
Annual Report 2003

Fresenius
health care worldwide

## Fresenius Group in Figures

| in million € | 2003 US GAAP | 2002 US GAAP | 2001 US GAAP | 2000 HGB | 1999 HGB |
|---|---|---|---|---|---|
| **Earnings** | | | | | |
| Sales | **7,064** | 7,507 | 7,307 | 6,099 | 4,952 |
| EBIT [1] | **781** | 837 | 762 | 756 | 597 |
| Net income [2] | **115** | 134 | 93 | 266 | 203 |
| Depreciation and amortization | **325** | 341 | 494 | 389 | 341 |
| Operating cash flow [2] | **776** | 697 | 509 | 463 | 397 |
| Operating cash flow in % of sales | **11.0 %** | 9.3 % | 7.0 % | 7.6 % | 8.0 % |
| Earnings per ordinary share in € [1][2] | **2.79** | 3.25 | 2.27 | 3.03 | 2.66 |
| Earnings per preference share in € [1][2] | **2.82** | 3.28 | 2.30 | 3.06 | 2.69 |
| **Balance sheet** | | | | | |
| Total assets | **8,347** | 8,915 | 9,867 | 6,473 | 5,714 |
| Non-current assets | **5,603** | 6,172 | 6,837 | 3,999 | 3,563 |
| Equity [3] | **3,214** | 3,369 | 3,689 | 2,810 | 2,013 |
| Equity ratio [3] | **39 %** | 38 % | 37 % | 43 % | 35 % |
| Capital expenditure [4] | **430** | 507 | 1,233 | 769 | 444 |
| **Profitability** | | | | | |
| EBIT margin [1] | **11.1 %** | 11.1 % | 10.4 % | 12.4 % | 12.1 % |
| Return on equity after taxes (ROE) | **7.5 %** | 8.3 % | 5.3 % | 9.5 % | 10.1 % |
| Return on operating assets (ROOA) | **9.8 %** | 9.7 % | 9.0 % | 12.7 % | 11.2 % |
| Return on invested capital (ROIC) | **6.3 %** | 6.5 % | 7.5 % | 10.9 % | 10.5 % |
| **Dividend per ordinary share in €** | **1.23** [5] | 1.14 | 1.03 | 0.93 | 0.77 |
| **Dividend per preference share in €** | **1.26** [5] | 1.17 | 1.06 | 0.96 | 0.80 |
| **Employees (December 31)** | **66,264** | 63,638 | 60,667 | 49,974 | 43,783 |

[1] 2001: before special charge for US legal matters of Fresenius Medical Care
[2] Accounting according to Commercial Code (HGB): Net income before minority interests
[3] Accounting according to US GAAP: Equity including minority interests
[4] Investments in intangible and tangible fixed assets, acquisitions
[5] Proposal

## Key figures of the business segments

Fresenius is a health care Group with products and services for dialysis, the hospital and the medical care of patients at home. More than 66,000 employees work with dedication to the service of health in around 100 countries of the globe.

Fresenius Medical Care

Dialysis products,
Dialysis care,
Extracorporeal therapies

| in million US$ | **2003** | 2002 | Change |
|---|---|---|---|
| Sales | **5,528** | 5,084 | 9 % |
| EBIT | **757** | 695 | 9 % |
| Net income | **331** | 290* | 14 % |
| Operating cash flow | **754** | 550 | 37 % |
| Capital expenditure/acquisitions | **392** | 327 | 20 % |
| R+D expenditure | **50** | 47 | 6 % |
| Employees (December 31) | **43,445** | 41,766 | 4 % |

* adjusted according to SFAS 145

Fresenius
Der Gesundheitskonzern

## Fresenius Kabi

Nutrition and infusion therapies, Medical-technical products, Ambulatory care

| in million € | 2003 | 2002* | Change |
|---|---|---|---|
| Sales | **1,463** | 1,441 | 2 % |
| EBIT | **147** | 97 | 52 % |
| Net income | **65** | 30 | 117 % |
| Operating cash flow | **133** | 104 | 28 % |
| Capital expenditure/acquisitions | **59** | 91 | -35 % |
| R+D expenditure | **49** | 58 | -16 % |
| Employees (December 31) | **11,470** | 11,311 | 1 % |

* adjusted for the reallocation of the business of Fresenius HemoCare since January 1, 2003 (infusion and transfusion technology)

## fresenius proServe

Hospital management, planning and construction of hospitals and of pharmaceutical and medical-technical production plants

| in million € | 2003 | 2002 | Change |
|---|---|---|---|
| Sales | **742** | 701 | 6 % |
| EBIT | **-19** | 24 | – |
| Net income | **-34** | 1 | – |
| Operating cash flow | **-3** | -26 | 88 % |
| Capital expenditure/acquisitions | **35** | 45 | -22 % |
| Order intake | **278** | 327 | -15 % |
| Orders on hand | **435** | 424 | 3 % |
| Employees (December 31) | **10,815** | 9,894 | 9 % |

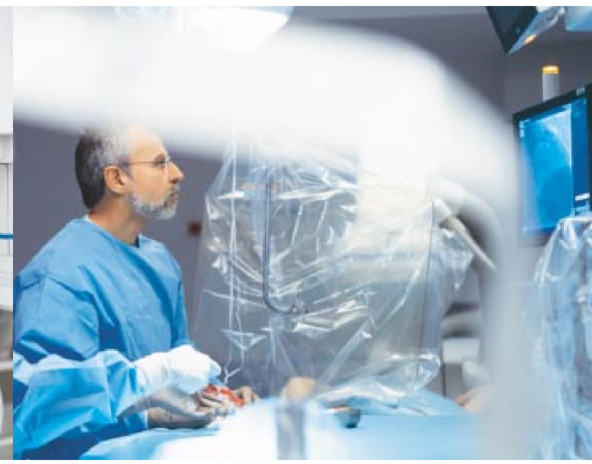
# Initiatives

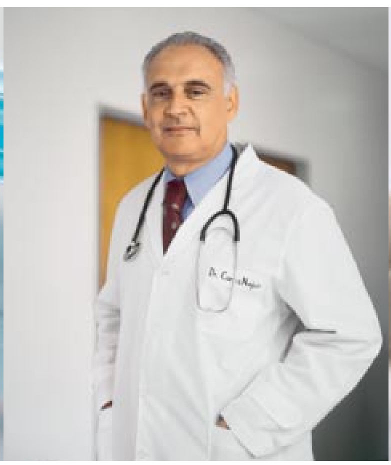
Everything starts with initiative. Our initiatives start with an awareness of the opportunities for change – with the chance to make something new or better.

Initiative must be put to good use. In this spirit, we at Fresenius foster initiatives for the benefit of Health.

Read more in this Annual Report.





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**To our shareholders:**

In May 2003, I was named Chairman of the Management Board of Fresenius AG. As part of this new role I would like to share with you my views on our company's principles and values.

Fresenius stands for continuity and openness for change. Above all, continuity requires stable management – as the fifth Chairman in a 90-year corporate history, I can build on a strong track record. Continuity is also based on long-term value-enhancing strategies, solid financial management, compliance with all applicable laws and regulations, and adherence to high ethical business standards. Fresenius has always followed these principles, and will continue to do so under my leadership.

Embracing change and fostering new initiatives have a long tradition at Fresenius. A spirit of entrepreneurship, decentralized management, focus on innovation and a global approach to business all help to push initiatives forward. These initiatives deliver medical advances for patients and secure our long-term success. We cover some of them in more detail in this report.

In 2003, Fresenius accomplished a number of significant achievements despite a challenging economic environment. Fresenius Medical Care returned to above-market growth with the successful North American launch of the UltraCare™ strategy, featuring single-use dialyzers as a key element. Fresenius Kabi completed its turnaround and increased margins substantially. Fresenius ProServe responded proactively to a difficult market environment with a one-time cost reduction program to improve future profitability. Group sales increased 5 % in constant currency to € 7.1 billion in 2003. Net income was € 115 million, a decrease of 2 % in constant currency due to the one-time expenses at Fresenius ProServe. Excluding these one-time expenses, we achieved our target of currency-adjusted double-digit growth in net income.

Health care markets worldwide are undergoing fundamental changes driven by the everrising demand for the best medical care and the difficulty of funding this. Our business segments are well prepared for the challenges and opportunities of the years ahead: Fresenius Medical Care is steadily improving its global market position and technology leadership and is poised to pursue opportunities offered by new reimbursement programs in the US. Fresenius Kabi will continue to focus on internal growth, strengthening its industry-leading position in Europe and increasing market share in the Far East and in Latin America. For Fresenius ProServe the focus is on near-term margin improvement and achieving profitable organic growth. We have combined our biotechnology activities in a new entity, Fresenius Biotech. It is our goal to have cancer and immune therapy products ready to launch beginning in 2007.

I would like to thank our employees for their commitment and dedication – their contribution was the key to our achievements in the past year. I also like to acknowledge the employees' representatives in our company for their continued support.

My predecessor Dr. Gerd Krick was appointed Chairman of the Supervisory Board in May 2003. With innovative technologies and a global growth strategy he led Fresenius to new dimensions. On behalf of all employees and our Management Board, I would like to thank him for his outstanding contributions. I also wish to express my gratitude to Dr. Karl Schneider, who has supported Fresenius for five years with his expertise and counsel as Chairman of the Supervisory Board, and who will continue to serve as a member of our Supervisory Board.

Continuity and change: These principles and values will remain at the heart of everything we do. They guide us as we continue to build our company into one of the leading global providers of life-saving medical products and therapies.

I am grateful for your continued trust and support.

Dr. Ulf M. Schneider
Chairman of the Management Board

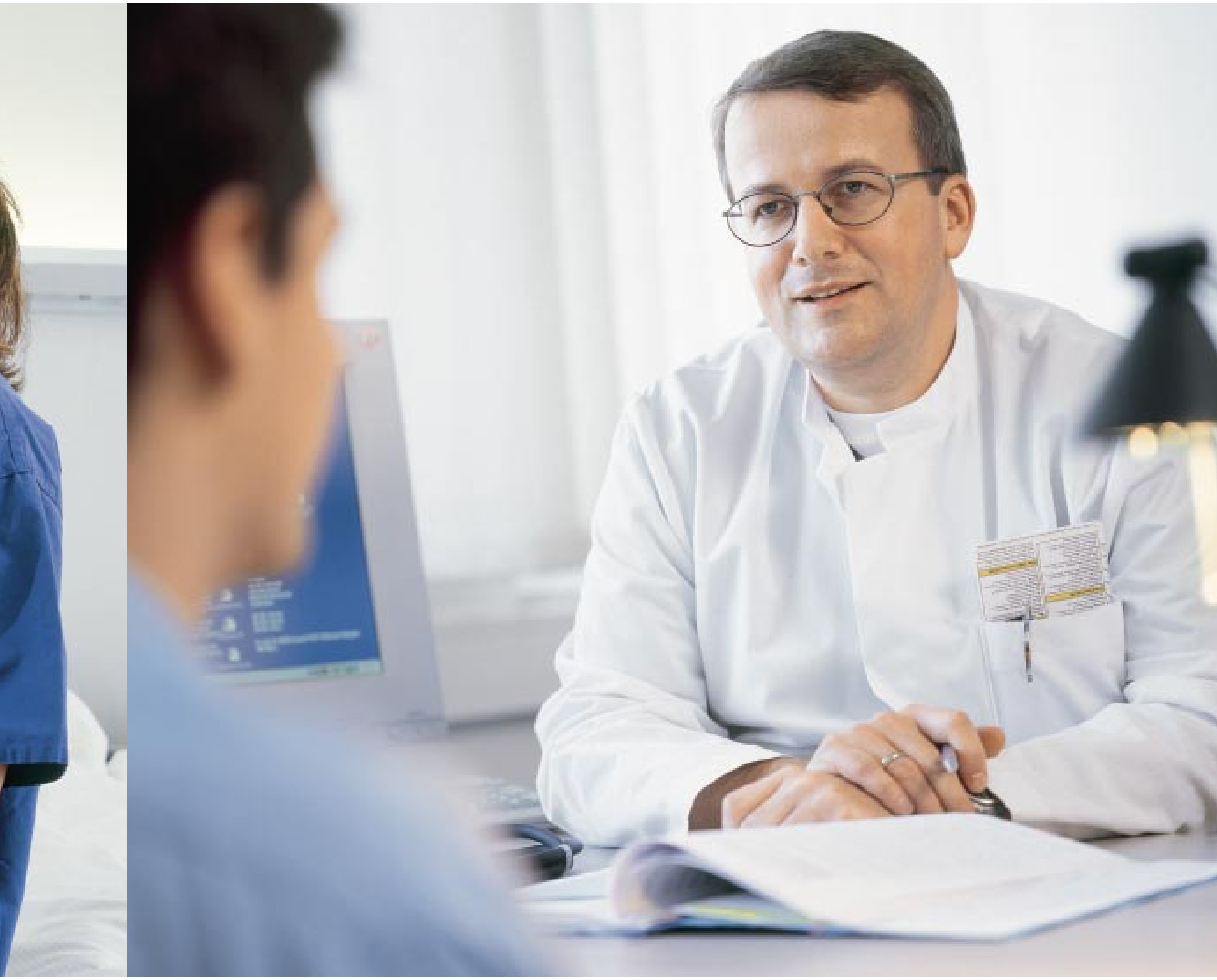
# Initiative
# **Clinical Nutrition**

Nowadays, healthy nutrition is considered to be more important than ever before. And our knowledge about nutrition is greater today than it ever was. But there is an undeniable gap between knowledge and reality.

Patients in hospitals are frequently malnourished. The European Council's report* on the nutritional situation in hospitals, published in November 2002, confirms that around 30 percent of all patients in Europe are malnourished. While not new, the problem of malnutrition is largely ignored in the everyday hospital routine. In developing countries, economic aspects are major factors leading to malnutrition; in industrial countries, however, a lack of focus of the clinical consequences of malnutrition is the main reason. Loss of weight and a lack of essential nutrients can lead to complications, longer rehabilitation times, a diminished quality of life and increased mortality rates.


**An infusion pump regulates the supply of the parenteral nutrition solution StructoKabiven®**

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



Recognizing malnutrition is important for the therapy

**The consequences for the public health systems are considerable:** Studies show that malnourished patients cause additional treatment costs of US$ 3,000 to 6,000 per patient compared to patients with a normal nutritional status **. Malnourished patients are hospitalized for about 40 percent longer***. Therefore, from an economic point of view, it is essential that the diagnosis of the nutritional status of patients, and the use of necessary nutritional therapies, become part of the normal hospital routine.

** (Reilly et al.)
*** (Pirlich et al.)


Enteral nutrition can also be used for patients with metabolic disturbances

Ambulatory care needs to be coordinated

**Close to the patient.** To be cared for at home – this is what many patients want, especially those who still have to be fed parenterally or enterally after they have come out of hospital. About 20 years ago, we were one of the first companies in Germany to establish a Home Care organization. Today, in numerous European countries, we provide nutrition therapy for patients in the ambulatory environment; in Germany alone we carry out around 200,000 provisions each year.

### Initiative is our commitment

Fresenius Kabi, the leading clinical nutrition company in Europe, has already taken the initiative in this field. Its program "Good Nutrition Practice" sets new international standards in the nutritional therapy of patients. In collaboration with an international team of experts, we are working on a series of measures aimed at creating a simple and practical procedure to identify patients at risk, determine their nutritional needs and monitor their nutritional status.

"Good Nutrition Practice" consists of four elements:

- Screening: When a patient is admitted to a hospital, he is screened to determine any existing or potential risk of malnourishment. The degree of the risk is evaluated.
- Assessment: The nutritional requirements of the patient are determined, and relevant metabolic, nutritional and laboratory parameters assessed.
- Nutrition therapy: If the gastro-intestinal tract is working properly, the patient either receives normal food and/or is fed enterally. Parenteral nutrition is used if nutrients have to be administered directly into the blood stream (intravenously).
- Monitoring: The effectiveness of the nutrition regimen is monitored. Parameters include the regular measurement of the body mass index and the evaluation of the fluid and energy balance.

### Knowledge creates awareness

Creating awareness, and thereby improving conditions, is one of our main tasks. For ten years we have held our scientific symposium, the Fresenius Kabi Advanced Nutrition Course (FRANC), in Europe, as well as in the Asia-Pacific region for the past three years. In the Asia-Pacific region, patients are being administered parental and enteral nutrition to an increasing extent. But here too it is necessary to increase awareness of the role that clinical nutrition plays in contributing to the success of therapy.

### Take measures early on

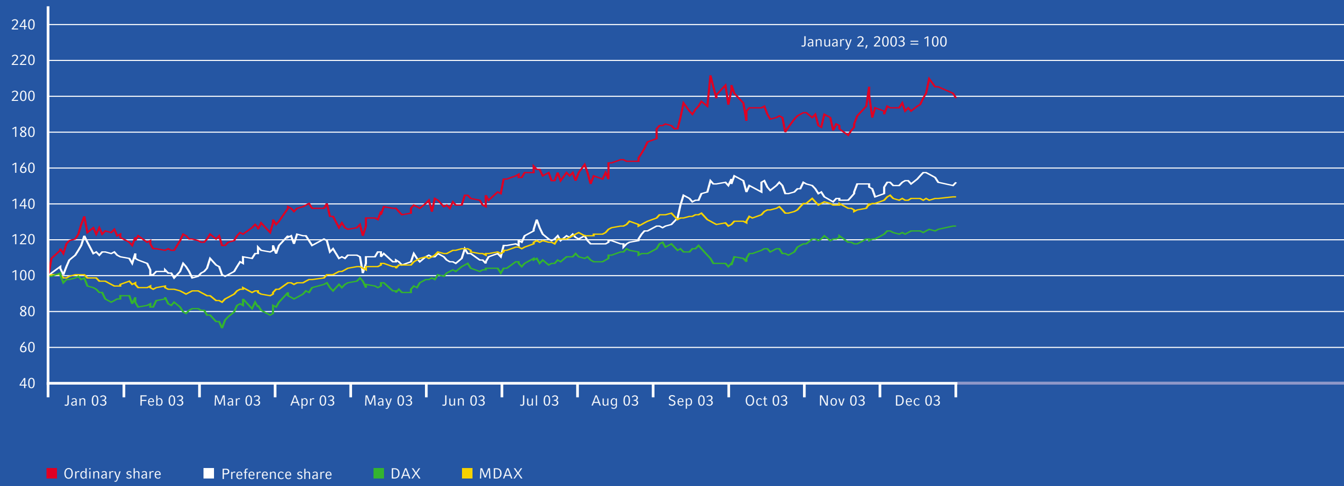
A deficiency in key nutrients influences the immune system. Other diseases can occur, and the patient may not recover so quickly. Fresenius Kabi is one of the few companies in the world that has the necessary expertise in both parenteral and enteral nutrition. We develop new therapies that prevent malnourishment occurring early on. One example: A new enteral tube feed with immunologically effective nutrients that can be administered before or immediately after surgery, and can also be combined with parenteral nutrition. The intestinal functions are maintained and the patient's resistance to infections is increased.

**A model that sets an example.** At the end of 2003, doctors from the Main Taunus Kliniken group of hospitals near Frankfurt presented some new figures: Starting in October 2003, the nutritional status of 110 patients was examined when they entered the hospital. Almost every second patient had an increased risk of malnutrition. Around 35 percent of newly-admitted patients received nutrition therapy immediately. It is important to act: Main Taunus Kliniken and Fresenius Kabi are planning to establish a nutrition advisory service in the hospitals of Main Taunus Kliniken. Teams of nutritionists will care for the patients during their stay in hospital, as well as afterwards on an out-patient basis.

# FRESENIUS SHARES AND CORPORATE GOVERNANCE

- In 2003, the price of the Fresenius ordinary share almost doubled, and that of the Fresenius preference share increased by about half.
- Fresenius shares exceeded the DAX and MDAX performance.
- 16 share analysts made recommendations to buy or hold Fresenius shares.
- A dividend increase is proposed.

## RELATIVE SHARE PRICE PERFORMANCE



**The good business developments at Fresenius Medical Care and Fresenius Kabi, as well as the upward trend in international stock markets and overall positive expectations for an economic recovery, resulted in a significant price increase for Fresenius shares in 2003 that continued fairly steadily to the end of the year.**

### Stock markets on the upswing again

The downward trend of the stock markets that had persisted since 2000 reached its lowest point in March 2003. For the remainder of the year a significant recovery set in. The decreasing uncertainty from the Iraq conflict, the growing signs of an economic recovery, the historically low level of interest rates and progress in reform efforts in Germany all prompted investors to return to the stock markets, albeit very cautiously. Optimistic economic expectations and a still defensive behaviour of many investors drove the development of individual industrial indices. The main winners were European technology, industrial and cyclical shares, which rose more than 30 % on average. The defensive industries of health care (+4 %), energy (0 %) and non-cyclical consumer good (-9 %) brought up the rear.

Overall, the DAX increased by 28 % in 2003, and the MDAX by 44 %. After the low of 2,203 points for the DAX and 2,647 points for the MDAX in March 2003, a fairly steady upwards trend in the German indices set in. By the end of the year, the DAX had risen to 3,965, or 80 % above the low. The MDAX climbed to 4,469 points, 69 % higher than its lowest point. At the end of the year, the DAX and MDAX had returned to its mid-2002 levels. Encouraging global economic data, together with generally positive company year-end results, helped the DAX to exceed the 4,000 level at the beginning of 2004. Further stock market gains, however, will depend heavily on whether expectations regarding further positive company news and a sustained economic recovery will be confirmed.

### Development of the Fresenius shares

In the wake of the general downward drift on the international stock markets, the Fresenius shares also suffered temporary setbacks at the beginning of 2003. The ordinary share closed on the first trading day of the new year at € 32.50, its lowest price for the year. The lowest price for the preference share, € 36.01, was recorded on February 21, 2003. The good results at its two largest business segments, Fresenius Medical Care and Fresenius Kabi, were the main drivers of the subsequent steady increase in the Fresenius shares. The combination of good company results and a positive stock market environment led the Fresenius ordinary share to its highest price for the year of € 68.50 on September 23, 2003. The Fresenius preference share registered its highest price of € 57.55 on December 17, 2003. Looking at the year as a whole, the Fresenius ordinary shares rose from € 32.50 on January 2, 2003 to € 64.50 as of December 30, 2003, a gain of 98 %. The Fresenius preference share rose from € 36.55 on January 2, 2003 to € 54.55 as of December 30, 2003, a 49 % gain. The Fresenius shares substantially outperformed their own sector, as well as the market as a whole, in 2003.

### Number of shares unchanged

In the whole of 2003, no options on ordinary and preference shares were exercised under the stock option plan for executives. The number of shares for 2003 remained at 20,484,842 bearer ordinary shares and 20,484,842 bearer preference shares. The subscribed capital of Fresenius AG was therefore unchanged as of December 31, 2003, amounting to € 104,882,391.04.

You can find more information on the stock option plan in Note 20.

### Eleventh consecutive dividend increase proposed

As in the past years, we propose a dividend increase for our shareholders for the 2003 fiscal year. The positive earnings development of our two largest business segments, Fresenius Medical Care and Fresenius Kabi, justifies an increase in the dividend, and underlines once again our commitment to an earnings-linked dividend policy for the benefit of our shareholders. We plan to increase the dividend for the ordinary share from € 1.14 to € 1.23 and for the preference share from € 1.17 to € 1.26. This is an increase of 8 % over 2002. The total dividend would reach € 51.0 million.

### Return on Fresenius shares again higher than MDAX average

The return on Fresenius shares once again beat the MDAX in a long-term comparison: An investor who spent € 10,000 on Fresenius preference shares when they were issued in 1986 had a securities account worth € 87,276.16 at the end of 2003, assuming reinvestment of dividends paid (without tax credit) and exercise of subscription rights in Fresenius preference shares. The average annual return came to 13.59 %. The retrospectively calculated MDAX achieved an annual return of around 9.8 %.

### Earnings per share

In the past fiscal year, the Fresenius Group achieved earnings per ordinary share of € 2.79 and per preference share of € 2.82 (2002: ordinary share € 3.25, preference share: € 3.28). Earnings were affected by one-time expenses at Fresenius ProServe; please see page 59 of this Annual Report. Excluding these one-time expenses, earnings per ordinary share were € 3.56 and per preference share € 3.59, 10% over the previous year.

The calculation of earnings per share is as follows:

| | **2003** | **2003** before one-time expenses at Fresenius ProServe | 2002 |
|---|---|---|---|
| Net income in million € | **115** | **147** | 134 |
| Earnings per ordinary share in € | **2.79** | **3.56** | 3.25 |
| Earnings per preference share in € | **2.82** | **3.59** | 3.28 |
| Average number of shares | **40,969,684** | **40,969,684** | 40,969,684 |

Please see page 120 of the Notes to the Consolidated Statements for further information.

**Recommendations to hold Fresenius shares prevail**

The opinions of financial analysts regarding individual shares are important factors in helping private and institutional investors to make decisions on purchasing or selling shares. The statistics of the sector service I/B/E/S and our own surveys show that recommendations to hold Fresenius shares prevailed this year. Up to January 31, 2004, we had received four buy, twelve hold and four sell recommendations.

The following banks reported on Fresenius, and their latest assessments of the shares are as follows:

| | | |
|---|---|---|
| Bankgesellschaft Berlin | November 2003 | Hold |
| Commerzbank | November 2003 | Accumulate |
| Credit Agricole Indosuez Cheuvreux | January 2004 | Underperform |
| Credit Suisse First Boston | November 2003 | Outperform |
| Deutsche Bank | November 2003 | Buy |
| DZ Bank | January 2004 | Hold |
| equinet | November 2003 | Hold |
| Goldman Sachs | January 2004 | In-Line |
| Helaba Trust | January 2004 | Neutral |
| HSBC Trinkaus & Burkhardt | January 2004 | Reduce |
| HypoVereinsbank | January 2004 | Underperform |
| ING BHF-Bank | January 2004 | Hold |
| Landesbank Baden-Württemberg | February 2003 | Buy |
| Landesbank Rheinland-Pfalz | January 2004 | Marketperform |
| Main First Bank | January 2004 | Buy |
| Merrill Lynch | January 2004 | Neutral |
| M.M. Warburg | January 2004 | Sell |
| Sal. Oppenhaim | January 2004 | Neutral |
| SEB | November 2003 | Hold |
| Vereins- und Westbank | January 2004 | Neutral |

**Shareholder structure**

The largest holders of voting shares of Fresenius are:

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

AW-Beteiligungs GmbH, Ochsenfurt, held 4.74 % of the voting rights of Fresenius AG on December 30, 2003 (previously: 8.79 %).

**Dialogue with our shareholders**

The turbulence in recent years on the international equity markets has made it difficult for investors to assess the future path of the stock markets. Consequently, it is all the more important for listed companies to provide company information to private and institutional investors and financial analysts continuously, comprehensively and on a timely basis. It is our aim to create the greatest possible transparency of our company to investors. We make available a broad spectrum of information that enables investors and analysts to make a realistic assessment of the company situation and the market environment. We publish details about the current developments of the Fresenius Group in annual, half-yearly and quarterly reports, as well as in ad-hoc announcements. Following the conversion of our accounting to US GAAP in 2002, we report in accordance with one of the most widely used and widely recognized accounting standards in the world.

During the course of 2003 we again extended the range of information available on the Internet. We now post current information on the bonds and notes of the Fresenius Group on our website at www.fresenius-ag.com. Details about volume, interest rates, due dates, etc. can now be obtained online.

Annual general meetings and press conferences on the occasion of the publication of the year-end and nine months' figures can be followed live on the Internet. Our Capital Market Day on January 15, 2004, when the activities of Fresenius Biotech were presented, was also broadcast live on the Internet. As from the 2004 fiscal year our analysts' meetings can also be followed live on the Internet.

Our Internet Info Service was also widely used in 2003. This service gives investors the opportunity to subscribe to corporate news, ask us questions or ask for informational material. We plan to extend this online dialogue in the future. We are grateful for suggestions as to how we can even better accommodate your demands for information about our company.

In 2003, financial analysts once again had the opportunity to obtain detailed information on the current developments of the Fresenius Group at conferences that take place three times a year. In addition, analysts and investors were able to follow the telephone conferences that took place when our quarterly figures were published. Part of our investor relations work is to maintain contacts with financial analysts and institutional investors outside these conferences. In addition to many individual meetings, in fiscal year 2003 we also held numerous corporate presentations both in Germany and abroad, where we informed investors and analysts about the situation and outlook of the Group.

Fresenius received two awards for its excellence in financial communication. We were rated second in the MDAX category, and eighth overall, in the "manager-magazin's" competition for the best annual report. Altogether, about 200 reports of German and European stock corporations were analyzed. On behalf of the magazine "Capital", Internet experts scrutinized the investor relations websites of all 110 companies in the DAX, MDAX and TecDAX. The testers assessed these websites under the categories Story, Service, Design and Performance. Fresenius gained second place in 2003.

## KEY DATA OF THE FRESENIUS SHARES

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Number of shares | **40,969,684** | 40,969,684 | 40,969,684 | 20,015,048 | 20,000,000 |
| Ordinary shares | **20,484,842** | 20,484,842 | 20,484,774 | 10,007,524 | 10,000,000 |
| Preference shares | **20,484,842** | 20,484,842 | 20,484,774 | 10,007,524 | 10,000,000 |
| | | | | | |
| Stock exchange quotation of ordinary share[1] (€) | | | | | |
| High | **68.50** | 80.50 | 113.75 | 125.50 | 83.50 |
| Low | **32.50** | 20.45 | 76.98 | 67.00 | 64.50 |
| Year-end quotation | **64.50** | 36.05 | 81.00 | 109.50 | 72.50 |
| Stock exchange quotation of preference share[1] (€) | | | | | |
| High | **57.55** | 91.25 | 143.00 | 160.00 | 95.75 |
| Low | **36.01** | 21.48 | 86.70 | 88.50 | 73.50 |
| Year-end quotation | **54.55** | 36.45 | 91.30 | 141.50 | 94.00 |
| Market capitalization[2] (million €) | **2,437** | 1,485 | 3,530 | 5,024 | 3,330 |
| | | | | | |
| Total dividend distribution (million €) | **51.0**[4] | 47.3 | 42.8 | 43.8[3] | 31.4 |
| | | | | | |
| Per share in € | | | | | |
| Dividend ordinary share | **1.23**[4] | 1.14 | 1.03 | 0.93 | 0.77 |
| Dividend preference share | **1.26**[4] | 1.17 | 1.06 | 0.96 | 0.80 |
| Earnings per ordinary share[5] | **2.79** | 3.25 | 2.27 | 3.03 | 2.66 |
| Earnings per preference share[5] | **2.82** | 3.28 | 2.30 | 3.06 | 2.69 |

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

### Corporate Governance

The German Corporate Governance Code contains important recommendations regarding the management and supervision of German publicly-quoted companies. These recommendations are aimed at making the regulations in force for managing and monitoring companies more transparent for German and international investors. The Code is intended to strengthen the confidence of customers, employees and the public in the management and supervision of German publicly-quoted corporations.

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

On November 25, 2003 the Management Board and Supervisory Board of Fresenius AG issued its second Declaration of Compliance in accordance with § 161 German Stock Corporation Law as amended on May 21, 2003. The declaration corresponds to the recommendations of the German Corporate Governance Code, with the following two exceptions:

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

We are open to the changing demands of the international capital markets, and strive to satisfy them. Fresenius Medical Care, our subsidiary that is also quoted on the New York Stock Exchange, was one of the first international companies to declare that it will recognize and implement the Sarbanes-Oxley Act.

**BASIC INFORMATION**

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

# BUSINESS SUMMARY OF THE FISCAL YEAR

- The 2003 consolidated financial statements were significantly impacted by the changes in exchange rates, especially from the US dollar to the euro.
- Sales and EBIT increased by 5 % in constant currency. Net income in constant currency was 2 % below the previous year's figure, due to one-time expenses at Fresenius ProServe.
- Fresenius invested € 430 million in the 2003 fiscal year, thereof 47 % in Europe and 44 % in North America.
- The balance sheet remains solid. The equity ratio including minority interests amounts to 39 %.

## Sales

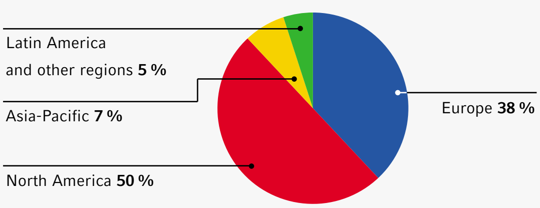
Consolidated sales rose to € 7,064 million, growing 5 % in constant currency.

The weak US dollar, especially when measured against the euro, had a negative currency effect of 11 % on the sales of the Fresenius Group.

## Earnings

The earnings development for the 2003 fiscal year was driven by the very good performance of Fresenius Medical Care and Fresenius Kabi. One-time expenses of € 34 million (before taxes) at Fresenius ProServe hurt earnings.

### SALES BY REGION



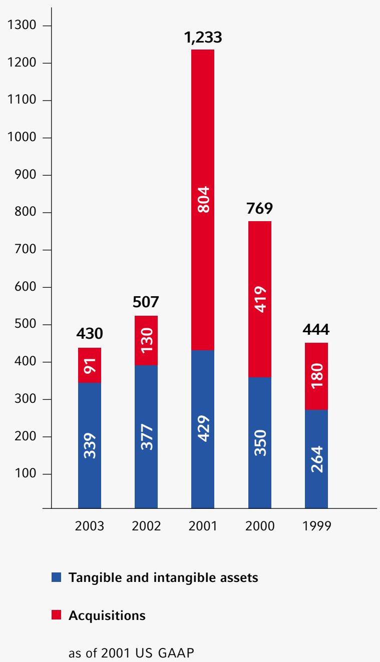

2003: € 7.1 billion

| in million € | 2003 | 2002 | Change | Change in constant currency |
|---|---|---|---|---|
| **EBIT** | **781** | 837 | -7 % | 5 % |
| Net interest | **-249** | -291 | 14 % | 4 % |
| Income taxes | **-223** | -202 | -10 % | -21 % |
| Minority interests | **-194** | -210 | 8 % | -6 % |
| **Net income** | **115** | 134 | -14 % | -2 % |
| **Net income** before one-time expenses at Fresenius ProServe | **147** | 134 | 10 % | 22 % |

- In our major markets, North America and Europe, we further expanded our business by 3 % and 7 %, respectively, in constant currency.
- In Latin America, we realized excellent growth of 29 % in constant currency.
- In the Asia-Pacific region, growth in constant currency was at the same level as the previous year, due to project delays at Fresenius ProServe.
- Operating income (EBIT) rose by 5 % in constant currency.
- Net income amounted to € 115 million, a drop of 2 % in constant currency and 14 % at actual exchange rates.
- Excluding one-time expenses for measures taken to increase the profitability of Fresenius ProServe, net income would have increased by 22 % in constant currency and 100% at actual exchange rates.

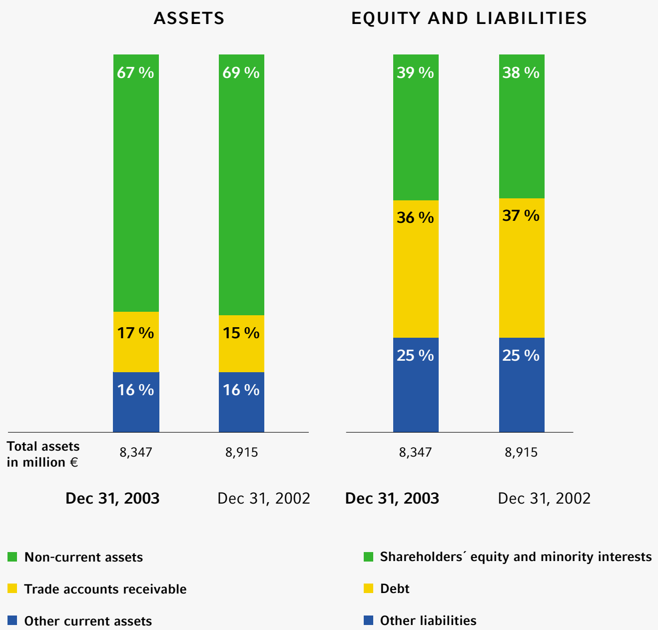
## Capital expenditure and acquisitions

In the year under report, the level of investment was reduced in line with planning to € 430 million, following the high amounts invested in the previous years.




## Balance sheet

The balance sheet structure remains healthy: The equity ratio including minority interests amounts to 39 %.




- € 339 million was invested in tangible and intangible assets.
- Large sums were spent on equipment for dialysis clinics and on the buy-back of manufacturing equipment in a North American plant that had been leased.
- Acquisitions were € 91 million. The main acquisitions were dialysis clinics.

- Total assets dropped by € 568 million to € 8,347 million. This is due to currency translation effects: At constant currency, there would have been an increase of 4 %.
- Equity including minority interests covered 57 % of non-current assets.

# Initiative **New Medicine**

Arteriosclerosis and heart attacks are still by far the most frequent cause of death in Western industrialized nations. Yet for almost 20 years cardiologists have been able to expand coronary arteries by using a balloon catheter, and support the arteries with an internal stent. This is intended to prevent the coronaries from blocking up completely, which would lead to a heart attack, and to avoid open-heart bypass surgery. Dilating the diseased blood vessel and inserting a stent, however, causes damage to the inner vessel wall. This frequently results in a build-up of scar tissue, and this section of the blood vessel becomes constricted again. Restenosis has occurred. In order to counteract this undesirable side effect, innovative stents have been designed with a surface that is coated with various highly-effective drugs. These drugs are slowly released from the stent into the inner vessel wall. They are able to prevent inflammatory reactions and the build-up of scar tissue, thus keeping the blood vessel open longer.


**Professor Eberhard Grube, Senior Consultant Cardiac Center Siegburg**

Catheter-guided coronary stent placement

**Diagnosis and therapy:** Radiographically assisted, the heart and coronary arteries are examined with the aid of a catheter. A thin, flexible plastic tube is introduced into the heart vessels through a peripheral artery. The doctor can also use this examination for therapeutic purposes, carrying out a PTCA (percutaneous transluminal coronary angioplasty) at the same time. This is the term for expanding the constricted or blocked vessels using a small inflatable balloon. Stents, in addition to PTCA, have proved to be beneficial to many patients. The small meshed and balloon-expandable tubes are implanted during a cardiac catheter examination.

