<u>The dialysis market</u>

In 2010, the value of the global dialysis market was approximately US$ 69 billion, equivalent to growth of 4% in constant currency. The market for dialysis care (including renal pharmaceuticals) accounted for approximately US$ 57 billion and the market for dialysis products for about US$ 12 billion. The number of dialysis patients worldwide increased by about 7% to more than 2.0 million.

Prevalence, which is the number of people with terminal kidney failure treated per million population, differs widely from region to region, ranging from well below 100 to over 2,000 patients per million population (p. m. p.). Prevalence is highest in Taiwan with 2,700 p.m.p., followed by Japan with 2,490 p. m. p., and the United States with approximately 1,890 p. m. p. It averages about 1,030 in the 27 countries of the European Union. The far lower global average of approximately 380 p. m. p. is due, on the one hand, to differences in age demographics, distribution of renal risk factors (such as diabetes and hypertension), and genetic pre-disposition and cultural habit (such as diet). On the other hand, access to dialysis treatment is still limited in many countries. A great many individuals with terminal kidney failure do not receive treatment and are therefore not included in the prevalence statistics. A comparison of economic output and national prevalence rates suggests that access to treatment is restricted especially in countries where GDP per capita is less than US$ 10,000 per person per year. However, the generally rising global prevalence rate suggests that more and more people are receiving dialysis treatment.

Dialysis care

Of the approximately 2.0 million patients receiving regular dialysis treatment in 2010, more than 89% are treated with hemodialysis, while about 11% choose peritoneal dialysis. The majority of hemodialysis patients are treated in dialysis clinics. There are about 29,000 dialysis clinics worldwide with an average of 70 hemodialysis patients per clinic.

The organizational structures differ considerably depending on whether the health care systems in the respective countries are organized more on a public or private basis. In the United States, for instance, most of the more than 5,000 dialysis clinics are privately run, and only about 1% are publicly operated. By contrast, about 60% of the over 5,000 dialysis clinics in the European Union are publicly owned. In Japan, about 80% of the dialysis clinics are run by private nephrologists.

In the United States, the market for dialysis care is already highly consolidated. Taken together, Fresenius Medical Care and the second largest provider of dialysis care – DaVita – treat about 65% of all U.S. dialysis patients. In 2010, Fresenius Medical Care maintained its market-leading position of about 33%.

Outside the United States, the markets for dialysis care are much more fragmented. Here, Fresenius Medical Care competes mainly with independent clinics and with clinics that are affiliated with hospitals. Fresenius Medical Care operates over 934 dialysis clinics in more than 35 countries and treats over 76,959 patients. Together, these represent by far the largest and most international network of dialysis clinics.

In 2010, the number of **peritoneal dialysis** patients worldwide was about 219,000. Fresenius Medical Care supplies approximately 39,000 patients with peritoneal dialysis products, which is about 17% of all patients. In the United States, its market share was 26%. Fresenius Medical Care is the global No. 2 in this market after Baxter.

Dialysis **reimbursement systems** differ from country to country and often vary even within individual countries. In the United States, the treatment costs for terminal kidney failure are covered by the public health insurers. The public health care programs, the **Centers for Medicare & Medicaid Services (CMS)**, cover the medical services for more than 80% of all dialysis patients in the United States. In 2010, CMS reimbursements accounted for 32% of Fresenius Medical Care's revenues. Changes in the CMS rates or method of reimbursement therefore have a significant importance on our business in North America.

Dialysis products

In the dialysis products market, the most important products are dialyzers, hemodialysis machines, concentrates and dialysis solutions, and products for peritoneal dialysis. Fresenius Medical Care is the world market leader in dialysis products with a market share of about 33%, followed by Baxter with 19% and Gambro with 15%. These top three manufacturers serve about two thirds of the market demand. Each of the other competitors, mainly from Japan, have a single-digit percentage market share. **Dialyzers** are the biggest product segment. About 203 million units were sold in 2010, of which about 92 million, or almost half, were produced by Fresenius Medical Care. Of the approximately 69,000 new hemodialysis machines that were brought onto the market in 2010, about 55% were from Fresenius Medical Care. In the United States, our most important business region, Fresenius Medical Care had a share of over 80% of the independent market in these two product segments. We define the independent market as all dialysis clinics that do not belong to a major U.S.-wide dialysis care provider such as Fresenius Medical Care or DaVita. In 2010, China was our second largest market, where we sold more than

3,800 new hemodialysis machines. 48%, or almost half of all machines used in the Chinese market, are now produced by Fresenius Medical Care.

The market for infusion therapy and clinical nutrition, intravenously administered generic drugs and medical devices

In the markets in which Fresenius Kabi operates there are four main growth factors:

- rising medical needs deriving from aging populations,
- stronger demand for innovative therapies,
- increasing national incomes in the emerging markets as a driver of higher spending on health care and thus greater availability,
- the use of generics as part of the efforts to contain costs in the health care sector.

Generally, the efforts to contain costs in the health care sector are ongoing. In our view, and judged from today's vantage point, the focus is mainly on the pricing of patented drugs and the prescription drugs segment in the pharmacy market. In the future it will therefore become all the more important to provide best-in-class products and therapies at affordable prices for a health care market that is generally beset by financial constraints and ever-rising demands.

In the market for **infusion therapy and clinical nutrition**, therapies that offer high standards of health care paired with cost advantages are increasingly gaining importance in Central and Western Europe due to the general cost pressure. Studies show that, in cases of health or age-induced nutritional deficiencies, the administration of food supplements can reduce hospital costs by an average of € 1,000 per patient – through shorter stays and less nursing care. At the time when they are admitted to hospital, at least 25% of all patients in Europe are suffering from nutritional deficiencies, or have an elevated risk of developing nutritional deficiencies. Much higher figures of 50 to 60% are reported for people who require nursing care, especially the elderly. The costs caused by health-induced nutritional deficiencies are about € 170 billion per year Europe-wide.

In Central and Western Europe, the total market for infusion therapy and clinical nutrition is growing at a low single digit rate. Growth rates are in the high single to double digits in the emerging markets of Asia-Pacific, Latin America, and Eastern Europe.

Based on its own estimates, Fresenius Kabi considers its relevant market for infusion therapy and clinical nutrition (excluding the United States and Japan) to be about € 8 billion.

We also expect the demand for **generics** to continue growing. Generic drugs are more advantageous from health economics aspects than original preparations because of their significantly lower price and they already make a vital contribution to health care today.

The market for **IV generics** is characterized by moderate volume growth, steady price erosion, and fierce competition. Growth is mainly achieved through new generics that are brought to market when the original preparation goes off-patent. In Europe and the United States, the market for IV generics is growing at a mid-single-digit rate. We expect the U.S. market for IV drugs that go off-patent from 2010 to 2020 to grow to approxi-

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Sources: German Society for Nutritional Medicine (DGEM) 2009; own research, market data refer to Fresenius Kabi's relevant and addressable markets. Those are subject to annual volatility due to currency fluctuations and patent expiries of originator drugs in the IV drug market, among others; German Federal Statistics Office mately US$ 22 billion on a cumulative basis. These figures are based on the sales of the original preparations in 2009 and do not take account of the usual price erosions for generics.

Based on its own estimates, Fresenius Kabi considers its relevant market for intravenously administered generics (without Japan) to be around € 14 billion.

The market for **medical devices** for infusion therapy, IV drugs, and clinical nutrition is growing in Europe at mid-single- digit rates. Here, the main growth drivers are technical innovations that focus on application safety and therapy efficiency.

<u>The German hospital market</u>

The total volume for hospital treatment[1] (excluding research and teaching) in Germany was about € 70 billion in 2008. This was approximately one-fourth of total health care expenditures. Personnel costs account for about 61% of hospital costs, and material costs for 39%. Personnel costs rose by 3.4%, and material costs by 6.3%.

The number of **hospitals** in 2009 was 2,084 (2008: 2,083). After declining for years, the number of beds only fell slightly to 503,341 (2008: 503,360). Over the last five years the number of **beds** has declined at an average annual rate of 1.0%. Nonetheless, with 6.15 beds per 1,000 population, Germany is still well above the OECD average of 3.6 (2008). The **average stay** of a patient in an acute care clinic in Germany fell overall by 0.1 days over the same period and was 8.0 days in 2009.

On the other hand, the number of **inpatient admissions** has increased. The number of inpatient admissions at acute care clinics in Germany declined at first after the introduction of DRG-based reimbursement. However, despite the shift towards outpatient care, the number of admissions has been rising again continuously since 2006. This is largely due to changing demographics. In 2009, the number of admissions was 17.82 million. That was about 300,000 or 1.7% more than in 2008 and is equivalent to 218 admissions per 1,000 population. Other countries rank well below the German level. In 2008, the EU average was 175 admissions per 1,000 population. In the last five years leading up to 2009, the number of admissions in Germany has risen at an average annual rate of 1.9%. The average costs per admission have increased by 2.5% on average over the last five years until 2008.

According to a survey by the German Hospital Institute (DKI), the **financial situation** at many hospitals in Germany remains difficult: 56% of the hospitals expect to earn a surplus in 2010 (2009: 44%), 16% expect to make a loss (2009: 26%), and 28% expect to break even (2009: 27%). Of the clinics surveyed, about 44% assess their financial situation as good and 19% as unsatisfactory. The other 37% saw the situation as mixed. The risk of hospital insolvencies is estimated at 8% for 2010 (2009: 11%).

The difficult financial and economic situation at many hospitals has been caused by significant investment needs. This is due in large part to an investment backlog that has accumulated because the federal states have not met their statutory obligation to finance necessary investments and major maintenance measures sufficiently in the past due to budget problems. Moreover, the investment needs are mainly driven by technological advances, higher quality requirements, and necessary modernizations. The Federal Ger-

[1] Data 2009 not available

Sources: German Hospital Institute (DKI) – Krankenhaus Barometer 2010, OECD Health Data 2010, German Ministry of Health man Ministry of Health estimates that the current annual needs for investments at German hospitals is about € 5 billion.

Against this backdrop, the privatization trend in the German hospital market continued, albeit on a very modest scale, with the share of private hospital beds rising to 16.6% (2008: 15.9%). However, with a share of 48.7%, the bulk of the hospital beds continued to be in the public sector (2008: 49.0%).

According to our research, about € 230 million in hospital transaction revenues were acquired in 2010, which was less than the year before (2009: € 504 million).

The **Hospital Funding Reform Act** (KHRG) that came into force in March 2009 also had an overall positive effect on the financial situation of hospitals in Germany in 2010 and led to increased revenues, which experts estimate at 4% per year in 2009 and 2010. Since the convergence phase expired at the end of 2009, hospitals now only bill on the basis of the standardized base rates (DRG system) valid throughout the particular federal state.

Quality is increasingly becoming a key competitive factor for the hospital market. Transparency and comparability of the treatments for the patients and their doctors will play a more and more decisive role.

In 2009 the **post-acute care market** in Germany comprised a total of 1,240 clinics, almost the same as the year before. The number of beds was 171,489 (2008: 171,060). 55.8% (2008: 56.3%) of the clinics were private clinics. An almost unchanged 26.1% (2008: 26.0%) were independent nonprofit clinics and the share of public clinics increased to 18.1% (2008: 17.8%). Private clinics accounted for 66.8% of the total number of post-acute care beds (2008: 66.9%). Independent non-profit clinics and public clinics accounted for 16.0% (2008: 16.2%) and 17.3% (2008: 16.9%), respectively. The total number of admissions in Germany decreased by about 4,000 admissions to 2.01 million. The average length of stay rose to 25.5 days (2008: 25.3 days).

<u>The market for engineering and services for hospitals and other health care facilities</u>

The market for engineering and services for hospitals and other health care facilities is very country-specific and depends to a large extent on factors such as public health care policies, government regulation, levels of privatization, economic conditions, and demographics.

In markets with established health care systems and mounting cost pressure, the challenge for hospitals and other health care facilities is to increase their efficiency. Here demand is especially high for optimized hospital processes and the outsourcing of technical support services to external specialists, enabling hospitals to concentrate on their core competency – treating patients. In emerging markets the focus is on building and developing infrastructure and improving the level of health care.

