Fresenius SE

Bad Homburg v.d.H.

2008

- Financial Statements
- Management Report
- Report of the Supervisory Board

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

Fresenius Societas Europaea
Bad Homburg v. d. Höhe

Balance Sheet as of December 31, 2008

A s s e t s

	Note	December 31, 2008		December 31, 2007	
		TEUR	TEUR	TEUR	TEUR
A. Fixed assets	(3)				
I. Intangible assets			53		93
II. Property, plant and equipment			76,158		74,263
III. Long-term investments and loans			3,710,221		2,812,458
			3,786,432		2,886,814
B. Current assets					
I. Accounts receivable and other assets					
1. Accounts receivable due from affiliated companies	(4)	619,395		788,046	
2. Other assets	(4)	31,914	651,309	37,705	825,751
II. Other securities	(5)		5,592		5,467
III. Cash and cash equivalents	(7)		1,621		31
			658,522		831,249
C. Deferred income	(8)		2,193		1,121
			4,447,147		3,719,184

Liabilities and shareholders' equity

	Note	December 31, 2008		December 31, 2007	
		TEUR	TEUR	TEUR	TEUR
A. Shareholders' equity					
I. Subscribed capital	(9, 10, 11, 12)				
1. Ordinary shares conditional capital I TEUR 682; prev. yr. TEUR 768) conditional capital II TEUR 2,209; prev. yr. TEUR 2,365) conditional capital III TEUR 3,100; prev. yr. TEUR 0)		80,571.9		77,582.5	
2. Preference shares conditional capital I TEUR 682; prev. yr. TEUR 768) conditional capital II TEUR 2,209; prev. yr. TEUR 2,365) conditional capital III TEUR 3,100; prev. yr. TEUR 0)		80,571.9	161,144	77,582.5	155,165
II. Capital reserves	(13)		1,828,610		1,532,772
III. Other reserves	(14)		641,984		440,245
IV. Retained earnings	(15)		201,810		103,256
			2,833,548		2,231,438
B. Special reserve for investment government grants	(16)		16		17
C. Accrued expenses	(17)				
1. Pensions and similar obligations			20,160		17,989
2. Accruals for income taxes			28,800		27,169
3. Other accruals			47,305		26,709
			96,265		71,867
D. Liabilities	(18)				
1. Convertible bonds			596		595
2. Bank loans			267,352		200,085
3. Trade accounts payable			7,019		569
4. Liabilities from affiliated companies			1,233,931		1,204,215
5. Other liabilities			8,420		10,398
			1,517,318		1,415,862
			4,447,147		3,719,184

Fresenius Societas Europaea
Bad Homburg v. d. Höhe

Statement of Income
January 1 to December 31, 2008

	Note	2008	2007
		TEUR	TEUR
1. Income from participations	(21)	511,526	193,583
2. Other operating income	(22)	252,297	51,761
3. Personnel expenses	(23)	-26,070	-25,608
4. Depreciation and amortization on intangible assets and on property, plant and equipment	(24)	-3,936	-4,028
5. Other operating expenses	(25)	-248,700	-43,707
6. Net interest	(27)	-62,876	-30,748
7. Profit from ordinary operations		422,241	141,253
8. Income taxes	(28)	-18,396	-2,117
9. Other taxes		-367	-211
10. Net Income		403,478	138,925
11. Retained earnings brought forward		71	331
12. Increase in other reserves		-201,739	-36,000
13. Retained earnings		201,810	103,256

Notes Fresenius SE

(1) Structure

The Fresenius Group is as of December 31, 2008 divided into four legally independent business segments:

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

As of January 1, 2008, Fresenius ProServe was replaced by two new business segments – Fresenius Helios and Fresenius Vamed.

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

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

The list of investments of Fresenius SE, registered in Bad Homburg v.d.H., will be filed at the electronic German Federal Bulletin and deposited at the Business Register.

(2) Accounting principles and standards of valuation

The accounting principles and standards of valuation remained unchanged in comparison to prior year.

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

The value of i**nvestments in property, plant and equipment** is stated at the cost of the assets less regular linear or – if allowed by tax regulations – degressive depreciation.

The following useful lives were used for calculating amortization:

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

Low value fixed assets as defined in section 6 paragraph 2 of the German Income Tax Law with purchase or manufacturing cost of up to €150.00 are fully written off in the year of acquisition.

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

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

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

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

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

Pension obligations are calculated using reference tables established by Dr. Klaus Heubeck 2005 (RT 2005 G) as well as interest of 6% in accordance with section 6a of the German Income Tax Law.

Tax accruals and other accruals are built for recognizable risks and uncertain liabilities on basis of a reasonable commercial assessment.

Provisions for employees' anniversaries are calculated using the “Teilwertverfahren” with an annual interest of 5.5%.

Liabilities are valued at repayment amount.

Securities lendings are measured at their expected repayment amount.

Foreign currency items are translated at the mean rate at the time of origin or the hedging rate for hedging transactions. Exchange-rate losses on the closing date are included.

Foreign currency items with matching maturities, amounts and currencies, are treated as a valuation unit and are not translated.

Fresenius SE closes interest rate hedging instruments for its affiliated companies. These instruments are partly transferred to the affiliated companies. In such cases Fresenius SE considers the internal and external transaction as a valuation unit and does not build any contract loss provisions.

Accruals are build for the negative fair value on balance sheet date of interest rate swaps.

Notes on balance sheet

(3) Fixed Assets

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

	Acquisition and Manufacturing Costs					
in thousand €	As of January 1, 2008	Additions	transfer affil. Comp. +/-	Disposals	Reclassifications	As of December 31, 2008
Intangible Assets						
Concessions, industrial and similar rights and assets, licenses	1,922	7	0	0	0	1,929
	1,922	7	0	0	0	1,929
Tangible Assets						
Land, leasehold and buldings including buildings on third party property	112,444	4,445	0	0	91	116,980
Plant and machinery	332	69	0	0	14	415
Other fixtures and fittings, tools and equipment	7,170	1,168	7	138	140	8,347
Payments on account and tangible assets in course of construction	245	107	0	0	-245	107
	120,191	5,789	7	138	0	125,849
Financial assets						
Shares in affiliated companies	2,515,822	855,402	0	0	0	3,371,224
Loans to related companies	295,664	337,671	0	295,664	0	337,671
Securities	424	255	0	0	0	679
Other loans	1,000	0	0	0	0	1,000
	2,812,910	1,193,328	0	295,664	0	3,710,574
Non-current Assets	2,935,023	1,199,124	7	295,802	0	3,838,352

Notes

	Depreciation						Carrying Amount	
	Cumulated Depreciation as of January 1, 2008	Additions	transfer affil. Comp. +/-	Disposals	Write-up	Cumulated Depreciation as of December 31, 2008	December 31, 2007	December 31, 2007
in thousand €								
Intangible Assets								
Concessions, industrial and similar rights and assets, licenses	1,829	47	0	0	0	1,876	53	93
	1,829	47	0	0	0	1,876	53	93
Tangible Assets								
Land, leasehold and buildings including buildings on third party property								
Plant and machinery	39,770	3,105	0	0	0	42,875	74,105	72,674
Other fixtures and fittings,	201	38	0	0	0	239	176	131
tools and equipment								
Payments on account and tangible assets	5,957	747	3	130	0	6,577	1,770	1,213
in course of construction								
	0	0	0	0	0	0	107	245
	45,928	3,890	3	130	0	49,691	76,158	74,263
Financial assets								
Shares in affiliated companies								
Loans to related	188	0	0	0	0	188	3,371,036	2,515,634
companies								
Securities	264	0	0	264	0	0	337,671	295,400
Other loans	0	165	0	0	0	165	514	424
	0	0	0	0	0	0	1,000	1,000
	452	165	0	264	0	353	3,710,221	2,812,458
Non-current Assets	48,209	4,102	3	394	0	51,920	3,786,432	2,886,814

Financial Assets

As of December 31, 2008 Fresenius SE owns stakes in the following domestic management companies for business segments:

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

The percentage of Fresenius Medical Care AG & Co. KGaA´s (“FMC-AG & Co. KGaA”) total subscribed capital (ordinary and preference shares) held by Fresenius SE at the end of fiscal year 2008 was 35.80% (previous year 35.95%).

On December 31, 2008, Fresenius SE continued to hold all of the subscribed capital of the management companies of the business segments Fresenius Kabi (Fresenius Kabi AG) and Fresenius Helios as well as Fresenius Vamed (Fresenius ProServe GmbH).

Fresenius SE holds 100% in Fresenius Biotech Beteiligungs GmbH.

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

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

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

Non-current assets’ securities

In accordance with legal regulations the credit balances of partial retirement agreements are secured against insolvency. Therefore the company buys shares of a money-market-similar investment fund in the amount of the cumulated credit balances. The collateral is done via pledging the investment fund shares to a trustee. The amount of the investment fund shares hold as of December 31, 2008 was €514 thousand.

(4) Accounts receivable and Other Assets

	Dec 31, 2007	Dec 31, 2008
in thousand €		
Accounts receivable from related parties	788,046	619,395
(amount with a remaining term of more than 1 year)	(36,387)	(34,266)
Other assets	37,705	31,914
(amount with a remaining term of more than 1 year)	-	-
	825,751	651,309

The Accounts receivable to affiliated companies are composed of loans and finance-related accounts of €618,611 thousand (previous year €787,724 thousand) and trade accounts receivable of €784 thousand (previous year €322 thousand).

The main reason for the decrease of the accounts receivable to affiliated companies by €169,113 is the repayment of short-term loans.

Other Assets mainly contain tax receivables. Furthermore receivables for social security reasons of €29 thousand (previous year €27 thousand) are also included.

(5) Other Securities

Fresenius SE holds trust preferred securities from the Fresenius Medical Care Trust IV at a nominal value of US$ 8.0 million and an issue price of 98.295%.

(6) Own Shares

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

The agreement reached between the Works Council and the Management Board in February 2008 is used as the basis for distributing the shares. The agreement awards €1,525.50 of profit-sharing to each full-time employee for 2007 as well as the employer contribution for social security payments. Shares were used for about two-thirds of the profit-sharing payment and employees are given a choice of cash or additional shares for the remaining third. Employees that opt for additional shares are awarded one additional share. The price determination for the shares and bonus shares in the profit-sharing program was made on May 23, 2008.

To be eligible for the program, employees must have had three years of continuous employment at Fresenius SE on December 31, 2007, its direct affiliated companies or affiliated companies of Fresenius Kabi and certain other affiliated companies as identified in the Works Council agreement. Eligible employees must have not been under notice or in an executive position, as defined by Fresenius, on December 31, 2007. Intercompany transfers are counted in full.

The following preference shares were purchased and distributed or re-sold as part of the Fresenius SE profit-sharing program for 2007:

	Date	Number	price in € per share
Purchase	02.07.2008	32,000	53.49
Purchase	03.07.2008	5,000	53.50
Disbursement	04.12.2008	34,997	54.13
Sale	16.12.2008	506	37.98
Sale	16.12.2008	1,090	38.00
Sale	16.12.2008	187	38.00
Sale	16.12.2008	220	38.05

Purchased shares with a nominal value of €37,000.00 and committed shares with a nominal value of €34,997.00 represented 0.023% and 0.0217% of the subscribed capital respectively.

(7) Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks.

(8) Deferred income

Deferred income mainly concerns the prepayment of the Directors&Officers-Insurance (D&O-Insurance) for top managers.

(9) Subscribed Capital

On August 15, 2008, Fresenius SE successfully closed a capital increase to finance the acquisition of APP Pharmaceuticals, Inc.. In connection with the capital increase, 2,748,057 new ordinary shares were issued at a price of €52.00 and 2,748,057 new preference shares were issued at a price of €53.00. The transaction has generated gross proceeds of approximately €289 million and increased the subscribed capital by €5.5 million. The new shares will have full dividend entitlement for the fiscal year 2008.

During the fiscal year 2008, 482,850 stock options were exercised.

Accordingly, at December 31, 2008, the subscribed capital of Fresenius SE was divided into 80,571,867 bearer ordinary shares and 80,571,867 non-voting bearer preference shares. The shares are issued as non-par value shares. The proportional amount of the subscribed capital is €1.00 per share.

The subscribed capital developed as follows:

in thousand €	2008
As of January 1	155,165
Increase from capital increase	5,496
Increase due to exercise of stock options	483
As of December 31	161,144

(10) Notification by share holders

The contents of the notifications disclosed in accordance with § 26 (1) WpHG by the balance sheet date are set out below. These reflect the most recent notifications made to Fresenius SE about the level of investments held:

The Else Kröner-Stiftung notified Fresenius SE on December 14, 2008, that it holds 46,871,154 ordinary shares of Fresenius SE representing 58.17% of the voting rights.

On May 28, 2008, FIL Limited, Hamilton, Bermuda, crossed above the threshold of 5% of the voting rights in Fresenius SE, Else-Kröner-Straße 1, 61352 Bad Homburg v.d.H., Germany. On that date, FIL Limited held 5.19% of the voting rights in Fresenius SE arising from 4,028,297 voting rights. All voting rights in Fresenius SE were attributed to FIL Limited pursuant to section 22 (1) sentence 1 no. 6 WpHG.

Furthermore, Fidelity International, with its registered office in Great Britain, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RB, notified Fresenius SE in the name of and on behalf of Fidelity Investment Trust, Boston, Massachusetts, USA, pursuant to Section 21 (1) WpHG of the following: On January 22, 2008, Fidelity Investment Trust exceeded the threshold of 3% of voting rights in Fresenius SE, Else-Kröner-Strasse 1, 61352 Bad Homburg v.d.H., Germany. On that date, Fidelity Investment Trust held 3.02% of the voting rights in Fresenius SE arising from 2,341,614 voting rights.

Artio Global Management LLC , with its registered office in New York, USA, has notified Fresenius SE pursuant to section 21 (1) WpHG that on December 16, 2008 its voting rights in Fresenius SE, Else-Kröner-Str. 1, 61352 Bad Homburg v.d.H., Germany, crossed below the threshold of 3% and amounted to 2.97% (equivalent to 2,396,313 voting rights) in relation to the total number of voting rights of the issuer. The voting rights in the amount of 2.97% (equivalent to 2,396,313 voting rights) are entirely attributable to Artio Global Holdings LLC, pursuant to section 22 (1) sentence 1 no. 6 WpHG in connection with section 22 (1) sentence 2 WpHG.

All notifications by shareholders in the fiscal year 2008 are published on the website of the company www.fresenius.com under Investor Relations/The Fresenius Shares/Shareholder Structure.

(11) Approved capital

The Management Board is authorized, with the agreement of the Supervisory Board, to increase the subscribed capital of Fresenius SE in accordance with the General Meeting's resolutions on approved capital. The Approved Capital II of originally €5,496,115.20 was utilized for the capital increase of €5,496,114.00 in August 2008. Hence, there are two authorizations:

- Authorization to increase the subscribed capital by a maximum nominal amount of €12,800,000.00 by May 9, 2011 through one or more issues of bearer ordinary shares and/or non-voting bearer preference shares against contribution in cash and/or assets in kind (Approved Capital I).

- Authorization to increase the subscribed capital by a maximum nominal amount of €1.20 by May 9, 2011 through one or more issues of bearer ordinary shares and/or non-voting bearer preference shares against contribution in cash and/or assets in kind (Approved Capital II). Shareholders' preemptive rights of subscription can be excluded. Approved Capital II has been reduced from €6,400,000.00 to €1.20 as a result of financing the acquisitions of HUMAINE in 2006 and APP Pharmaceuticals in 2008.

The approved capitals have developed as follows in 2008:

Approved capital I *in thousand €*	2007	2008
As of January 1	12,800	12,800
Changes	0	0
As of December 31	12,800	12,800

Approved capital II *in thousand €*	2007	2008
As of January 1	5,496	5,496
Capital increase	-5,496	-5,496
As of December 31	-	-

(12) Conditional capital

Reflecting the stock option plans, the Conditional Capital of Fresenius SE is divided into Conditional Capital I, Conditional Capital II and Conditional Capital III which exist to secure the subscription rights in connection with already issued stock options on bearer ordinary shares and bearer preference shares of the Stock Option Plans of 1998 and 2003 (see Note 12, Stock Options Plans).

On May 21, 2008, Fresenius SE's Annual General Meeting has resolved upon the Fresenius SE Stock Option Plan 2008 (2008 Plan) by authorizing the granting of subscription rights to members of the Management Board and managerial employees of the Company and affiliated companies. To fulfill the subscription rights under the 2008 Plan, the subscribed capital of Fresenius SE was increased conditionally by up to €6.2 million through the issue of up to 3.1 million no par value bearer ordinary shares and 3.1 million no par value bearer preference shares (Conditional Capital III). The amendments to the Articles of Association became effective upon the registration in the commercial register on July 11, 2008.

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

	ordinary shares	preference shares
	€	€
As of January 1, 2008	768,306	768,306
Decrease due to exercise of stock options	-85,839	-85,839
As of December 31, 2008	682,467	682,467

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

	ordinary shares	preference shares
	€	€
As of January 1, 2008	2,364,711	2,364,711
Decrease due to exercise of stock options	-155,586	-155,586
As of December 31, 2008	2,209,125	2,209,125

The Conditional Capital III for the Fresenius SE Stock Option Plan 2008 has developed as follows:

	ordinary shares	preference shares
	€	€
As of January 1, 2008	0	0
Increase from capital increase	3,100,000	3,100,000
As of December 31, 2008	3,100,000	3,100,000

Stock Option Plans

On December 31, 2008, Fresenius SE had three stock option plans in place; the Fresenius AG Stock Option based Plan of 1998 (1998 Plan), the Fresenius AG Stock Option Plan 2003 (2003 Plan) which is based on convertible bonds and the new stock option based Fresenius SE Stock Option Plan 2008 (2008 Plan). The latter is the only plan under which stock options were granted during 2008.

