



## **Annual General Meeting of Fresenius AG on May 25, 2005**

### **Speech of Dr. Ulf M. Schneider, Chairman of the Management Board**

Good morning Ladies and Gentlemen,

On behalf of the Management Board, I would like to welcome you to the Annual General Meeting of Fresenius AG. We are very pleased that so many of you could attend and we appreciate your interest in our company. I would also like to welcome the media representatives, our guests and all listeners who have joined us on the Internet.

#### *Chart 2*

I would like to begin by highlighting the very positive share price development before moving on to the Group's performance in fiscal 2004 and in the first quarter of this year. Then I will give you an outlook for the full year 2005 and finally, I'd like to close by discussing three strategic steps of the Fresenius Group: First, the planned acquisition of the Renal Care Group through Fresenius Medical Care, second, the planned conversion of Fresenius Medical Care's preference shares into ordinary shares in combination with a change of the company's legal form into a KGaA, and third, the expansion of the I.V. drug portfolio of Fresenius Kabi.

#### *Chart 3*

##### **Share price development**

Ladies and Gentleman, solid numbers and a positive outlook have strengthened investors' confidence in Fresenius, which was clearly reflected in the share price growth. I think all of us can be very satisfied with this development.

In 2004, the preference shares gained an impressive 24 % while the ordinary shares rose 16 %. Both share classes significantly outperformed the 7 % growth of the DAX index. Based on the year-end share price of both share classes, the Group's market capitalization at the end of 2004 was nearly € 3 billion, about half a billion euros higher than at the end of 2003.

*Chart 4*

The development of the shares in the first five months of this year is also of interest, especially since they've posted even stronger growth than in 2004. By the end of last week, the ordinary shares have gained 17 % since the end of 2004 while the preference shares have gained exceptional 36 %. Compared to the benchmark indexes shown on the chart, the DAX has increased by 2 % while the M-DAX has gained 9 %. The Fresenius preference share is second best performer in the M-DAX index.

*Chart 5*

**Fiscal year 2004**

Now to the figures for 2004:

We met our ambitious targets for 2004. Fresenius Medical Care and Fresenius Kabi – our two main business segments that account for 90 % of our sales – significantly increased earnings. Fresenius ProServe's strategic realignment and restructuring has paved the way for improved profitability.

*Chart 6*

**Sales**

Group sales increased 8 % in constant currency and 3 % at actual rates to € 7.3 billion. As in 2003, currency translation effects had a significant impact on our financial statements. The dollar played a significant role as it lost on average of 10 % of value in 2004 compared to the euro. However, it's very important to me to emphasize that this had little effect on our operational business. Our worldwide production network allows us to largely compensate for fluctuations in the exchange rates by keeping our costs and revenues well matched in a single currency region. For this reason, I prefer to present the following growth rates in constant currency as this reflects the real performance of the Group in the fiscal year.

It's also important to me to mention the organic sales growth. In 2004, this growth was 6 % which is equivalent to € 435 million. This is nearly half a billion euros achieved through our own efforts – that means, without acquisitions.

*Chart 7*

Now to sales by region. The left side of this chart shows our international sales distribution. As you can see, North America is our biggest market, representing 48 % of group sales followed by Europe with 39 %. The right side shows the growth in the respective regions. North America performed strongly with an excellent 9 % growth. The growth in Europe was lower at 4 % due to cost cuts and price pressure in the health care sector in Germany. Excluding Germany, growth in Europe was 7 %. In Asia-Pacific, Latin America and Africa growth was clearly in the double digits. These markets are of great importance to us in the future. Demand for our products in these regions continuously increases and the health care systems evolve which leads to opportunities to improve the level of care.

*Chart 8***Earnings**

This chart shows the development of our group earnings and, again, I'd like to highlight the constant currency growth rates. Group earnings were driven by Fresenius Medical Care and Fresenius Kabi which both posted excellent results. In addition, lower one-time restructuring expenses at Fresenius ProServe as well as lower interest expenses had a positive impact on group earnings. EBIT rose 15 % to € 845 million, net income increased 55 % to € 168 million. I would like to mention that 2003 earnings included one-time expenses of € 32 million after tax. Excluding the one-time expenses in 2003 and 2004, constant currency net income would have increased 25 % which is an exceptional achievement.

