Fresenius SE

Bad Homburg v.d.H.

2009

- 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, 2009

A s s e t s

	Note	December 31, 2009		December 31, 2008	
		kEUR	kEUR	kEUR	kEUR
A. Fixed assets	(3)				
I. Intangible assets			43		53
II. Tangible assets			73,041		76,158
III. Financial assets			3,708,736		3,710,221
			3,781,820		3,786,432
B. Current assets					
I. Accounts receivable and other assets					
1. Accounts receivable due from related parties	(4)	959,494		619,395	
2. Other assets	(4)	37,773	997,267	31,914	651,309
II. Other securities	(5)		0		5,592
III. Cash and cash equivalents	(7)		33,562		1,621
			1,030,829		658,522
C. Deferred expense	(8)		1,161		2,193
			4,813,810		4,447,147

Liabilities and shareholders' equity

	Note	December 31, 2009		December 31, 2008	
		kEUR	kEUR	kEUR	kEUR
A. Shareholders' equity					
I. Subscribed capital	(9, 10, 11, 12)				
1. Ordinary shares (conditional capital I kEUR 656; prev. yr. kEUR 682) (conditional capital II kEUR 2,149; prev. yr. kEUR 2,209) (conditional capital III kEUR 3,100; prev. yr. kEUR 3,100)		80,658		80,572	
2. Preference shares (conditional capital I kEUR 656; prev. yr. kEUR 682) (conditional capital II kEUR 2,149; prev. yr. kEUR 2,209) (conditional capital III kEUR 3,100; prev. yr. kEUR 3,100)		80,658	161,316	80,572	161,144
II. Capital reserves	(13)		1,832,808		1,828,610
III. Other reserves	(14)		777,645		641,984
IV. Retained earnings	(15)		121,842		201,810
			2,893,611		2,833,548
B. Special reserve for investment government grants	(16)		15		16
C. Accrued expenses	(17)				
1. Pensions and similar obligations			20,983		20,160
2. Accruals for income taxes			28,510		28,800
3. Other accruals			39,826		47,305
			89,319		96,265
D. Liabilities	(18)				
1. Convertible bonds			616		596
2. Bank loans			204,228		267,352
3. Trade accounts payable			1,020		7,019
4. Liabilities to affiliated companies			1,614,504		1,233,931
5. Other liabilities			10,497		8,420
			1,830,865		1,517,318
			4,813,810		4,447,147

Fresenius Societas Europaea
Bad Homburg v. d. Höhe

Statement of Income
January 1 to December 31, 2009

		Note	2009	2008
			kEUR	kEUR
1.	Income from participations	(21)	263,329	511,526
2.	Other operating income	(22)	89,497	252,297
3.	Personnel expenses	(23)	-26,215	-26,070
4.	Depreciation and amortization on intangible assets and on property, plant and equipment	(24)	-3,929	-3,936
5.	Other operating expenses	(25)	-71,093	-248,700
6.	Write-downs of financial assets and securities included in current assets	(26)	-1,671	0
7.	Net interest	(28)	-53,665	-62,876
8.	Other financial result	(29)	-20,876	0
9.	Profit from ordinary operations		175,377	422,241
10.	Income taxes	(30)	-5,583	-18,396
11.	Other taxes		-495	-367
12.	Net Income		169,299	403,478
13.	Retained earnings brought forward		43	71
14.	Increase in other reserves		-47,500	-201,739
15.	Retained earnings		121,842	201,810

Notes Fresenius SE

(1) Structure

The Fresenius Group is as of December 31, 2009 divided into four legally independent business segments:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius Helios
- 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.

Fresenius SE closes 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.

Where no valuation units can be created, accruals are build for the negative fair value on balance sheet date of hedging instruments.

Notes on balance sheet

(3) Fixed assets

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

in thousand €	Acquisition and manufacturing costs					
	As of January 1, 2009	Additions	Transfer related parties +/-	Disposals	Reclassifications	As of December 31, 2009
Intangible Assets						
Concessions, industrial and similar rights and assets, licenses	1,929	14	0	0	0	1,943
	1,929	14	0	0	0	1,943
Tangible Assets						
Land, leasehold and buldings including buildings on third party property	116,980	29	0	0	0	117,009
Plant and machinery	415	52	0	0	0	467
Other fixtures and fittings, tools and equipment	8,347	693	60	217	27	8,910
Payments on account and tangible assets in course of construction	107	21	0	0	-27	101
	125,849	795	60	217	0	126,487
Financial assets						
Shares in related parties	3,371,224	0	0	0	0	3,371,224
Loans to related parties	337,671	0	0	0	0	337,671
Securities	679	339	0	153	0	865
Other loans	1,000	0	0	0	0	1,000
	3,710,574	339	0	153	0	3,710,760
Non-current Assets	3,838,352	1,148	60	370	0	3,839,190

in thousand €	Depreciation: Cumulated Depreciation as of 01.01.2009	Additions	Transfer related parties +/-	Disposals	Cumulated Depreciation as of 31.12.2009	Carrying amount: 31.12.2009	31.12.2008
Intangible Assets							
Concessions, industrial and similar rights and assets, licenses							
Geschäftswerte	1,876	24	0	0	1,900	43	53
	1,876	24	0	0	1,900	43	53
Tangible Assets							
Land, leasehold and buldings including buildings on third party property	42,875	3,099	0	0	45,974	71,035	74,105
Plant and machinery	239	36	0	0	275	192	176
Other fixtures and fittings, tools and equipment	6,577	768	60	208	7,197	1,713	1,770
Payments on account and tangible assets in course of construction	0	0	0	0	0	101	107
	49,691	3,903	60	208	53,446	73,041	76,158
Financial assets							
Shares in related parties	188	0	0	0	188	3,371,036	3,371,036
Loans to related parties	0	1,631	0	0	1,631	336,040	337,671
Securities	165	40	0	0	205	660	514
Other loans	0	0	0	0	0	1,000	1,000
	353	1,671	0	0	2,024	3,708,736	3,710,221
Non-current Assets	51,920	5,598	60	208	57,370	3,781,820	3,786,432

Financial assets

As of December 31, 2009 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 2009 was 35.58% (previous year 35.80%).

On December 31, 2009, 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, 2009 was € 660 thousand.

(4) Accounts receivable and Other Assets

	31.12.2008	31.12.2009
in thousand €		
Accounts receivable from related parties	619,395	959,494
(amount with a remaining term of more than 1 year)	(34,266)	(32,051)
Other assets	31,914	37,773
(amount with a remaining term of more than 1 year)	-	-
	651,309	997,267

The Accounts receivable from related parties are composed of loans and finance-related accounts of € 958,961 thousand (previous year € 618,611 thousand) and trade accounts receivable of € 533 thousand (previous year € 784 thousand).

The main reasons for the increase in accounts receivable from related parties by € 340,099 thousand is that more loans have been granted to affiliated companies.

Other Assets mainly contain tax receivables. Also included are social security related receivables of € 19 thousand (previous year € 29 thousand).

(5) Other Securities

As of December 31, 2008 Fresenius SE held trust preferred securities from the Fresenius Medical Care Trust IV at a nominal value of US$ 8.0 million at an issue price of 98.295%. These trust preferred securities were divested in 2009 for US$ 240,000.00.

(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 the basis for distributing the shares. The agreement awards € 1,585.50 of profit-sharing to each full-time employee for 2008 as well as the employer contribution for social security payments. About two-thirds of the profit-sharing payment is settled in shares and employees are given a choice of cash or additional shares for the remaining third. Employees that opt for additional shares are awarded one additional share. The price determination for the shares and bonus shares in the profit-sharing program was made on May 8, 2009.

To be eligible for the program, employees must have had three years of continuous employment at Fresenius SE on December 31, 2008, 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, 2008. 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 2008:

	Date	Number	Price in € per share
Purchase	08.06.2009	49,609	39.12
Purchase	09.06.2009	391	39.20
Sale	04.12.2009	5,529	46.06
Disbursement	11.12.2009	44,471	40.88
Purchase	17.12.2009	28	48.25
Disbursement	17.12.2009	28	40.88

Purchased shares with a nominal value of € 50,028.00 and committed shares with a nominal value of € 44,499.00 represented 0.031% and 0.0276% of the subscribed capital respectively.

The proceeds from the sale on December 4, 2009 have increased corporate funding.

As of December 31, 2009 no own shares were held.

(7) Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks of € 33,562 thousand (previous year € 1,621 thousand).

(8) Deferred expense

Deferred expense of € 1,161 thousand (previous year € 2,193 thousand) 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 part of the acquisition of APP Pharmaceuticals, Inc., Schaumburg, USA. In connection with the capital increase, 2,748,057 new ordinary shares and 2,748,057 new preference shares were issued. The transaction generated gross proceeds of approximately € 289 million and increased the subscribed capital by € 5.5 million. The new shares had full dividend entitlement for the fiscal year 2008.

During the fiscal year 2009, 171,642 stock options were exercised.

Accordingly, at December 31, 2009, the subscribed capital of Fresenius SE was divided into 80,657,688 bearer ordinary shares and 80,657,688 non-voting bearer preference shares. The shares are issued as non-par value shares. The proportionate amount of the subscribed capital is € 1.00 per share.

The subscribed capital developed as follows:

	2008	2009
in thousand €		
As of January 1	155,165	161,144
Increase from capital increase	5,496	0
Increase due to exercise of stock options	483	172
As of December 31	161,144	161,316

(10) Notification by shareholders

The following notifications disclosed in accordance with Section 26 (1) of the German Securities Trading Act (WpHG) reflect the level of investments held in Fresenius SE at the date of the statement of financial position:

The Else Kröner-Fresenius-Stiftung notified Fresenius SE on December 23, 2009, that it still holds 46,871,154 ordinary shares of Fresenius SE representing 58.11 % of the voting rights.

On October 1, 2009, the voting rights held by FIL Limited, Hamilton, Bermuda, fell below the threshold of 3 % of the voting rights in Fresenius SE, Else-Kröner-Straße 1, 61352 Bad Homburg v. d. H., Germany. On that date, FIL Limited held 2.90 % of the voting rights in Fresenius SE, arising from 2,340,841 voting rights. All voting rights in Fresenius SE were attributed to FIL Limited pursuant to section 22 (1) sentence 1 No. 6 WpHG in connection with sentence 2 WpHG.

On May 28, 2009 the voting rights held by FMR LLC, Boston, Massachusetts, United States, crossed above the threshold of 3 % of the voting rights in Fresenius SE, Else-Kröner- Straße 1, 61352 Bad Homburg v. d. H., Germany. On that date, FMR LLC held 4.50 % of the voting rights in Fresenius SE, arising from 3,623,808 voting rights. All voting rights in Fresenius SE were attributed to FMR LLC pursuant to section 22 (1) sentence 1 No. 6 in connection with sentence 2 WpHG. The voting rights were attributed to FMR LLC inter alia from Fidelity Investment Trust, being a shareholder holding 3 % or more of the voting rights in Fresenius SE.

All notifications by shareholders in the fiscal year 2009 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. By resolution of the Annual General Meeting on May 8, 2009, the previous Approved Capital I and II was revoked and the Management Board of Fresenius SE was authorized, with the approval of the Supervisory Board, until May 7, 2014,

- to increase Fresenius SE's subscribed capital by a total amount of up to € 12,800,000 through a single or multiple issue of new bearer ordinary shares and / or non-voting bearer preference shares against cash contributions (Approved Capital I). A subscription right must be granted to shareholders.

- to increase Fresenius SE's subscribed capital by a total amount of up to € 6,400,000 through a single or multiple issue of new bearer ordinary shares and / or non-voting bearer preference shares against cash contributions and / or contributions in kind (Approved Capital II). The Management Board is authorized, in each case with the consent of the Supervisory Board, to decide on the exclusion of the shareholders' subscription right.

The resolved changes to the Approved Capital became effective after their registration in the commercial register in July 2009. Against the resolutions of the Annual General Meeting dated May 8, 2009 creating Approved Capitals I and II, two challenging complaints (Anfechtungsklagen) were lodged. The Frankfurt Regional Court has decided in favor of one complaint through judgment dated February 2, 2010, the other complaint was rejected. The judgment of the Frankfurt Regional Court dated February 2, 2010 is not final and binding yet. The clearance procedure (Freigabeverfahren) pursuant to section 246a of the German Stock Corporation Act (AktG) initiated by Fresenius SE is pending before the Higher Regional Court (Oberlandesgericht) in Frankfurt/Main with the view of securing the validity of the Approved Capital which has already been registered in the commercial register.

The approved capitals have developed as follows in 2009:

Approved capital I	2008	2009
in thousand €		
As of January 1	12,800	12,800
As of December 31	12,800	12,800

Approved capital II	2008	2009
in thousand €		
As of January 1	5,496	-
Capital increase	-5,496	0
Increase due to resolution of the General Meeting	0	6,400
As of December 31	-	6,400

(12) Conditional capital

Corresponding to the stock option plans, the Conditional Capital of Fresenius SE is divided into Conditional Capital I, Conditional Capital II and Conditional Capital III which exist to secure the subscription rights in connection with already issued stock options on bearer ordinary shares and bearer preference shares of the stock option plans of 1998, 2003 and 2008.