Fresenius SE Stock Option Plan 2008

On May 21, 2008, Fresenius SE's Annual General Meeting has resolved upon the Fresenius SE Stock Option Plan 2008 (2008 Plan) by authorizing the granting of subscription rights to members of the Management Board and managerial employees of the Company and affiliated companies. To fulfill the subscription rights under the 2008 Stock Option Plan, the subscribed capital of Fresenius SE was increased conditionally by up to €6.2 million through the issue of up to 3.1 million no par value bearer ordinary shares and 3.1 million no par value bearer preference shares.

Under the 2008 Plan, up to 6.2 million options can be issued, which carry entitlement to obtain 3.1 million ordinary shares and 3.1 million preference shares. Up to 1.2 million options are designated for members of the Management Board of Fresenius SE, up to 3.2 million options are designated for members of the management of directly or indirectly affiliated companies (except for Fresenius Medical Care) and up to 1.8 million options are designated for managerial staff members of Fresenius SE and its affiliated companies (except for Fresenius Medical Care). With respect to the members of Fresenius SE's Management Board, the Supervisory Board has sole authority to grant stock options and administer the 2008 Plan. The Management Board of Fresenius SE has such authority with respect to all other participants in the 2008 Plan. Options under the 2008 Plan can be granted in five tranches with effect as of the first bank working day in July and/or the first bank working day in December. The exercise price of options shall be the average closing price of Fresenius SE's ordinary shares and preference shares, respectively, on the Frankfurt Stock Exchange during the 30 trading days immediately prior to each grant date. For participants in the United States, the exercise price may be the average closing price of both classes of shares during the 30 calendar days immediately prior to the grant date, if these are higher. Options granted have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is mandatorily subject to the condition, in each case, that the annual success target within the three-year vesting period is achieved. For each such year, the success target is achieved if the consolidated net income of the Fresenius Group, adjusted for extraordinary effects, has increased by at least 8% compared to the respective adjusted net income of the previous fiscal year. For each year in which the success target has not been met, one-third of the options granted shall forfeit. The adjusted net income shall be calculated on the basis of the calculation method of the accounting principles according to US GAAP. For the purposes of the 2008 Plan, the adjusted net income is determined and will be verified bindingly by Fresenius SE's auditor during the audit of the consolidated financial statements. Upon exercise of vested options, Fresenius SE has the right to grant treasury shares or a cash payment in lieu of increasing capital by the issuance of new shares. If all conditions are fulfilled, stock options may be exercised throughout the year with the exception of certain pre-determined black-out periods.

Fresenius AG Stock Option Plan 2003

During 2003, Fresenius AG adopted the 2003 Plan for members of the Management Board and executive employees. This incentive plan which is based on convertible bonds was replaced by the 2008 Plan and no options have been granted since 2008. Under the 2003 Plan, eligible employees have the right to acquire ordinary and preference shares of Fresenius SE. The bonds expire in ten years and one third of them can be exercised beginning after two, three and four years after the grant date, respectively. Bonds which were not financed by a note from Fresenius SE are recognized as a liability on Fresenius Group’s consolidated balance sheet. Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target corresponds to the stock exchange quoted price of the ordinary or preference shares upon the first time the stock exchange quoted price exceeds the initial value (after the share split 1/3 of the initial value) by at least 25%. If converted after the share split the conversion price which entitles to three ordinary shares or preference shares, respectively, is equal to the triple of one third of the initial value. The initial value is the joint average stock exchange price of bearer ordinary shares and non-voting bearer preference shares during the last 30 trading days prior to the date of grant. The conversion price of options without a stock price target is the initial value. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15% less than if the employee elected options subject to the stock price target. Each convertible bond granted after the share split entitles to subscribe one ordinary or preference share, subject to payment of the conversion price. Bonds granted and converted prior to the share split were entitled to subscribe one ordinary or preference share, conversion after the share split entitles to three ordinary or preference shares.

Fresenius AG Stock Option Plan 1998

During 1998, Fresenius AG adopted the 1998 Plan for members of the Management Board and executive employees. This stock incentive plan was replaced by the 2003 Plan and no options have been granted since 2003. Under the 1998 Plan, eligible employees have the right to acquire ordinary and preference shares of Fresenius SE. Options granted under this plan have a ten-year term, and one third of them vest on each of the second, third and fourth anniversary of the grant date. Prior to the share split, one ordinary or one preference share could be acquired for each option. After the share split in 2007, each option entitles to acquire three ordinary or preference shares. The maximum number of ordinary or preference shares to be issued to the members of the Management Board or executive employees has been adjusted accordingly.

Transactions during the year 2008

In 2008, Fresenius SE awarded 1,099,102 stock options, including 180,600 options to members of the Management Board of Fresenius SE, at a weighted-average exercise price of €52.63, a weighted-average fair value of €15.15 each and a total fair value of €17 million.

During the fiscal year 2008, Fresenius SE received €13 million from the exercise of 482,850 stock options. The average stock price at the exercise date was €57.83 for ordinary shares and €54.44 for preference shares. The intrinsic value of options exercised in 2008 was €14 million.

At December 31, 2008, out of 644,154 outstanding and exercisable options issued under the 1998 Plan, 25,800 were held by the members of the Fresenius SE Management Board. The number of outstanding stock options issued under the 2003 Plan was 2,997,342, of which 1,258,814 were exercisable. The members of the Fresenius SE Management Board held 514,500 options. Out of 1,099,102 outstanding stock options issued under the 2008 Plan, 180,600 were held by the members of the Fresenius SE Management Board.

Stock option transactions are summarized as follows:

	ordinary shares number	preference shares number
Number as of December 31, 2007	2,121,996	2,121,996
plus new issues	549,551	549,551
less forfeited options	-59,823	-59,823
less exercises	-241,425	-241,425
Number as of December 31, 2008	2,370,299	2,370,299

(13) Capital Reserves

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

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

in thousand €	2007	2008
As of January 1	1,535,798	1,532,772
Increase due to exercise of stock options	19,612	12,788
Decrease due to stock split	-22,638	0
Increase due to capital increase	0	283,050
As of December 31	1,532,772	1,828,610

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

(14) Other reserves

The other reserves developed as follows:

in thousand €	2007	2008
As of January 1	404,245	440,245
Increase in other reserves	36,000	201,739
As of December 31	440,245	641,984

(15) Retained earnings

Accumulated profits from the prior year of €71 thousand are included in retained earnings in accordance with a decision taken at the Annual General Meeting on May 21, 2008.

(16) Special reserve for investment government grants

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

(17) Accrued expenses

Pension obligations are established according to actuarial regulations and generation tables RT 2005.

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

Other accruals are primarily established to cover interest rate hedging risks, personnel costs, insurance fees, process risks, indemnity claims and interest on higher tax payments established by audits as well as outstanding invoice liabilities.

(18) Liabilities

	2007		2008			
	Total	thereof with a remaining term of up to 1 year	Total	thereof with a remaining term of up to 1 year	1 year up to 5 years	over 5 years
in thousand €						
Convertible bonds	595	328	596	461	135	0
Bank loans	200,085	143,722	267,352	163,124	8,228	96,000
(thereof amount secured)	(0)	(0)	(0)	(0)	(0)	(0)
Trade accounts payable	569	569	7,019	7,019	0	0
Accounts payable to related parties	1,204,215	231,351	1,233,931	784,892	214,069	234,970
Other liabilities	10,398	10,398	8,420	8,420	0	0
	1,415,862	386,368	1,517,318	963,916	222,432	330,970
(thereof amount secured)	(0)	(0)	(0)	(0)	(0)	(0)

Convertible Bonds

Liabilities result from the issuance of convertible bonds worth €596 thousand as part of the Fresenius AG 2003 Stock Option Plan.

Bank loans

European Investment Bank Agreement

Fresenius SE has access to a revolving credit facility from the European Investment Bank (EIB) of €96 million until June 2013. As of December 31, 2008 this credit facility was used in an amount of €96 million.

The credit facility has a variable interest rate, which is quarterly adjusted. As of December 31, 2008 the portion used by Fresenius SE had an interest rate of 3.349%. The drawings on the credit facility are secured by bank guarantees. Furthermore the facility contains common obligations and commitments. The EIB is the non-profit-oriented financing institution of the European Union which provides long-term financing for specific invest- and research-projects at advantageous conditions – usually up to 50% of the project-volume.

Liabilities from affiliated companies

Liabilities from affiliated companies comprise loans and financing accounts with affiliated companies in an amount of €1,233,031 thousand (previous year €1,203,948 thousand) and trade accounts payable amounting €900 thousand (previous year €267 thousand).

The liability of €554.4 million against Fresenius Finance B.V in connection with the on-lent Mandatory Exchangeable Bonds (MEB), that has to be mandatorily exchanged against shares of FMC-AG & Co. KGaA upon maturity, is valued at repaiment amount (nominal amount) as Fresenius SE holds the shares of FMC-AG & Co. KGaA and it has build a valuation unit.

Other liabilities

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

Tax liabilities amount to €3,654 thousand (previous year €3,724 thousand).

(19) Contingent Liabilities

in thousand €	2007	2008
Contingencies from indemnity agreements and guarantees	1,372,577	4,401,036
(thereof amount in favor of and from affiliated companies)	(1,372,577)	(4,401,036)

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

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

Fresenius SE guarantees the main liabilities of it´s wholly-owned subsidiary Fresenius Finance B.V. The following table shows these Fresenius Finance B.V.´s liabilities as of December 31, 2008:

Issuer	Nominal Value	Maturity Date	Nominal Interest
Loan Notes			
Fresenius Finance B.V. 2007/2012	€26 million	Jul 2, 12	5.51%
Fresenius Finance B.V. 2007/2012	€74 million	Jul 2, 12	variable
Fresenius Finance B.V. 2007/2014	€38 million	Jul 2, 14	5.75%
Fresenius Finance B.V. 2007/2014	€62 million	Jul 2, 14	variable
Fresenius Finance B.V. 2008/2012	€62 million	Apr 2, 12	5.59%
Fresenius Finance B.V. 2008/2012	€138 million	Apr 2, 12	variable
Fresenius Finance B.V. 2008/2014	€112 million	Apr 2, 14	5.98%
Fresenius Finance B.V. 2008/2014	€88 million	Apr 2, 14	variable
Senior Notes			
Fresenius Finance B.V. 2003/2009	€100 million	Apr 30, 09	7.50%
Fresenius Finance B.V. 2006/2013	€500 million	Jan 31, 13	5.00%
Fresenius Finance B.V. 2006/2016	€500 million	Jan 31, 16	5.50%

In April 2008, Fresenius Finance B.V. issued Euro Notes in an amount of €400 million in four tranches with four and six year terms. The proceeds from the issuance of the Euro Notes were mainly utilized to finance acquisitions as well as for the repayment of short-term debt and to redeem Euro Notes of €40 million that were due in May 2008.

In July 2007, Fresenius Finance B.V. issued Euro Notes of €200 million.

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

All Senior Notes of Fresenius Finance B.V. are guaranteed by Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius SE has agreed to a number of covenants to provide protection to the bondholders, which, under certain circumstances, partly restrict the scope of action of Fresenius SE and its subsidiaries (excluding FMC-AG & Co. KGaA and its subsidiaries). These covenants include, amongst other things, restrictions on further debt that can be raised, the payment of dividends, the volume of capital expenditure, the redemption of subordinated liabilities and the mortgaging or sale of assets. Some of these restrictions are lifted automatically when the rating of Fresenius SE reaches investment grade. In the event of non-compliance with the terms of the Senior Notes, the bond-holders (owning in aggregate more than 25% of the outstanding Senior Notes) are entitled to call the Senior Notes and demand immediate repayments plus interest. As of December 31, 2008, the Fresenius Group was in compliance with all of its covenants.

In connection with the acquisition of APP Pharmaceuticals Inc. the Fresenius Group entered into a US$2.45 billion syndicated credit agreement (2008 Senior Credit

Agreement) on August 20, 2008.

The 2008 Senior Credit Agreement consists of:

- five-year Term Loan A Facilities (Term Loan A) in the aggregate principal amount of US$1,000 million (of which US$500 million is available to Fresenius US Finance I, Inc., a wholly-owned subsidiary of Fresenius SE, and US$500 million is available to APP Pharmaceuticals, LLC). The Term Loan A amortizes and is repayable in 10 unequal semi-annual installments commencing on June 10, 2009 with a final maturity date on September 10, 2013;

- six-year Term Loan B Facilities (Term Loan B) in the aggregate principal amount of US$1,000 million (of which US$502.5 million is available to Fresenius US Finance I, Inc., a wholly-owned subsidiary of Fresenius SE, and US$497.5 million is available to APP Pharmaceuticals, LLC). The Term Loan B amortizes and is repayable in 11 substantially equal semi-annual installments commencing on June 10, 2009 with a final bullet payment equal to 94.25% of such loans on September 10, 2014; and

- five-year Revolving Credit Facilities in the aggregate principal amount of US$450 million (of which US$150 million is available to APP Pharmaceuticals, LLC and US$300 million is available as multicurrency facility to Fresenius Finance I S.A., a wholly-owned subsidiary of Fresenius SE).

In addition to scheduled principal payments, indebtedness outstanding under the 2008 Senior Credit Agreement will be reduced by mandatory prepayments utilizing portions of the net cash proceeds from certain sales of assets, incurrence of additional indebtedness, equity issuances and certain intercompany loan repayments.

The 2008 Senior Credit Agreement is guaranteed by Fresenius SE, Fresenius ProServe GmbH and Fresenius Kabi AG. The obligations of APP Pharmaceuticals, LLC under the 2008 Senior Credit Agreement that refinance outstanding indebtedness under the former APP credit facility are secured by the assets of APP and its subsidiaries and guaranteed by APP's subsidiaries on the same basis as the former APP credit facility. All lenders also benefit from indirect security through pledges over the shares of certain subsidiaries of Fresenius Kabi AG and pledges over certain intercompany loans.

The 2008 Senior Credit Agreement contains a number of customary affirmative and negative covenants and other payment restrictions. These covenants include, among others, limitations on liens, sale of assets, incurrence of debt, investments and acquisitions and restrictions on the payment of dividends. The 2008 Senior Credit Agreement also includes financial covenants – as defined in the agreement – that require Fresenius SE and its subsidiaries (other than Fresenius Medical Care and its subsidiaries) to maintain a maximum leverage ratio, a minimum fixed charge coverage ratio, a minimum interest coverage ratio and limits amounts spent on capital expenditure. As of December 31, 2008, Fresenius SE was in compliance with all covenants under the 2008 Senior Credit Agreement.

In October 2008, the 2008 Senior Credit Agreement was amended to increase the Term Loan B available to Fresenius US Finance I, Inc. by US$210.5 million and €200 million (US$273 million). The proceeds were used for the repayment of the bridge credit agreement described below. In November 2008, Fresenius SE agreed with the lenders upon an increase of the revolving credit facility available to Fresenius Finance I S.A. by US$100 million.

On August 20, 2008, the Fresenius Group entered into a Bridge Credit Agreement of US$1.3 billion to fund part of the purchase price of APP. The facility was available to Fresenius US Finance II, Inc., a wholly-owned subsidiary of Fresenius SE, and was fully drawn down on September 10, 2008. Under certain conditions, the availability of the facility extended to September 10, 2015. In October 2008, the Bridge Credit Agreement was reduced to US$650 million using proceeds of the increase of the Term Loan B Facilities under the 2008 Senior Credit Agreement and with funds obtained under other existing credit facilities.

The Bridge Credit Agreement was guaranteed on a senior basis by Fresenius SE, Fresenius Kabi AG and Fresenius ProServe GmbH and contained covenants substantially identical to those contained in the 2008 Senior Credit Agreement. Interest on the initial loans was variable and based on LIBOR plus applicable margin.

On January 21, 2009, the residual amount of the Bridge Credit Agreement was redeemed using the proceeds of new Senior Notes (see Note 35, Subsequent events).

To finance the acquisition of APP Pharmaceuticals, Inc., the Fresenius Group launched Mandatory Exchangeable Bonds (MEB) in an aggregate nominal amount of €554.4 million. Fresenius Finance B.V. subscribed for the MEB issued by Fresenius Finance (Jersey) Ltd. at 100% of their principal amount and on-lent the MEB to Fresenius SE who placed the MEB in the market. The bonds carry a coupon of 5 5/8% per annum and will mature on August 14, 2011. Upon maturity, the bonds will be mandatorily exchangeable into ordinary shares of FMC-AG & Co. KGaA with a maximum of 16.80 million and a minimum of 14.24 million shares being deliverable, subject to anti-dilution adjustments with respect to FMC-AG & Co. KGaA (e.g. in case of corporate actions). The MEB are not redeemable in cash.

The initial minimum exchange price was set to €33.00 and the initial maximum exchange price was set to €38.94 (i.e. 118% of the initial minimum exchange price). Pursuant to the terms and conditions of the MEB, both the holder and the issuer may procure for the exchange of the bonds before maturity. In principal, the issuer, Fresenius Finance (Jersey) Ltd., may procure the exchange of all of the outstanding MEB for shares of FMC-AG & Co. KGaA at the maximum exchange ratio calculated on the relevant exchange date plus payment of any accrued and unpaid interest and a make whole amount. Furthermore, the MEB shall be mandatorily exchangeable at the maximum exchange ratio plus such payments if the corporate credit ratings of Fresenius SE fall below certain benchmarks and such benchmarks are subsequently not reinstated. Moreover, in the event of a change of control of Fresenius SE or FMC-AG & Co. KGaA, each holder of the MEB may elect to exchange its MEB at the maximum exchange ratio plus such payments. Each holder of the MEB may also exchange his MEB at the minimum exchange ratio calculated on the relevant exchange date without payment of accrued interest or any make-whole amount.

Fresenius SE guarantees in favor of Fresenius Finance (Jersey) Ltd. the performance of certain interest payments by Fresenius Finance B.V. and, via a pledge agreement, secures the delivery of the underlying shares for exchange. In addition, the terms and conditions of the MEB include a negative pledge in relation to certain capital market indebtedness.