*Chart 9***Dividends**

Dear shareholders, for the twelfth consecutive year we propose a dividend increase in agenda item 2. The proposed dividend for each ordinary share is € 1.35 and for each preference share € 1.38, an increase of 10 % for both share classes. The total dividend distribution is about € 56 million. This underlines our commitment to an earnings-driven dividend policy. Assuming a continued positive earnings development we intend to continue this policy for the year 2005.

Now I would like to thank all employees on behalf of the Management Board. Their excellent performance and their full commitment was key to the company's success. They coped with a challenging market environment – both nationally and internationally – and increased the already high acceptance of our products and therapies.

Let us take a look at the performance of the business segments.

*Chart 10*

Fresenius Medical Care is the world's largest provider of products and therapies for patients with chronic kidney failure. Our goal remains to improve the quality of treatment for our patients. In the United States, all of our clinics have by now been converted to the *UltraCare* treatment concept, which includes treatment with single-use dialyzers. This treatment method has been thoroughly analyzed since its introduction in the United States. The data show that the single-use of dialyzers can lead to a higher survival rate mid- to long-term. With the development of new products we also continue to improve treatment quality. We completed the development of a new dialysis machine that has a large number of new technical components and improved processes. This machine will be introduced in early June. We are also putting considerable effort into the continued development of dialyzers.

All of these initiatives contribute to the continuous positive development of Fresenius Medical Care. This is reflected in the 2004 figures where Fresenius Medical Care can look back on an exceptional year. Sales grew 13 % to US\$ 6.2 billion. A 9 % increase was achieved in the United States, which accounts for 68 % of total sales. In Europe and Latin America the business also developed very well. We were able to grow significantly faster than the market in many countries, mainly due to the good acceptance of our dialysis products.

Earnings also showed remarkable growth rates. EBIT rose 13 % to US\$ 852 million, net income increased 21 % to US\$ 402 million. Overall we are very pleased by 2004.

*Chart 11*

Now to our second-largest business segment - Fresenius Kabi. Fresenius Kabi offers products for infusion therapies and clinical nutrition for patients in the hospital and in the outpatient environment.

In 2004, we focused on the further internationalization of Fresenius Kabi. We strengthened our worldwide presence through several acquisitions which are marked on this map. In South Africa we acquired Isotec to further expand our activities there. Isotec manufactures and markets infusion solutions for parenteral nutrition. This acquisition strengthens our market position in South Africa and the entire southern part of the African continent, which has a population of more than 200 million people.

We also expanded our presence in Australia with the purchase of a 25.1 % stake in Pharmatel which we will increase to 50.1 % by 2006. Pharmatel is one of the market leaders in the compounding of intravenously administered drugs for cancer patients. In South Korea we increased our stake in our subsidiary from 80 % to 100 %. In early 2005, we announced to expand our position in China by increasing our stake in our joint venture BFP from 65 % to 100 %. This joint venture was founded in 1994.

We also strengthened our position in Europe and acquired the company Infusia in the Czech Republic in the first quarter of 2005. Through this acquisition, Fresenius Kabi is one of the leading companies in infusion solution and clinical nutrition in the Czech Republic and Slovakia.

*Chart 12*

Fresenius Kabi had a very active and successful year. The company achieved sales of about € 1.5 billion. The organic growth was 5 %. With that, Fresenius Kabi's sales growth outpaced the market. Sales performance was especially strong in Asia-Pacific and Latin America. In China alone we had constant currency growth of 25 %. Excluding Germany, business developed excellently in Europe. The health care reform in Germany, our most important country market, led to a sales decrease of 6 %.

Operating profit developed exceptionally. EBIT increased 20 % to € 176 million. The EBIT margin rose from 10.0 % in 2003 to 11.8 % in 2004.

*Chart 13*

Key decisions for the future were taken at Fresenius ProServe. The company simplified its organizational structure and is now focused on the following three core businesses that can be seen on this chart: hospital management in Germany with Wittgensteiner Kliniken, hospital engineering and services, known as VAMED, and engineering and services for the pharmaceutical industry with Pharmaplan. In 2004, the nursing home business hospitalia care was sold and the international hospital management business hospitalia activHealth closed. At the same time we took further steps to improve the profitability. Significant efforts were made to reduce personnel and material costs and to further optimize operations.