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 Fresenius SE 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 relevant change in Fresenius SE’s Articles of Association became effective after its 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, 2009	682,467	682,467
Decrease due to exercise of stock options	-25,917	-25,917
As of December 31, 2009	656,550	656,550

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

	Ordinary shares	Preference shares
	€	€
As of January 1, 2009	2,209,125	2,209,125
Decrease due to exercise of stock options	-59,904	-59,904
As of December 31, 2009	2,149,221	2,149,221

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

FRESENIUS SE STOCK OPTION PLANS

Description of the Fresenius SE stock option plans in place

On December 31, 2009, 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 stock option based Fresenius SE Stock Option Plan 2008 (2008 Plan). The latter is the only plan under which stock options were granted during 2009.

Stock Option Plan 2008

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

Under the 2008 Plan, up to 6.2 million options can be issued, which carry entitlement to obtain 3.1 million ordinary shares and 3.1 million preference shares. Up to 1.2 million options are designated for members of the Management Board of Fresenius SE, up to 3.2 million options are designated for members of the management of directly or indirectly affiliated companies (except for Fresenius Medical Care) and up to 1.8 million options are designated for managerial staff members of Fresenius SE and its affiliated companies (except for Fresenius Medical Care). With respect to the members of Fresenius SE's Management Board, the Supervisory Board has sole authority to grant stock options and administer the 2008 Plan. The Management Board of Fresenius SE has such authority with respect to all other participants in the 2008 Plan. The options can be granted in five tranches with effect as of the first bank working day in July and / or the first bank working day in December. The exercise price of options shall be the average closing price of Fresenius SE's ordinary shares and preference shares, respectively, on the Frankfurt Stock Exchange during the 30 trading days immediately prior to each grant date. For participants in the United States, the exercise price may be the average closing price of both classes of shares during the 30 calendar days immediately prior to the grant date, if these are higher. Options granted have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is mandatorily subject to the condition, in each case, that the annual success target within the three-year vesting period is achieved. For each such year, the success target is achieved if the consolidated net income attributable to the Fresenius SE, adjusted for extraordinary effects, has increased by at least 8 % compared to the respective adjusted net income attributable to the Fresenius SE of the previous fiscal year. For each year in which the success target has not been met, one-third of the options granted shall forfeit. The adjusted net income attributable to the Fresenius SE 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 attributable to the Fresenius SE is determined and will be verified bindingly by Fresenius SE's auditor during the audit of the consolidated financial statements. The performance target for 2008 and 2009 is met. Upon exercise of vested options, Fresenius SE has the right to grant treasury shares or a cash payment in lieu of increasing capital by the issuance of new shares. If all conditions are fulfilled, stock options may be exercised throughout the year with the exception of certain predetermined black-out periods.

Stock Option Plan 2003

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

Stock Option Plan 1998

During 1998, Fresenius AG adopted the 1998 Plan for members of the Management Board and executive employees. This stock incentive plan was replaced by the 2003 Plan and no options have been granted since 2003. Under the 1998 Plan, eligible employees have the right to acquire ordinary and preference shares of Fresenius SE. Options granted under this plan have a ten-year term. At December 31, 2009, all options were exercisable. Prior to the share split, one ordinary or one preference share could be acquired for each option. After the share split in 2007, each option entitles to acquire three ordinary or preference shares. The maximum number of ordinary or preference shares to be issued to the members of the Management Board or executive employees has been adjusted accordingly.

Transactions during the year 2009

In 2009, Fresenius SE awarded 1,067,248 stock options, including 180,600 options to members of the Management Board of Fresenius SE, at a weighted-average exercise price of € 36.90, a weighted-average fair value of € 8.25 each and a total fair value of € 9 million.

During the fiscal year 2009, Fresenius SE received cash of € 4 million from the exercise of 171,642 stock options. The average stock price at the exercise date was € 35.92 for ordinary shares and € 41.82 for preference shares. The intrinsic value of options exercised in 2009 was € 2 million.

At December 31, 2009, out of 457,062 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 2,799,514, of which 1,953,308 were exercisable. The members of the Fresenius SE Management Board held 514,500 options. Out of 2,136,876 outstanding stock options issued under the 2008 Plan, 361,200 were held by the members of the Fresenius SE Management Board.

Stock option transactions are summarized as follows:

	Ordinary shares	Preference shares
	number	number
Number as of December 31, 2008	2,370,299	2,370,299
plus new issues	533,624	533,624
less forfeited options	-121,376	-121,376
less exercises	-85,821	-85,821
Number as of December 31, 2009	2,696,726	2,696,726

(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:

	2008	2009
in thousand €		
As of January 1	1,532,772	1,828,610
Increase due to exercise of stock options	12,788	4,198
Increase due to capital increase	283,050	0

As of December 31	1,828,610	1,832,808

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

(14) Other reserves

Other reserves developed as follows:

	2008	2009
in thousand €		
As of January 1	440,245	641,984
Increase in other reserves from net income of the period	201,739	47,500
Increase in other reserves from retained earnings of the previous period	0	88,161
As of December 31	641,984	777,645

(15) Retained earnings

Accumulated profits from the prior year of € 43 thousand are included in retained earnings in accordance with a decision taken at the Annual General Meeting on May 8, 2009.

(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 personnel costs, insurance fees, process risks, indemnity claims and interest on higher tax payments established by audits as well as outstanding invoice liabilities.

This position also includes accruals of € 20,876 thousand for the market value of the on-lent Mandatory Exchangeable Bond of Fresenius Finance B.V.

(18) Liabilities

	2008		2009			
		thereof with a remaining term of up to 1 year		thereof with a remaining term of		
	Total		Total	up to 1 year	1 year up to 5 years	over 5 years
in thousand €						
Convertible bonds	596	461	616	569	47	0
Bank loans (thereof amount secured)	267,352	163,124	204,228	8,228	196,000	0
	(0)	(0)	(196,000)	(0)	(196,000)	(0)
Trade accounts payable	7,019	7,019	1,020	1,020	0	0
Accounts payable to related parties	1,233,931	784,892	1,614,504	315,241	817,686	481,577
Other liabilities	8,420	8,420	10,497	10,497	0	0
	1,517,318	963,916	1,830,865	335,555	1,013,733	481,577
(thereof amount secured)	(0)	(0)	(196,000)	(0)	(196,000)	(0)

Convertible bonds

Liabilities result from the issuance of convertible bonds worth € 616 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, 2009 this credit facility was used in an amount of € 96 million.

Fresenius SE has access to a further revolving credit facility from the EIB of € 100 million until September 2013. As of December 31, 2009 this credit facility was used in an amount of € 100 million.

The above described credit facilities have quarterly adjusted variable interest rates. As of December 31, 2009 Fresenius SE paid 0.844% and 2.982% of interest for the € 96 million and the € 100 million borrowings respectively. The drawing of € 96 million under the credit facility is secured by bank guarantees. The drawing of € 100 million under the credit facility is guaranteed by Fresenius Kabi AG and Fresenius ProServe GmbH. Furthermore the facility contains common obligations and commitments. The EIB is the non-profit-oriented financing institution of the European Union which provides long-term financing for specific invest- and research-projects at advantageous conditions – usually up to 50% of the project-volume.

Liabilities to affiliated companies

Liabilities to affiliated companies comprise loans and financing accounts with affiliated companies in an amount of € 1,614,460 thousand (previous year € 1,233,031 thousand) and trade accounts payable amounting to € 44 thousand (previous year € 900 thousand). New loans from Fresenius Finance B.V. and Fresenius US Finance II, Inc., that are mostly passed on to other group companies are the main reason for the increase by € 381,429 thousand.

In the reporting year an expense of € 20,876 thousand resulted from the market value of 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. The expense is included in the profit and loss statement in “other financial result” and in the balance sheet in “other accruals”.

Other liabilities

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

Tax liabilities amount to € 3,678 thousand (previous year € 3,654 thousand).

(19) Contingent Liabilities

	2008	2009
in thousand €		
Contingencies from indemnity agreements and guarantees	4,401,036	4,403,976
(thereof amount in favor of and from affiliated companies)	(4,401,036)	(4,403,976)

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 its wholly-owned subsidiaries Fresenius Finance B.V. and Fresenius US Finance II, Inc. The following table shows these liabilities of the two companies as of December 31, 2009:

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

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.

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

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

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

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

The Senior Notes of Fresenius Finance B.V. maturing in 2016 may be redeemed at the option of the issuer from January 31, 2011 onwards. The respective redemption prices have already been fixed at the date of issuance in the indentures.

All Senior Notes of Fresenius Finance B.V. and of Fresenius US Finance II, Inc. 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 the respective Notes 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, 2009, the Fresenius Group was in compliance with all of its covenants.

In connection with the acquisition of APP, the Fresenius Group entered into a US$ 2.45 billion syndicated credit agreement (2008 Senior Credit Agreement) on August 20, 2008. The 2008 Senior Credit Agreement consists of:

- five-year Term Loan A Facilities (Term Loan A) in the aggregate principal amount of US$ 1 billion (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). Term Loan A amortizes and is repayable in ten unequal semi-annual installments that commenced 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 billion (of which US$ 502.5 million is available to Fresenius US Finance I, Inc. and US$ 497.5 million is available to APP Pharmaceuticals, LLC). Term Loan B amortizes and is repayable in eleven substantially equal semi-annual installments that commenced on June 10, 2009 with a final bullet payment 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).

Scheduled principal payments for Term Loan Facilities A and B amounted to US$ 75 million and US$15 million or € 2.5 million.

In December 2009, US$ 78.7 million and € 13 million were used to voluntarily prepay parts of the existing Term Loan B.

In October 2008, the 2008 Senior Credit Agreement was amended to increase Term Loan B available to Fresenius US Finance I, Inc. by US$ 210.5 million and € 200 million. The proceeds were used for the repayment of the bridge credit agreement described in the following. 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.

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

Mandatory Exchangeable Bonds

To finance the acquisition of APP, Mandatory Exchangeable Bonds (MEB) in an aggregate nominal amount of € 554.4 million were launched in July 2008. Fresenius Finance B.V. subscribed for these MEB issued by Fresenius Finance (Jersey) Ltd. at 100 % of their principal amount. Afterwards, the MEB were on-lent to Fresenius SE 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 17.14 million and a minimum of 14.53 million shares (based on the current exchange price) being deliverable, subject to anti-dilution adjustments with respect to FMC-AG & Co. KGaA (e. g. in case of corporate actions). The MEB are not redeemable in cash.

The initial minimum exchange price was set to € 33.00 and the initial maximum exchange price was set to € 38.94 (i. e. 118 % of the initial minimum exchange price).

Due to the dividend payments in May 2009, the minimum exchange price and the maximum exchange price were decreased to € 32.34 and € 38.16, respectively. Pursuant to the terms and conditions of the MEB, both the holder and the issuer may procure for the exchange of the bonds before maturity. In principal, the issuer, Fresenius Finance (Jersey) Ltd., may procure the exchange of all of the outstanding MEB for shares of FMC-AG & Co. KGaA at the maximum exchange ratio calculated on the relevant exchange date plus payment of any accrued and unpaid interest and a make-whole amount. Furthermore, the MEB shall be mandatorily exchangeable at the maximum exchange ratio plus such payments if the corporate rating of Fresenius SE falls below certain benchmarks and such benchmarks are subsequently not reinstated. Moreover, in the event of a change of control of Fresenius SE or FMC-AG & Co. KGaA, each holder of the MEB may elect to exchange its MEB at the maximum exchange ratio plus such payments. Each holder of the MEB may also exchange his MEB at the minimum exchange ratio calculated on the relevant exchange date without payment of accrued interest or any make-whole amount.

Fresenius SE guarantees in favor of Fresenius Finance (Jersey) Ltd. the payment of certain interest payments by Fresenius Finance B.V. Furthermore, it secures the delivery of the underlying shares of FMC-AG & Co. KGaA for exchange via a pledge agreement. In addition, Fresenius SE has undertaken to the holders of the bonds that neither it nor any of its material subsidiaries provides any security of its assets for certain capital market indebtedness, without at the same time having the holders share equally and rateably in such security.

On January 2, 2010 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, 2011.

(20) Other financial commitments

in thousand €	2008	2009
Commitments from building leases, and leasing commitments		
due 2010 (prior year: 2009)	1,006	1,250
due 2011-2014 (prior year 2010-2013)	1,182	1,556
due after 2014 (prior year: after 2013)	-	-
	2,188	2,806
Commitments from ongoing capital expenditures	353	206
(thereof amount to affiliated companies)	(-)	(-)
Other Commitments	13,978	13,276
(thereof amount to affiliated companies)	(13,978)	(13,276)
	16,519	16,288

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

Notes on the profit and loss statement

(21) Income from participations

	2008	2009
in thousand €		
Income from profit transfer agreements	493,722	242,947
Income from participations	66,804	72,024
(thereof amount from affiliated companies)	(66,804)	(72,024)
Expenses from loss transfer agreements	-49,000	-51,642
	511,526	263,329

(22) Other operating income

Other operating income of € 89,497 thousand in total (previous year € 252,297 thousand) is comprised primarily of cost transfers to group companies of € 48,162 thousand (previous year € 106,295 thousand), service contracts with other subsidiaries, sales of property, plant and equipment from other accounting periods of € 60 thousand (previous year € 32 thousand), as well as other income from other accounting periods mainly income from the dissolution of short-term accruals in the amount of € 1,472 thousand (previous year € 855 thousand) and from foreign currency gains of € 39,076 thousand (previous year € 135,618 thousand). The main reasons for the decrease in other operating income are the high foreign currency gains and income from passing on financing costs in relation with the acquisition of APP Pharmaceuticals, Inc. in the previous year.