On February 18, 2009 Fresenius SE has issued a comfort letter in favor of Fresenius Kabi Pharmaceuticals Holding, Inc., USA (Kabi Pharmaceuticals), a 100% affiliated company of Fresenius Kabi AG. The comfort letter states that Kabi Pharmaceuticals will receive enough financial support from Fresenius SE to cover any obligations from the acquisition of APP as far as they come due until at least January 1, 2010.

(20) Other financial commitments

in thousand €	2007	2008
Commitments from building leases, and leasing commitments		
due 2009 (prior year: 2008)	409	1,006
due 2010-2013 (prior year 2009-2012)	76	1,182
due nach 2013 (prior year: after 2012)	-	-
	485	2,188
Commitments from ongoing capital expenditures	634	353
(thereof amount to affiliated companies)	(-)	(-)
Other Commitments	14,140	13,978
(thereof amount to affiliated companies)	(14,140)	(13,978)
	15,259	16,519

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

Notes on the profit and loss statement

(21) Income from participations

in thousand €	2007	2008
Income from profit transfer agreements	185,637	493,722
Income from participations	56,836	66,804
(thereof amount from affiliated companies)	(56,836)	(66,804)
Expenses from loss transfer agreements	-48,890	-49,000
	193,583	511,526

The increase in income from participations mainly results from the profit and loss transfer agreement with Fresenius Kabi AG.

(22) Other operating income

Other operating income of €252,297 thousand in total (previous year €51,761 thousand) is comprised primarily of cost transfers to group companies of €106,295 thousand (previous year €32,978 thousand), service contracts with other subsidiaries, sales of property, plant and equipment from other accounting periods of €32 thousand (previous year €50 thousand), as well as other income from other accounting periods mainly income from the dissolution of short-term accruals in the amount of €855 thousand (previous year €1,132 thousand) and from foreign currency gains of €135,618 thousand (previous year €6,869 thousand).

The total income from other accounting periods was €1,148 thousand in the fiscal year (previous year €2,395 thousand).

(23) Personnel expenses

	2007	2008
in thousand €		
Salaries and wages	20,404	20,278
Social securities and costs of retirement pensions and social assistance	5,204	5,792
(thereof amount fo retirement pensions)	(2,892)	(3,429)
	25,608	26,070

The Fresenius SE´s annual average number of employees by function is divided into the following groups:

	2007	2008
Wage earners	14	14
Salaried employees	170	173
Apprentices	66	83
	250	270

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

Depreciation of intangible assets and property, plant and equipment of €3,936 thousand (previous year €4,028 thousand) is regular depreciation.

(25) Other operating expenses

Other operating expenses of €248,700 thousand in total (previous year €43,707 thousand) were primarily foreign currency losses, transactions for company acquisitions, IT-related expenses, insurance premiums and consulting expenses.

The total expenses from other accounting periods were €283 thousand in the fiscal year (previous year €101 thousand).

In 2008 and 2007, fees for the auditor were expensed as follows:

in thousand €	2007	2008
Audit fees	431	366
Tax consulting fees	0	0
Other fees	0	995
	431	1,361

(26) Earnings before interest and taxes (EBIT)

in thousand €	2007	2008
Profit on ordinary activities	141,253	422,241
Net interest	30,748	62,876
Other taxes	-211	-367
EBIT	**171,790**	**484,750**

(27) Net interest

in thousand €	2007	2008
Interest income from long-term loans	19,971	12,387
(thereof amount from affiliated companies)	(19,964)	(12,387)
Other interest and similar income	30,091	31,662
(thereof amount from affiliated companies)	(20,666)	(23,448)
Interest and similar expenses	-80,810	-106,925
(thereof amount from affiliated companies)	(-62,488)	(-64,483)
	-30,748	-62,876

In 2008 interest and similar expenses include compensation payment in an amount of €11,932 thousand in connection with the mandatory exchangeable bond on-lent from Fresenius Finance B.V. Also included are one-off expenses from transfers of interest rate hedges within the Group of €12,405 thousand, as well as €29,261 thousand from the fair value of the interest rate hedges in relation to the Senior Notes issued in January 2009 (see Note 35, Subsequent events).

(28) Income taxes

Income taxes in an amount of €18,396 thousand (previous year €2,117 thousand) resulted from current tax expenses as well as taxes from other accounting periods.

(29) Derivatives

Fresenius SE uses derivative financial instruments to hedge against existing or highly probable future interest and currency risks. On the closing date, the Company had derivatives and derivative options with a nominal value of €385.0 million (previous year: €25.3 million) and a fair value of €9.5 million (previous year: €- 0.1 million) with a maximum maturity of 34 months and interest rate swaps with a nominal value of €1,408.0 million (previous year €176.0 million) and a fair value of €-97.9 million (previous year €-2.5 million) with a maximum maturity of 70 months. This includes interest rate derivatives with a nominal value of €1,008.7 million (previous year €136.0 million) and a fair value of €-66.4 million (previous year €-2.0 million), that Fresenius SE as parent company has contracted for affiliated companies and transferred to them. Also included are currency-related derivatives with a nominal value of €250.9 million (previous year €3.7 million) and a fair value of €4.9 million (previous year €- 36 thousand) that Fresenius SE, as parent, took out and transferred on behalf of subsidiaries. The fair value is based on the market value of a derivative financial instrument that was negotiated in a single transaction between two parties but does not include forced sales or liquidation sales.

On balance sheet date the negative market value of currency derivatives and interest rate swaps not transferred to subsidiaries of €627 thousand (previous year €254 thousand) and €29,261 thousand (previous year 0) respectively were accounted for under other accruals.

(30) Compensation report

The compensation report of Fresenius SE summarizes the principles applied for the determination of the compensation of the members of the Management Board of Fresenius SE and explains the amounts and structure of the Management Board compensation. The compensation report is based on the recommendations of the German Corporate Governance Code and also includes the disclosures in accordance with the German Commercial Code extended by the German Act on the Disclosure of Management Board Compensation.

Compensation of the Management Board of Fresenius SE

The personnel committee of the Supervisory Board of Fresenius SE is responsible for the compensation of the Management Boad. The personnel committee is composed of the Supervisory Board members Dr. Gerd Krick, Dr. Karl Schneider and Wilhelm Sachs.

The objective of the compensation system is to enable the members of the Management Board to participate in the development of the business relative to their duties and performance and the successes in managing the economic and the financial position of the Company taking into account its comparable environment.

The compensation of the Management Board is, as a whole, performance oriented and consisted of three elements in the fiscal year 2008:

- non-performance-related compensation (basic salary)
- performance-related compensation (variable bonus)
- long-term incentive elements (stock options)

Furthermore, three members of the Management Board had pension commitments in the reporting period.

The design of the individual components is based on the following criteria:

The non-performance-related compensation was paid in twelve monthly installments as basic salary in the fiscal year 2008. In addition, the members of the Management Board received additional benefits consisting mainly of insurance premiums, the private use of company cars, special payments such as rent supplements and refunds of charges as well as contributions to pension and health insurance.

The performance-related compensation will also be granted for the fiscal year 2008 as a variable bonus. The amount of the bonus in each case depends on the achievement of the individual targets relating to the net income of the Fresenius Group and its segments. For the total performance-related compensation, the maximum achievable bonus is fixed.

For the fiscal years 2008 and 2007, the amount of cash payments to the Management Board of Fresenius SE consisted of the following:

	Non-performance related compensation				Performance related Compensation		Cash compensation (without long-term incentive components)	
	Salary		Other*		Bonus			
	2007	2008	2007	2008	2007	2008	2007	2008
in thousand €								
Dr. Ulf M. Schneider	800	800	41	39	952	1,165	1,793	2,004
Rainer Baule	425	425	38	40	801	900	1,264	1,365
Dr. Francesco De Meo (since January 1, 2008)		425		18		490		933
Andreas Gaddum (until December 31, 2007)	325		86		501		912	
Dr. Jürgen Götz (since July 1, 2007)	162	325	10	29	157	360	329	714
Dr. Ben Lipps**	766	816	230	202	1,647	963	2,643	1,981
Stephan Sturm	425	425	86	84	701	850	1,212	1,359
Dr. Ernst Wastler (since January 1, 2008)		375		17		390		782
	2,903	3,591	491	429	4,759	5,118	8,153	9,138

* Includes insurance premiums, private use of company cars, contributions to pension and health insurance as well as other benefits.
** Dr. Ben Lipps receives his compensation only from Fresenius Medical Care, of which Fresenius SE held 35.80 % of the total subscribed capital.
As Dr. Ben Lipps is a member of the Management Board of Fresenius SE, his compensation has to be included in the compensation report of the Fresenius SE.

In the fiscal year 2008, stock options based on the Fresenius SE Stock Option Plan 2008 and the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 were granted as components with long-term incentive effects. The principles of both plans are described in more detail in Note 12, Stock options.

For the fiscal years 2008 and 2007, the number and value of stock options issued is shown in the following table.

	Components with long-term incentive effects Stock options and convertible bonds*			
	Number		Value in thousand €	
	2007	2008	2007	2008
Dr. Ulf M. Schneider	43,860	51,600	838	815
Rainer Baule	21,930	25,800	419	408
Dr. Francesco De Meo (since January 1, 2008)		25,800		408
Andreas Gaddum (until December 31, 2007)	21,930		419	
Dr. Jürgen Götz (since July 1, 2007)	21,930	25,800	419	408
Dr. Ben Lipps**	99,600	99,600	967	976
Stephan Sturm	21,930	25,800	419	408
Dr. Ernst Wastler (since January 1, 2008)		25,800		408
	231,180	280,200	3,481	3,831

* Stock options and convertible bonds that were granted in 2008 and 2007 under the stock option plans of Fresenius SE.
** Dr. Ben Lipps received stock options under the Fresenius Medical Care stock option plan.

The stated values of stock options granted to members of the Management Board in the fiscal year 2008 correspond to their fair value at the time of grant, namely a value of €15.80 (2007: €19.11) per stock option of Fresenius SE and €9.80 (2007: €9.71) per stock option of FMC-AG & Co. KGaA.

As the financial targets of the year 2008 were achieved, Dr. Ben Lipps is entitled to a stock-based compensation in an amount of €425 thousand (2007: €910 thousand). The entitlement is based on the development of the ordinary share of Fresenius Medical Care and has a three years vesting period.

At the end of the fiscal year 2008, the members of the Management Board held a total of 720,900 (2007: 540,300) stock options and convertible bonds of Fresenius SE and 818,411 (2007: 824,280) stock options and convertible bonds of FMC-AG & Co. KGaA.

The development and the status of the stock options of the Management Board in the fiscal year 2008 are shown in the following table:

	Dr.Ulf M. Schneider	Rainer Baule	Dr. Francesco De Meo	Dr. Jürgen Götz	Dr. Ben Lipps*	Stephan Sturm	Dr. Ernst Wastler	Total**
Options outstanding on Jan 1, 2008								
number	219,300	135,450	30,000	36,930	824,280	87,720	30,900	540,300
average exercise price in €	32.62	30.30	49.13	48.86	22.31	39.52	42.05	35.72
Options granted during fiscal year								
number	51,600	25,800	25,800	25,800	99,600	25,800	25,800	180,600
average exercise price in €	53.56	53.56	53.56	53.56	35.49	53.56	53.56	53.56
Options exercised during fiscal year								
number	0	0	0	0	105,469	0	0	0
average exercise price in €					17.25			
averate stock price in €					35.6			
Options outstanding on Dec 31, 2008								
number	270,900	161,250	55,800	62,730	818,411	113,520	56,700	720,900
average exercise price in €	36.61	34.02	51.18	50.79	24.57	42.71	47.29	40.19
average remaining life in years	6.5	6	7.4	7.4	3.7	7.1	7	6.7
range of exercise prices in €	13.59	13.59	40.98	29.92	14.47	29.92	21.33	13.59
	up to 57,27	up to 57,27	up to 57,27	up to 57,27	up to 35,49	up to 57,27	up to 57,27	up to 57,27
Exercisable options on Dec 31, 2008								
number	131,574	91,584	4,998	6,000	519,611	36,546	10,098	280,800
average exercise price in €	22.84	22.17	40.98	35.45	19.55	32.13	30.94	24.72

* Dr. Ben Lipps holds stock options under the Fresenius Medical Care stock option plans.
** Stock options and convertible bonds from Fresenius SE onlywithout stock options from Dr. Ben Lipps

The following table shows the total compensation for the years 2008 and 2007:

	Cash compensation (without long-term incentive components)		Expenses 2007 for long-term incentive components		Total compensation (including long-term incentive components)	
	2007	2008	2007	2008	2007	2008
in thousand €						
Dr. Ulf M. Schneider	1,793	2,004	838	815	2,631	2,819
Rainer Baule	1,264	1,365	419	408	1,683	1,773
Dr. Francesco De Meo (since January 1, 2008)		933		408		1,341
Andreas Gaddum (until December 31, 2007)	912		419		1,331	
Dr. Jürgen Götz (since July 1, 2007)	329	714	419	408	748	1,122
Dr. Ben Lipps*	2,643	1,981	1,877	1,401	4,520	3,382
Stephan Sturm	1,212	1,359	419	408	1,631	1,767
Dr. Ernst Wastler (since January 1, 2008)		782		408		1,190
	8,153	9,138	4,391	4,256	12,544	13,394

* Dr. Ben Lipps receives his compensation only from Fresenius Medical Care

The components with long-term incentive effect can be exercised only after the expiry of the specified vesting period. The value is recognized over the vesting period as expense in the respective fiscal year. The expenses attributable to the fiscal years 2008 and 2007 are stated in the following table:

	2007	2008
Dr. Ulf M. Schneider	597	714
Rainer Baule	298	357
Dr. Francesco De Meo (since January 1, 2008)		68
Andreas Gaddum (until December 31, 2007)	334	
Dr. Jürgen Götz (since July 1, 2007)	75	219
Dr. Ben Lipps*	837	1,348
Stephan Sturm	334	383
Dr. Ernst Wastler (since January 1, 2008)		68
	2,475	3,157

* Dr. Ben Lipps receives his compensation only from Fresenius Medical Care

The non-performance related compensation components and the basic structures of the performance-related compensation components are agreed in the service agreements with the individual Management Board members. The stock options are granted annually to the members of the Management Board by the personnel committee of the Supervisory Board.

Commitments to members of the Management Board for the event of the termination of their appointment

There are individual contractual pension commitments for the Management Board members Dr. Ulf M. Schneider, Rainer Baule and Stephan Sturm based on their service agreements. With regard to these pension commitments, the Fresenius Group had pension obligations of €2,787 thousand as of December 31, 2008 (2007: €2,028 thousand). The addition to pension liability in the fiscal year 2008 amounted to €759 thousand (2007: €275 thousand). Each of the pension commitments provides a pension and survivor benefit, depending on the amount of the most recent basic salary, from the 63rd year of life, or, in the case of termination because of professional or occupational incapacity, from the time of ending active work. The starting percentage of 30% increases with every year of service by 1.5 percentage points, 45% being the attainable maximum. 30% of the gross amount of any later income from an occupation of the Management Board member is set-off against the pension.

With the Management Board member Dr. Ben Lipps, there is an individual agreement, instead of a pension provision, to the effect that, taking account of a competitive restriction after the ending of the service agreement between him and Fresenius Medical Care Management AG, he can, for a period of ten years, act in a consultative capacity for the Company. The consideration to be granted annually by Fresenius Medical Care Management AG in return would amount to approximately 46% of the non-performance related compensation components paid to him in the fiscal year 2008.

The service agreements of the members of the Management board contain no express provisions for the case of a change of control and for the event of the ending of their service agreement.

Miscellanous

In the fiscal year 2008, no loans or advance payments of future compensation components were made to members of the Management Board of Fresenius SE.

As far as legally permitted, Fresenius SE undertook to indemnify the members of the Management Board against claims against them arising out of their work for the Company and its affiliates, if such claims exceed their responsibilities under German law. To secure such obligations, the Company concluded a ‘Directors&Officers’ insurance with an appropriate excess. The indemnity applies for the time in which each member of the Management Board is in office and for claims in this connection after the ending of the membership of the Management Board in each case.

At December 31, 2007, Andreas Gaddum resigned from the Management Board of Fresenius SE. Until the expiration of his service agreement on June 30, 2008, he will receive his stipulated non-performance-related compensation in an amount of €162,500 as well as related benefits and a performance related compensation on a pro rata basis according to the service agreement. For the period from July 1, 2008 to June 30, 2009, Andreas Gaddum will obtain a waiting allowance of €262,500 for the agreed non-competition clause.

To former members of the Management Board and their surviving dependents €1,386 thousand and €483 thousand were paid in the years 2008 and 2007, respectively. The benefit obligation for these persons amounted to €10,056 thousand in 2008 (2007: €9,870 thousand).

(31) Information on the Supervisory Board

The Supervisory Board appoints the members of the Management Board and supervises and advises the Management Board in managing the Company. However, the Supervisory Board is fundamentally prohibited from managing the Company in any way. The compensation of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in Section 14 of the Articles of Association of Fresenius SE. Compensation for the time after the conversion into a SE at July 13, 2007 was approved at the Annual General Meeting in May 2008. Each member of the Supervisory Board shall receive a fixed compensation of €13 thousand. The members of the Audit Committee and the Personnel Committee of the Supervisory Board receive an additional €10 thousand each and the Chairman of the committee a further €10 thousand. For each full fiscal year, the remuneration increases by 10% for each percentage point that the dividend paid on each ordinary share for that year (gross dividend according to the resolution of the Annual General Meeting) exceeds 3.6% of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. The Chairman receives twice this amount and the deputies to the Chairman one and a half times the amount of a Supervisory Board member. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board. Fresenius SE provides to the members of the Supervisory Board insurance coverage in an adequate amount (relating to their function) and on an adequate excess amount basis.