The Management Board's assessment of the effect of general economic developments and those in the health care sector for Fresenius

The development of the world economy had an only negligible impact on our industry. On the whole, the health care sector, both in mature and growth markets, developed positively for Fresenius in 2010. Strong demand for its products and services enabled Fresenius to outpace the growth of its respective markets.

Significant factors affecting operating performance

In 2010, the Fresenius Group's positive development was again driven to a large extent by the very good operating development in all business segments.

The Management Board's assessment of business results

The Management Board is of the opinion that the Fresenius Group's performance in 2010 was excellent – with sales and earnings improvements in all business segments. Fresenius Medical Care sustained its positive performance trend with organic sales growth of 6% and a significant increase in earnings. Fresenius Kabi profited from the continued strong demand for products, bolstered additionally by new product launches and supply constraints at competitors, and generally outperformed the market. This was reflected in excellent organic growth of 12% and a strong increase in earnings. Fresenius Helios also achieved excellent organic growth of 5% and further improved its earnings. Fresenius Vamed was able to report very good organic sales growth of 15% and a further increase in earnings in 2010 and, in the project business, achieved important growth in order intake and order backlog.

Results of operations, financial position, assets and liabilities

Results of operations

Net income of Fresenius SE (since January 28, 2011 Fresenius SE & Co. KGaA) in the fiscal year 2010 was € 216 million (2009: € 169 million). As in the previous year net income mainly resulted from income from participations and profit transfer agreements.

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

The profit and loss transfer agreement with Fresenius Kabi AG yielded earnings of € 217 million (2009: € 107 million).

Fresenius ProServe GmbH contributed with earnings of € 129 million (2009: € 130 million) to the net income from participations.

Fresenius Biotech Beteiligungs GmbH contributed with a loss of € 37 million (2009: € 51 million) to the net income from participations, which results from research and development activities done by its subsidiary Fresenius Biotech GmbH.

Other significant income from participations came from a € 65 million Fresenius Medical Care AG & Co. KGaA dividend (2009: € 62 million).

In addition to dividend payments and earnings from profit and loss transfer agreements, Fresenius SE (since January 28, 2011 Fresenius SE & Co. KGaA) also receives income from rent and by providing services.

Other financial result includes the expense from market valuation of the liability in connection with the on-lent Mandatory Exchangeable Bond.

The liability that results from the Mandatory Exchangeable Bond will mature in 2011. The liability will be paid off by transferring FMC-shares which will generate high accounting earnings. These accounting earnings will only be recognized in the individual financial statements of Fresenius SE & Co. KGaA prepared according to the German Commercial Code (HGB) and not in the Consolidated Financial statements prepared according to international standards.

The extraordinary result of 2010 mainly consists of the expense related to the increase in pension provisions due to the new valuation method introduced by the new German accounting legislation (BilMoG).

The General Partner and Supervisory Board of Fresenius SE & Co. KGaA will propose a dividend increase to the Annual General Meeting. For 2010, a dividend of € 0.86 per ordinary share is proposed. This is an increase of 14.7%. The total dividend distribution will increase by 14.7% to € 139.7 million (2009: € 121.8 million).

Cash flow statement

	2010	2009
	million €	million €
Net Income	216	169
Depreciation and amortization of non-current assets	4	4
Change in pension liabilities	10	1
Cash flow	**230**	**174**
Change in accruals for income taxes and other accrued expenses	101	-8
Change in trade accounts payable	2	-6
Change in other operating assets and liabilities	-27	3
Change in working capital	**76**	**-11**
Operating cash flow (Cash provided by operating activities)	**306**	**163**
Payments for acquisitions and capital increase of subsidiaries	-3	0
Purchase of intangible assets and property, plant and equipment	-2	-1
Cash provided by / used for investing activities	**-5**	**-1**
Dividends paid	-122	-114
Proceeds from bank loans	0	100
Repayment of bank loans	-8	-162
Change in financing activities with related parties	-52	42
Proceeds from exercise of stock options	38	4
Cash used for / provided by financing activities	**-144**	**-130**
Change of cash and cash equivalents	**157**	**32**
Cash and cash equivalents at the beginning of the year	34	2
Cash and cash equivalents at the end of the year	191	34

In August 2009, Fresenius SE entered into an additional credit agreement with the European Investment Bank (EIB) of € 100 million with a four-year term. The proceeds will be used to finance research and development projects of the Group.

Fresenius believes that its existing credit facilities, as well as the operating cash flows, income from transfer agreements and additional sources of short-term funding, are sufficient to meet the company's foreseeable liquidity needs. Further refinancing on a major scale within the Fresenius Group is only due in 2011.

As of December 31, 2010, Fresenius SE (since January 28, 2011 Fresenius SE & Co. KGaA) complied with the covenants under all the credit agreements.

Financial situation

Total assets of Fresenius SE (since January 28, 2011 Fresenius SE & Co. KGaA) increased by € 212 million up to € 5,026 million (2009: € 4,814 million). The increase mainly results from loans extended to related companies that were used to perform regular and extraordinary repayments of the 2008 Senior Credit Agreement. The loans were mainly refinanced through the generated cash flows.

Bank debt has decreased by € 8 million to € 196 million mainly resulting from the reduction of the credit lines used by Fresenius SE & Co. KGaA.

The equity ratio of 60.2% was slightly higher than on the previous year (60.1%).

Investments and acquisitions

Total investments in property, plant and equipment and intangible assets was € 1.5 million in 2010.

100% of the shares in Calea Nederland N.V., Netherlands were acquired for € 3,106 thousand in 2010 and subsequently merged into Fresenius SE (since January 28, 2011 Fresenius SE & Co. KGaA) retrospectively as of January 1, 2010.

Human resources

Fresenius SE (since January 28, 2011 Fresenius SE & Co. KGaA) had 351 employees on December 31, 2010 (December 31, 2009: 330). The increase in employees is mainly due to a significantly higher number of apprentices in comparison to the previous year.

Profit-sharing

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

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

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

Training

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

University graduates go through all business areas relevant to their future position in an 18-month "Graduate Development Program" to learn on the job and get the general overview necessary for their future function. Executive programs and leadership seminars are also a fixed component of our management training.

<u>Miscellaneous</u>

In 2009 a Works Council Agreement that introduced life work time accounts starting on 2010 was concluded to supplement the work time models in place. Under this scheme, employees can also credit their own contributions, such as holiday leave or parts of their compensation, into a life work time account in addition to their collectively bargained employment benefits. These accumulated credit balances can then be drawn on later flexibly for sabbaticals for higher education, further training measures, or for phased early retirement.

There were no further significant changes to compensation or employment agreements during this the reporting period.

Research and development

Fresenius focuses its R & D efforts on its core competencies in the following areas:

- Dialysis
- Infusion and nutrition therapies
- Generic IV drugs
- Medical devices
- Antibody therapies

Apart from products, we are concentrating on developing optimized or completely new therapies, treatment methods, and services. In 2010 we again successfully continued numerous projects and a number of new products were launched.

Expenses on research and development were € 244 million (2009: € 240 million). We therefore invested about 4% of our product sales in R & D (2009: 5%). Fresenius Medical Care increased its R & D spending by 9%, and Fresenius Kabi by 11%. In the segment Corporate / Other, € 28 million was spent on R & D at Fresenius Biotech, mostly on the clinical development of trifunctional antibodies. This was below the € 44 million spent in the previous year.

As of December 31, 2010, there were 1,449 employees in research and development in the Group (2009: 1,421). Of that number, 518 were employed at Fresenius Medical Care (2009: 494), 844 at Fresenius Kabi (2009: 829), and 87 at Fresenius Biotech (2009: 98).

Our main research sites are in Europe, the United States, and India. Product-related development activities are also carried out in China. Our R & D projects are mainly conducted inhouse; external research is commissioned only on a limited scale.

Responsibility, environmental management, sustainability

We orient our activities within the Fresenius Group to long-term goals, and thus ensure that our work is aligned to the needs of patients, employees, and third parties in a sustainable manner. Our **responsibility as a health care group** goes beyond our business operations. One example is the Groupwide aid campaign for the victims of the Haiti earthquake at the beginning of 2010. Working together with government authorities and international aid organizations in the region, Fresenius made emergency supplies available for treating over 185,000 patients. This included infusions, anesthetics, antibiotics, and medical devices from Fresenius Kabi as well as dialysis products from Fresenius Medical Care. Together with the aid organization Austria International, Fresenius Vamed set up a mobile medical facility which, in addition to an ambulatory surgery unit, also included an intensive care unit and an emergency center.

We are committed to protecting nature as the basis of life and using its resources responsibly. It is our mission to constantly improve our performance in the areas of environmental protection, occupational health and technical safety, and product responsibility and logistics and to comply with legal requirements. The international ISO Standard 14001:2004 is the most important benchmark for **environmental management** in the corporate sector. Among other things, it stresses the need for continuous assessment of a production site's impact on the environment, for instance with respect to emissions and waste. These international standards are implemented at our various production plants and most of our dialysis clinics. Key environmental performance indicators are, for instance, not only energy and water consumption but also the volumes of waste and recycling rates at our locations.

In Europe, our production sites are subject to the **EU regulation REACH** (Registration, Evaluation and Authorization of CHemicals). The aim of REACH is to protect human health and the environment against hazards and risks from chemical substances. We have implemented this regulation. Fresenius Medical Care is also an active member of the REACH Working Group of the German Federal Association of the Medical Device Industry (Bundesverband Medizintechnologie or BVMed). In the few cases where Fresenius Kabi produces within the EU or imports products into the European market, all the relevant substances are pre-registered in compliance with the REACH regulation.

We support advancements in health care, not only by investing in our own research and development but also by furthering innovators outside the company: at the 11th **Fresenius Inventors' Fair** in the reporting period, 23 specially selected researchers and developers presented their ideas for innovations in the medical and clinical field. Fresenius organizes the Inventors' Fair every two years on the occasion of the Medica Trade Fair. This provides a platform for inventors to establish contacts with partners in trade and industry and with potential investors in order to further develop or market their ideas. About 40 doctors, scientists, engineers, technicians, and nurses took part in last year's competition.

Opportunities and risk report

Through the complexity and dynamics of our business, the Fresenius Group is exposed to a number of risks. These risks are inevitable consequences of active entrepreneurial activities. The willingness to take risks has to be accommodated if opportunities are to be exploited.

As a provider of life-saving products and services for the severely and chronically ill, we are relatively independent of economic cycles. The diversification through our four business segments, which operate in different segments of the health care market, further minimizes the Group's risk profile. Our experience in the development and manufacture of products, as well as in our markets, serves as a solid basis for a reliable assessment of risks.

At the same time, we will continue to take advantage of the wide-ranging opportunities for sustainable growth and expansion that the health care market offers to the Fresenius Group.

Opportunities management

Managing opportunities is an ongoing, integral part of corporate activity aimed at securing the company's long-term success. In this way, we can explore new prospects and consolidate and improve on what we have already achieved. The Group's decentralized and regional organizational and management structure enables the early identification and analysis of trends, requirements, and opportunities in our often fragmented markets; and we can respond to them flexibly and in line with local market needs. Furthermore, we maintain regular contact and dialogue with research groups and institutions and keep a close watch on markets and competitors in order to identify opportunities. Within the Group, opportunities and synergies can be exploited through continuous communication involving the exchange of information and know-how between the various business segments. Anticipated future opportunities for the Fresenius Group are discussed in the Outlook starting on page 31.

Risk management

Like opportunities management, risk management is a continuous process. Identifying, controlling, and managing risks are key tools of solid corporate governance. **Fresenius risk management system** is closely linked to corporate strategy. Its main part is our **control system**, with which we can identify significant risks at an early stage and counteract them individually.

Responsibilities for the processes and monitoring risks in the individual business segments have been assigned as follows:

- Using standardized processes, risk situations are evaluated regularly and compared with specified requirements. If negative developments emerge, responses can be initiated at an early stage.
- The managers responsible are required to report without delay any relevant changes in the risk profile to the Management Board.
- Markets are kept under constant observation and close contacts maintained with customers, suppliers, and institutions. These policies allow us to swiftly identify and react to changes in our business environment.