The total income from other accounting periods was € 1,599 thousand in the fiscal year (previous year € 1,148 thousand).

(23) Personnel expenses

	2008	2009
in thousand €		
Salaries and wages	20,278	21,457
Social securities and costs of retirement pensions and social assistance	5,792	4,758
(thereof amount fo retirement pensions)	(3,429)	(2,294)
	26,070	26,215

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

	2008	2009
Wage earners	14	13
Salaried employees	173	175
Apprentices	83	98
	270	286

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

Depreciation of intangible assets and property, plant and equipment of € 3,929 thousand (previous year € 3,936 thousand) is regular depreciation.

(25) Other operating expenses

Other operating expenses of € 71,093 thousand in total (previous year € 248,700 thousand) were primarily foreign currency losses of € 34,272 thousand (previous year € 122,301 thousand). Transaction costs for company acquisitions, IT-related expenses, insurance premiums and consulting expenses were also included. The main reasons for the decrease in other operating income are the high foreign currency losses and financing costs in relation with the acquisition of APP Pharmaceuticals, Inc. in the previous year.

Total expenses from other accounting periods were € 1,178 thousand in the fiscal year (previous year € 283 thousand).

In 2009 and 2008, fees for the auditor were expensed as follows:

	2008	2009
in thousand €		
Audit fees	366	445
Tax consulting fees	0	0
Other fees	995	99
	1,361	544

(26) Write-downs of financial assets and securities included in current assets

Write-downs of financial assets and securities included in current assets mainly refer to the write down of a loan to an affiliated company. The US$ loan receivable has to be written down by € 1,631 thousand due to negative exchange rate effects.

(27) Earnings before interest and taxes (EBIT)

	2008	2009
in thousand €		
Profit on ordinary activities	422,241	175,377
Net interest	62,876	53,665
Ohter financial result	0	20,876
Other taxes	-367	-495
EBIT	**484,750**	**249,423**

(28) Net interest

in thousand €	2008	2009
Interest income from long-term loans	12,387	40,536
(thereof amount from affiliated companies)	(12,387)	(40,536)
Other interest and similar income	31,662	13,268
(thereof amount from affiliated companies)	(23,448)	(8,316)
Interest and similar expenses	-106,925	-107,469
(thereof amount from affiliated companies)	(-64,483)	(-81,352)
	-62,876	-53,665

In 2009 interest and similar expenses include compensation payment in an amount of € 31,328 thousand (previous year € 11,932 thousand) in connection with the mandatory exchangeable bond on-lent from Fresenius Finance B.V.

(29) Other financial result

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

(30) Income taxes

Income taxes in the amount of € 5,583 thousand (previous year € 18,396 thousand) resulted from current tax expense of € 4,407 thousand (previous year € 3,435 thousand) as well as taxes from other accounting periods in the amount of € 1,176 thousand (previous year € 12,961 thousand).

(31) 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 with a nominal value of € 605.1 million (previous year € 385.0 million) and a fair value of € 19.7 million (previous year € 9.5 million) with a maximum maturity of 34 months and external interest rate swaps transactions with a nominal value of € 1,026.7 million (previous year € 1,408.0 million) and a fair value of € -60.8 million (previous year € -97.9 million) with a maximum maturity of 55 months. This includes interest rate derivatives with a nominal value of € 986.7 million (previous year € 1,008.7 million) and a fair value of € -58.7 million (previous year € -66.4 million), that Fresenius SE as parent company has contracted for subsidiaries and transferred to them. Also included are currency-related derivatives with a nominal value of € 331.3 million (previous year € 250.9 million) and a fair value of € 24.3 million (previous year € 4.9 thousand) that Fresenius SE, as parent, has contracted for subsidiaries and transferred to them. 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 not transferred to subsidiaries of € 5,507 thousand (previous year € 627 thousand) and interest rate swaps of € 0 thousand (previous year € 29,261 thousand) were accounted for under other accruals.

(32) Compensation of the Management Board and Supervisory Board

Individualized information regarding the compensation of the members of the Management Board and of the Supervisory Board is disclosed in the Compensation Report (see Exhibit “Compensation report”.), which is part of the Management Report.

The Management Board’s compensation is, as a whole, performance-oriented and consisted of three components in 2009: non-performance-related compensation (basic salary), performance-related compensation (variable bonus), and a long-term incentive component (stock options).

The cash compensation paid to the Management Board for the performance of its responsibilities was € 9,345 thousand (2008: € 9,138 thousand). Thereof, € 3,635 thousand (2008: € 3,591 thousand) were not performance-related and € 5,204 thousand (2008: € 5,118 thousand) were performance-related. The amount of the performance-related compensation generally depends on the achievement of targets relating to the net income of Fresenius Group and business segments. As a long-term incentive component, the members of the Management Board received 180,600 stock options under the Fresenius SE Stock Option Plan 2008 and 99,600 stock options under the Fresenius Medical Care AG&Co. KGaA Stock Option Plan 2006.

The compensation paid to the Supervisory Board and its committees was € 1,584 thousand in 2009 (2008: € 1,488 thousand). Of this amount, € 183 thousand (2008: € 183 thousand) were fixed compensation, € 100 thousand (2008: € 100 thousand) were compensation for committees services, and € 1,301 thousand (2008: € 1,205 thousand) were variable compensation.

In 2009, to former members of the Management Board, € 875 thousand (2008: € 1,386 thousand) were paid. The pension obligation for these persons amounted to € 9,878 thousand in 2009 (2008: € 10,056 thousand).

In the fiscal years 2009 and 2008, no loans or advance payments of future compensation components were made to members of the Management Board of Fresenius SE.

(33) Corporate Governance

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

(34) Proposal for the distribution of earnings

The Management Board of Fresenius SE proposes to the Annual General Meeting that the earnings for 2009 of Fresenius SE be distributed as follows:

Payment of a dividend of € 0.75 per bearer ordinary share on the 80,657,688 ordinary shares entitled to dividend	€ 60,493,266.00
Payment of a dividend of € 0.76 per bearer preference share on the 80,657,688 preference shares entitled to dividend	€ 61,299,842.88
Balance to be carried forward	€ 48,422.82
	€ 121,841,531.70

(35) Responsibility Statement

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

Bad Homburg v. d. H., February 24, 2010

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 (until May 31, 2009; 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 (Chairman)
FHC (Holdings), Ltd., Great Britain
Fresenius Kabi Pharmaceuticals Holding, Inc., USA (Chairman until November 1, 2009)

Rainer Baule

Ettlingen

Business Segment Fresenius Kabi

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

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

Board of Directors
APP Pharmaceuticals, Inc., USA
Dabur Pharma (Thailand) Co. Ltd., Thailand
FHC (Holdings) Ltd., Great Britain
Fresenius Kabi Asia Pacific Ltd., Hong Kong
Fresenius Kabi Oncology Inc., USA
Fresenius Kabi Oncology Plc., Great Britain
Fresenius Kabi Pharmaceuticals Holding, Inc., USA
Fresenius Kabi (Singapore) Pte Ltd., Singapore (since January 1, 2010)

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 Klinikum Erfurt GmbH (since December 8, 2009)
HELIOS Klinikum Krefeld GmbH
HELIOS Kliniken Leipziger Land GmbH (since November 16, 2009)
HELIOS Kliniken Schwerin GmbH (Chairman)
HELIOS Spital Überlingen GmbH (since January 1, 2010; Chairman)

Offices
Supervisory Board
Allianz Private Krankenversicherungs-AG

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, Austria (Deputy Chairman)
Wittgensteiner Kliniken GmbH

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

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

Dr. Ernst Wastler

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
Fresenius Medical Care AG & Co. KGaA (Chairman)
Fresenius Medical Care Management AG
VAMED AG, Austria (Chairman)

Prof. Dr. h. c. Roland Berger

Munich

Management Consultant

Chairman of the Audit Committee

Offices
Supervisory Board
Live Holding AG (Deputy Chairman until April 1, 2009; Chairman since April 1, 2009)
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
Loyalty Partner Holdings S.A., Luxembourg
Roland Berger AG, Switzerland
(until August 4, 2009; Chairman)
Special Purpose Acquisition Company (SPAC) Germany 1 Acquisition Limited, Guernsey (Co-Chairman)
Telecom Italia S.p.A., Italy

Dario Anselmo Ilossi

Rome, Italy

Secretary of the Trade Union 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

Klaus-Peter Müller

Bad Homburg v. d. H.

Chairman of the Supervisory Board of Commerzbank AG

Offices
Supervisory Board
Commerzbank AG (Chairman)
Fraport AG
Linde AG
Steigenberger Hotels AG (until July 31, 2009)

Administrative Board
Assicurazioni Generali S.p.A., Italy
KfW Kreditanstalt für Wiederaufbau
(until March 23, 2009)
Landwirtschaftliche Rentenbank (since July 16, 2009)
Liquiditäts-Konsortialbank GmbH (until March 23, 2009)

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 Lebensversicherungs-AG (Chairman)
Allianz Elementar Versicherungs-AG (Chairman)
Allianz Investmentbank AG (Deputy Chairman)
Allianz Lebensversicherungs-AG (Chairman)
Allianz Private Krankenversicherungs-AG (Chairman)
Allianz Suisse Lebensversicherungs-AG, Switzerland
Allianz Suisse Versicherungs-AG, Switzerland
Allianz Versicherungs-AG (Chairman)
Heidelberger Druckmaschinen AG

Wilhelm Sachs

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

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 until April 23, 2009 and since July 14, 2009; Chairman from April 23, 2009 until July 14, 2009)
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 and of HELIOS Klinik Idstein

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 (Deputy Chairman)

Management Report for Fresenius SE

Operations and business environment

Group structure and business environment

Fresenius is an international health care group with products and services for dialysis, hospitals, and outpatient medical care. In addition, Fresenius focuses on hospital operations and offers engineering and services for hospitals and other health care facilities. Fresenius is organized in the legal form of a European Company (Societas Europaea or SE). The conversion (from a German stock corporation or AG) became effective with its entry into the Commercial Register on July 13, 2007. The operating business comprises the business segments, 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 is the world's leading dialysis company, with products and services for patients with chronic kidney failure. As of December 31, 2009, Fresenius Medical Care treated 195,651 patients at 2,553 dialysis clinics.

- Fresenius Kabi specializes in infusion therapies, intravenously administered drugs (IV drugs), and clinical nutrition for critically and chronically ill people in hospitals and outpatient care. The company is also a leading supplier of medical devices and products in the area of transfusion technology.

- Fresenius Helios is one of the largest private hospital operators in Germany. The HELIOS-Kliniken Group operates 61 proprietary clinics, of which 60 are located in Germany and one in Switzerland. HELIOS has a total of over 18,500 beds.

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

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

The Fresenius Group operates internationally and all business segments have a regional and decentralized structure. Responsibilities are clearly defined in line with the Company's "entrepreneur in the enterprise" management principle. Additionally, management accountability is reinforced by an earnings-oriented and target-linked compensation system. Fresenius has an international sales network and maintains more than 70 production sites around the globe. Large production sites are located in the United States, China, Japan, Germany, and Sweden. Production plants are also located in other European countries, in Latin America, Asia-Pacific, and South Africa.

This international production network allows us to implement our business model while meeting the most exacting logistical and regulatory requirements. The decentralized structure of the production sites also substantially reduces transportation costs and currency exposure.

Management and control

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

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

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

The Supervisory Board of Fresenius SE comprises six shareholders' representatives and six employees' representatives. All twelve members of the Supervisory Board are appointed by the General Meeting. Six of the twelve members must be appointed on the basis of a proposal put forward by the employees. The General Meeting is bound by the employees' proposal. 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 Regulation. The statutes of Fresenius SE also provide that deputy members of the Management Board may be appointed.

The Company's annual corporate governance statement can be found on our website www.fresenius.com, see Who we are/Corporate Governance. The description of both the compensation structure and individual amounts paid to the Management Board and Supervisory Board are included in the Compensation Report (see Exhibit "Compensation report"). The Compensation Report is part of the Group's Management Report.