*Chart 14*

The economic situation of Fresenius ProServe improved. Sales rose 10 % to € 813 million, mainly due to the good performance of VAMED. EBIT was € 9 million including planned one-time expenses of € 8 million. EBIT before one-time expenses was € 17 million. For Fresenius ProServe, 2004 was a difficult but overall satisfactory year. The reorganization and restructuring steps at Fresenius ProServe should contribute to further earnings improvements.

*Chart 15*

Ladies and Gentlemen, the development of new therapies for the treatment of life-threatening diseases is very important to us. Fresenius Biotech is focused on the development of antibody therapies for the treatment of cancer and cell therapies for the treatment of the immune system. We invested € 28 million last year and will continue to invest. In 2005, we expect between € 35 and € 40 million.

Let me now report on the progress of a few clinical studies in oncology:

We started three clinical studies in 2004. After very good results of a phase I study on the treatment of malignant ascites in ovarian cancer, we started a Europe-wide phase II/III study. We expect first results from this study in the second half of next year. The same applies to a phase I study evaluating treatment of patients with malignant pleural effusion. In the treatment of ovarian cancer we started a phase IIa study. We expect to have first results in the first half of 2006.

We also completed two phase I studies – one for the treatment of peritoneal carcinomatosis and one for breast cancer. The final reports of both studies were presented to the international scientific community last Tuesday at the Annual Meeting of the American Society of Clinical Oncology (ASCO). These data were received very positively. Based on the encouraging results we are preparing a phase II study for the treatment of breast cancer and a phase II study for the treatment of gastric cancer. Both studies are expected to start by the end of this year.

Although we are at a very early stage of the clinical development, we are convinced that these new therapies will create new perspectives for Fresenius. We expect Fresenius Biotech's first products to enter the market at the end of 2007.

*Chart 16***First quarter of 2005**

Ladies and Gentleman, I would now like to discuss the business performance of the first quarter of 2005. We have had an excellent start into the new year. Sales in constant-currency rose 6 % to € 1.79 billion. We are also very satisfied with the earnings development. EBIT rose 10 % in constant currency to € 212 million. Net income increased 21 % in constant currency to € 46 million. This increase is mainly due to the strong earnings growth at Fresenius Medical Care and Fresenius Kabi. In addition, lower net interest expense had a positive effect.

*Chart 17*

Fresenius Medical Care continued its excellent sales and EBIT growth. The successful business performance in the United States and Europe resulted in the strong 10 % sales increase.

The successful sales development also drove earnings. EBIT rose 11 % to US\$ 220 million, net income increased 18 % to US\$ 107 million. Europe and the United States were again the main contributors.

This positive development is expected to continue in 2005. Fresenius Medical Care has confirmed its outlook for the year and forecasts revenue growth in constant currency between 6 and 9 % and net income growth in the low double-digit range. This outlook does not include the acquisition of the Renal Care Group, which I will discuss later.

*Chart 18*

Now to Fresenius Kabi. We are very satisfied with this business segment which continues to impress with its earnings performance. EBIT rose 27 % in the first quarter of 2005 to € 52 million while the EBIT margin improved further to 13.1 %. This is a significant increase compared to the 11.3 % of the first quarter of 2004 as well as to the 12.2 % of the fourth quarter of 2004. Fresenius Kabi has continually improved its margins, winning the recognition of many investors.

We are also very pleased with the sales growth of Fresenius Kabi. Sales increased 10 % to € 398 million. Organic growth was 5 % and acquisitions contributed 5 % as well. Currency exchange effects of +1 % were offset by the -1 % impact of divestments. I would like to focus on the performance in Germany where the situation has improved. Fresenius Kabi achieved a 2 % sales growth in the first quarter of 2005 after we had to face a decline in 2004 as I have mentioned before. We expect that we will be able to continue this trend for all of 2005.

Fresenius Kabi has also reiterated its outlook for the full year. Constant currency sales are expected to increase by about 10 % and the EBIT margin is projected to be greater than 13 %.

*Chart 19*

Our problem division of 2003 and 2004 is on the recovery path. Fresenius ProServe was able to increase EBIT to € 3 million in the first quarter of 2005. Sales were impacted by delays in hospital projects and by continued investment caution of the pharmaceutical industry when it comes to investment spending. This resulted in a 14 % decline in sales compared to the previous year. Organic sales decreased by 10 % at Fresenius ProServe. As I mentioned earlier, we sold or closed some business units in 2004.