The risk management system is supported both at Group level and in the individual business segments by our risk controlling measures and our management information system. Detailed monthly and quarterly reports are used to identify and analyze deviations of the actual compared to the planned business development. In addition, the risk management system comprises a control system that oversees organizational processes and measures, as well as internal controls and audits. Our risk management system is regularly evaluated and, if necessary, adjusted to allow prompt reaction to changes in the markets. This system has proved effective to date.

The functionality and effectiveness of the risk management system is reviewed as part of the audit of the annual financial statements, and regularly by the Management Board and the internal auditing department. Conclusions arising from the audits are taken into account in the ongoing refinement of our risk management system. The control system is also reviewed regularly by the Management Board and the internal auditing department.

Fresenius has ensured that the scope and focus of the organizational structure and systems for identifying and evaluating risks, and for developing counter-measures and for the avoidance of risks, are aligned suitably with the company- specific requirements and that they are properly functional. However, there can be no absolute certainty that this will enable all risks to be fully identified and controlled.

Internal financial reporting controls

Correctness and reliability of accounting processes and financial reporting, and thus preparation of annual financial statements, consolidated financial statements, and management reports in compliance with applicable rules, is assured by numerous measures and internal controls. Our **four-tier reporting process** especially promotes intensive discussion and ensures controls of the financial results. At each reporting level

- local entity
- region
- business segment
- Group

financial data and key figures are reported, discussed, and compared on a regular monthly and quarterly basis with the prior-year figures, budget, and latest forecast. In addition, all parameters, assumptions, and estimates that are of relevance for the externally reported Group and segment results are discussed intensively with the department responsible for preparing the Group's consolidated financial statements. These matters are also reviewed and discussed quarterly in the Supervisory Board's Audit Committee.

Control mechanisms, such as automated and manual reconciliation procedures, are further precautions in place to assure that financial reporting is reliable and that transactions are correctly accounted for. To prevent abuse, we take care to maintain a strict separation of functions. Management control and evaluations also help to ensure that risks having a direct impact on financial reporting are identified and that controls are in place to minimize them. Moreover, changes in accounting rules are monitored and employees involved in financial reporting are instructed regularly and comprehensively.

Fresenius Medical Care, an important Group company, is additionally subject to the controls of Section 404 of the Sarbanes Oxley Act.

Risk areas

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

General economic risks

At present, the development of the global economy exhibits no significant risk to the Fresenius Group, although overall economic growth in 2011 will probably be slightly lower than in 2010. Moreover, Fresenius is affected only to a small extent by general economic fluctuations. We also expect continued growing demand for our life-saving and life-sustaining products and services.

Risks in the general operating framework

The risk situation for each business segment also depends on the development of its markets. Political, legal, and financial conditions are therefore monitored and evaluated carefully. This applies especially to countries with budget problems as a result of the sovereign debt. In addition, the growing internationalization of our markets requires us to keep abreast of country-specific risks.

Risks in the health care sector

Risks related to **changes in the health care market** are of major importance to the Fresenius Group. The main risks are the development of new products and therapies by competitors, the financing of health care systems, and reimbursement in the health care sector. In our largely regulated business environment, changes in the law – also with respect to reimbursement – can have decisive consequences for our business progress. This applies especially in the United States, where a large portion of our sales are generated, and where e.g. changes in the reimbursement system could have a considerable impact on our business. Furthermore, a portion of our dialysis care business in the United States is currently reimbursed by private insurers or managed care organizations. If these organizations enforce reductions in the reimbursement in the United States, it would significantly reduce the revenues for products and services of Fresenius Medical Care. The same applies to the hospital market in Germany, where the DRG system (Diagnosis Related Groups) is intended to increase the efficiency of hospitals while reducing health care spending. The Company constantly monitors further legislative developments of the DRG system as well as discussions about ending dual financing in the hospital sector. Patients are largely assigned to hospitals by the public health and pension insurers. It is therefore especially important for the Company that the contracts between its hospitals and the insurers and health care institutions are maintained. We not only continually monitor legislative changes, but also work together with governmental health care institutions. Generally, our aim is to counter possible regulatory risks through enhanced performance and cost reductions.

In the United States, 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 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 agreements with the major GPOs. To maintain these business relationships, APP Pharmaceuticals believes it needs to be a reliable supplier, offer a comprehensive high-quality product line, remain price competitive, and comply with the regulations of the U.S. Food and Drug Administration (FDA). The GPOs also have purchasing agreements with other manufacturers and the bid process for products is highly competitive. Most of APP Pharmaceuticals' GPO agreements can be terminated at short notice.

In addition, **cooperation with medical doctors and scientists** allows us to identify and support relevant technological innovations and to keep abreast of developments in alternative treatment methods. These enable us to evaluate and adjust our corporate strategy if necessary.

Operating risks

Production, products, and services

Compliance with **product and manufacturing regulations** is ensured by our quality management systems in accordance with the internationally recognized quality standards ISO 9001 and the corresponding internal standards as defined, for example, in our quality and work procedure manuals. Regular audits are carried out at the Group's production sites and dialysis clinics. These audits test compliance with all regulations in all areas – from management and administration to production and clinical services and patient satisfaction. Our production facilities comply with the international "Good Manufacturing Practice" (GMP) and U.S. "Current Good Manufacturing Practice" (cGMP) guidelines and other recognized standards. Potential risks, such as those arising from the start-up of a new production site or the introduction of new technologies, are countered through careful planning, regular analysis, and continual progress reviews. We counter the risk of poor-quality purchased raw materials, semi-finished products, and components mainly by requiring that suppliers meet strict quality standards. Besides certification by external institutes and regular supplier audits, this includes an exhaustive evaluation of advance samples and regular quality controls. We only purchase products of high quality, maximum safety, and proven suitability from qualified suppliers that conform to our specifications and standards.

Performing **medical treatments** on patients in our hospitals, rehabilitation clinics, and dialysis clinics presents inherent risks; in addition there are operational risks, for example the need for strict hygiene and sterile conditions. We counteract these risks with strict operating procedures, continuous personnel training, and patient-oriented working procedures. Furthermore, through our quality management systems we are constantly striving to improve the standard of patient treatment.

Further risks arise from increasing **pressure on our product prices** and from potential price increases on the procurement side. For instance, changes in the regulations concerning the reimbursement for erythropoietin (EPO) in the United States, or a change in the dosage, an interruption in supply or worsening procurement conditions could have a significant impact on the revenues and earnings of Fresenius. EPO is a hormone used in dialysis that stimulates the production of red blood cells. From January 1, 2011 onwards, the compensation of EPO is included in a base rate of an extended bundled reimbursement rate of Medicare. Higher costs for EPO could significantly impact revenues and earnings. Reimbursement and revenues from the administration of EPO accounted for approximately 7% of total sales of the Fresenius Group in 2010.

Growing **competition** could materially adversely affect the future pricing and sale of our products and services. The introduction of new products and services by competitors could render one or more of our products and services less competitive or even obsolete. This also could affect renal pharmaceuticals of Fresenius Medical Care for which we are partly obligated to make minimum royalty payments. On the **procurement side**, we counter risks, which mainly involve possible price increases and the availability of raw materials and goods, by appropriately selecting and working together with our suppliers through long-term framework agreements in certain purchasing segments and by bundling volumes within the Group. Generally, the markets in which we operate are characterized by price pressure, competition, and efforts to **contain health care costs.** These could result in lower sales and adversely affect our business, our financial position, and our operational results.

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

It is of special importance to us that our **compliance programs** and guidelines be adhered to. Through compliance we aim to meet our own expectations and those of our partners and to orient our business activities to generally accepted standards and local laws and regulations. These programs and guidelines set binding rules of conduct for our employees. We believe that we have taken adequate measures to ensure that national and international rules are complied with.

Research and development

The development of new products and therapies always carries the risk that the ultimate goal might not be achieved, or might take longer than planned. Regulatory approval of new products requires comprehensive, cost-intensive preclinical and clinical studies. The Fresenius Group spreads its risk widely by conducting development activities in various product segments. We also counteract risks from research and development projects by regularly analyzing and assessing development trends and examining the progress of research projects. We also strictly comply with the legal regulations for clinical and chemical-pharmaceutical research and development. With IV drugs, it is also crucial that new products are continually brought to the market in a timely manner. The product development process can be controlled on the basis of detailed project roadmaps and a tight focus on the achievement of specific milestones. If the defined targets are not achieved, counter-measures can be initiated.

Risks from the integration of acquisitions

The **acquisition** and **integration** of companies carries risks that can adversely affect Fresenius' assets and liabilities, our financial position, and results of operations. Following an acquisition, the infrastructure of the acquired company must be integrated while clarifying legal questions and contractual obligations. Marketing, patient services, and logistics must also be unified. During the integration phase, key managers can leave the company and the course of ongoing business processes as well as relationships with customers can be harmed. In addition, change-of-control clauses may be claimed. The integration process may prove to be more difficult and cost-intensive or last longer than expected. Risks can arise from the operations of the newly acquired company that Fresenius regarded as insignificant or was unaware of. An acquisition may also prove to be less beneficial than initially expected. **Future acquisitions** may be a strain on the finances and management of our business. Moreover, as a consequence of an acquisition, Fresenius may become directly or indirectly liable toward third parties or claims against third parties may turn out to be non-assertable.

Acquired by Fresenius in 2008, APP Pharmaceuticals has agreed to indemnify Abraxis BioScience, Inc., which split from it in 2007, from and after the spin-off with respect to all liabilities of the pre-separation company related to APP Pharmaceuticals' business. At the same time, 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. The extent to which Abraxis BioScience will be able to satisfy these potential claims in future cannot be predicted.

As a result of Fresenius' acquisition of APP Pharmaceuticals, the spin-off from Abraxis BioScience which took place in 2007 could fail to qualify as a tax-free distribution. A fiscal law assessment obtained within the scope of the acquisition confirms that the acquisition of APP Pharmaceuticals should not affect the qualification of the spin-off as a tax-free distribution in 2007. However, this opinion is not binding on the Internal Revenue Service (IRS), nor does it preclude the IRS from asserting a contrary position. This could lead to a material tax liability.

We counter risks from acquisitions through detailed integration roadmaps and strict integration and project management so that counter-measures can be initiated in good time if there are deviations from the expected development.

Personnel risks

The Company uses appropriate recruiting and personnel development measures to counteract a possible shortage of skilled personnel. We are also seeking to keep employees with the Company by introducing life work time accounts in various areas. In addition, we provide our employees with attractive fringe benefits and partly with bonuses. By using targeted personnel marketing measures to recruit a qualified and dedicated workforce, Fresenius counters the general shortage of specialized hospital personnel, thus ensuring our high standards of treatment quality. At the same time, by assisting in the training of young people, we thereby seek to commit them to the Company. For example, HELIOS keeps close contact to young doctors by intensive support already throughout their studies and during their practical year. Risks in personnel marketing are not considered to be significant because of all these measures.

Financial risks

The international operations of the Fresenius Group expose us to a variety of currency risks. In addition, the financing of the business exposes us to certain interest rate risks. We use derivative financial instruments as part of our risk management to avoid possible negative impacts of these risks. However, we limit ourselves to non-exchange traded, marketable instruments, used exclusively to hedge our operations and not for trading or speculative purposes. All transactions are conducted with banks of high rating.

The Fresenius Group's **currency management** is based on a policy approved by the Management Board that defines the targets, organization, and handling of the risk management processes. In particular, the guidelines assign responsibilities for risk determination, the execution of hedging transactions, and the regular reporting of risk management. These responsibilities are coordinated with the management structures in the residual business processes of the Group. Decisions on the use of derivative financial instruments in **interest rate management** are taken in close consultation with the Management Board. Hedging transactions using derivatives are carried out by the Corporate Treasury Department of the Fresenius Group – apart from a few exceptions in order to adhere to foreign currency regulations – and are subject to stringent internal controls. This policy ensures that the Management Board is fully informed of all significant risks and current hedging activities.

The Fresenius Group is protected to a large extent against currency and **interest rate risks**. As of December 31, 2010, approximately 74% of the Fresenius Group's debt was protected against increases in interest rates either by fixed-rate financing arrangements or by interest rate hedges. Only 26%, or € 2,284 million, was exposed to an interest rate risk. A sensitivity analysis shows that a rise of 0.5% in the reference rates relevant for Fresenius would have a less than 1% impact on Group net income.