Key products, 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 dialysis clinics in over 35 countries. Dialyzers and dialysis machines are among the most important product lines in the dialysis products business. These products are sold to Group clinics as well as to external dialysis care providers in more than 115 countries. In the United States, the company also performs clinical laboratory tests. Fresenius Kabi is one of the few companies to offer a comprehensive range of enteral and parenteral nutrition therapies. The company also offers a broad spectrum of products for fluid and blood volume replacement as well as an extensive portfolio of generic IV drugs. Fresenius Kabi's portfolio consists of more than 100 product families. The company sells its products mainly to hospitals in over 150 countries. Fresenius Helios treats approximately 600,000 inpatients and about 1.6 million outpatients each year at its hospitals. Fresenius Vamed provides engineering and services for hospitals and other health care facilities internationally.

Important markets and competitive position

Fresenius operates in about 70 countries through its subsidiaries. The main markets are Europe and North America where Fresenius generates 42 % and 43 % of its sales, respectively.

Fresenius Medical Care is the worldwide leader in dialysis. The company holds the leading position in dialysis care, with a market share of 17 % in revenue terms, treats the most dialysis patients, and operates the largest number of dialysis clinics. In dialysis products, Fresenius Medical Care is also the leading supplier, with a market share of 32 %. Fresenius Kabi holds leading market positions in Europe and has strong positions in the growth markets of Asia-Pacific and Latin America. In the United States, Fresenius Kabi is one of the leading suppliers of generic IV drugs. Fresenius Helios is a leading private hospital operator in Germany. Fresenius Vamed is one of the world's leading companies specializing in engineering and services for hospitals and other health care facilities.

Legal and economic factors

The markets of the Fresenius Group are fundamentally stable and relatively independent of economic cycles due to the intrinsic importance of the life-saving and life-sustaining products and treatments that the Group offers. This was demonstrated again in 2009, a year that was marked by difficult macroeconomic conditions. In addition, the markets in which we offer our products and services are expanding, mainly for three reasons:

- demographic trends

- demand for innovative therapies in the industrialized countries

- increasing availability of high-quality health care in the developing and newly industrializing countries.

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

The statement of income and the balance sheet can be influenced by currency translation effects as a result of exchange rate fluctuations, especially in the rate of the US dollar to the euro. In 2009, this had a positive impact on the statement of income due to the altered average annual exchange rate between the US dollar and the euro of 1.39 in 2009 as compared to 1.47 in 2008. In the balance sheet, the changed spot rate of 1.44 as of December 31, 2009 – compared to 1.39 as of December 31, 2008 – had a slight impact.

There were no legal aspects that significantly impacted business performance in 2009.

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

Capital, shareholders, articles of association

The summary below shows the subscribed capital of Fresenius SE.

	December 31, 2009			December 31, 2008	
	Number of shares	Subscribed capital in €	% of subscribed capital	Number of shares	Subscribed capital in €
Ordinary shares/ capital	80,657,688	80,657,688.00	50%	80,571,867	80,571,867.00
Preference shares/ capital	80,657,688	80,657,688.00	50%	80,571,867	80,571,867.00
Total	161,315,376	161,315,376.00	100%	161,143,734	161,143,734.00

The shares of Fresenius SE are non-par-value bearer shares. Shareholders' rights are regulated by the SE Regulation and the German Stock Corporation Act (AktG). Additionally, the statutes of Fresenius SE contain the following three provisions for the holders of non-voting preference shares:

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

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

- If the retained earnings of one or more fiscal years is 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.

At the Annual General Meeting on May 8, 2009, resolutions were passed revoking the previous Approved Capitals I and II. At the same time, the Management Board was authorized, subject to the consent of the Supervisory Board:

- to increase the subscribed capital by a total amount of € 12,800,000.00 by May 7, 2014 through a single or multiple issuance of bearer ordinary shares and/or non-voting bearer preference shares against cash contributions (Approved Capital I).

- to increase the subscribed capital by a total amount of € 6,400,000.00 by May 7, 2014 through a single or multiple issuance of bearer ordinary shares and/or non-voting bearer preference shares against cash contributions and/or contributions in kind (Approved Capital II). Shareholders' pre-emptive rights of subscription can be excluded.

The Approved Capitals I and II were entered in the Commercial Register on July 15, 2009. Against the resolutions of the Annual General Meeting dated May 8, 2009 creating Approved Capitals I and II, two challenging complaints (Anfechtungsklagen) were lodged. The Frankfurt Regional Court has decided in favor of one complaint through judgment dated February 2, 2010, the other complaint was rejected. The judgment of the Frankfurt Regional Court dated February 2, 2010 is not final and binding yet. The clearance procedure pursuant to Section 264a of the German Stock Corporation Act (Aktiengesetz) is pending before the Higher Regional Court (Oberlandesgericht) in Frankfurt am Main with the view of securing the validity of the approved capital which has already been registered in the commercial register.

In addition, there is the following conditional capital:

- The subscribed capital is conditionally increased by up to € 1,364,934.00 through the issuance of new bearer ordinary shares and non-voting bearer preference shares (Conditional Capital I). The conditional capital increase will only be executed to the extent that subscription rights for ordinary and preference shares are issued under the 1998 Stock Option Plan and the holders of these subscription rights exercise their rights.

- The subscribed capital is conditionally increased by up to € 4,418,250.00 through the issuance of new bearer ordinary shares and non-voting bearer preference shares (Conditional Capital II). The conditional capital increase will only be executed to the extent that convertible bonds for 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 conditionally increased by up to € 6,200,000.00 through the issuance of new bearer ordinary shares and non-voting bearer preference shares (Conditional Capital III). The conditional capital increase will only be executed to the extent that subscription rights for ordinary and preference shares are issued under the 2008 Stock Option Plan and the holders of these subscription rights exercise their rights.

Fresenius SE does not have a share buyback program.

Direct and indirect ownership interests in Fresenius SE are listed in Note 10 of the Notes. The Else Kröner-Fresenius-Stiftung informed Fresenius SE on December 23, 2009, that it holds 46,871,154 ordinary shares of Fresenius SE. This corresponds to a voting interest of 58.11 %.

Changes to the statutes are made in accordance with Article 59 of the SE Regulation in accordance with Section 18 (3) of the statutes. Unless mandatory legal provisions require otherwise, amendments of the statutes require a majority of two-thirds of the votes cast or, if at least half of the subscribed capital is represented, the simple majority of 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, a motion is deemed rejected. The Supervisory Board is entitled to make such amendments to the statutes which only concern their wording without a resolution of the General Meeting.

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

Goals and strategy

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

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

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

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

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

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

- To enhance profitability: our goal is to continue to improve Group profitability. To contain costs, we are concentrating particularly on making our production plants more efficient, exploiting economies of scale, leveraging the existing marketing and distribution infrastructure more intensively, and practicing strict cost control. By focusing on our operating cash flow and employing efficient working capital management, we will increase our investment flexibility and improve our balance sheet ratios. Another goal is to optimize our weighted average cost of capital (WACC) by deliberately employing a balanced mix of equity and debt funding. Our net debt/EBITDA ratio was 3.0 as of December 31, 2009, after rising to 3.6 at the end of 2008 as a result of the acquisition of APP Pharmaceuticals. We want to bring down this ratio to a <3.0 again by the end of 2010.

We report on our goals in detail in the Outlook section on pages 33 f.

Overall business development

Economic Environment

At the end of 2008 and up to the first half of 2009, the world economy experienced its deepest recession since the end of World War II. After the financial crisis reached its peak in the first quarter of 2009, the world economy steadied towards mid-year 2009 and moved into a recovery phase in the second half.

The recovery is attributable to four main factors:

- extensive monetary policy
- government economic programs in numerous countries
- relative robustness of the emerging market economies
- the comparatively low oil price in the first half of 2009

Global GDP decreased by 1.1 % compared to 2008. The emerging market and developing economies still showed a slightly positive development, with growth of 1.7 %. Industrial countries proved more vulnerable, with a decline of 3.4 %.

Europe

After a sharp decline at the beginning of 2009, the economic situation in the Eurozone steadied towards the middle of the year and picked up slightly in the third quarter. For the full year 2009, GDP in the Eurozone decreased by 3.9 % (2008: +0.6 %). At minus 13.6 %, the decrease in exports was particularly pronounced. Private consumption, on the other hand, declined by only 1.0 %.

Almost all countries clearly felt the economic crisis in their labor markets. Growth in unemployment was particularly high in countries that had previously experienced a real estate boom, such as Spain and Ireland.

Due to the still strained situation on the financial markets, the European Central Bank (ECB) within seven months cut its rate from 4.25 % to 1.0 %, its lowest rate ever. Commodity prices also fell sharply. In 2009, the average oil price, for instance, was US$ 36.76 below the previous year's average of US$ 97.27 per barrel.

In Germany, the weakness of global demand at the beginning of 2009 led to a historically unprecedented decrease in exports. However, fiscal and monetary measures combined with stabilizing labor market programs helped to prevent an even steeper fall. The German government launched two economic programs worth a total of about € 84 billion – equivalent to more than 3% of 2008 GDP – for 2009 and 2010. The introduction of short-time working and greater flexibility in the collective bargaining settlements especially contributed to the stability of the labor market. Overall, Germany's GDP decreased by 4.9 % in 2009 (2008: +1.4 %).

The financial crisis also had a deep impact on the economies of Central and Eastern Europe. They suffered a strong decline in industrial production and exports as the demand from countries in the Eurozone significantly weakened. The countries of Eastern Europe especially, which had accumulated high current account deficits in the previous years, fell into a deep recession as a result of the abrupt worsening of refinancing conditions and reversing capital flows.

<u>United States</u>

In the United States, the economic downturn slowed significantly in the first half of 2009. A positive rate of GDP growth was again achieved in the second half of the year. For the full year 2009, GDP decreased by 2.4 % (2008: +0.4 %). In the first half of the year, the economic support came from the external account as imports declined faster than exports. In the second half, however, private consumption was the main driver. In addition, investment activity picked up slightly again, a special contributing factor being the US economic program, the "American Recovery and Reinvestment Act", under which about US$ 940 billion – more than 6 % of 2008 GDP – was made available for 2009 and 2010. The easing of the strains on the financial and real estate markets and the brightening external outlook also helped to improve the situation. Although prices stabilized, conditions on the real estate market were still marked by a high surplus supply. The unemployment rate rose to 10.0 % at the end of the year, its highest level in 26 years.

In addition, credit was substantially tightened in the wake of the banking crisis and there was a marked rise in the household saving ratio. Despite the upturn in the second half of the year, consumer spending was down 0.8 % in the full year 2009 and thus decreased more strongly than the year before. The conditions for private consumption, which is particularly important for the US economy, thus remained difficult.

<u>Asia</u>

The Asian emerging economies managed a notable turnaround after the abrupt collapse of their exports. GDP grew by 5.3 % in Asia (excluding Japan) in 2009. This was due among other things to the positive developments in China. Asia therefore continues to be the fastest growing region in the world. However, this growth is comparatively low versus the average GDP growth of 8 %, and even 13.6 % in China, between 2004 and 2008. A significant aspect of the present situation in Asia is the wide gap between the heavyweights, China and India, on the one hand – in 2009, GDP grew by 8.4 % in China (2008: 9.0 %) and in India by 6.0 % (2008: 7.3 %) – and other countries such as Taiwan, Malaysia, Hong Kong, and Singapore, on the other, which suffered an average decline of 2 %.

Expansionary fiscal and monetary economic support measures, alongside rapidly reviving capital inflows, were the basis for the recovery. China, for instance, launched a government economic program worth about US$ 590 billion, or 13 % of 2008 GDP, for 2009 and the following years. By contrast, the volume of comparable measures in India and Indonesia was much smaller at about 1 % and 1.5 %, respectively. Lending was also stimulated by a relaxation of credit standards.

India, where exports account for only about 20 % of GDP, was affected much less by the decrease in world trade. The strong domestic bias therefore proved to be a relative strength.

In Japan, the key industrial sectors – automotive industry, engineering, and the electrical & electronics industry – were hit by the effects of the financial crisis. The Japanese economy only returned to a moderate recovery from the second quarter of 2009 onwards as the stimulus from the Asian emerging economies, especially China, made itself felt. However, the sharp decrease was not recouped and Japan’s GDP decreased by 5.6 % in 2009 (2008: -0.7 %).

<u>Latin America</u>

Most of the countries in Latin America had already overcome the global economic weakness in the second quarter of 2009 and have experienced a relatively rapid recovery since then. Latin America profited not only from a good regional demand, but also from a relatively robust financial sector, which makes it less dependent on foreign capital than Europe, for instance. Commodity and food exports continued to be the main drivers. Overall, the region’s GDP decreased by 2.8 % in 2009 (2008: +4.3 %).

Mexico was hit the hardest by the global financial and economic crisis owing to its strong trade ties with the United States. GDP decreased by 6.8 % (2008: +1.8 %).

Argentina suffered the next biggest drop in GDP after Mexico, with -3.3 %. The country was hit particularly hard by the global financial crisis and suffered – as other countries with low credit ratings – from the investors’ increased risk averseness. In addition, the political climate in Argentina does not allow the government to push through important economic reforms.

In Brazil the economy weakened significantly, but was supported by robust domestic demand and by the broad geographical and sectoral diversification of its exports. Brazil’s GDP decreased by 0.3 % in 2009.

Health care industry

The health care sector continued to be one of the most stable industries despite the generally difficult market environment in 2009 and was characterized by its relative insensitivity to economic fluctuations compared to other sectors.