For the years 2008 and 2007, the compensation for the members of the Supervisory Board of Fresenius SE was as follows:

	Fixed compensation		Compensation for commitee services		Variable compensation		Total compensation	
	2007	2008	2007	2008	2007	2008	2007	2008
in thousand €								
Dr. Gerd Krick	26	26	25	30	162	173	213	229
Dr. Dieter Schenk	16	20	0	0	100	129	116	149
Niko Stumpfögger (since July 16, 2007)	8	20	0	0	49	129	57	149
Prof. Dr.h.c. Roland Berger (since May 21, 2008)	0	8	0	12	0	53	0	73
Gerhard Herres (until July 13, 2007)	7	0	0	0	43	0	50	0
Dario Ilossi (since July 16, 2007)	6	13	0	0	38	86	44	99
Konrad Kölbl (since July 16, 2007)	6	13	3	10	38	86	47	109
Dr. Gabriele Kröner (until May 21, 2008)	13	5	0	0	81	33	94	38
Dr. Bernd Mathieu (until July 13, 2007)	7	0	0	0	43	0	50	0
Klaus-Peter Müller (since May 21, 2008)	0	8	0	0	0	53	0	61
Christel Neumann (until July 13, 2007)	7	0	0	0	43	0	50	0
Ilona Oesterle (until July 13, 2007)	7	0	0	0	43	0	50	0
Dr. Gerhard Rupprecht	13	13	0	0	81	86	94	99
Wilhelm Sachs	13	13	3	10	80	86	96	109
Dr. Karl Schneider	13	13	11	20	81	86	105	119
Stefan Schubert (since July 16, 2007)	6	13	0	0	38	86	44	99
Rainer Stein (since July 16, 2007)	6	13	3	10	38	86	47	109
Volker Weber (until July 13, 2007)	10	0	11	0	64	0	85	0
Dr. Bernhard Wunderlin (until May 21, 2008)	13	5	16	8	81	33	110	46
	177	183	72	100	1,103	1,205	1,352	1,488

A roster of all Management and Supervisory Board members is included in these notes.

(32) D&O Insurance

Fresenius SE has concluded a consequential loss liability insurance policy (D&O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of Fresenius SE and for all representative bodies of affiliates in Germany and elsewhere. The D&O policy applies throughout the world and runs until the end of June 2009. The policy covers the legal defense costs of a member of a representative body when a claim is made and, where relevant, any damages to be paid which are covered by the policy.

(33) Corporate Governance

The Management and Supervisory Boards of Fresenius SE have issued a Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz) and have made it available to shareholders. On May 21, 2008 the Management Board and the Supervisory Board of Fresenius SE declared in their Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act that the recommendations of the German Commission on the German Corporate Governance Code of June 14, 2007, published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been and are being met. The Management Board and the Supervisory Board of Fresenius SE also intend to follow the recommendations of the Code in future.

(34) Proposal for the distribution of earnings

The Management Board of Fresenius SE proposes to the Annual General Meeting that the earnings for 2008 of Fresenius SE be distributed as follows:

Payment of a dividend of 0.70 € per bearer ordinary share on the 80,571,867 ordinary shares entitled to dividend	€56,400,306.90
Payment of a dividend of 0.71 € per bearer preference share on the 80,571,867 preference shares entitled to dividend	€57,206,025.57
Additions to other reserves	€88,161,179.56
Balance to be carried forward	€42,730.64
	€201,810,242.67

(35) Subsequent events

Fresenius U.S. Finance II has successfully issued unsecured Senior Notes on January 21, 2009.

The Notes comprise separate euro and US dollar tranches. The euro tranche of €275 million principal amount has been issued at a price of 93.024% and has a coupon of 8.75%, resulting in a yield to maturity of 10.25%. The US dollar tranche of US$500 million principal amount has been issued at a price of 93.076% and has a coupon of 9.00%, resulting in a yield to maturity of 10.50%. Both tranches will mature in 2015 and are non-callable.

Proceeds of the Senior Notes offering in an amount of approximately US$800 will be used to repay the bridge credit agreement, to repay other debt and for general corporate purposes.

With this transaction, the financing of the APP Pharmaceuticals acquisition is completed.

Other than that, there were no significant changes in the Group position or environment sector since the end of the year of 2008. At present, the Fresenius Group is not planning to carry out any significant changes in its structure, administration or legal form or in the area of personnel.

(36) Responsibility Statement

“To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.”

Bad Homburg v. d. H., February 23, 2009

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

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

MANAGEMENT BOARD

Dr. Ulf M. Schneider

Frankfurt am Main

Chairman

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

Board of Directors
APP Pharmaceuticals, Inc., USA (since September 10, 2008)
FHC (Holdings), Ltd., Great Britain
Fresenius Kabi Pharmaceuticals Holding, Inc., USA (since August 14, 2008; Chairman since September 8, 2008)

Rainer Baule

Ettlingen

Business Segment Fresenius Kabi

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

Administrative Board
Fresenius Kabi Groupe France S.A., France
Fresenius Kabi Italia S.p.A., Italy (since January 15, 2008)

Board of Directors
APP Pharmaceuticals, Inc., USA (since September 10, 2008)
FHC (Holdings) Ltd., Great Britain

Dr. Francesco De Meo

Petersberg

Business Segment Fresenius Helios

Corporate Offices
Supervisory Board
HELIOS Klinikum Bad Saarow GmbH (Chairman)
HELIOS Klinikum Emil von Behring GmbH (Chairman)
HELIOS Kliniken Krefeld GmbH (since February 1, 2008)
HELIOS Kliniken Schwerin GmbH (Chairman)

Offices
Supervisory Board
Allianz Private Krankenversicherungs-AG (since April 16, 2008)

Dr. Jürgen Götz

Bad Soden am Taunus

Chief Legal and Compliance Officer, and Labor Relations Director

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

Dr. Ben Lipps

Boston, Massachusetts (USA)

Business Segment Fresenius Medical Care

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

Stephan Sturm

Hofheim am Taunus

Chief Financial Officer

Corporate Offices
Supervisory Board
Fresenius HemoCare Netherlands B.V., Netherlands
Fresenius Kabi AG (Deputy Chairman)
Fresenius Kabi España S.A., Spain
HELIOS Kliniken GmbH
Labesfal – Laboratórios Almiro, S.A., Portugal
VAMED AG, Österreich (since March 17, 2008; Deputy Chairman since June 5, 2008)
Wittgensteiner Kliniken GmbH

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

Dr. Ernst Wastler

Linz, Austria

Business Segment Fresenius Vamed

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

SUPERVISORY BOARD

Dr. Gerd Krick

Königstein
Former Chairman of the
Management Board of Fresenius SE
Chairman

Member of the Audit Committee
Chairman of the Nomination Committee
Chairman of the Personnel Committee

Offices
Supervisory Board
Allianz Private Krankenversicherungs-AG
(until April 16, 2008)
Fresenius Medical Care AG & Co. KGaA (Chairman)
Fresenius Medical Care Management AG
VAMED AG, Austria (Chairman)

Advisory Board
HDI Haftpflichtverband der deutschen Industrie V.a.G.
(until December 31, 2008)

Prof. Dr. h. c. Roland Berger

(since May 21, 2008)
Munich
Management Consultant

Chairman of the Audit Committee
(since May 21, 2008)

Offices
Supervisory Board
HELIOS Kliniken GmbH (until April 30, 2008)
Indatex Services for Finance and Insurance AG
(until April 8, 2008)
Live Holding AG (since June 4, 2008; Deputy Chairman)
Prime Office AG (Chairman)
Roland Berger Strategy Consultants Holding GmbH
(Chairman)
Schuler AG
Senator Entertainment AG
Wilhelm von Finck AG (Deputy Chairman)
WMP EuroCom AG (Chairman)

Administrative Board
Wittelsbacher Ausgleichsfonds

Board of Directors
Fiat S.p.A., Italy
Roland Berger AG, Switzerland (Chairman)
Special Purpose Acquisition Company (SPAC) Germany 1
Acquisition Limited, Guernsey (since July 21, 2008;
Co-Chairman)
Telecom Italia S.p.A., Italy (since April 14, 2008)

Dario Anselmo Ilossi

Rome, Italy
Trade Union Officer FEMCA Cisl –
Energy, Fashion and Chemicals

Konrad Kölbl

Hof am Laithagebirge, Austria
Full-time Works Council member
Member of the Manual Workers' Works
Council VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H.
Chairman of the Group Works Council
VAMED AG
Member of the SE -Works Council
of Fresenius SE

Member of the Audit Committee

Corporate Offices
Supervisory Board
VAMED-KMB Krankenhausmanagement und
Betriebsführungsges. m.b.H., Austria

Dr. Gabriele Kröner

(until May 21, 2008)
Berg
Doctor

Klaus-Peter Müller

(since May 21, 2008)
Bad Homburg v.d.H.
Chairman of the Supervisory Board of
Commerzbank AG

Offices
Supervisory Board
Commerzbank AG (since May 15, 2008; Chairman)
Eurohypo AG (until November 11, 2008; Chairman)
Fraport AG (since May 28, 2008)
Linde AG
Steigenberger Hotels AG

Administrative Board
Assicurazioni Generali S.p.A., Italy
Commerzbank International S.A., Luxembourg
(until April 9, 2008; President)
KfW Kreditanstalt für Wiederaufbau
Liquiditäts-Konsortialbank GmbH

Board of Directors
Parker Hannifin Corporation, USA

Dr. Gerhard Rupprecht

Gerlingen
Member of the Management Board
Allianz SE
Chairman of the Management Board
Allianz Deutschland AG

Offices
Supervisory Board
Allianz Beratungs- und Vertriebs-AG (Chairman)
Allianz Elementar Versicherungs-AG (since February 7, 2008;
Chairman since March 3, 2008)
Allianz Elementar Lebensversicherungs-AG
(since February 7, 2008; Chairman since March 3, 2008)
Allianz First Life Insurance Co. Ltd., Korea
(until December 31, 2007)
Allianz Investmentbank AG (since February 7, 2008;
Deputy Chairman since March 3, 2008)
Allianz Lebensversicherungs-AG (Chairman)
Allianz Private Krankenversicherungs-AG (Chairman)
Allianz Suisse Lebensversicherungs-AG, Switzerland
(since January 1, 2008)
Allianz Suisse Versicherungs-AG, Switzerland
(since January 1, 2008)
Allianz Versicherungs-AG (Chairman)
Heidelberger Druckmaschinen AG

Wilhelm Sachs

Friedrichsdorf
Full-time Works Council member
Deputy Chairman of the Works Council
Friedberg plant
Member of the Joint Works Council
Fresenius SE/Friedberg plant
Chairman of the General Works Council
Fresenius SE
Member of the SE-Works Council of
Fresenius SE

Member of the Personnel Committee

SUPERVISORY BOARD

Dr. Dieter Schenk

Munich

Lawyer and tax consultant

Deputy Chairman

Member of the Nomination Committee

Offices
Supervisory Board
Fresenius Medical Care AG & Co. KGaA (Deputy Chairman)
Fresenius Medical Care Management AG
(Deputy Chairman)
Gabor Shoes AG (Chairman)
Greiffenberger AG (Deputy Chairman)
NSL Consulting AG (until September 12, 2008; Chairman)
TOPTICA Photonics AG (Chairman)

Administrative Board
Else Kröner-Fresenius-Stiftung (Chairman)

Dr. Karl Schneider

Mannheim

Former Spokesman Südzucker AG

Member of the Audit Committee
Member of the Nomination Committee
Member of the Personnel Committee

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

Stefan Schubert

Limburg-Staffel

Hospital nurse and full-time Works Council member

Chairman of the Works Council of HELIOS Klinik Bad Schwalbach, HELIOS Klinik Idstein and Kreisaltenzentrum Bad Schwalbach

Chairman of the Group Works Council of Wittgensteiner Kliniken GmbH

Member of the SE-Works Council of Fresenius SE

Corporate Offices
Supervisory Board
Wittgensteiner Kliniken GmbH

Rainer Stein

Berlin

Full-time Works Council member

Chairman of the Group Works Council HELIOS Kliniken GmbH

Chairman of the SE-Works Council of Fresenius SE

Member of the Audit Committee

Corporate Offices
Supervisory Board
HELIOS Kliniken GmbH

Niko Stumpfögger

Zeuthen

Secretary of the Trade Union ver.di, Betriebs- und Branchenpolitik im Bereich Gesundheit und Soziales

Deputy Chairman

Offices
Supervisory Board
HELIOS Kliniken GmbH

Dr. Bernhard Wunderlin

(until May 21, 2008)

Bad Homburg v. d. H.

Former Managing Director Harald Quandt Holding GmbH

Chairman of the Audit Committee (until May 21, 2008)

Offices
Supervisory Board
Equita Management GmbH

Advisory Board
Marsh & McLennan Deutschland GmbH
Von Rautenkranz Nachfolger GbR

Management Report for Fresenius SE

Operations and Business Environment

Group Structure and Business Environment

Fresenius is an international health care group providing products and services for dialysis, hospitals, and outpatient medical care. In addition, Fresenius specializes in hospital operations and offers hospital engineering and services for hospitals and other health care facilities. Our legal form is that of a European Company (Societas Europaea or SE), having converted from a German stock corporation, or AG, when our entry in the Commercial Register became effective on July 13, 2007. The operational business comprises the business segments Fresenius Medical Care, Fresenius Kabi, Fresenius Helios, and Fresenius Vamed, all of which are legally independent entities managed by the operating parent company Fresenius SE. This group structure has been in place since January 1, 2008 and has not changed in the reporting period.

- Fresenius Medical Care concentrates on dialysis care, manufacturing and marketing products for the treatment of patients with end stage renal disease (ESRD).

- Fresenius Kabi specializes in the production and sale of products for infusion therapy and clinical nutrition as well as intravenously administered generic drugs (IV drugs) and transfusion technology.

- Fresenius Helios operates hospitals and had a network of 57 clinics, 56 in Germany and one in Switzerland, as of December 31, 2008.

- Fresenius Vamed provides engineering and services for hospitals and other health care facilities internationally.

- The segment Corporate/Other comprises the holding activities of Fresenius SE, the IT service provider Fresenius Netcare, and Fresenius Biotech. Fresenius Biotech is active in research and development in the field of antibody therapies. Corporate/Other also includes the consolidation measures conducted between the business segments.

The Fresenius Group operates internationally and all the business segments have a regional and decentralized structure. Responsibilities are clearly defined in line with the company’s “entrepreneurship within the enterprise” management principle. Additionally, management responsibility is reinforced by an earnings orientated and target-linked compensation system. Fresenius has an international marketing and production network consisting of about 70 production sites worldwide. Key production sites are located in the United States, China, Japan, Germany, and Sweden. Production plants are also located in other European countries, Latin America, Asia-Pacific, and South Africa. This international production network allows us to implement our business model while meeting the most exacting logistics and regulatory requirements. The decentralized structure of the production sites also substantially reduces transportation costs and currency exposure.

Management and Control

The corporate bodies of the group are the Management Board, the Supervisory Board, and the General Meeting. In accordance with Regulation No. 2157/2001 on the Statute for a European Company (SE), Fresenius SE has a two-tier management and control system consisting of the Management Board and the Supervisory Board. The two boards work independently of each other and no one is allowed to be a member of both simultaneously.

The Management Board of Fresenius SE conducts the business and represents the company in dealings with third parties. As from January 1, 2008, the Management Board has seven members. According to the Management Board's rules of procedure, each member is accountable for their own area of responsibility, but all have joint responsibility for the management of the group. The Management Board is required to report to the Supervisory Board regularly, in particular on corporate policy and strategy, profitability, current operations, and any other matters that could be of significance for the company's profitability and liquidity.

The Supervisory Board appoints the members of the Management Board and advises and supervises the Management Board in its management of the Company, but is prohibited from managing the Company directly. However, the Management Board's rules of procedure require it to obtain the Supervisory Board's approval for specific activities.

The Supervisory Board is comprised of six shareholders' representatives and six employees' representatives. All 12 members of the Supervisory Board are appointed by the General Meeting. The employees' six representatives must be appointed on the basis of a proposal put forward by the employees and must be accepted by the General Meeting. In accordance with the legal form of an SE, the employee representatives may come from various European countries.

The Supervisory Board must meet at least twice per calendar half-year. The appointment and dismissal of the members of the Management Board is in accordance with Article 39 of the SE Regulations. The statutes of Fresenius SE also provide that deputy members of the Management Board may be appointed.

For information on Management Board and the Supervisory Board compensation, please see pages 26 to 32 of the Notes.

Key Products, Services and Business Processes

Fresenius Medical Care offers a comprehensive range of products for hemodialysis and peritoneal dialysis and provides dialysis care at its own clinics in over 30 countries. Dialysis products are sold both to group clinics and to external dialysis care providers in more than 115 countries. Fresenius Kabi is one of the few companies to offer a comprehensive range of enteral and parenteral nutrition therapies. The company also offers a broad spectrum of products for fluid and blood volume replacement as well as an extensive portfolio of IV drugs. Fresenius Kabi sells its products mainly to hospitals in approximately 100 countries. Fresenius Helios operates hospitals mainly in Germany. Fresenius Vamed provides engineering and services for hospitals and health care facilities internationally.

Important Markets and Competitive Position

Fresenius operates in more than 60 countries through its subsidiaries. The main markets are Europe and North America, where Fresenius generates 45% and41% of its sales, respectively.

Fresenius Medical Care is the largest dialysis company in the world. Fresenius Kabi holds leading positions in Europe and in the growth markets of Asia-Pacific, Latin America, and South Africa. With the acquisition of APP Pharmaceuticals, Fresenius Kabi has become one of the leading suppliers of IV drugs in the United States. Fresenius Helios is a leading private hospital operator in Germany. Fresenius Vamed is one of the internationally leading companies in the field of health care engineering and services.