As an international company, Fresenius is widely exposed to **translation effects** due to foreign exchange rate fluctuations. The exchange rate of the U.S. dollar to the euro is of particular importance because of our extensive operations in the United States. Translation risks are not hedged. A sensitivity analysis shows that a one cent change in the exchange rate of the U.S. dollar to the euro would have an annualized effect of about € 59 million on Group sales and about € 1.5 million on Group net income.

As a globally active company, we have production facilities in all the main currency areas. In the service businesses, our revenue and cost base largely coincide. The exposure to currency risks arising from our business activities (**transaction risks**) does not rise to the same extent as sales. 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 the 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 € 18 million.

Financial risks that could arise from acquisitions, investments in property, plant and equipment, and in intangible assets are assessed through careful and in-depth reviews of the projects, sometimes assisted by external consultants. Goodwill and other intangible assets with an indefinite useful life carried in the Group's consolidated balance sheet are **tested for impairment** each year.

By normally assessing the creditworthiness of new customers, we limit the risk of **late payment and defaults** by customers. We also conduct follow-up assessments and review credit lines on an ongoing basis. Receivables outstanding from existing customers are monitored, and the risk of defaults is assessed.

Fresenius' **debt** has increased significantly as a result of the financing of the APP Pharmaceuticals acquisition in 2008, reaching € 8,784 million as of December 31, 2010. The debt could limit the ability to pay dividends, to arrange refinancing, to be in compliance with its credit covenants, or to implement corporate strategy. Other financing risks could arise for Fresenius against the background of the general financial market crisis. We reduce these risks through a high proportion of medium and long-term funding with a balanced maturity profile. Furthermore, the Group has only limited short-term funding requirements.

Government reimbursement payments

Fresenius is subject to comprehensive government **regulation** in nearly all countries. This is especially true in the United States and Germany. In addition, Fresenius has to comply with general rules of law, which differ from country to country. There could be far-reaching legal repercussions should Fresenius fail to comply with these laws or regulations.

A large part of Group revenue derives from government reimbursement programs, such as the federal dialysis reimbursement programs in the United States under Medicare and Medicaid. As of January 1, 2011, a new fixed payment system for dialysis patients covered by the public health care program (Medicare) was introduced. It encompasses those products and services that were paid under the composite rate as well as separately payable drugs and laboratory tests. The initial base reimbursement rate is set at US$ 229.63 per dialysis treatment (representing 98% of the estimated 2011 Medicare program costs of dialysis care as calculated under the current reimbursement system).

The base reimbursement rate is subject to case mix adjustments that take into account individual patient characteristics (e.g., age, body surface area, body mass, time on dialysis) and certain co-morbidities. As part of the base payment for 2011, a negative 3.1 percent adjustment (Transition Adjustor) for each facility is included in order to ensure a budget-neutral transition, based on its estimation that only 43% of dialysis facilities would elect to participate fully in the bundle in 2011. Beginning in 2012, the payment amount will be subject to annual adjustment based on increases in the costs of a "market basket" of certain health care items and services less a productivity adjustment. Fresenius Medical Care is working with other providers toward favorably revising the calculation of the Transition Adjustor. They are further seeking to make protocol changes used in treating patients, to negotiate pharmaceutical acquisition cost savings, and to achieve greater efficiencies and better patient outcomes by introducing new initiatives to improve patient care upon initiation of dialysis. Without these initiatives the composite rate could lead to decreases in revenues and impact earnings.

Changes in the law or the reimbursement method could affect the scope of the payments for services as well as of the insurance coverage. This could have a significant adverse impact on the assets and liabilities, financial position, and results of operations of the Group.

Legal risks

Risks that arise from **legal disputes** are continually identified, analyzed, and communicated within the Company. Companies in the health care industry are regularly exposed to actions for breach of their duties of due care, product liability, breach of warranty obligations, treatment errors, and other claims. This can result in claims for damages and costs for legal defense, regardless of whether a claim for damages is actually justified. Legal disputes can also result in inability to insure against risks of this kind at acceptable terms in future. Products from the health care industry can also be subject to recall actions and patent infringement suits.

In 2003, a definitive agreement was signed regarding the settlement of fraudulent conveyance claims and all other legal matters in connection with the National Medical Care transaction in 1996 arising from the bankruptcy of W.R. Grace. Under the settlement agreement, Fresenius Medical Care will pay a total of US$ 115 million without interest into the W.R. Grace & Co. bankruptcy estate or as otherwise directed by the court upon plan confirmation. The settlement agreement was approved by the competent U.S. bankruptcy court. Subject to the outstanding confirmation by the W.R. Grace & Co. bankruptcy reorganization plan, all legal issues resulting from the NMC transaction have been finally concluded.

In July 2007, the U.S. Attorney General filed a civil action against Renal Care Group, Inc. (RCG) and FMCH – in its capacity as the present holding company of RCG – before the U.S. District Court for the Eastern District of Missouri. The action claims damages and penalties in respect of the business activities of the RCG Method II supplier company in 2005 – before RCG was acquired by FMCH. Fresenius Medical Care believes that RCG's operation of its Method II supply company was in compliance with applicable law and expects that the action brought by the United States will not be granted and that its position in the proceedings will ultimately be upheld.

RCG could face possible indemnification claims from former members of the Board of Directors. They are defendants in a class action in which they are being sued for damages by former shareholders of the company. Fresenius Medical Care is confident that the former Board members will win the case and that a possible claim will therefore not arise.

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

Other risks

Other risks, such as **environmental risks and risks involving management and control systems**, or our IT systems, were not considered to be significant. **IT risks** are countered through security measures, controls, and monitoring. In addition, we counter these risks with constant investment in hardware and software as well as by improving our system know-how. Potential risks are covered by a detailed contingency plan which is continuously improved and tested. Redundant systems are maintained for all key systems such as international IT systems or communications infrastructure. A password system is in place to minimize organizational risks such as manipulation and unauthorized access. In addition, there are company guidelines regulating the granting of access authorization, and compliance with these rules is monitored. We also conduct operational and security-related audits.

Assessment of overall risk

The basis for evaluating overall risk is the risk management that is regularly audited by management. Potential risks for the Group include factors beyond its control, such as the evolution of national and global economies, which are constantly monitored by Fresenius. Risks also include factors immediately within its control, such as operating risks, which the Company anticipates and reacts to appropriately, as required. There are currently no recognizable risks regarding future performance that appear to present a long-term and material threat to the Group's assets and liabilities, financial position, and results of operations. We have created organizational structures that provide all the conditions needed to rapidly alert us to possible risk situations and to be able to take suitable counteraction.

Corporate rating

Fresenius' credit quality is assessed and regularly reviewed by the leading rating agencies Moody's, Standard & Poor's, and Fitch. Standard & Poor's rating for Fresenius SE & KGaA is BB, Moody's rating is Ba1 and Fitch's rating is BB. All three rating agencies raised their rating outlook in 2010. In April Standard & Poor's raised its outlook from "stable" to "positive". In May Moody's raised its outlook from "negative" to "stable". Finally, Fitch raised its outlook from "stable" to "positive" in August.

Subsequent events

In 2010, Fresenius initiated a change of its legal form to a partnership limited by shares (KGaA) together with a conversion of the preference shares into ordinary shares. Fresenius SE's change of legal form and stock conversion became effective with their entry in the Commercial Register on January 28, 2011. The registration of the change of the legal form at the commercial register was finally cleared following a court settlement of pending disputes initiated by minority shareholders.

The Company is now operating under the name Fresenius SE & Co. KGaA. All shareholders of the former Fresenius SE are now shareholders of Fresenius SE & Co. KGaA. As part of the transaction, all non-voting preference shares were mandatorily converted into voting ordinary shares at a 1:1 exchange ratio. This simplifies the share structure, increases the liquidity of the Fresenius share, further strengthens Fresenius' position in the capital market, and improves access to the equity market.

In January 2011, Fresenius Medical Care signed an agreement to acquire International Dialysis Centers (IDC), the dialysis care business of Euromedic International. With the acquisition, Fresenius Medical Care wants to expand its activities in dialysis care especially in Eastern Europe, where IDC is market leader. IDC operates 70 dialysis clinics in nine countries and currently treats over 8,200 hemodialysis patients, largely in Central and Eastern Europe. After the acquisition is completed, IDC will contribute about US$ 180 million to the annual sales of Fresenius Medical Care. The acquisition price was € 485 million. Closing is subject to necessary regulatory approvals by the relevant anti-trust authorities and is expected to occur in the first half of 2011.

In February 2011, Fresenius Medical Care AG issued unsecured Senior Notes in the principal amounts of US$ 650 million and € 300 million, mainly to refinance the acquisition of IDC.

There have been no significant changes in the Fresenius Group's operating environment following the end of the fiscal year 2010. No other events of material importance on the assets and liabilities, financial position, and results of operations of the Group have occurred following the end of the fiscal year.

<u>Outlook</u>

This Management Report contains forward-looking statements, including statements on future sales, expenses, and investments, as well as potential changes in the health care sector, our competitive environment, and our financial situation. These statements were made on the basis of the expectations and assessments of the Management Board regarding events that could affect the Company in the future and on the basis of our mid-term planning. Such forward-looking statements are subject as a matter of course to risks, uncertainties, assumptions, and other factors, so that the actual results, including the financial position and profitability of Fresenius, could therefore differ materially – positively or negatively – from those expressly or implicitly assumed or described in these statements. For further information, please see our Opportunities and Risk Report on pages 21 ff.

General and mid-term outlook

The outlook for the Fresenius Group for the coming years continues to be positive. We are continuously striving to optimize our costs, to adjust our capacities to be able to treat patients and supply customers reliably, and to improve our product mix. We expect these efforts to improve our earnings. In addition, good growth opportunities for Fresenius are above all presented by the following factors:

- The sustained **growth of the markets** in which we operate: Fresenius sees very good opportunities to benefit from the considerable health care needs due to aging populations and technical advances, but driven also by the still insufficient access to health care in the developing and emerging countries. There are above-average and sustained growth opportunities for us not only in the markets of Asia and Latin America, but also in Eastern Europe. Appropriate reimbursement structures and efficient health care systems will evolve over time in these countries as economic conditions improve. We will strengthen our local business activities in these regions and successively introduce further products from our portfolio to these markets.

- The **development of innovative products and therapies**: these will create the potential to further expand our market position in the regions. In addition to innovation, best-in-class quality, reliability, and convenience of our products and therapies are key factors here. Although the research is still in its infancy, the development of wearable artificial kidneys is conceivable in the long term at Fresenius Medical Care. At Fresenius Kabi we are working on the development of new generics with the aim of bringing them to the market when the originator drugs go off-patent.

- The **expansion of our regional presence**: the fast-growing markets in Asia-Pacific, Latin America, and Eastern Europe especially offer further potential for increasing our market shares. China, for instance, which has the world's biggest population, offers excellent growth opportunities over the long term not only in clinical nutrition and infusion therapies for Fresenius Kabi, which already holds a leading market position in China, but also for Fresenius Medical Care in dialysis.

  We also plan to successively roll out products and therapies from our existing portfolio in countries where we do not yet offer a comprehensive range. The acquisition of APP Pharmaceuticals in the Fresenius Kabi business segment, for instance, provides us with a platform to introduce infusion and nutrition therapy products to the U.S. market.

- The **broadening of our services business**: Fresenius Helios has opportunities in the German hospital market to profit from the further privatization of public hospitals. Changes in the law could present new opportunities, for instance, for Fresenius Medical Care. Since Japan is one of the world's biggest dialysis markets, changes in the framework conditions for operating dialysis clinics as a private company could open up new revenue potential for Fresenius Medical Care. Germany is the fourth largest market in the world for Fresenius Medical Care in terms of the number of dialysis patients. The company is now in a position to offer dialysis care through medical care centers. Here, Fresenius Medical Care perceives its role as a partner for customers in creating new supply structures in the German health care sector and sees such ventures as an opportunity to strengthen its business long term. At the end of 2010, Fresenius Medical Care participated in eight medical care centers (2009: 4).