The main growth factors for this market are:

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

In the emerging countries additional drivers are:

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

At the same time, the cost of health care is rising and is claiming an ever-increasing share of national income. Health care spending averaged 8.9 % of GDP in the OECD countries in 2007, with an average of US$ 2,964 spent per capita. The United States had the highest per capita spending with US$ 7,290, followed by Norway, Switzer-land, and Luxembourg with over US$ 4,000. Germany ranked tenth among the OECD countries with per capita spending of US$ 3,588.

Health care spending in the OECD countries grew at an average annual rate of 3.7 % between 2000 and 2007. In Germany, health care spending increased by 1.4 % per year on average. This is the smallest increase among all CECD countries during this period. The relatively slow growth in health care spending in Germany is partly due to cost-containment measures from past health care reforms.

On average, public sources fund 73.0 % of health care expenditures in the OECD countries, with the exception of the United States and Mexico, where public funding was lowest in 2007, at 45.4 % and 45.2 %, respectively. In Germany, 76.9 % was publicly funded in 2007.

Most of the OECD countries have enjoyed large gains in life expectancy over the past decades thanks to improved living standards, public health interventions, and progress in medical care. In 2006, the average life expectancy in the OECD countries was 79 years. In Germany, life expectancy was nearly a year more than the OECD average of 79.8 years. Japan has the highest life expectancy of all the OECD countries with 82.6 years.

Reforms and cost-containment measures are the main reactions to steadily rising health care expenditures. Outdated health care structures are increasingly being overhauled and market-based elements introduced into the health care system. The aim is to create new incentives for cost and quality-conscious behavior. Quality of treatment plays a crucial role in optimizing medical results and reducing overall treatment costs. In addition, ever greater importance is being placed on disease prevention and innovative reimbursement models where quality of treatment is the key parameter.

In the United States, our most important single market in geographical terms, the government has declared the reform of the health care system to be a political priority. The goal is that over 45 million (i.e. one in every eight US citizens) currently uninsured should get access to primary health care. At present, the public health care schemes, Medicaid and Medicare, mainly insure the poor and pensioners.

Our most important markets developed as follows:

<u>The dialysis market</u>

In 2009, the value of the global dialysis market was 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 6 % to 1.9 million.

Prevalence, which is the number of people with terminal kidney failure treated per million population, differs widely from region to region, ranging from well below 100 to over 2,000 patients per million population (p.m.p.). Prevalence is highest in Taiwan with 2,560 p.m.p., followed by Japan with 2,430 p.m.p., and the United states with approximately 1,830 p.m.p. It averages about 1,000 in the 27 countries of the European Union. The far lower global average of approximately 360 p.m.p. is due, on the one hand, to differences in age demographics, distribution of renal risk factors (such as diabetes and hypertension), and genetic pre-disposition and cultural habit (such as diet). On the other hand, access to dialysis treatment is still limited in many countries. A great many individuals with terminal kidney failure do not receive treatment and are therefore not included in the prevalence statistics. A comparison of economic output and national prevalence rates suggests that access to treatment is restricted especially in countries where GDP per capita is less than US$ 10,000 per person per year. However, the generally rising global prevalence rate suggests that more and more people are receiving dialysis treatment.

Dialysis care

By the end of 2009, there were approximately 1.9 million patients receiving regular dialysis treatment. More than 89 % of these were treated with hemodialysis, while about 11 % choose peritoneal dialysis. The majority of hemodialysis patients are treated in dialysis clinics. There are about 29,000 dialysis clinics worldwide with an average of 65 hemodialysis patients per clinic.

The organizational structures differ considerably depending on whether a country's health care system is predominantly public or private. In the United States, for instance, most of the approximately 5,000 dialysis clinics are privately run and only about 1 % are publicly operated. By contrast, about 61 % of the approximately 5,000 dialysis clinics in the European Union are publicly owned. In Japan, about 80 % of the dialysis clinics are run by private nephrologists.

In the United States, the market for dialysis care is already highly consolidated. Taken together, Fresenius Medical Care and the second largest provider of dialysis care – DaVita– treat about 64 % of all US dialysis patients. In 2009, Fresenius Medical Care maintained its market-leading position of about 33 %.

Outside the United States, the markets for dialysis care are much more fragmented. Here, Fresenius Medical Care competes mainly with independent clinics and with clinics that are affiliated with hospitals.

Fresenius Medical Care operates 769 dialysis clinics in 35 countries and treats over 63,000 patients. With that, it has by far the largest and most international network of dialysis clinics.

In 2009, the number of peritoneal dialysis patients worldwide rose by more than 6 % to approximately 203,000. Fresenius Medical Care supplies approximately 36,000 patients with peritoneal dialysis products, which is about 17 % of all patients. In the United States, its market share was 31 %.

Dialysis reimbursement systems differ from country to country and often vary even within individual countries.

In the United States, the treatment costs for terminal kidney failure are covered by the public health insurers. The public health care programs, the Centers for Medicare & Medicaid Services (CMS), cover the medical services for more than 80 % of all dialysis patients in the United States. In 2009, CMS reimbursements accounted for about 33 % of Fresenius Medical Care's revenues. Changes in the CMS rates or method of reimbursement therefore have a significant influence on our business in North America. Here, providers mainly compete on quality and availability.

Dialysis products

In the dialysis products market, the most important products are dialyzers, hemodialysis machines, concentrates and dialysis solutions, and products for peritoneal dialysis. Fresenius Medical Care is the world market leader in dialysis products with a market share of about 32 %. The top three manufacturers have a combined market share of almost 70 %. Dialyzers are by far the largest single product group. Approximately 190 million units were sold in 2009, of which about 85 million were produced by Fresenius Medical Care. Of the approximately 65,000 new hemodialysis machines that were sold in 2009, about 55 % were produced by Fresenius Medical Care. In the United States, Fresenius Medical Care has a share of over 75 % of the independent market in these two product segments. We define the independent market as all dialysis clinics that do not belong to a major US-wide dialysis care provider such as Fresenius Medical Care or DaVita.

<u>The market for infusion therapy and clinical nutrition, intravenously administered generic drugs and medical devices</u>

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

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

Based on its own estimates, Fresenius Kabi considers its relevant market for infusion therapy and clinical nutrition (excluding the United States and Japan) to be over € 9 billion.

We also expect the demand for generics to continue growing. Generic drugs are more advantageous from health economics aspects than original preparations because of their significantly lower price and they already make a vital contribution to health care today: in Germany alone, generics accounted for over 85 % of prescriptions in 2008.

The market for intravenously administered drugs is characterized by moderate volume growth, steady price erosion, and fierce competition. Growth is mainly achieved through new generics that are brought to market when the original preparation goes off-patent. In Europe, the market for intravenously administered drugs is growing at a mid single-digit rate. In the United States, it is growing at a rate of about 5 %. We expect the US market for drugs that go off-patent from 2009 to 2019 to grow to approximately US$ 20 billion on a cumulative basis. These figures are based on the sales of the original preparations in 2008 and do not take account of the usual price erosions for generics.

Based on its own survey, Fresenius Kabi expects its relevant market for intravenously administered drugs (without Japan) to be over € 9 billion.

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

The German hospital market

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

Over the last five years the number of hospitals has fallen at an average annual rate of 1.0 % to 2,083 in 2008, while the number of beds has declined at an average annual rate of 1.3 % to 503,360. Nonetheless, with 6.1 beds per 1,000 population in 2008, Germany is still well above the OECD average of 3.8 (2007).

The average stay of a patient in an acute care clinic (excluding specialized psychiatric clinics) in Germany fell overall by 0.6 days over the same period and was 8.1 days in 2008.

On the other hand, the number of inpatient admissions and the average costs per admission have increased. The number of inpatient admissions at acute care clinics in Germany declined at first 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 the admission statistics. The number of admissions has risen again slightly since 2006 and was 17.52 million or 213 admissions per 1,000 population in 2008. That was about 341,000 or 2.0 % more than in 2007. Other countries rank well below the German level e.g. Switzerland, with 174 admissions per 1,000 population. In the last five years leading up to 2008, the number of admissions in Germany has risen at an average annual rate of 1.1 %. The average costs per admission have increased by 2.5 % on average over the last five years.

According to a survey by the German Hospital Institute (DKI), the financial situation at hospitals in Germany remains difficult: only 43.7 % of the hospitals expect to earn a surplus in 2009 (2008: 61.6 %), 26.5 % expect to break even (2008: 16.3 %), and 26.4 % expect to make a loss (2008: 19.7 %). However, the hospital sector was able to decouple economically from the poor macroeconomic situation in 2009: only 12 % of the hospitals said they had been affected by the financial and economic crisis.

The difficult financial and economic situation at many hospitals has been caused by rising investment needs. This is due in large part to an investment backlog that has accumulated because the federal states have not met their statutory obligation to finance necessary investments and major maintenance measures sufficiently in the past. Moreover, the investment needs are also due to technological advances and higher quality requirements. It is estimated that the current annual investment backlog at German hospitals is about € 5 billion. Against this backdrop, the privatization trend in the German hospital market continued, albeit on a modest scale, with the share of private hospital beds rising to 15.9 % in 2008 (2007: 15.6 %) while the share of public hospital beds fell to 49.0 % (2007: 49.4 %).

According to our research, € 504 million in hospital transaction revenues were acquired in 2009 (2008: € 408 million).

The Hospital Funding Reform Act (KHRG) that came into force in March 2009 has had an overall positive effect on the financial situation of hospitals in Germany. Nationwide, hospitals were funded with approximately € 3.55 billion in 2009. That was about 7 % more than in 2008. However, approximately € 1.5 billion of that represented the reversal of past budget cuts. For instance, the contribution hospitals were required to make towards improving the finances of public health insurers (Sanierungsbeitrag) was abolished as of the beginning of 2009: the deduction of 0.5 % on billings to public health insurers and the deduction hitherto of up to 1 % on billings under integrated health care contracts. In addition, the Federal government made funds available for investment grants under government economic programs.

The KHRG also extended the convergence phase for the final introduction of DRG-based reimbursement by one year. The convergence phase now ends as of December 31, 2009. Hospitals will then bill on the basis of standardized base rates valid throughout the particular federal state.

Quality continues to be a key competitive factor for the hospital market. The transparency and comparability of the treatments for the patients and their doctors will play an increasingly decisive role.

In the post-acute care market in Germany there was a total of 1,239 clinics in 2008, the same as the year before. The number of beds was 171,060 – 215 more than in 2007. 56.3 % (2007: 57.0 %) of the clinics were private clinics and 26.0 % (2007: 25.3 %) were independent non-profit clinics. 17.8 % (2007: 17.7 %) were public clinics. Independent non-profit clinics and public clinics accounted for 16.2 % (2007: 16.0 %) and 16.9 % (2007: 16.9 %) of the total number of beds, respectively. Private clinics accounted for 66.9 % (2007: 67.2 %). The total number of admissions in Germany rose by 3.4 % to approximately 2.0 million in 2008 (2007: 1.94 million). The average length of stay declined to 25.3 days (2007: 25.5 days).

The market for engineering and services for hospitals and other health care facilities

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

In established markets, where there is mounting cost pressure, the challenge for hospitals and other health care facilities is to increase their efficiency. Here there is demand especially for optimized hospital processes and technical management services, enabling hospitals to concentrate on their core competency: treating patients. In emerging markets the focus is on building and improving infrastructure.

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

The continued weakening of world economic growth in 2009 has had negligible impact on our industry thus far. On the whole, the health care sector, both in mature and growth markets, developed positively for Fresenius in 2009. 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 its respective markets.

Significant factors affecting operating performance

In 2009, the Fresenius Group's positive development was again driven to a large extent by the very good operating development in all business segments.

The Group's annual financial statements were also affected by a number of acquisitions, partly from 2008.

The Management Board's assessment of business results

The Management Board is of the opinion that the Fresenius Group performed very well in 2009 – with sales and earnings improvements 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 sales growth of 8 % at both business segments, and significant increases in earnings. Fresenius Helios also achieved excellent organic growth of 7 % and further improved its earnings. Fresenius Vamed was able to report an organic growth of 15 % and a further strong earnings increase in 2009 and achieved in the project business an important all-time high in order intake and order backlog.

Results of operations, financial position, assets and liabilities

Results of operations

Net income in the fiscal year 2009 was € 169 million (2008: € 403.5 million). As in the previous year net income mainly resulted from income from participations and profit transfer agreements.

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

The profit and loss transfer agreement with Fresenius Kabi AG yielded earnings of € 107.4 million (2008: € 408.9 million). The decrease by € 301.5 million in the transfers of profits from Fresenius Kabi AG results from the one time profits from intragroup sales of participations achieved by Kabi AG in the previous year. The one time profits in the previous year were € 282 million.

Fresenius ProServe GmbH contributed with earnings of € 130.2 million (2008: € 81.8 million) to the net income from participations. The increase mainly results from improved profit of HELIOS Kliniken GmbH.