**Radiographic monitoring of coronary arteries**

**Drug-coated stent**

**Revolutionary technology:** The optimal drug-coated stent must fulfil three main criteria:

- Stent design: the shape and size of the tube must be able to adapt to the anatomy of the patient. The stents should therefore become even more flexible and thinner.
- Matrix: The quality of the matrix, the network (combined structure) of the drug substance and the polymer (macromolecule) that is located between the stent and endothelium (tissue that lines the inner vessel wall), has to be secured.
- Drug: The potency and effectiveness of the active substance must be guaranteed, since the first 28 days determine whether restenosis can be avoided.

One of the world's leading experts in this field is Professor Eberhard Grube from the Cardiac Center Siegburg, part of the Wittgensteiner Kliniken Group. Doctors in Siegburg recognized the potential of this innovative development at an early stage, and took the initiative. These novel, drug-coated stents have been used in clinical studies since 1998. To date, Professor Grube and his team have conducted several innovative trials that produced significant results regarding the quality and performance of the new stents.

When traditional stents are used, the restenosis rate is 30 to 50 percent. The stents with active coatings succeeded in drastically reducing these complications. Professor Grube mentions large multicenter studies that have shown the restenosis rate to fall to only eight percent when drug-coated stents have been implanted. These figures vary according to the patient groups, however. For instance, with the new stents, restenosis still occurred in around 10 to 18 percent of high-risk patients, such as insulin-dependent diabetics. There is still no precise patient profile that defines when the stents should be used. Professor Grube has been able to show in his studies that overall the new stents are not only safe, but also highly efficient. He therefore considers the new therapeutic concept to be “one of the most important advances in the field of interventional cardiology. It will have a sustained impact on cardiological and cardiosurgical patient care in the future.”

The enormous costs still hinder its widespread use. A drug-coated stent currently costs up to 2,300 euros, compared to a traditional stent costing around 300 euros. Therefore, for cost reasons, not every patient can receive the stents with active coatings. Despite the high costs of drug-coated stents, it is anticipated that the overall costs of a treatment will become considerably lower in the long-term. The health insurance companies, however, will allow special case fees to be agreed with clinics that are proven to be of high quality and that perform a high number of stent implantations. Siegburg will therefore be one of these clinics. Every year, it performs around 7,000 left ventricular catheter examinations. In around 30 to 40 percent of the cases, patients are treated with the modern drug-coated stents, with increasing tendency.

The availability of modern stents has possibly initiated a trend away from cardiac bypass surgery. If the current long-term trials show that the stents with pharmacologically-effective coatings produce sustained medical benefit, then many patients could be treated with the minimally-invasive stent instead of undergoing open-heart surgery. It would then be finally proved that the coated stent is not just expensive medicine but a genuine innovation that will help define clinical routine in the years to come.

# FRESENIUS MEDICAL CARE

- Fresenius Medical care is the world's leading provider of dialysis products and dialysis care. The company treats about 119,250 patients in 1,560 dialysis clinics.
- In North America, business is progressing successfully following the implementation of the *Ultra*Care™ therapy.
- We expanded our business in Latin America despite the difficult economic environment.
- In the Asia-Pacific region we further consolidated our market position in both products and services.

## DIALYSIS CLINICS AND NUMBER OF PATIENTS TREATED


As at December 31, 2003

**Fresenius Medical Care progressed very positively in the 2003 fiscal year: In the United States, we set new standards with the implementation of the *Ultra*Care™ dialysis therapy. In the international business, our dialysis products continued to be successful in its markets and we considerably expanded our dialysis care business.**

Fresenius Medical Care increased sales in the 2003 fiscal year by 9 % to US$ 5,528 million (2002: US$ 5,084 million). The weakness of the US dollar had a positive currency translation effect for Fresenius Medical Care. In constant currency, sales increased by 5 %.

Dialysis products achieved sales growth of 13 % to US$ 1,549 million, and dialysis care grew 7 % to US$ 3,978 million. The international business in particular showed good growth rates despite price pressure in Europe, the negative impact of the Iraq crisis and the difficult economic situation in Latin America. Sales of dialysis care are largely determined by the number of treatments, which increased 9 % in 2003. Altogether, Fresenius Medical Care performed approximately 17.8 million dialysis treatments in 2003.

Fresenius Medical Care achieved an EBIT growth of 9 % to US$ 757 million (2002: US$ 695 million). This good improvement in EBIT is mainly due to the growth of the US business. Net income at Fresenius Medical Care increased to US$ 331 million, an improvement of 14 %.

**North America**

Fresenius Medical Care successfully expanded its business in North America in 2003. Sales of US$ 3,855 increased by 3 % compared to the previous year. In North America, Fresenius Medical Care treated 82,400 patients in 1,100 dialysis clinics. We performed around 12.4 million dialysis treatments, 6 % more than in the previous year. This means that Fresenius Medical Care is the leader in dialysis care in North America with a 27 % share of all patients treated, and cares for nearly twice as many people as the nearest competitor.

The main focus of 2003 was the further improvement of the quality of treatment. Fresenius Medical Care has set standards in the United States with its *Ultra*Care™ therapy concept. In addition to the High-flux single-use dialyzer Optiflux™ the main features of the new therapy concept are the 2008 dialysis machines with patient-specific treatment options, and the DiaSafe™ dialysis solution filter. The initial results of this program are encouraging with regard to quality improvement. Fresenius Medical Care presented a retrospective study at the conference of the American Society of Nephrology (ASN) in November. This study compared reuse of dialyzers with single-use and showed that the mortality risk declined when dialyzers were used only once. This confirms our strategy of using the *Ultra*Care™ therapy with its single-use dialyzers in our dialysis clinics. Further trials are being prepared. We have now implemented the *Ultra*Care™ program in our clinics throughout the United States.

In dialysis products, the 2008K dialysis machines and the Optiflux™ High-flux polysulfone single-use dialyzers were particularly successful. This dialyzer sets indisputable quality standards in renal replacement therapy in the United States. The dialyzer membrane was optimized to such an extent that the clearance – the blood washing performance during dialysis – now amounts to nearly 100 percent of the performance of the human kidney. We have extended the capacity in our production plant in Ogden, Utah, in order to meet the strong demand. In the coming year, we anticipate a further increase in demand for the Optiflux™ series of dialyzers. Furthermore, we are planning to introduce a new generation of dialyzers with an even more improved membrane onto the North American market. Our 2008K dialysis machine continued to be the most widely sold system in North America in 2003: Around two thirds of all newly-installed machines are 2008K machines. Continual improvements to make them still more user friendly and to achieve enhanced performance will lead to a further rise in the demand for this product in the future. The Autoflow module was introduced in the year under report. This module enables the relationship between blood flow and dialysate flow to be optimized. This means that maximum cleansing performance and treatment quality can be achieved and, what is more, the dialysate can be used economically.

We also achieved good growth with our peritoneal dialysis products, due to our intensified marketing activities. For instance, sales of our Newton IQ™ product for automated peritoneal dialysis during the night rose by a remarkable 37 %. In 2004 we are planning to launch stay•safe in North America. This is a peritoneal dialysis system that is already being marketed successfully in Europe.

One of the major criteria for conforming with the future demands of new reimbursement systems within the scope of Disease State Management (DSM) is to offer the best possible treatment. In this form of reimbursement, all medical services provided in connection with a specific disease of a patient are reimbursed on a comprehensive and fixed fee per patient. Special emphasis is placed on pre-ESRD care and the quality of treatment: These are the two main factors that help to improve medical outcomes and reduce the length of time that patients have to stay in hospital, thereby reducing costs.

Fresenius Medical Care is involved in Disease Statement Management through the programs of its joint ventures Optimal Renal Care and Renaissance Health Care. These joint ventures cared for more than 4,000 patients in DSM programs at the end of 2003. Optimal Renal Care is a joint venture with the Southern Californian health insurer Kaiser Permanente Medical Group. Renaissance Health Care is a cooperation with leading nephrologists. The quality of our DSM programs was certified by the National Committee of Quality Assurance (NCQA) in 2003. The NCQA is a non-profit organization that assesses both DSM programs from companies and the treatment plans of health insurers. The DSM programs of both Optimal Renal Care and Renaissance Health Care have been fully accredited, proving the competence of these companies. Optimal Renal Care now cares for patients in 33 US states. The existing contract with Aetna Life Insurance, one of the largest private health insurers, was extended during the year under report. Additional agreements were signed in Pennsylvania and Ohio. Renaissance Health Care was also awarded new contracts, in Michigan, New Hampshire and North Carolina.

One of the main aims of the Center for Medicare and Medicaid Services (CMS), the Federal health agency, is to promote DSM programs for dialysis. Optimal Renal Care was heavily involved in the CMS demonstration project introduced in 2003. We consider this to be a recognition of the quality of our own DSM program. One of the issues to be examined in this project is how changes in reimbursement rates affect treatment quality.

Our Renal Research Institute (RRI) is a recognized institution for research on dialysis-relevant medicine. This institution, which we operate together with the Beth Israel Center, New York, combines academic research with experience from industrial product development and day-to-day treatment in the dialysis clinics. Latest developments are applied to more than 80 dialysis programs with over 6,900 patients. In 2003, RRI was awarded a four-year research project from the National Institute of Diabetes and Digestive and Kidney Disease (NIDDK). The aim of this study is to see whether daily hemodialysis treatment is more beneficial than dialysis three times a week. Subsequently, the NIDDK will decide whether the medical advantages of shorter intervals between dialysis treatments should be examined within the scope of a large clinical trial. Because of its superior capability in developing innovating therapies and technologies, RRI is one of three institutions selected to participate in this project.

To be able to judge the health condition of a dialysis patient, continuous blood tests are necessary. Our subsidiary Spectra Renal Management is specialized in these laboratory services. It is the leading provider of laboratory services for dialysis patients in the United States, with over 37 million laboratory tests performed on more than 119,000 patients. Its market share is approximately 40 %.

**Europe**

In Europe, Fresenius Medical Care generated sales of US$ 1,192 million in 2003, up by 30 % over the previous year (11 % in constant currency). In 2003 we treated more than 18,700 patients in 260 dialysis clinics, and performed about 2.8 million dialysis treatments.

In Central Europe we are primarily active in the dialysis product business. Although the healthcare market is still marked by a low investment volume and by cost reductions, we were able to expand our leading market position with high-quality products. We maintained our market position in the stagnating market for dialysis machines thanks to strong sales of the 4008 dialysis machine with the optional On-line Clearance Monitor (OCM) feature to determine dialysis effectiveness. This option meets the demand of the market for methods to ensure the quality of the treatment. Sales of the Genius therapy system progressed positively. The first systems for Belgian clinics have been delivered and installed. We further expanded our leading market position in High-flux dialyzers. The FX-class dialyzer established itself as the standard in Europe in 2003. We successfully entrenched two peritoneal dialysis solutions in the market and thus further improved our position in this segment: The peritoneal dialysis product bicaVera™, originally launched in 2002, which is a bicarbonate-buffered solution, and the pH-neutral solution *balance*.

In Western Europe we stabilized our market shares in dialysis care and in the traditionally strong dialysis product business, and in some segments expanded it further. We opened eight additional clinics in Great Britain: We are the most important partner of the National Health Service for hemodialysis, and the leading local provider. We treated about 1,550 patients in 2003. We also achieved above-average growth rates in the dialysis product business. Business in France was also positive. Here we provided more than one third of all dialysis machines sold in 2003 and are one of the most important providers on the French market.

The number of patients treated by Fresenius Medical Care also grew in other European countries. In Spain, where we treated about 4,200 patients, 7 % more than at the end of 2002, we focused on establishing the OnLine HDF treatment process in our clinics, and expanded sales to third parties. In Portugal, the number of patients we treated grew by 9 %.

The dialysis product business in Eastern Europe again moved ahead; in this region we are already positioned very well. We increased market penetration as a result of the good acceptance of the FX-class dialyzer and of the PD solutions *balance* and bicaVera™. We are now aiming to substantially strengthen our service business: In addition to Hungary and the Czech Republic, we also achieved good growth in Slovakia. Here we acquired public dialysis clinics and generated a significant increase in the number of patients we treat. We pressed on with the opening up of the Polish market, and we are the market leader in hemodialysis in Poland and Slovakia.

In Turkey we expanded our position as one of the leading providers of dialysis care in 2003, treating more than 3,500 patients.

To ensure quality, as well as for benchmarking in the field of dialysis care, we have successfully expanded EuClID, an innovative patient data management system. EuClID is already used in more than 200 European Fresenius Medical Care clinics. At present, data is collected for over 20,000 patients.

We are planning to expand our dialysis care business in Europe, as well as our dialysis product business. Continuing privatization in the countries of Eastern Europe offers us good growth opportunities.

**Asia-Pacific**

In 2003, Fresenius Medical Care achieved sales of US$ 296 million in the Asia-Pacific region, an increase of 10 %. We further expanded our market position both with dialysis products and dialysis care. Dialysis products generated around 75 % of total sales in the region, and dialysis care about 25 %.

In Japan, the second largest dialysis market in the world, our product business covers both treatment segments – hemodialysis and peritoneal dialysis. Following the successful market launch of the FX-class dialyzer in 2002 we have steadily expanded our position as one of the leading companies in the Japanese hemodialysis market. In peritoneal dialysis, which is by far the smallest product segment, our focus was on the further penetration of the market with our PD solution balance for automated peritoneal dialysis. One of the main features of this product is its extremely high biocompatibility. The FX-class dialyzer is increasingly becoming established as the market standard. This, together with intensive marketing in the peritoneal dialysis field, leads us to anticipate solid growth for the coming years.

Our dialysis product business is dominant in China, Taiwan and Hong Kong. Here we achieved excellent growth rates of 26 % in hemodialysis and 23 % in peritoneal dialysis. Measures to increase sales included the establishment of our own marketing and sales team for hemodialysis products, and the launch of the FX-class dialyzer. In view of the enormous population of China and, at the same time, a low prevalence of chronic kidney failure (40 people per million population), the Chinese market offers us extraordinary growth potential.

We doubled sales of High-flux dialyzers in South Korea and thus further consolidated our market leadership in hemodialysis products. We also succeeded in expanding considerably our presence in the peritoneal dialysis business. In the South Asia-Pacific region, growth in our hemodialysis product business, which was already strong, was again greater than the overall market. Our hemodialysis machines sold particularly well in Australia, where we are already the market leader in hemodialysis. Business for peritoneal dialysis products also showed exceptional progress; the number of patients treated by Fresenius Medical Care grew by 30 %. This success was helped by the introduction of the PD product A.N.D.Y.®•disc system, which is now registered in all the countries of the South Asia-Pacific region.

Our dialysis care business progressed particularly well in the Asia-Pacific region. The number of patients cared for by Fresenius Medical Care rose by around 9 % to around 2,950. The number of treatments performed increased to 440,000. Fresenius Medical Care has more than 30 dialysis clinics in the region as a whole.

We achieved exceptional growth rates in China and Taiwan. More than 1,200 patients are now being treated in Fresenius Medical Care's clinics in Taiwan. We reached a new milestone in South Korea in September 2003, when we treated 1,500 peritoneal dialysis patients.

We shall build up our dialysis care business on the foundations provided by our well-established product business. The Asia-Pacific area will continue to offer good development potential to Fresenius Medical Care in the future.

**Latin America**

In Latin America we are represented by both dialysis products and services, with the majority of sales achieved with dialysis care. We increased the number of patients treated by 7 % over the previous year to around 15,200 in 2003.

After the crisis year of 2002, the situation in Latin America started to stabilize in 2003. However, the region is still in a difficult political and economic situation.

Argentina generated the highest sales in Latin America. The consolidation measures initiated in 2002 started to bear fruit in the year under report, and, together with the general improvement in the economic situation, led to a significant recovery in our business. We also made progress in expanding our local production capacities. Our aim is to further increase exports to other Latin American countries, especially with blood lines and HD dry concentrates.

In Colombia, the main focus of the 2003 fiscal year was the further consolidation and streamlining of our business. We extended our production facilities, however, and exported to other countries in the Andes for the first time. We further expanded our market share and increased the number of patients treated.

The economic situation in Brazil continued to be difficult in 2003. Due to the current uncertain market environment, we concentrated on tightening cost controls, on achieving higher production efficiency and on establishing an intensive receivables management process, rather than on business expansion.

In Mexico the environment is comparatively stable, both politically and economically, in contrast to Latin America as a whole. Fresenius Medical Care, the market leader in hemodialysis, can once again look back on a satisfactory year. Mexico, where Fresenius Medical Care was not previously represented in peritoneal dialysis, is the second largest market for such products in the world, after the United States. In 2003 we successfully started to market peritoneal dialysis products. At the end of the year we cared for around 1,500 patients with our comprehensive PD program. Our focus in Mexico in the future will be the expansion of our peritoneal dialysis and our dialysis care businesses.

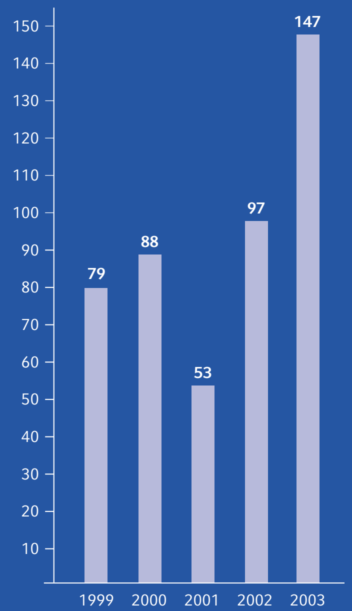
In the generally difficult situation in Latin America, we successfully mastered a period of consolidation and restructuring, due to the commitment and efforts of our employees. With the actions taken as well as with our strong market presence, we are now in a good position to continue making progress. The future success of our business in Latin America will depend to a large extent, however, on the continuing economic and political development of the region.

If you wish to know more, please ask for the Annual Report of Fresenius Medical Care at www.fresenius-ag.com or tel. +49 6172 / 609-2525.

# FRESENIUS KABI

- We care for seriously and chronically ill people with infusion and nutrition therapies, both in the hospital and in the ambulatory field.
- We have strengthened our European market leadership. In the Asia-Pacific and Latin America regions we have significantly expanded our market shares.
- We have grown substantially our organic sales and earnings.

## DEVELOPMENT OF OPERATING INCOME (EBIT)




since 2001: US-GAAP

**Fresenius Kabi continued to move ahead in 2003: We strengthened our market positions in infusion and nutrition therapy, our operating business developed positively and the measures we took to enhance profitability were successful.**

Our missions are the therapy and care of seriously and chronically ill patients both in the hospital and in the ambulatory field. Our portfolio comprises three business units:

- **Infusion therapies**
  These include products for fluid and blood volume replacement, as well as intravenously-administered drugs such as anaesthetic agents for general anaesthesia.
- **Nutrition therapies**
  Patients who cannot or are not allowed to eat any, or sufficient, normal food are fed parenterally (intravenously) and enterally via the gastro-intestinal tract.
- **Medical-technical products**
  These are products for the application of infusion and nutrition therapies, and for infusion management. Also, we offer a complete product range for the production and processing of blood products for blood banks and blood donation services.

**Development of sales and earnings**

Sales at Fresenius Kabi were € 1,463 million in 2003, representing slight growth of 2 % over the previous year (2002: € 1,441 million). Exchange rate fluctuations had a substantial influence on this result. The effect from currency translation was -4 % in 2003. Organically, Fresenius Kabi achieved good growth of 7 %. The effect of divestments – as of August 1, 2002 we sold the company ProReha – was -1 %. Sales of Fresenius Kabi are split between the hospital business with € 1,171 million and the ambulatory care business with € 292 million.

We achieved strong organic growth rates in all regions: In Asia-Pacific we achieved a double-digit growth of 12 %, even though the SARS epidemic limited business activities in some areas, as a number of hospitals were in quarantine in the first half of 2003. Growth in Latin America was 27 %. European health systems are marked by increasing pressure for cost reductions; nevertheless, we achieved good organic growth of 4 % in this region.

The strong organic growth of Fresenius Kabi – particularly in Asia-Pacific and Latin America – is a solid basis for the future. This becomes even more important when considering the European health systems, which are marked by rising hospital costs, budget caps and pricing pressures. When the Statutory Health Insurance Modernization Act comes into effect in Germany, the market environment here will become even more difficult.

Fresenius Kabi increased EBIT by 52 % to € 147 million in 2003. This was significantly higher than the previous year's figure of € 97 million. Besides the good progress made in the operating business, measures we took to increase profitability had a positive effect.

**Infusion therapies**

In the year under report, we continued to strengthen our market leadership in the infusion therapies business in Europe, while expanding our market presence in Asia-Pacific, Latin America and South Africa, helped by the launch of our key products in additional countries.

Voluven® is one of these products. This is an infusion solution that is used to prevent and treat blood volume deficiency. In surgery, Voluven® is used as a substitute for homologous blood. Voluven® is one of the world's benchmark products in the field of blood volume replacements. Currently we are authorized to sell the product in around 50 countries, and have applied for additional registrations. In 2003 we successfully launched Voluven® in various countries, including Thailand and Romania.

We considerably expanded our business providing infusion solutions in freeflex® PVC-free bags in 2003. The bag is extremely compatible with medicinal drugs, and is safe and easy to handle. Thanks to these properties, freeflex® is an innovative primary form of packaging in the field of infusion therapy. In 2003, we made good headway in expanding our international presence with this product. For instance, we successfully launched our volume replacement solution HAES-steril® in freeflex® bags in China. Our product Hyper-HAES®, a blood volume replacement for emergency medicine, was launched in the freeflex® bag in additional Scandinavian countries in 2003.

Propofol Fresenius is a drug for anaesthesia. Currently we sell this product in around 75 countries. In some European countries, we are the market leader in the product segment for intravenous anaesthetic drugs. In 2003 we again achieved strong sales growth with Propofol Fresenius. Propofol is an anaesthetic that is currently dissolved in a fat emulsion with long-chain fatty acids. In the year under report we started to introduce a new generation of Propofol Fresenius. The new formula contains both medium-chain and long-chain fatty acids. This enables metabolization to take place more rapidly and thus place less of a burden on the lipid metabolism of the patient. This new generation of Propofol Fresenius will gradually replace the present varieties.

**Nutrition therapies**

In the nutrition therapy field we offer parenteral and enteral products. Thus we are one of the few companies in the world to provide seriously and chronically ill patients, whether in the hospital or at home, with both types of nutrition. We strengthened our market position in Europe during the year under report. In the important growth regions of Asia-Pacific and Latin America, we further extended our strong market positions.

One of the focal points of our activities was the marketing of our innovative 3-chamber bag Kabiven®. Kabiven® enables all essential nutrients to be infused at the same time, and provides a patient's complete daily requirements of parenteral nutrition. For stability reasons, carbohydrates, amino acids, fat and electrolytes are stored in separate chambers. By simply opening the chambers immediately before the solution is administered, the nutrients are mixed without any risk of contamination. In 2003 we introduced Kabiven® into Korea, Argentina and Brazil, among other countries.

The novel product StructoKabiven® rounds off our range of clinical nutrition products. StructoKabiven® contains both medium-chain and long-chain fatty acids, as well as glucose and a special amino acid pattern, and therefore enables seriously ill patients to be provided with rapidly-available energy. The international market launch of this product started successfully in Scandinavia in 2003.

We further expanded our international presence in the field of enteral nutrition. We continued with the introduction of our enteral nutrition products in China, which was started in 2002. After only one year we are now one of the leading providers of enteral nutrition in China. In order to quickly expand our market position there, we established our own sales organization for enteral nutrition products in 2003.

Calshake is a nutritional supplement for patients with existing or impending malnourishment as well as an increased energy requirement, for instance oncology or HIV patients. One of the countries in which Calshake was launched in 2003 was Germany. We therefore expanded our European market presence of this product.

In the ambulatory care of seriously and chronically ill patients, we likewise focus on therapies in the field of enteral and parenteral nutrition, in addition to intravenous therapies such as antibiotic and virostatic therapies. In Germany, we succeeded in consolidating our market leadership in ambulatory enteral nutrition therapy, and we now care for more patients than a year ago.

The field of ambulatory care will grow considerably in the future. This trend is driven not only by demographic changes, but also by the ever-tightening link between in-patient and out-patient care. This will inevitably lead to increased demands for ambulatory therapies.

### Medical-technical products

Our medical-technical product range mainly consists of technical application products for our infusion and nutrition therapy products and for infusion management. We are one of the leading European specialists in infusion technology, and are the market leader in Europe in enteral medical technology.

In Germany, we launched the new feeding tube set Freka® Pexact. Freka® Pexact is a feeding tube for long-term enteral nutrition. It is placed percutaneously, i.e. through the wall of the stomach. The tube establishes a new method for placing a percutaneous feeding tube. It is especially suitable for those patients who cannot be fitted with a conventional percutaneous tube (e.g. due to stenosis) or who may not be fitted with it for medical reasons (e.g. in order to avoid spreading tumor cells).

In China, we have not only launched our enteral feeds, but also established the relevant medical-technical products.

We gained market share in 2003 with our infusion workstation Orchestra®. The workstation, a combination of syringe pumps and volumetric infusion pumps in one central unit, is mainly used in intensive care units. It enables medical staff to have full control over all medication doses being administered.

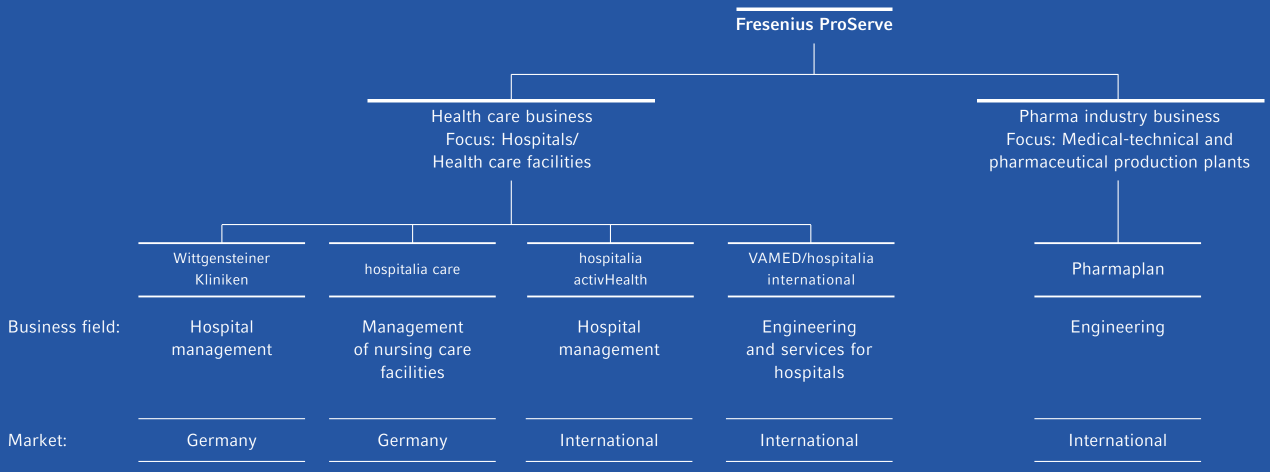
Base Primea, launched in the year under report, is a new infusion platform for anaesthetists. This is the first time that it has been possible to inject both hypnotics and analgesics during the intravenous administration of anaesthetics by means of target controlled infusion (TCI). Using pharmacokinetic models, a computer calculates the optimum concentrations of active substances in the blood and brain from key data, such as the height, age, weight and sex of the patient. Base Primea was launched successfully in Germany, Great Britain, France and Switzerland at the end of 2003.

In the field of transfusion technology we offer products for the manufacture and processing of blood products. This market is marked by the sustained consolidation of blood donation organizations and stagnating numbers of blood donors. One of our priorities in 2003 was to strengthen our market position in Europe in the product segment of in-line filter blood bag systems.

# FRESENIUS PROSERVE

- Comprehensive measures have been initiated by Wittgensteiner Kliniken AG to optimize costs and increase profitability.
- The reorganization of the project business is aimed at a stronger focus on key markets in order to better counter changed market conditions.
- The overall effect of these measures will result in a sustained improvement in earnings.

## FRESENIUS PROSERVE: A SERVICE COMPANY



**The business performance of Fresenius ProServe in 2003 was shaped by a market situation that was fairly difficult. In Germany, bed utilization in clinics decreased. Internationally, the pharma industry continued to be cautious in making investments. Fresenius ProServe is meeting the current challenges by implementing targeted measures.**

Fresenius ProServe is a global provider of services in connection with the hospital and the pharmaceutical industry. The business of Fresenius ProServe comprises firstly the consulting, planning, realization and equipping of hospitals and pharmaceutical and medical-technical production plants. Secondly, Fresenius ProServe offers a complete range of services, from technical management up to the management and operation of health care facilities.

In the 2003 fiscal year, Fresenius ProServe increased sales by 6 % to € 742 million (2002: € 701 million). The health care business contributed € 652 million or 88 % of total sales (2002: € 559 million) and the pharma industry business € 90 million, 12 % of total sales (2002: € 142 million). The growth in the health care business was largely due to the first-time consolidation of acquired clinics, especially Klinikum Rhein-Sieg in Siegburg. Sales for the pharma industry business were lower than the previous year, due to the general caution of the pharma companies regarding investments.

EBIT for Fresenius ProServe was € -19 million (2002: € 24 million). This includes one-time expenses of € 34 million for Wittgensteiner Kliniken's (WKA) program intended to reduce costs and improve future profitability, and for the reorganization of the project business.

The key figures for the project business are order intake and orders on hand. Order intake was € 278 million in 2003, a drop of 15 % (2002: 327 million). Orders on hand of Fresenius ProServe were € 435 million (December 31, 2002: € 424 million), a slight increase of 3 %.

In the medium term, Fresenius ProServe's main objective will be to increase the efficiency of WKA and improve margins. Moreover, we shall strengthen the cooperation between our acute and non-acute hospitals and at the same time increase the competitiveness of individual clinics by increasing specialization. We also intend to expand the acute care business. Internationally, our focus will be on strengthening the hospital project business.

### Health care business

The health care business includes all the activities of the companies WKA, hospitalia care, hospitalia activHealth, VAMED and hospitalia international.

At the end of 2003, WKA operated and managed a total of 18 non-acute and 13 acute hospitals in Germany and the Czech Republic, with a total of over 6,300 beds. WKA is one of the major private hospital operators in Germany.

WKA concentrated on its program to reduce costs and increase profitability in the year under report. This included cutting more than 400 full-time jobs in Germany. Besides the reduction in personnel costs, non-personnel costs were also slashed, and work processes improved. Another measure implemented was the closure of the 112-bed neurological hospital in Bad Homburg. By these actions, WKA is meeting the growing challenges in the health care market – an environment influenced by new statutory regulations, growing cost pressure, shorter hospitalization times for patients and a stronger trend towards ambulatory care.

Not only did WKA take steps to reduce costs and increase profitability, it also made substantial investments to ensure future growth. In particular, it started work on a new building for its health center in Idstein (80 beds), operated by WKA and the Regional Welfare Association of Hesse. In addition, Seehospital Sahlenburg on the North Sea coast is being extended to become one of the most important centers in Germany for spinal column surgery. Other investment projects were the building of hospital wards at the Herbolzheim hospital and at the specialist hospital for oncology in Bergisch Land in Wuppertal, completed in 2003.

WKA took further steps in the year under report to adjust for the structural changes in the hospital market. Health insurers may now sign contracts with individual service providers regarding integrated care programs. WKA has taken advantage of this opportunity and put into effect early stages of integrated care in the form of integrated case rates in the cardiology sector. Acute treatment in Klinikum Siegburg Rhein-Sieg is closely linked to post-hospital rehabilitation in non-acute clinics. This results in an improvement in quality through the exploitation of therapeutic synergies. In addition, the overall length of treatment is reduced. All services are reimbursed at fixed rates per case (integrated case rates). These are agreed between the health insurer and the health care provider in advance.

The company hospitalia care operates in the field of nursing care. It assumes responsibility for the running and technical management of private nursing care facilities for third parties. The company operates twelve facilities in Germany, with around 1,330 beds. By the end of 2004, it plans to open an additional eight nursing care facilities, with around 950 beds.

hospitalia activHealth's field of activity is international hospital management. Its key markets are selected countries in Southeast Asia, the Middle East and West Africa. In 2003, hospitalia activHealth signed additional hospital management contracts with the government of Gabon. This project is a proof of the successful cooperation between the two Fresenius ProServe companies hospitalia activHealth and VAMED: hospitalia activHealth is responsible for management, while VAMED, which built the 160-bed hospital, is responsible for technical operations.

The two subsidiaries, VAMED and hospitalia international, specialize in hospital projects. Their range of services for health care facilities all over the world includes development, planning, realization, supply of all the equipment, maintenance and technical and general management.

In 2003, VAMED concentrated on realizing major projects acquired in the previous year, as well as proceeding with ongoing projects. In its home market of Austria, VAMED continued with the construction of the provincial hospital Vöcklabruck, the casualty hospital and maternity center in Linz, and the thermal spa in Längenfeld, Tyrol. Abroad, progress was made on projects in China, Malaysia, the Philippines, Vietnam, Qatar, Gabon and Nigeria.

The company acquired new orders in 2003 for the construction and/or modernization of hospitals both in Austria and in international markets such as China, Vietnam, Libya and Gabon. One of our internationally successful projects was the Magnetic Resonance Center completed in Novi Sad, Serbia. This was the first time that an order has been executed together with a private international business partner.

The company opened up new markets: In Spain, with the acquisition of Socumex S.A., and in the Netherlands, where VAMED Nederland B.V. was founded.

The market trend towards outsourcing the facility management of hospitals intensified in 2003, providing VAMED with considerable growth potential. In Germany, VAMED increased its business volume in facility management for health care facilities from around 6,000 beds to more than 16,000 beds in 2003.

The project business was reorganized in the year under report, with the activities of hospitalia international integrated into the VAMED group of companies. We anticipate that cooperation on markets and projects will create synergies and produce cost savings in the administrative area. The main focus for hospitalia international in the 2003 fiscal year was the processing of two orders to supply medical-technical equipment to Indonesia. In addition, we began to work on orders worth about € 34 million to supply medical-technical equipment to more than 200 hospitals in six Chinese provinces and install and service it. China and other selected countries of Southeast Asia will continue to be a priority for our work in 2004.

**Pharma industry business**

Pharmaplan represents the pharma industry business of Fresenius ProServe, comprising the planning, construction and supervision of pharmaceutical and medical-technical production plants.

Business in 2003 was affected by the lower worldwide investment levels in the pharma industry. Pharmaplan, therefore, continued to focus on selected key markets. As a consequence, loss-making subsidiaries in Great Britain and Brazil were closed. In addition to this, the Pharmatec subsidiaries in the United States and Great Britain will be closed during the course of 2004.

An office was opened in Vienna to strengthen Pharmaplan's market position in Eastern Europe. It succeeded in gaining a contract for a project in Hungary. A production plant was commissioned in Abu Dhabi. It manufactures disposable syringes with a special mechanism to prevent reuse, developed and patented by Pharmaplan. In the field of modular production plants, a major order to build a manufacturing plant for vaccines in Korea was completed and turned over to the customer in less than two years.

Besides medical-technical production plants, Pharmaplan's subsidiary Pharmatec constructs processing, purified water and sterilization systems for the pharmaceutical industry. In addition to the general investment concerns, the weakness of the dollar also impacted Pharmatec's international business in 2003, leading to a sharp drop in its business activities in the United States. On the other hand, Pharmaplan further expanded its market position in the German-speaking countries. In future, Pharmatec will concentrate its activities on this region, as well as on selected countries of Western and Eastern Europe. Order intake in the rapidly-expanding field of high-quality process systems developed very positively in 2003.

# ADDITIONAL INFORMATION ON THE FISCAL YEAR

- Employees: Professional development is a priority
- Research and development: Sights set on new products and therapies
- Environmental protection and quality management: Manage valuable resources in a responsible way
- Social activities: Full commitment to caring for health

## Employees

For many years we have been operating successfully in international markets that are expanding rapidly and extremely demanding. This is only possible with capable employees. Their qualification and commitment are the key to the future success of the company. It is essential to keep qualified employees within the company, develop their strengths and to promote their entrepreneurial thinking. Furthermore, it is important to continously attract new talents to our team.

### Education and training

The difficult economic situation makes it increasingly difficult for young people to get apprenticeships with companies. Fresenius is counteracting this trend. In 2003, we offered the same number of apprenticeships in Germany as in the previous year. Altogether, the Group trained 377 apprentices in 25 vocations in 2003. We are thereby making a valuable contribution, both in quality and in quantity, towards the training of young people.

We have a new vocational training course at Fresenius in Business Information Technology. This profession is at the interface between the traditional fields of business administration and information technology. The course is offered in cooperation with the Berufsakademie in Mannheim. It is an ideal complement to the courses we offer in other innovative professions. These interdisciplinary courses meet the perpetually changing demands of professional life.

### Employee development and personnel marketing

A focus of our work was to adapt our personnel development measures to a more practical orientation, and thus ensure that they can be applied in daily professional life. In many areas, education and training was more closely tailored to the individual requirements of the employees. In addition, the scope of the courses was extended, and both the trainer and the group were requested to give personal feedback. Moreover, methods aimed at identifying the under-utilized skills and talents in employees were implemented. This then gave rise to further personnel development measures being undertaken – for instance, the employee was assigned tasks related to project management, – or led to job rotation. Our aim has been to ensure that our employees are equipped with a large variety of versatile capabilities and skills.

Our cooperations with the French business academy INSEAD in Fontainebleau and Universitätsseminar der Wirtschaft (USW), which is now part of the European School of Management and Training (ESMT), was given a new structure. They will be continued and intensified in 2004.

The lack of specialist staff (not only academic staff) in the job market worsened in the current year. Fresenius responded to this situation by taking greater advantage of the abilities of its own employees. In addition, personnel marketing activities were intensified, for instance, for careers in engineering sciences. At the same time, we extended our online activities, but also continued to place great importance on innovative and brand-enhancing personnel advertising – with success. The 150,000 visits to our careers webpages per month show there is considerable interest in Fresenius as an employer. The Internet plays an increasing role in our hiring process, and we now receive a large majority of applications through this channel. We have also maintained our contacts to selected universities and colleges. We took part in job fairs, supported internships and theses, and supported publications for specific target groups.

### Profit-sharing scheme and stock option plan

Having employees identify themselves with the company is a key factor in our success. At Fresenius, not just the managerial staff, who participate in the stock option plan, but also our other employees have a stake in the financial achievements of the company. For the fiscal year 2002, non-managerial employees received a share of profits worth 1,050 euros gross (for full-time employees). This was almost 10 % more than in the previous year. Over the six years that the program has existed, the profit share paid has almost doubled. Of the amount awarded, two-thirds was paid in the form of preference shares of Fresenius AG or Fresenius Medical Care AG. The employee can choose to take the remaining third in cash, or use it to buy additional preference shares. More than half of the employees entitled to this benefit decided to purchase additional shares. This shows the high degree of confidence the Fresenius employees have in their company.