- **Selective acquisitions**: besides good organic growth as basis for our business, we will continue to utilize opportunities to grow by making small and mid-sized acquisitions that extend our product portfolio and strengthen our regional presence.

We are also exploiting any **opportunities for tapping potential within our operations** for cost management and efficiency enhancement measures. These include plans for a further optimized procurement process and cost-efficient production. We are increasingly globalizing our sourcing processes in order to realize further synergies.

Acquisitions, primarily the acquisition of APP Pharmaceuticals, led in 2008 to appreciably higher Group debt with a corresponding impact on net interest. Meanwhile we strongly improved the Group's **leverage ratios**. As of December 31, 2010, the net debt/EBITDA ratio was 2.6 and was therefore within our target corridor of 2.5 to 3.0. The net debt/EBITDA ratio is expected to remain within this corridor in 2011.

This outlook takes account of all events known at the time the annual financial statements were prepared that could influence our operating performance in 2011 and beyond. Significant risks are discussed in the Risk Report. As in the past, we will do our utmost to achieve and if possible exceed our targets.

Future markets

As an international company, we offer our products and services in more than 170 countries. We expect the consolidation process among competitors in our markets in Europe, Asia-Pacific, and Latin America to continue. Consequently, we expect that there will be opportunities for us to penetrate new markets, both by expanding our regional presence and by extending our product portfolio. In the United States, since Fresenius Medical Care and its competitor DaVita already share about two-thirds of the market, acquisitions – also with regard to potential antitrust restrictions – are likely to be small. Other new markets will also open up for Fresenius as we successively roll out our existing product portfolio in other regions. For instance, due to different regional and legal conditions, Fresenius Medical Care only supplies dialysis products in some countries. If conditions change, the company might provide dialysis care in these countries as well.

Economic outlook

The development for the economy will continue to harbor risks in 2011. On the one hand, the still strained situation on the financial and property markets is expected to dampen growth in the industrial countries. On the other hand, experts expect a slight clouding of the economic outlook for the emerging markets, which have been the world's growth drivers so far. This is due, among other things, to growing concerns over an abrupt end to the potential bubble in Chinese property prices. In addition, many industrial countries face the task of reducing the sharply increased levels of public as well as private sector debt. The resulting decline in demand, together with still underutilized capacities and high unemployment, increases the risk of deflation in those countries. The already highly expansive monetary policy pursued in many economies leaves little leeway for countering such a risk.

Against this backdrop, the pace of the upturn in the world economy is expected to slacken in 2011. Overall, global GDP growth of about 3.9% is forecast.

Europe

The positive trend in most Eurozone economies is expected to continue in 2011. However, for the periphery countries a sluggish development is expected at best. Here, the economic problems in the financial and property markets and on the labor market still weigh too heavily. As capacities are still underutilized, growth in investment is expected to be comparatively modest. Furthermore, the austerity measures such as wage adjustments, tax hikes, and welfare cuts necessary – and already initiated to some extent – in the crisis countries will dampen domestic consumption and investment demand. In addition, fears are rising that additional countries such as Portugal or Spain will have to make use of the rescue package from the European Union.

Despite contractions in GDP in Greece and Portugal, economic output in the Eurozone is expected to grow overall by 1.2% in 2011. The strength of the economy in **Germany** especially should be a main driver, although the momentum should slacken as demand from the other industrial countries is likely to weaken. Stimulus will probably come increasingly from domestic demand rather than exports. GDP growth of 2.0% is therefore expected for 2011.

Sources: German Council of Economic Experts – Annual Report 2010/ 2011, bank research

United States

The development of the U.S. economy will probably further recover in 2011. Investment expenditure should pick up at a slightly stronger pace, supported by the still very favorable interest rate level and an expansive monetary policy. However, the deleveraging process among households and in the financial sector and high unemployment will continue to weigh on private consumption. Still, on the positive side, the increase in the household savings rate makes a sudden plunge in consumption unlikely. Growth expectations are dampened especially by the sluggish trend on the labor market, where unemployment is still high at 9.8%. However, a slight improvement in the jobless rate is expected in 2011.

Overall, GDP growth is likely to increase to about 3.1% in 2011.

Asia

The growth of the emerging economies in Asia is expected to slow to 7.4% in 2011. Private demand should continue to grow. The lower growth is likely to be due chiefly to a declining rate of growth in exports and weaker growth in the industrial countries. The emerging markets continue to be dependent on the industrial countries, which account for a large part of the exports.

In **China**, GDP growth of 8.7% is forecast for 2011. There are three reasons for this moderate slowdown versus last year: firstly, lower basis effects, secondly, an expected falloff in external demand and, thirdly, China's monetary tightening since the first quarter of 2010. It also remains to be seen whether the Chinese government will adopt a more flexible stance on its still undervalued currency.

In **Japan**, a decline in demand for consumer goods after the fiscal support measures expire and the weakness of the world economy could have a dampening effect. GDP growth will probably be 0.6%.

The emerging Asian economies will continue to grow strongly in 2011. Structural factors, such as the catch-up process versus the industrial countries, the young and still growing population, and improvements in infrastructure, will continue to be growth drivers for the economy. Together with the growth, both increasing inflation and especially a further rise in food prices are expected.

Latin America

Although there are some indications pointing to a slowdown, continued robust growth is forecast for Latin America. This is mainly due to the expectation of a continued dynamic development of domestic demand and positive effects from increased commodity prices. Latin America should also continue to benefit from a stable financial and economic environment. Corporate and household debt is relatively low.

Argentina has recently returned to a growth path, but the risk situation remains negative due to political instability. Argentina's GDP is expected to grow by 5.5% in 2011. For **Brazil**, experts forecast GDP growth of about 4.5%. The weaker growth outlook is due to the expectation of a somewhat more restrictive fiscal policy. Growth should also slacken in **Mexico**: 4.0% is forecast as Mexico's economy is still very dependent on the U.S. economy.

Health sector and markets

The health care sector continues to be one of the world's largest industries and is considered to be largely independent of economic cycles. The demand especially for life-saving and life-sustaining products and services will remain intact as they are medically needed and the population is aging.

However, experts estimate that further financial constraints in the public sector could result in more pricing pressure and a slowdown in revenue growth as governments seek to ease their health care spending.

Nonetheless, industry observers believe that, despite all challenges, the sector will also see a comparatively solid financial performance in the foreseeable future. Favorable demographic trends, medical advances, and the large number of diseases that are still difficult to cure or are incurable should be growth drivers. In addition, the need to increase the availability of primary health care and the growing demand for high-quality medical treatment in the emerging countries will also continue to generate steady growth rates.

The dialysis market

We expect the worldwide number of dialysis patients to rise by approximately 6% p.a. in the coming years, although significant regional differences will remain. For the United States, Japan, and the countries of Central and Western Europe, where prevalence is already relatively high, we forecast patient growth in the region of 3 to 5% p.a. In many emerging countries, however, where needs are still not met sufficiently, we expect growth in patient numbers of up to 10%, and in some countries even higher rates. This growth is driven by steadily evolving health care systems that are providing broader patient care. As more than 80% of the world's population lives in these countries, this opens up strong potential for the entire spectrum of dialysis care and dialysis products.

In addition, demographic factors such as aging populations and the growing number of people suffering from diabetes and hypertension, which are ailments often preceding terminal kidney failure, are contributing toward continued growth of the dialysis markets. The age expectancy of dialysis patients is also rising thanks to ongoing advances in treatment quality and a rising standard of living, especially in the emerging countries.

We expect that the total dialysis market could rise by about 4% in 2011 (unchanged currency relations assumed) (2010: about € 69 billion).

Effective January 2011, a new payment system was introduced in the United States, our largest market, for dialysis patients covered by the public health care program, which encompasses those services that were paid under the composite rate as well as separately payable drugs and laboratory tests.

The market for infusion therapies and clinical nutrition, generic IV drugs, and medical devices

The market for **infusion therapies and clinical nutrition** in Central and Western Europe is expected to continue to grow at a low single-digit rate in the coming years. However, given the financial constraints in these countries, the efforts to contain costs in the health care sector are being pursued undiminished. Continued high growth potential is expected in Asia-Pacific – especially China – and in Latin America and Eastern Europe. We expect the market in these regions to continue growing at high single to double-digit rates.

With **generic IV drugs** the growth dynamic will continue to be driven by originator drugs going off-patent. A factor working in the opposite direction is the price erosion for products that are already in the market. We expect the market for IV generics in Central and Western Europe, as well as in the United States, to grow at mid-single-digit rates in 2011.

We also expect rising demand for medical devices in the coming years.

The German hospital market

At the end of 2010, the German Bundestag passed the Act on Sustainable and Socially Balanced Financing of Statutory Health Insurance (GKV-FinG), which will also affect the hospital market. Under the GKV-FinG, all the principal actors in the health care market are required to participate in compensating for the deficit of € 9 billion anticipated in the public health insurance system. The contribution of the hospitals toward covering the funding deficit is estimated at about € 0.5 billion in 2011.

The current reforms focus on the public health insurers' revenues and on cost-containment measures and so far do not present any major changes in the legal framework conditions for the acute and post-acute care clinic market.

With regard to their funding, hospitals can also expect rising budgets in principle again in 2011. However, the GKV-FinG limits the price escalation for hospital services to 0.9%. That corresponds to a reduction of 0.25 percentage points of the wage sum inflator. A maximum reduction of 0.5 percentage points of the wage sum inflator is expected in 2012. Moreover, additional admissions above the allocated budget numbers of 2010 will only be reimbursed at a rate of 70% in 2011.

As a result of the limited revenue increases, it will probably not be possible to cover all the expected cost increases at the hospitals – especially with regard to personnel costs as a result of wage tariff increases. Hospitals will continue to face cost pressure and the need for further savings in their operations.

In Germany as from the beginning of 2010, inpatient acute care services are reimbursed only on the basis of the standardized base rates of the individual federal states (DRG system). The different base rates from state to state are to be successively harmonized over a period of five years from 2010 onwards toward a standardized, nationwide base rate corridor. The originally planned convergence to a standardized, nationwide base rate starting in 2015 was lifted.

However, in light of the past experience with the DRG system, the positive development in the number of admissions, and the now completed convergence phase, HELIOS does not expect any major changes in the reimbursement of its services.

Under the Hospital Funding Reform Act (KHRG), the criteria for the introduction of flat-rate investment allowances should be agreed by the end of 2012. Instead of the previous application-based financing of hospital investments, state governments can decide to finance investments on the basis of a performance-oriented allocation of investment funds. In line with the DRG system, it is planned to determine the flat-rate investment allowances on the basis of a base rate applying at the state level and standardized, nationwide investment appraisal parameters.

Sources: IMS Health forecasts; German Ministry of Health; Deutsche Krankenhausgesellschaft.

Given their growing investment needs but declining government support, hospitals are under growing pressure to rigorously tap the potential for rationalization. According to a study by the German Hospital Institute (DKI), less than half of hospital investment is financed by the state governments with public funds. Financing investments is a challenge especially for public hospitals. The financial situation of local governments will remain constrained, reducing their ability to cover their hospitals' operating losses and finance investments. This will further limit the financial scope for supporting loss-making hospitals and investment in public health care facilities, and will encourage privatizations.

It is generally expected that the proportion of private hospitals will rise at the expense of public hospitals. Private hospital chains and alliances are likely to be able to respond to the pressure to improve efficiency better than public hospitals. They often have more experience in operating commercially and creating efficient structures. They also have the potential to secure cost advantages in procurement. Finally, private operators have more experience with the process know-how for acquiring and integrating new facilities and quickly adjusting their cost structures. Experts anticipate that privatizations will increase in 2011 due to the more difficult situation of the hospitals.

Another future challenge for hospitals will be personnel shortages due to, among other things, restrictive regulations on working hours and a higher demand for specialized staff in some areas. Experts estimate about 6,000 unfilled vacancies alone on the medical side. Retaining qualified staff over the long term and training them are seen as important success factors for a hospital.