Fresenius Biotech Beteiligungs GmbH contributed with a loss of € 51.4 million (2008: € 49.0 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 € 61.8 million Fresenius Medical Care AG & Co. KGaA dividend (2008: € 57.6 million).

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

The decrease in other operating income mainly results from foreign currency gains and passing on of financing costs in relation with the acquisition of APP in the previous year.

The decrease in other operating expense mainly results from foreign currency losses and financing costs in relation with the acquisition of APP in the previous year.

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

The Management and Supervisory Boards will propose a dividend increase to the Annual General Meeting. For 2009, a dividend of € 0.75 per ordinary share and € 0.76 per preference share is proposed. This is an increase of 7 %. The total dividend distribution will increase by 7 % to € 121.8 million (2008: € 113.6 million).

Cash flow statement

	2008 million €	2009 million €
Net Income	403	169
Depreciation and amortization of non-current assets	4	4
Change in pension liabilities	2	1
Cash flow	**409**	**174**
Earnings on sale of fixed assets	-	-
Other non-cash income	-	-
Change in accruals for income taxes and other accrued expenses	22	-8
Change in trade accounts payable	7	-6
Change in other operating assets and liabilities	9	3
Change in working capital	**38**	**-11**
Operating cash flow (Cash provided by operating activities)	**447**	**163**
Payments for acquisitions and capital increase of subsidiaries	-855	0
Purchase of intangible assets and property, plant and equipment	-6	-1
Cash provided by/used for investing activities	**-861**	**-1**
Dividends paid	-103	-114
Proceeds from bank loans	75	100
Repayment of bank loans	-8	-162
Change in financing activities with related parties	-404	42
Cash inflows from the issuance of the Mandatory Exchangeable Bond	554	0
Cash inflows from capital increase	289	0
Proceeds from exercise of stock options	13	4
Cash used for/provided by financing activities	**416**	**-130**
Change of cash and cash equivalents	2	32
Cash and cash equivalents at the beginning of the year	-	2
Cash and cash equivalents at the end of the year	2	34

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

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

As of December 31, 2009, Fresenius SE complied with the covenants under all the credit agreements.

Financial situation

Total assets of Fresenius SE increased considerably by € 367 million up to € 4,814 million (2008: € 4,447 million). The increase mainly results from loans extended to related companies that were used to perform regular and extraordinary repayments of the 2008 Senior Credit Agreement. The loans were refinanced by Fresenius US Finance II, Inc. and Fresenius Finance B.V, through new issuance or increase of senior notes.

Bank debt has decreased by € 63 million to € 204 million mainly resulting from the repayment of the Fresenius SE credit line. The opposite effect results from the new credit agreement of € 100 million entered into with the EIB.

The equity ratio of 60.1% was slightly lower than on the previous year (63.7%).

Investments and acquisitions

Total investments in property, plant and equipment and intangible assets were € 0.8 million in 2009.

Fresenius SE did not realize any material acquisitions in 2009.

Human resources

Fresenius SE had 330 employees on December 31, 2009 (December 31, 2008: 308). The increase in employees is mainly due to a significantly higher number of apprentices in comparison to the previous year.

Profit-sharing

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

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

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

Training

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

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

Miscellaneous

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

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

Research and development

Fresenius focuses its R&D efforts on its core competencies:

- Dialysis
- Infusion and nutrition therapies, generic IV drugs, and medical devices
- Antibody therapies.

Apart from products, we are concentrating on developing optimized or completely new therapies, treatment methods, and services. In 2009 we again successfully continued numerous projects and a number of new products were launched.

Expenses on research and development were € 240 million in 2009 (2008: € 479 million, including € 272 million of in-process R&D activities acquired with APP Pharmaceuticals). We therefore invested about 5 % of our product sales in R&D. This matched the previous year’s figure excluding the in-process R&D activities acquired. In 2009, Fresenius Medical Care increased its R&D spending by 22 %, and Fresenius Kabi by 18 %. In the segment Corporate/Other, € 44 million was spent on R&D at Fresenius Biotech, mostly on the clinical development of trifunctional antibodies. This was slightly above the € 43 million spent in the previous year.

As of December 31, 2009, there were 1,421 employees in research and development in the Group (2008: 1,336). Of that number, 494 were employed at Fresenius Medical

Care (2008: 427), 829 at Fresenius Kabi (2008: 793), and 98 at Fresenius Biotech (2008: 116).

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

Responsibility, environmental management, sustainability

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

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

Opportunities and risk report

Through the complexity and dynamics of our business, the Fresenius Group is exposed to a number of risks. These risks are inevitable consequences of active entrepreneurial activities. However, the willingness to take risks has 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. The diversification through our four business segments, which operate in different segments of the health care market, further minimize the Group's risk profile. Our experience in the development and manufacture of products, as well as in our markets, serves as a solid basis for a reliable assessment of risks.

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

Opportunities management

Managing opportunities is an ongoing, integral part of corporate activity aimed at securing the company's long-term success. In this way, we can explore new prospects and consolidate and improve on what we have already achieved. 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 among the various business segments. Anticipated future opportunities for the Fresenius Group are discussed in the Outlook starting on page 33.

Risk management

Like opportunities management, risk management is a continuous process. Identifying, controlling, and managing risks are key tools of solid corporate governance. Fresenius risk management is closely linked to corporate strategy. It's main part is our control system, with which we can identify and counteract at an early stage those developments that might threaten the company's 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 reports are used to identify and analyze deviations of the actual compared to the planned business development. In addition, the risk management comprises a control system that oversees organizational processes and measures, as well as internal controls and audits. Our risk management system is regularly evaluated and, if necessary, adjusted to allow prompt reaction to changes in the markets. This system has proved effective to date.

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

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

Internal financial reporting controls

Correctness and reliability of accounting processes and financial reporting, and thus preparation of annual financial statements, consolidated financial statements and management reports for Fresenius SE and the Group in compliance with applicable rules, is assured by numerous measures and internal controls. Especially our four-tier reporting process makes for intensive discussion and controls of the financial results. At each reporting level (local entity, region, business segment, Group), financial data and key figures are discussed and compared regularly on a monthly and quarterly basis with the prior-year figures, the budget, and the latest forecast. In addition, all parameters, assumptions, and estimates that are of relevance for the externally reported Group and segment results are discussed intensively with the department responsible for preparing the Group’s consolidated financial statements. These matters are also reviewed and discussed quarterly in the Supervisory Board’s Audit Committee.

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

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

Risk areas

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

General economic risks

At present, the development of the global economy exhibits no significant risk to the Fresenius Group. In 2010, overall economic growth should pick up again compared to 2009. Moreover, Fresenius is not affected by general economic fluctuations as much as other sectors. We also expect continued growing demand for our life-saving and life-sustaining products and services.

Risks in the general operating framework

The risk situation for each business segment also depends on the development of its markets. 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. In our largely regulated business environment, changes in the law – also with respect to reimbursement – can have decisive consequences for our business progress. This applies especially in the United States, where a large portion of our sales are generated, and where e.g. changes in the reimbursement system could have an impact on our business. Furthermore, a portion of our dialysis service business is currently reimbursed by private insurers or managed care organizations. Any reductions in reimbursement from private insurers and managed care organizations could adversely impact our revenues for products and services. The same applies to the hospital market in Germany, where the DRG system (Diagnosis Related Groups) is intended to increase the efficiency of hospitals while reducing health care spending. The Company constantly monitors further legislative developments of the DRG system. Discussions about ending 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 also work together with governmental health care institutions. Generally, our aim is to counter possible regulatory risks through enhanced performance and cost reductions.

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

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

<u>Operating risks</u>

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

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

  Risks can also arise from increasing pressure on our product prices and from price increases on the procurement side. For instance, changes in the regulations concerning the reimbursement for erythropoietin (EPO) in the United States, or a change in the dosage, 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. 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 2009.

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 one or more of our products and services 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 results of operations.

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

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

- Research and development
  The development of new products and therapies always carries the risk that the ultimate goal might not be achieved. 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. The product development process can be controlled on the basis of detailed project roadmaps and a tight focus on the achievement of specific milestones. If the defined targets are not achieved, counter-measures can be initiated.

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

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

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

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

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

- Financial risks
  The international operations of the Fresenius Group expose us to a variety of currency risks. In addition, the financing of the business exposes us to certain interest rate risks. We use derivative financial instruments as part of our risk management to avoid possible negative impacts of these risks. However, we limit ourselves to non-exchange traded, marketable instruments, used exclusively to hedge our operations and not for trading or speculative purposes. All transactions are conducted with banks of high rating. Information can be found in Note 31 of the Notes.

  The Fresenius Group's currency and interest rate risk management 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 the regular reporting of risk management. 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 ensures that the Management Board is fully informed of all significant risks and current hedging activities.

  The Fresenius Group is protected to a large extent against currency and interest rate risks. As of December 31, 2009, approximately 68 % of the Fresenius Group's debt was protected against increases in interest rates either by fixed-rate financing arrangements or by interest rate hedges. Only 32 %, or € 2,656 million, was exposed to an interest rate risk. A sensitivity analysis shows that a rise of 0.5 % in the reference rates relevant for Fresenius would have a less than 1% impact on Group net income.

  As an international company, Fresenius is widely exposed to translation effects due to foreign exchange rate fluctuations. The exchange rate of the US dollar to the euro is of particular importance because of our extensive operations in the United States. Translation risks are not hedged. A sensitivity analysis shows that a one cent change in the exchange rate of the US dollar to the euro would have an annualized effect of about € 44 million on Group sales and about € 1 million on Group net income.

As a globally active company, we have production facilities in all the main currency areas. In our service businesses, the revenue and cost base largely coincide. The exposure to currency risks arising from our business activities (transaction risks) does not rise to the same extent as sales. In order to estimate and quantify the transaction risks from foreign currencies, the Fresenius Group considers the cash flows reasonably expected for the following three months as the relevant assessment basis for a sensitivity analysis. For this analysis, the Fresenius Group assumes that all foreign exchange rates in which the Group had unhedged positions as of reporting date would be negatively impacted by 10 %. By multiplying the calculated unhedged risk positions with this factor, the maximum possible negative impact of the foreign exchange transaction risks on the Group's results of operations would be € 9 million.

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

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

Fresenius' debt has increased significantly as a result of the financing of the APP Pharmaceuticals acquisition in 2008, reaching € 8,299 million as of December 31, 2009. The debt could limit the ability to pay dividends, to arrange refinancing, to be in compliance with its credit covenants, or to implement corporate strategy. Other financing risks could arise for Fresenius against the background of the general financial market crisis. We reduce these risks through a high proportion of medium and long-term funding with a balanced maturity profile. Furthermore, the Group has only limited short-term funding requirements.

- Government reimbursement payments
  Fresenius is subject to comprehensive government regulation in nearly all countries. This is especially true in the United States and Germany. In addition, Fresenius has to comply with general rules of law, which differ from country to country. There could be far-reaching legal repercussions should Fresenius fail to comply with these laws or regulations. A large part of Group revenue derives from government reimbursement programs, such as the federal dialysis reimbursement programs in the United States under Medicare and Medicaid. Changes in the law or the reimbursement method could affect the scope

of the payments for services as well as of the insurance cover. This could have a significant adverse impact on the assets and liabilities, financial position, and results of operations of the Group.

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

  In 2003, a definitive agreement was signed regarding the settlement of fraudulent conveyance claims and all other legal matters in connection with the National Medical Care transaction in 1996 arising from the bankruptcy of W.R. Grace. Under the settlement agreement, Fresenius Medical Care will pay a total of US$ 115 million without interest into the W.R. Grace & Co. bankruptcy estate or as otherwise directed by the court upon plan confirmation. The settlement agreement was approved by the competent court. Claims made out of court by certain private US 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 subpoenas from the U.S. Department of Justice in St. Louis (Missouri) in connection with civil and criminal investigations in 2005 (RCG in August 2005). 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. Fresenius Medical Care believes that RCG's operation of its Method II supply company was in compliance with applicable law and will defend this litigation.

  In June 2009, FMCH received a subpoena from the U.S. Department of Justice, the Attorney General for the District of Massachusetts. Information must be submitted on the results of certain laboratory tests conducted from 2004 to 2009 for patients treated at FMCH dialysis centers.

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

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

Assessment of overall risk

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

Corporate rating

Fresenius' credit quality is assessed and regularly reviewed by the leading rating agencies Moody's, Standard&Poor's, and Fitch. Standard&Poor's rating for Fresenius SE is BB, Moody's rating is Ba1 and Fitch's rating is BB. Following the financing of the APP Pharmaceuticals acquisition, Standard&Poor's and Fitch changed its rating outlook to "negative" in 2008. Based on its new assessments they raised it again to "stable" in 2009. Moody's had confirmed its rating, which was raised from Ba2 to Ba1 in May 2008 following the acquisition announcement; its outlook was adjusted from "stable" to "negative". This was confirmed by Moody's in 2009.

Subsequent events

There have been no significant changes in the Fresenius Group's operating environment following the end of the fiscal year 2009. No other events of material importance on the assets and liabilities, financial position, and results of operations of the Group have occurred following the end of the fiscal year.

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 22 f.