The company's stock option plan, implemented in 1998, has now come to the end of its five-year term. In 2003, the tradition of value-oriented performance incentives was continued in a new program. The stock option plan approved by the Annual General Meeting in May 2003 is based on convertible bonds. In the year under report, 228,174 convertible bonds of Fresenius AG were issued to members of the Management Board and selected managerial staff of Fresenius AG and its affiliated companies under the terms of the stock option plan. Since the managerial staff of Fresenius Medical Care AG and its affiliated companies have their own stock option plan, these employees are not entitled to participate in the Fresenius AG program.

You can find more information regarding the option plan on page 121 in the Notes.

## Research and Development

For us, innovation means new ways of sustaining life. Accordingly, we at Fresenius place great importance on research and development. Innovation is essential to help seriously ill people effectively. It is crucial for achieving steady medical progress. We develop products and therapies for the extracorporeal treatment of blood, for infusion and nutrition therapy and in the field of biotechnology. Our objective is to provide the best-possible care for patients, while enabling them to enjoy a higher quality of life. Innovation is a firm part of our corporate strategy, and a basis of our financial success.

### Dialysis

Research and development at Fresenius Medical Care is aimed at continually optimizing dialysis and other extracorporeal therapies. We work to improve the well-being of our patients and to give them a better quality of life. A main focus is the development of patient-individual therapeutic processes.

In 2003, we concentrated our research and development projects on optimizing dialyzers and dialysis machines for hemodialysis, and on peritoneal dialysis products. In dialyzer technology, we place great importance on function-oriented development aimed at continually enhancing the performance of our dialyzers. In the field of membrane technology, we worked on further improving the spinning process. We work to increase the effectiveness of the membrane and extend its functionality. This will enable us to extend our know-how into other areas of application for our membranes outside dialysis.

In hemodialysis, even elderly patients, many of whom are multi-morbid, can be treated successfully thanks to new machine technology. Taking into consideration the increasing cost pressure in the health care systems, we have identified an increasing demand for systems that provide basic, high-quality dialysis treatment cost-effectively. Fresenius Medical Care is responding to this trend by developing various low-cost therapy systems with simplified technology.

Another field of developmental activity is in feedback techniques. Feedback techniques address the issue that the human physiology reacts dynamically to external and internal influences. With the help of these techniques, a routine dialysis treatment can be automatically adjusted to the individual physiological conditions of the patient. Sensors gather information about certain changes in the blood of the patient, or in the dialysate, caused by the treatment. These signals can be evaluated during the treatment itself, and various treatment parameters, such as dialysate composition and dialysate temperature or fluid removal, can be automatically adjusted to eliminate or reduce side effects. Clinical experience shows that the incidence of side effects can be reduced by 30 to 50 % when feedback techniques are used. The clinical application of feedback techniques has added considerably to our knowledge about basic physiological processes during dialysis in the past years. Integrating these new findings into the functionality of both existing and new products is an important research task for Fresenius Medical Care.

Another area of concentration for our research and development work is in the field of liver disease therapy by means of extracorporeal processes. We are developing a bioreactor (bioartificial liver). This enables a patient with acute or chronic liver failure to survive for a longer period of time, until either a suitable transplant has been found, or the patient's liver has recovered, so that it can perform its life-sustaining functions again. Fresenius has utilized its know-how in the field of synthetic material processing for hemodialysis in the manufacture of the bioreactor. One prerequisite is the continuous availability of viable human liver cells. We are therefore developing, in cooperation with various universities throughout Europe, a method of cryopreserving human liver cells, i.e., the liver cells are preserved indefinitely by freezing them. When they are needed, they are transferred to the bioreactor. The advantage of this newly-developed bioreactor would be a three-dimensional alignment of liver cells that allows them to receive an optimal supply of nutrients. This is essential for the liver cell to function optimally, and thus for the bioartificial liver to perform efficiently. The bioreactor can be used in extracorporeal blood circulation in combination with other detoxification systems, such as with the Prometheus® system. Additional clinical studies to document the potential applications and the effectiveness of the bioartificial liver are planned to start in 2005.

In the past fiscal year, we completed various trials, including a study on our peritoneal dialysis solution *balance*. This solution is produced in a double chamber bag that makes it possible to separate the glucose solution containing electrolytes from the buffer-containing solution. This significantly reduces the amount of glucose by-products during heat sterilization and provides a ready-to-use solution with a neutral pH. Both factors are decisive for the peritoneal dialysis treatment to be well tolerated by the patient. The European *balance* trial investigated whether this solution protects the peritoneal membrane of patients. This open, controlled and randomized study was carried out in 22 European clinics in 11 countries. During treatment with *balance*, patients experienced a three to four-fold increase in CA125. CA125 is an indicator for the number of mesothelial cells in the peritoneal membrane. It is believed that there is a link between an increase in this marker and an improvement in the structure of the peritoneal membrane. When the patient was returned to a conventional PD solution during the study, the CA125 value returned to its initial level. Further parameters were used to investigate whether *balance* has a protective effect on the peritoneal membrane and/or shows increased biocompatibility compared to conventional solutions. The *balance* solution was shown to be effective, and it was well-tolerated by the patients. It causes less irritation to the peritoneum right from the start, and could therefore help to delay long-term changes that can be caused by acidic pH values and toxins released during glucose degradation.

Quality management systems are absolutely essential for the optimization of dialysis treatment. The patient database EuCliD (European Clinical Database) developed by Fresenius Medical Care is part of a comprehensive internal quality management system with which we want to further improve the care of patients. The data for relevant treatment parameters are collected in the dialysis clinics and assessed centrally. Selected data are analyzed and returned to the clinics. These reports compare the results of each clinic with those of the other Fresenius Medical Care clinics in the country (benchmarking). In this way, improvements in individual clinics can be made and documented. At the same time, the effectiveness of the dialysis clinics can be measured.

Our future activities will continue to focus on comprehensive, innovative therapies for patients with chronic and acute kidney failure – based on our extensive experience.

### Infusion and nutrition therapies

Fresenius Kabi has many years of experience in the development and manufacture of infusion solutions and products for nutrition therapy. We focused our research and development activities in 2003 on the fields of blood volume replacement substances, nutrition therapies and medical technology for instant diagnostics.

Voluven® is one of our most important products in the field of blood volume replacement substances. In 2003, we worked successfully on extending the indications for Voluven®: Our aim is to use it in paediatrics and we have filed for regulatory approval in Europe for this application.

In parenteral and enteral nutrition therapy, with our products Dipeptiven®, Glamin®, Intestamin® and Reconvan we hold a leading position in the segment of glutamine dipeptides. Glutamine dipeptides are protein elements that consist of two amino acids, one of which is glutamine. This is not stable as a single amino acid alone in a watery solution. With the aid of a dipeptide, however, a sufficient quantity can be administered to the patient. Optimum parenteral and enteral nutrition for the patient using products containing glutamine is a focal point for our development work. Glutamine is present in the human body. Under certain adverse conditions, for example due to an illness, the body has a higher requirement of glutamine than it can produce itself. Glutamine then has to be administered to the patient as part of a nutrition therapy. The glutamine deficiency that occurs in critically ill patients causes malfunctioning of the immune system and increased susceptibility for infections. Glutamine deficiency can even lead to the collapse of the intestinal barrier. This often plays a decisive role in the development of organ failure. In 2003 we have worked on developing a glutamine dipeptide product specially for use in paediatrics.

We have made progress in the development of another product in parenteral nutrition therapy for critically ill patients: A lipid emulsion that contains a high proportion of omega-3 fatty acids, as well as other fatty acids in a balanced proportion. Omega-3 fatty acids, which are obtained from fish oil, play an important role in metabolization. They are therefore gaining increasing importance in parenteral nutrition. They stimulate the immune processes, and so have an anti-inflammatory effect. It is important to administer omega-3 fatty acids for the optimal function of the immune systems of seriously ill patients. The new product is intended for use following major surgery, in the initial stage of sepsis, to support the immune system, and in cases of inflammatory bowel diseases. The product launch is planned for 2004.

Another new product in our parenteral nutrition program is StructoKabiven®, a three-chamber bag with Structolipid® as its lipid component. It contains both medium-chain and long-chain fatty acids. We received the European registration for StructoKabiven® in the year under report.

In enteral nutrition therapy we concentrated our work on new disease-specific products. Disease-specific enteral nutrition ensures that the special nutrient requirements of patients such as those with liver and kidney insufficiency, tumor patients, and those with diabetes mellitus are met.

In the segment of medical-technical products we have developed a new instant-diagnosis blood testing device, the EasyLab^MF^. In emergency medicine, it is vital for the results of analyses to be available rapidly. This device measures, monitors and documents blood counts such as electrolytes, pH value, partial pressure of oxygen and carbon dioxide, and hematocrit. It is mainly used in intensive care units and in the operating theatre. The specialist using it receives the results of the blood test after approximately 60 seconds. The system consists of an analyzer and a measuring cartridge. The cartridge is a closed system that ensures that neither the user nor the device comes into contact with the blood samples. This makes it easy, safe and hygienic to use; there is no need for extensive cleaning and maintenance. The blood count is determined by means of electrochemical sensors. Up to 30 samples can be analyzed with one cartridge. EasyLab^MF^ will be launched in 2004.

In the field of production technology we continued work on a new production process to manufacture sterile solutions in PVC-free bags. We are planning to use this new technology in 2004 in production facilities in Germany and Mexico.

### Antibody and cell therapies

Biotechnological research opens up opportunities to treat diseases that were previously incurable. We want to contribute to these advances through our research and development work in the field of antibody and cell-based immune therapies. These forms of therapy for the treatment of cancer, infections, degenerative diseases and for metabolic disturbances will increasingly establish themselves next to the classic standard therapies. Research in these areas is still in its infancy, however.

In the field of antibody-based immune therapy, we reached important milestones in the clinical development of our joint project with TRION Pharma. We successfully completed a phase I/II trial with the trifunctional antibody removab® in September 2003.

This study was designed to evaluate potential dosing schedules, and to identify potential side effects associated with removab® therapy for ovarian cancer patients with symptomatic malignant ascites. Malignant ascites is an accumulation of fluid in the abdominal cavity resulting from a malignant disease. The study has shown that the antibody is safe and well-tolerated when administered in the doses used in the trial. 22 out of 23 patients who previously suffered from ascites were ascites-free at the end of the trial after infusion of the antibody into the abdominal cavity four or five times. At the same time, the number of cancer cells detected in the ascites fluid was significantly reduced. This is all the more remarkable because the patients were given several courses of chemotherapy after the tumor had been surgically removed – without sustained success – and their health condition was poor. For lung cancer, a phase I trial to find the right dose is nearing completion. Further dose-determining trials, for instance for breast cancer and peritoneal carcinomatosis (metastases in the abdominal cavity), have started.

The immunosuppressive agent ATG-Fresenius S, a polyclonal antibody, has been proven to be a highly-potent medication to suppress immune reactions after organ transplantation. In 2003, we signed a cooperation agreement with the American biotechnology company Enzon Pharmaceuticals regarding the development and marketing of ATG-Fresenius S in the United States. Enzon Pharmaceuticals will carry out a phase III trial to obtain regulatory approval for ATG-Fresenius S from the US Food and Drug Administration (FDA). It is intended to introduce the product onto the North American market in 2007.

The demand for our polyclonal antibody has increased in the area of bone marrow transplantation. ATG-Fresenius S suppresses the immunocompetent donor cells, and thus prevents the acute Graft-versus-Host Disease (aGvHD). In a randomized, multicenter phase III trial to prevent aGvHD following the transplantation of stem cells, the standard therapy, i.e. Cyclosporin A and Methotrexat, is being compared with the standard therapy plus ATG-Fresenius S. The first patients have already been recruited, and the trial is to be extended to European centers outside Germany.

In cell-based immune therapy, we are focussing on two areas:

- Gene therapy treatment of HIV infections: Patients with advanced symptoms, and who are resistant to the majority of antiretroviral medications, are treated with their own T-cells that have been genetically modified. The aim of these trials is to show that these cells can survive longer than non-modified cells, and thus significantly improve the immune status of the patient. It is hoped that by the middle of 2004, the intermediate results of the first trial will indicate whether this treatment approach has merit.
- Transplantation immunology: Positive results have already been achieved in non-clinical trials. The first clinical pilot trial is intended to show that immunotolerance for an implanted organ can be achieved by modifying the cells of the organ donor.

In 2003, we stopped development work on hybrids of tumor cells and dendritic cells for the treatment of renal cell cancers.

If you are interested in the financial data regarding research and development, please refer to page 66 in the Management Report.

**Environmental and quality management**

The focal point of our work is to benefit people, in line with our motto "Caring for Health". The products and services of Fresenius serve to sustain life and improve the quality of life. This includes the responsibility to protect nature and to be conscientious and careful in the use of natural resources.

When we develop innovative, environmentally-friendly products, we consider environmental demands early-on in our work. We are convinced that this is the only way a company can fulfill its obligations regarding environmental protection.

As a member of the Association of the Chemical Industry, we follow their guidelines titled "Responsible Care", to which the international chemical industry has committed itself. Within the scope of these guidelines, we have committed ourselves to constantly improving our activities in the fields of environmental protection, as well as occupational, health and technical safety, product responsibility and logistics, and to fulfillment of legal requirements. We cooperate closely with authorities and customers with regard to environmental protection. We consider it to be our task and obligation to constantly minimize the dangers and risks involved in the manufacture, storage, transport, utilization and disposal of our products.

We have firmly integrated environmental protection targets into our manufacturing organizations; these targets are determined in environmental programs, and adhered to during all stages of our products, from their development to their disposal. We monitor whether these targets are reached. This is also documented by audits in accordance with DIN EN ISO 14001:1996 carried out at our main production plants, and at some European dialysis clinics as well.

In 2003, Fresenius Medical Care has implemented the "Integrated Management System" into the dialysis clinics of additional European countries. This system meets the combined requirements of ISO 9001:2000 for a quality management system and of DIN EN ISO 14001:1996 for an environmental management system. We can therefore identify and utilize potential improvements more effectively.

One of the goals of our environmental efforts is the considerate use of operating materials. In our production facility in St. Wendel, we were able to reduce energy consumption by changing to new welding methods in the production of peritoneal dialysis solutions. In 2004, we will continue our measures to reduce water and energy consumption, as well as recyclable waste in our production facilities as well as in our dialysis clinics.

In the field of logistics we have continued to increase the number of double-decker trucks in our fleet: Twelve of these trucks are currently in use. This results in 750,000 fewer kilometers, saving approximately 260,000 liters of fuel. We are also planning to use these trucks between our German production facilities and various countries in Europe. We anticipate that this, together with further improvements in route efficiency, will save 60 % of transport capacity. Furthermore, by opening a warehouse for peritoneal dialysis products at the St. Wendel production plant, we were able to reduce by around 20,000 the number of paletts transported, resulting in a saving of 90,000 transport kilometers.

One cornerstone in our environmental management is the development and production of low-pollution and low-emission products. Important to mention is our PVC-free primary packaging. We again increased substantially the production quantity of PVC-free infusion bags in our largest infusion solution production facilities – Friedberg, in Germany, and Uppsala, in Sweden, in 2003.

The disposal of materials also plays an important role in environmental protection. Here is one example: At our Friedberg plant, we are now able to transfer production residues which formerly had to be destroyed to a recycling plant, in cooperation with a certified company. We have thereby increased our recycling rate from 71.3 % in 2002 to 96 % today.

Audits were carried out by independent organizations at various Fresenius locations in 2003 looking at our quality and environmental management. Our production plants for drugs are regularly inspected by the responsible authorities to determine whether they comply with the GMP (Good Manufacturing Practice) standards of quality. Our research organizations are subject to official monitoring (Good Clinical Practice, Good Laboratory Practice). Audits were carried out according to EN ISO 9001 by independent organizations at various locations. For our medical products, notified bodies again confirmed that we conform to the guideline 93/42/EEC and ISO 13485. In all of these audits and inspections, it was determined that we have a seamless quality and environmental management system.

**Activities in social areas**

One of our responsibilities as a health care group is to make both our know-how and our financial resources available for projects that benefit the general public. We concentrate on projects that promote and sustain health and that are in line with the Fresenius philosophy “Caring for Health”. Further initiatives and charitable activities were aimed at helping those people who suffer hardship due to sickness or other misfortunes.

In addition to supporting numerous non-profit organizations, we also promoted Fresenius' own initiatives in 2003. A distinguishing feature of these events is that our own employees are almost always involved. Fresenius events which demonstrate that exercise can be fun were especially popular. The third Bad Homburg Health Week Triathlon, organized by Fresenius, was a great success, as shown by the number of participants: 300 at the first event in 1999, followed by about 460 in the second race in 2001, and in 2003 650 people took part.

More than 12,000 people came to the eighth Bad Homburg Health Week in November 2003, which is organized every two years by Fresenius and the town of Bad Homburg. Hints, tests and information related to the subject of health could be obtained free of charge. The Bad Homburg Health Week is one of the largest health events in Germany.

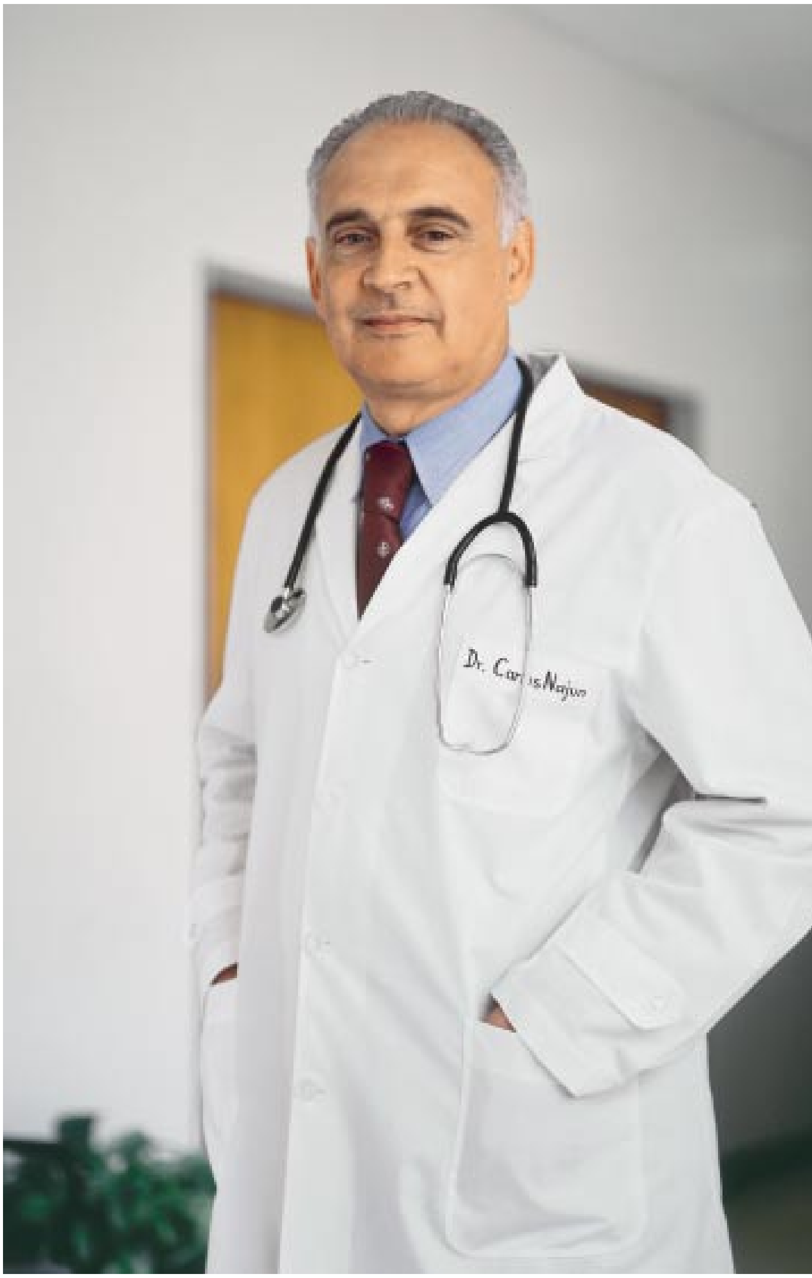
A local initiative that is unique in Germany is our project "HUS topfit". We help give information about health to scholars of the Humboldt School in Bad Homburg, in collaboration with teachers and parents. The main theme for the roughly 1,400 children in classes 5-13 is nutrition and sport. Fresenius not only gives financial support to this project, that is scheduled to run for three years, but also gives specialized help regarding medical content. This project is supported scientifically by the nutritional medicine department of the Frankfurt University Hospital.

220 Fresenius employees in Bad Homburg and Friedberg also took the initiative to register as stem cell donors. They are prepared to help leukaemia patients who urgently need a bone marrow transplant. There is a great demand – somebody falls ill with leukaemia in Germany every 45 minutes.

# Initiative **Holistic Patient Care**

Chronically ill people and their families were particularly affected when the economic situation in Argentina dramatically worsened in 2002: Government debt and unemployment increased rapidly while wages dropped. At the peak of the crisis, the Argentinian Peso lost more than 65 percent of its value over the dollar. 57 percent of the population were below the poverty line, including many of Fresenius Medical Care's 6,400 dialysis patients in Argentina.

Recession and devaluation also affected the dialysis market itself. The prices of imported medication and medical-technical products shot up, and reimbursement for dialysis treatment dropped. Unemployment of patients or their family members led to their dialysis treatment not being reimbursed by the health insurers. Nevertheless, Fresenius Medical Care continued to treat the patients and in some cases even paid for medication.



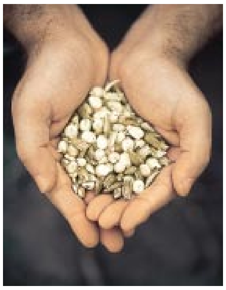

**Dr. Carlos Najun, Medical Director,**
**Fresenius Medical Care dialysis clinic, 'Mansilla', Buenos Aires**

Patient during the hemodialysis treatment

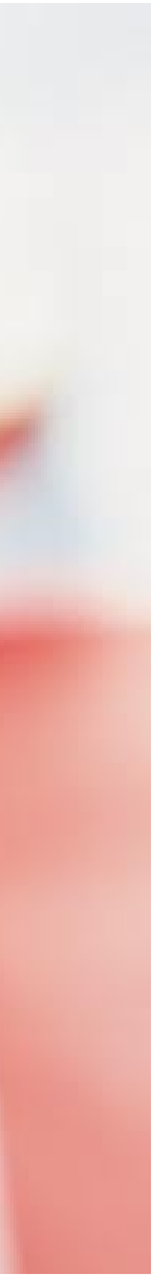
**Fresenius Medical Care took the initiative and started the "Huerta" (in English: vegetable garden) program.** The company regularly purchases vegetable seeds and distributes them to the patients together with leaflets explaining organic horticulture. Fresenius Medical Care nutritionists and social workers in the clinics support the implementation of the Huerta program. Within just one year, more than one third of the patients had started to grow vegetables – either in their own gardens or in the gardens of their relatives and neighbours. "This exceeded our expectations and is largely due to the motivation of our teams in the clinics", says Dr. Yagupsky, General Manager of Fresenius Medical Care in Argentina.

Patient data management to continuously improve therapy


Fresenius Polysulfone® dialyzer



“I have built a greenhouse and the whole family helps in the garden. We have tomatoes, peppers, lettuce, herbs and a lot of other things”, dialysis patient Hugo Iramain, 41, says proudly. Without the vegetables from their own garden, the income of this family of six would scarcely be sufficient for its most essential needs. Above and beyond the material assistance, the main success of the Huerta program is the improvement in the quali-



**Focus on quality improvement**

Despite this difficult environment, Fresenius Medical Care achieved its ambitious target of maintaining the quality of medical treatment, and to some extent even improving it, by implementing a series of initiatives. In order to maintain margins without making any cuts in the quality of treatment, prices were renegotiated with local suppliers and logistics costs were reduced. The company introduced High-flux dialyzers with highly-permeable membranes, which enable water to be separated effectively and large toxins to be removed from the blood. The clinics achieved new benchmarks in the quality of the water that is necessary to make the dialysate. Furthermore, the vascular access of numerous patients was optimized in order to improve blood flow and further reduce the risk of infection. Also, the company succeeded in increasing the dialysis dose by using state-of-the-art dialysis machines. As a result, the patient data management system, to which all clinics operated by Fresenius Medical Care in Latin America are linked, has shown a continuous improvement in the average treatment results, despite the crisis. Nowadays, dialysis patients in Argentina have a life expectancy comparable to those in European countries. “Fresenius Medical Care in Argentina is at the forefront with regard to the quality and safety of dialysis,” says Dr. Cristina Marelli, Medical Coordinator for the Latin American dialysis clinics of Fresenius Medical Care.

The patient data management system, introduced in 1999, helps doctors and clinics to maintain and further improve the quality of treatment. Using its successful internal benchmarking tool, Fresenius Medical Care compares the strengths and weaknesses of the individual clinics. The doctors enter relevant data, such as type and length of treatment, analytic blood values and the type of vascular access into a centralized database. If a clinic is shown to be underperforming, clinic management and central office immediately cooperate to implement all the measures necessary to improve the clinic’s treatment results. Furthermore, every year the clinics are set new standards that are adjusted for the latest medical findings.

**Assistance for everyday challenges**

The actual treatment is only one part of the comprehensive patient care concept. As in many other countries, social workers and nutritionists working in each of the clinics in Argentina help the patients and their families cope with everyday life. Balanced nutrition is even more important to the life expectancy of dialysis patients than that of healthy people, because kidney patients lose important nutrients such as amino acids and vitamins during dialysis. The situation deteriorated during the crisis. Dr. Guido Yagupsky, General Manager of Fresenius Medical Care in Argentina: “We realized that patients were taking home the meal we offered during treatment to share with their families. When it became clear that the social situation was affecting their nutritional status, we decided to act – and that meant taking into account the needs of the families.”

ty of life. For this, Fresenius Medical Care received an award from the Argentinian welfare organization Foro Ecuménico Social in 2003. The clinics report that the initiative has been greeted with great enthusiasm over the entire country. The patients gain confidence in their own capabilities, and become more mobile and self-assured and view the future with greater optimism.

# MANAGEMENT REPORT

- Consolidated sales increased 5 % in constant currency.
- Earnings driven by good growth at Fresenius Medical Care and Fresenius Kabi; reorganization at Fresenius ProServe has a negative impact.
- Excellent free cash flow (after acquisitions and dividends) of € 269 million generated.
- Outlook 2004: Currency-adjusted sales increase expected in the mid single-digit percent range. Earnings will rise faster than sales.

**The 2003 financial statements of the Fresenius Group were significantly influenced by the effects of currency translation. In addition, expenses related to measures taken for the improvement of future profitability at Fresenius ProServe had a negative impact. Sales and EBIT rose by 5 % in constant currency. Net income in constant currency was 2 % lower than the previous year's figure.**

Up to December 31, 2002, the Fresenius Group was split into the following business segments: Fresenius Medical Care, Fresenius Kabi, Fresenius ProServe and Fresenius HemoCare. Beginning with the 2003 fiscal year, the business activities of Fresenius HemoCare were newly assigned within the Fresenius Group. The segment Corporate/Other contains the holding company functions of Fresenius AG, Information Technology and the Fresenius Biotech Division. The figures for the 2002 fiscal year were adapted to correspond to the new structure.

The business segments are legally independent units managed by the operating parent company, Fresenius AG. As Fresenius is a globally-operating group, its business segments are organized on a regional and decentralized basis. Clear responsibilities have been assigned, according to the management principle “Entrepreneur in the enterprise”. Furthermore, an earnings and target-oriented compensation system reinforces the goals of the managerial staff.

### Economic environment

After the world’s economy touched bottom in the first quarter of 2003, a slow recovery set in, and accelerated during the course of the year. Although the trend has been generally positive, the pace of economic recovery has varied from region to region. The United States was at the forefront among the industrialized Western nations. The positive indications, however, are counteracted by some risks, such as the growing public debt of leading industrial countries, stagnation on the labor market and the weakness of the US dollar.

- Europe

  The average GDP growth rate in the euro area was 0.5 %. Excluding Germany, this figure becomes 0.8 %, a significant improvement. The economy of Germany, Europe’s largest individual market, stagnated as a result of restrained export demand and a fall in domestic demand. Growth was higher in Great Britain (1.9 %) and Spain (2.4 %). The majority of other countries generated slightly positive growth rates. Overall, there was neither a sustained increase in investment activities by companies nor a significant rise in consumer spending despite sustained low interest rates. High, or even increasing, unemployment added to the caution of consumers. Because of the feeble economy, tax revenue was considerably lower than in the previous year. This added to a strained situation in Europe’s public sector, and resulted in a significant increase in net borrowings. Future developments in Europe will depend to a large extent on the success of the reforms being implemented by the larger countries of the region. All in all, most indicators point to economic recovery.

- USA

The US economy largely fulfilled the hopes placed on it as the engine of the world's economy. Following mixed economic indicators in the first half of 2003, a sustained recovery became visible by the end of the year. The United States was again the frontrunner among the leading economic countries of the West, with 3.1 % growth in GDP, compared to 2.2 % in 2002. Tax cuts, higher public spending and an expansive fiscal policy contributed to this improvement, and strengthened consumer confidence. Increasing company profits, regulatory measures in the financial sector and low interest rates encouraged investors to return to the stock markets. The Dow Jones and NASDAQ had jumped considerably by the end of the year. The robust US economy, however, faces threats arising from its burgeoning government debt, its significant trade deficit and its very sluggish employment situation. Additional uncertainties stem from the situation in Iraq and the resulting financial burdens.

- Asien

Once more, Asia was the region with the strongest growth, 5.8 % (excluding Japan) in 2003. It was the large economies, China (8.8 %) and India (6.8 %), that again contributed most to the high growth of the region. In the developing countries of Eastern Asia, a temporary economic decline, largely caused by the lung disease SARS, was overcome in the second half of the year. In addition, the Japanese economy has gained significant momentum since the second half of 2003. GDP rose by 2.2 % for the whole year. Altogether, Asia continues to remain one of the most interesting economic regions.

- Latin America

Increasing stabilization in Latin America during 2003 was supported by the recovery in the global economy. The region achieved weighted average GDP growth of 1.2 %. Many risks still lurk, however, Argentina increased its GDP by 7.8 %, but this is only a very moderate improvement in view of the fact that the country was in recession for several years. It has succeeded in further stabilizing its political and economic situation, even if the basic problems continue to exist. The economic recovery that had set in at the end of 2002 in Argentina continued this year, driven by exports and the significant increase in consumer consumption. Brazil achieved growth in GDP of 0.3 % in 2003. There was no change of course after the elections, as was originally feared, and the consolidation of government finances was intensified. Brazilian exports delivered the most important impetus to the economy. Mexico has not fully benefitted yet from the economic recovery in the United States, achieving 1.2 % growth in GDP in 2003.

**Trends in the health care industry**

The health care sector, in comparison to other sectors, is growing steadily and seems less dependent on economic fluctuations. The increasing number of elderly people, the demand for innovative therapies, especially in the industrial countries, and for basic health care in the developing countries are the engines of this growth. In the industrial economies, cost-saving measures in the public health systems are playing an increasing role.

In Germany, health care policies in 2003 were marked by comprehensive reform of the health systems. The main aim of the Statutory Health Insurance Modernization Act is to reduce general health care spending. The measures include restrictions on services reimbursed by the public health insurers and increases in the costs paid by patients themselves. The new law limits increases in the administrative expenses of the health insurance companies, and imposes mandatory rebates on drugs. At the same time, the reform opens up new opportunities to improve patient care by linking ambulatory, in-patient and rehabilitative services more closely.

Our three business segments offer a broad range of medical products and services. The developments in the most important markets for our businesses are described in more detail in the following section.

Dialysis: Worldwide, more than 1.2 million people with chronic kidney failure receive regular dialysis treatment. The number of dialysis patients is growing at an annual rate between 5 and 7 %. There are many reasons for kidney failure. Kidney failure is mainly caused by diseases such as diabetes, high blood pressure and glomerulonephritis. The prevalence rate, i.e., the number of patients as a proportion of the population, demonstrates the business potential for dialysis products and services. In Japan, the largest dialysis market in the world after the United States, the prevalence rate for chronic kidney disease is 1,800 patients per million population; in the United States, around 1,100 patients; and in the European Union, around 570 patients. These regions account for 60 % of the world's dialysis patients. The global average of 200 patients per million population makes it very clear that access to dialysis treatment remains limited in many parts of the world. Accordingly, the double-digit growth rates in those regions, which are usually economically weaker ones, are significantly higher than in the United States, Japan or Europe. Overall, we expect the demand for dialysis products and services to continue to increase.

Infusion therapies and clinical nutrition: Continuing strong demand for medical care in an ageing population, resulting in longer overall treatment times, and sustained demand for new and innovative therapy concepts are the sources of growth in this market. According to statistics from the European Society for Parenteral and Enteral Nutrition (ESPEN), 30 to 40 % of all patients treated in hospital in Europe require clinical nutrition. Yet the entire market for infusion therapies and clinical nutrition in Europe is only growing at a low single-digit rate. This situation in the European hospital product market is a consequence of strained public finances, leading to an ever-present need for cost savings in the public health network, and from there to sustained price pressure on providers.

An area that will become more and more important in the future is ambulatory treatment. In view of the difficult budget situation at the public authorities, there is a growing trend from in-patient treatment towards more cost-effective ambulatory care. This area will continue to grow significantly.

The developing countries present a different picture. Here, the main task is to ensure that the population receives basic medical care via hospitals. In these countries, the increase in health care spending in individual countries is substantially higher than their respective GDP growth rates. Fresenius is focusing on specialized product segments, such as clinical nutrition. The growth rates of the markets in the Latin America and Asia-Pacific regions are in the mid single-digit to double-digit range.

The German hospital market: The hospital market in 2003 was characterized by a declining bed utilization rate for acute and rehabilitation treatment. At the same time, the first acute hospitals introduced on an optional basis the new reimbursement system tied to Diagnosis Related Groups (DRGs). This system is based on the costs of each case, rather than the number of days the patient is treated. This process for reimbursement on a case fee basis becomes mandatory in 2004, and health care experts therefore expect massive process restructuring in the hospital market. As municipal hospital operators will be subject to considerable pressure, the attractions of concentration and privatization will intensify. At the same time, the trend towards specialization in the hospital area is continuing. In the rehabilitation field, it is becoming increasingly clear that health insurers want to shift emphasis from in-patient care to ambulatory care.

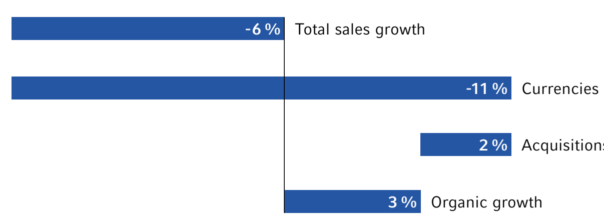
## Sales

In 2003, consolidated sales increased by 5 % in constant currency. Organic growth contributed 3 % and acquisitions 2 %. Sales were € 7,064 million, 6 % lower than the previous year's figure of € 7,507 million. This decrease is a result of exchange rate fluctuations, which had an impact of -11 % on sales. In particular, the devaluation of the US dollar relative to the euro, reaching an annual change of 20 %, was a major factor, since a large proportion of our business operations are in North America. The chart shows these influences on the sales growth of the Fresenius Group.

The region with the strongest sales continued to be North America (50 % of total sales) and Europe (38 %), followed by the Asia-Pacific region (7 %) and Latin America and other regions with 5 %. In Germany, we generated 14 % of sales.

We achieved the highest growth rate, 29 % in constant currency, in Latin America, despite the difficult economic situation in many countries on this continent. In the Asia-Pacific region, sales were at around the same level as the previous year, due to project delays at Fresenius ProServe. The outbreak of the SARS epidemic temporarily restricted our operations. Access to hospitals during this time was impeded. Altogether, the demand for our products and services remains strong in both Latin America and the Asia-Pacific region.

### SALES ANALYSIS




| in million € | **2003** | 2002 | Change | Change currency-adjusted |
|---|---|---|---|---|
| Europe | **2,692** | 2,539 | 6 % | 7 % |
| North America | **3,496** | 4,061 | -14 % | 3 % |
| Asia-Pacific | **509** | 563 | -10 % | 0 % |
| Latin America | **246** | 239 | 3 % | 29 % |
| Africa | **121** | 105 | 15 % | 8 % |
| Total | **7,064** | 7,507 | -6 % | 5 % |

The sales performance for our three business segments is as follows:

- Fresenius Medical Care achieved a sales increase of 5 % in constant currency. At actual exchange rates, sales of € 4,886 million were 9 % lower than the previous year (2002: € 5,378 million). Organic growth of 3 % and acquisitions that contributed 2 % to growth were counteracted by negative currency translation effects of 14 %. Business growth was driven by good performance for both dialysis care and dialysis products. The lower sales share for Fresenius Medical Care compared to the previous year is mainly due to the currency effects.

- Sales for Fresenius Kabi were € 1,463 million, 2 % higher than sales for the previous year of € 1,441 million. There was a considerable currency translation effect of -4 %. Fresenius Kabi achieved very good organic growth of 7 %. In addition to solid organic growth of 4 % in Europe, both Latin America and the Asia-Pacific region contributed to this success with double-digit growth rates. Disinvestments had an impact of -1 % on sales in 2003.

- Fresenius ProServe increased sales by 6 % to € 742 million in 2003 (2002: € 701 million). This was achieved mainly through acquisitions, in particular hospital purchases in Germany. Order intake and orders on hand showed two different pictures – orders on hand for the project business of Fresenius ProServe rose to € 435 million (December 31, 2002: € 424 million), while order intake was € 278 million (2002: € 327 million). This is a decline of 15 % and can be explained by the order situation in our pharma industry business: The general caution within the pharma industry with respect to capital investments caused a 33 % decline in order intake.

| in million € | **2003** | 2002 | Change | **Share of consolidated sales 2003** | Share of consolidated sales 2002 |
|---|---|---|---|---|---|
| Fresenius Medical Care | **4,886** | 5,378 | -9 % | **69 %** | 71 % |
| Fresenius Kabi | **1,463** | 1,441 | 2 % | **20 %** | 19 % |
| Fresenius ProServe | **742** | 701 | 6 % | **11 %** | 9 % |

**Earnings**

The earnings performance of the Fresenius Group in 2003 was driven by good results in the two largest business segments, Fresenius Medical Care and Fresenius Kabi. These results were offset by currency translation effects, especially from the decline of the US dollar to the euro, and the negative impact on earnings from measures taken to increase future profitability in the business segment Fresenius ProServe.