Other crucial factors for a hospital's success are not only cost-efficient processes, a well-structured medical offering, and well-trained staff, but also excellent medical quality. HELIOS is convinced that systematic quality management and the documentation of medical outcomes should not just serve as marketing instruments, but should be an element of hospital management, and thus part of the reimbursement. In the long run, initiatives are expected that provide for the introduction of quality-based reimbursement (pay-for-performance) and allow hospitals the option of concluding selective contracts with health insurers. With its strict focus on quality and transparency, HELIOS would be well prepared for such a future development.

No consequences from changes in the law are expected in the post-acute clinic segment. However, pricing and other controls by health insurers will continue to increase. Experts assume the importance of post-acute care will rise due to demographic trends, longer working lives, and the growing prevalence of chronic diseases. As a result of growth in acute care admissions and continuous improvements in HELIOS' internal referral management, we expect to be able to leverage potentials from the combination of acute care and postacute care, thereby increasing our number of post-acute care admissions.

<u>The market for engineering and services for hospitals and other health care facilities</u>

In industrial countries, owing to demographic trends, growing demand for high-quality, efficient medical care – and thus for engineering and services for hospitals and other health care facilities – is expected to continue. The focus is on services, ranging from the maintenance and repair of medical and hospital equipment, facility management, and technical operation, through to total operational management and infrastructure process optimization – especially within the framework of public-private partnership (PPP) models. Additional growth opportunities are presented by the advancing privatization of health care.

In the emerging countries, there is growing demand above all for infrastructure development, but also for efficient, needs-oriented medical care. The provision of primary health care is now very largely in place. In many markets, the focus now is therefore on building up secondary care, developing tertiary health care structures in the form of "centers of excellence", and creating training and research structures. All in all, we expect the market for engineering and services for hospitals and other health care facilities to continue growing in 2011.

Economic outlook of Fresenius SE & Co. KGaA for the year 2011

For the fiscal year 2011 the company expects again a clear positive contribution to earnings from dividends and profit and loss transfer agreements. Moreover in 2011 earnings will be positively influenced by high one-time accounting earnings resulting from the maturity of the Mandatory Exchangeable Bonds (see also Results of operations).

Dividend

Continuity in our dividend policy remains an important priority, clearly demonstrated by dividend increases over the last 17 years. On average, we have passed on about half of the percentage growth in Group net income to our shareholders as a percentage dividend increase. Based on our positive earnings forecasts we want to remain true to our dividend policy in the 2011 fiscal year and again expect to offer our shareholders an **earnings-linked dividend.**

Bad Homburg v.d.H., February 23, 2011

COMPENSATION REPORT

The compensation report summarizes the main elements of the compensation system for the members of the Management Board of the general partner of Fresenius SE & Co. KGaA and in this connection notably explains the amounts and structure of the compensation paid to the Management Board as well as the principles for determining the compensation of the Supervisory Board and the amounts of the compensation. The compensation report is part of the Management report. The compensation report is prepared on the basis of the recommendations made by the German Corporate Governance Code and also includes the disclosures as required pursuant to the applicable statutory regulations, notably in accordance with the German Commercial Code.

COMPENSATION OF THE MANAGEMENT BOARD

The entire Supervisory Board of Fresenius Management SE is responsible for determining the compensation of the Management Board. The Supervisory Board is assisted in this task by a personnel committee. In the year under review, the acting personnel committee was composed of Dr. Gerd Krick, Dr. Karl Schneider and Wilhelm Sachs.

In the fiscal year 2010, the compensation of the members of the Management Board of the general partner of Fresenius SE & Co. KGaA already took into account the newly worded requirements in accordance with the German Act on the Appropriateness of Executive Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG), which entered into force on August 5, 2009. The Management Board compensation system was reviewed by an independent external compensation expert at the beginning of the fiscal year 2010 and later submitted to the shareholders' meeting of Fresenius SE (since January 28, 2010: Fresenius SE & Co. KGaA) for approval. On May 12, 2010, The shareholders' meeting approved of the Management Board compensation system with a majority of 99.51% of the votes cast.

The objective of the compensation system is to enable the members of the Management Board to participate reasonably in the sustainable development of the Company's business with the compensation paid and to reward them based on their duties and performance as well as their successes in managing the Company's economic and the financial position while giving due regard to the peer environment.

The compensation of the Management Board is, as a whole, performance-oriented and was composed of three elements in the fiscal year 2010:

- non-performance-related compensation (basic salary)
- performance-related compensation (variable bonus)
- components with long-term incentive effects (stock options and postponed bonus payments)

In addition, six members of the Management Board had pension commitments 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 2010. Moreover, 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 reimbursement of certain other charges as well as contributions to pension and health insurance.

The performance-related compensation will also be granted for the fiscal year 2010 as a variable bonus. The amount of the bonus in each case is dependent on certain target parameters oriented on the net income attributable to Fresenius SE & Co. KGaA and/or to the relevant business segments being achieved. In the case of the members of the Management Board with functional responsibility for the entire Group – such members being Dr. Schneider, Mr. Sturm and Dr. Götz –, the amount of the variable bonus is based in its entirety on the respective net income attributable to Fresenius SE & Co. KGaA (after deduction of noncontrolling interest). For Mr. Baule and Dr. De Meo, half of the amount of the variable bonus in each case depends on the development of the net income attributable to Fresenius SE & Co. KGaA as well as the development of the net income of the business segment (in each case after deduction of noncontrolling interest) for which the respective member of the Management Board is responsible. Half of the amount of the variable bonus of Dr. Wastler in each case is oriented on the net income attributable to Fresenius SE & Co. KGaA (after deduction of noncontrolling interest) as well as on the net income before tax and extraordinary income/expenditures of the VAMED group. Dr. Lipps receives his compensation exclusively from Fresenius Medical Care. Furthermore, the Supervisory Board may grant a discretionary bonus for extraordinary performance.

For the fiscal years 2010 and 2009, the amount of cash payment of the Management Board of the general partner of Fresenius SE & Co. KGaA consisted of the following:

	Non-performance-related compensation				Performance-related compensation		Cash compensation (without long-term incentive components)	
	Salary		Other[2]		Bonus			
€ in thousands	2010	2009	2010	2009	2010	2009	2010	2009
Dr. Ulf M. Schneider	**900**	800	**47**	56	**908**	1,032	**1,855**	1,888
Rainer Baule	**500**	425	**42**	41	**608**	800	**1,150**	1,266
Dr. Francesco De Meo	**500**	425	**18**	18	**498**	543	**1,016**	986
Dr. Jürgen Götz	**375**	325	**30**	28	**464**	424	**869**	777
Dr. Ben Lipps[1]	**905**	860	**354**	251	**1,172**	1,200	**2,431**	2,311
Stephan Sturm	**500**	425	**85**	85	**574**	732	**1,159**	1,242
Dr. Ernst Wastler	**425**	375	**32**	27	**461**	473	**918**	875
Total	**4,105**	3,635	**608**	506	**4,685**	5,204	**9,398**	9,345

[1] Dr. Ben Lipps receives his compensation only from Fresenius Medical Care, of which Fresenius SE & Co. KGaA held 35% of the total subscribed capital. As Dr. Ben Lipps is a member of the Management Board of Fresenius Management SE, his compensation has to be included in the compensation report of the Fresenius Group.
[2] Includes insurance premiums, private use of company cars, contributions to pension and health insurance as well as other benefits.

In the fiscal year, the directly paid bonus, excluding the payment to Dr. Ben Lipps, amounts to €3,463 thousand. This equals 79% of the total bonus. The remaining part in an amount of €897 thousand was converted into a component based on a multi-year assessment and the payment was postponed by two years.

To ensure that the overall system of compensation of the members of the Management Board is oriented towards long-term and sustained corporate development, the compensation system provides that the share of long-term variable compensation components is at least equal in its amount to half of the total variable compensation components granted to the respective member of the Management Board. As a means of ensuring this minimum ratio in favor of the compensation components oriented towards the long term, it is expressly provided that the Supervisory Board may determine that the variable bonus to be paid as a rule annually is converted (pro rata) into a variable compensation component based on a multi-year assessment in order to also take account of any negative developments within the assessment period. This is done in such a way that the maturity of the bonus earned on a variable basis is postponed at the discretion of the Supervisory Board, either on a pro rata basis or in its entirety, by two years. At the same time it is ensured that any payment is made to the member of the Management Board after expiry of such multi-year period only if (i) no subsequent adjustment of the decisive (i. e. adjusted by extraordinary effects) net income attributable to Fresenius SE & Co. KGaA (after deduction of noncontrolling interest) beyond an amount equal to a tolerance range of 10% is made, and (ii) the amount of net income attributable to Fresenius SE & Co. KGaA (adjusted for extraordinary effects) in the two relevant subsequent years is not substantially less than the net income attributable to Fresenius SE & Co. KGaA (adjusted by extraordinary effects, after deduction of noncontrolling interst) of the respective preceding fiscal years. In the event of the aforementioned conditions for payment being missed only to a minor and/or partial extent, the Supervisory Board may resolve on a correspondingly pro rata payment of the converted portion of the variable bonus. No interest is payable on the converted bonus claim from the time when it first arises until the time of its effective payment. In this way, the variable bonus can be converted pro rata or in its entirety into a genuine variable compensation component on a multi-year assessment basis which also participates in any negative developments during the relevant assessment period.

The system of compensation for the Management Board moreover provides for a contractually stipulated cap or possibility of capping the amount of the annual compensation to be claimed by the member of the Management Board overall, i. e. including all variable compensation components. This makes it possible to adequately take account in particular of those extraordinary developments which are not in any relevant proportion to the performance of the Management Board.

Under the new compensation system, the amount of the basic compensation of the members of the Management Board was and will be assessed giving particular regard to the relevant comparison values of other DAX companies and similar companies of comparable size and performance from the relevant industrial sector.

In the fiscal year 2010, stock options based on the Stock Option Plan 2008 of Fresenius SE & Co. KGaA and the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 were granted as components with long-term incentive effects. The number of stock options to be allotted is defined in each case by the Supervisory Board at its discretion, with all members of the Management Board, except for the Chairman of the Management Board who receives double the number of stock options, receiving the same number of stock options.

The principles of both plans are described in more detail in note 34 of the notes of the Fresenius Group, Stock options.

For the fiscal years 2010 and 2009, the number and value of stock options issued as well as the value of the postponed performance-related compensation is shown in the table below.

The stated values of the stock options granted to members of the Management Board in the fiscal year 2010 correspond to their fair value at the time of grant, namely a value of €12.92 (2009: €8.24) per stock option of Fresenius SE & Co. KGaA and €8.07 (2009: €7.64) per stock option of FMC-AG & Co. KGaA. The exercise price of the granted stock options of Fresenius SE & Co. KGaA was €53.44 (2009: €36.89).

As the financial targets of the year 2010 were achieved, Dr. Ben Lipps is entitled to a stock-based compensation in an amount of €391 thousand (2009: €341 thousand) in accordance with the bonus agreement of Fresenius Medical Care. 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 2010, the members of the Management Board held a total of 978,960 (2009: 901,500) stock options and convertible bonds of Fresenius SE & Co. KGaA and 598,870 (2009: 703,416) stock options and convertible bonds of FMC-AG & Co. KGaA.

LONG-TERM INCENTIVE COMPONENTS

	Stock options [1]				Postponed performance-related compensation [2]		Total	
	Number		Value, € in thousands		Value, € in thousands		Value, € in thousands	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Dr. Ulf M. Schneider	**56,760**	51,600	**733**	425	**174**	0	**907**	425
Rainer Baule	**28,380**	25,800	**367**	213	**241**	0	**608**	213
Dr. Francesco De Meo	**28,380**	25,800	**367**	213	**131**	0	**498**	213
Dr. Jürgen Götz	**28,380**	25,800	**367**	213	**98**	0	**465**	213
Dr. Ben Lipps	**99,600**	99,600	**804**	761	**391**	341	**1,195**	1,102
Stephan Sturm	**28,380**	25,800	**367**	213	**208**	0	**575**	213
Dr. Ernst Wastler	**28,380**	25,800	**367**	213	**95**	0	**462**	213
Total	**298,260**	280,200	**3,372**	2,251	**1,338**	341	**4,710**	2,592

[1] Stock options that were granted in 2010 and 2009 under the Fresenius SE & Co. KGaA stock option plan. Dr. Ben Lipps received stock options under the Fresenius Medical Care stock option plan.
[2] The details for Dr. Ben Lipps refer to a stock-based compensation with cash settlement.