General and mid-term outlook

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

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

- The development of innovative products and therapies: these will create the potential to further expand our market position in the regions. In addition to innovation, best-in-class quality, reliability, and convenience of our products and therapies are key to being able to exploit opportunities for expansion. Although the research is still in its infancy, the development of portable artificial kidneys is conceivable in the long term at Fresenius Medical Care, for instance.

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

- We also plan to successively roll out products and therapies from our existing portfolio in countries where we do not yet offer a comprehensive range. The acquisition of APP Pharmaceuticals in the Fresenius Kabi business segment, for instance, will enable us to introduce infusion and nutrition therapy products to the US market and also APP Pharmaceutical's products through Fresenius' international marketing and sales network 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 revenue potential for Fresenius Medical Care.

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

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

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 further improve the Group's leverage ratios. As of December 31, 2009, the net debt / EBITDA ratio was 3.0. We expect to achieve < 3.0 by the end of 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 2010 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 150 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 – also with regard to potential antitrust restrictions - are likely to be small. Other new markets will also open up for Fresenius as we successively roll out our existing product portfolio in other regions. For instance, because of different regional and legal conditions, Fresenius Medical Care only supplies dialysis products in some countries. If conditions change, the company might provide dialysis care in these countries as well.

Economic outlook

The brightening economic outlook in the last months of 2009 – especially in private demand – could help the world economy to recover in 2010. The situation in the financial sector, where challenges and uncertainty still persist, remains critical.

The current recovery of the world economy is driven by the positive momentum in many emerging countries. Industrial countries are also expected to recover in 2010. However, this improvement will probably be modest since some of the positive stimulus currently emanating from the government economic programs should decline. The decisive factor will therefore be whether the emerging economies can step up their role as growth drivers. This appears unlikely at present, however.

The world economy is expected to grow by 4.1 % in 2010.

The outlook for inflation in the coming years should continue to stabilize in 2010 and 2011. Experts reckon with global inflation of 3.1 % and 2.9 % in 2010 and 2011, respectively, so there is no acute inflation threat in the mid term despite the monetary expansion. Moreover, because of political pressure, central banks are likely to raise rates only gradually in the coming years.

- Europe
  A moderate recovery is expected in the Eurozone in 2010. The expansion of government economic programs should continue to provide support in the coming year. Very low short-term interest rates in the Eurozone and reviving export demand will also have an expansionary effect. However, all in all, factors suggesting only modest economic development predominate: firstly, the situation on the labor market is expected to worsen. Secondly, the real estate markets in many countries are still having a dampening effect because real estate prices could stagnate or fall. Thirdly, most countries in Eastern Europe have been hit even harder by the crisis than Western Europe. Fourthly, in Europe the real economy, which is more dependent on bank funding than in other economic regions, is overshadowed by the adjustments still hidden in many financial institutions' balance sheets. Fifthly, at the beginning of the year 2010, the high deficit of some countries in the Eurozone, e.g. Greece, came into the focus of investors and the risk of a potential national bankruptcy increased. The resulting uncertainty can have negative consequences for the economic growth of the entire Eurozone. A continued weakening of the euro could have, however, positive effects, especially for the highly export-linked countries of the Eurozone. GDP growth is expected to be positive at 1.5 % for the Eurozone.

The outlook for Germany's economy will mainly depend on two factors: export dynamic and domestic economic effects. The key factors here will be the trend for the labor market and the availability of finance. A recovery is expected for Germany, with GDP growth of 2.1 %.

- United States

  At the beginning of the year 2010, the economic situation in the United States showed increasing evidence of recovery. Capacity utilization improved and is expected to positively influence the labor market. Improvements in inventories and capital spending are further signs of economic recovery. If the growth prospects continue in the United States, also investor concerns about the sustainability and durability of economic growth should dissipate.

  The current economic recovery, however, remains at risk. The fiscal stimulus initiated in the year 2009 will significantly weaken in 2010. Although the real estate market is starting to bottom out, no significant stimulus can be expected as yet from residential construction given the market's continued oversupply. Moreover, households should adjust their spending to the sharp increase in debt over the past years. In these circumstances, growth of 3.8 % is expected in 2010.

- Asia

  It appears unlikely at present that the emerging economies in Asia can act as key growth drivers for the world economy in the short term. In 2007, the year before the crisis, private consumption in China was just one-eighth the US level. Moreover, a further rise in unemployment is expected in the Asian emerging economies in 2010 and investment activity will remain low as capacity utilization is well below pre-crisis levels in most countries. For Asia (excluding Japan) a GDP growth of 7.7 % is expected in 2010.

  In Japan, the economic outlook for 2010 will depend very largely on the development of the international environment and foreign demand. GDP growth will probably be 1.7 %. A rigorous consolidation of public finances is necessary given the very high level of government debt.

  GDP growth of 9.0 % is forecast for China in 2010. Rising inflation, the reduction of industrial overcapacity, and fiscal policy will be the key economic issues. The Chinese government's public investment, which was stepped up strongly in 2009 to stimulate the economy, is likely to become less extensive in the year 2010.

- Latin America

  Positive growth of 3.9 % is expected for the region in 2010, driven mainly by Brazil and Chile. Falling commodity prices are the biggest risk for these two countries. Experts currently predict stable commodity prices in 2010.

  The economic outlook for Mexico will continue to be influenced largely by growth in the United States. GDP growth of 2.6 % is forecast for Mexico in

2010. For Brazil, GDP growth of 5.8 % is expected after a small decrease in 2009. In Argentina, GDP growth of 1.5 % is forecast after a sharp decline in 2009.

Health sector and markets

The health care sector will continue to be one of the world's largest industries. The demand for life-saving and life-sustaining products and services will especially remain intact as they are medically needed.

However, experts estimate that a prolonged economic downswing could result in more pricing pressure and slowdown in revenue growth as governments seek to ease their healthcare spending – especially in the United States.

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

However, in the mid to long term, funds channeled into economic programs to contend with the financial and economic crisis in other sectors may not be available for the health industry.

The dialysis market

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

We expect that the total dialysis market could reach more than US$ 70 billion in 2011 (unchanged currency relations assumed), almost doubling its volume over a period of just ten years.

We intend to maintain our market leadership at a very high level in the major product groups, such as dialyzers and hemodialysis machines, and to improve it where possible.

In the United States, our biggest market, a new flat-rate reimbursement system for dialysis patients covered by the public health care program (Medicare) is due to be introduced in January 2011. The legislation was passed in July 2008 under the "Medicare Improvements for Patients and Providers Act of 2008". All products and services currently reimbursed according to the so-called composite rate as well as services that have so far been reimbursed separately, such as the administration of certain drugs and the performance of diagnostic laboratory tests, will be reimbursed in future as a single, flat-rate payment. This so-called bundled rate will take individual patient parameters, such as age and weight, into account. Adjustments are also provided for patients who require exceptional medical care, with correspondingly high costs.

Besides being inflation-linked, another special feature of the new reimbursement scheme is its orientation to certain quality parameters. For instance, if dialysis clinics do not meet set quality standards, their reimbursement rates will be reduced. The quality parameters include factors such as patient satisfaction, the control of blood hemoglobin levels (anemia management), and bone mineral metabolism.

The composite rate was already increased in 2009 and is being raised by a further 1 % in 2010.

<u>The market for infusion therapies and clinical nutrition, generic IV drugs, and medical devices</u>

The market for infusion therapies and clinical nutrition in Central and Western Europe will probably grow at a low single-digit rate in the coming years. There continues to be high growth potential in Asia-Pacific – especially China – and in Latin America and Eastern Europe. We expect the market in these regions to continue growing at high single to double-digit rates.

With intravenously administered generic drugs the growth dynamic will continue to be driven by original preparations going off-patent. A factor working in the opposite direction is the price erosion for products that are already in the market. We expect the market for IV generics in Central and Western Europe to grow at a mid single-digit rate. In the United States, a key factor will be the direction of the planned health care reform. Given the high cost of the reforms, it can be generally assumed that the US government will encourage the use of low-cost generics, among other things through incentive mechanisms and initiatives to promote cost consciousness. In addition, generics manufacturers should benefit from faster market access. On the other hand, however, it looks as if the pharmaceutical industry will have to grant higher rebates to public payors in future. It has also been proposed that hospital reimbursement rates should be reduced. That could increase pressure on the pharmaceutical industry.

All things considered, we therefore currently expect the US market for IV generics to grow at a mid single-digit rate in 2010, driven by a number of important original preparations going off-patent.

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

The German hospital market

Although the reimbursement schemes are largely regulated by law, German hospitals will not completely escape the effects of the financial and economic crisis in 2010, after an overall positive year in 2009. Experts see an increasing risk of insolvency for German hospitals in 2010. Due to the further worsening financial situation in the public sector, privatization activities are expected to increase in 2010.

Health insurers' revenues are expected to decrease. Furthermore, negative impact will stem from the health care fund introduced in 2009 and for which a budget deficit of € 4 billion is anticipated. Moreover the financial situation of local governments has worsened, reducing their ability to cover their hospitals' operating losses and to finance investments. This will further limit the financial scope for supporting loss-making hospitals and investment in public health care facilities.

Another challenge for hospitals is financing investments. Given their high investment needs but declining government support, hospitals are under growing pressure to rigorously tap the potential for rationalization.

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

It is generally expected that the privatization process will accelerate further, especially among public hospitals. Private hospital chains and alliances are likely to be able to respond to the pressure to improve efficiency better than public hospitals. They often have more experience in operating commercially and creating efficient structures. Also, they have the potential to secure cost advantages in procurement. Finally, private operators have more experience with the process know-how for acquiring and integrating new facilities and quickly adjusting their cost structures.

There are no signs as yet that the new coalition government will bring decisive changes for clinics in the German acute care and post-acute care market as the political discussion has been confined so far to long-term financing issues. As in the past, a focus on cost-cutting in a future health care reform cannot be ruled out. On the one hand, health insurers' revenues are expected to decline subsequent to the economic crisis. And on the other hand, the health care system is faced with rising costs.

In Germany the new reimbursement system on the basis of the standardized base rates in the individual federal states will enter into force from the beginning of 2010. It remains to be seen how additional services over and above the budgets agreed for

2009 will be negotiated with the health-insurers. The different base rates from state to state are to be successively harmonized over a period of five years, starting in 2010, toward a standardized, nationwide base rate corridor. However, in light of the experience with the DRG system, the above-average increase in the number of admissions, and the convergence steps already completed, HELIOS does not expect any major changes in the reimbursement policy.

Under the Hospital Funding Reform Act (KHRG), the criteria for the introduction of flat-rate investment allowances should be agreed by 2012. Instead of the previous application-based financing of hospital investments, state governments can decide to fund investments in an entrepreneurial way on the basis of performance-oriented investment allowances. However, important details have still to be resolved, especially the structure of the flat-rate investment allowances.

No consequences from changes in the law are expected in the post-acute segment. However, pricing and other controls by health insurers will continue to increase. As a result of growth in acute care cases and continuous improvements in HELIOS' internal referral management, we expect to be able to leverage potentials from the combination of acute care and post-acute care, thereby increasing our number of post-acute care admissions.

The market for engineering and services for hospitals and other health care facilities

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

In the emerging countries, there is growing demand above all for infrastructure development, but also for efficient, needs-oriented medical care. The provision of primary health care is now very largely in place. In many markets, the focus now is therefore on building up secondary care, developing tertiary health care structures in the form of "centers of excellence", and creating training and research structures. All in all, we expect the market for engineering and services for hospitals and other health care facilities to continue growing in 2010.

Dividend

Continuity in our dividend policy remains an important priority, clearly demonstrated by dividend increases over the last 16 years. On average, we have passed on about half of the percentage growth in Group net income to our shareholders as a percentage dividend increase. Based on our positive earnings forecasts we want to remain true to our dividend policy in the 2010 fiscal year and expect to offer our shareholders again an earnings-linked dividend.

Bad Homburg v.d.H., February 24, 2010

Compensation Report

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

Compensation of the Management Board of Fresenius SE

The entire Supervisory Board is responsible for determining the compensation of the Management Board. The Supervisory Board is assisted in this task by a personnel committee. In the year under review, the personnel committee was composed of 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 reasonably in the sustainable development of the Company's business with the compensation paid and to reward them based on their duties and performance as well as their successes in managing the Company's economic and the financial position while giving due regard to the peer environment.

The compensation of the Management Board is, as a whole, performance-oriented and was composed of three elements in the fiscal year 2009:

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

In addition, 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 2009. 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 reimbursement of certain other charges as well as contributions to pension and health insurance.

The performance-related compensation will also be granted for the fiscal year 2009 as a variable bonus. The amount of the bonus in each case generally depends on the achievement of the individual targets relating to the net income attributable to Fresenius SE and its segments. For the total performance-related compensation, the maximum achievable bonus is fixed.