Gross profit was € 2,276 million, 7 % lower than the previous year's figure of € 2,436 million. In constant currency the increase would have been 3 %. The gross profit margin was 32.2 % (2002: 32.4 %). Operating costs totaling € 1,495 million were 7 % lower than the previous year's figure of € 1,599 million. These costs include amortization of € 325 million (2002: € 341 million). The amortization rate of 4.6 % was almost the same as in 2002, 4.5 %.

At constant exchange rates, consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 4 % over 2002. At actual exchange rates, EBITDA was € 1,106 million, 6 % lower than the previous year's figure of € 1,178 million. Group EBIT climbed by 5 % in constant currency. At actual exchange rates, EBIT fell by 7 % to € 781 million (2002: € 837 million).

**KEY FIGURES OF THE STATEMENT OF INCOME**

| in million € | 2003 | 2002 | Change | Change currency-adjusted |
|---|---|---|---|---|
| Sales | **7,064** | 7,507 | -6 % | 5 % |
| Cost of goods sold | **-4,788** | -5,071 | 6 % | -6 % |
| Gross profit | **2,276** | 2,436 | -7 % | 3 % |
| Operating expenses | **-1,495** | -1,599 | 7 % | -2 % |
| EBIT | **781** | 837 | -7 % | 5 % |
| Net interest | **-249** | -291 | 14 % | 4 % |
| Income taxes | **-223** | -202 | -10 % | -21 % |
| Minority interests | **-194** | -210 | 8 % | -6 % |
| Net income | **115** | 134 | -14 % | -2 % |
| Earnings per ordinary share (in €) | **2.79** | 3.25 | -14 % | -2 % |
| Earnings per preference share (in €) | **2.82** | 3.28 | -14 % | -2 % |
| EBITDA | **1,106** | 1,178 | -6 % | 4 % |
| Depreciation and amortization | **325** | 341 | 5 % | 3 % |
| EBITDA margin | **15.7 %** | 15.7 % | | |
| EBIT margin | **11.1 %** | 11.1 % | | |

EBIT contribution of the three business segments:

| in million € | **2003** | 2002 | Change |
|---|---|---|---|
| Fresenius Medical Care | **670** | 735 | -9 % |
| Fresenius Kabi | **147** | 97 | 52 % |
| Fresenius ProServe | **-19** | 24 | -179 % |

- Fresenius Medical Care increased EBIT by 4 % in constant currency. At actual exchange rates, EBIT was € 670 million, after € 735 million in 2002; a decrease of 9 %. The decline of the US dollar versus the euro caused an especially negative impact from currency translation. The improvement in earnings measured in constant currency was mainly driven by positive developments in the US market.

- Fresenius Kabi raised EBIT in the 2003 fiscal year to € 147 million, compared to € 97 million in 2002. This is an excellent increase of 52 %. Besides the good results of the operating business, cost reduction measures, especially in the production plant in Uppsala, were fruitful.

- Fresenius ProServe closed the 2003 fiscal year with an EBIT of € -19 million (2002: € 24 million). This includes expenses of € 34 million for measures to reduce costs and increase future profitability at Wittgensteiner Kliniken AG in response to, for example, a lower bed utilization rate in the hospitals, as well as for the restructuring of the healthcare project and pharma industry businesses. Fresenius ProServe is adjusting its overhead cost structure to a changed market environment by reducing personnel, optimizing processes, and closing subsidiaries.

Net interest for the Group was € -249 million and improved by 14 % (2002: € -291 million). Of this improvement, 10 % came from changes in exchange rates. Currency translation effects had a positive impact, as a high proportion of bank loans are in US dollars. Furthermore, the costs incurred in 2002 at Fresenius Medical Care for the early redemption of Trust Preferred Securities had a positive effect.

The tax rate increased from 37.0 % in 2002 to 41.9 % in the year under report. One of the reasons for the increase in the tax rate is the fact that the one-time expenses at Fresenius ProServe in connection with the reorganization of the health care project and pharma industry businesses were not tax deductible or, due to the current loss carry-forward structure in Germany, only partially tax deductible.

Minority interests fell to € 194 million from € 210 million in 2002, solely due to currency effects. 96 % of the minority interests relate to Fresenius Medical Care.

Consolidated net income dropped by 2 % in constant currency. This was caused by expenses related to the reorganization measures of Fresenius ProServe. Currency effects reinforced this development: At actual exchange rates, consolidated net income, reaching € 115 million, was 14 % lower than the 2002 figure of € 134 million. The same goes for earnings per share – earnings per ordinary share were € 2.79, down from € 3.25 in 2002; earnings per preference share were € 2.82 after € 3.28. Excluding the one-time expenses at Fresenius ProServe, consolidated net income would have risen by 10 %, and by 22 % in constant currency.

The EBIT margin was 11.1 %, as in 2002. The return on sales before taxes and minority interests was 7.5 % (2002: 7.3 %).

### Value added

The value added statement shows the output of Fresenius in the fiscal year less materials and services purchased and less depreciation and amortization. The value added of the Fresenius Group reached € 3,157 million in 2003 (2002: € 3,198 million). It is 1 % lower than the previous year, largely due to currency effects.

The distribution statement shows that the largest proportion of value added was received by our employees; this came to € 2,313 million or 73 %. Next come governments, with 9 %, and lenders, with 8 %. The shareholders received € 51 million, and minority interests 6 % or € 194 million. The company retained € 64 million of the value added for reinvestment.

### Dividend

The Management Board and Supervisory Board will propose at the Annual General Meeting that the dividend be increased. For the 2003 fiscal year, a dividend of € 1.23 per ordinary share (2002: € 1.14) would be paid, and of € 1.26 per preference share (2002: 1.17). This is an increase of 8 %. The total dividend will amount to € 51.0 million (2002: € 47.3 million).

### Capital expenditure and acquisitions

We invested € 430 million (2002: € 507 million) in the Fresenius Group in 2003. This is 6.1 % of sales (2002: 6.8 %). In the year under report, we stepped back from the high level of the previous year's investments, in line with our planning: Investments in tangible and intangible assets decreased by € 38 million to € 339 million. Funds used for acquisitions dropped to € 91 million, from € 130 million in 2002. Of the total investment volume of 2003, 79 % was invested in tangible and intangible assets, and 21 % in acquisitions.

As in 2002, cash for acquisitions was spent on expanding our global dialysis care business, mainly through the purchase of dialysis clinics by Fresenius Medical Care.

#### VALUE ADDED STATEMENT

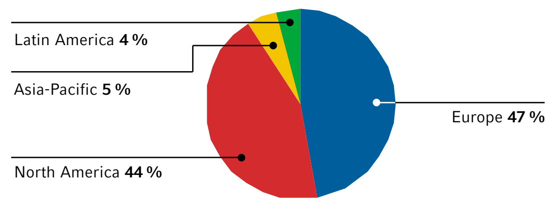
| in million € | **2003** | **%** | 2002 | % |
|---|---|---|---|---|
| **Creation** | | | | |
| Company output | **7,108** | **100** | 7,576 | 100 |
| - Materials and services purchased | **3,626** | **51** | 4,037 | 53 |
| Gross value added | **3,482** | **49** | 3,539 | 47 |
| - Depreciation and amortization | **325** | **5** | 341 | 5 |
| Net value added | **3,157** | **44** | 3,198 | 42 |
| **Distribution** | | | | |
| Employees | **2,313** | **73** | 2,302 | 72 |
| Governments | **286** | **9** | 261 | 8 |
| Lenders | **249** | **8** | 291 | 9 |
| Shareholders | **51** | **2** | 47 | 2 |
| Company and minority shareholders | **258** | **8** | 297 | 9 |
| Net value added | **3,157** | **100** | 3,198 | 100 |

Major investments in tangible assets comprised the following projects:

- Starting up new dialysis clinics, mainly in the United States, and the extension and modernization of existing clinics. € 105 million was used for this purpose.
- The buy-back of production plants that had been leased (€ 59 million) in Ogden, USA. Fresenius exercised its buy-back option in 2003.
- The construction of a joint production facility in Mexico for the peritoneal dialysis products of Fresenius Medical Care and the infusion solutions of Fresenius Kabi.
- The further expansion and optimization of production plants for Fresenius Kabi in Europe.
- The modernization of, and supply and installation of medical equipment at hospitals of Fresenius ProServe.

As the following table shows, 81 % of Group investments were made by Fresenius Medical Care, followed by Fresenius Kabi with 14 %.

**CAPITAL EXPENDITURE AND ACQUISITIONS BY REGION**



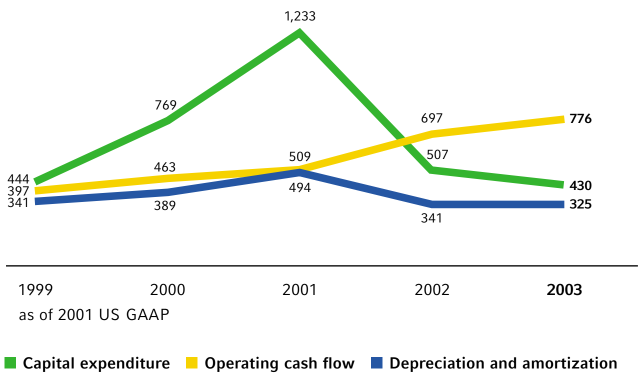

**2003: € 430 million**

The breakdown by region shows that the Fresenius Group invested 47 % of the total amount in Europe, followed by North America with 44 %, and the Asia-Pacific and Latin America regions with 5 % and 4 %, respectively.

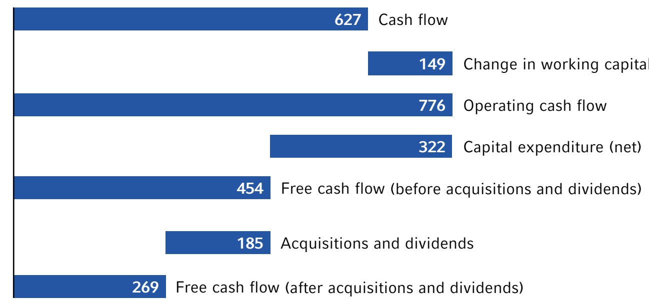
**CAPITAL EXPENDITURE AND ACQUISITIONS BY BUSINESS SEGMENT**

| in million € | **2003** | 2002 | Change | Share of total |
|---|---|---|---|---|
| Fresenius Medical Care | **347** | 346 | 0 % | 81 % |
| Fresenius Kabi | **59** | 91 | -35 % | 14 % |
| Fresenius ProServe | **35** | 45 | -22 % | 8 % |
| Corporate/Others | **-11** | 25 | -144 % | -3 % |
| Total | **430** | 507 | -15 % | 100 % |

**DEVELOPMENT OF CAPTIAL EXPENDITURE, OPERATING CASH FLOW AND DEPRECIATION AND AMORTIZATION IN MILLION €**




**CASH FLOW STATEMENT IN MILLION €**




### Cash flow

The cash flow statement reflects a very good performance. The operating cash flow and free cash flow exceeded the outstanding results of the previous year.

Group cash flow was € 627 million in 2003 (2002: € 683 million), and was 8 % lower than in the previous year. This decrease was due to the business performance of Fresenius ProServe, as well as to lower amortization, as a result of exchange rate effects.

The change in working capital was € 149 million (2002: € 14 million). This is a very good performance in view of the continued expansion of our business, and was achieved largely as a result of improved receivables management and by the generation of cash from foreign exchange hedging contracts.

Cash generated from operating activities reached € 776 million in 2003 (2002: € 697 million). This operating cash flow fully covered the financing requirements of investment activities before acquisitions. Cash used for the investments of the group totaled € 339 million, while the proceeds from disposals were € 17 million. Free cash flow before acquisitions and dividends was € 454 million (2002: € 382 million). We were able to finance all acquisitions and the dividends of 2003 from free cash flow. Free cash flow after acquisitions and dividends was € 269 million (2002: € 163 million).

Cash used for investment activities was € 393 million (2002: € 433 million). You can find more information on this subject in the chapter Capital Expenditure and Acquisitions.

Cash used for financing activities reached € 411 million in 2003, while in 2002 € the figure was € 262 million. Cash and cash equivalents were € 125 million on December 31, 2003 (2002: € 163 million). Cash provided for dividend payments in 2003 reached € 114 million (2002: € 101 million).

### Asset and equity structure

The total assets of the Group were € 8,347 million, a decrease of € 568 million (6 %) from December 31, 2002. This decrease was solely due to currency effects. In constant currency, there would have been a rise of 4 %. This slight increase reflects the lower investment amount for the Group, when compared to 2002, as well as improved receivables management.

Non-current assets dropped by 9 % to € 5,603 million (2002: € 6,172 million). Using the exchange rates from December 31, 2002 there would have been an increase of 3 %.

Current assets, at € 2,744 million, were approximately the same as in 2002 (€ 2,743 million). In constant currency, they would have risen by 8 %. Trade accounts receivable rose sharply from € 116 million to € 1,415 million. Currency-adjusted, total receivables would have increased by € 250 million, or 19 %, largely a result of the reduction of the receivables securitization program at Fresenius Medical Care to US$ 158 million in 2003 (2002: US$ 445 million). This was offset to some extent by efficient receivables management. This is shown by the change in days sales outstanding: This figure improved substantially to 84 days (2002: 89 days). The inventory turnover remained unchanged at 49 days.

The liabilities side of the balance sheet shows a decrease in equity including minority interests: It fell by 5 % to € 3,214 million (2002: € 3,369 million). This is a result of changes in exchange rates; in constant currency the in-crease would have been 8 %. The equity ratio including minority interests rose from 37.8 % as at December 31, 2002 to 38.5 % at the end of 2003.

The liabilities side of the balance sheet continues to reflect our solid financing structure: equity including minority interests covers 57 % of non-current assets (2002: 55 %), while equity, minority interests and long-term liabilities cover all the non-current assets and 96 % of inventories (2002: 76 %).

**CASH FLOW STATEMENT (SUMMARY)**

| in million € | **2003** | 2002 |
|---|---|---|
| Net income before minority interests | **309** | 344 |
| Depreciation and amortization | **325** | 341 |
| Change in pension provisions | **-7** | -2 |
| **Cash flow** | **627** | 683 |
| Change in working capital | **149** | 14 |
| **Operating cash flow** | **776** | 697 |
| Capital expenditure | **-339** | -377 |
| Disposal of assets | **17** | 62 |
| **Free cash flow before acquisitions and dividends** | **454** | 382 |
| Cash used for acquisitions/Proceeds from disposals | **-71** | -118 |
| Dividends | **-114** | -101 |
| **Free cash flow after acquisitions and dividends** | **269** | 163 |
| Cash provided from financing activities | **-297** | -161 |
| Currency-adjusted change in cash and cash equivalents | **-10** | -20 |
| **Change in cash and cash equivalents** | **-38** | -18 |

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

Long-term liabilities of € 3,006 million were € 295 million, or 9 %, below the previous year (2002: € 3,301 million). In constant currency, they would have risen by 2 %. Short-term liabilities were € 2,127 million, € 118 million below the figure for 2002 (€ 2,245 million). At constant exchange rates, short-term liabilities would have been the same as in 2002.

The return on equity after taxes was 7.5 % (2002: 8.3 %). The return on total assets after taxes and before minority interests was 3.6 % in 2003 (2002: 3.9 %).

Further key ratios on the asset and equity structure compared to December 31, 2002 are as follows:

| | **Dec 31, 2003** | Dec 31, 2002 |
|---|---|---|
| Debt*/EBITDA ratio | **2.8** | 3.1 |
| Net Debt*/EBITDA ratio | **2.7** | 3.0 |
| EBITDA/interest ratio | **4.4** | 4.4 |

* including receivables securitization program of Fresenius Medical Care

These key ratios, which are important for Fresenius, and by which we measure and control the leverage of the Group in relation to its financial strength, have further improved compared to the previous year.

Bank loans, Eurobonds, commercial papers and trust preferred securities of the Group were € 3,023 million on December 31, 2003 (December 31, 2002: € 3,283 million). The decrease of € 260 million resulted from changes in the exchange rates used in the translation of the US dollar debt into euros. Borrowings, with the decrease in the receivables securitization program of Fresenius Medical Care, moved in the opposite direction. Financial liabilities were reduced by € 29 million over the previous year. Liabilities with a remaining term of up to one year amounted to € 630 million (December 31, 2002: € 606 million); for those with a remaining term of one to five years, the amount was € 2,393 million (December 31, 2002: € 2, 677 million).

The market for bonds and similar instruments was in a very good condition in 2003. In April, we successfully issued a bond in two tranches with a total outstanding volume of € 400 million in order to refinance existing bank loans. Both tranches have a maturity of 6 years. The € 300 million tranche has an interest rate of 7.75 % p.a., and is redeemable by the issuer from the third year onward. The second tranche of € 100 million has an interest rate of 7.5 % p.a. This tranche cannot be redeemed before maturity.

Our credit ratings did not change in 2003: Standard & Poor's have given Fresenius AG a BB+ rating, stable outlook, and Moody's has a rating of Ba1.

**Currency and interest risk management**

The use of derivative financing instruments as a tool for risk management is one of the ways in which the Fresenius Group reduces or eliminates foreign currency risks and interest exposures arising from its international operations. These derivative instruments are restricted to marketable instruments, traded over the counter, that may be used only to hedge underlying transactions, but not for trading or speculation purposes.

The Fresenius Group uses currency risk and interest rate risk management on the basis of guidelines approved by the Managment Board that clearly define the targets, organization and handling of the risk management process. In particular, the responsibilities for the determination of risks, for closing hedging transactions and for regular reporting on risk management are clearly defined. These responsibilities are co-ordinated with the management structures in the other business areas of the company. Transactions in derivative financing instruments are made solely in the Corporate Treasury Department of the Fresenius Group, apart from a few exceptions required by currency regulations, and are subject to stringent internal controls. This ensures that the Management Board is always informed in detail about all major risks, as well as any hedging transactions.

The nominal value of all foreign currency hedging contracts was € 1,281 million on December 31, 2003. These contracts had a market value of € 89 million. The nominal value of interest rate hedging contracts was € 766 million, and the market value came to € -57 million. Please see further information on page 139 of the Notes.

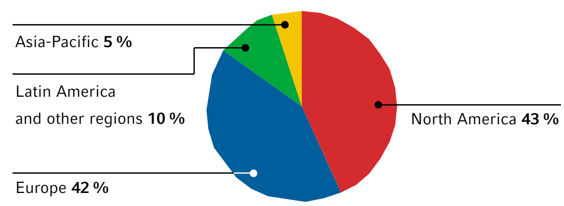
### Employees

At the end of 2003, 66,264 people all over the world were employed by the Fresenius Group. The number of employees has increased again, by 2,626 people or 4 % (December 31, 2002: 63,638). This increase was slightly below the currency-adjusted sales increase of 5 %.

By business segment, the development in the number of employees is as follows:

| Number of employees | **Dec 31, 2003** | Dec 31, 2002 | Change |
|---|---|---|---|
| Fresenius Medical Care | **43,445** | 41,766 | 4 % |
| Fresenius Kabi | **11,470** | 11,311 | 1 % |
| Fresenius ProServe | **10,815** | 9,894 | 9 % |
| Corporate/Services | **534** | 667 | -20 % |
| Total | **66,264** | 63,638 | 4 % |

**EMPLOYEES BY REGION**




**2003: 66,264**

The drop in the number of employees in the segment Corporate/Services is largely attributable to the inclusion in the figure for the previous year of the employees of the Adsorber Technology division, which was sold to Fresenius Medical Care in 2003.

The diagram shows the regions of the world where our employees work. On December 31, 2003, 43 % of the workforce were in North America, 42 % in Europe, 10 % in Latin America and other regions and 5 % in Asia. These percentages largely correspond to the sales shares of the respective continents.

Personnel expenses for the Fresenius Group were € 2,313 million, and thus were slightly lower than the 2002 figure of € 2,337 million. Exchange rate effects, especially from the conversion of the US dollar to the euro, had the effect of reducing these costs; at constant exchange rates, there would have been an increase of 10 %.

Sales per employee rose to € 121,000, currency-adjusted, in 2003 (2002: € 119,000). Personnel expenses per employee were € 36,000 (2002: € 37,000).

**Research and development**
Our research and development activities are focused on the core competencies of the respective business segments and comprise:

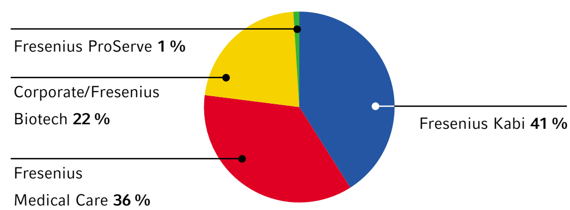
- Dialysis and other extracorporeal therapies
- Nutrition and infusion therapy
- Transfusion and infusion technology
- Biotechnology

As well as the development of products, our work was concentrated to a large degree on optimized or completely new therapies, treatment processes and services. In 2003 we made good progress with numerous projects. A series of new products, e.g. the nutrition solution StructoKabiven®, was introduced onto the market.

Fresenius Medical Care has continued to work on improving treatment therapies. The main focus of these projects was the further development of dialyzers and dialysis machines for hemodialysis and peritoneal dialysis. At Fresenius Kabi, development work continued on infusion solutions for use in blood volume therapy and for clinical nutrition. The major projects of Fresenius Biotech were antibody and cell therapies. An important milestone in 2003 was the completion of a phase I/II clinical trial on removab®, an antibody for the treatment of ascites in ovarian cancer.

Expenditure on research and development was € 121 million in 2003, 12 % lower than the previous year's figure of € 138 million. We invested 4 % of our product sales in research and development. The diagram shows the expenditure by segment.

**RESEARCH AND DEVELOPMENT SPENDING BY SEGMENT**




2003: € 121 million

At the end of the 2003 fiscal year, 790 people in the Group were employed in research and development, 11 % more than in 2002. Of these, 388 people worked for Fresenius Medical Care, 329 for Fresenius Kabi, 54 for Fresenius Biotech and 19 for Fresenius ProServe. Our main research locations are in Europe, but product-related development work is also carried out in the United States.

**Procurement**
In a market environment dominated by cost and pricing pressures, procurement of goods and services is extremely important. It is therefore essential for us to optimize our procurement activities and obtain best prices, while maintaining maximum flexibility and upholding stringent quality and safety standards. In the current year, we initiated several measures to achieve this objective:

In order to take the advantage of both centralized and decentralized purchasing opportunities, the Purchasing Consulting Center (PCC) of Fresenius Medical Care coordinates requirements that are of a similar nature, and concludes skeleton agreements with suppliers. By doing so, we generate more leverage regarding prices and other procurement conditions. By signing global quality agreements, PCC ensures that a high quality standard is permanently maintained. We carry out benchmarking, and systematically analyze trends in market and price data – the basic elements of successful procurement. In some areas, substantial cost reductions were achieved.

In 2003, we once again obtained stable prices for important plastic materials for dialysis by signing contracts valid for several years. We succeeded in obtaining price reductions for polycarbonate in the current competitive environment for our suppliers. The prices for packaging materials also remained stable due to a multi-year contract. The same goes for energy costs, so that price increases of up to 30 % in the markets in 2003 did not affect us.

The strategic purchasing department of Fresenius Kabi coordinates the procurement activities for all Fresenius Kabi production facilities with regard to important raw materials and general procurement goods. The scope of strategic materials and services ranges from biological and chemical raw materials to energy, services and technical products. Prices on Fresenius Kabi's most important procurement markets for production materials such as amino acids, salts and sugar remained stable compared to 2002. Organic raw materials such as starches increased in price. Extreme weather conditions in the countries of the European Union led to very bad harvests, resulting in surging prices on the European raw materials markets at the end of 2003.

**Risks of future development**

Due to its constant expansion, in particular in international markets, and the increasing complexity and dynamics of our business, the Fresenius Group is exposed to all sorts of risks as a matter of course. These risks are closely linked to entrepreneurial activities. It is only possible to seize opportunities that present themselves if managers are willing to take risks. We are a provider of products and services that frequently save the lives of seriously ill people; we therefore are scarcely subject to cyclical economic risks. Our experience in the development and manufacture of products and our knowledge of the markets we serve form a solid basis for us to safely assess the risks we face.

### Risk management

We consider the management of risk to be an on-going obligation. To determine, analyze and manage risk has been an important management instrument within the Fresenius Group for many years.

The Fresenius risk management system is an integral part of corporate strategy, which uses its rules for handling risks. Through the combination of our internal monitoring system, our risk control mechanisms and an early-warning system derived from our risk management system, we can identify and avoid at an early stage those potential developments which might endanger the continued existence of the company. In the individual business segments of the Group we have defined the responsibilities for monitoring risk:

- The risk situation is evaluated on a regular basis, and compared with existing requirements and standards. Responses can be initiated at an early stage to counteract negative developments.

- Managers are obliged to inform the Management Board without delay about relevant changes in the risk profile.
- By continuously observing the markets and maintaining close contacts to our customers, suppliers and other institutions, we position ourselves to recognize and react swiftly to changes in our business environment.

The risk management measures are supported both at a corporate level and in the business segments by our risk control mechanisms and our management information system. Deviations between the profit and asset positions and budgeted figures are identified and analyzed in detail in monthly financial reports. A monitoring system has been established comprising organizational safety measures and internal controls and audits, as well as risk management.

Our risk management is subject to active change so that we can react quickly to the demands of the markets; the existing system has proved its worth over the years.

The functionality and effectiveness of the risk management system is included in the annual audit of the financial statements. These conclusions are taken into consideration in the ongoing development of our risk management system.

### Risk areas

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

- Risks due to the economic environment
  The risk situation for the individual business segments depends on the economic performance of the relevant markets. For this reason, the political, legal and financial environments are carefully observed and assessed, as well as the performance of the global economy. Furthermore, the advancing internationalization of the markets of the Fresenius Group makes it essential for us to keep a close eye on the risks related to specific countries.

  From today's point of view, there is no substantial danger for the Fresenius Group with regard to the performance of the global economy. For the 2004 fiscal year, we anticipate a slight recovery in the economy. We also expect further positive performance in the demand for health services, especially as a result of the sustained positive economic prospects for the markets of the Asia-Pacific region.

- Risks in the health care sector
  Risks related to changes in market conditions in the health care sector are of major importance for the Fresenius Group. The main risks are the development of new products and therapies by competitors, the financing of the health systems and the reimbursement process in the health care sector. This is especially true for the United States, where a large proportion of our sales are generated, and where changes, especially in the reimbursement system, could have an impact on our business. We therefore keep a constant eye on legislative activities, while collaborating closely on our own initiative with governmental health care institutions. In addition, our cooperation with doctors and scientists means we are in a position to seize on and promote important new technological innovations. These collaborations also always keep us up to date regarding new developments of alternative treatment methods, in response to which we can re-evaluate and, if necessary, adapt our business strategy.

- Risks from operations
- Production, products and services

We counteract potential risks in the services and product businesses by the following measures. Adherence to product and production regulations are ensured by our quality management systems, in accordance with the internationally-recognized quality standards ISO 9001, ISO 9002, and internal guidelines – for example, quality guidelines and operating procedures. At regular intervals, quality audits are carried out by our quality management officers in local production facilities and in dialysis clinics. These audits ensure that all operational requirements and regulations for management and administration regarding product manufacture and clinical services, extending up to customer satisfaction, are fulfilled. The production companies of the Fresenius Group operate in accordance with the international Good Manufacturing Practice (GMP) guidelines or other recognized international and domestic standards. Furthermore, our Quality Management and Compliance Program ensures by means of written guidelines that both our high ethical standards and official regulations are adhered to in all our business dealings. The legitimacy and efficiency of our business processes and the effectiveness of our internal control systems are checked regularly by means of internal and external audits. We take action against possible risks connected with the start-up of new production plants or new technologies by careful project planning and by the regular analysis and monitoring of the progess of the project. In our acute and non-acute hospitals, we provide medical services to the patient. These services are subject to their own risks. At the same time, risks from medical operations can arise, e.g., because of the high standards for hygiene and sterility. We manage these risks by the way we structure the organization of processes, by the continuous training of employees and by a method of working that is adapted to the needs of the patients. Risks can also arise both from increasing pricing pressures on our products, e.g., by purchasing alliances among the hospitals, and on the procurement side through price increases.

- Research and development

The development of new products and therapies always carries the risk that the development target is not achieved. Before a product is registered, comprehensive cost-intensive pre-clinical studies and clinical trials have to be carried out. The Fresenius Group spreads its risks by conducting development activities in various product segments. Also, we manage the risks in research and development projects by regularly analyzing and assessing development trends and by examining the progress of research projects. We also ensure strict compliance with legal regulations regarding clinical and chemical-pharmaceutical research and development.

- Other risks

Other types of risks, such as those relating to our information technology systems or in personnel marketing due to the intense competition in the recruitment of specialist and managerial staff, are not considered to be significant. Nevertheless, it will be a great challenge in the future to find suitable employees and retain them in the company in the long term.

▶ Financial risks

Potential risks exist in the financial area in the form of interest rate and currency risks which we counteract through a dedicated risk management process. This is based on the hedging of foreign exchange and interest risks with derivative instruments. These instruments are solely used in connection with an existing underlying transaction, i.e. transactions for the purpose of trading or speculation are not permitted. We refer to page 139 in the Notes. Possible risks as a result of acquisitions and investments are considered carefully in advance through conscientious and detailed investigations into the respective projects occasionally with the suppport of external consultants. Fresenius, as a globally-operating group, is strongly exposed to currency translation effects due to exchange rate fluctuations. In particular, our extensive US operations make us sensitive to the relationship of the US dollar to the euro.

▶ Legal risks

At the beginning of 2003, a definitive agreement was signed regarding the settlement of fraudulent conveyance claims and all other legal matters in connection with the transaction with National Medical Care in 1996 that arise out of the bankruptcy of W.R. Grace & Co. This becomes effective when W.R. Grace is released from the Chapter 11 proceedings. Also, the claims which were made out of court by certain private US health insurers were settled by an agreement. Consequently, all legal issues resulting from the NMC transaction have been finally concluded. Please see page 136 in the Notes for details.

Furthermore, the Fresenius Group is involved in various legal issues arising from our operations. Although it is not possible to forecast the outcome of this litigations, we do not expect any major negative effects on the assets and liabilities, financial position and results of operations.

▶ Overall risk

At the present time there are no recognizable risks regarding future performance which could lead to lasting and material damage to the assets and liabilities, financial position and results of operations of the Fresenius Group. The organizational structures we have created will alert us at an early stage about possible risk situations.

## Subsequent events

Since the beginning of the 2004 fiscal year, no major changes have taken place in the health care environment or regarding the situation of the company.

Also, no major changes in the structure, administration or legal structure of the Group or in human resources are planned.

No other events of material importance have occurred since the close of the fiscal year.

## Outlook

### General economic outlook

It is generally expected that the global economy will perform positively in 2004. The recovery of the economy of the United States is expected to further establish itself and to spread to other regions. Both the demand for investments and the export economy in the United States should further accelerate and support the domestic economy. Base interest rates in the United States are at their lowest level for 45 years. Experts, however, expect that interest rates will rise in 2004. The US economy continues to have a high budget deficit.

It is anticipated that the European economy will also benefit from the improved economic prospects in the United States. In addition, it is hoped that structure reforms will be implemented in the European economies, and thus create a foundation for autonomous growth. Furthermore, the imminent expansion of the EU to include the countries of Eastern Europe is expected to be a stimulus for growth. Further positive effects are expected from a recovery in consumer demand. The sustained weakness of the US dollar will continue to impact European exports, however, as it will make imports into the United States from the EU considerably more expensive.

Exports, the main pillar of Asia's economic growth, are expected to continue to benefit in 2004 from the recovery of the global IT sector and the revival of the economy in the United States. China will continue to grow strongly. China's export trade has been given a boost by this country's inclusion in the WTO and is attracting foreign investors on a large scale. China's increasing international competitiveness will strengthen its exports. Its share of world trade will probably increase in the coming years and make China the third largest trading nation after the United States and Germany. Experts project that the developing countries of Asia will expand by more than 6 % overall in 2004 and 2005. There is genuine hope that Japan's economy will overcome its current recession. Then Asia will continue to be the strongest-growing economic region of the world.

The sustained revival of the global economy and the positive indications from many countries of Latin America are expected to drive growth in this region in the current year. In Argentina, economic growth will depend to a large degree on the result of negotiations with private creditors and the IMF regarding the restructuring of government debts. In Brazil, it will depend on whether the progress of the past months can be sustained in 2004, and whether more reforms can be implemented. The Mexican economy is expected to continue to expand in 2004, mainly as a result of increasing demand from the United States. Altogether there are positive signals that Latin America will achieve solid economic growth in 2004 following two years of stagnation.

### Health care sector and markets

The increasing number of sick and frequently chronically ill people continues to be one of the main factors driving the demand for our products and services. The number of elderly, frequently multimorbid, patients is increasing, especially in the highly-developed countries of the world, boosting demand for newer, better therapies.

The following shows those developments and trends that are of importance for Fresenius in the future:

The dialysis market: We anticipate that the number of dialysis patients will increase by 5-7 % p.a. In the industrial countries we expect annual patient growth to be between 3-5 %, because access to treatment in these countries is already fairly extensive. On the other hand, we expect the increase to be over 10 % in developing countries. Reasons for the growing number of patients are the higher average life expectancy of the population, improved technology and therapies, and rising health care spending in economically weaker countries, which in many cases makes treatment possible in the first place. In addition, the increasing number of patients with high blood pressure and diabetes, as these diseases are frequently the cause of kidney failure, affects growth.

In the United States, the Medicare health care program was reformed in 2003. This reform affected dialysis patients without private health insurance. It impacts Fresenius Medical Care, as a dialysis company, primarily in the following ways:

- Reimbursement for dialysis treatment (composite rate) will be increased by 1.6 % effective 2005.
- The reimbursement procedure for medications administered during the dialysis treatment will be changed in 2005. Based on our current assessment, this adjustment will be cost neutral for dialysis companies.
- More emphasis will be placed on Disease State Management programs. Some demonstration projects will be initiated.

Fresenius Medical Care generates around two thirds of its dialysis care sales in North America through the treatment of patients who come under the public health care programs. We therefore expect that the 1.6 % increase in reimbursement for dialysis treatment will have a positive impact on the performance of the company. Fresenius Medical Care has been successfully involved in Disease State Management programs for quite a while via its joint ventures Optimal Renal Care and Renaissance Health Care.

The market for infusion therapies and clinical nutrition: Europe, our main market, will continue to be shaped by cost savings in the health systems. This is visible from the increasing price pressure on our products, for instance, through the growing number of purchasing alliances in the hospital field.

The importance of post-hospital treatment in the ambulatory field will rise due to shorter hospitalization times of patients. We therefore expect this to be a strong stimulus for growth in the future, particularly in the market of ambulatory therapies.

A high growth potential is offered by the Latin America and Asia-Pacific regions. The strong demand for innovative medical care, and demographic developments, are the engines of growth in these regions.

The German hospital market: The highly regulated German hospital market is going through a time of upheaval. A new reimbursement system based on Diagnosis Related Groups (DRGs) has been in force since 1.1.2004. This, together with the rules contained in the recently passed Statutory Health Systems Modernization Act, make it essential for hospital managements to orient their operations for a market economy in the future.

In addition to economic aspects, quality is also a focus of the reforms. All acute hospitals have to implement a quality management system and publish reports on quality so the patient is able to compare the services and treatments offered by individual hospitals. Furthermore, it is now stipulated by law that if a hospital does not achieve minimum stipulated numbers of a certain treatment, the hospital may no longer carry out this treatment. This is another step towards ensuring standards of quality in hospitals.

One of the most important changes affecting the German hospital market is that ambulatory and in-patient care will no longer be separated. Effective immediately, hospitals may offer some forms of ambulatory treatment, such as those requiring a high degree of specialization. They may also become part of health centers. This will promote integrated care and encourage the development of new forms of care. Also, new forms of cooperation between providers and payors will be developed.

### Sales and earnings

Despite continued cost-savings in the health care sector the markets in which we operate will continue to grow. Fresenius, a provider of life-saving and life-sustaining products and therapies, will participate in this growth. Our leading market position in many countries and our recognized products and services are a solid platform for further growth. We therefore expect that in 2004 consolidated sales in constant currency will increase in the mid single-digit percent range. All business segments will contribute to this growth.

We expect net income to grow faster than sales in 2004 despite a difficult market environment that is marked by cost savings and pricing pressures. The sources of the increase in net income will be good sales growth, further optimization of our cost structure and positive benefits from the measures to increase profitability implemented by Fresenius ProServe. We expect earnings growth in all our business segments.

### Regional expansion

The performance of the markets determines the growth of Fresenius in the regions. While the markets in our traditional regions Europe and North America will grow at low to mid single-digit rates on average, we anticipate much stronger growth in the markets of Asia-Pacific and Latin America. These two regions are the future growth drivers of our business. This will be reflected in our sales performance: In these regions we are planning to increase sales at double-digit rates. Overall, however, there will be no significant change in the regional sales breakdown in the short term. 88 % of consolidated sales were generated in Europe and North America in 2003. We shall continue to grow from this high base. Nevertheless, we expect the sales share of the Asia-Pacific region to expand to 10 % in the medium term from 7 % at present.

### Financing

We generated excellent operating cash flow in 2003 from additional improvements in our receivables management and from cash inflows derived from hedged inter-company financing. The cash flow ratio is 11 %. In 2004 we shall not be able to match this figure. From today's point of view we anticipate that operating cash flow will be affected by payments for tax arrears. We expect, therefore, to achieve an operating cash flow at a mid single-digit percentage rate of sales in 2004.

Our financial targets based on the important key figure net debt/EBITDA ratio. On December 31, 2003 this was 2.7. Our target is to achieve a ratio of 2.5 in 2005 on the back of a growing business and continued strong cash flow, giving us the means to repay bank loans.