Legal and Economic Factors

The intrinsic importance of the life-saving and life-sustaining products and therapies that the group offers insures that the markets of the Fresenius Group are fundamentally stable and relatively independent of economic cycles. Furthermore, these markets are expanding, mainly for three reasons: demographics, the demand for innovative therapies in the industrialized countries, and the increasing availability of high-quality health care in the developing and newly industrializing countries.

The statement of income and the balance sheet can be influenced by currency translation effects as a result of exchange rate fluctuations, especially the rate of the US dollar to the euro, which had a pronounced effect in 2008. This impacted: first, on the statement of income due to the changed average annual exchange rate between these currencies of 1.47 in 2008 compared to 1.37 in 2007; and second, on the balance sheet due to the changed spot rate of 1.39 as of December 31, 2008 compared to 1.47 as of December 31, 2007.

There were no legal aspects that significantly affected the business performance in 2008.

Capital, Shareholders, Articles of Association

The summary below shows the subscribed capital of Fresenius SE.

	December 31, 2008		% of subscribed capital	December 31, 2007	
	Number of shares	Subscribed capital in €		Number of shares	Subscribed capital in €
Ordinary shares/ capital	80,571,867	80,571,867.00	50%	77,582,385	77,582,385.00
Preference shares/ capital	80,571,867	80,571,867.00	50%	77,582,385	77,582,385.00
Total	161,143,734	161,143,734.00	100%	155,164,770	155,164,770.00

The shares of Fresenius SE are non-par value bearer shares. The subscribed capital is divided into an equal number of ordinary and preference shares. Shareholders' rights are regulated by the Statute for a European Company (SE) and the German Stock Corporation Act (AktG). Additionally, the articles of association of Fresenius SE contain the following three provisions for the holders of non-voting preference shares:

1. From retained earnings for the year they will receive a dividend of least € 0.02 per preference share and higher by € 0.01 per preference share than that for an ordinary share.

2. The minimum dividend payable on preference shares takes precedence over payment of a dividend on ordinary shares.

3. If retained earnings in one or more fiscal years are not sufficient to pay a dividend of € 0.02 per preference share, the amounts not distributed will be paid in arrears, without interest, from the retained earnings in subsequent fiscal years, after distributing the minimum preference dividend for those fiscal years and before payment of a dividend on the ordinary shares. The deferred payment right is a constituent of the share of profits from retained earnings of that fiscal year for which the deferred payment is made.

The Management Board is authorized, with the agreement of the Supervisory Board, to increase the subscribed capital of Fresenius SE in accordance with the General Meeting's resolutions on approved capital. The Approved Capital II of originally € 5,496,115.20 was utilized for the capital increase of € 5,496,114.00 in August 2008. Hence, there are two authorizations:

- Authorization to increase the subscribed capital by a maximum nominal amount of € 12,800,000.00 by May 9, 2011 through one or more issues of bearer ordinary shares and/or non-voting bearer preference shares against contribution in cash and/or assets in kind (Approved Capital I).

- Authorization to increase the subscribed capital by a maximum nominal amount of € 1.20 by May 9, 2011 through one or more issues of bearer ordinary shares and/or non-voting bearer preference shares against contribution in cash and/or assets in kind (Approved Capital II). Shareholders' preemptive rights of subscription can be excluded. Approved Capital II has been reduced from € 6,400,000.00 to € 1.20 as a result of financing the acquisitions of HUMAINE in 2006 and APP Pharmaceuticals in 2008.

In addition, there is the following conditional capital:

- The subscribed capital is increased conditionally by a maximum nominal amount of € 1,536,612.00 by the issuance of new bearer ordinary shares and non-voting bearer preference shares (Conditional Capital I). The conditional capital increase will be executed only to the extent that subscription rights to ordinary and preference shares are issued under the 1998 Stock Option Plan and the holders of these rights exercise these rights.

- The subscribed capital is increased conditionally by a maximum nominal amount of € 4,729,422.00 by the issuance of new bearer ordinary shares and non-voting bearer preference shares (Conditional Capital II). The conditional capital increase will be executed only to the extent that bonds convertible into ordinary and preference shares are issued under the 2003 Stock Option Plan and the holders of these convertible bonds exercise their conversion rights.

- The subscribed capital is increased conditionally by a maximum nominal amount of € 6,200,000.00 by the issuance of new bearer ordinary shares and non-voting bearer preference shares (Conditional Capital III). The conditional capital increase will be executed only to the extent that subscription rights to ordinary and preference shares are issued under the 2008 Stock Option Plan and the holders of these rights exercise these rights. The conditional capital increase was in accordance with the resolution of the General Meeting on May 21, 2008, and was entered in the Commercial Register on July 11, 2008.

Fresenius SE does not have a share buyback program.

Direct and indirect ownership interests in Fresenius SE are listed on pages 8 and 9 of the Notes. The Else Kröner-Fresenius-Stiftung informed the company on December 14, 2008 that it holds 46,871,154 ordinary shares of Fresenius SE. This corresponds to a voting interest of 58.17%.

Changes to the statutes are made in accordance with Article 59 of the SE Regulation pursuant to Section 18 (3) of the statutes. Unless mandatory legal provisions require otherwise, amendments to the statutes require a majority of two-thirds of the votes cast or, if at least half of the subscribed capital is represented, a simple majority of the votes cast. If, for the effectiveness of the passing of resolutions, mandatory legal provisions require that, in addition, a majority of the subscribed capital be represented when the resolution is passed, the simple majority of the subscribed capital represented shall be sufficient, to the extent that this is permitted by law. If the voting results in a tie, the motion will automatically be rejected. The statutes of Fresenius SE authorize the Supervisory Board to make changes to any statutes that relate to their wording in its respective relevant version without a resolution by the General Meeting.

Material agreements incorporating contingent conditions in the event of a change of control as the result of a takeover bid exist in respect of some of our long-term financing agreements. These agreements contain customary change of control clauses that grant creditors the right of premature call in the event of a change of control, whereby, generally, the change of control has to be followed by a downgrading of the company’s rating.

Goals and Strategy

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

- To expand our market position: Fresenius’ goal is to ensure the long-term future of the company as a leading international provider of products and services in the health care industry and to grow our market share. Fresenius Medical Care is the largest dialysis company in the world, with an especially strong market position in the United States. Future opportunities in dialysis will arise from international expansion in dialysis care and in renal pharmaceuticals. Fresenius Kabi is the European market leader in infusion therapy and clinical nutrition. To strengthen the position, more products in its portfolio will be rolled out to growth markets. Further market share is also anticipated from the launch of new products in the field of IV drugs and new medical devices for infusion therapy and clinical nutrition. Mid-term, Fresenius Kabi plans to market products from its existing range in the United States; similarly, products from the newly acquired American company APP Pharmaceuticals will be sold globally. Fresenius Helios is in a strong position to take advantage of the further growth opportunities offered by the continuing privatization process in the German hospital market. Fresenius Vamed will be further strengthening its position as a specialist provider of engineering and services to hospitals and other health care facilities.

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

- To strengthen innovation in the development of new products and technologies: Fresenius' strategy is to continue building on its strong position in technology, its competence and quality in patient care, and its ability to manufacture cost-effectively. We are convinced that we can leverage on our competence in research and development in our operations to develop products and systems that provide a high level of safety and user-friendliness and which can be tailored to meet individual patient needs. We shall continue to meet the requirements of best-in-class medical standards, developing and producing more effective products and treatment methods for the critically and chronically ill. Fresenius Helios' goal is to increase brand recognition for its health care services and innovative therapies.

- To enhance profitability: Our goal is to continue to improve Group profitability. To contain costs, we are concentrating particularly on making our production plants more efficient, exploiting economies of scale, leveraging the existing marketing and distribution infrastructure more intensively, and imposing strict cost controls. Focusing on our operating cash flow and maintaining efficient working capital management will improve our investment flexibility and improve our balance sheet ratios. Another goal is to optimize our weighted average cost of capital (WACC) by deliberately employing a balanced mix of equity and debt funding. Our net debt/EBITDA ratio rose to 3.6 as of December 31, 2008 as a result of financing the acquisition of APP Pharmaceuticals. In 2010, we expect to bring down this ratio to a level of between 2.5 and 3.0 again.

We report on our goals in detail in the Outlook section of the Management Report on pages 29 to 36.

Research and Development

Fresenius centers its R&D efforts on its core activities. These are:

- dialysis and other extracorporeal therapies
- infusion and nutrition therapies and related medical devices
- antibody therapies.

Apart from products, we are concentrating on optimizing or developing completely new therapies, treatment methods, and services. In 2008, we successfully continued numerous projects, and several new products were launched.

Fresenius Medical Care continued to work hard to improve dialysis therapies. One project was the further development of the 5008 hemodialysis machine; the successor product 5008S was launched in 2008. In the field of home dialysis, our development work was primarily on a machine for automated peritoneal dialysis—a so-called cycler—for global use. Our overall goal is to offer high-quality peritoneal dialysis worldwide at optimized cost.

Fresenius Kabi concentrated on developing new products and product enhancements in its core areas of infusion therapy, clinical nutrition, IV drugs, and medical devices. Attention was centered on IV drugs, where we are working on filing dossiers for approval in and outside Europe. In 2008, we submitted the dossiers for 11 products to the European regulatory authorities. With the acquisition of APP Pharmaceuticals and Dabur Pharma, we have significantly expanded our R&D capabilities in this product segment. We began rolling out the Dabur products internationally last year. Dabur Pharma is a leading supplier of generic drugs and active agents for cancer treatment. In clinical nutrition, we submitted dossiers for the approval of SMOFlipid®, a lipid emulsion, for pediatric use in 2008. The approval process for SMOFKabiven® was completed. In enteral clinical nutrition, we continued our work on the development of a product line for dysphagia patients.

Important projects at Fresenius Biotech involved trifunctional antibody therapies: Fresenius Biotech has dispatched the marketing authorization application for Removab®, used for the indication of malignant ascites, to EMEA, the European Medicines Agency, at the end of December 2007 and expects an opinion from EMEA’s Committee for Medicinal Products for Human Use (CHMP) in the early months of 2009.

Expenditure for research and development was € 479 million in 2008 (2007: € 184 million). This amount includes € 272 million of acquired R&D activities from the acquisition of APP Pharmaceuticals. As in 2007, excluding this special item, we invested about 5% of our product sales in R&D. In 2008, Fresenius Medical Care increased R&D spending by 12% and Fresenius Kabi by 27%. In the segment Corporate/Other R&D, € 43 million were expended on the clinical development of trifunctional antibodies at Fresenius Biotech.

As of December 31, 2008, 1,562 people were employed in research and development in the Group (2007: 999). Of that number, 427 were employed at Fresenius Medical Care (2007: 357), 1,019 at Fresenius Kabi (2007: 550), and 116 at Fresenius Biotech (2007: 92). The large increase at Fresenius Kabi is mainly due to the first-time consolidation of APP Pharmaceuticals and Dabur Pharma as of September 1, 2008.

Our main research sites are in Europe. Production-related research is also carried out in the United States and in China. Our research and development projects are mainly conducted in-house; external research is commissioned only on a limited scale.

Overall Business Development

Economic Environment

The global economy was marked by the escalating financial market crisis, whose repercussions for the real economy, even outside the United States, were clearly felt in the course of 2008. The world economy cooled off appreciably, with growth in global gross domestic product (GDP) only 3.1% (2007: 4.7%). As a result, a number of industrial countries are in or are on the verge of recession and the expectation that the emerging economies could decouple from the economic trend in the industrial countries was not fulfilled.

There were extreme fluctuations in commodity prices in 2008, with a strong rise in the first half of the year followed by an even steeper fall later in the year. This development was driven not only by underlying factors but also by speculation. The price of Brent oil climbed from January to July to reach a new record high of about US$ 145 per barrel. The ensuing sharp fall by almost 70% to a low of US$ 44 per barrel was largely attributable to the rapidly worsening outlook for the world economy.

The euro’s strength against the US dollar also flagged considerably in the last months of the year. In mid-July the euro was worth US$ 1.57. By the end of the year it was worth only US$ 1.39, a substantial drop of about 11%. That the US dollar firmed against the euro despite the lower level of US interest rates can be largely attributed to the repatriation of U.S. investments abroad. U.S. investors have increasingly pulled capital out of the emerging markets, with the resulting demand for dollars causing the US currency to appreciate relative to other currencies.

Europe

The economic dynamic in the Eurozone weakened appreciably in 2008. GDP growth was 0.9%, well below the previous year's level of 2.6%. Despite the strong trade links within the single market, the weakness of the U.S. economy and the global financial market crisis had a dampening effect on the economy in all member countries of the Eurozone, albeit to differing extents. Countries that had also witnessed a property boom, such as Spain and Ireland, were hit harder by the correction to the property market, with declining investment in residential construction and falling asset prices. Germany, on the other hand, was affected more by the indirect repercussions of the crisis, feeding through later in the form of weak foreign demand. The labor market continued to improve. The unemployment rate in the Eurozone was 7.4%, the lowest since recording began. Given the massive economic downturn, the jobless rate in Europe is likely to rise significantly in 2009. Government budgets also felt the effects of the slowing economic momentum. Higher government spending, especially as a result of the support measures in response to the financial market crisis, caused deficit levels to rise. Another concern in the first half of 2008 was the steep rise in the inflation rate in the Eurozone to almost 4%, with strong inflationary pressure coming especially from higher commodity and food prices. In the second half of the year, both, the weakening economic dynamic and the strong fall in the oil price caused inflation to ease significantly. At the end of the year the inflation rate was close to the ECB's target of about 2%.

GDP growth in the emerging economies of Central and Eastern Europe remained generally robust. In Germany, GDP grew by 1.3% in 2008 (2007: 2.6%). The level of activity in the corporate sector was increasingly affected by the slowdown in global economic growth. GDP contracted in the second half of the year, ending an upswing of more than three years. Since the third quarter of 2008, the German economy has technically been in recession. Although, by the fall, the decline in commodity and energy prices had caused inflation to ease and the euro had lost considerable strength, September marked the escalation of the financial crisis. In Germany, the turbulence reached a new dimension with the threatened collapse of the Hypo Real Estate and troubles at numerous regional state banks. With the passing of the Financial Markets Stabilization Act, the government introduced sweeping measures whose effective implementation will decisively shape the economy's future development. With the exception of the automotive industry, the financial crisis largely had no direct impact on the real economy in 2008. However, there are early indications that the economic situation is clearly worsening.

United States

The development of the U.S. economy was marked in 2008 by the impact of the financial and property crisis. There were bankruptcies, including that of investment bank Lehman Brothers, and the bailout of major financial institutions through takeovers, all of which led to a credit crunch, especially in the mortgage sector. Governments reacted to the worsening situation with far-reaching measures. This was particularly manifest in March when the Federal Reserve supported JPMorgan Chase & Co's takeover of the troubled investment bank Bear Stearns with extensive government guarantees. This was followed by direct government investment in troubled financial institutions—first with the takeover of the ailing mortgage lenders Fannie Mae and Freddie Mac and then with the nationalization of the insurance group AIG. The U.S. government also launched a US$ 700 billion rescue plan. Initially, this was used to make further direct investments in and to recapitalize the biggest U.S. financial institutions. To cushion the downturn in the real economy triggered by the financial and property crisis, the Federal Reserve cut its rates by a total of 400 basis points in 2008 to a new target corridor of 0 to 0.25%.

Overall, GDP grew by 1.2% (2007: 2.0%). Given stagnating real incomes, rising gasoline and food prices in the early part of the year, and a marked labor market deterioration, private consumption—traditionally the strongest pillar of the U.S. economy—was extremely subdued, with growth of 0.4% in 2008. Exports were a much stronger prop, with growth of 7.3%, mainly due to the much weaker dollar.

Asia

In Asia (excluding Japan), economic development was more restrained than the year before, with GDP growth of 7.1% (2007: 9.4%). Nonetheless, despite this slowdown, Asia is still the fastest growing region in the world. In China, for the first time in five years, GDP growth, at 9.1%, was not in double digits (2007: 11.9%). In India, GDP growth was 7.2%, down from 9.3% in 2007. This decline is mostly due to weak global demand, especially from the industrial countries. India's economic downturn mainly affected the services industry, the biggest sector of the economy. China, on the other hand, suffering from a decline in foreign demand, experienced slower export growth. Japan's GDP growth fell appreciably from 2.1% to 0.3%. Its economy, which received strong support from exports in recent years, was hit particularly hard by the global economic downturn, especially by the sharp fall in exports to the United States. Exports to other economic regions, such as the European Union and China, on the other hand, developed very dynamically. The hope that the emerging economies of Southeast Asia could decouple from the leading industrial nations was not fulfilled. Given their strong dependence on exports, economic growth in Indonesia, Singapore, Korea, and Taiwan is also likely to weaken considerably.

Latin America

The countries in Latin America were affected by the turbulence in the financial market and the global economic weakness only to a small extent at first, with the pace of growth merely slowing. GDP growth was relatively robust at 4.3% in 2008 (2007: 5.5%). These countries profited from higher export revenues, especially as a result of the strong rise in commodity prices in the first half of the year. In Brazil, private consumption, too, was boosted by relatively high wage increases. However, first effects of the economic downturn in the industrial countries began to be felt in the further course of the year, so the economic dynamic in Latin America also slackened more and more toward the end of the year. The financial sector was affected far less by the liquidity crisis since it is less dependent on foreign capital than Europe, for instance. Nonetheless, the central banks, especially in Brazil and Mexico, injected dollar liquidity into the financial sector from their reserves. Despite these interventions, investment activity still declined. GDP growth was 6.2% in Argentina (2007: 8.6%), 5.2% in Brazil (2007: 5.4%), and 1.9% in Mexico (2007: 3.2%). Exports continue to be the main economic drivers—60% of which were commodities. A further significant fall in global commodity prices therefore presents an additional risk for the Latin American economies.