Based on an improving order situation, Fresenius ProServe expects to increase organic sales by 5 to 8 % in 2005 and to achieve an EBIT between € 20 to € 25 million – a significant improvement compared to the € 17 million of 2004.

One topic on today's agenda relates to Fresenius ProServe. We ask for your approval to update the profit and loss transfer agreement between Fresenius AG and Fresenius ProServe GmbH, which is 100 % owned by Fresenius AG. We are adjusting the contract to meet the Group's standards.

*Chart 20*

Ladies and Gentlemen, I have just given you the 2005 outlook for the business segments. For the Group, these add up to exceptional expectations in sales and earnings growth. We expect to increase constant-currency sales between 6 and 9 %. Net income growth is projected to grow by 15 to 20 % in constant currency. With a 21 % increase in the first quarter of 2005 we are well on our way to achieve our ambitious targets. We have increased our capital expenditure program. After moderate spending in the past three years we want to step up investments and expect a volume of € 400 to 450 million for the Group.

Fresenius Medical Care's acquisition of the Renal Care Group is not included in the outlook I just provided. We expect to complete this important acquisition in the fall of 2005.

*Chart 21***Optimizing existing activities, pursuing strategic opportunities**

In the final part of my speech I would like to address the points that we see as a top priority for the continued successful development of our company. On the one hand, that is the further optimization of the existing activities and, on the other, pursuing the strategic opportunities that are available to our company.



*Chart 22*

We continuously strive to increase our profitability and have made good progress. We have increased the margins at Fresenius Medical Care and Fresenius Kabi. We will continue to optimize our existing activities in the years ahead. We have started a number of initiatives to further reduce our production costs. This includes streamlining processes, optimizing the use of materials and reducing purchasing costs and leveraging on innovative technologies. In addition, we are improving our administrative activities. As a result, we see further potential to increase the operating margin at Fresenius Medical Care and Fresenius Kabi. Our goals are set. At Fresenius Medical Care – before the acquisition of the Renal Care Group – we want to be in the range of 15 % while at Fresenius Kabi we are striving for an EBIT margin of about 15.5 % by the year 2007.

The restructuring steps in 2003 and 2004 at Fresenius ProServe are expected to lead to improved earnings in the mid-term. The first positive outcomes from these measures should be visible in 2005. In light of the ongoing discussion of cost reduction in the German hospital sector, we have to keep an eye on our material and personnel costs on a continued basis.

Strengthening our cash flow financing capability is another key task. Continuously increasing earnings and strict working capital management are key contributors. Here we have various projects underway including a further reduction in the days sales outstanding and the scope of inventories.

Let me summarize the relevance of all these actions:

The optimization of our operations and a sustainable strong cash flow performance provide the basis to widen our strategic options.

*Chart 23*

The health care market offers us unique strategic perspectives. This market shows three main characteristics that are key to our business – it is global, it is driven by innovation and the demand continuously increases. Fresenius has made these three characteristics its own by going global early and by meeting the market's growing need and demand for innovation with novel products and therapies.

This is reflected by the sales and earnings figures that are shown here over a 10-year period. We will continue to follow our current path and use the strategic perspectives that are offered to us – with courage but also with commercial prudence.

We have emphasized the theme "perspectives" in our 2004 Annual Report. Strategic perspectives allow a company to achieve exceptional and sustainable success. I will now follow this theme and report on two important strategic steps for our business and the planned change in the capital structure and legal form at Fresenius Medical Care that will allow us to finance our growth plans in the future.

*Chart 24*

The acquisition of the Renal Care Group by Fresenius Medical Care is a key strategic opportunity. In early May, Fresenius Medical Care entered into a definitive agreement to acquire Renal Care Group, a US dialysis care company. Renal Care Group is fast-growing and highly profitable. Sales in 2004 were approximately US\$ 1.35 billion and net income was US\$ 122 million. The EBIT margin of 18.9 % is significantly higher than the current margin of Fresenius Medical Care.

This chart shows a map of the dialysis clinics operated by Fresenius Medical Care and Renal Care Group in the United States. On a combined basis the two will operate more than 1,560 clinics and care for around 117,000 patients. The acquisition is an excellent fit to Fresenius Medical Care's US operations and will enhance its leadership position in dialysis care and expand its product business.