Following our successful bond issuance in 2003, the demand for Fresenius notes continues to be strong. The € 400 million fixed-interest bonds issued in 1999 will become due in May 2004. On July 16 and December 12, 2003, therefore, we concluded agreements with investors that allow the issuance of notes totalling € 210 million with maturities of 2, 3 and 4 years. By exercising this option, more than half of the maturing bonds can be refinanced at the moment when they are due. Taking free cash flow into account for the remaining refinancing amount, we have the option of additional private placements, the issuance of new bonds or a syndicated credit agreement. Because of the lower volume to be refinanced, and the successful issues of 2003 distributed among a very wide range of investors, we have achieved a high degree of flexibility for the remaining refinancing. Furthermore, a commercial paper program for € 250 million still exists that has not been utilized as of the end of 2003, as well as substantial open bilateral credit lines.

### Capital expenditure and acquisitions

For the 2004 fiscal year, we are planning to make investments in tangible and intangible assets amounting to around € 300 million, approximately the same as in 2003. Around two thirds of the investment amounts will be made by Fresenius Medical Care, and one third by the business segments Fresenius Kabi and Fresenius ProServe. The main investments of Fresenius Medical Care will be the construction and expansion of dialysis clinics, as well as the extension and maintenance of production plants. Investments at Fresenius Kabi are being made in the expansion of production capacities and in the introduction of new production technologies. At Fresenius ProServe we are investing primarily in the modernization of hospitals of Wittgensteiner Kliniken AG and in their medical and IT equipment.

Looking at the regions, Europe will invest around half the funds, and around 40 % of investments will be made in North America.

In addition, we are planning to make acquisitions for a total of around € 100 million. These funds will be used mainly for the purchase of additional dialysis clinics.

### Dividend

It is important for us to show continuity in our dividend policy. We intend to maintain this policy in 2004 and once again pay an earnings-linked dividend to our shareholders.

### Procurement

The optimization of procurement – both with respect to price and terms and regarding quality – is an important task for future earnings enhancement. The Purchasing Consulting Center (PCC) will focus on important production materials such as granulates, salts and energy in 2004, with the aim of obtaining optimal terms by bundling requirements with companies outside the Group, and by benchmarking with other sectors. Furthermore, we are planning to extend the product group purchasing management of the PCC to services, investments and operating materials in order to take advantage of the savings potential that exists in these fields.

We anticipate that prices for the important plastics materials for dialysis will remain stable in 2004. We were able to negotiate price reductions for polycarbonate, as well as in the packaging segment. The product erythropoeitin (EPO) is a hormone that encourages the production of red blood cells. It is a cost-intensive component of dialysis treatment, and is manufactured by only a few companies. In the United States, the company Amgen owns the exclusive marketing rights. In 2002 and 2003 the price for EPO was fixed as a result of contractual agreements. Recent price increases, however, had to be taken into consideration for our new, two-year contract from 2004 to 2005. As the largest customer within the dialysis sector we would expect discount formulas included in the contract would help to offset the base price increases and render them relatively cost neutral.

Fresenius Kabi's Strategic Purchasing negotiated contracts in 2003 for amino acids and packaging material that will result in substantial savings in the coming years. This was achieved by bundling requirements and through a newly-focused negotiation strategy. In the field of organic raw materials, we do not expect any improvements in 2004. Our main aim this year is to further optimize our supplier base and to take advantage of synergies with Fresenius Medical Care.

The European market prices for energy have increased by up to 30 % for 2004. We have succeeded in offsetting this increase for all our locations, and have reached agreements on energy prices at levels between the previous year's level and 15 % higher.

### Research and development

We shall continue to place great importance on our research and development activities to secure the growth of the company in the long term, using innovations and novel therapies. In our major fields of activity we are concentrating on products for the treatment of patients with chronic kidney disease and on infusion and nutrition therapies. We are also focusing on selected developments in biotechnology in the fields of antibody and cell therapies, and plan to increase expenditure in these areas by around € 10 million.

For the Fresenius Group, we plan to increase our overall research and development spending in 2004.

In order for new products to be successful, it is of important that research and development projects are market-oriented and are subject to strict time management. Research targets have to be reviewed on the basis of clearly-defined research milestones.

### Legal company structure and organization

The Fresenius Group has three business segments, each of which is legally independent. These business segments are organized on a regional and decentralized basis so that they can react to the needs of their markets with the greatest possible flexibility. The philosophy of "Entrepreneur in the enterprise" has proven itself over many years. We want to maintain this philosophy. We are not planning to change the legal structure of our company.

### Planned changes in human resources and social area

The number of employees in the Group will slightly grow at a low single-digit rate. This increase will be lower than the expected percentage increase in sales. One of the Group's major goals is an increase in productivity.

# Key figures of affiliated companies

| Company | | Held by Fresenius in % | Sales 2003 in million US$ | Profit/Loss[1] December 31, 2003 in million US$ | Equity December 31, 2003 in million US$ | Employees December 31, 2003 |
|---|---|---|---|---|---|---|
| **Affiliated company Germany** | | | | | | |
| 1 | Fresenius Medical Care AG<br>Hof an der Saale<br>(sub-group/US GAAP) | stake of equity: 36.94<br>share of votes: 50.76 | 5,527.5 | 331.2 | 3,243.7 | 43,445 |

| Company | | Held by Fresenius in % | Sales 2003 in million € | Profit/Loss[1] December 31, 2003 in million € | Equity December 31, 2003 in million € | Employees December 31, 2003 |
|---|---|---|---|---|---|---|
| **Affiliated companies Germany** | | | | | | |
| 2 | V. Krütten Medizinische Einmalgeräte GmbH<br>Idstein<br>(with profit transfer agreement) | 100 | 15.2 | 0 | 2.6 | 114 |
| 3 | Fresenius Kabi Deutschland GmbH<br>Frankfurt a. M.<br>(with profit transfer agreement) | 100 | 469.1 | 0 | 201.8 | 1,460 |
| 4 | MC Medizintechnik GmbH<br>Alzenau<br>(with profit transfer agreement) | 100 | 19.8 | 0 | 2.1 | 85 |
| 5 | Fresenius HemoCare Deutschland GmbH<br>Bad Homburg v.d.H.<br>(with profit transfer agreement) | 100 | 17.6 | 0 | 10.2 | 142 |
| 6 | Pharmaplan Group<br>Bad Homburg v.d.H. | 100 | 90.3 | 8.7 [2] | 2.2 | 511 |
| 7 | Wittgensteiner Kliniken Group<br>Bad Berleburg | 100 | 348.0 | -21.7 | 100.0 | 7,485 |
| 8 | hospitalia care Group<br>Bad Lauterberg | 100 | 26.7 | 0.3 | 1.4 | 766 |

| Company | | Held by Fresenius in % | Sales 2003 in million € | Profit/Loss[1] December 31, 2003 in million € | Equity December 31, 2003 in million € | Employees December 31, 2003 |
|---|---|---|---|---|---|---|
| **Affiliated foreign companies** | | | | | | |
| 9 | Fresenius Kabi France S.A.S.<br>Sèvres, France | 100 | 108.5 | 1.6 | 26.7 | 510 |
| 10 | Calea France S.A.S.<br>Sèvres, France | 100 | 34.4 | -2.3 | 1.4 | 137 |
| 11 | Fresenius Vial S.A.S.<br>Brézins, France | 100 | 36.9 | 2.9 | 19.2 | 190 |
| 12 | Fresenius Kabi Italia S.p.A.<br>Verona, Italy | 100 | 58.2 | 1.7 | 44.6 | 257 |
| 13 | Fresenius HemoCare Italia S.r.l.<br>Medolla/Modena, Italy | 100 | 32.9 | 1.0 | 7.7 | 145 |
| 14 | Fresenius Kabi España S.A.<br>Vilassar de Dalt, Spain | 100 | 42.9 | 3.6 | 19.0 | 175 |

| Company | Held by Fresenius in % | Sales 2003 in million € | Profit/Loss[1] December 31, 2003 in million € | Equity December 31, 2003 in million € | Employees December 31, 2003 |
|---|---|---|---|---|---|
| **Affiliated foreign companies** | | | | | |
| 15 Fresenius Kabi Ltd. Warrington, Great Britain | 100 | 88.7 | 6.2 | 8.8 | 265 |
| 16 Fresenius Kabi Austria GmbH Graz, Austria | 100 | 150.4 | 23.5 | 60.0 | 567 |
| 17 VAMED Group Vienna, Austria | 77 | 250.4 | 13.4 | 61.9 | 1,946 |
| 18 Fresenius Kabi (Schweiz) AG Stans, Switzerland | 100 | 18.7 | 2.5 | 6.8 | 39 |
| 19 NPBI International B.V. Emmen, Netherlands | 100 | 92.2 | 8.8 | 29.5 | 1,174 |
| 20 Fresenius Kabi Nederland B.V. 's-Hertogenbosch, Netherlands | 100 | 16.2 | 2.7 | 3.3 | 14 |
| 21 Fresenius Kabi N.V. Antwerp, Belgium | 100 | 24.5 | 1.7 | 3.8 | 37 |
| 22 Fresenius Kabi Norge A.S. Oslo, Norway | 100 | 46.1 | 4.1 | 15.1 | 322 |
| 23 Fresenius Kabi AB Stockholm, Sweden | 100 | 142.3 | -10.6 | 160.6 | 775 |
| 24 Fresenius Kabi Polzka Sp.Z.o.o. Warsaw, Poland | 100 | 17.4 | 0.4 | 10.7 | 248 |
| 25 Fresenius Kabi Clayton L.P. Wilmington, USA | 100 | 19.5 | -9.3 | -9.7 | 105 |
| 26 Calea Ltd. Ontario, Canada | 100 | 40.0 | 2.2 | 5.3 | 217 |
| 27 Grupo Fresenius México S.A. de C.V. Guadalajara, Mexico | 100 | 33.0 | 1.5 | 23.8 | 578 |
| 28 Fresenius Kabi Brasil Ltda. Campinas/São Paulo, Brazil | 100 | 25.2 | 0.7 | 4.9 | 873 |
| 29 Sino-Swed Pharmaceutical Corporation Ltd. Wuxi, China | 51 | 52.6 | 8.4 | 39.2 | 817 |
| 30 Beijing Fresenius Kabi Pharmaceutical Co., Ltd. Beijing, China | 65 | 32.0 | 5.6 | 24.0 | 278 |
| 31 Fresenius Kabi Green Cross Ltd. Yongin, Korea | 80 | 14.0 | 0.0 | 4.6 | 91 |
| 32 Fresenius Kabi India Private Ltd. Puna, India | 100 | 14.7 | 1.3 | 6.3 | 620 |
| 33 Fresenius Kabi South Africa Ltd. Midrand, South Africa | 100 | 45.7 | 9.3 | 27.1 | 527 |

[1] net income/loss
[2] € -11.0 million before loss transfer according to profit transfer agreement

The complete list of investment holdings will be submitted to the Commercial Register of the District of Bad Homburg v.d.H.

# Contents

# Consolidated statement of income

| January 1 to December 31, in million € | Note | **2003** | 2002 |
|---|---|---|---|
| Sales | 27 | **7,064** | 7,507 |
| Cost of goods sold | | **-4,788** | -5,071 |
| **Gross profit** | | **2,276** | 2,436 |
| Selling, general and administrative expenses | | **-1,374** | -1,461 |
| Expenditure on research and development | 27 | **-121** | -138 |
| **Operating income (EBIT)** | | **781** | 837 |
| Interest income | | **24** | 27 |
| Interest expense | 15, 27 | **-273** | -318 |
| **Earnings before income taxes and minority interests** | | **532** | 546 |
| Income taxes | 24 | **-223** | -202 |
| Minority interests | 16 | **-194** | -210 |
| **Net income** | | **115** | 134 |
| **Basic earnings per ordinary share in €** | 18 | **2.79** | 3.25 |
| **Fully diluted earnings per ordinary share in €** | 18 | **2.79** | 3.25 |
| **Basic earnings per preference share in €** | 18 | **2.82** | 3.28 |
| **Fully diluted earnings per preference share in €** | 18 | **2.82** | 3.28 |

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

# Consolidated balance sheet

## ASSETS

| as at December 31, in million € | Note | **2003** | 2002 |
|---|---|---|---|
| Cash and cash equivalents | 5 | **125** | 163 |
| Trade accounts receivable less allowances for doubtful accounts | 6 | **1,415** | 1,299 |
| Accounts receivable from related parties | | **23** | 16 |
| Inventories | 7 | **642** | 659 |
| Prepaid expenses and other current assets | 8 | **357** | 379 |
| Deferred taxes (current) | 24 | **182** | 227 |
| **I. Total current assets** | | **2,744** | 2,743 |
| Tangible assets | 9 | **1,721** | 1,797 |
| Goodwill | 10 | **2,977** | 3,409 |
| Other intangible assets | 10 | **504** | 577 |
| Other non-current assets | 8 | **303** | 308 |
| Deferred taxes (non-current) | 24 | **98** | 81 |
| **II. Total non-current assets** | | **5,603** | 6,172 |
| **Total assets** | | **8,347** | 8,915 |

## LIABILITIES AND SHAREHOLDERS' EQUITY

| in million € | Note | 2003 | 2002 |
|---|---|---|---|
| Trade accounts payable | | **265** | 300 |
| Accounts payable to related parties | | **1** | 4 |
| Accruals and other current liabilities | 11, 13 | **987** | 1,066 |
| Short-term borrowings | 12 | **132** | 557 |
| Short-term liabilities and loans from related parties | | **3** | 5 |
| Current portion of long-term debt and capital lease obligations | 12 | **495** | 44 |
| Accruals for income taxes | | **197** | 231 |
| Deferred taxes (short-term) | 24 | **47** | 38 |
| **A. Total short-term liabilities** | | **2,127** | 2,245 |
| Long-term debt and liabilities from capital lease obligations less current portion | 12 | **1,416** | 1,594 |
| Long-term liabilities and loans from related parties | | **–** | 1 |
| Other long-term liabilities | 13 | **166** | 221 |
| Pensions and similar obligations | 14 | **216** | 220 |
| Deferred taxes (long-term) | 24 | **231** | 182 |
| Trust preferred securities | 15 | **977** | 1,083 |
| **B. Total long-term liabilities** | | **3,006** | 3,301 |
| **I. Total liabilities** | | **5,133** | 5,546 |
| **II. Minority interests** | 16 | **1,678** | 1,762 |
| Subscribed capital | 17 | **105** | 105 |
| Capital reserves | 17 | **644** | 643 |
| Other reserves | 17 | **778** | 710 |
| Accumulated other comprehensive income | 19 | **9** | 149 |
| **III. Total shareholders' equity** | | **1,536** | 1,607 |
| **Total liabilities and shareholders' equity** | | **8,347** | 8,915 |

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

# Consolidated cash flow statement

| January 1 to December 31, in million € | Note | 2003 | 2002 |
|---|---|---|---|
| **Cash provided by/used for operating activities** | | | |
| Net income | | **115** | 134 |
| Minority interests | | **194** | 210 |
| **Adjustments to reconcile net income to cash and cash equivalents provided by operating activities** | | | |
| Cash inflow from hedging | | **116** | 26 |
| Depreciation and amortization | 27 | **325** | 341 |
| Loss from early redemption of trust preferred securities | 15 | **0** | 13 |
| Loss from sale of investments | | **10** | 6 |
| Change in deferred taxes | | **80** | 54 |
| Gain/loss on sale of fixed assets | | **3** | 2 |
| **Change in assets and liabilities, net of amounts from businesses acquired or disposed of** | | | |
| Change in trade accounts receivable (net) | 6 | **23** | -32 |
| Change in inventories | 7 | **-19** | -36 |
| Change in prepaid expenses and other current and non-current assets | 8 | **40** | 49 |
| Change in accounts receivable from/payable to related parties | | **-9** | -7 |
| Change in trade accounts payable, accruals and other short-term and long-term liabilities | | **-77** | -51 |
| Change in accruals for income taxes | | **-25** | -12 |
| **Cash provided by operating activities** | | **776** | 697 |
| **Cash provided by/used for investing activities** | | | |
| Purchase of tangible assets | | **-339** | **-377** |
| Proceeds from the sale of tangible assets | | **17** | 62 |
| Purchase of shares in related companies and investments | 4, 28 | **-71** | -119 |
| Proceeds from sale of shares in related companies and investments | | **0** | 1 |
| **Cash used for investing activities** | | **-393** | -433 |

| in million € | Note | 2003 | 2002 |
|---|---|---|---|
| **Cash provided by/used for financing activities** | | | |
| Proceeds from short-term borrowings | 12 | **90** | 161 |
| Repayments of short-term borrowings | 12 | **-513** | -87 |
| Proceeds from short-term borrowings from related parties | | **1** | 6 |
| Repayments of short-term borrowings from related parties | | **0** | 0 |
| Proceeds from long-term debt and capital lease obligations | 12 | **1,273** | 418 |
| Repayments of long-term debt and capital lease obligations | 12 | **-880** | -275 |
| Redemption of trust preferred securities | | **0** | -398 |
| Redemption of Series D Trust Preferred Stock of subsidiary | 16 | **-8** | 0 |
| Changes of accounts receivable securization program | 6 | **-254** | 3 |
| Proceeds from exercising stock options | 20 | **1** | 1 |
| Dividends paid | | **-114** | -101 |
| Change in minority interests | 16 | **-7** | 1 |
| Payments on hedge contracts for inter-company loans in foreign currency | | **0** | 9 |
| **Cash provided by/used for financing actitities** | | **-411** | -262 |
| **Effect of exchange rate changes on cash and cash equivalents** | | **-10** | -20 |
| **Net decrease in cash and cash equivalents** | | **-38** | -18 |
| **Cash and cash equivalents at beginning of year** | | **163** | 181 |
| **Cash and cash equivalents at end of year** | | **125** | 163 |

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

# Consolidated statement of shareholders' equity

| | Note | Ordinary shares Number of shares (thousand) | Ordinary shares Amount (thousand €) | Preference shares Number of shares (thousand) | Preference shares Amount (thousand €) | Subscribed capital Amount (thousand €) | Subscribed capital Amount (million €) |
|---|---|---|---|---|---|---|---|
| **As at December 31, 2001** | | 20,485 | 52,441 | 20,485 | 52,441 | 104,882 | 105 |
| Issuance of bearer ordinary and bearer preference shares | 17, 20 | | | | | | |
| Proceeds from exercise of stock options | 20 | - | - | - | - | | - |
| Compensation expense related to stock options | 20 | | | | | | |
| Dividends paid | 17 | | | | | | |
| Comprehensive income | | | | | | | |
| Net income | | | | | | | |
| Other comprehensive loss related to cash flow hedges | 19, 26 | | | | | | |
| Foreign currency translation adjustment | 19 | | | | | | |
| Minimum pension liability | 14, 19 | | | | | | |
| Comprehensive income | | | | | | | |
| **As at December 31, 2002** | | 20,485 | 52,441 | 20,485 | 52,441 | 104,882 | 105 |
| Issuance of bearer ordinary and bearer preference shares | 17, 20 | | | | | | |
| Proceeds from the exercise of stock options | 20 | - | - | - | - | | - |
| Compensation expense related to stock options | 20 | | | | | | |
| Dividends paid | 17 | | | | | | |
| Comprehensive income | | | | | | | |
| Net income | | | | | | | |
| Other comprehensive loss related to cash flow hedges | 19, 26 | | | | | | |
| Foreign currency translation adjustment | 19 | | | | | | |
| Minimum pension liability | 14, 19 | | | | | | |
| Comprehensive income | | | | | | | |
| **As at December 31, 2003** | | 20,485 | 52,441 | 20,485 | 52,441 | 104,882 | 105 |

| in million € | Note | Capital reserves | Other reserves | Other comprehensive income: Currency translation differences | Other comprehensive income: Cash flow hedges | Other comprehensive income: Pensions | Total |
|---|---|---|---|---|---|---|---|
| **As at December 31, 2001** | | 641 | 619 | 460 | -58 | -6 | 1,761 |
| Issuance of bearer ordinary and bearer preference shares | 17, 20 | | | | | | - |
| Proceeds from exercise of stock options | 20 | | | | | | - |
| Compensation expense related to stock options | 20 | 2 | | | | | 2 |
| Dividends paid | 17 | | -43 | | | | -43 |
| Comprehensive income | | | | | | | |
| Net income | | | 134 | | | | 134 |
| Other comprehensive gain related to cash flow hedges | 19, 26 | | | | 41 | | 41 |
| Foreign currency translation adjustment | 19 | | | -266 | | | -266 |
| Minimum pension liability | 14, 19 | | | | | -22 | -22 |
| Comprehensive income | | 0 | 134 | -266 | 41 | -22 | -113 |
| **As at December 31, 2002** | | 643 | 710 | 194 | -17 | -28 | 1,607 |
| Issuance of bearer ordinary and bearer preference shares | 17, 20 | | | | | | - |
| Proceeds from the exercise of stock options | 20 | | | | | | - |
| Compensation expense related to stock options | 20 | 1 | | | | | 1 |
| Dividends paid | 17 | | -47 | | | | -47 |
| Comprehensive income | | | | | | | |
| Net income | | | 115 | | | | 115 |
| Other comprehensive gain related to cash flow hedges | 19, 26 | | | | 21 | | 21 |
| Foreign currency translation adjustment | 19 | | | -154 | | | -154 |
| Minimum pension liability | 14, 19 | | | | | -7 | -7 |
| Comprehensive income | | 0 | 115 | -154 | 21 | -7 | -25 |
| **As at December 31, 2003** | | 644 | 778 | 40 | 4 | -35 | 1,536 |

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

## Contents

## 1. Principles

### I. Group structure

Fresenius is a health care group operating worldwide with products and services for dialysis, the hospital and the ambulatory medical care of patients. In addition to the activities of the Fresenius AG, the operating activities are split into the following legally-independent business segments (sub-groups) as of December 31, 2003:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

Effective January 1, 2003, the activities of the business segment Fresenius HemoCare were re-aligned within the Fresenius Group. The previous year's figures have been adjusted to the new organizational structure.

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

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

Fresenius ProServe is an international provider of products and services for the hospital and the pharmaceutical industry. The products and services portfolio ranges from the consulting, planning, construction and equipping of hospitals, and the technical management, to the management and operation of health care facilities all over the world. Furthermore, Fresenius ProServe offers services related to the planning, construction, service and technical management of medical and pharmaceutical production plants.

Fresenius AG continued to own 50.76 % of the ordinary voting shares of Fresenius Medical Care AG at the end of the 2003 fiscal year.

Fresenius AG's share of the total subscribed capital of Fresenius Medical Care AG (ordinary and preference shares) continued to be 36.9 % like as at December 31, 2002.

Fresenius AG continued to hold 100 % of the management companies of the business segments Fresenius Kabi (Fresenius Kabi AG) and Fresenius ProServe (Fresenius ProServe GmbH) on December 31, 2003.

In addition, Fresenius AG holds interests in companies with holding functions regarding real estate, financing and insurance, as well as in Fresenius Netcare GmbH which was founded in connection with the spin-off of the Information Technology Department and which offers services in the field of information technology. Fresenius AG holds all of the shares in the newly founded Fresenius Biotech Beteiligungs GmbH, to which the Biotech entities previously held by Fresenius HemoCare GmbH were transferred by way of spin off.

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

**II. Basis of the presentation**

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

Fresenius AG as a German parent company is obliged, in principle, to prepare annual financial statements according to German Commercial Code (HGB). § 292a HGB, however, exempts companies from this obligation if consolidated financial statements are presented in accordance with internationally recognised accounting principles and are published. Fresenius AG prepares its consolidated financial statements in accordance with the accounting principles generally accepted in the United States (US GAAP). The following paragraph explains the main consolidation, evaluation and accounting methods which differ from German accounting principles.

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

a) General differences

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

b) Requirements for the classification of the financial statements

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

c) Consolidation principles

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

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

d) Capitalization of interest during construction

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

e) Inventories

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

### f) Amortization of goodwill

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

### g) Pension accruals and similar obligations

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

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

### h) Other accruals

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

### i) Minority interests

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

### j) Deferred taxes

According to German accounting policies, deferred taxes must be recognized on all timing differences between the accounting and tax base of assets and liabilities (timing concept). In the case of permanent differences, deferred taxes may only be recognized if it is probable that the timing differences will reverse. Deferred taxes on losses carried forward are not capitalized.

Under US GAAP, deferred taxes must be recognized on all temporary differences between the accounting and tax base of assets and liabilities (asset and liability concept). Furthermore, according to US GAAP deferred taxes must be recognized on tax losses carried forward. Deferred taxes must be calculated on the basis of tax rates which will be effective in the future. A valuation allowance is recognized to reduce the carrying amount of the deferred tax assets unless it is more likely than not that such assets will be realized.

### k) Sales recognition

For its long-term industrial plant business, the Fresenius Group uses the percentage of completion method according to US GAAP. Under this method, sales and earnings are realized according to the effective progress made in the construction process. Under HGB, sales and earnings are not realized until the contract has been fully completed.

l) Stock-based compensation

The Fresenius Group accounts for the stock options granted under the Fresenius stock option plan using the "intrinsic value method" (APB 25) of US GAAP which in the case of variable plans results in a recognition of the compensation expense over the vesting period if the current market price of the underlying share exceeds the exercise price on the measurement date. In addition, according to US GAAP, the market value of the stock options calculated in accordance with SFAS No. 123 is disclosed in the Notes (see Note 20). According to HGB, the structure of the Fresenius stock option plans is such that no compensation expense arises.

m) Foreign currency translation

According to US GAAP, receivables and liabilities denominated in a foreign currency are translated at the year-end exchange rate, and the resulting gains and losses are recorded in net income. Under HGB, the translation is made according to the principle of lower of cost or market, i.e. at the least favourable exchange rate on the balance sheet date. In accordance with the prudence principle, only unrealized losses are recorded with effect in net income.

n) Derivative financial instruments

According to US GAAP accounting rules (SFAS No. 133) all derivative financial instruments must be recorded at their fair value. Changes in fair values are either recorded in the statement of income or, when the criteria for hedge accounting are met, are included in "other comprehensive income" not effecting net income.

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

**IV. Summary of significant accounting principles**

a) Principles of consolidation

The consolidated financial statements include all material companies in which Fresenius AG has legal or effective control. The equity method of accounting is used for investments in associated companies (usually 20 % to 50 % owned). All other investments are recorded at acquisition cost.

The consolidated financial statements of the year 2003 include, as well as Fresenius AG, 80 (previous year: 70) German and 638 (previous year: 576) foreign companies.

The consolidated entities have changed as follows:

| | Germany | Abroad | Total |
|---|---|---|---|
| December 31, 2002 | 70 | 576 | 646 |
| Additions | 15 | 84 | 99 |
| Disposals | 5 | 22 | 27 |
| December 31, 2003 | 80 | 638 | 718 |

99 companies have been consolidated for the first time. Of these, 52 companies were newly founded and 27 companies were acquired.

16 companies are no longer included in the group reporting entity. Eleven companies have been merged with other companies included in the consolidated financial statements.

Ten companies were accounted for under the equity method.

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

All significant inter-company expenses and income as well as inter-company receivables and liabilities were eliminated.

### b) Classifications

Certain items in the previous year's consolidated financial statements have been reclassified to conform with the current year's presentation. As a consequence of the application of SFAS 145 effective January 1, 2003, the expense of € 13 million (€ 8 million net of tax) arising in 2002 as a result of the early redemption of debt and disclosed in that year as an extraordinary item, has been disclosed in the comparative figures as interest expense (net of tax). € 8 million of the € 13 million related to minority shareholders, so that only € 5 million remain as an expense for the Fresenius Group (see Note 15).

### c) Cash and cash equivalents

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

### d) Allowances for trade accounts receivable

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

### e) Inventories

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

### f) Tangible assets to discuss: Property, plant and equipment

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

The Fresenius Group capitalizes interest on borrowed funds during construction periods. Interest capitalized during 2003 and 2002 was € 1 million and € 3 million, respectively.

g) Goodwill and other intangible assets

In accordance with SFAS 141 (Business Combinations), the Fresenius Group applies the purchase method for all business combinations. Intangible assets acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141.

The Fresenius Group adopted SFAS No. 142 (Goodwill and Other Intangible Assets) effective January 1, 2002. Pursuant to SFAS No. 142, intangible assets with finite useful lives are amortized over their respective useful lives and reviewed for impairment in accordance with SFAS No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets) (see Impairment).

As of January 1, 2002, goodwill and identifiable intangibles with indefinite lives are no longer amortized, but tested annually for impairment. The Fresenius Group identified trade names and management contracts as intangible assets with indefinite useful lives.

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

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

The recoverability of the goodwill and other separable intangible assets with indefinite useful lives was verified. Fresenius Group did not record any impairment charges.

### h) Derivative financial instruments

The Fresenius Group adopted SFAS No. 133 (Accounting for Derivative Instruments and Hedging Activities) as amended by SFAS No. 138 and SFAS No. 149. The Fresenius Group utilizes derivative financial instruments including forward currency contracts and interest rate swaps. SFAS No. 133 requires all derivatives to be recognized as assets or liabilities at fair value.

Changes in the fair value of foreign currency forward contracts designated and qualifying as effective cash flow hedges of forecasted transactions are reported in accumulated other comprehensive income. These amounts are subsequently reclassified to earnings when the hedged item is realized. Changes in the fair value of other currency forward contracts which are not classified as cash flow hedges are recorded as selling, general and administrative expenses, or as cost of goods sold, in the period in which the fair value changes.

Changes in the fair value of interest swaps which meet the criteria of a cash flow hedge and which effectively transform variable into fixed interest rates or fixed into variable interest rates, are reported in accumulated other comprehensive income. The interest income and interest expense under the terms of the swaps are accrued and recorded as an adjustment to the interest or related expense of the designated liability or obligation.

Amounts due from and payable to the counterparties of interest rate swaps are recorded on an accrual basis at the respective reporting date at amounts computed by reference to the respective interest rate swap contract. Realized gains and losses that occur from the early termination or expiration of contracts are deferred and recorded in income over the remaining period of the original swap agreement. Gains and losses arising from interest differential on contracts that hedge specific borrowings are recorded as a component of interest expense over the life of the contract. In the event the hedged asset or liability is terminated, sold, or otherwise disposed of, the gain or loss on the interest rate swap would be matched with the offsetting gain or loss of the related item (see Note 26).

### i) Foreign currency translation

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

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

| | **Dec 31, 2003 Exchange rate on balance sheet date* in €** | Dec 31, 2002 Exchange rate on balance sheet date in € | **2003 Average exchange rate in €** | 2002 Average exchange rate in € |
|---|---|---|---|---|
| 1 US dollar | **0.7918** | 0.9536 | **0.8840** | 1.0578 |
| 1 Pound sterling | **1.4188** | 1.5373 | **1.4452** | 1.5904 |
| 100 Swedish krona | **11.0132** | 10.9256 | **10.9599** | 10.9152 |
| 100 Brazilian reals | **27.4431** | 26.9454 | **28.8242** | 35.9169 |
| 100 Mexican pesos | **7.0671** | 9.3109 | **8.1897** | 10.8008 |
| 1 Argentinian peso | **0.2702** | 0.2836 | **0.2987** | 0.3235 |
| 100 Chinese renminbi | **9.5821** | 11.5946 | **10.7941** | 12.9771 |
| 100 Yen | **0.7405** | 0.8039 | **0.7635** | 0.8470 |

*Mean rate on balance sheet date

Gains and losses arising on the translation of the income statement as well as those arising on the elimination of foreign currency intercompany loans, receivables and payables are recorded as selling, general and administrative expenses, except where certain intercompany loans replace shareholders' equity. Translation losses in 2003 were negligible, whereas in the previous year they had amounted to € 12 million.

### j) Sales recognition policy

Sales from services are recognized at amounts estimated to be received under reimbursement arrangements. Sales are recognized at the same time services and related products are provided.

Product sales are recognized when title to the product passes to the customer either at the time of shipment, upon receipt by the customer or upon any other terms that clearly define passage of title. As product returns are not typical, the appropriate reductions to sales, accounts receivable and cost of sales are made in the event that goods are actually returned.

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

### k) Research and development expenses

Research and development expenses are expensed as incurred.

### l) Legal costs

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

### m) Income taxes

In accordance with SFAS No. 109 (Accounting for Income Taxes), deferred tax assets and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded to reduce the carrying amount of the deferred tax assets unless it is more likely than not that such assets will be realized (see Note 24).

### n) Impairment

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

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

### o) Debt issuance costs

Costs related to the issuance of debt are capitalized and amortized using the straight-line method over the term of the related obligation.

### p) Self-insurance programs

A major subsidiary of the Fresenius Group is self-insured for professional, product and general liability, auto and workers' compensation claims up to predetermined amounts above which third-party insurance applies. Estimates are made for reported claims and for incurred but not reported claims. The estimates are based on actuarial projections using various factors including recent history of claims and expected claims development.

### q) Use of estimates

For the preparation of consolidated financial statements in accordance with US GAAP it is necessary to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the balance sheet date and the reported amounts of earnings and expenses during the reporting period. Actual results could differ from those estimates.

### r) Receivables management

The companies of the Fresenius Group perform ongoing evaluations of the financial situation of their customers and generally do not require a collateral from the customers for the supply of products and provision of services.

Approximately 29 % and 31 % respectively of the sales of the Fresenius Group in 2003 and 2002 are subject to the regulations and the governmental health care programs in the United States, especially Medicare and Medicaid.

### s) Earnings per preference share and per ordinary share

Basic earnings per ordinary share and basic earnings per preference share for all years presented have been calculated using the two-class method required under US GAAP based upon the weighted average number of ordinary and preference shares outstanding. Basic earnings per share are computed by dividing net income less preference amounts by the weighted average number of ordinary shares and preference shares outstanding during the year. Diluted earnings per share include the effect of all potentially dilutive ordinary shares and preference shares that would have been outstanding during the year. The awards granted under the Fresenius' and Fresenius Medical Care's stock incentive plans (see Note 20), are potentially dilutive equity instruments.

### t) Stock option plans

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

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS No. 123 (Accounting for Stock-Based Compensation) to stock-based employee compensation (pro-forma):

| in million €, except the amounts per share (€) | 2003 | 2002 |
|---|---|---|
| **Net income** | | |
| as reported | **115** | 134 |
| Net income as reported less preference on preference shares | **114** | 133 |
| plus share-based employee compensation expense according to APB No. 25 | **1** | 1 |
| less share-based employee compensation expense according to SFAS No. 123 | **-8** | -11 |
| Pro-forma less preference on preference shares | **107** | 123 |
| Pro-forma | **108** | 124 |
| Basic earnings per ordinary share | | |
| As reported | **2.79** | 3.25 |
| Pro-forma | **2.62** | 3.00 |
| Basic earnings per preference share | | |
| As reported | **2.82** | 3.28 |
| Pro-forma | **2.65** | 3.03 |
| Fully-diluted earnings per ordinary share | | |
| As reported | **2.79** | 3.25 |
| Pro-forma | **2.62** | 3.00 |
| Fully-diluted earnings per preference share | | |
| As reported | **2.82** | 3.28 |
| Pro-forma | **2.65** | 3.03 |

### u) Recent pronouncements and accounting charges

In August 2001, the FASB issued SFAS No. 143 (Accounting for Asset Retirement Obligations). SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset. The Fresenius Group adopted SFAS No. 143 as of January 1, 2003. The adoption of SFAS No. 143 did not have a material impact on the consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145 (Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections). SFAS No. 145 rescinds SFAS No. 4, SFAS No. 64 related to classifications of gains and losses on debt extinguishments such that most debt extinguishment gains and losses will no longer be classified as extraordinary. SFAS No. 145 also amends SFAS No. 13, with respect to certain sale-leaseback transactions. The Fresenius Group adopted SFAS No. 145 in regard to SFAS No. 4 on January 1, 2003.

In the first quarter of 2002, the Fresenius Group recorded an extraordinary loss net of taxes and net of minority interests of € 5 million, as a result of the early redemption of debt. This loss is no longer presented as an extraordinary loss upon the adoption of SFAS No. 145. The Fresenius Group adopted the other provisions of SFAS No. 145 effective April 1, 2002 (see Note 15).

In June 2002, the FASB issued SFAS No. 146 (Accounting for Costs Associated with Exit or Disposal Activities). The standard requires companies to recognize costs associated with exit or disposal activities when liabilities are incurred. SFAS No. 146 replaces EITF Issue No. 94-3 (Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)). This statement is applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material impact on the consolidated financial statements.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45 ("FIN 45") (Guarantor's Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others). FIN 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, that is, the obligation to stand ready to perform in the event that special triggering events or conditions occur. The initial recognition and measurement provisions are applicable prospectively to guarantees issued or modified after December 31, 2002. FIN 45 also clarifies and expands the disclosure requirements related to guarantees, including product warranties. FIN 45 does not materially impact the consolidated financial statements.

On April 3, 2003, the Financial Accounting Standards Board issued SFAS No. 149 (Amendment of Statement 133 on Derivative Instruments and Hedging Activities). This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133 (Accounting for Derivative Instruments and Hedging Activities). This Statement is effective for contracts entered into or modified after June 30, 2003. This adoption did not have any impact on the consolidated financial statements.

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150 (Accounting for certain Financial Instruments with Characteristics of both Liabilities and Equity). This Statement requires an issuer to classify certain financial instruments with the characteristics of both liabilities and equity as a liability (or asset in some circumstances) instead of equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003. It is also effective from July 1, 2003 for financial instruments already existing at that date. This adoption did not have any impact on the consolidated financial statements.

In December 2003 the Financial Accounting Standards Board issued SFAS No. 132 (revised 2003) (Employers Disclosures about Pensions and Other Postretirement Benefits – an amendment of FASB Statements No. 87, 88 and 106). This statement extends the publishing rules for pension liabilities according to SFAS No. 132. The accounting and valuation principles remain unchanged.

In December 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46R (Consolidation of Variable Interest Rate Entities (revised)) ("FIN 46R") which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaced FASB Interpretation No. 46 (Consolidation of Variable Interest Rate Entities) which was issued in January 2003. The Fresenius Group is required to apply FIN 46R for special purpose entities as of December 31, 2003 and for all other Variable Interest Entities ("VIEs") as of March 31, 2004. The Fresenius Group is not involved with any special purpose entity which required initial consolidation as of December 31, 2003 and will apply FIN 46R on March 31, 2004 for all VIEs.

Fresenius Medical Care is party to various arrangements with certain dialysis clinics to provide management services, financing and product supply. Some of these clinics are variable interest entities. Under FIN 46R these clinics will be consolidated if Fresenius Medical Care is the primary beneficiary. Fresenius Medical Care also participates in a joint venture which is engaged in the perfusion business. The arrangements with the joint venture partner are such that it qualifies as a variable interest entity and Fresenius Medical Care is the primary beneficiary. These variable interest entities generate approximately US$ 153 million (€ 135 million) in annual revenue. This includes approximately US$ 14 million (€ 12 million) related to variable interest entities in which Fresenius Medical Care is not the primary beneficiary. Fresenius Medical Care has investments, other long-term assets and receivables of approximately US$ 42 million which represent the maximum exposure to loss as a result of its involvement with the variable interest entities.