Health Care Industry

The health care sector is one of the most stable industries in the generally difficult present market environment and, compared with other sectors, has set itself apart through years of continuous growth and its relative insensitivity to economic fluctuations. Its main drivers in the industrialized countries are aging populations, the demand for innovative therapies, and advances in medical technology. Growing health consciousness is also increasing the demand for health care services and facilities. In the emerging countries, the main growth driver is the increasing availability of primary health care.

At the same time, the cost of health care is rising and is claiming an ever increasing share of national income. Health spending averaged 8.9% of GDP in the OECD countries in 2006, with an average of US$ 2,824 spent per capita. The United States had the highest per capita spending with US$ 6,714, followed by Norway, Switzerland, and Luxemburg with over US$ 4,000. Germany ranked tenth among the OECD countries with per capita spending of US$ 3,371.

Reforms and cost-containment measures are the main reactions to steadily rising health care expenditures. However, ever greater emphasis is being placed on disease prevention and innovative reimbursement models where the quality of treatment is the key parameter. Quality of treatment plays a crucial role in optimizing medical results and reducing overall treatment costs.

Our most important markets developed as follows:

The Dialysis Market

In 2008, the global dialysis market grew by around 5% to approximately US$ 65 billion, with the market for dialysis care (including renal pharmaceuticals) accounting for approximately US$ 55 billion and the market for dialysis products for about US$ 10.5 billion. The number of dialysis patients increased by about 7%.

Kidney failure has various causes. Diabetes and high blood pressure are the leading causes of terminal kidney failure. Aging populations, improved treatments, and higher living standards in the industrialized countries are additional reasons for the increase in patient numbers.

In more than 145 countries, patients with terminal kidney failure receive kidney replacement therapy in the form of dialysis. In these countries, patient numbers can be compared in terms of prevalence – in other words the number of people with terminal kidney failure treated per million population. Prevalence differs widely from region to region, ranging from well below 100 to over 2,000 patients per million population. Taiwan has the highest prevalence with 2,420 per million population, followed by Japan and the United States with approximately 1,780 per million population. The average for the 27 countries of the European Union is about 960. Worldwide, the average is 340. These figures show that in many countries the availability of life-saving dialysis treatment is still limited. A plurality of people with terminal kidney failure are not treated and therefore do not appear in the prevalence statistics.

In 2008, there were approximately 1.77 million patients receiving regular dialysis treatment. More than 89% of these are treated with hemodialysis, while about 11% choose peritoneal dialysis. The majority of hemodialysis patients are treated in dialysis clinics. There are about 28,000 dialysis clinics worldwide with an average of 55 hemodialysis patients per clinic. In 2008, about 21% of the dialysis patients were treated in the United States, while 17% were treated in Japan and 16% in the European Union. The other 46% were treated in a total of 120 other countries.

In the United States, most of the approximately 5,000 dialysis clinics are run privately, with only about 1% publicly operated. By contrast, some 60% of the approximately 5,000 dialysis clinics in the European Union are publicly owned. In Japan, about 75% of the dialysis clinics are run by private nephrologists.

In the dialysis products market, the most important products are dialyzers, hemodialysis machines, dialysis solutions, and products for peritoneal dialysis. Fresenius Medical Care is the world market leader in dialysis care as well as in dialysis products. Dialyzers are by far the biggest product segment in the dialysis market. Approximately 180 million units were sold in 2008, of which about 80 million were produced by Fresenius Medical Care. Of the approximately 65,000 new dialysis machines that were brought onto the market in 2008, over 55% were from Fresenius Medical Care. The top three manufacturers have a share of almost 70% of the global market for dialysis products. Fresenius Medical Care is the market leader with a share of about 32%.

Fresenius Medical Care is the leading provider of dialysis care in the United States with a market share of about 33%. Together, Fresenius Medical Care and the second largest dialysis care provider DaVita treat almost 63% of all U.S. dialysis patients. Outside the United States, the markets for dialysis care are much more fragmented. With over 700 dialysis clinics outside the United States and more than 60,000 patients treated in over 30 countries, Fresenius Medical Care has by far the largest and most international network of dialysis clinics.

Because treatment costs in the United States are covered primarily by public health insurers, providers mainly compete on quality and availability. In most countries outside the United States, Fresenius Medical Care competes mainly with independent clinics and clinics that are affiliated to hospitals. Fresenius Medical Care has been operating for many years in countries with different health care systems and reimbursement structures. Thanks to this international experience, we are able to support the efforts of the national health care systems in creating suitable reimbursement structures, adjust our business to the local environment, and generate profitable growth.

Terminal kidney failure is one of the few chronic diseases whose treatment is covered by the public health insurers in the United States. The two public health care programs Medicare and Medicaid cover the medical services for more than 80% of all dialysis patients in the United States. Changes in the reimbursement rates or in the method of reimbursement therefore have special relevance for our North America business.

In the United States, certain services and products provided or sold at the company’s dialysis clinics are reimbursed by Medicare based on a basic case-mix adjusted prospective system. This system provides a fixed payment per dialysis treatment consisting of a composite rate and a drug add-on adjustment component. In this system the payment rates are adjusted from time to time through changes in the Medicare Statute or through annual reviews. For 2008, the CMS (Center for Medicare and Medicaid Services) increased the drug add-on adjustment by US$ 0.69, so it now represents 15.5% of the total per-treatment prospective payment.

Certain other items and services are not included in the composite rate and are reimbursed separately by Medicare. The most significant of these are drugs or biologicals such as erythropoietin-stimulating agents (ESAs), vitamin D analogs, and iron supplements, which are reimbursed at a rate of 106% of the average sales price (ASP) as reported by the manufacturer to the Center for Medicare and Medicaid Services (CMS).

The Market for Infusion Therapy and Clinical Nutrition

Demographic changes, the resulting increased need for medical services, and the demand for innovative therapies are the main growth drivers for this market. In addition, in the emerging economies, the growth in national incomes has been the trigger for higher health care spending.

However, market conditions for infusion therapy and clinical nutrition products vary widely from region to region:

In Central and Western Europe, therapies that lead to better clinical outcomes while reducing the length of hospital stays are increasingly gaining importance. Nutritional therapy measures are therefore becoming more and more important, not only on health grounds but also for economic reasons. Patients with nutritional deficiencies have poorer chances of recovery than patients with a normal nutritional status. These deficiencies can lead to higher treatment costs and longer hospital stays. Outpatient clinical nutrition therapies should also gain in importance. Cost pressures in hospitals, budget caps, and health care cost-containment schemes are continuing the shift away from inpatient care to more outpatient care. In Central and Western Europe, the total market for infusion therapy and clinical nutrition is currently growing at a low single-digit rate.

Generic drugs are currently making a vital contribution to health care. Their importance will continue to grow in future. Faced by cost pressure, health care regulations are being introduced that facilitate the prescription of generics. More and more generics are being used to reduce costs. The expiration of patents for many original drugs will further accelerate this growth. The European market for generic IV drugs for hospitals is growing at a mid single-digit rate. The U.S. market for IV drugs, which has acquired new relevance for Fresenius with the acquisition of APP Pharmaceuticals, is worth about US$ 3.6 billion, and is growing at rates of over 5%.

The market for medical devices for infusion therapy and clinical nutrition in Europe is continuing to grow at mid single-digit rates. Here, the main growth drivers are technical innovations that focus on treatment safety and therapy efficiency.

In the growth regions of Asia-Pacific, Latin America, and Eastern Europe the main focus is on the provision of primary health care to the population. There is increasing demand for life-saving and life-prolonging health care services. Growth rates in our product markets here are in the high single to double digits.

Based on its own surveys, Fresenius Kabi considers its relevant market for infusion solutions and clinical nutrition to be in the range of € 9 billion.

The German Hospital Market

In the current critical economic environment, the German hospital market is one of the most stable sectors. Demands from the aging German population are still increasing. Health care finance is regulated by statute. The introduction of the DRG system (Diagnosis Related Groups) in 2003 and 2004 and the following convergence phase provided an opportunity for efficient hospital operators to improve the sector's market position by increasing efficiency.

The total volume for hospital treatment (excluding research and teaching) in Germany was about € 67 billion in 2007. Personnel costs accounted for about 62% and material costs for about 38%. Personnel costs rose by 1.7%, and material costs by 7.3%.

The acute care clinic market in Germany continues to be marked by a highly regulated reimbursement regime for hospitals and structural overcapacity.

Between 2000 and 2007 the number of hospitals declined at an average annual rate of 1.0% to 2,087 and the number of beds at an average annual rate of 1.4% to 506,954. Nonetheless, with 6.16 beds per 1,000 population in 2007, Germany is still well above the OECD average of 3.9 (2006). Overall, it is estimated that further hospitals in Germany will close.

The average stay of a patient in an acute care clinic (excluding specialized psychiatric clinics) in Germany fell at an average annual rate of 2.1% over the same period, and at the last count was 8.3 days. At the time of the introduction of the DRG system in 2003, the average stay in Germany was still 8.9 days.

After reaching a peak of 17.43 million in 2002, the number of inpatient admissions at acute care clinics in Germany declined at first to 16.54 million in 2005 after the introduction of DRG-based reimbursement. This was due, on the one hand, to a reduction in unnecessary referrals and growth in the number of outpatient treatments and, on the other, to technical changes in admission statistics following the introduction of DRGs. The number of admissions has risen slightly again since 2006, and at the last count was approximately 17.18 million or 209 admissions per 1,000 population. Other countries rank well below the German level, e.g. Switzerland with 173 admissions per 1,000 population. The pressure on inpatient hospital capacities in Germany is therefore likely to persist.

The difficult financial and economic situation at many hospitals has been compounded by rising investment needs, especially in response to technological advances and higher quality requirements. It is estimated that the current annual investment backlog is about € 5 billion. Hospital competitiveness is therefore also dependent on their ability to self-finance these investments.

The privatization trend in the German hospital market has continued unbroken, with the share of private hospital beds rising to approximately 16% in 2007 (2006: about 14%).

Quality continues to be a key competitive factor for the hospital market. The structured quality reports which all acute care hospitals in Germany have had to publish since 2005 provide information on the type and number of treatments and their quality. The transparency and comparability of the treatments for the patients and their doctors will play an increasingly decisive role.

In the postacute care market in Germany there were a total of 1,239 clinics with 170,845 beds in 2007. The total number of admissions in Germany in 2007 was 1.94 million and the average length of stay was 25.5 days.

The Management Board´s Assessment of the Effect of General Economic Developments and Developments in the Health Care Sector for Fresenius

The weakening of world economic growth in the second half of 2008 has had no impact on our industry, yet. On the whole, the health care sector, both in the mature and the growth markets, developed positively for Fresenius in 2008. While this was responsible for much of the Group’s growth, strong demand for its products and services enabled Fresenius to outpace the growth of the health care industry as a whole.

Significant Factors Affecting Operating Performance

In 2008, the positive development was again driven to a large extent by the very good operating results in all business segments, where significant increases in sales and in earnings were achieved.

Currency changes, especially in the US dollar / euro exchange rate, had an important impact on currency translation.

The financial statements were also affected by a number of acquisitions and divestitures, partly from 2007. The principal transactions were: the acquisition of APP Pharmaceuticals and Dabur Pharma in 2008, and in 2007 the acquisition of Nestlé's enteral nutrition business in France (Novartis Nutrition S.A.S.) and Spain (Nestlé España), and the acquisition of Ribbon, a leading European manufacturer of antibiotic active agents. Städtische Kliniken Krefeld was consolidated as of December 31, 2007. In addition, Fresenius Medical Care acquired a number of dialysis clinics and entered into two marketing and license agreements for intravenously administered iron products in its renal pharmaceuticals business. The acquisition of APP Pharmaceuticals had a significant impact on the Group's financial statements. APP shareholders received a cash purchase price of US$ 23.00 per share plus a registered and tradeable Contingent Value Right (CVR) that could deliver up to US$ 6.00 per share, payable in 2011, if APP Pharmaceuticals exceeds a cumulative adjusted EBITDA target for 2008 to 2010. Excluding the Contingent Value Rights, the total cash purchase for the fully diluted equity capital of APP Pharmaceuticals was approximately US$ 3.7 billion. In addition, US$ 0.9 billion of debt was assumed.

The Management Board´s Assessment of the Business Results

The Management Board is of the opinion that the economic development of the Fresenius Group was excellent in 2008—with sales and earnings increases in all business segments. The two business segments Fresenius Medical Care and Fresenius Kabi profited from the continued strong demand for their products and services and generally outperformed the market. This was reflected in sustained strong organic growth and significant increases in earnings. Fresenius Helios also achieved excellent organic growth and further improved its earnings. Fresenius Vamed was also able to report strong sales and earnings growth in 2008.

Results of Operations, Financial Position, Assets and Liabilities

Results of Operations

Net income in the fiscal year 2008 was € 403.5 million (2007: € 138.9 million) resulting from, as in the previous year, income from participations and the transfer of profits accounted almost entirely for the raising of result by € 264.6 million.

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

The profit and loss transfer agreement with Fresenius Kabi AG yielded earnings of € 408.9 million (2007: € 115.6 million). This includes one time gains from intragroup sales of participations of € 282 million.

Fresenius ProServe GmbH contributed with earnings of € 81.8 million (2007: € 65.6 million) to the net income from participations.

Fresenius Biotech Beteiligungs GmbH contributed with a loss of € 49.0 million (2007: € 48.8 million) to the net income from participations, which results from research and development-work done by its subsidiary Fresenius Biotech GmbH.

Other significant income from participations came from a € 57.6 million Fresenius Medical Care AG & Co. KGaA dividend (2007: € 50.1 million).

In addition to dividend payments and earnings from the profit and loss transfer agreement, Fresenius SE also receives income from rent and by providing services.

Other operating income increased considerably in 2008 mainly due to higher foreign currency translation gains of € 135.6 million (2007: € 6.9 million) and higher cost transfers to group companies of € 106.2 million (2007: € 33.0 million).

Other operating expenses increased in 2008 in a similar scale as other operating income: foreign currency translation losses of € 122.3 million (2007: € 7.2 million) were incurred. Moreover, in 2008 the position includes costs in relation with the APP acquisition that were transferred to Kabi as other comprehensive income.

Included in net Interest are one-off expenses from transfers of interest rate hedges within the Group of € 12.4 million, as well as € 29.3 million from the fair value of the interest rate hedges in relation to the Senior Notes issued in January 2009.

The Management Board and Supervisory Board propose shareholders to approve a dividend increase at the Annual General Meeting. A dividend of € 0.70 per ordinary share and € 0.71 per preference share should be distributed from retained earnings, an increase of about 6% in comparison to 2007 for both the ordinary and preference shares.

Cash Flow Statement

	2007	2008
	million €	million €
Net Income	139	403
Depreciation and amortization of non-current assets	4	4
Change in pension liabilities	2	2
Cash flow	**145**	**409**
Earnings on sale of fixed assets	-	-
Other non-cash income	-	-
Change in accruals for income taxes and other accrued expenses	-2	22
Change in trade accounts payable	-2	7
Change in other operating assets and liabilities	14	9
Change in working capital	**10**	**38**
Operating cash flow (Cash provided by operating activities)	**155**	**447**
Payments for acquisitions and capital increase of subsidiaries	0	-855
Purchase of intangible assets and property, plant and equipment	-2	-6
Cash provided by/used for investing activities	**-2**	**-861**
Dividends paid	-89	-103
Proceeds from bank loans	97	75
Repayment of bank loans	-8	-8
Change in financing activities with related parties	-173	-404
Cash inflows from the issuance of the Mandatory Exchangeable Bond	0	554
Cash inflows from capital increase	0	289
Proceeds from exercise of stock options	20	13
Cash used for/provided by financing activities	**-153**	**416**
Change of cash and cash equivalents	-	2
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	2

In addition, Fresenius SE has a commercial paper program under which up to € 250 million in short-term notes can be issued. As of December 31, 2008, no commercial papers were outstanding.

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

As of December 31, 2008, both Fresenius SE and Fresenius Medical Care AG & Co. KGaA, including all subsidiaries, complied with the covenants under all the credit agreements.

Financial situation

Total assets of Fresenius SE increased considerably by € 728 million up to € 4,447 million (2007: € 3,719 million).

This increase is mainly related to the acquisition of APP Pharmaceuticals, Inc. by Fresenius Kabi.

On the asset side of the balance sheet financial assets increased by € 898 million to € 3,710 million. In April 2008 Fresenius SE contributed € 282 million to the capital reserves of Fresenius Kabi AG. Fresenius SE contributed a further € 573 million to the capital reserves of Kabi AG in September 2008 as part of the financing for the acquisition of APP. In addition Fresenius SE extended a loan of € 338 million to Fresenius Kabi Pharmaceuticals, Inc..

On the liabilities and equity side of the balance sheet, equity increased by € 603 million to € 2,834 million (2007: € 2,231million). This increase results from net income of 2008 and from the capital increase of € 289 million from August 2008 that is part of the financing of the acquisition of APP. Moreover bank loans increased by € 67 million to € 267 million (2007: € 200 million) mainly due to European Investment Bank Agreements.

In connection with the financing of the APP acquisition the Fresenius Group launched Mandatory Exchangeable Bonds in an aggregate amount of € 554.4 million. For more details refer to the chapter “Contingent liabilities” in the Notes. As a result Fresenius SE has a liability of the same amount against Fresenius Finance B.V..

The equity ratio of 63.7% was slightly higher than on the previous year (60.0%).

Investments and acquisitions

Total investments in property, plant and equipment and intangible assets were € 5.8 million in 2008.

Fresenius SE did not realize any material acquisitions in 2008.

Human resources

Fresenius SE had 308 employees on December 31, 2008 (December 31, 2007: 294). The increase in employees is mainly due to a significantly higher number of apprentices in comparison to the previous year.

Profit-sharing

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

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

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

Training

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

University graduates attend an 18-month “Graduate Development Program” to become familiar with the relevant business areas and their future position and to gain an overview on the Group. Executive programs and leadership seminars are also a fixed component of our management training.