This acquisition is part of a Fresenius tradition of large, courageous steps that were marked by strategic visions and operational discipline. For the Group, the acquisition is of equal importance with the purchase of National Medical Care in 1996 and the purchase of the infusion solution business of Pharmacia & Upjohn in 1998.

We are using the opportunity created by the global and regional consolidation of the market and decisively pursue our goal of the continued strategic expansion of our business. At the same time, our efforts are defined by strict commercial prudence. Experienced management, solid operational plans and a thorough integration process ensure success.

*Chart 25*

Perspectives also arise from strong organic growth that are the result of previous strategic initiatives. I would like to use Fresenius Kabi as an example. Another acquisition served as the platform for growth in this case. The purchase of the Portuguese company Labesfal provided Fresenius Kabi with a basis for this organic growth. Fresenius Kabi significantly expanded its portfolio of intravenously administered drugs and will offer these products in Europe once regulatory approval is received. Labesfal is an excellent strategic fit to Fresenius

Kabi. The combination of Labesfal's high-quality products and Fresenius Kabi's broad marketing network allows for a fast Europe-wide market entry beginning in 2007. We have built the basis for sustainable growth into a new market. The market we are entering with Labesfal's products is worth about € 1.2 billion in Europe alone. Today Fresenius Kabi has a market share of over 10 % and significant additional growth potential.

*Chart 26*

Fresenius will stay committed to growth in the future. Growth, Ladies and Gentlemen, requires capital. We are focusing on improving our financing capability through strong cash flow. In addition, we want to increase our financial flexibility while retaining our conservative, sound financing policy.

The announced change of Fresenius Medical Care's legal form from a stock corporation, ("Aktiengesellschaft"), into a "Kommanditgesellschaft auf Aktien" allows for further profitable growth while securing the financial flexibility of Fresenius Medical Care. In conjunction with this step, Fresenius Medical Care plans to create one share class and is offering preference shareholders the opportunity to convert their shares into ordinary shares by paying a premium. This will improve the liquidity and attractiveness of the ordinary shares. At the same time, the share structure will be simplified. Finally, the position of Fresenius Medical Care in the DAX ranking will improve.

Through the KGaA structure Fresenius AG will retain its current management control and continues to fully consolidate Fresenius Medical Care in its financial statements. This is possible even though Fresenius AG's stake in Fresenius Medical Care's voting shares will fall below 50 % when the non-voting preference shares are converted into ordinary shares. As long as Fresenius AG maintains ownership of more than 25 % of the share capital of Fresenius Medical Care, Fresenius AG will retain management control over the company. This flexibility will allow the company to finance its growth efficiently. At the same time, it is important to us that this structure allows to continue the current high standards of corporate governance at Fresenius Medical Care.

*Chart 27*

It is our strategic goal to be a worldwide leading health care company providing products and therapies to severely ill people. Fresenius Medical Care is a key component of this strategy and has been always been a core business of the Fresenius Group. We have contributed significantly to the expansion and globalization of this business segment over many years. The continued management control and consolidation of Fresenius Medical Care in the financial statements of the Group is important to us. The links between Fresenius Medical Care and other business segments provide tangible financial value and are beneficial to all sides.

Just think of purchasing – where we are able to increase volumes to achieve better prices – or of the joint use of the group infrastructure or production facilities, to name a few examples.

Ladies and Gentlemen, Fresenius has promising future growth opportunities. The right capital structure will allow the Group to be a key player in the worldwide consolidation of the health care market. It is our goal to be the leader in our business segments. Through the acquisition of the Renal Care Group, Fresenius Medical Care will achieve a unique position in dialysis. We will also continue to expand at Fresenius Kabi, Fresenius ProServe and Fresenius Biotech. Fresenius Kabi will strengthen its regional network and continue to build its business with intravenously administered drugs. Improving earnings remains the top priority at ProServe. Fresenius Biotech will concentrate on successfully continuing its clinical study program. We are committed to profitable growth combined with solid financial management, which will be beneficial to our shareholders. I would like to thank you for your faith in the Group and for your continued trust as we pursue this path.

Thank you very much for your attention.

The spoken word takes precedence.