Fresenius ProServe participates in long-term project entities which are set up for defined periods of time and for the specific purpose of constructing and operating thermal centers. Some of these project entities qualify as variable interest entities, whereby Fresenius ProServe is not the primary beneficiary. The project entities generate approximately € 28 million in annual revenue. The maximum exposure to loss of Fresenius ProServe from investments and from loans is approximately € 7 million.

## V. Critical accounting policies

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

### a) Recoverability of goodwill and intangible assets

The growth of the Fresenius Group through acquisitions has created a significant amount of intangible assets, including goodwill, patient relationships, trade names and management agreements. On December 31, 2003 and December 31, 2002, the carrying amount of goodwill and intangible assets with indefinite useful lives amounted to € 3,335 million and € 3,810 million respectively, which represented 36 % and 43 % respectively of total assets.

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

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

A prolonged downturn in the health care industry with lower than expected increases in reimbursement rates and/or higher than expected costs for providing health care services could adversely affect the estimated future cash flows of certain countries or segments. Changes in the macro-economic environment could also impact the discount factor. This, in turn, could have a significant impact on future operating results of the Fresenius Group in the form of additional impairment losses on goodwill and other intangible assets with indefinite useful lives.

### b) Legal contingencies

The Fresenius Group is involved in legal matters relating to a number of matters arising in the ordinary course of our business. Furthermore, Fresenius Medical Care is party to litigation in connection with the NMC transaction in 1996. For details, please see Note 25 "Commitments and contingent liabilities" and Note 2 „Special charge of Fresenius Medical Care for legal matters".

We regularly analyse current information including, as applicable, our legal defences and insurance cover and provide accruals for probable contingent losses including the estimated legal expenses to resolve the matters. We use the resources of our internal legal department as well as external lawyers for the assessment. In making the decision, we consider the degree of probability of an unfavourable outcome and our ability to make a reasonable estimate of the amount of loss.

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

### c) Allowance for doubtful accounts

Trade accounts receivable are a significant asset of ours and the allowance for doubtful accounts is a significant estimate made by management. Trade accounts receivable were € 1,415 million and € 1,299 million in 2003 and 2002 respectively, net of allowances and after sales of accounts receivable under the accounts receivable program. The allowance for doubtful accounts was € 170 million and € 170 million for 2003 and 2002 respectively. The majority of our receivables derives from the business segment Fresenius Medical Care and mainly relates to the dialysis care business in North America.

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

Significant changes in the collection experience, detoriation in the ageing of receivables and collection difficulties, could require that we increase the estimates of allowances for doubtful debts. Additional expenses for uncollectible receivables could have a significant negative impact on future operating results.

### d) Self-insurance programs

One subsidiary of the Fresenius Group is self-insured for professional, product and general liability, auto and workers' compensation claims up to predetermined amounts. Estimates are made for reported claims and for incurred but not reported claims. The estimates are based on actuarial projections using various factors including recent history of claims and expected claims development.

## 2. Special charge of Fresenius Medical Care for legal matters

In the fourth quarter of 2001, Fresenius Medical Care recorded a US$ 258 million (US$ 177 million after tax) special charge to address 1996 merger-related legal matters, estimated liabilities and legal expenses arising in connection with the W.R. Grace Chapter 11 Proceedings and the cost of resolving pending litigation and other disputes with certain commercial insurers (see Note 25).

Fresenius Medical Care accrued US$ 172 million principally representing a provision for income taxes payable for the years prior to the 1996 merger for which Fresenius Medical Care has been indemnified by W.R. Grace, but may ultimately be obligated to pay as a result of W.R. Grace's Chapter 11 Proceedings. In addition, that amount included the estimated costs of defending Fresenius Medical Care in all litigation arising out of W.R. Grace's Chapter 11 Proceedings (see Note 25). During the second quarter of 2003, the court supervising W.R. Grace's Chapter 11 Proceedings approved the definitive settlement agreement entered into among Fresenius Medical Care, the committees representing asbestos creditors and W.R. Grace.

Fresenius Medical Care included US$ 55 million in the special charge of US$ 258 million to provide for settlement obligations, legal expenses and the resolution of disputed accounts receivable relating to various insurance companies (see Note 25). In November of 2003, Fresenius Medical Care settled without litigation all claims raised by the final group of insurance companies who had contacted Fresenius Medical Care concerning allegations of inappropriate billing practices and misrepresentations. The cost of the settlement will be charged against previously established accruals (see Note 25).

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

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

At December 31, 2003, there is a remaining balance of US$ 138 million (€ 109 million) for the accrual for the special charge for legal matters. Fresenius Medical Care believes that these reserves are adequate for the settlement of all matters described above. During the year ended December 31, 2003, US$ 53 million (€ 42 million) in charges were applied against the accrued special charge for legal matters.

### 3. Related party transactions

A member of the Supervisory Board of Fresenius AG is a member of the Management Board of a bank which is the dealer in the euro multi-currency commercial paper program with a total amount of € 250 million.

A member of the Supervisory Board of Fresenius Medical Care AG is the former Chairman of the Management Board of another bank that serves as dealer and administrative agent of the euro multi-currency commercial paper program.

A member of the Supervisory Boards of Fresenius AG and Fresenius Medical Care AG is a partner in a law firm that provided services to the Group. The Fresenius Group paid to this law firm approximately € 0.7 million each in 2003 and 2002.

## 4. Acquisitions

The Fresenius Group made acquisitions totalling € 91 million and € 130 million in 2003 and 2002, respectively. Of this total, Fresenius Medical Care invested € 89 million and € 93 million, respectively, Fresenius Kabi € 2 million and € 20 million, Fresenius ProServe € 14 million and € 8 million, and Corporate/Other € 7 million and € 9 million, whereby this was offset in the fiscal year 2003 by proceeds of € 21 million (less cash and cash equivalents) on the intercompany sale of the Adsorber business to Fresenius Medical Care.

The acquisitions completed in 2003, or which were included in the consolidated statements for the first full year, contributed the following amounts to the development of sales and earnings compared to the previous year:

| | |
|---|---|
| Sales | € 114 million |
| EBITDA | € 3 million |
| EBIT | € - million |
| Net interest | € -2 million |
| Net income | € -6 million |

The acquisitions increased the total assets of the Fresenius Group by € 129 million.

All acquisitions have been accounted for as purchase transactions and accordingly have been consolidated from the date of acquisition. The excess of the total acquisition costs over the fair value of the tangible net assets acquired amounted to € 70 million and € 124 million in 2003 and 2002, respectively.

Fresenius Medical Care made acquisitions in 2003 amounting to € 89 million, of which € 81 million was paid in cash and debt totalling € 8 million were assumed. The majority of this amount (€ 68 million) was used to purchase individual dialysis clinics.

In the 2002 fiscal year Fresenius Medical Care mainly purchased further dialysis clinics, especially in the United States.

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

In 2002 the main acquisition of Fresenius Kabi was the purchase of V. Krütten Medizinische Einmalgeräte GmbH, Idstein. In addition, further payments were made to Polfa Kutno, Poland, as determined in the acquisition contract.

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

In 2002, Fresenius ProServe acquired Seehospital Sahlenburg GmbH, Sahlenburg, and Klinikum Rhein-Sieg GmbH, as well as Klinikum Rhein-Sieg Dienstleistungs GmbH, Siegburg.

The largest acquisitions in the Biotech segment in 2002 were the acquisitions of an investment in Trion GmbH, Munich, and in Kitaro GmbH, Hanover.

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

## Notes to the consolidated balance sheet

### 5. Cash and cash equivalents

| in million € | **2003** | 2002 |
|---|---|---|
| Cash | **108** | 149 |
| Securities (with a maturity of up to 90 days) | **17** | 14 |
| **Total cash and cash equivalents** | **125** | 163 |

### 6. Trade accounts receivable

| in million € | **2003** | 2002 |
|---|---|---|
| Trade accounts receivable | **1,585** | 1,469 |
| less allowance | **170** | 170 |
| **Trade accounts receivable (net)** | **1,415** | 1,299 |

Within the business segment Fresenius Medical Care National Medical Care, Inc., (NMC) has an asset securitization facility (the "accounts receivable facility") whereby certain receivables of NMC are sold to NMC Funding Corporation, a wholly-owned subsidiary of NMC. NMC Funding Corporation then sells and assigns undivided percentage ownership interests in the receivables to certain bank investors. The ownership interests are removed from the consolidated balance sheets in accordance with SFAS No. 140. The retained interest in the accounts receivable is reflected on the face of the balance sheet net of uncollectable accounts to approximate fair value. Fresenius Medical Care has a servicing obligation to act as collection agent on behalf of the bank investors. The accounts receivable facility was amended on October 23, 2003, extending its maturity to October 22, 2004.

At December 31, 2003 and 2002, US$ 158 million (€ 125 million) and US$ 445 million (€ 425 million), respectively, had been received pursuant to such sales and are reflected as reductions to accounts receivable of Fresenius Medical Care. NMC Funding Corporation pays interest to the bank investors, calculated based on the commercial paper rates for the particular tranches selected. The effective interest rate was approximately 1.31 % for the amount of US$ 158 million in 2003. The effective interest rate was approximately 1.48 % for the amount of US$ 429 million and 1.89 % for the amount of US$ 16 million in 2002. Under the terms of the agreement, new interests in accounts receivable are sold without recourse as collections reduce previously sold accounts receivable. The costs related to such sales are expensed as incurred and recorded as interest expense and related financing costs. There were no gains or losses from these transactions.

## 7. Inventories

As at December 31, inventories consisted of the following:

| in million € | 2003 | 2002 |
|---|---|---|
| Raw materials and purchased components | **131** | 152 |
| Work in process | **98** | 106 |
| Finished goods | **446** | 438 |
| less reserves | **33** | 37 |
| **Inventories (net)** | **642** | 659 |

The companies of the Fresenius Group are obligated to purchase approximately € 216 million of materials, of which € 111 million is committed at December 31, 2003 for 2004. The terms of these agreements run one to five years.

Inventories as of December 31, 2003 and as of December 31, 2002 include approximately € 24 million and approximately € 20 million respectively, of the product Erythropoietin (EPO) which is supplied by a single source supplier in the United States. Delays, stoppages, or interruptions in the supply of EPO could adversely affect the operating results of Fresenius Medical Care. Revenues from EPO accounted for approximately 11 % and 12 % respectively of total revenue of the Fresenius Group for 2003 and 2002.

## 8. Prepaid expenses and other current and non-current assets

As a result of the intention to sell land and equipment of the US production site Clayton of Fresenius Kabi, these assets have been classified as held for sale in accordance with SFAS No. 144 and reported in other current assets. An impairment loss of € 9 million was recognized on the expected proceeds (less costs to sell) and was recorded in selling, general and administrative expenses.

| in million € | 2003 | 2002 |
|---|---|---|
| Tax receivables | **101** | 101 |
| Derivative financial instruments | **90** | 97 |
| Re-insurance claims | **50** | 58 |
| Investments and long-term loans | **51** | 57 |
| Receivables from management contracts in clinics | **24** | 40 |
| Prepaid expenses | **48** | 34 |
| Advances made | **20** | 24 |
| Notes receivable | **5** | 7 |
| Other assets | **276** | 274 |
| **Prepaid expenses and other assets (gross)** | **665** | 692 |
| thereof short-term | **362** | 384 |
| less allowances | **5** | 5 |
| **Prepaid expenses and other assets (net)** | **660** | 687 |

## 9. Tangible assets

As of December 31 tangible assets were as follows:

### Purchasing and manufacturing costs

| in million € | As at January 1, 2003 | Exchange rate differences | Changes in entities consolidated | Additions | Reclassifi-cations | Disposals | **As at December 31, 2003** |
|---|---|---|---|---|---|---|---|
| Land and improvements | 99 | -4 | 3 | 2 | -1 | 2 | **97** |
| Buildings and improvements | 1,102 | -82 | 2 | 78 | 18 | 21 | **1,097** |
| Machinery and equipment | 1,640 | -90 | 15 | 177 | 22 | 83 | **1,681** |
| Machinery, equipment and rental equipment under capitalized leases | 161 | 0 | 3 | 8 | 8 | 7 | **173** |
| Construction in process | 104 | -9 | 2 | 47 | -51 | 1 | **92** |
| **Tangible assets** | 3,106 | -185 | 25 | 312 | -4 | 114 | **3,140** |

### Depreciation and amortization

| in million € | As at January 1, 2003 | Exchange rate differences | Changes in entities consolidated | Additions | Reclassifi-cations | Disposals | **As at December 31, 2003** |
|---|---|---|---|---|---|---|---|
| Land and improvements | 1 | 0 | 0 | 0 | 0 | 1 | **0** |
| Buildings and improvements | 342 | -32 | 2 | 69 | 6 | 12 | **375** |
| Machinery and equipment | 919 | -47 | 8 | 189 | -11 | 76 | **982** |
| Machinery, equipment and rental equipment under capitalized leases | 47 | 0 | 0 | 13 | 7 | 5 | **62** |
| Construction in process | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Tangible assets** | 1,309 | -79 | 10 | 271 | 2 | 94 | **1,419** |

### Book value

| in million € | **December 31, 2003** | December 31, 2002 |
|---|---|---|
| Land and improvements | **97** | 98 |
| Buildings and improvements | **722** | 760 |
| Machinery and equipment | **699** | 721 |
| Machinery, equipment and rental equipment under capitalized leases | **111** | 114 |
| Construction in process | **92** | 104 |
| **Tangible assets** | **1,721** | 1,797 |

Depreciation expenses were € 271 million and € 277 million for 2003 and 2002, respectively.

Included in tangible assets as of December 31, 2003 and 2002 were € 78 million and € 86 million, respectively, of peritoneal dialysis cycler machines which Fresenius Medical Care leases to customers with end-stage renal disease on a month-to-month basis and hemodialysis machines which Fresenius Medical Care leases to physicians under operating leases. Identification of the rental income is not practicable as Fresenius Medical Care's return on the machines is received through contractual arrangements whereby a premium is charged for other support equipment and supplies sold during the life of the lease.

To a lesser extent, tangible assets are also leased for the treatment of patients by other business segments.

Depreciation related to machinery, equipment and rental equipment under capital leases amounts to € 13 million and € 14 million as of December 31, 2003 and December 31, 2002, respectively.

## 10. Goodwill and other intangible assets

As of December 31, intangible assets and other goodwill consisted of the following:

### Purchasing and manufacturing costs

| in million € | As at January 1, 2003 | Exchange rate differences | Changes in entities consolidated | Additions | Reclassifi-cations | Disposales | **As at December 31, 2003** |
|---|---|---|---|---|---|---|---|
| Goodwill | 3,409 | -479 | 40 | 15 | -7 | 1 | **2,977** |
| Patient relationships | 236 | -38 | 6 | 0 | -1 | -1 | **204** |
| Trade names and patents | 265 | -35 | -1 | 1 | 0 | 2 | **228** |
| Distribution rights | 25 | 1 | 0 | 5 | -1 | 0 | **30** |
| Other | 373 | -55 | 12 | 12 | 12 | 4 | **350** |
| **Goodwill and other intangible assets** | 4,308 | -606 | 57 | 33 | 3 | 6 | **3,789** |

### Amortization

| in million € | As at January 1, 2003 | Exchange rate differences | Changes in entities consolidated | Additions | Reclassifi-cations | Disposales | **As at December 31, 2003** |
|---|---|---|---|---|---|---|---|
| Goodwill | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Patient relationships | 183 | -32 | 0 | 16 | -1 | 0 | **166** |
| Trade names and patents | 29 | -1 | 0 | 3 | 0 | 4 | **27** |
| Distribution rights | 16 | -1 | 0 | 1 | 1 | 0 | **17** |
| Other | 94 | -16 | 1 | 28 | -3 | 6 | **98** |
| **Goodwill and other intangible assets** | 322 | -50 | 1 | 48 | -3 | 10 | **308** |

### Book value

| in million € | December 31, 2003 | December 31, 2002 |
|---|---|---|
| Goodwill | **2,977** | 3,409 |
| Patient relationships | **38** | 53 |
| Trade names and patents | **201** | 236 |
| Distribution rights | **13** | 9 |
| Other | **252** | 279 |
| **Goodwill and other intangible assets** | **3,481** | 3,986 |

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

### Amortizable intangible assets

| | **December 31, 2003** | | | December 31, 2002 | | |
|---|---|---|---|---|---|---|
| in million € | **Purchasing/ manufacturing costs** | **Accumulated amortization** | **Carrying amounts** | Purchasing/ manufacturing costs | Accumulated amortization | Carrying amounts |
| Patient relationships | **204** | **166** | **38** | 236 | 183 | 53 |
| Patents | **36** | **27** | **9** | 39 | 29 | 10 |
| Distribution rights | **30** | **17** | **13** | 25 | 16 | 9 |
| Other | **191** | **105** | **86** | 198 | 94 | 104 |
| **Total** | **461** | **315** | **146** | 498 | 322 | 176 |

### Non-amortizable intangible assets

| | **December 31, 2003** | | | December 31, 2002 | | |
|---|---|---|---|---|---|---|
| in million € | **Purchasing/ manufacturing costs** | **Accumulated amortization** | **Carrying amounts** | Purchasing/ manufacturing costs | Accumulated amortization | Carrying amounts |
| Trade names | **192** | **0** | **192** | 226 | 0 | 226 |
| Management contracts | **166** | **0** | **166** | 175 | 0 | 175 |
| Subtotal | **358** | **0** | **358** | 401 | 0 | 401 |
| Goodwill (including assembled workforce) | **2,977** | **0** | **2,977** | 3,409 | 0 | 3,409 |
| **Total** | **3,335** | **0** | **3,335** | 3,810 | 0 | 3,810 |

Amortization on intangible assets amounted to € 48 million and € 64 million for 2003 and 2002, respectively.

The amortizable intangible assets have an average useful life of 14 years (patient relationships an average of 14 years, patents an average of 13 years, distribution rights an average of 28 years, other intangible assets of 13 years).

In 2002, in connection with an acquisition, the Group acquired research results which have an alternative future use. The costs of € 12 million were recognized as assets and are being amortized over their estimated useful life of 6 years.

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

| in million € | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| Estimated amortization expenses for the next five fiscal years | 34 | 30 | 23 | 16 | 6 |

## 11. Accrued expenses and other current liabilities

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

| in million € | **2003** | 2002 |
|---|---|---|
| Accrued salaries and wages | **212** | 201 |
| Accruals in connection with legal matters | **109** | 182 |
| Advances received | **58** | 69 |
| Accounts receivable credit balances | **52** | 61 |
| Accrued taxes (without income taxes) | **44** | 61 |
| Self-insurance program | **36** | 47 |
| Interest | **48** | 45 |
| Derivative financial instruments | **45** | 33 |
| Accounts payable to government institutions | **26** | 27 |
| Bonuses and discounts | **27** | 25 |
| Commissions | **19** | 19 |
| Accrued physician compensation | **16** | 18 |
| Legal costs | **12** | 12 |
| Deferred income | **11** | 9 |
| Other accruals | **272** | 257 |
| **Total accrued expenses and other current liabilities** | **987** | 1,066 |

## 12. Debt and capital lease obligations

**Short-term borrowings**

Short-term borrowings of € 132 million and € 557 million at December 31, 2003, and 2002, respectively, represent amounts borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks. The average interest rates on these borrowings at December 31, 2003, and 2002 was 4.2 % and 4.6 % p.a., respectively.

Excluding amounts available under the Senior Credit Agreement of Fresenius Medical Care (2003 Senior Credit Agreement), at December 31, 2003 and December 31, 2002, the Fresenius Group had € 447 million and € 438 million respectively, available under commercial bank agreements. These credit lines are secured by accounts receivable facilities and contain various covenants including, but not limited to, requirements for maintaining defined levels of working capital, net worth, capital expenditures and certain financial ratios.

**Long-term borrowings**

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

| in million € | **2003** | 2002 |
|---|---|---|
| 2003 senior credit agreement | **722** | 822 |
| Capital lease obligations | **55** | 60 |
| Notes | **129** | 129 |
| Bonds | **800** | 400 |
| Other | **205** | 227 |
| | **1,911** | 1,638 |
| less current maturities | **495** | 44 |
| **Debt and capital lease obligations** | **1,416** | 1,594 |

Aggregate annual payments applicable to the long-term obligations from loans, capital leases and other borrowings for the five years subsequent to December 31, 2003 (excluding borrowings underlying trust preferred securities, see Note 15) are:

| for the fiscal years | in million € |
|---|---|
| 2004 | 495 |
| 2005 | 256 |
| 2006 | 114 |
| 2007 | 240 |
| 2008 | 28 |
| Subsequent years | 778 |
| **Total** | 1,911 |

### Euro Bonds

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

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

The variable interest rate tranche with a nominal amount of € 200 million comprised 200,000 certificates denominated at € 1,000 each, on which interest was paid quarterly at the prevailing EURIBOR rate for three months plus 0.90 % p.a. The tranche matured after three years; repayment was made on May 18, 2002 at the nominal value.

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

The Eurobonds are guaranteed by Fresenius AG, Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius AG has given a number of commitments to provide protection to the bondholders, which, under certain circumstances, partly restrict the scope of action of Fresenius AG and its subsidiaries (excluding Fresenius Medical Care AG and that company's subsidiaries). These commitments include, amongst other things, restrictions in the amount of further debt that can be raised, the payment of dividends, the volume of capital expenditure, the redemption of subordinated liabilities and the mortgaging or sale of assets. Some of these restrictions are lifted automatically when the rating of the company reaches "investment grade". In the event of non-compliance with the terms of the bonds, the bondholders (owning in aggregate more than 25 % of the outstanding bonds) are entitled to call the bonds and demand immediate repayments plus interest. At December 2003, the Fresenius Group is in compliance with all of its commitments.

**Fresenius Medical Care – 2003 Senior Credit Agreement**

On February 21, 2003, Fresenius Medical Care entered into an amended and restated bank agreement (hereafter, "Fresenius Medical Care 2003 Senior Credit Agreement") with Bank of America N.A, Credit Suisse First Boston, Dresdner Bank AG, New York, JPMorgan Chase Bank, The Bank of Nova Scotia and certain other lenders (collectively, the "Lenders"), replacing the 1996 NMC Senior Credit Agreement that was scheduled to expire at September 30, 2003. Under the terms of the Fresenius Medical Care 2003 Senior Credit Agreement, the Lenders made available to Fresenius Medical Care and certain subsidiaries and affiliates an aggregate amount of up to US$ 1,500 million. On August 22, 2003, the Fresenius Medical Care 2003 Senior Credit Agreement was amended (Amendment 1) so that, in effect, the aggregate amount of US$ 1,500 million was voluntarily reduced to US$ 1,400 million and the interest rate on a new term loan facility (Loan C, see below) was 25 basis points lower than on Loan B, which was repaid. The revolving loan facility and Loan A under the Fresenius Medical Care 2003 Senior Credit Agreement remain outstanding and were not affected by the amendment.

The credit facilities are:

- a revolving credit facility of up to US$ 500 million (of which up to US$ 250 million is available for letters of credit, up to US$ 300 million is available for borrowings in certain non-U.S. currencies, up to US$ 75 million is available as swing lines in U.S. dollars, up to US$ 250 million is available as a competitive loan facility and up to US$ 50 million is available as swing lines in certain non-U.S. currencies, the total of which cannot exceed US$ 500 million) which will be due and payable on October 31, 2007.
- a term loan facility ("Loan A") of US$ 500 million, also scheduled to expire on October 31, 2007. The terms of the 2003 Senior Credit Agreement require payments that permanently reduce the term loan facility. The repayment begins in the third quarter of 2004 and amounts to US$ 25 million per quarter. The remaining amount outstanding is due on October 31, 2007.
- a term loan facility ("Loan B") of US$ 500 million scheduled to expire in February 2010. Loan B was repaid as agreed in Amendment 1 to the Fresenius Medical Care – 2003 Senior Credit Agreement under which the Lenders have made available to Fresenius Medical Care a term loan facility ("Loan C") in the amount of US$ 400 million. The proceeds of Loan C, together with cash on hand, were used to permanently repay Loan B under the Fresenius Medical Care – 2003 Senior Credit Agreement.
- a term loan facility ("Loan C") of US$ 400 million scheduled to expire February 21, 2010 subject to an early repayment requirement on October 31, 2007 if the Trust Preferred Securities due February 1, 2008 are not repaid or refinanced or their maturity is not extended prior to that date. The terms of Loan C require quarterly payments totaling US$ 1 million per quarter beginning with the third quarter of 2003.

For the revolving credit facility and Loan A, interest is at a rate equal to LIBOR plus an applicable margin, or base rate, defined as the higher of the Bank of America prime rate or the Federal Funds rate plus 0.5 % plus the applicable margin. The applicable margin is variable and depends on the ratio of Fresenius Medical Care's funded debt to EBITDA as defined in the Fresenius Medical Care 2003 Senior Credit Agreement. The initial interest rate for Loan B was LIBOR plus 2.5 %. Fees are also payable at a percentage (initially 0.50 %) p.a. on the portion of the revolving credit facility not used. The initial interest rate for Loan C is LIBOR plus 2.25 % or the base rate plus 1.25 %, which is 25 basis points less than the former Loan B.

In addition to scheduled principal payments, indebtedness outstanding under the Fresenius Medical Care 2003 Senior Credit Agreement will be reduced by portions of the net cash proceeds from certain sales of assets, securitization transactions other than Fresenius Medical Care's existing accounts receivable financing facility and the issuance of subordinated debt.

The Fresenius Medical Care 2003 Senior Credit Agreement contains affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Some of the covenants limit indebtedness of Fresenius Medical Care and its investments, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. Additionally, the Fresenius Medical Care 2003 Senior Credit Agreement provides for a dividend restriction which is US$ 150 million for dividends paid in 2004, and increases in subsequent years. In default, the outstanding balance under the Fresenius Medical Care – 2003 Senior Credit Facility becomes immediately due and payable at the option of the Lenders. As of December 31, 2003, Fresenius Medical Care is in compliance with all financial covenants under the Fresenius Medical Care 2003 Senior Credit Agreement.

**Euro Notes**

In 2001, Fresenius Medical Care issued four tranches of senior notes ("Euro Notes") totaling € 129 million in aggregate principal amount. The first tranche was for € 80 million with a fixed interest rate of 6.16 % and the second and third tranches were for € 29 million and € 15 million, respectively, with variable interest rates that averaged 3.84 % in 2003 and 4.78 % in 2002. The final tranche was for € 5 million at a fixed rate of 5.33 %. All four tranches have a maturity date of July 13, 2005. Both floating rates are tied to the EURIBOR rate.

## 13. Other liabilities

| in million € | 2003 Total | 2003 With a remaining term of up to 1 year | 2003 With a remaining term of 1 to 5 years | 2003 With a remaining term of over 5 years | 2002 Total | 2002 With a remaining term of up to 1 year |
|---|---|---|---|---|---|---|
| Other liabilities | **1,153** | **987** | **123** | **43** | 1,287 | 1,066 |

## 14. Pensions and similar obligations

**Defined benefit pension plans**

Approximately one half of the pension obligations totaling € 216 million relate to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1998, and which applies for most of the German entities of the Group. Approximately one quarter relates to the "Fresenius Medical Care Retention Plan" in the US and a further quarter relates to individual pension plans, mostly for non-German Group entities.

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

Fresenius Medical Care currently has two principle pension plans, one for German employees and the other for employees in the United States. In the United States NMC's non-contributory, defined benefit pension plan was curtailed in the first quarter of 2002. Each year Fresenius Medical Care Holdings, Inc., ("FMCH") contributes at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended. FMCH does not, at present, intend to make any voluntary transfers to the fund.

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

| in million € | 2003 | 2002 |
|---|---|---|
| **Change in benefit obligation** | | |
| Benefit obligation at beginning of year | **364** | 362 |
| Change in entities consolidated | **1** | 16 |
| Translation effects | **-27** | -27 |
| Service cost | **12** | 15 |
| Interest cost | **22** | 21 |
| Other changes | **0** | -2 |
| Curtailment of pension plans | **0** | -21 |
| Transfer of plan participants | **0** | -3 |
| Actuarial losses/gains | **26** | 14 |
| Benefits paid | **-10** | -11 |
| **Benefit obligation at end of year** | **388** | 364 |
| **Change on plan assets** | | |
| Fair value of plan assets at beginning of year | **125** | 134 |
| Translation effects | **-15** | 0 |
| Actual return on plan assets | **16** | -12 |
| Employer contributions | **36** | 8 |
| Benefits paid | **-6** | -5 |
| **Fair value of plan assets at end of year** | **156** | 125 |
| Funded status | **232** | 239 |
| Unrecognized loss | **-65** | -58 |
| Unrecognized prior service cost | **0** | 0 |
| Unrecognized transition obligation | **-2** | -1 |
| **Net amount recognized** | **165** | 180 |
| **Calculation of additional minimun liability** | | |
| Fair value of plan assets | **156** | 125 |
| Accumulated benefit obligation (ABO) | **319** | 292 |
| **Minimum liability** | **163** | 167 |
| Accrued benefit costs* | **112** | 127 |
| **Additional minimun liability** | **51** | 40 |
| Thereof accumulated other comprehensive income | **51** | 40 |
| **Total pension liability (at December 31)** | **216** | 220 |
| **Weighted-average assumptions for benefit obligations at December 31:** | | |
| Discount rate | **5.8 %** | 6.0 % |
| Rate of compensation increase | **3.8 %** | 3.7 % |

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

| in million € | 2003 | 2002 |
|---|---|---|
| **Components of net period benefit cost** | | |
| Service cost | **12** | 15 |
| Interest cost | **22** | 21 |
| Expected return on plan assets | **-10** | -12 |
| Amortization of transition obligations | **1** | 1 |
| Amortization of unrealized gains/losses | **4** | 1 |
| Curtailment gain | **0** | -13 |
| **Net periodic benefit costs** | **29** | 13 |
| **Weighted-average assumptions for net periodic benefit at December 31:** | | |
| Discount rate | **6.0 %** | 6.1 % |
| Expected return of plan assets | **7.7 %** | 7.9 % |
| Rate of compensation increase | **3.7 %** | 3.7 % |

### Plan Investment Policy and Strategy

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

The investment policy considers that there will be a time horizon for invested funds of more than 5 years. The total portfolio will be measured against a policy index that reflects the asset class benchmarks and the target asset allocation. The performance benchmarks for the separate asset classes include: S&P 500 Index, Russell 2000 Growth Index, MSCI EAFE Index, Lehman U.S. Long Government/Credit bond Index and the HFRI Fund of Funds Index.

The following schedule describes the Fresenius Groups allocation for its plans:

| | Allocation 2003 | Allocation 2002 | Target allocation |
|---|---|---|---|
| **Categories of plan assets** | | | |
| Equity securities | **49 %** | 51 % | 45 - 50 % |
| Debt securities | **48 %** | 46 % | 45 - 50 % |
| Real estate | **1 %** | 1 % | 0 - 5 % |
| Other | **2 %** | 2 % | 0 - 5 % |
| **Total** | **100 %** | 100 % | |

The long-term expected return on plan assets is 6.9 %.

Expected transfers to the pension fund in 2004 amount to € 12 million.

The valuation date used to determine the expected return was December 31, 2003 for the plans of FMCH and September 30, 2003 for all non-US plans.

Pension obligations at December 31, 2003 and 2002 relate to the following geographical regions:

| in million € | **2003** | 2002 |
|---|---|---|
| Germany | **132** | 123 |
| Europe (excluding Germany) | **44** | 38 |
| North America | **39** | 58 |
| Latin America | **0** | 0 |
| Asia-Pacific | **1** | 1 |
| Africa | **0** | 0 |
| **Total benefit obligation** | **216** | 220 |

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

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

**Defined contribution plans**

The employees of National Medical Care, Inc., and Fresenius USA, Inc., are eligible to join 401(k) savings plan. Fresenius Medical Care's total contributions for the years ended December 31, 2003 and 2002 was € 13 million and € 12 million, respectively.

## 15. Trust preferred securities

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

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

On February 14, 2002, Fresenius Medical Care redeemed the entire US$ 360 million aggregate liquidation amount outstanding of its 9 % Trust Preferred Securities due 2006. The terms of the securities, which were issued in 1996, provided for optional redemption commencing December 1, 2001 at a redemption price of 104.5 % of the liquidation amount, plus distributions accrued to the redemption date. Fresenius Medical Care redeemed the securities at a price of US$ 1,045 per US$ 1,000 liquidation amount plus accrued distributions of US$ 18.25 per US$ 1,000 for a total redemption price of US$ 1,063.25 per US$ 1,000 nominal amount.

At that time an extraordinary loss of US$ 12 million (€ 13 million) was recorded as a result of the early redemption of debt in the second quarter of 2002, consisting of US$ 16 million (€ 17 million) of redemption premium and US$ 4 million (€ 4 million) of write-off of associated debt issuance costs, net of a US$ 8 million (€ 8 million) benefit. Of the total amount of € 13 million, € 8 million was allocated to minority interest holders, resulting in an extraordinary loss of € 5 million for the Fresenius Group.

As of January 1, 2003 Fresenius Medical Care adopted SFAS No. 145 (Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections) in regard to SFAS No. 4. As a result, the loss on the early redemption of the 9 % Trust Preferred Securities is no longer presented as an extraordinary loss, but is presented in interest expense, with the related income tax effect included in income taxes.

The Trust Preferred Securities outstanding as of December 31 are as follows:

| | Year issued | Stated amount | Interest rate | Mandatory redemption date | 2003 | 2002 |
|---|---|---|---|---|---|---|
| Fresenius Medical Care Capital Trust II | 1998 | $ 450 million | 7 7/8 % | Feb 1, 2008 | **€ 356 million** | € 429 million |
| Fresenius Medical Care Capital Trust III | 1998 | DM 300 million | 7 3/8 % | Feb 1, 2008 | **€ 154 million** | € 154 million |
| Fresenius Medical Care Capital Trust IV | 2001 | $ 225 million | 7 7/8 % | Jun 15, 2011 | **€ 170 million** | € 203 million |
| Fresenius Medical Care Capital Trust V | 2001 | € 300 million | 7 3/8 % | Jun 15, 2011 | **€ 297 million** | € 297 million |
| **Trust Preferred Securities** | | | | | **€ 977 million** | € 1,083 million |

## 16. Minority interests

Minority interests in the Group at December 31 were as follows:

| in million € | 2003 | 2002* |
|---|---|---|
| Minority interests in Fresenius Medical Care | **1,620** | 1,688 |
| Minority interests in the business segments | | |
| Fresenius Medical Care | **11** | 21 |
| Fresenius Kabi | **28** | 36 |
| Fresenius ProServe | **18** | 16 |
| Corporate/Other | **1** | 1 |
| **Total minority interests** | **1,678** | 1,762 |

* based on the new organizational structure in place since January 1, 2003

The minority interests decreased in 2003 by € 84 million to € 1,678 million. The change mainly resulted from the addition of the share of profits amounting to € 194 million, reduced by the proportionate share in dividend distribution of € 67 million, Fresenius Medical Care's redemption of its Class D preference shares which were issued in connection with the 1996 merger of the worldwide dialysis business of Fresenius with the dialysis business of W.R. Grace & Co. (USA) in the amount of € 8 million and negative currency effects amounting to € 35 million.

## 17. Shareholder's equity

### Subscribed capital

The subscribed capital of Fresenius AG is divided into 20,484,842 bearer ordinary shares and 20,484,842 non-voting bearer preference shares. The shares are issued as non-par value shares and have a theoretical nominal value of € 2.56.

No stock options were exercised during the fiscal year 2003.

### Approved capital

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

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

The authorisation resolved by the Annual General Meeting of May 31, 2001 to increase the subscribed capital of Fresenius AG through the single or multiple issuance of new bearer ordinary shares and/or non-voting bearer preference shares excluding the statutory preemptive rights for distribution in kind for the purpose of purchasing shares of Wittgensteiner Kliniken Aktiengesellschaft (WKA), Bad Berleburg, (approved capital III) elapsed when the deadline expired on March 31, 2002.

### Conditional capital

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

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

**Dividends**

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

At the Annual General Meeting of May 28, 2003, a resolution was passed to pay a dividend of € 1.14 per bearer ordinary share and € 1.17 per bearer preference share, i.e. a total distribution of € 47.3 million was resolved.

### 18. Earnings per share

Earnings per share, taking into consideration dilution by exercisable stock options, were as follows on December 31 of the fiscal year:

| in million €, except for amounts per share (€) | 2003 | 2002 |
|---|---|---|
| Numerators: | | |
| Net income | **115** | 134 |
| Less preference on preference shares | **1** | 1 |
| Income available to all class of shares | **114** | 133 |
| Denominators (number of shares): | | |
| Weighted average number of ordinary shares outstanding | **20,484,842** | 20,484,842 |
| Weighted average number of preference shares outstanding | **20,484,842** | 20,484,842 |
| Total weighted average number of shares outstanding of all classes | **40,969,684** | 40,969,684 |
| Potentially dilutive ordinary shares | **32,330** | 0 |
| Potentially dilutive preference shares | **32,330** | 0 |
| Total weighted average shares outstanding of all classes assuming dilution | **41,034,344** | 40,969,684 |
| Total weighted average ordinary shares assuming dilution | **20,517,172** | 20,484,842 |
| Total weighted average preference shares assuming dilution | **20,517,172** | 20,484,842 |
| Basic earnings per ordinary share | **2.79** | 3.25 |
| Preference per preference share | **0.03** | 0.03 |
| Basic earnings per preference share | **2.82** | 3.28 |
| Fully diluted earnings per ordinary share | **2.79** | 3.25 |
| Preference per preference share | **0.03** | 0.03 |
| Fully diluted earnings per preference share | **2.82** | 3.28 |

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

## 19. Other Comprehensive Income

Changes in the components of other comprehensive income were as follows for 2003 and 2002:

| in million € | 2003 Amount before taxes | 2003 Tax effect | 2003 Amount after taxes | 2002 Amount before taxes | 2002 Tax effect | 2002 Amount after taxes |
|---|---|---|---|---|---|---|
| Change in unrealized gains/losses from derivative financial instruments | | | | | | |
| Change in unrealized gains/losses | **28** | **-11** | **17** | 64 | -25 | 39 |
| Realized gains/losses due to reclassifications | **7** | **-3** | **4** | 3 | -1 | 2 |
| Change in unrealized gains/losses from derivative financial instruments | **35** | **-14** | **21** | 67 | -26 | 41 |
| Minimum pension liability | **-14** | **7** | **-7** | -35 | 13 | -22 |
| Foreign currency translation adjustment | **-154** | **0** | **-154** | -266 | 0 | -266 |
| | **-133** | **-7** | **-140** | -234 | -13 | -247 |

## 20. Stock options

**Stock option plan of Fresenius AG 1998**

The stock option plan resolved by the Annual General Meeting of June 18, 1998, authorises the Management Board of Fresenius AG, with the approval of the Supervisory Board, to issue subscription rights to members of the Management Board and/or managerial staff of Fresenius AG and its affiliated companies (with the exception of Fresenius Medical Care AG and companies affiliated with it other than through the company) once or several times during a period of five years. These subscription rights entitle their holders to purchase up to 450,000 bearer ordinary shares and up to 450,000 bearer preference shares. The entitlement to exercise the rights in one group of shares excludes the entitlement to exercise the rights in another group of shares.