The development and the status of the stock options of the Management Board in the fiscal year 2010 are shown in the following table:

	Dr. Ulf M. Schneider	Rainer Baule	Dr. Francesco De Meo	Dr. Jürgen Götz	Dr. Ben Lipps[1]	Stephan Sturm	Dr. Ernst Wastler	**Total[2]**
Options outstanding on January 1, 2010								
number	322,500	187,050	81,600	88,530	703,416	139,320	82,500	**901,500**
average exercise price in €	36.65	34.42	46.66	46.74	28.44	41.63	44.04	**39.53**
Options granted during fiscal year								
number	56,760	28,380	28,380	28,380	99,600	28,380	28,380	**198,660**
average exercise price in €	53.44	53.44	53.44	53.44	42.68	53.44	53.44	**53.44**
Options exercised during fiscal year								
number	43,860	47,730	0	29,610	204,146	0	0	**121,200**
average exercise price in €	13.59	17.31		46.77	24.49			**23.16**
average stock price in €	64.91	59.71		64.44	43.14			**62.75**
Options outstanding on December 31, 2010								
number	335,400	167,700	109,980	87,300	598,870	167,700	110,880	**978,960**
average exercise price in €	42.51	42.51	48.41	48.90	32.15	43.63	46.44	**44.38**
average remaining life in years	5.3	5.3	5.7	5.6	4.4	5.4	5.5	**5.4**
range of exercise prices in €	21.33 to 57.27	21.33 to 57.27	36.89 to 57.27	36.89 to 57.27	14.47 to 42.68	29.92 to 57.27	21.33 to 57.27	**21.33 to 57.27**
Exercisable options on December 31, 2010								
number	160,820	80,410	25,000	10	300,070	80,410	27,400	**374,050**
average exercise price in €	35.56	35.56	47.49	57.27	27.61	37.91	40.11	**37.20**

[1] Dr. Ben Lipps holds stock options under the Fresenius Medical Care stock option plan.
[2] Only stock options and convertible bonds of Fresenius SE & Co. KGaA, excluding stock options of Dr. Ben Lipps.

The following table shows the total compensation of the Management Board of the general partner of Fresenius SE & Co. KGaA for the years 2010 and 2009:

€ in thousands	Cash compensation (without long-term incentive components)		Long-term incentive components		Total compensation (including long-term incentive components)	
	2010	2009	**2010**	2009	**2010**	2009
Dr. Ulf M. Schneider	**1,855**	1,888	**907**	425	**2,762**	2,313
Rainer Baule	**1,150**	1,266	**608**	213	**1,758**	1,479
Dr. Francesco De Meo	**1,016**	986	**498**	213	**1,514**	1,199
Dr. Jürgen Götz	**869**	777	**465**	213	**1,334**	990
Dr. Ben Lipps	**2,431**	2,311	**1,195**	1,102	**3,626**	3,413
Stephan Sturm	**1,159**	1,242	**575**	213	**1,734**	1,455
Dr. Ernst Wastler	**918**	875	**462**	213	**1,380**	1,088
Total	**9,398**	9,345	**4,710**	2,592	**14,108**	11,937

The stock options and the entitlement to a stock-based compensation 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 2010 and 2009 are stated in the following table.

€ in thousands	Expenses for long-term incentive components	
	2010	2009
Dr. Ulf M. Schneider	**681**	694
Rainer Baule	**341**	347
Dr. Francesco De Meo	**268**	171
Dr. Jürgen Götz	**327**	289
Dr. Ben Lipps	**1,739**	1,857
Stephan Sturm	**341**	357
Dr. Ernst Wastler	**268**	171
Total	**3,965**	3,886

COMMITMENTS TO MEMBERS OF THE MANAGEMENT BOARD FOR THE EVENT OF THE TERMINATION OF THEIR APPOINTMENT

There are individual contractual pension commitments for the Management Board members Dr. Ulf M. Schneider, Rainer Baule, Dr. Jürgen Götz and Stephan Sturm based on their service agreements with the general partner of Fresenius SE & Co. KGaA. The Management Board member Dr. Ernst Wastler has a pension commitment of VAMED AG, Vienna. The Management Board member Dr. Ben Lipps has acquired non-forfeitable benefits from participation in employee pension plans of Fresenius Medical Care North America. With regard to these pension commitments, the Fresenius Group had pension obligations of €7,870 thousand as of December 31, 2010 (2009: €5,040 thousand). The additions to pension liability in the fiscal year 2010 amounted to €2,830 thousand (2009: €924 thousand).

The pension commitments are as follows:

€ in thousands	As of January 1, 2010	Additions	**As of December 31, 2010**
Dr. Ulf M. Schneider	726	514	**1,240**
Rainer Baule	2,225	1,137	**3,362**
Dr. Jürgen Götz	157	259	**416**
Dr. Ben Lipps	341	60	**401**
Stephan Sturm	365	310	**675**
Dr. Ernst Wastler	1,226	550	**1,776**
Total	5,040	2,830	**7,870**

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 pension's starting percentage of 30% of the last basic salary increases with every full year of service as Management Board member by 1.5 percentage points, 45% being the attainable maximum.

Current pensions increase according to legal requirements (Section 16 of the German law to improve company pension plans, BetrAVG).

30% of the gross amount of any later income from an occupation of the Management Board member is set off against the pension. Furthermore, 100% (or in the case of Management Board member Rainer Baule 70%) of any amounts accruing to Management Board members or their surviving dependents from the Management Board member's vested rights in other company pension plans, also from employment with other companies, is also set off.

In the event of the death of one of the aforesaid Management Board members, the widow receives a pension equivalent to 60% of the pension entitlement accruing at the time of death. In addition, own legitimate children of the deceased Management Board member receive an orphan's pension equivalent to 20% of the pension entitlement accruing at the time of death until completion of their vocational training but at the most until the age of 25 years. However, all orphans' pensions and the widow's pension are capped at an aggregate 90% of the Management Board member's pension entitlement.

If a Management Board member's service as a member of the Management Board of Fresenius Management SE ends before the age of 63 years for reasons other than professional or occupational incapacity, the rights to the said pension benefits vest but the pension payable upon the occurrence of a pensionable event is reduced pro rata according to the actual length of service as a Management Board member compared to the potential length of service until the age of 63 years.

With the Management Board member Rainer Baule it was agreed in 2010 that instead of increasing the amounts of the life insurance policies taken out by Fresenius in his favor a sum of €78 thousand be paid, due at the age of 63 years and carrying interest as from January 1, 2010 at an annual rate of 4.4%.

The pension commitment for Dr. Ernst Wastler provides for a normal pension, an early retirement pension, a professional incapacity pension, and a widow's and orphan's pension. The normal pension is payable at the earliest at the age of 60 years and the early retirement pension at the earliest at the age of 55 years. The pension benefits are equivalent to 1.2% per year of service based on the last basic compensation, with a cap of 40%. The widow's pension (60%) and the orphan's pension (20% each) are capped in aggregate at not more than Dr. Ernst Wastler's pension entitlement at the time of death. Pensions, retirement and other benefits from third parties are set off against the pension benefit.

With the Management Board member Dr. Ben Lipps, there is the following individual agreement in plan: Instead of a pension provision, and taking account of a restriction of competition 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 33% of the non-performance-related compensation components paid to him in the fiscal year 2010. The net present value of this commitment as of December 31, 2010 is €2,153 thousand. In additon, the Management Board member Dr. Ben Lipps has acquired non-forfeitable benefits from participation in employee pension plans of Fresenius Medical Care North America which provide payment of pensions as of the age of 65 and the payment of reduced benefits as of the age of 55. Due to plan cuts in March 2002, the rights to receive benefits from the pension plans have been frozen at the level then applicable.

A subsequent non-competition clause has been agreed for all Management Board members. Should this enter into effect, the Management Board members receive for each year for which the competitive restriction applies to them a waiting allowance equivalent to half of the annual basic compensation plus half of the contractually agreed minimum bonus, or in the case of Management Board member Rainer Baule half of the last contractually agreed payment received, for a maximum of two years.

The Management Board members' service contracts do not contain express provisions for the event of a "change of control".

All Management Board members have received individually agreed commitments for the continued payment of their compensation in case of illness for a maximum of 12 months. Insurance benefits may be set off, as applicable, from the sixth month of incapacity due to illness. In the event of the death of a Management Board member, a further three months' compensation after the month in which the death occurs, however at the most for the period until the end of the respective service contract, will be paid to the surviving dependents.

MISCELLANEOUS

In the fiscal year 2010, no loans or advance payments of future compensation components were made to members of the Management Board of Fresenius Management SE.

As far as legally permitted, Fresenius SE & Co. KGaA 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 excess, which complies with the requirements of the German Act on the Appropriateness of Executive Board Compensation (VorstAG). 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.

Based on pension commitments, to former members of the Management Board, €776 thousand and €744 thousand were paid in the years 2010 and 2009, respectively. The benefit obligation for these persons amounted to €11,039 thousand in 2010 (2009: €9,878 thousand).

INFORMATION ON THE SUPERVISORY BOARD

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 & Co. KGaA. Each member of the Supervisory Board shall receive a fixed compensation of €13 thousand. The members of the Audit Committee of Fresenius SE & Co. KGaA and the members of the Personnel Committee acting in the fiscal year 2010 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 & Co. KGaA provides to the members of the Supervisory Board insurance coverage in an adequate amount (relating to their function) with an excess equal to those of the Management Board.

For the years 2010 and 2009, the compensation for the members of the Supervisory Board of Fresenius SE & Co. KGaA, including compensation for committee services, was as follows:

€ in thousands	Fixed compensation		Compensation for committee services		Variable compensation		Total compensation	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Dr. Gerd Krick	**26**	26	**30**	30	**214**	186	**270**	242
Dr. Dieter Schenk	**20**	20	**0**	0	**161**	139	**181**	159
Niko Stumpfögger	**20**	20	**0**	0	**161**	139	**181**	159
Prof. Dr. h. c. Roland Berger	**13**	13	**20**	20	**107**	93	**140**	126
Dario Ilossi	**13**	13	**0**	0	**107**	93	**120**	106
Konrad Kölbl	**13**	13	**10**	10	**107**	93	**130**	116
Klaus-Peter Müller	**13**	13	**0**	0	**107**	93	**120**	106
Dr. Gerhard Rupprecht	**13**	13	**0**	0	**107**	93	**120**	106
Wilhelm Sachs	**13**	13	**10**	10	**107**	93	**130**	116
Dr. Karl Schneider	**13**	13	**20**	20	**107**	93	**140**	126
Stefan Schubert	**13**	13	**0**	0	**107**	93	**120**	106
Rainer Stein	**13**	13	**10**	10	**107**	93	**130**	116
Total	**183**	183	**100**	100	**1,499**	1,301	**1,782**	1,584

DIRECTORS & OFFICERS INSURANCE

Fresenius SE & Co. KGaA 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 the general partner of Fresenius SE & Co. KGaA and for the Supervisory Board of Fresenius SE & Co. KGaA as well as 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 2011. 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.

REPORT OF THE SUPERVISORY BOARD

2010 was a year in which important structural changes were initiated – the change of the Company's legal form to a partnership limited by shares (KGaA) in combination with the conversion of all preference shares into ordinary shares. The Company closed the reporting period still in the legal form of an SE (Societas Europaea).

In 2010, the Supervisory Board performed the duties assigned to it by law and by the Company's Statutes, regularly advising and monitoring the Management Board. It was closely involved in all decisions that were of major importance to the Company or the Group.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Carrying out its monitoring and advisory activities, the Supervisory Board was kept regularly informed by the Management Board – in a comprehensive and timely oral and written manner – about the business development, economic and financial position, and profitability of the Company and the Group, the corporate strategy and planning, risk situation, risk management and compliance, and important business events.