There were no significant changes to compensation or employment agreements in 2008.

Opportunities and Risk Report

Through the expansion, especially in international markets, and the complexity and dynamics of our business, the Fresenius Group is exposed to a number of risks. These risks are directly related to our business activities and have to be accommodated if opportunities are to be exploited.

As a provider of often life-saving products and services for the severely and chronically ill, we are relatively independent of economic cycles. Our experience in the development and manufacture of products, as well as in our markets, serves as a solid basis for a reliable assessment of risks. At the same time, we will continue to take advantage of the wide-ranging opportunities for sustainable growth that the health care market offers to the Fresenius Group.

Opportunities Management

Managing opportunities is an ongoing, integral part of corporate activity, aimed at securing the company's long-term success. In this way, we can explore new prospects and consolidate and improve on what we have already achieved. Opportunities management is closely linked to the Fresenius Group's long-term strategy and medium-term planning. The Group's decentralized and regional organizational and management structure enables the early identification and analysis of trends, requirements, and opportunities in our often fragmented markets; and we can respond to them flexibly and in line with local market needs. Furthermore, we maintain regular contact and dialogue with research groups and institutions, and keep a close watch on markets and competitors in order to identify opportunities. Within the Group, opportunities and synergies can be exploited through continuous communication involving the exchange of information and know-how between the various business segments. Anticipated future opportunities for the Fresenius Group are discussed in the Outlook starting on page 29.

Risk Management

Like opportunities management, risk management is a continuous process. Identifying, analyzing, and controlling risks are key tools of solid group management. The Fresenius risk management system is closely linked to corporate strategy and is based on its guidelines. Through the combination of our internal monitoring system, our risk controlling procedures, and an early-warning system derived from our risk management system, we can identify and counteract at an early stage those developments that might threaten the companies' future. Responsibilities for the processes and for monitoring risks in the individual business segments have been assigned as follows:

- Using standardized processes, risk situations are evaluated regularly and compared with specified requirements. If negative developments emerge, responses can be initiated at an early stage.

- The managers responsible are required to report without delay any relevant changes in the risk profile to the Management Board.

- Markets are kept under constant observation and close contacts maintained with customers, suppliers, and institutions. These policies allow us to swiftly identify and react to changes in our business environment.

Risk management measures are supported both at Group level and in the individual business segments by our risk controlling measures and our management information system. Detailed monthly and quarterly financial reports are used to identify and analyze deviations in earnings and in assets and liabilities from budget figures. In addition to risk management, a monitoring system oversees organizational processes and measures as well as internal controls and audits. Our risk management system is regularly evaluated and, if necessary, adjusted to allow prompt reaction to changes in the markets. This system has proved effective to date.

The functionality and effectiveness of the risk management system is reviewed as part of the audit of the annual financial statements and the internal audit. Conclusions arising from the audit are taken into account in the ongoing refinement of our risk management system.

Risk Areas

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

<u>General Economic Risks</u>

At present, the development of the global economy exhibits no significant risk to the Fresenius Group. Although overall economic growth should weaken considerably in 2009, we expect growing demand for our life-saving and life-sustaining products and services.

<u>Risks in the General Operating Framework</u>

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

Risks in the Health Care Sector

Risks related to changes in the health care market are of major importance to the Fresenius Group. The main risks are the development of new products and therapies by competitors, the financing of health care systems, and reimbursement in the health care sector. The latter applies especially in the United States, where a large portion of our sales are generated, and where e.g. changes in the reimbursement system could have an impact on our business. The same applies to the hospital market in Germany, where the DRG system (Diagnosis Related Groups) is intended to increase the efficiency of hospitals while reducing health care expenditure. The Company constantly monitors further legislative developments of the DRG system. Discussions about an ending of the dual financing in the hospital sector are also being followed. Patients are largely assigned to hospitals by the public health and pension insurers. It is therefore especially important for the company that the contracts between its hospitals and the insurers and health care institutions are maintained. For this reason, we not only continually monitor legislative changes but proactively work with governmental health care institutions. Generally, our aim is to counter possible regulatory risks through enhanced performance and cost reductions.

In the United States, almost all injectable pharmaceutical products are sold to customers through arrangements with group purchasing organizations (GPOs) and distributors. The majority of hospitals contract with the GPO of their choice for their purchasing needs. APP Pharmaceuticals currently derives, and expects to continue to derive, a large percentage of its revenue through a small number of GPOs. Currently, fewer than ten GPOs control a large majority of sales to hospital customers. APP Pharmaceuticals has purchasing arrangements with the major GPOs. To maintain these relationships, APP Pharmaceuticals believes it needs to be a reliable supplier, offer a broad high-quality product line, remain price competitive and comply with FDA regulations. The GPOs also have purchasing agreements with other manufacturers, and the bid process for products such as those of APP Pharmaceuticals is highly competitive. Most of APP Pharmaceuticals’ GPO agreements can be terminated at short notice.

In addition, our close ties with the medical and scientific communities allow us to identify and support relevant technological innovations and to keep abreast of developments in alternative treatment methods. These enable us to evaluate and adjust our corporate strategy if necessary.

Operating Risks

- Production, products and services

  We confront potential risks in production and services with the following measures: Compliance with product and manufacturing regulations is insured by quality management systems in accordance with the internationally recognized quality standards ISO 9001 and ISO 9002 and corresponding internal standards as defined, for example, in our quality and work procedure manuals. Regular audits are carried out by quality management officers at the Group's production sites and dialysis clinics. These audits test compliance with all regulations in all areas—from management and administration to production and clinical services and patient satisfaction. Our production facilities comply with the international "Good Manufacturing Practice" (GMP) guidelines and other internationally and nationally recognized standards. In addition, the quality management and compliance programs document and make sure that business is carried out in line with high ethical standards and in accordance with official procedures. Internal and external audits review the legality and efficiency of our operations and the effectiveness of our internal monitoring systems. Potential risks, such as those arising from the start-up of a new production site or the introduction of new technologies, are countered through careful planning, regular analysis, and continual progress reviews.

  Performing medical procedures on patients in our hospitals and post-acute care clinics presents inherent risks; at the same time operational risks, for example the need for strict hygiene and sterile conditions, can arise. We counteract these risks with strict working procedures, continuous personnel training, and patient-oriented working methods.

  Risks can also arise from increasing pressure on our product prices and from price increases on the procurement side. For instance, changes in the United States in the regulations concerning the reimbursement for erythropoietin (EPO), or a change in the dosage, could have a significant impact on the revenues and earnings of Fresenius. EPO is a hormone used in dialysis that stimulates the production of red blood cells. An interruption in supply or worsening procurement conditions for EPO could also reduce revenues and significantly increase Fresenius' costs. To counter this risk, Fresenius Medical Care has entered into an agreement with Amgen for the supply of EPO in the United States and Puerto Rico. Amgen is the sole supplier of EPO in the United States. The agreement runs until December 31, 2011. Reimbursement and revenues from the administration of EPO accounted for approximately 7% of total sales of the Fresenius Group in 2008.

Growing competition could adversely affect the pricing and sale of our products and services. The introduction of new products and services by competitors could make products and services of the Fresenius Group less competitive. On the procurement side, we counter risks, which mainly involve possible price increases, by appropriately selecting and working together with our suppliers through long-term framework agreements in certain purchasing segments and by bundling volumes within the Group. Generally, the markets in which we operate are characterized by price pressure, competition, and efforts to contain health care costs. These could result in lower sales and adversely affect our business, our financial position, and our operational results.

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

- Research and Development
  The development of new products and therapies always carries the risk that the ultimate goal is not achieved. Regulatory approval of new products requires comprehensive, cost-intensive preclinical and clinical studies. The Fresenius Group spreads its risk widely by conducting development activities in various product segments. We also counteract risks from research and development projects by regularly analyzing and assessing development trends and examining the progress of research projects. We also strictly comply with the legal regulations for clinical and chemical-pharmaceutical research and development. With IV drugs, it is also crucial that new products are brought to the market continually and at the right time.

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

an acquisition Fresenius may become directly or indirectly liable toward third parties or claims against third parties may turn out to be nonassertible.

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

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

- Personnel Risks
  Risks in personnel marketing are not considered to be significant. Nevertheless, the Group uses comprehensive recruiting and personnel development programs to counteract a possible shortage of skilled personnel. By using targeted personnel marketing measures to recruit a qualified and dedicated workforce, Fresenius counters the general shortage of specialized hospital personnel, thus insuring our high standards of treatment quality. At the same time, by assisting in the training of young people we thereby seek to commit them to the Company. HELIOS, for instance, pays a monthly stipend to medical students during their one-year internship. This practice puts HELIOS at a considerable competitive advantage over other hospital operators in recruiting staff.

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

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

  The Fresenius Group is protected to a large extent against currency and interest rate risks. As of December 31, 2008, approximately 69% of the Fresenius Group's debt is protected against increases in interest rates either by fixed-rate financing arrangements or by interest rate hedges. Only 31%, or € 2,724 million, is exposed to an interest rate risk. A rise of 0.5% in the reference rates relevant for Fresenius would have a less than 1.5% impact on Group net income.

  As an international company, Fresenius is widely exposed to translation effects due to foreign exchange rate fluctuations. The exchange rate of the U.S. dollar to the euro is of particular importance because of our extensive operations in the United States. Translation risks are not hedged. As a globally active company, we have production facilities in all the main currency areas. In our service businesses, the revenue and cost base match together. The exposure to currency risks arising from our business activities does not rise to the same extent as sales.

  Potential financial risks that could arise from acquisitions, investments in property, plant and equipment, and in intangible assets are assessed in advance. We perform careful and in-depth reviews of the projects, sometimes assisted by external consultants.

Fresenius' debt has increased significantly as a result of the financing of the APP Pharmaceuticals acquisition reaching € 8,787 million as of December 31, 2008. The debt could limit the ability to pay dividends, to arrange refinancing, or to implement corporate strategy. Other financing risks could arise for Fresenius against the background of the general financial market crisis. This is counteracted through a long-term spread maturities profile. In addition, the Group has no material short-term refinancing requirements.

- Government Reimbursement Payments
  Fresenius is subject to comprehensive government regulations in nearly all countries. This is especially true in the United States and Germany. In addition, Fresenius has to comply with general rules of law, which differ from country to country. There could be far-reaching legal repercussions should Fresenius fail to comply with these laws or regulations. A large part of Group revenue derives from government reimbursement programs, such as the federal dialysis reimbursement programs in the United States under Medicare and Medicaid. Changes in the law, or changes in the reimbursement method affecting the amounts of these payments, could have a significant adverse impact on the assets and liabilities, financial position, and results of operations of the Group.

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

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

FMCH and its subsidiaries, including RCG (before its acquisition by Fresenius Medical Care) received in April 2005 (RCG in August 2005) a subpoena from the U.S. Department of Justice in St. Louis (Missouri) in connection with civil and criminal investigations. Documentation must be provided on clinical quality programs, business development activities, compensation of clinic managers, contractual relationships with doctors, joint ventures, and anemia treatment therapies, RCG's suppliers, pharmaceutical and other services which RCG has provided for patients, RCG's relations to companies in the pharmaceutical industry and RCG's procurement of dialysis machines from FMCH. The Inspector General of the U.S. Department of Health and the Attorney General for the Eastern District of Texas confirmed their involvement in the review of the anemia management program.

In July 2007, the U.S. Attorney General filed a civil action against RCG and FMCH, in its capacity as the present holding company of RCG, before the U.S. district court for the Eastern District of Missouri. The action claims damages and penalties in respect of the business activities of the RCG Method II supplier company in 2005, before RCG was acquired by FMCH. The company believes that RCG's operation of its Method II supply company was in compliance with applicable law and will defend this litigation vigorously. Fresenius Medical Care will continue to cooperate in the ongoing investigation.

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

- Other Risks
  Other risks, such as environmental risks and risks involving management and control systems or our IT systems, are not considered to be significant. IT risks are countered through security measures, such as controls and monitoring. In addition, we counter these risks with constant investment in hardware and software as well as by improving our system know-how.

Assessment of Overall Risk

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

Corporate Rating

Fresenius' credit quality is assessed and regularly reviewed by the two leading rating agencies Moody's and Standard&Poor's. Standard&Poor's overall rating for Fresenius SE is BB and Moody's rating is Ba1. Following the financing of the APP Pharmaceuticals acquisition, Standard&Poor's changed its rating outlook from "stable" to "negative" in 2008. Moody's confirmed its rating, which was raised from Ba2 to Ba1 in May 2008. Moody's adjusted its outlook from "stable" to "negative". Standard & Poor's has assigned a BB rating to the Senior Notes, while Moody's assigned a Ba1 rating. This is in line with Fresenius SE's existing unsecured Senior Notes and its corporate credit rating.

Subsequent Events

On January 21, 2009 Fresenius issued a US$ 800 million equivalent of unsecured Senior Notes by its subsidiary Fresenius U.S. Finance II, Inc.. Please see page 34 of the Notes for further details.

Apart from that, there have been no significant changes in the Fresenius Group's corporate position or operating environment since the beginning of 2009. At present, the Fresenius Group is not planning to carry out any significant changes in its structure, administration, or in the area of personnel. No other events of material importance have occurred following the end of the fiscal year.

Outlook

This Management Report contains forward-looking statements, including statements on future sales, expenses and investments, as well as potential changes in the health care sector, our competitive environment, and our financial situation. These statements were made on the basis of the expectations and assessments of the Management Board regarding events that could affect the company in the future. Such forward-looking statements are subject as a matter of course to risks, uncertainties, assumptions, and other factors, so that the actual results, including the financial position and profitability of Fresenius, could therefore differ materially—positively or negatively—from those expressly or implicitly assumed or described in these statements. For further information, please see our Risk Report on pages 20ff.

General and Mid-Term Outlook

The outlook for the Fresenius Group for the coming years continues to be positive. Good growth opportunities for Fresenius are presented above all by:

- The sustained growth of the markets in which we operate: Here, Fresenius sees very good opportunities to profit from the considerable health care needs, primarily in the developing and emerging countries.

- The development of innovative products and therapies: These will create the potential to further expand our market position in the regions. In addition to innovation, best-in-class quality and the reliability of our products and therapies is key to being able to exploit opportunities for expansion.

- The expansion of our regional presence: The fast-growing markets in Asia-Pacific and Latin America especially offer further opportunities for increasing our market shares.

- We also plan to successively roll out products and therapies from our existing portfolio in countries where we do not yet offer a comprehensive range. The acquisition of APP Pharmaceuticals in the Fresenius Kabi business segment will enable us over time to introduce infusion and nutrition therapy products to the U.S. market. Similarly, Fresenius Kabi’s international marketing and sales network will provide us with a global market for APP Pharmaceutical’s products in future.

- The broadening of our services business: Fresenius Helios has concrete opportunities in the German hospital market to profit from the further privatization of public hospitals. Changes in the law could present new opportunities, for instance, for Fresenius Medical Care. Since Japan is one of the world's biggest dialysis markets, changes in the framework conditions for the operation of dialysis clinics for private commercial enterprises there could open up new sales potential for Fresenius Medical Care.

- Selective acquisitions: We will continue to take opportunities to grow by making acquisitions that extend our product portfolio and strengthen our regional presence.

We are also exploiting any opportunities for tapping potential within our operations for cost management and efficiency and profitability enhancement measures. These include plans for a further optimized procurement process and cost-efficient production.

Given sustained market growth and a long-term strategy oriented toward profitable growth, Fresenius has set itself a mid-term goal under the slogan "15/15." Fresenius aims to attain the following in 2010:

1. Group sales of € 15 billion. Based on the sales of € 12.3 billion generated in 2008, this represents a compounded annual growth rate of about 10% p.a. It is to be achieved through strong organic growth flanked by selective acquisitions.

2. An EBIT margin of 15%.

Acquisitions, primarily the acquisition of APP Pharmaceuticals, have led to appreciably higher Group debt with a corresponding impact on net interest. Our goal is therefore to improve the Group's leverage ratios again. The net debt / EBITDA ratio of 3.6 as of December 31, 2008 is to be returned to a range of 2.5 – 3.0 by the year 2010.

This forecast takes account of all events known at the time the annual financial statements were prepared that could influence our operating performance in 2009 and beyond. Significant risks are discussed in the Risk Report. As in the past, we will do our utmost to achieve and – if possible – exceed our targets.

Future Markets

As an international company, we offer our products and services in more than 100 countries. We expect the consolidation process among competitors in our markets in Europe, Asia-Pacific, and Latin America to continue. Consequently, we anticipate that there will be opportunities for Fresenius to penetrate new markets, both by expanding its regional presence and by extending its product portfolio. In the United States, since Fresenius Medical Care and its competitor DaVita already share about two-thirds of the market, acquisitions are likely to be few; potential antitrust restrictions are an additional factor. Other new markets will open up for Fresenius as we successively roll out our existing product portfolio in other regions. With the acquisition of APP Pharmaceuticals and Dabur Pharma, Fresenius Kabi now has further access to attractive growth markets.

Economic Outlook

In view of the continuing strained situation on the global financial markets, world economic growth can be expected to be weaker in the foreseeable future. The outlook may brighten a little in the second half of 2009, when the fiscal policy measures already initiated should start to take effect. However, experts do not believe this is likely to trigger a sustained upswing dynamic such as that witnessed in 2004 to 2007. According to current estimates, it is expected that global GDP growth will decrease by 0,1% in 2009. From a global perspective 2009 is likely to be a generally weak year, especially in view of the pronounced weakening of the economic dynamic in the industrial countries and the resulting repercussions for the hitherto booming emerging economies.

- Europe
  The Eurozone is set for its worst recession since World War II, with a drop of 2.5% in GDP in 2009. On the whole, the economy in the Eurozone will recover only very slowly. Europe's governments will be continuing their efforts to stabilize the situation on the financial markets with rescue plans and economic programs. Although the European Central Bank (ECB) has already cut its rates by 225 basis points since October 2008 to 2.0%, there is likely to be room for further monetary policy moves in 2009 since the continued easing of world commodity prices is helping to bring down inflation closer to the ECB's target level. Nonetheless, the process of transmitting the cheaper credit conditions to firms and consumers is likely to remain disrupted.