The options may only be exercised under the following conditions:

- An option has a term of ten years from the date it was granted (term).
- One third of the options can be exercised at the earliest two years after the grant date, another third at the earliest three years and the last third of the options at the earliest four years after the grant date (vesting period).
- Within the two-year vesting period, EBIT must have increased by at least 15 % (hurdle rate). The Management Board was entitled to increase and increased this percentage to 30 % for the stock options granted in 1998, and to 20 % for the stock options granted in 1999, 2000, 2001 and 2002.

- The option holder must be in an unterminated employment or service relationship on the date he/she exercises the options (employment relationship).
- The options can only be exercised within a maximum period of fifteen working days after the results of the respective past quarter have been announced (exercise period).

The hurdle rates defined in the plan under which the stock options were granted in 1998, 1999, 2000, 2001 and 2002 were achieved so that these stock options may be exercised according to the regulations described above.

As a result of the introduction of the stock option plan 2003, no further stock options were issued during the fiscal year 2003 for the 1998 stock option plan.

| Ordinary shares December 31 | Number of options | Price range in € |
|---|---|---|
| Balance 2001 | 520,046 | 69.23 - 94.40* |
| Granted | 143,933 | 61.26* |
| Exercised | 68 | 69.23* |
| Forfeited | 42,270 | 61.26 - 94.40* |
| Balance 2002 | 621,641 | 61.26 - 94.40* |
| Granted | 0 | |
| Exercised | 0 | |
| Forfeited | 22,629 | 61.26 - 94.40* |
| Balance 2003 | 599,012 | 61.26 - 94.40* |
| Exercisable at December 31, 2003 | 316,300 | 69.23 - 94.40* |

| Preference shares December 31 | Number of options | Price range in € |
|---|---|---|
| Balance 2001 | 520,046 | 79.42 - 128.42* |
| Granted | 143,933 | 65.45* |
| Exercised | 68 | 79.42* |
| Forfeited | 42,270 | 65.45 - 128.42* |
| Balance 2002 | 621,641 | 65.45 - 128.42* |
| Granted | 0 | |
| Exercised | 0 | |
| Forfeited | 22,629 | 65.45 - 128.42* |
| Balance 2003 | 599,012 | 65.45 - 128.42* |
| Exercisable at December 31, 2003 | 316,300 | 79.23 - 128.42* |

*All following capital increase from corporate funds in the ratio 1:1 in 2001.

| Ordinary shares Range of exercise price in €* | Options outstanding* | Weighted average remaining contractual life | Weighted average exercise price* | Options exercisable | Weighted average exercise price* |
|---|---|---|---|---|---|
| 60.00 - 65.00 | 146,531 | 8.5 | 61.26 | 0 | 61.26 |
| 65.01 - 70.00 | 108,038 | 5.5 | 69.23 | 108,038 | 69.23 |
| 80.01 - 85.00 | 81,950 | 4.6 | 82.26 | 81,950 | 82.26 |
| 90.01 - 95.00 | 262,493 | 7.1 | 94.07 | 126,312 | 94.07 |
| | 599,012 | 6.8 | 79.95 | 316,300 | 79.95 |

| Preference shares Range of exercise price in €* | Options outstanding* | Weighted average remaining contractual life | Weighted average exercise price* | Options exercisable | Weighted average exercise price* |
|---|---|---|---|---|---|
| 65.01 - 70.00 | 146,531 | 8.5 | 65.45 | 0 | 65.45 |
| 75.01 - 80.00 | 108,038 | 5.5 | 79.42 | 108,038 | 79.42 |
| 90.01 - 95.00 | 81,950 | 4.6 | 90.86 | 81,950 | 90.86 |
| 105.01 - 110.00 | 146,051 | 7.6 | 106.23 | 48,684 | 106.23 |
| 125.01 - 130.00 | 116,442 | 6.5 | 128.42 | 77,628 | 128.42 |
| | 599,012 | 6.8 | 92.60 | 316,300 | 92.60 |

*All following capital increase from corporate funds in the ratio 1:1 in 2001.

At December 31, 2003, the average price of ordinary and preference shares of Fresenius AG was below the relevant average option prices of the common and preference shares (taking into account the capital increase in 2001 from corporate funds).

**Bases of the 2003 stock option plan of Fresenius AG**

Authorization to issue convertible bonds

With the resolution passed by the Annual General Meeting on May 28, 2003, the Management Board is, with the approval of the Supervisory Board, authorized to issue once or recurrently convertible bonds up to May 27, 2008 entitling to a total subscription of up to 900,000 bearer ordinary shares and up to 900,000 non-voting bearer preference shares with a total nominal amount of € 4,608,000.00 to members of the Management Board, to members of the management of affiliated companies, to employees of the company and to employees of its affiliated companies. Members of the Management Board and employees of Fresenius Medical Care AG and its affiliated companies which are only affiliated with the company through Fresenius Medical Care AG are excluded. The Supervisory Board is correspondingly authorized if members of the Management Board of the company are involved.

Each convertible bond has a nominal value of € 2.56 and bears interest in arrears of 5.5 % p.a. The convertible bonds have a term of ten years as of grant. A convertible bond of € 2.56 entitles the holder to subscribe a bearer ordinary share or a non-voting bearer preference share of the company during a period of up to ten years as from the date on which the convertible bond was granted. Purchase of the bonds may be funded by a non-recourse loan secured by the bond with respect to which the loan was made. Fresenius AG has the right to offset its obligation on a convertible bond against the employee obligation on the related loan; therefore, in the case of a non-recourse loan the convertible bond obligations and employee loan receivables are not reflected in Fresenius AG's financial statements.

### Subscribers and allocation of convertible bonds

The persons entitled to subscribe for the convertible bonds and the number and type (with or without a success target) are specified annually by the Management Board for the group of employees and by the Supervisory Board for the group consisting of the members of the Management Board. Convertible bonds for bearer ordinary shares and convertible bonds for non-voting bearer preference shares will always be issued in equal numbers. The group of employees include the members of management – with the exception of the members of the Management Board of the company – managerial staff and other senior employees of Fresenius AG and its affiliated companies. Based on the dutiful discretion of the executing body granting the bonds, convertible bonds may also be granted to persons who would not be eligible for obtaining convertible bonds with respect to the applicable time period, but who are eligible with respect to another time period within the business year concerned.

The convertible bonds may either be offered as convertible bonds with a success target or as convertible bonds with no success target, whereby the convertible bonds with no success target reduce the number of convertible bonds to be acquired by 15 %.

The group of members of the Management Board is entitled to 400,000 convertible bonds with an entitlement to subscribe to 200,000 bearer ordinary shares and the same number of non-voting bearer preference shares. The group of employees is entitled to 1,400,000 convertible bonds with an entitlement to subscribe to 700,000 bearer ordinary shares and the same number of non-voting bearer preference shares.

The statutory subscription right of shareholders is excluded.

The convertible bonds are granted on the first working day of July.

### Vesting period and conversion periods

Entitled subscribers may exercise the conversion right for a third of the convertible bonds two years from the date on which the bonds were granted; the conversion right for a further third of the convertible bonds may be exercised three years after the date on which the bonds were granted and the conversion right for the remaining third of the convertible bonds may be exercised four years after the date on which the bonds were granted. Convertible bonds for bearer ordinary shares and convertible bonds for non-voting preference shares may only be exercised in equal numbers.

The conversion right may be exercised within 15 working days after the Annual General Meeting of the company and within 15 working days after the publication of the company's financial results on the previous calendar quarter but not in the period from the commencement of the fiscal year up to the Annual General Meeting.

### General conversion right prerequisites

The conversion right may basically only be exercised as long as the holder of the convertible bonds has a valid, i.e. unterminated contract of employment or service with the company or with an affiliated company.

### Success target as an exercise prerequisite

A prerequisite for exercising the conversion right relating to the convertible bonds with a success target is that the success target is attained. The success target is attained if the price increase for the joint average stock exchange price of the bearer ordinary share and the non-voting bearer preference share compared with the joint average stock exchange price of the bearer ordinary share and the non-voting bearer preference share on the date on which the conversion right was granted (“Initial Value”) prior to the exercise of the respective conversion right amounted to 25 % or more for at least one day. The initial value is the joint average stock exchange price of bearer ordinary shares and non-voting bearer preference shares of the company during the last 30 days of trading before the convertible bond was granted.

### Conversion price

Entitled subscribers have to pay a conversion price to the company for each bearer ordinary share and each bearer preference share when the conversion price is exercised. The conversion price for convertible bonds with no success target is equivalent to the joint average stock exchange price of the bearer ordinary share and the non-voting bearer preference share of the company during the last 30 trading days before the respective grant of the convertible bonds, less the nominal value of the converted convertible bond. The conversion price of convertible bonds with a success target is equivalent to the stock exchange price of the bearer ordinary share and the non-voting bearer preference share of the company when the success target was attained for the first time, less the nominal value of the converted convertible bond.

In July 2003 for the first time 51,170 convertible bonds were issued to the members of the Management Board of Fresenius AG and 228,174 convertible bonds to managerial staff members.

| Ordinary shares December 31 | Number of convertible bonds | Price range in € |
|---|---|---|
| Balance 2002 | 0 | |
| Granted | 139,672 | 42.86 - 56.44 |
| Exercised | 0 | |
| Forfeited | 0 | |
| Balance 2003 | 139,672 | 42.86 - 56.44 |
| Exercisable on December 31, 2003 | 0 | |

| Preference shares December 31 | Number of convertible bonds | Price range in € |
|---|---|---|
| Balance 2002 | 0 | |
| Granted | 139,672 | 37.52 - 45.63 |
| Exercised | 0 | |
| Forfeited | 0 | |
| Balance 2003 | 139,672 | 37.52 - 45.63 |
| Exercisable on December 31, 2003 | 0 | |

| Ordinary shares Range of exercise price in € | Convertible bonds outstanding | Weighted average remaining contractual life | Weighted average exercise price | Convertible bonds exercisable | Weighted average exercise price |
|---|---|---|---|---|---|
| 40.01 - 45.00 | 119,474 | 9.5 | 42.86 | 0 | 42.86 |
| 55.01 - 60.00 | 20,198 | 9.5 | 56.44 | 0 | 56.44 |
| | 139,672 | 9.5 | 44.82 | 0 | 44.82 |

| Preference shares Range of exercise price in € | Convertible bonds outstanding | Weighted average remaining contractual life | Weighted average exercise price | Convertible bonds exercisable | Weighted average exercise price |
|---|---|---|---|---|---|
| 35.00 - 40.00 | 119,474 | 9.5 | 37.52 | 0 | 37.52 |
| 45.01 - 50.00 | 20,198 | 9.5 | 45.63 | 0 | 45.63 |
| | 139,672 | 9.5 | 38.69 | 0 | 38.69 |

At December 31, 2003, the average price of ordinary and preference shares of Fresenius AG was above the relevant average option prices of the ordinary and preference shares.

### Fair value of stock options

The per share weighted average fair value of stock options and convertible bonds granted during 2003 and 2002 was € 20.27 and € 17.46, respectively, on the date of the grant using the Black-Scholes option-pricing model with the weighted average assumptions presented below:

| Weighted average assumptions | **2003** | 2002 |
|---|---|---|
| Expected dividend yield | **1.70 %** | 1.00 % |
| Risk-free interest rate | **3.80 %** | 3.80 % |
| Expected volatility | **45.00 %** | 45.00 % |
| Expected life of option | **5.3 years** | 5.3 years |

**Fresenius Medical Care stock option plans**

In connection with the formation of Fresenius Medical Care in 1996, certain options outstanding under stock option plans of W.R. Grace and Fresenius USA, Inc., were exchanged, for equivalent options with respect to Fresenius Medical Care AG ordinary shares (the "Fresenius Medical Care Rollover Plan").

During the year ended December 31, 2003, 79,491 FMC Rollover Plan options were exercised by employees. In connection therewith, Fresenius AG transferred 26,497 ordinary shares of Fresenius Medical Care AG to employees and remitted € 0.5 million to the company. This amount has been accounted for as a capital contribution within additional paid-in capital. Rollover Plan options were exercisable as of December 31, 2003 and 2002 on 24,927 and 104,418 American Depository Shares at a weighted average exercise price of US$ 13.54 and US$ 9.28, respectively.

### Fresenius Medical Care Plan

Immediately prior to the merger of the worldwide dialysis business of Fresenius with that of W.R. Grace & Co., Fresenius Medical Care adopted a stock incentive plan (the "Fresenius Medical Care Plan") for Fresenius Medical Care's key management and executive employees. The options have a ten year term and vest after three or five years. During 2003, no options were exercised. As of December 31, 2003, 53,389 options for preference shares of Fresenius Medical Care were exercisable with a price range between US$ 55.59 and US$ 78.33 per share. Effective September 2001, no additional awards could be granted under the Fresenius Medical Care Plan.

### Fresenius Medical Care 98 Plan 1 and Plan 2

During 1998, Fresenius Medical Care adopted two stock incentive plans ("Fresenius Medical Care 98 Plan 1" and "Fresenius Medical Care 98 Plan 2") for key management and executive employees.

#### Fresenius Medical Care 98 Plan 1

Under the Fresenius Medical Care 98 Plan 1, eligible employees have the right to acquire preference shares of Fresenius Medical Care. Options granted under the Fresenius Medical Care 98 Plan 1 have a ten year term, and one third of them vest on each of the second, third and fourth anniversaries of the award date. The maximum number of preference shares that may be issued under this plan is 2,443,333 less any shares issued under the Fresenius Medical Care Plan. Any shares available due to forfeiture of grants under the Fresenius Medical Care Plan would be considered available under the Fresenius Medical Care 98 Plan 1 as long as the total preference shares issued under both plans does not exceed the 2,443,333 shares noted above.

#### Fresenius Medical Care 98 Plan 2

Under the Fresenius Medical Care 98 Plan 2, eligible employees have the right to acquire preference shares of Fresenius Medical Care. The share price of the preference share shall be equal to the average of the official daily quotation prices of the preference shares on the Frankfurt Stock Exchange on the 30 days of trading immediately prior to the date of grant of the option.

One third of an option vests on each of the second, third and fourth anniversaries of the award date, provided that Fresenius Medical Care achieves certain performance criteria for the full fiscal year following the grant date in comparison to its performance for the full fiscal year preceding the grant date. Options granted under the Fresenius Medical Care 98 Plan 2 have a ten year term. The maximum number of preference shares that may be issued under this plan is 2,500,000 shares, of which 500,000 are designated for management board members and 2,000,000 are for other managerial staff. Each option is exercisable for one preference share.

The following table shows the number of preference shares available and the price range under the Fresenius Medical Care 98 Plan 1 and the Fresenius Medical Care 98 Plan 2:

| Fresenius Medical Care Plan 1, December 31 | Number of options in thousands | Price range in € |
|---|---|---|
| Balance 2001 | 1,690 | 32.90 - 56.24 |
| Exercised | 10 | 32.90 - 40.70 |
| Forfeited | 65 | 32.90 - 56.24 |
| Balance 2002 | 1,615 | 32.90 - 56.24 |
| Exercised | 8 | 32.90 |
| Forfeited | 110 | 32.90 - 56.24 |
| Balance 2003 | 1,497 | 32.90 - 56.24 |
| Exercisable on December 31, 2003 | 1,446 | 32.90 - 56.24 |

| Fresenius Medical Care Plan 2, December 31 | Number of options in thousands | Price range in € |
|---|---|---|
| Balance 2001 | 782 | 32.41 - 47.64 |
| Exercised | 2 | 32.41 - 44.66 |
| Forfeited | 301 | 32.41 - 47.64 |
| Balance 2002 | 479 | 32.41 - 44.66 |
| Exercised | 17 | 32.41 - 44.66 |
| Forfeited | 26 | 32.41 - 44.66 |
| Balance 2003 | 436 | 32.41 - 44.66 |
| Exercisable on December 31, 2003 | 436 | 32.41 - 44.66 |

| Preference shares Range of exercise prices in € | Options outstanding | Weighted average remaining contractual life | Weighted average exercise price | Options exercisable | Weighted average exercise price |
|---|---|---|---|---|---|
| 30.00 - 35.00 | 565,038 | 5.5 | 32.69 | 565,038 | 32.69 |
| 40.01 - 45.00 | 314,835 | 5.0 | 43.25 | 314,835 | 43.25 |
| 45.01 - 50.00 | 531,438 | 6.6 | 48.95 | 486,117 | 48.96 |
| 50.01 - 55.00 | 16,712 | 7.3 | 52.30 | 11,142 | 52.30 |
| 55.01 - 60.00 | 504,771 | 4.4 | 56.24 | 504,771 | 56.24 |
| | 1,932,794 | 5.4 | 45.20 | 1,881,903 | 45.09 |

Effective September 2001, no additional grants or options can be awarded under the Fresenius Medical Care 98 Plan 1 or the Fresenius Medical Care 98 Plan 2.

**Fresenius Medical Care 2001 International Stock Incentive Plan**

On May 23, 2001, by resolution of the Annual General Meeting, the Fresenius Medical Care 98 Plans were replaced by a new plan. Under the terms of this new plan, convertible bonds with a principal of up to € 10.24 million may be issued to the members of the management board and other employees of the company representing grants for up to 4 million non-voting preference shares.

The convertible bonds have a par value of € 2.56 and are interest bearing at a rate of 5.5 %. Purchase of the bonds may be funded by a non-recourse loan secured by the bond with respect to which the loan was made. Fresenius Medical Care has the right to offset its obligation on a convertible bond against the employee obligation on the related loan; therefore, the convertible bond obligations and employee loan receivables are not reflected in Fresenius Medical Care AG's consolidated financial statements.

The bonds mature in ten years and are generally convertible after three years. The bonds may be issued either as convertible bonds which are subject to a stock price target or convertible bonds without a stock price target. In the case of convertible bonds which are subject to a stock price target the conversion right is only exercisable if the quoted price of the preference shares exceeds the quoted price at grant date by at least 25 % at any given date subsequent to the date of the grant. Participants have the right to choose between convertible bonds with or without the stock price target. The number of convertible bonds awarded to those employees who select the bonds without a stock price target will be reduced by 15 %. Each convertible bond entitles the holder thereof, upon payment of a conversion price to convert the bond into one preference share. The conversion price of the convertible bonds which are not subject to the stock price target is determined by the average price of the preference shares during the last 30 trading days prior to the date of grant. Up to 20 % of the total amount available for the issuance of convertible bonds may be issued each year through May 22, 2006.

The following table presents the number of preference shares available and the average price range under the Fresenius Medical Care 2001 International Stock Incentive Plan:

| Fresenius Medical Care International Plan, 31. Dezember | Number of shares in thousands | Price range in € |
|---|---|---|
| Balance 2001 | 720 | 53.27 - 73.72 |
| Granted | 793 | 25.13 - 43.16 |
| Forfeited | 23 | 56.42 - 73.72 |
| Balance 2002 | 1,490 | 25.13 - 73.72 |
| Granted | 622 | 29.10 - 37.02 |
| Forfeited | 109 | 25.13 - 73.72 |
| Balance 2003 | 2,003 | 25.13 - 73.72 |
| Exercisable on December 31, 2003 | 212 | 53.27 - 73.72 |

The per share weighted average fair value of stock options and convertible bonds granted during 2003 and 2002 was € 12.40 and € 11.10, respectively, on the date of the grant using the Black-Scholes option-pricing model with the weighted average assumptions presented below.

| Weighted average assumptions | **2003** | 2002 |
|---|---|---|
| Expected dividend yield | **2.60 %** | 2.20 % |
| Risk-free interest rate | **3.80 %** | 3.80 % |
| Expected volatility | **40.00 %** | 40.00 % |
| Expected life of option | **5.3 years** | 5.3 years |

The Fresenius Group accounts for the stock options in its consolidated financial statements in accordance with Opinion No. 25 of the Accounting Principles Board (APB). Personnel expenses in conjunction with the stock options and convertible bonds granted since 1998 amounted to approximately € 1 million and € 2 million in 2003 and 2002, respectively.

## Notes on the consolidated statement of income

### 21. Cost of materials

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

| in million € | **2003** | 2002 |
|---|---|---|
| Cost of raw materials, supplies and purchased components | **1,667** | 1,938 |
| Cost of purchased services | **420** | 383 |
| **Cost of materials** | **2,087** | 2,321 |

### 22. Personnel expenses

Cost of goods sold, selling, general and administrative expenses and expenditure on research and development, include personnel expenses amounting to € 2,313 million and € 2,337 million in 2003 and 2002, respectively. The personnel expenses comprise as follows:

| in million € | **2003** | 2002 |
|---|---|---|
| Wages and salaries | **1,871** | 1,909 |
| Social security contributions and cost of retirement pensions and social assistance | **442** | 428 |
| thereof amount for retirement pensions | **55** | 38 |
| **Personnel expenses** | **2,313** | 2,337 |

The Fresenius Group employed the following average full-time equivalents:

| By group | 2003 | 2002 |
|---|---|---|
| Wage earnings employees | **34,271** | 32,084 |
| Salaried employees | **30,632** | 30,664 |
| Apprentices | **340** | 355 |
| **Total employees** | **65,243** | 63,103 |

## 23. Additional information relating to the Management Board and the Supervisory Board

**Management Board**

The total remuneration of the Management Board paid in cash for carrying out their duties in Fresenius AG and its subsidiaries amounted to € 3,481,000. Of this amount, € 1,664,000 was paid in salaries and € 1,817,000 was paid in the form of variable income. The amount of the variable income depends on the earnings of the Fresenius Group and/or the business segments.

In addition in 2003, the members of the Management Board received 51,170 convertible bonds from the 2003 Fresenius stock option plan. At the end of the fiscal year 2003, the members of the Management Board hold 264,450 stock options (taking account of the capital increase from corporate funds in 2001) and 51,170 convertible bonds. The average prices of the ordinary and preference shares of Fresenius AG on December 31, 2003, in relation to the stock option plans, were both lower than the option price of the ordinary and preference share respectively (taking account of the capital increase from corporate funds in 2001). However, the average prices of the ordinary and preference shares of Fresenius AG on December 31, 2003, in relation to the convertible bonds, were higher than the option price of the ordinary and preference share respectively.

Pension accruals of Fresenius AG were € 1,625,000 for pension commitments to current members of the Management Board.

€ 827,000 was paid to former members of the Management Board and their dependants. The pension accrual for these persons amounts to € 6,897,000.

**Supervisory Board**

The remuneration of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in § 13 of the statutes of Fresenius AG. The monetary remuneration of the Supervisory Board of Fresenius AG in 2003 was € 851,000. This includes € 225,000 and € 626,000 relating to fixed and variable components respectively. The fixed remuneration per Supervisory Board member is equivalent to € 13,000, whereby the Chairman receives double this amount and the deputy to Chairman receive one and half times the amount of a Supervisory Board member. The members of the Audit Committee and the Personnel Committee of the Supervisory Board receive an additional € 10,000 each and the Chairman of the committees receives a further € 10,000 on the basis of the resolution taken at the Annual General Meeting on May 28, 2003.

The remuneration increases each fiscal year by 10 % if the dividend paid on an ordinary share for this period (dividend amount according to the resolution of the Annual General Meeting (gross dividend)) is one percentage point above 13 % of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. Thus, the variable remuneration per Supervisory Board member amounts to € 63,000 for 2003. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board.

One subsidiary paid € 22,000 to the surviving dependants of a former Supervisory Board member. The subsidiary accrued a pension provision for this purpose of € 67,000.

**D&O-Insurance**

Fresenius AG has concluded a consequential loss liability insurance policy (D&O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of Fresenius AG and for all representative bodies of affiliates in Germany and elsewhere. The D&O policy applies throughout the world and runs until the end of December 2004. 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.

## 24. Income taxes

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

| in million € | **2003** | 2002 |
|---|---|---|
| Income before income taxes and minority interests in Germany | - | 62 |
| Income before income taxes and minority interests abroad | **532** | 484 |
| **Income before income taxes and minority interests** | **532** | 546 |

Tax expenses and income for the years 2003 and 2002 consisted of the following:

| | | | **2003** | | | 2002 |
|---|---|---|---|---|---|---|
| in million € | **Germany** | **Abroad** | **Total** | Germany | Abroad | Total |
| Current taxes | **48** | **95** | **143** | 27 | 123 | 150 |
| Deferred taxes | **2** | **78** | **80** | 8 | 44 | 52 |
| **Income taxes** | **50** | **173** | **223** | 35 | 167 | 202 |

Under the provisions applicable as a result of the Flood Victim Solidarity Law, for the fiscal year ended December 31, 2003 the company is subject to German federal corporation income tax at a base rate of 26.5 % (25 % in 2002) plus a solidarity surcharge of 5.5 % on federal corporation taxes payable. Because of this, the statutory rate for the year ended December 31, 2003 amounted to 27.96 % compared to 26.375 % in 2002.

The increase in the underlying corporation tax rate for the fiscal year 2003 to 26.5 % was enacted by the German government with the Flood Victim Solidarity Law in September 2002. The tax rate returns to 25 % on January 1, 2004.

The difference in income tax expense from the amounts computed by applying the German federal corporation income tax rate, including the solidarity surcharge, on income before income taxes and minority interest (27.96 % for fiscal year 2003 and 26.375 % for fiscal year 2002) is as follows:

| in million € | **2003** | 2002 |
|---|---|---|
| Computed "expected" income tax expense/income | **141** | 144 |
| Increase (reduction) in income taxes resulting from: | | |
| Items not recognized for tax purposes | **12** | 12 |
| Dividend distribution of the year | **-1** | 0 |
| Trade income taxes | **15** | 17 |
| Foreign tax rate differential | **42** | 28 |
| Tax free income | **-11** | -12 |
| Changes in valuation allowances on deferred tax assets | **23** | 13 |
| Other | **2** | 0 |
| **Income taxes** | **223** | 202 |
| **Effective tax rate** | **41.9 %** | 37.0 % |

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

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

| in million € | **2003** | 2002 |
|---|---|---|
| **Deferred tax assets** | | |
| Accounts receivable | **29** | 29 |
| Inventories | **30** | 29 |
| Other current assets | **4** | 10 |
| Other non-current assets | **33** | 55 |
| Accruals | **91** | 127 |
| Other short-term liabilities | **28** | 33 |
| Other liabilities | **8** | 13 |
| Pension obligations | **12** | 10 |
| Special charge for legal matters | **38** | 45 |
| Losses carried forward from previous years | **134** | 99 |
| **Deferred tax assets (gross)** | **407** | 450 |
| Less valuation allowance | **67** | 44 |
| **Deferred tax assets (net)** | **340** | 406 |
| **Deferred tax liabilities** | | |
| Accounts receivable | **28** | 21 |
| Inventories | **14** | 15 |
| Other current assets | **4** | 2 |
| Other non-current assets | **210** | 192 |
| Accruals | **22** | 35 |
| Other short-term liabilities | **52** | 19 |
| Other liabilities | **8** | 34 |
| **Deferred tax liabilities (gross)** | **338** | 318 |
| **Total deferred taxes (net)** | **2** | 88 |

| in million € | **2003** | **thereof long-term** | 2002 | thereof long-term |
|---|---|---|---|---|
| Deferred tax assets | **280** | **98** | 308 | 81 |
| Deferred tax liabilities | **278** | **231** | 220 | 182 |
| **Total deferred taxes (net)** | **2** | **-133** | 88 | -101 |

Valuation allowances at the end of 2003 were higher than at the end of the previous year as a result of the increase in the volume of tax losses which the Fresenius Group anticipates will not be recovered. In 2002, valuation allowances also rose as a consequence of currency losses in Latin America.

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

| For the fiscal years | in million € |
|---|---|
| 2004 | 7 |
| 2005 | 22 |
| 2006 | 6 |
| 2007 | 12 |
| 2008 | 10 |
| 2009 | 11 |
| 2010 | 5 |
| 2011 | 2 |
| Thereafter | 6 |
| **Total** | 81 |

The total remaining operating losses of € 327 million can largely be carried forward for an unlimited period.

In assessing the realizability of deferred tax assets, it should be considered whether it is more likely than not that some portion or all of the deferred tax assets will be realized in the future. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The scheduled reversal of deferred tax liabilities and projected future taxable income are considered when making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Fresenius Group believes it is more likely than not that the company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2003.

Provision has not been made for additional taxes on approximately € 212 million undistributed earnings of foreign subsidiaries of Fresenius Medical Care. The majority of these earnings have been, and will continue to be, permanently reinvested. The earnings could become subject to additional tax if remitted or deemed remitted as dividends; however, calculation of such additional tax is not practical.

For fiscal years ending in 2004 and afterwards, dividends from German subsidiaries are 95 % tax-exempt, i.e. 5 % of dividend income is taxable for corporate tax purposes.

A 5 % income inclusion has also been introduced on capital gains realized from the disposition of shares in German and foreign corporations and applies to fiscal years ending in 2004. Management does not anticipate significant additional income taxation.

## Other notes

### 25. Commitments and contingent liabilities

**Operating leases and rental payments**

The companies of the Fresenius Group lease office and manufacturing buildings as well as machinery and equipment under various lease agreements expiring on various dates up to 2009. In 2003 and 2002, rental expenses for leases were € 295 million and € 310 million, respectively.

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

Future minimum rental payments under non-cancelable operating leases for the five years succeeding December 31, 2003 and thereafter are:

| For the fiscal years | in million € |
|---|---:|
| 2004 | 197 |
| 2005 | 171 |
| 2006 | 144 |
| 2007 | 97 |
| 2008 | 71 |
| Thereafter | 216 |
| **Total** | 896 |

**Legal proceedings**

**Commercial litigation**

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

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

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

On February 6, 2003, Fresenius Medical Care reached an agreement with the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate and W.R. Grace & Co. in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to Fresenius Medical Care that arise out of the bankruptcy of W.R. Grace & Co. Under the terms of the settlement agreement as amended (the "Settlement Agreement"), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and Fresenius Medical Care will receive protection against existing and potential future W.R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W.R. Grace & Co. consolidated tax group upon confirmation of a W.R. Grace & Co. bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, Fresenius Medical Care will pay a total of US$ 115 million to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation. No admission of liability has been or will be made. The Settlement Agreement has been approved by the U.S. District Court.

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

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

In November 2003, Fresenius Medical Care settled without litigation all claims raised by the final group of insurance companies who had contacted Fresenius Medical Care concerning allegations of inappropriate billing practices and misrepresentations. The costs of the settlement will be charged against previously established accruals. See "Accrued special charge of Fresenius Medical Care for legal matters" below.

**Accrued special charge of Fresenius Medical Care for legal matters**

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

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

## 26. Financial instruments

### General

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

### Market risks

The Fresenius Group is exposed to market risk from changes in interest rates and foreign exchange rates. In order to manage these risks, the Fresenius Group enters into various hedging transactions with investment grade financial institutions as authorized by the Management Board. We do not use financial instruments for trading purposes. In general, the Fresenius Group conducts its financial instrument activity under the control of a single centralized department. The Fresenius Group established guidelines for risk assessment procedures and controls for the use of financial instruments. They include a clear segregation of duties with regard to execution on one side and administration, accounting and controlling on the other.

### Foreign exchange risk management

The Fresenius Group uses the euro as its financial reporting currency. Therefore, mainly changes in the rate of exchange between the euro and US dollar, and the local currencies in which the financial statements of the foreign subsidiaries are maintained, affect its results of operations and financial position as reported in its consolidated financial statements. The Fresenius Group employs forward contracts to hedge its existing and anticipated currency exposure. Forward currency contracts and options will be used only for the purpose of hedging foreign currency exposure.

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

Changes in the fair values of foreign currency forward contracts designated and qualifying as cash flow hedges of forecasted product purchases are reported initially in accumulated other comprehensive income. These amounts are subsequently reclassified into earnings in the statement of income as a component of cost of goods sold, in the same period in which the hedged transaction affects earnings. After tax gains of € 3.9 million (before taxes € 5.8 million) (in the previous year of € 3.5 million; before taxes € 5.5 million) for the year ended December 31, 2003 are deferred in accumulated other comprehensive income and will be reclassified into earnings in the statement of income during 2004 and 2005. In 2003, the Fresenius Group reclassified after-tax losses of € 0.1 million (before taxes € 0.8 million) (previous year gains of € 0.8 million; before taxes € 1.2 million) from accumulated other comprehensive income into the statement of income.

Changes in the fair value of foreign currency forward contracts designated and qualifying as cash flow hedges for forecasted intercompany financing transactions are reported in accumulated other comprehensive income. After tax gains of € 34.1 million (€ 56.1 million before taxes) (previous year of € 36.1 million; before taxes € 60.0 million) as of December 31, 2003 were deferred in accumulated other comprehensive income.

As of December 31, 2003, the notional volume of foreign currency forward contracts to hedge intercompany loans and intercompany financing transactions amounted to € 0.9 billion. Earnings were not materially affected by hedge ineffectiveness.

As of December 31, 2003, the Fresenius Group had exchange forward contracts with a maximum maturity of 36 months.

Foreign exchange contracts contain credit risk in that its bank counterparties may be unable to meet the terms of the agreements. The potential risk of loss with any one party resulting from this type of credit risk is monitored. The Fresenius Group does not expect any material losses as a result of default by other parties.

**Interest rate risk management**

The Fresenius Group uses interest rate hedging instruments, particularly interest rate swaps, to protect interest rate exposures arising particularly from long-term and short-term borrowings at floating rates, by swapping the floating interest rates into fixed rates. Under interest rate swaps, we agree with other parties to exchange, for specified periods, the differences between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

The Fresenius Group enters into interest rate swap agreements that are designated as cash flow hedges by effectively converting certain variable interest rate payments, mainly denominated in US dollars, into fixed interest rate payments. After-tax losses of € 33.9 million (€ 56.5 million before taxes) for the year ended December 31, 2003 (previous year after taxes € 57.0 million; € 95.2 million before taxes) were deferred in accumulated other comprehensive loss. Interest payable and interest receivable under the swap terms are accrued and recorded as an adjustment to interest expense at each balance sheet date. There is no material impact on earnings due to hedge ineffectiveness. As of December 31, 2003, the notional volume of US dollar interest rate hedge contracts was US$ 0.95 billion (€ 0.75 billion) (previous year: US$ 1.05 billion; € 1.01 billion). These interest rate swap agreements, which expire at various dates between 2004 and 2009, effectively fix the company's variable interest rate exposure on the majority of the US dollar-denominated revolving loans and outstanding obligations under the accounts receivable securitization program at an average interest rate of 5.45 % (previous year: 5.51 %). As of December 31, 2003, the notional volume of Yen-denominated interest rate hedge contracts entered into in connection with a Yen-denominated floating rate borrowings by the Japanese subsidiaries of Fresenius Medical Care totaled Yen 1,885 million (€ 14.0 million) (previous year: Yen 2,149 million; € 17.3 million). The Yen-denominated interest rate hedge contracts will expire between July 2008 and June 2011. The amounts of the bank loans and the notional amounts of the Yen-denominated interest rate hedge agreements always coincide until the final maturities when the bank debts are completely repaid and the hedge contracts expire.

The pre-tax losses deferred in accumulated other comprehensive income were € 17 million as of December 31, 2002 resulted in a currency gain of € 3 million after taxes (€ 5 million before taxes).

**Fair value of financial instruments**

The following table presents the carrying amounts and fair values of the Group’s financial instruments on December 31, 2003 and 2002. SFAS No. 107 (Disclosures about Fair Value of Financial Instruments) defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

| in million € | 2003 Carrying amount | 2003 Fair value | 2002 Carrying amount | 2002 Fair value |
|---|---|---|---|---|
| **Non-derivatives** | | | | |
| Assets | | | | |
| Cash and cash equivalents | **125** | **125** | 163 | 163 |
| Accounts receivable | **1,415** | **1,415** | 1,299 | 1,299 |
| Liabilities | | | | |
| Trade accounts payable | **266** | **266** | 304 | 304 |
| Income taxes payable | **197** | **197** | 231 | 231 |
| Long-term loans (excluding trust preferred securities, notes and bonds) | **982** | **982** | 1,109 | 1,109 |
| Trust preferred securities | **977** | **1,038** | 1,083 | 1,045 |
| Notes | **129** | **131** | 129 | 132 |
| Bonds | **800** | **832** | 400 | 402 |
| **Derivatives** | | | | |
| Foreign exchange contracts | **89** | **89** | 94 | 94 |
| Dollar interest rate hedges | **(56)** | **(56)** | (95) | (95) |
| Yen interest rate hedges | **(1)** | **(1)** | (1) | (1) |
| Other interest rate hedges | **-** | **-** | - | - |

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

**Estimation of fair values**

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

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

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

The fair value of the bonds and trust preferred securities is calculated based on market quotes on the balance sheet date. The fair value of the notes is calculated as the difference between the coupon of the notes and the market quotes on the balance sheet date that includes the company-related margin. The margin is reasonably estimated to be unchanged at the balance sheet date from the dates when the notes were issued because of the relatively short period of time between the balance sheet date and the issue dates.

The fair value of financial derivatives generally reflects the estimated amounts that the Fresenius Group would receive or pay to terminate the contracts, thereby taking into account the current unrealized gains or losses of open contracts. Dealer quotes are available for all important derivatives of the Fresenius Group.

## 27. Business segment information

Fresenius Group has identified the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe which corresponds to the internal organizational and reporting structures (Management Approach) as at December 31, 2003.

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

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

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

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats about 119,250 patients in its own dialysis clinics. In the United States, the range of services include apheresis and haemoperfusion services for hospitals. In the second quarter of 2003, Fresenius Medical Care acquired the Adsorber technology division of Fresenius AG.