In all, the Supervisory Board of Fresenius SE convened for four regular meetings in 2010 – in March, May, October, and December – and for an extraordinary meeting on March 30. The main topic on the agenda of the extraordinary Supervisory Board meeting was to pass resolutions on the Company's change of legal form to an SE & Co. KGaA (a partnership limited by shares with a Societas Europaea – a company incorporated under European law – as general partner) and on the cross-border merger with Calea Nederland N.V. Detailed Management Board reports and comprehensive approval documents concerning the agenda were distributed to members of the Supervisory Board before all its meetings. The Supervisory Board made full use of the Management Board's reports as the basis for its comprehensive discussions about business development and important corporate decisions.

All matters requiring Supervisory Board approval were submitted with sufficient time for proper scrutiny. After reviewing the related approval documents and detailed consultation with the Management Board, the Supervisory Board was able to give its approval in all matters submitted to it.

The Supervisory Board was also informed about any important business events occurring between meetings. In urgent cases it passed resolutions by written proceeding in lieu of a meeting. In addition, the Chairman of the Management Board regularly informed the Chairman of the Supervisory Board in individual discussions about the latest business developments and forthcoming decisions.

Every member of the Supervisory Board attended at least half of the Supervisory Board meetings during their term of office in 2010, with one exception. Dr. Rupprecht was unable to attend three meetings of the Supervisory Board. However, he took part in the voting at these meetings by written vote.

MAIN FOCUS OF THE SUPERVISORY BOARD'S ACTIVITIES

In 2010, one focus of the Supervisory Board's activities was the change of the Company's legal form to a KGaA in combination with the conversion of the preference shares into ordinary shares. The aim of this transaction is to simplify the share structure, increase the liquidity of the shares, and improve the Company's access to the equity market. The Supervisory Board thoroughly discussed the individual aspects of this matter with the Management Board. It weighed the consequences for the Company and the shareholders. It reached the conclusion that the interests of the Company and those of the shareholders are best served and can be safeguarded long term in the chosen legal form. It accompanied the entire transaction through to its completion and approved all relevant actions taken.

The Supervisory Board's monitoring and advisory activities were also centered on overall business operations as well as investments and acquisitions of the business segments. The Supervisory Board thoroughly reviewed and discussed all other significant business activities with the Management Board. It approved the budget for 2011 and the Fresenius Group's mid-term planning, following a detailed review and discussions with the Management Board. At its meetings and within the Audit Committee, the Supervisory Board also kept itself regularly informed about the Group's risk situation and risk management activities as well as compliance.

CORPORATE GOVERNANCE

On March 12, 2010, the Management Board and the Supervisory Board jointly issued a Declaration of Conformity in accordance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) and updated it on April 1, 2010.

The Management Board and the Supervisory Board of Fresenius SE have a duty to act in the best interests of the Company. In performing their activities, they do not pursue personal interests or bestow unjustified benefits on others. Any sideline activities or transactions with the Company by members of the corporate bodies must be reported to, and approved by, the Supervisory Board.

Klaus-Peter Müller, a member of the Supervisory Board of the Company, is the chairman of the supervisory board of Commerzbank AG. The Fresenius Group maintains business relations with Commerzbank under customary conditions. Dr. Gerhard Rupprecht, a member of the Supervisory Board of the Company, was a member of the management board of Allianz SE until December 31, 2010, chairman of the management board of Allianz Deutschland AG until June 30, 2010, and chairman of the supervisory board of Allianz Deutschland AG from July 1 to December 31, 2010. Dr. Franceso De Meo, member of the Management Board of Fresenius Management SE (previously member of the Management Board of Fresenius SE), is a member of the supervisory board of Allianz Private Krankenversicherungs-AG. The Fresenius Group pays insurance premiums to Allianz under customary conditions and amounts. In 2010, they amounted to €3 million (2009: €7 million).

No consultancy or other service relationships exist directly between the Company and a member of the Supervisory Board. However, in 2010 there were consultancy contracts with a law firm in which a member of the Supervisory Board is a partner and with a management consultancy firm in which a member of the Supervisory Board is a partner. Fresenius was advised by the international law firm Noerr LLP. Dr. Schenk, who was a member of the Supervisory Board of Fresenius SE until January 28, 2011, is a partner in this law firm. The Fresenius Group paid €1 million to this law firm for services rendered in 2010 (2009: €1 million), corresponding to 1.5% of the total amount paid for legal advice in 2010 (2009: 1.6%). Fresenius was also advised by the management consultancy firm Roland Berger Strategy Consultants. Prof. Dr. h. c. Berger is a member of our Company's Supervisory Board and is at the same time a partner in Roland Berger Strategy Consultants. He was Chairman of its Supervisory Board until August 1, 2010. The Fresenius Group paid €0.2 million to that company for services rendered in 2010. No services were rendered and no fees were paid in 2009.

The Supervisory Board of Fresenius SE and its Audit Committee considered both of these mandates closely. They were approved by the Supervisory Board. Neither Dr. Schenk nor Prof. Dr. h. c. Berger took part in the respective voting.

The shareholder representatives, who have been members of the Supervisory Board since the change of legal form became effective on January 28, 2011, were elected at the Annual General Meeting (AGM) in 2010. Contrary to the usual procedure, the Nomination Committee refrained from submitting nominations to the Supervisory Board of Fresenius SE for the latter's election proposals to the AGM in 2010. The election proposals at the AGM therefore originated directly from the full Supervisory Board. This was a precautionary measure. The reason was that two members of the three-member Nomination Committee, namely Dr. Dieter Schenk and Dr. Karl Schneider, were also members of the Administrative Board of the Else Kröner-Fresenius Foundation and executors of Mrs. Else Kröner's estate. The Else Kröner-Fresenius Foundation is the sole shareholder of the general partner in Fresenius SE & Co. KGaA. In order to prevent influence being exercised on the composition of the Supervisory Board of the KGaA, the Foundation is prohibited by law from taking part in the election of the KGaA's Supervisory Board. The Supervisory Board took account of this legal provision by not requesting proposals from its Nomination Committee in this case. However, Dr. Schenk and Dr. Schneider took part in the resolutions on the proposals by the full Supervisory Board. The election of the members of the KGaA's Supervisory Board was closely linked with the issues of the change of legal form to a KGaA and the conversion of the preference shares into ordinary shares. The Supervisory Board therefore discussed and passed all the necessary motions and proposals to the AGM together as a whole. Given the circumstances and in view of the special importance of these measures, the Supervisory Board was convinced that it would not have been appropriate or expedient if Dr. Schenk and Dr. Schneider had not taken part in the deliberations and resolutions of the full Supervisory Board.

For more information on corporate governance at Fresenius, please see the Corporate Governance Declaration and Report on pages 14 to 33 of the Annual Report. Fresenius has disclosed the information on related parties in the quarterly reports and on page 198 of the Annual Report.

WORK OF THE COMMITTEES

The Personnel Committee of the Supervisory Board of Fresenius SE, whose responsibilities were to prepare proposals on the compensation system for the Management Board of Fresenius SE and the compensation for the individual Management Board members and to resolve the non-compensation-related terms of contracts with members of the Management Board, held two meetings and one conference call. It dealt with, among other things, the preparations for and implementation of the German Act on the Appropriateness of Executive

Board Compensation, also relating to the corresponding adjustment of the compensation system of the Management Board. The Personnel Committee further dealt with the introduction of a deductible in the D & O insurance, both for the Management Board and the Supervisory Board.

The Audit Committee held three meetings in 2010. There were also four conference calls. The main focus of its controlling activities was on the preliminary audit of the annual financial statements of the Company and the Group for 2009 and discussions with the auditors about their report and the terms of reference of the audit. Another matter dealt with by the Audit Committee was its recommendation to the Supervisory Board for its proposal to the AGM on the election of the auditor for the annual financial statements of the Company and the Group for 2010. The Supervisory Board's proposal to the AGM in 2010 to elect KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin as auditor was based on a recommendation to this effect by the Audit Committee. The Audit Committee also reviewed the 2010 quarterly reports, the controlling reports on the development of the acquisitions, the risk management system, the internal control system, and the internal auditing system.

The Nomination Committee held two conference calls in 2010.

The chairmen of the committees reported regularly to the next Supervisory Board meeting on the work of the committees.

There is no Mediation Committee. The German Co-Determination Act, which provides for such a committee, does not apply to companies in the legal form of a Societas Europaea.

Further information on the committees, their composition, and procedures can be found in the Corporate Governance Declaration and Report on pages 19 to 20 of the Annual Report and on page 210 of the Annual Report.

PERSONNEL – COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

There were no changes in the composition of the Management Board or the Supervisory Board of Fresenius SE in 2010.

The change of legal form and the cross-border merger became effective on January 28, 2011. The term of office of the incumbent Supervisory Board members ended then and the Supervisory Board had to be reappointed. A review of the legal situation revealed that – according to the provisions of the German Act on Employee Co-Determination in case of Cross-Border Mergers (MgVG) – the Supervisory Board of Fresenius SE & Co. KGaA consists – as hitherto – of an equal number of six shareholder representatives and six employee representatives.

In preparation for Fresenius SE's change of legal form to a partnership limited by shares (KGaA) taking effect, the members of the Supervisory Board of Fresenius SE & Co. KGaA on the shareholders' side were already elected at the AGM in 2010. They include Dr. Gerd Krick, Prof. Dr. h. c. Roland Berger, Klaus-Peter Müller, and Dr. Gerhard Rupprecht, who were already members of the Supervisory Board of Fresenius SE. In addition to these members, Prof. Dr. D. Michael Albrecht and Gerhard Roggemann were elected. Dr. Dieter Schenk and Dr. Karl Schneider, who were members of the Supervisory Board of Fresenius SE, are not members of the Supervisory Board of Fresenius SE & Co. KGaA. They are only members of the Supervisory Board of Fresenius Management SE. The Supervisory Board wishes to thank Dr. Schenk and Dr. Schneider for the lasting contribution they have made over more than a decade of valuable service on the Supervisory Board of Fresenius AG and Fresenius SE as well as on the committees and their dedication and commitment to the welfare of the Company and its employees.

The six employee representatives on the Supervisory Board of Fresenius SE & Co. KGaA were appointed provisionally by court order of the District Court in Bad Homburg v. d. H. on January 31, 2011. They are Dario Ilossi, Konrad Kölbl, Wilhelm Sachs, Stefan Schubert, Rainer Stein, and Niko Stumpfögger, all of whom were previously members of the Supervisory Board of Fresenius SE.

The mandates of the members of the Management Board of Fresenius SE also ended with the change of legal form to a KGaA. Fresenius SE & Co. KGaA does not have its own Management Board. The Company is managed by the general partner, Fresenius Management SE. The composition of the Management Board of Fresenius Management SE is identical to that of the former Management Board of Fresenius SE.

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The accounting records, the financial statements prepared according to the German Commercial Code (HGB), and the Management Report of the Company for 2010 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. They were elected as auditors at Fresenius SE's Annual General Meeting on May 12, 2010 and were subsequently commissioned by the Supervisory Board. The auditors issued their unqualified audit opinion for these statements. The same applies to the Company's consolidated financial statements prepared according to IFRS accounting principles and to the Company's consolidated financial statements prepared voluntarily according to U.S. GAAP.

The financial statements, the consolidated financial statements, the Management Reports, and the auditors' reports were submitted to each member of the Company's Supervisory Board within the required time. At their meetings on March 10 and 11, 2011, the Audit Committee and then the Supervisory Board discussed all the documents in detail. The auditors delivered a detailed report on the results of the audit during these meetings. They found no weaknesses in the internal control system and risk management with regard to the accounting process. The auditors attended all meetings of the Supervisory Board and the Audit Committee.

The Audit Committee and the Supervisory Board noted and approved the auditors' findings. The Supervisory Board's own review found no objections to the Company's financial statements and Management Report or the consolidated financial statements and the Group Management Reports. At its meeting on March 11, 2011, the Supervisory Board approved the financial statements and Management Reports presented by the general partner and the statements contained therein with respect to future development.

The Supervisory Board concurs with the general partner's proposal on the appropriation of the 2010 retained earnings.

The Supervisory Board would like to thank the members of the Management Board of the general partner and all employees for their outstanding achievements in a still difficult economic environment.

Bad Homburg v. d. H., March 11, 2011

The Supervisory Board

Dr. Gerd Krick
Chairman