  In Germany, GDP is set to contract sharply in 2009, with a drop of 2.5% according to current estimates. Economic momentum has been hit especially by the dramatic fall in global demand for Germany's exports. Nor is private consumption likely to provide much stimulus in 2009. Given the subdued global outlook, private investment may be expected to be extremely weak.

  Growth is currently expected to slow appreciably in the emerging economies of Central and Eastern Europe, too.

- United States

  The development of the U.S. economy in the coming year will again be affected to a large extent by the course of the crisis on the financial and real estate markets. Private consumption will be depressed by the continued fall in property prices. Furthermore, the worsening situation on the labor market will be reflected in much higher unemployment, which will additionally frustrate the development of real incomes. Unemployment increased strongly in the United States at the end of 2008. Whether net exports of goods and services can fill the gap left by domestic demand appears extremely doubtful, given the worsening outlook for the world economy. It remains to be seen how far the new government can succeed in stimulating demand through economic programs. In view of the challenging macroeconomic environment, the U.S. economy is also likely to contract strongly in 2009, with a drop of 2.0%.

- Asia

  There are considerable risks for economic development in Asia in 2009. The still strong reliance on exports is also likely to lead to a further weakening of the economic dynamic in Asia. Although in the short term the current account balances are benefiting from the fall in world commodity prices, in the mid-term the sharp fall in demand in the industrial countries can be expected to spill over to the Asian economies.

  Compared to other emerging economies, relatively robust growth is forecast for China, with private consumption and public investment as the main drivers. Lower interest rates should stimulate investment by private enterprise. However, the extent to which these trends can compensate for the drop in foreign demand will depend on how strong the downturn in the world economy is, and on the scale of government investment programs. GDP growth is expected to sink to 7.0% in 2009.

  India’s economy is less vulnerable than China’s to a slump in global demand, but Indian firms, too, face more difficult credit conditions and monetary strains. However, the monetary policy measures announced by India’s central bank should have a stimulating effect in the mid-term. It is estimated that GDP growth will slow to 4.8% in 2009.

  Japan’s economy will continue to suffer as a result of the country’s strong reliance on exports. Domestic consumption is expected to compensate for the fall in exports only to a very small extent. On the other hand, Japan’s large companies should provide stimulus in the coming year thanks to their high liquidity and rigorous focus on forward-looking technologies, for instance in environmental technology. Despite this, Japan’s economy is expected to contract by 1.7% in 2009.

- Latin America
  Latin America is proving to be comparatively crisis resistant. Thanks to the buoyancy of the world economy and rising commodity prices, current account deficits have been reduced in recent years, and in many countries have swung into surpluses. At the same time, Latin America's foreign exchange reserves have more than doubled since 2005. For the future there are two main risks: the massive and rapid fall in commodity prices, and the economic downswing in the industrial nations. Currency weakness, on the other hand, is seen as positive because this can damp down the growth in imports and prevent major external imbalances. Mexico will be hit particularly due to its strong exposure to the United States. GDP growth of 0.5% is expected in Mexico, -0.9% in Argentina, and 2.7% in Brazil. Overall, growth of 1.8% is forecast for Latin America in 2009.

Health Sector and Markets

The health care sector is one of the world's biggest industries. The generally difficult conditions in 2009 should have a moderate impact on the industry because of its defensive and, compared to other sectors, less cyclically sensitive character. The demand for life-saving and life-sustaining products and services, especially, will remain intact since they are medically necessary. However, in the mid to long-term, funds channeled into economic programs to contend with the financial crisis in other sectors may not be available for the health industry.

The Dialysis Market

We expect the number of dialysis patients to rise by 5 to 7% in the coming years, although significant regional differences are anticipated. In industrialized nations, such as the United States, Japan, and the countries of Central and Western Europe, where people already have broad access to dialysis treatment, we expect below-average patient growth. In many developing countries, however, where the needs of patients with chronic kidney failure are still not met sufficiently, we expect above-average growth rates of up to 10% in these markets. That more than 80% of the world's population lives in these growth regions highlights the enormous potential of the dialysis market there. The global dialysis market will probably grow by approximately 5% p.a. to clearly more than US$ 70 million by the year 2010.

Reimbursement schemes for dialysis treatment vary from country to country. Reimbursement structures may also differ within individual countries. They may depend, for instance, on regional factors, the method of treatment, regulatory aspects, or the status of the dialysis care provider. Reimbursement for dialysis treatments according to quality-based criteria also remains a central issue. In this reimbursement model, the quality of treatment should increase while the total cost of treating a dialysis patient should remain constant.

Fresenius Medical Care has been active for many years in numerous countries, involving a variety of health care systems and reimbursement schemes. Thanks to this international experience, we are able to support the varying activities of the national health care systems, to adjust our business to the local environment, and to generate profitable growth. Patients covered by the public health insurers Centers for Medicare and Medicaid Services (CMS) in the United States account for about 35% of Fresenius Medical Care's dialysis care revenues.

The Medicare Improvements for Patients and Providers Act of 2008 was passed in 2008. The act increases the composite rate by 1% from January 1, 2009 and by another 1% from January 1, 2010. It also provides for the introduction of a bundled payment system for ESRD (end stage renal disease) from January 1, 2011. Under this scheme, CMS will reimburse the dialysis clinics with a single payment for (i) all items and services currently included in the composite rate, (ii) all erythropoietin-stimulating agents and other pharmaceuticals (other drugs and biologicals, other than vaccines) furnished to the patients that were previously reimbursed separately, (iii) diagnostic laboratory tests and (iv) other services furnished to individuals for the treatment of ESRD. The bundled reimbursement rate is initially fixed at 98% of the estimated costs of the Medicare program for dialysis care in 2011. This estimate is calculated on the basis of the lowest per patient utilization data from 2007, 2008, or 2009 under the present reimbursement system.

From 2012 the bundled payment amount will be subject to yearly increases, based on the increase in the cost of a mix of dialysis items and services still to be defined by HHS (U.S. Department of Health and Human Services) minus 1%.

The act will establish pay-for-performance quality standards that will take effect in 2012. If dialysis clinics do not meet the set quality standards, their payments will be cut by 2%. Quality standards will probably be developed for clinics in the areas of anemia management, patient satisfaction, iron management, bone mineral metabolism, and vascular access.

Introduction of the bundled system will be phased over a period of four years, with full implementation for all dialysis clinics as from January 1, 2014. However, providers may elect at any time prior to 2011 to become fully subject to the new system.

<u>The Market for Infusion Therapies and Clinical Nutrition</u>

Demographic developments, medical advances, and the often still insufficient availability of medical care in developing countries will continue to be the growth drivers in this market.

We expect further cost-containment pressure and health care reforms in Central and Western Europe. Despite these trends, we believe that there will be continued growing demand for innovative and cost-effective products and therapies. We expect growth in the low single digits for the infusion therapy and clinical nutrition market in Central and Western Europe. For Eastern Europe, we expect market growth rates in the high single digits.

The market for IV drugs should see growth rates in the mid single digits. In the United States, market growth for intravenously administered generic drugs should also be in the mid single digits.

There continues to be high growth potential in Asia-Pacific—especially China—and Latin America. The rising demand for better primary care, and thus for high-quality therapies, should result in continued strong growth rates. We expect the markets of Asia-Pacific and Latin America to continue growing at high single- to double-digit rates.

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

The German Hospital Market

The proposed Hospital Funding Reform Act (KHRG) will have a decisive influence on the development of the hospital market and hospital finances in Germany. An important element in the law is the end of the convergence phase for virtually all German acute care hospitals at the beginning of 2009. From then onward, hospitals will have to bill on the basis of the standardized base rates valid throughout individual federal states. This practice will encourage further competition since it enables the budgets agreed with the health insurers to be increased if performance is enhanced because additional services will no longer have to be provided at a low marginal revenue rate. As the legislative process is not over, the details of the last adjustment step in the convergence phase that has been underway since 2005 are not clear as yet. The law will probably be passed in February 2009. In light of the experience with the DRG system so far, and the convergence steps already completed, HELIOS does not expect any fundamental changes in the framework conditions.

As from 2009, the KHRG will also abolish the 0.5% budget cut, a contribution hospitals are required to make towards improving the finances of public health insurers, and the deduction hitherto of up to 1% on billings under integrated health care contracts.

In the mid-term, we expect legislative initiatives that provide for the introduction of quality-based reimbursement (pay-for-performance) and allow hospitals the option of concluding selective contracts with health insurers. With its strict focus on quality and transparency, HELIOS is also excellently prepared for this future development.

No consequences from changes in the law are expected in the post-acute care segment. However, pricing and other controls by health insurers will continue to increase. As a result of the growth in acute care cases and the continuous improvements in HELIOS' internal referral management, we expect to be able to leverage the potentials from the combination of acute care and post-acute care, thereby increasing our number of post-acute care admissions. Given that reimbursement schemes for hospitals are largely regulated by law, the generally difficult environment is unlikely to have any direct impact on hospital revenues.

The rationalization trend in the German hospital market is expected to continue in 2009 and beyond. According to a study by management consultants Ernst&Young, by the year 2020 there will be only 1,500 hospitals operating in Germany; 2.9 beds will be available per 1,000 population, and the average length of stay will fall to 4.0 days (2007: 6.16 beds, 8.3 days).

Private hospital chains and alliances are likely to be able to respond to the pressure to improve efficiency better than public hospitals. They often have more experience in operating commercially and creating efficient structures. They have the potential to secure cost advantages in procurement and generally have more advantageous financing prospects. Finally, private operators have more experience with the process know-how for acquiring and integrating new facilities and quickly adjusting their cost structures. Against this background, we expect the concentration and privatization process to accelerate further, especially among public hospitals. Overall, experts expect the market share of private operators in terms of beds to rise from approximately 16% at present to about 35 to 40% by the year 2015.

Crucial factors for a clinic's success will be excellent medical standards, well-trained staff, well-organized processes, and a well-structured treatment spectrum that focuses on high-quality, complex medical services.

Dividend

Continuity in our dividend policy remains an important priority, clearly demonstrated by steady dividend increases over the last 15 years. We want to remain true to this policy in the 2009 fiscal year and offer our shareholders a dividend in line with our positive earnings forecasts.

Bad Homburg v.d.H., February 23, 2009

Report of the Supervisory Board

In 2008, the Supervisory Board performed the duties assigned to it by law and by the Company's Articles of Association, regularly advising and monitoring the Management Board. It was closely involved in all decisions that were of major importance to the Group.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Carrying out its monitoring and advisory activities, the Supervisory Board was kept regularly informed by the Management Board – in a timely manner and comprehensively, both in writing and orally – about the business development, the economic and financial position, and the profitability of the Company and the Group, the corporate strategy and planning, the risk situation and compliance, and important business events. In all, the Supervisory Board of Fresenius SE convened seven times in 2008. It convened for an extraordinary meeting in January 2008. A regular meeting was held in March 2008 and a constitutive meeting of the newly elected Supervisory Board was held after the Annual General Meeting in May 2008. The Supervisory Board met for a briefing in June 2008. A further extraordinary meeting was held in July 2008. This was followed by two regular meetings of the Supervisory Board in October and December 2008. Before all the Supervisory Board meetings detailed Management Board reports and comprehensive approval documents concerning the agenda were distributed to its members. At each of its regular meetings the Supervisory Board used the Management Board's reports as the basis for its comprehensive discussions about business development and important corporate decisions. All matters requiring Supervisory Board approval were submitted with sufficient time for proper scrutiny. After reviewing the related approval documents and after detailed consultation with the Management Board, the Supervisory Board was able to give its approval in all matters submitted to it. The Supervisory Board was also informed about any important business events occurring between meetings and, in urgent cases, was requested to pass resolutions by written proceeding. In addition, the chairman of the Management Board informed in individual discussions the chairman of the Supervisory Board regularly about the latest business developments and forthcoming decisions. Every member of the Supervisory Board attended at least half of the Supervisory Board meetings during their term of office in 2008.

MAIN FOCUS OF THE SUPERVISORY BOARD'S ACTIVITIES

The Supervisory Board's monitoring and advisory activities were mainly centred on overall business operations as well as on business segment investments and acquisitions, and any related financing. A focus was the acquisition of Dabur Pharma in India and APP Pharmaceuticals in the United States. The Supervisory Board discussed these strategically important acquisitions in detail with the Management Board and carefully considered the opportunities and risks. The financing of the APP acquisition through an issue of shares from approved capital, an issue of mandatory exchangeable bonds convertible into ordinary shares of Fresenius Medical Care & Co. KGaA and debt was also discussed with the Management Board and was approved by the Supervisory Board. After detailed consultations and discussions the Supervisory Board also approved the 2008 stock option plan for the Management Board and other executive officers.

The Supervisory Board thoroughly reviewed and discussed all other significant business activities with the Management Board. It approved the budget for 2009 and the Fresenius Group's medium-term planning, following a detailed review and discussions with the Management Board. At its regular meetings and within the Audit Committee, the Supervisory Board also kept itself informed about the Group's risk situation and risk management activities as well as compliance.

CORPORATE GOVERNANCE

Further development of corporate governance at Fresenius was reviewed by the Supervisory Board. On May 21, 2008, the Management Board and the Supervisory Board jointly issued a Declaration of Conformity in accordance with the German Corporate Governance Code in its version as of June 14, 2007.

For more information on corporate governance at Fresenius, please see the Corporate Governance Report issued jointly by the Management and Supervisory Boards on pages 22 to 25 of this Annual Report.

WORK OF THE COMMITTEES

The Personnel Committee, which is responsible, among other things, for concluding, amending, and terminating employment contracts with the members of the Management Board, held two meetings and one conference call.

The Audit Committee held four meetings. There was also one conference call. The main focus of its activities was on the preliminary audit of the annual financial statements of Fresenius SE and the Group for 2007 and discussions with the auditors about their report and the terms of reference of the audit. The Audit Committee also reviewed the 2008 quarterly reports and the risk management system, an audit plan as well as the audit results of the internal audit department and a controlling report on the development of the acquisitions. The Audit Committee also discussed in detail the effects on the accounting resulting from the acquisition of APP Pharmaceuticals.

The Supervisory Board delegated the resolutions on the terms of the financing of the APP Pharmaceuticals acquisition, especially the exercise of the Supervisory Board's rights of consultation and approval with regard to the use of the approved capital pursuant to § 4 (5) of the Articles of Association (Approved Capital II), to the special "Transaction Financing APP Pharmaceuticals, Inc." Committee set up for this purpose. This committee held several conference calls.

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

The Nomination Committee convened and deliberated on the Supervisory Board's proposals to the General Meeting for the appointment of the Supervisory Board. The Nomination Committee held three meetings and several conference calls.

The Mediation Committee has ceased to exist as the German Co-determination Act (MitbestG), which provided for this committee, does not apply to Fresenius SE.

Information on the present composition of the committees can be found on pages 193 and 194 of this Annual Report.

PERSONNEL – NOMINATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The mandates of all members of the Supervisory Board of Fresenius SE ended at the close of the Annual General Meeting of Fresenius SE on May 21, 2008. We wish to thank the members who left the Supervisory Board for their valuable work.

The Annual General Meeting elected the members of the Supervisory Board of Fresenius SE anew on May 21, 2008. The shareholder representatives on the Supervisory Board are Prof. Dr. h. c. Roland Berger, Dr. Gerd Krick, Klaus-Peter Müller, Dr. Gerhard Rupprecht, Dr. Dieter Schenk and Dr. Karl Schneider. The employee representatives on the Supervisory Board are Mr. Dario Ilossi, Mr. Konrad Kölbl, Mr. Wilhelm Sachs, Mr. Stefan Schubert, Mr. Rainer Stein and Mr. Niko Stumpfögger.

At its constitutive meeting on May 21, 2008 the Supervisory Board elected Dr. Gerd Krick as chairman of the Supervisory Board of Fresenius SE. Dr. Dieter Schenck, nominated by the shareholder representatives, and Mr. Niko Stumpfögger, nominated by the employee representatives, were elected as deputy chairmen of the Supervisory Board.

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The accounting records, the financial statements prepared according to the German Commercial Code (HGB) and the Management Report of Fresenius SE for 2008 were audited by KPMG AG Wirtschaftsprüfungs-gesellschaft (formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesell-schaft), Berlin. They were elected as auditors at Fresenius SE's Annual General Meeting on May 21, 2008 and were subsequently commissioned by the Supervisory Board. The auditors issued their unqualified audit opinion for these statements. The same applies to the consolidated financial statements of Fresenius SE prepared according to IFRS accounting principles and to the consolidated financial statements of Fresenius SE prepared voluntarily according to US GAAP.

Management Reports were added to the consolidated financial statements. The financial statements, the consolidated financial statements, the Management Reports, and the auditors' reports were submitted to each member of the Supervisory Board of Fresenius SE within the required time. The Supervisory Board noted and approved the auditors' findings. The Supervisory Board's own review found no objections to the financial statements of Fresenius SE or the consolidated financial statements. The Supervisory Board agrees with the Management Reports and the statements contained therein with respect to future development.

At its meeting on March 13, 2009, the Supervisory Board approved the financial statements of Fresenius SE for 2008 as presented by the Management Board, thereby adopting them as official. The Supervisory Board also approved the consolidated financial statements of Fresenius SE prepared according to IFRS standards and the consolidated financial statements for 2008 prepared voluntarily according to US GAAP.

The auditors delivered a detailed report on the results of the audit during this meeting. They attended all meetings of the Supervisory Board and the Audit Committee.

The Supervisory Board concurs with the proposal by the Management Board on the appropriation of the 2008 retained earnings.

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

Bad Homburg v.d.H., March 13, 2009

The Supervisory Board

Dr. Gerd Krick
Chairman