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

Fresenius ProServe is an international provider of products and services in connection with the hospital and the pharmaceutical industry. The products and services portfolio ranges from the consulting, planning, construction and equipping of hospitals to technical management and the management and operation of health care facilities. Furthermore, Fresenius ProServe offers services related to the planning, construction, service and operation of medical and pharmaceutical production plants.

The segment Corporate/Other mainly comprises the holding functions of Fresenius AG as well as Fresenius Netcare GmbH, which was founded in connection with the spin-off of the information technology department, and which provides services in the field of information technology as well as the Biotech division. In addition, the segment Corporate/Other includes the consolidation adjustments between the segments.

Effective January 1, 2003 the activities of the business segment Fresenius HemoCare were re-aligned within the Fresenius Group. Therefore the segment reporting includes additional information in accordance with the new organizational structure.

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

**Notes on the business segments**

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

Depreciation and amortization is presented for the intangible assets with definite useful lifes and tangible assets of the respective business segment.

Net interest comprises interest and other similar expenses and income.

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

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

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

Financial liabilities comprise bank loans, bonds, trust preferred securities, obligations from leasing contracts, liabilities from outstanding acquisitions as well as intercompany liabilities.

Capital expenditure includes additions to intangible and tangible assets.

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

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

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

The return on operating assets (ROOA) is defined as a ratio from EBIT and operating assets.

In addition "Depreciation and amortization as percentage of sales" has been included as a further key figure.

**Report on the business segments**
**(according to new organizational structure as of January 1, 2003; 2002 adjusted)**

| | Fresenius Medical Care | | | Fresenius Kabi | | |
|---|---|---|---|---|---|---|
| in million € | **2003** | 2002 | Change | **2003** | 2002[1] | Change |
| Sales | **4,886** | 5,378 | -9 % | **1,463** | 1,441 | 2 % |
| thereof contribution to consolidated sales | **4,862** | 5,352 | -9 % | **1,442** | 1,419 | 2 % |
| thereof intercompany sales | **24** | 26 | -8 % | **21** | 22 | -5 % |
| contribution to consolidated sales | **69 %** | 71 % | | **20 %** | 19 % | |
| EBITDA | **861** | 958 | -10 % | **232** | 181 | 28 % |
| Depreciation and amortization | **191** | 223 | -14 % | **85** | 84 | 1 % |
| EBIT | **670** | 735 | -9 % | **147** | 97 | 52 % |
| Net interest | **-187** | -240[2] | 22 % | **-45** | -38 | -18 % |
| Net income | **293** | 306 | -4 % | **65** | 30 | 117 % |
| Operating cash flow | **667** | 582 | 15 % | **133** | 104 | 28 % |
| Free cash flow before acquisitions and dividends | **422** | 369 | 14 % | **80** | 49 | 63 % |
| Debt | **2,030** | 2,277 | -11 % | **739** | 764 | -3 % |
| Total assets | **5,941** | 6,465 | -8 % | **1,510** | 1,531 | -1 % |
| Capital expenditure | **258** | 253 | 2 % | **57** | 71 | -20 % |
| Acquisitions | **89** | 93 | -4 % | **2** | 20 | -90 % |
| Expenditure on research and development | **44** | 50 | -12 % | **49** | 58 | -16 % |
| Employees (per capita on balance sheet date) | **43,445** | 41,766 | 4 % | **11,470** | 11,311 | 1 % |
| Key figures | | | | | | |
| EBITDA margin | **17.6 %** | 17.8 % | | **15.9 %** | 12.6 % | |
| EBIT margin | **13.7 %** | 13.7 % | | **10.0 %** | 6.7 % | |
| ROOA | **11.4 %** | 11.4 % | | **11.1 %** | 7.1 % | |
| Depreciation and amortization in % of sales | **3.9 %** | 4.1 % | | **5.8 %** | 5.8 % | |

[1] Previous year adjusted for the reallocation of the business of Fresenius HemoCare since January 1, 2003:
Fresenius Kabi incl. transfusion and infusion technology; Corporate/other incl. immune therapy and adsorber technology; adsorber technology consolidated in Fresenius Medical Care as of April 1, 2003.
[2] adjusted according to SFAS No. 145

| Fresenius ProServe | | | Corporate/Other | | | Total | | |
|---|---|---|---|---|---|---|---|---|
| 2003 | 2002 | Change | 2003 | 2002[1] | Change | 2003 | 2002 | Change |
| 742 | 701 | 6 % | -27 | -13 | -108 % | 7,064 | 7,507 | -6 % |
| 738 | 698 | 6 % | 22 | 38 | -42 % | 7,064 | 7,507 | -6 % |
| 4 | 3 | 33 % | -49 | -51 | 4 % | 0 | 0 | |
| 11 % | 9 % | | 0 % | 1 % | | 100 % | 100 % | |
| 14 | 48 | -71 % | -1 | -9 | 89 % | 1,106 | 1,178 | -6 % |
| 33 | 24 | 38 % | 16 | 10 | 60 % | 325 | 341 | -5 % |
| -19 | 24 | -179 % | -17 | -19 | 11 % | 781 | 837 | -7 % |
| -10 | -9 | -11 % | -7 | -4 | -75 % | -249 | -291[2] | 14 % |
| -34 | 1 | - | -209 | -203 | -3 % | 115 | 134 | -14 % |
| -3 | -26 | 88 % | -21 | 37 | -157 % | 776 | 697 | 11 % |
| -23 | -58 | 60 % | -25 | 22 | -214 % | 454 | 382 | 19 % |
| 275 | 241 | 14 % | -21 | 1 | - | 3,023 | 3,283 | -8 % |
| 794 | 759 | 5 % | 102 | 160 | -36 % | 8,347 | 8,915 | -6 % |
| 21 | 37 | -43 % | 3 | 16 | -81 % | 339 | 377 | -10 % |
| 14 | 8 | 75 % | -14 | 9 | -256 % | 91 | 130 | -30 % |
| 1 | 1 | 0 % | 27 | 29 | -7 % | 121 | 138 | -12 % |
| 10,815 | 9,894 | 9 % | 534 | 667 | -20 % | 66,264 | 63,638 | 4 % |
| | | | | | | | | |
| 1.9 % | 6.8 % | | | | | 15.7 % | 15.7 % | |
| -2.6 % | 3.4 % | | | | | 11.1 % | 11.1 % | |
| -3.2 % | 4.4 % | | | | | 9.8 % | 9.7 % | |
| 4.4 % | 3.4 % | | | | | 4.6 % | 4.5 % | |

## Report on the segments by region

| | Europe | | | North America | | |
|---|---|---|---|---|---|---|
| in million € | **2003** | 2002 | Change | **2003** | 2002 | Change |
| Sales | **2,692** | 2,539 | 6 % | **3.496** | 4,061 | -14 % |
| contribution to consolidated sales | **38 %** | 34 % | | **50 %** | 54 % | |
| EBIT | **234** | 218 | 7 % | **464** | 515 | -10 % |
| Depreciation and amortization | **184** | 154 | 19 % | **108** | 150 | -28 % |
| Total assets | **3,305** | 3,191 | 4 % | **4.196** | 4,856 | -14 % |
| Capital expenditure | **144** | 181 | -20 % | **158** | 138 | 14 % |
| Acquisitions | **55** | 66 | -17 % | **33** | 40 | -18 % |
| Employees (per capita on balance sheet date) | **27,845** | 26,106 | 7 % | **28,585** | 28,442 | 1 % |

| Latin America | | | Asia-Pacific | | | Africa | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2003** | 2002 | Change | **2003** | 2002 | Change | **2003** | 2002 | Change | **2003** | 2002 | Change |
| **246** | 239 | 3 % | **509** | 563 | -10 % | **121** | 105 | 15 % | **7,064** | 7,507 | -6 % |
| **3 %** | 3 % | | **7 %** | 8 % | | **2 %** | 1 % | | **100 %** | 100 % | |
| **12** | 15 | -20 % | **56** | 76 | -26 % | **15** | 13 | 15 % | **781** | 837 | -7 % |
| **11** | 13 | -15 % | **21** | 23 | -9 % | **1** | 1 | 0 % | **325** | 341 | -5 % |
| **321** | 333 | -4 % | **481** | 504 | -5 % | **44** | 31 | 42 % | **8,347** | 8,915 | -6 % |
| **18** | 37 | -51 % | **18** | 20 | -10 % | **1** | 1 | 0 % | **339** | 377 | -10 % |
| **1** | 2 | -50 % | **2** | 22 | -91 % | **0** | 0 | | **91** | 130 | -30 % |
| **5,814** | 5,636 | 3 % | **3,382** | 2,943 | 15 % | **638** | 511 | 25 % | **66,264** | 63,638 | 4 % |

### Reconciliation of key figures to consolidated earnings

| in million € | 2003 | 2002* |
|---|---|---|
| Total EBITDA of reporting segments | **1,107** | 1,187 |
| Depreciation and amortization | **-325** | -341 |
| General corporate expenses Corporate/Other | **-1** | -9 |
| Interest expenses | **-273** | -318 |
| Interest income | **24** | 27 |
| **Total earnings before income taxes and minority interests** | **532** | 546 |
| Total EBIT of reporting segments | **798** | 856 |
| General corporate expenses Corporate/Other | **-17** | -19 |
| Interest expenses | **-273** | -318 |
| Interest income | **24** | 27 |
| **Total earnings before income taxes and minority interests** | **532** | 546 |
| Depreciation and amortization of reporting segments | **309** | 331 |
| Depreciation and amortization Corporate/Other | **16** | 10 |
| **Total depreciation and amortization** | **325** | 341 |

* Based on new organizational structure in place from January 1, 2003

Non-current assets by geographical region as of December 31, 2003 and 2002 were as follows:

| in million € | **2003** | 2002 |
|---|---|---|
| Germany | **809** | 844 |
| Europe (excluding Germany) | **946** | 896 |
| North America | **3,300** | 3,882 |
| Latin America | **132** | 135 |
| Asia-Pacific | **231** | 234 |
| Africa | **21** | 19 |
| **Total non-current assets** | **5,439** | 6,010 |

## 28. Supplementary information on cash flow statement

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

| in million € | **2003** | 2002 |
|---|---|---|
| Interest paid | **244** | 273 |
| Income taxes paid | **171** | 139 |

| in million € | **2003** | 2002 |
|---|---|---|
| Assets acquired | **130** | 212 |
| Liabilities assumed | **-36** | -81 |
| Notes assumed in connection with acquisitions | **-12** | -9 |
| Cash paid | **82** | 122 |
| Cash acquired | **-11** | -4 |
| **Net cash paid for acquisitions** | **71** | 118 |

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

| in million € | **2003** | 2002 |
|---|---|---|
| **Operating cash flow** | **776** | 697 |
| Purchase of tangible assets | **-339** | -377 |
| Proceeds from sale of tangible assets | **17** | 62 |
| **Free cash flow before acquisitions and dividends** | **454** | 382 |
| Purchase of shares in related and associated companies, net | **-71** | -118 |
| **Free cash flow before dividends** | **383** | 264 |
| Dividends paid | **-114** | -101 |
| **Free cash flow after dividends** | **269** | 163 |

## 29. Subsequent events

There have been no significant changes in the sector environment or group position since the beginning of the fiscal year 2004. At present, the Group is not planning to carry out any significant changes in its structure, administration or legal form or in the area of personnel. Similarly, no other events of significance have occurred since the year-end.

## 30. Corporate Governance

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

### 31. Proposal for the distribution of earnings

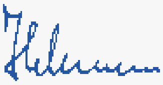
The Management Board of Fresenius AG proposes to the Annual General Meeting that the earnings for 2003 of Fresenius AG be distributed as follows:

| | |
|---|---|
| Payment of a dividend of € 1.23 per bearer ordinary share on the 20,484,842 ordinary shares entitled to dividend | **€ 25,196,355.66** |
| Payment of a dividend of € 1.26 per bearer preference share on the 20,484,842 preference shares entitled to dividend | **€ 25,810,900.92** |
| Additions to other reserves | **€ 87,752,847.95** |
| Balance to be carried forward | **€ 510,970.44** |
| | **€ 139,271,074.97** |

Bad Homburg v.d.H., February 27, 2004


Dr. U. M. Schneider


R. Baule


R. Hohmann


U. Werlé

**Independent Auditor's Report**

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the Fresenius Aktiengesellschaft, Bad Homburg v.d. Höhe, for the business year from January 1, to December 31, 2003. The preparation and the content of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

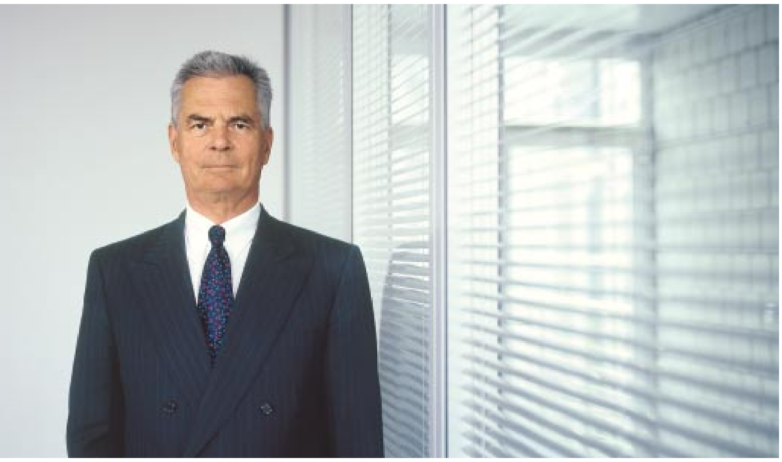
Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1, to December 31, 2003, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, to December 31, 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Frankfurt am Main, February 27, 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Böttcher Walter

| | |
|---|---|
| Dr. Böttcher | Walter |
| German Public Auditor | German Public Auditor |



## Report of the Supervisory Board

In 2003, the Supervisory Board performed the duties assigned to it according to the law and the Articles of Association and regularly advised and supervised the Management Board. It was closely involved in all decisions that were of major importance to the Group.

The Management Board informed the Supervisory Board regularly about the plans and progress of the business, concerning both the Group as a whole and the individual business segments, and as well about important business transactions. The Supervisory Board dealt in detail with business performance and business policy on the basis of the reports presented in five joint meetings with the Management Board. In addition to the performance of the operating businesses, a major topic in these meetings was the review of individual transactions requiring board approval. All important business transactions were reviewed by the Supervisory Board and discussed with the Management Board. In 2003, the Supervisory Board passed one resolution in writing outside these meetings. In addition, the Supervisory Board discussed in detail with the Management Board, deliberated on and approved company strategy. The Chairman of the Supervisory Board was also informed regularly outside these meetings about the current situation of the company and its major transactions.

One focus of the work of the Supervisory Board was the performance of Fresenius ProServe: In particular, it was informed in detail about the measures initiated to increase the future profitability of Wittgensteiner Kliniken and about the reorganization of the project business. The Supervisory Board also discussed in detail the performance of the operations of Fresenius Kabi and about its future growth prospects, for example, with regard to research and development. The Supervisory Board was also informed about the current business performance of Fresenius Medical Care AG.

In addition, the Supervisory Board was regularly informed about risk management for the Fresenius Group. The Supervisory Board approved the medium-term planning of the Group after a detailed review and intensive discussion with the Management Board. Together with the Management Board, the Supervisory Board submitted the Declaration of Compliance in accordance with the German Corporate Governance Code.

In its constituent meeting after the Annual General Meeting in May 2003, the Supervisory Board formed a committee as stipulated by § 27 Section 3 of the German Co-determination Law; this committee did not meet in the year under report. In addition, in its constituent meeting the Supervisory Board formed a Personnel Committee that is authorized to adopt resolutions, as well as an Audit Committee. The Personnel Committee held three meetings in the year under report and the Audit Committee held two meetings.

The accounting records, the financial statements which were drawn up in accordance with the German Commercial Code (HGB) and the management report of Fresenius AG for the 2003 fiscal year were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, elected as auditors by resolution of the Annual General Meeting of Fresenius AG of May 28, 2003, and subsequently commissioned by the Supervisory Board; they bear the unqualified audit certificate. The same applies to the consolidated financial statements of Fresenius AG, which were drawn up according to US GAAP. A consolidated management report and additional notes were added to these statements. The US GAAP consolidated financial statements discharge the company, according to § 292a of the German Commercial Code (HGB), from the obligation to prepare consolidated financial statements according to German law.

The financial statements, consolidated financial statements and management reports, as well as the auditor's reports, were submitted to the Supervisory Board within the required time limit. The Supervisory Board noted the auditor’s findings with approval. The Supervisory Board’s own examination also confirmed that there were no objections to the financial statements of Fresenius AG and the Fresenius Group. The auditor attended all the Supervisory Board Meetings.

In its meeting of March 16, 2004, the Supervisory Board approved, as submitted by the Management Board, the financial statements of Fresenius AG and the consolidated financial statements of Fresenius AG for 2003 which thereby became final. The auditor reported during the meeting on the main results of the audit. The Supervisory Board concurs with the proposal of the Management Board for the appropriation of the retained earnings for the 2003 fiscal year.

The Supervisory Board expresses its thanks to the Management Board and all our employees for their achievements and dedication in the 2003 financial year.

Bad Homburg v.d.H., March 16, 2004

The Supervisory Board
Dr. Gerd Krick
Chairman

# Supervisory Board

### Dr. h. c. Hans Kröner

Bad Homburg v.d.H.
Honorary Chairman of the Supervisory Board

### Dr. Gerd Krick

(since May 28, 2003)
Königstein
Chairman

Offices
**Supervisory Board**
Fresenius Kabi AG (until July 15, 2003)
Fresenius Kabi Austria GmbH, Graz, Austria
Fresenius Medical Care AG (Chairman)
VAMED AG, Vienna, Austria (Chairman)
Vereinte Krankenversicherung AG
**Advisory Board**
HDI Haftpflichtverband der deutschen Industrie V.a.G.
**Board of Directors**
Adelphi Capital Europe Fund, Grand Cayman, Cayman Islands
**Board of Trustees**
Donau-Universität Krems, Austria
**Administrative Board**
Dresdner Bank Luxembourg S.A., Luxembourg

### Gerd Holtgrefe

Hanover
Secretary of the trade union
IG Bergbau, Chemie, Energie
Deputy Chairman

Offices
**Supervisory Board**
Astra Zeneca Holding GmbH
Enka GmbH & Co. KG (until December 31, 2003)

### Arnold Danneck

Tholey
Chairman of the General Works Council
Deputy Chairman of the Works Council
St. Wendel plant

### Gerhard Herres

(since May 28, 2003)
Beckingen-Haustadt
Member of the trade union Deutscher Handels- und Industrieangestellten Verband im CGB
Chairman of the Works Council
St. Wendel plant
Member of the Standing Committee on Industry and Trade
Member of the General Works Council

### Dr. Gabriele Kröner

Munich
Doctor

Offices
**Management Board**
Else Kröner-Fresenius-Stiftung (since April 1, 2003)

### Dr. rer. nat. Bernd Mathieu

(since May 28, 2003)
Bad Homburg v.d.H.
Graduate chemist

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

### Friedrich Meyer

(until May 28, 2003)
Wehrheim
Executive Vice President
Intravenous Therapy Region Europe 1

### Christel Neumann

Schonungen
Chairlady of the Fresenius European Employee Forum
Chairlady of the Works Council
Schweinfurt plant
Member of the General Works Council

### Ilona Oesterle

Waldsolms
Deputy Chairlady of the Works Council
Bad Homburg v.d.H.
Deputy Chairlady of the General Works Council

### Gerhard Roggemann

Hanover
Member of the Managing Board
WestLB AG Düsseldorf/Münster
(formerly: Westdeutsche Landesbank Girozentrale)

Offices
**Supervisory Board**
AXA Lebensversicherung AG
AXA Investment Managers Deutschland GmbH (until September 15, 2003)
Börse Düsseldorf AG (Deputy Chairman)
Deutsche Börse AG (until May 12, 2003)
Hapag-Lloyd AG
Solvay Deutschland GmbH
VHV Autoversicherungs-AG (until August 25, 2003)
VHV Holding AG (since July 8, 2003)
WestAM Holding GmbH (Chairman)
WestLB Asset Management Kapitalanlagegesellschaft mbH (Chairman)
West Pensionsfonds AG (Deputy Chairman)
West Pensionskasse AG (Deputy Chairman)
WPS WertpapierService Bank AG (until February 14, 2003)
**Board of Governors**
International University of Bremen GmbH
**Board of Directors**
Banque d´Orsay S.A., Paris (Chairman)
**Administrative Board**
Westdeutsche ImmobilienBank
(Deputy member, since July 31, 2003)
WestLB International S.A., Luxembourg (Chairman)

### Dr. Manfred Schaudwet

(until May 28, 2003)
Frankfurt am Main
Lawyer

## Supervisory Board

### Dr. Dieter Schenk

Munich

Lawyer and tax consultant

Offices
**Supervisory Board**
Deutsche BA Luftfahrtgesellschaft mbH (until June 30, 2003)
Fresenius Medical Care AG (Deputy Chairman)
Gabor Shoes AG (Chairman)
Greiffenberger AG (Deputy Chairman)
TOPTICA Photonics AG (Deputy Chairman)

### Dr. Karl Schneider

Mannheim

Former Spokesman of Südzucker AG

Chairman of the Supervisory Board

Fresenius AG (until May 28, 2003)

### Volker Weber

(until May 28, 2003)

Löhnberg

Full-time Secretary of the trade union

IG Bergbau, Chemie, Energie

### Dr. Bernhard Wunderlin

Bad Homburg v.d.H.

Former Managing Director Harald Quandt Holding GmbH

Offices
**Supervisory Board**
Harald Quandt Holding GmbH
Sauerborn Trust AG, (Chairman)
Augsburger Aktienbank AG
**Advisory Board**
Von Rautenkranz Nachfolger GbR
Marsh & McLennan Holdings GmbH
**Administrative Board**
Senckenbergische Naturforschende Gesellschaft
**Management Board**
Gemeinnützige Hertie-Stiftung

## Management Board

### Dr. Gerd Krick

(until May 28, 2003)

Königstein

Chairman

External Offices
**Supervisory Board**
Vereinte Krankenversicherung AG
**Advisory Board**
HDI Haftpflichtverband der deutschen Industrie V.a.G.
**Board of Directors**
Adelphi Capital Europe Fund, Grand Cayman, Cayman Islands
**Board of Trustees**
Donau-Universität Krems, Austria
**Administrative Board**
Dresdner Bank Luxembourg S.A., Luxembourg
Corporate Offices
**Supervisory Board**
Fresenius Kabi AG (Chairman) (until July 15, 2003)
Fresenius Kabi Austria GmbH, Graz, Austria
Fresenius Medical Care AG (Chairman)
VAMED AG, Vienna, Austria (Chairman)

### Dr. Ulf M. Schneider

(since May 28, 2003)

Frankfurt am Main

Chairman

Chief Financial Officer Fresenius Medical Care AG (until May 28, 2003)

Corporate Offices
**Supervisory Board**
Fresenius Kabi AG (Chairman) (since July 15, 2003)
Fresenius Medical Care AG (since February 23, 2004)
Fresenius Medical Care Groupe France S.A., France
Eufets AG (Chairman) (since September 5, 2003)

### Rainer Baule

Ettlingen

Business Segment Fresenius Kabi

Corporate Offices
**Supervisory Board**
Fresenius Kabi Austria GmbH, Graz, Austria (Chairman)
NPBI International B.V., Emmen, Netherlands (Chairman)
EUFETS AG (Chairman) (until September 5, 2003)

### Wolf-Peter Graeser

(until May 28, 2003)

Bad Homburg v.d.H.

Business Segment Fresenius HemoCare

Deputy member

### Rainer Hohmann

Bochum

Business Segment Fresenius ProServe

Corporate Offices
**Supervisory Board**
VAMED AG, Vienna, Austria
Wittgensteiner Kliniken AG (Chairman)

### Dr. Ben Lipps

(since March 16, 2004)

Boston, Massachusetts (USA)

Business Segment Fresenius Medical Care

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

### Udo Werlé

Lampertheim

Chief Financial Officer and Labor Relations Director

External Offices
**Supervisory Board**
K & C Kremsner & Consultants
Corporate Offices
**Supervisory Board**
Fresenius Kabi AG
Fresenius Vial S.A., Brézins, France (Deputy Chairman)
Wittgensteiner Kliniken AG

# Glossary

## Health care terms

**Acute-Graft-versus-Host-Disease (aGvHD)**
Acute phase of Graft-versus-Host-Disease, caused by T-cells in the donor graft that attack the host organism.

**Antiretroviral drugs**
Drugs that inhibit the multiplication of specific viruses (retroviruses).

**Biocompatibility**
Quality and compatibility of the material, the system or the solution which prevent negative reactions by the organism of the patient.

**Blood volume replacement**
Infusion solution to compensate blood loss.

**BMI (Body Mass Index)**
Ratio to evaluate the nutritional status. It is derived from the formula weight in kilograms divided by the square of the height in meters. The normal range is 18 to 25.

**Clearance**
A quantitative parameter to describe the dialyzer performance in terms of uremic toxin removal.

**CMS**
Center for Medicare and Medicaid Services in the US.

**Dialysate (dialysis solution)**
Solution used during the process of dialysis. The concentration of the individual components is selected according to the desired direction and quantity of solute exchange.

**Dialysis**
A type of renal replacement therapy where a semi-permeable membrane – in peritoneal dialysis the peritoneum of the patient, and in hemodialysis the membrane of the dialyzer – is used for the selective solute removal.

**Dialysis machine**
The hemodialysis process is controlled by a dialysis machine which pumps blood, adds anti-coagulants, regulates the cleansing process, and controls the mixture of dialysate and its flow rate through the system.

**Dialyzer**
Special filter used in hemodialysis for removing toxic substances and excess water from the blood.

**Disease State Management (DSM)**
Holistic concept of patient treatment taking into account all medical aspects associated with the disease.

**Enteral nutrition**
Application of liquid nutrition as tube or sip feed via the gastrointestinal tract.

**Extracorporeal**
Taking place outside the body.

**Hematocrit**
Proportion of red blood cells in the whole blood in percent.

**Hemodiafiltration (HDF)**
Special mode of ESRD (end-stage renal disease) treatment, combining advantages of hemodialysis and hemofiltration, i.e. high elimination rates for small and large molecular weight substances via diffusive and convective mechanisms, respectively.

**Hemodialysis (HD)**
A treatment method for dialysis patients where the blood of the patient is cleansed by a dialyzer. The solute exchange between blood and dialysate is dominated by diffusive processes.

**Immunocompetent cells**
Cells which can take over the specific functions of the immune system (e.g. lymphocytes and killer cells).

**Immunosuppressive agent**
Drug that artificially suppresses or weakens the immune reaction of the organism. It is used in the treatment of autoimmune diseases or to prevent transplanted organs being rejected.

**Leukocyte filtration**
Removal of white blood cells by means of filtration.

**Lipid metabolism**
Synthesis, break down and rearrangement of lipids in the human organism.

**Mesothelial cells**
Cells of the mesothelium (layer of cells lining the peritoneal cavity).

**Omega-3 fatty acids**
Long-chain fatty acids of a special structure contained especially in fish oil.

**Parenteral nutrition**
Application of nutrients directly into the bloodstream of the patient (intravenously).

**Peritoneal dialysis (PD)**
Dialysis treatment method using the patient's peritoneum as a "filter" to cleanse his blood.

**Peritoneal dialysis solution**
Solution introduced into the abdominal cavity of the patient to adsorb toxins and excess water.

**Polyclonal antibodies**
Antibodies that recognize one specific structure, but are produced by different cell clones.

**Sepsis**
Blood poisoning through bacteria, fungi or viruses.

**Stenosis**
Congenital or acquired stricture of hollow organs or vessels.

**Single-use dialyzer**
Dialyzer which is not used several times (reuse) but only one single time.

**TCI (Target Controlled Infusion)**
Target oriented, computed infusion.

**Thrombocytes**
Blood platelets.

**Trifunctional Antibodies**
Antibodies that bind to three different cell types in parallel (e.g. tumor cells, T-cells, and accessory cells) resulting in a tumor-specific immune reaction.

**Vascular access**
Mode of connecting the patient's blood circulation to the dialyzer. The vascular access must allow sufficient blood flows and connections as often as necessary.

**Virostatic agents**
Chemical substances for the therapy of virus-related infections.

## Financial terms

**EBIT**
Earnings before interest and income taxes.

**EBITDA**
Earnings before interest, income taxes, depreciation and amortization.

**I/B/E/S**
Institutional Broker Estimate System.

**ROIC (Return on Invested Capital)**
Calculated by:
(EBIT - taxes) : Invested capital
Invested capital = total assets + amortization of goodwill (accumulated) - deferred tax assets - cash and cash equivalents - trade accounts payable - accruals (without pension accruals) - other liabilities not bearing interest.

**ROOA (Return on Operating Assets)**
Calculated by:
EBIT x 100 : operating assets (average)
Operating assets = total assets - deferred tax assets - trade accounts payable - payments received on account.

**US-GAAP**
United States Generally Accepted Accounting Principles.

**Working Capital**
Current assets (including deferred assets) - accruals - trade accounts payable - other liabilities - deferred charges.

## Products and services

**A.N.D.Y.® · disc-system**
This is a double bag PD system (solution and drainage bag). The dialysate is a lactate-buffered conventional PD solution. The disc guarantees easy and safe handling of the system by the patients.

**ATG-Fresenius (anti T-lymphocyte globulin)**
Protein which suppresses T-lymphocytes.

***balance***
Lactate-buffered peritoneal dialysis solution in a double-chamber bag. When the contents of the two bags are mixed, the ready-to-use solution has a physiological pH value and a lower content of glucose degradation products.

**bicaVera™**
Pure bicarbonate buffered peritoneal dialysis solution in a double-chamber bag. After mixing of the two compartments, the ready-to-use solution has a physiological pH and a highly reduced amount of glucose degradation products.

**DiaSafe™**
Filter to obtain ultra-pure dialysis solution during hemodialysis.

**Dipeptiven®**
Concentrate for addition to infusion solutions for completion of parenteral nutrition regimens for patients who have, or are expected to develop a glutamine deficiency.

**FX-class-dialyzer**
A new generation of dialyzers with increased performance and outstanding biocompatibility. Helixone® capillaries with their special three-dimensional microwave structure are built in high capillary density into a specifically-designed housing which, among other benefits, leads to an optimized flow distribution within the dialyzer.

**Glamin®**
Amino-acid solution for parenteral nutrition.

**Infusion workstation Orchestra®**
Interactive infusion management system for the intensive care unit. Syringe pumps, volumetric pumps and a data management module can be combined. The composition of the workstation can be adjusted to the daily therapy needs by freely selecting the number and position of the modules.

**In-line filter blood bag system**
Blood bag system with integrated filter for leukocyte filtration.

**Intestamin®**
Enteral supplement containing a high dose of glutamine for the treatment of critically ill patients.

**Newton IQ™**
Device for nocturnal automated peritoneal dialysis which enables higher flow rates compared to filling and emptying the bags via gravity.

**On-line Clearance Monitor**
Optional component of a hemodialysis machine to measure online the effective in-vivo dialyzer clearance for quality assurance purposes.

**Optiflux™ dialyzer**
A new Fresenius Polysulfon® dialyzer generation featuring improved clearance rates and outstanding biocompatibility.

**Prometheus®**
Novel extracorporeal blood purification system, used for patients with liver disease to support the liver in its detoxification function.

**Reconvan**
Balanced tube feeding with a high proportion of glutamine, Omega-3 fatty acids and arginine.

# Index

## Financial calendar

| | |
|---|---|
| Report on 1st quarter 2004<br>Conference Call | May 6, 2004 |
| Annual General Meeting,<br>Frankfurt am Main (Germany) | May 28, 2004 |
| Payment of dividend | May 31, 2004 |
| Interim report on the first six months 2004<br>Analysts' Meeting, Bad Homburg v. d. H.<br>Live webcast | August 4, 2004 |
| Report on 1st – 3rd quarters 2004 | November 2, 2004 |
| Analysts' Meeting, Bad Homburg v. d. H.<br>Live webcast<br>Press conference, Bad Homburg v. d. H.<br>Live webcast | |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61346 Bad Homburg v. d. H.

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Corporate Communications
Telephone: ++49 61 72 6 08-23 02
Telefax: ++49 61 72 6 08-22 94
e-mail: pr-fre@fresenius.de


The German version of this annual report is legally binding.

On request, we shall be delighted to send to you the financial statements of Fresenius AG.

You will find further information and current news about our company on our website at:
http://www.fresenius-ag.com

Forward-looking statements:
This Annual Report contains forward-looking statements. These statements represent assessments which we have made on the basis of the information available to us at the time. Should the assumptions on which the statements are based not occur, or if risks should arise – as mentioned in the risk management report - the actual results could differ materially from the results currently expected.


**Design:** Hilger & Boie GmbH, Wiesbaden
**Litho:** mainteam, Aschaffenburg
**Print:** Kempkes, Gladenbach
**Photography:** Lossen Fotografie, Heidelberg
laudafotografia, Buenos Aires, Archiv

## Fresenius Medical Care

### HEMODIALYSIS

- Machines for
  - Hemodialysis
  - Hemodiafiltration
  - Hemofiltration
  - Acute dialysis
  - Plasmafiltration
- Low-flux dialysers (Fresenius-Polysulfone®)
- High-flux dialysers (Fresenius Polysulfone®)
- FX-class dialysers (Helixone®)
- Hemofilters for acute renal replacement therapy
- Plasmafilters
- Dialysis fluid filters
- Tubing systems
- Dialysis cannulae
- Dialysis catheters
- Dialysis concentrates (liquid, dry)
- Hemofiltration solutions
- Irrigation solutions
- Disinfectants
- Water treatment systems
- Analysis devices
- Data management systems

### PERITONEAL DIALYSIS

- Machines and tubing systems for Automated Peritoneal Dialysis (APD)
- Peritoneal dialysis solutions
- CAPD systems
- CAPD double chamber systems
- Peritoneal dialysis catheters
- Accessories

### DIALYSIS CARE

- Dialysis clinics for chronic hemodialysis treatment
- Acute in-patient dialysis treatment
- Training (hemodialysis and peritoneal dialysis)
- Planning and installation of water treatment systems in hemodialysis

### SPECTRA RENAL MANAGEMENT

- Laboratory and diagnostic dialysis-related services
- Data management
- Managed care services for dialysis patients

### LIVER SUPPORT THERAPY

- Devices for liver support therapy
- Albumin filter
- Anion exchanger
- Neutral resin adsorber
- Citrate-Calcium anticoagulation

### THERAPEUTICAL APHERESIS

**LDL-Apheresis:**

- DALI® system

**Immunoadsorption:**

- Prosorba® system

## Fresenius Kabi

### INFUSION THERAPY

- Basic solutions
- Solutions for osmotic therapy
- Irrigation solutions/urology
- Blood volume substitutes
- I.V. anaesthetics
- I.V. drugs and disinfectants
- I.V. catecholamines
- Innovative I.V. packaging systems
- Clinical medical products
  - Application technology
  - Technical equipment for irrigation systems
  - Suprapubic drainage systems
  - In-dwelling venous cannulae
  - Implantable port systems
  - Portable drug pumps

### NUTRITION THERAPY

**Parenteral nutrition:**

- Industrial All-In-One mixtures (3 and 2 chamber bags, All-In-One bags)
- Standard and special amino acid solutions
- Lipid emulsions
- Products for immunonutrition
- Additives
- Compounding systems including empty bags and calculation software for nutrition therapy
- Devices and support tools for parenteral nutrition
- Scientific support and information; training and education

**Enteral nutrition:**

- Nutritional products
  - Standard diets
  - Disease-specific diets
  - Nutritional supplements
- Application technology
  - Transnasal tubes
  - Percutaneous tubes
  - Giving sets
  - Feeding pumps
- Accessories and dressing packs
- Scientific support and information; training and education

### AMBULATORY CARE

- Management and provision of ambulantory therapies:
  - Antiviral, antimyotic, antibiotic and cytostatic infusion therapies
  - Enteral and parenteral nutrition therapies
  - Patient individual concept for home parenteral nutrition
  - Respiratory therapies
  - Wound care
  - Incontinence care
  - Diabetes monitoring
  - Technical service

## Fresenius ProServe

#### INFUSION TECHNOLOGY

- Infusion and clinical fluid data management systems
- Infusion decives and accessories
- Syringe pumps
- I.V. anaesthesia and analgesia systems
- Wound drainage systems
- Volumetric infusion pumps
- Enteral feeding systems
- Dedicated disposables and accessories
- Clinical medical disposables for infusion and wound drainage
- Patient data management system
- Autotransfusion systems
- Mixing devices
- Sealing devices
- Sterile docking devices

#### TRANSFUSION TECHNOLOGY

- Blood bags
- Blood bag systems with integrated leukocyte filters
- Leukocyte filters
- Mixing devices
- Cooling and transportation systems
- Automatic blood component processing systems
- Sealing devices
- Sterile docking devices
- Blood cell separators for
  - Hemapheresis
  - Therapeutic apheresis
  - Multi-component donation
- Stem cell bags
- Processing Solutions

#### WITTGENSTEINER KLINIKEN

Operatin and management of hospitals in Germany

#### HOSPITALIA CARE

Project development and ownership of private residential nursing care facilities; professional management for third parties

#### HOSPITALIA ACTIVHEALTH

Ownership and management of hospitals internationally

#### HOSPITALIA INTERNATIONAL

Worldwide services and xonsultancy on all aspects of the hospital, turn-key realisation and modernisation of health facilities:

- Feasibility studies
- Consultancy
- Project development, management and control
- Design
- Turnkey projects
- Complete medical and technical equipment for hospitals
- Installation
- Staff training
- Maintenance services

#### VAMED

Worldwide projects and services for health facilities:

- Feasibility studies
- Operational and organisational planning
- IT systems planning
- Architectural planning
- Planning of medical-technical equipment and packages
- Medical-technical maintenance
- Buildings technology planning
- Facility management
- Project development and management
- Turn-key projects
- Financial engineering
- General and technical management of health facilities

#### PHARMAPLAN

Engineering and plant design for the pharmaceutical and medical device industry:

- Feasibility studies
- Consulting and engineering
- Turn-key projects
- Validation and quality management
- Logistics and warehousing
- Services for pharmaceutical production
- Training
- Facility management for pharmaceutical companies
- Supply, installation and maintenance of water systems / preparation systems for the pharma industry (Pharmatec)

## Others

#### BIOTECHNOLOGY

- Immunsuppressive agent ATG-Fresenius S
- Fluids and disposables for organ perfusion and preservation
- Cell products for research and clinical application
- Vektor production gene therapy