For the fiscal years 2009 and 2008, the amount of cash payment of the Management Board of Fresenius SE consisted of the following:

	Non-performance-related compensation				**Performance-related compensation**		**Cash compensation (without long-term incentive components)**	
	Salary		**Other***		**Bonus**			
	2008	2009	2008	2009	2008	2009	2008	2009
in thousand €								
Dr. Ulf M. Schneider	800	800	39	56	1,165	1,032	2,004	1,888
Rainer Baule	425	425	40	41	900	800	1,365	1,266
Dr. Francesco De Meo	425	425	18	18	490	543	933	986
Dr. Jürgen Götz	325	325	29	28	360	424	714	777
Dr. Ben Lipps**	816	860	202	251	963	1,200	1,981	2,311
Stephan Sturm	425	425	84	85	850	732	1,359	1,242
Dr. Ernst Wastler	375	375	17	27	390	473	782	875
	3,591	3,635	429	506	5,118	5,204	9,138	9,345

* 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 35.58 % 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 Fresenius SE.

In the fiscal year 2009, 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, in the Notes to the Financial Statements.

For the fiscal years 2009 and 2008, the number and value of stock options issued is shown in the following table:

Long-term incentive components	**Stock options***			
	Number		Value in thousand €	
	2008	2009	2008	2009
Dr. Ulf M. Schneider	51,600	51,600	815	425
Rainer Baule	25,800	25,800	408	213
Dr. Francesco De Meo	25,800	25,800	408	213
Dr. Jürgen Götz	25,800	25,800	408	213
Dr. Ben Lipps**	99,600	99,600	976	761
Stephan Sturm	25,800	25,800	408	213
Dr. Ernst Wastler	25,800	25,800	408	213
	280,200	280,200	3,831	2,251

* Stock options that were granted in 2009 and 2008 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 the stock options granted to members of the Management Board in the fiscal year 2009 correspond to their fair value at the time of grant, namely a value of € 8.24 (2008: € 15.80) per stock option of Fresenius SE and € 7.64 (2008: € 9.80) per stock option of FMC-AG & Co. KGaA.

As the financial targets of the year 2009 were achieved, Dr. Ben Lipps is entitled to a stock-based compensation in an amount of € 341 thousand (2008: € 425 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 2009, the members of the Management Board held a total of 901,500 (2008: 720,900) stock options and convertible bonds of Fresenius SE and 703,416 (2008: 818,411) 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 2009 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, 2009								
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
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 €	36.89	36.89	36.89	36.89	31.97	36.89	36.89	36.89
Options exercised during fiscal year								
number	0	0	0	0	214,595	0	0	0
average exercise price in €					15.32			
averate stock price in €					28.5			
Options outstanding on Dec 31, 2009								
number	322,500	187,050	81,600	88,530	703,416	139,320	82,500	901,500
average exercise price in €	36.65	34.42	46.66	46.74	28.44	41.63	44.04	39.53
average remaining life in years	5.7	5.2	6.4	6.4	4.2	6.2	6.2	5.9
range of exercise prices in €	13.59	13.59	36.89	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, 2009								
number	175,438	113,516	14,996	19,310	404,616	65,786	20,396	409,442
average exercise price in €	27.81	26.14	46.41	43.71	24.48	35.41	37.01	30.46

* 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 2009 and 2008:

	Cash compensation (without long-term incentive components)		Long-term incentive components		Total compensation (including long-term incentive components)	
	2008	2009	2008	2009	2008	2009
in thousand €						
Dr. Ulf M. Schneider	2,004	1,888	815	425	2,819	2,313
Rainer Baule	1,365	1,266	408	213	1,773	1,479
Dr. Francesco De Meo	933	986	408	213	1,341	1,199
Dr. Jürgen Götz	714	777	408	213	1,122	990
Dr. Ben Lipps	1,981	2,311	1,401	1,102	3,382	3,413
Stephan Sturm	1,359	1,242	408	213	1,767	1,455
Dr. Ernst Wastler	782	875	408	213	1,190	1,088
	9,138	9,345	4,256	2,592	13,394	11,937

The components with long-term incentive effect can be exercised only after the expiry of the specified vesting period. Their value is recognized over the vesting period as expense in the respective fiscal year. The expenses attributable to the fiscal years 2009 and 2008 are stated in the following table.

	Expenses for long-term incentive components	
	2008	2009
in thousand €		
Dr. Ulf M. Schneider	714	694
Rainer Baule	357	347
Dr. Francesco De Meo	68	171
Dr. Jürgen Götz	219	289
Dr. Ben Lipps	1,348	1,857
Stephan Sturm	383	357
Dr. Ernst Wastler	68	171
	3,157	3,886

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 on an annual basis by the Supervisory Board to the Management 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 € 3,316 thousand as of December 31, 2009 (2008: € 2,787 thousand). The additions to pension liability in the fiscal year 2009 amounted to € 529 thousand (2008: € 759 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 FMC 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 FMC Management AG in return would amount to approximately 33 % of the non-performance-related compensation components paid to him in the fiscal year 2009.

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

Miscellaneous

In the fiscal year 2009, 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 received 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 obtained a waiting allowance of € 262,500 for the agreed non-competition clause.

Based on these agreements and on pension commitments, to former members of the Management Board, € 875 thousand and € 1,386 thousand were paid in the years 2009 and 2008, respectively. The benefit obligation for these persons amounted to € 9,878 thousand in 2009 (2008: € 10,056 thousand).

Adjustments to System of Compensation of Members of the Management Board

From 2010 on, the currently applicable system of compensation for the members of the Management Board will be adjusted to the new requirements of the German Act on the Appropriateness of Executive Board Compensation (VorstAG), which took effect on August 5, 2009, as follows:

In line with the existing compensation system, each member of the Management Board will receive an annual fixed basic compensation to be paid out in twelve equal monthly installments. The amount of the fixed basic compensation is assessed differently for the respective members of the Management Board to reflect the special individual areas of tasks and responsibilities as well as performance contribution.

In addition, the members of the Management Board receive a performance-related bonus whose amount in each case is dependent on certain target parameters oriented on the consolidated result of the Fresenius Group and/or of the relevant corporate segments being achieved. In the case of the members of the Management Board with functional responsibility for the entire Group – such members being Dr. Schneider, Mr. Sturm and Dr. Götz –, the amount of the variable bonus is based in its entirety on the respective consolidated net annual profit of Fresenius SE (after deduction of minority interests). For Mr. Baule and Dr. De Meo, half of the amount of the variable bonus in each case depends on the development of the consolidated net annual profit as well as the development of the net annual profit of the corporate segment (in each case after deduction of minority interests) for which the respective member of the Management Board is responsible. The variable bonus of Dr. Wastler in each case is oriented on the consolidated net annual profit of Fresenius SE (after deduction of minority interests) as well as on the consolidated annual result before tax and extraordinary income/expenditures of the VAMED group. As in the past, Dr. Lipps will continue to receive his compensation only from Fresenius Medical Care.

Besides the variable bonus, which as a rule is to be paid out annually in cash and which is limited in its amount, the members of the Management Board receive a further variable compensation component in the form of stock options as a performance-related component of long-term incentive compensation. Stock options are allotted on the basis of the Stock Option Plan 2008 of Fresenius SE. The number of stock options to be allotted is defined in each case by the Supervisory Board at its discretion, with all members of the Management Board, except for the chairman of the Management Board who receives double the number of stock options, receiving the same number of stock options.

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

In line with the aim and purpose of the provisions of the German Act on the Appropriateness of Executive Board Compensation (VorstAG), the new system of compensation for the Management Board moreover provides for a contractually stipulated cap or possibility of capping the amount of the annual compensation to be claimed by the member of the Management Board overall, i.e. including all variable compensation components. This makes it possible to adequately take account in particular of those extraordinary developments which are not in any relevant proportion to the performance of the Management Board.

Under the new compensation system, the amount of the basic compensation of the members of the Management Board was and will be assessed giving particular regard to the relevant comparison values of other DAX companies and similar companies of comparable size and performance from the relevant industrial sector. By this, a predominantly conservative position in relation to relevant comparative companies was deliberately chosen on average. In addition to this horizontal comparative view, due regard was also given to the vertical (company-internal) comparative view in assessing the compensation components for the members of the Management Board.

The existing system of compensation for the members of the Management Board applicable up to now, given its long-term compensation components as well as the ratios that were decisive for the achievement of targets for the short-term variable compensation components, was already oriented towards sustained corporate development. However, the new system of compensation for the members of the Management Board, thanks to the aforementioned provisions, will be oriented to an even greater extent towards the interests of sustained corporate development within the meaning of the provisions of the German Act on the Appropriateness of Executive Board Compensation (VorstAG).

Information on the Supervisory Board

The compensation of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in Section 14 of the Company statutes of Fresenius SE. 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 2009 and 2008, the compensation for the members of the Supervisory Board of Fresenius SE, including compensation for committee services, was as follows:

	Fixed compensation		Compensation for commitee services		Variable compensation		Total compensation	
	2008	2009	2008	2009	2008	2009	2008	2009
in thousand €								
Dr. Gerd Krick	26	26	30	30	173	186	229	242
Dr. Dieter Schenk	20	20	0	0	129	139	149	159
Niko Stumpfögger	20	20	0	0	129	139	149	159
Prof. Dr.h.c. Roland Berger (since May 21, 2008)	8	13	12	20	53	93	73	126
Dario Ilossi	13	13	0	0	86	93	99	106
Konrad Kölbl	13	13	10	10	86	93	109	116
Dr. Gabriele Kröner (until May 21, 2008)	5	0	0	0	33	0	38	0
Klaus-Peter Müller (since May 21, 2008)	8	13	0	0	53	93	61	106
Dr. Gerhard Rupprecht	13	13	0	0	86	93	99	106
Wilhelm Sachs	13	13	10	10	86	93	109	116
Dr. Karl Schneider	13	13	20	20	86	93	119	126
Stefan Schubert	13	13	0	0	86	93	99	106
Rainer Stein	13	13	10	10	86	93	109	116
Dr. Bernhard Wunderlin (until May 21, 2008)	5	0	8	0	33	0	46	0
	183	183	100	100	1,205	1,301	1,488	1,584

Directors & Officers 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 2010. The policy covers the legal defense costs of a member of a representative body when a claim is made and, where relevant, any damages to be paid which are covered by the policy.

REPORT OF THE SUPERVISORY BOARD

In 2009, the Supervisory Board performed the duties assigned to it by law and by the Company's Statutes, regularly advising and monitoring the Management Board. It was closely involved in all decisions that were of major importance to the 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, economic and financial position, and profitability of the Company and the Group the corporate strategy and planning, risk situation, risk management and compliance, and important business events. In all, the Supervisory Board of Fresenius SE convened for four regular meetings in 2009, in March, May, October, and December. Detailed Management Board reports and comprehensive approval documents concerning the agenda were distributed to members of the Supervisory Board before all its meetings. 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 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 lieu of a meeting. In addition, the Chairman of the Management Board regularly informed the Chairman of the Supervisory Board in individual discussions about the latest business developments and forthcoming decisions. Every member of the Supervisory Board attended at least half of the Supervisory Board meetings during their term of office in 2009.

MAIN FOCUS OF THE SUPERVISORY BOARD'S ACTIVITIES

The Supervisory Board's monitoring and advisory activities were mainly centered on overall business operations as well as investments and the integration of recent acquisitions – especially APP Pharmaceuticals in the United States – in the business segments. The Supervisory Board thoroughly reviewed and discussed all other significant business activities with the Management Board. It approved the budget for 2010 and the Fresenius Group's mid-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. It took note of the Act on the Appropriateness of Executive Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) that came into force in Germany on August 5, 2009. In light of this new legislation, the Supervisory Board resolved to limit the duties of the Personnel Committee to preparing proposals in respect of the compensation system for the Management Board and the compensation of individual members of the Management Board and to resolving non-compensation-related terms of the contracts with the members of the Management Board. In addition, the Supervisory Board engaged experts to examine the appropriateness of the Management Board's compensation and whether the new provisions of the VorstAG stipulating that management compensation be oriented to sustainable long-term corporate performance might require a modification of the Management Board contracts. On May 8, 2009, 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 6, 2008.

For more information on corporate governance at Fresenius, please see the Corporate Governance Declaration on pages 12 to 27 of the Annual Report.

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

Klaus-Peter Müller, a member of the Supervisory Board of Fresenius SE, is the chairman of the supervisory board of Commerzbank AG. The Fresenius Group maintains business relations with Commerzbank under customary conditions. Dr. Gerhard Rupprecht, a member of the Supervisory Board of Fresenius SE, is a member of the management board of Allianz SE and the chairman of the management board of Allianz Deutschland AG. Dr. Franceso De Meo, member of the Management Board of Fresenius SE, is a member of the supervisory board of Allianz Private Krankenversicherungs-AG. In 2009, the Fresenius Group paid € 7 million for insurance premiums to Allianz (2008: € 7 million).

Consultancy and other service relationships between Supervisory Board members and the Company only existed in the case of Dr. Schenk, who is a member of our Company's Supervisory Board and is a partner in the international law firm Nörr Stiefenhofer Lutz (as of 2010: Noerr LLP). This law firm provided legal advice to the Fresenius Group in 2009. The Fresenius Group paid € 1 million to this law firm for services rendered in 2009 (2008: € 1 million), corresponding to 1.6 % of the total amount paid for legal advice in 2009. The Supervisory Board and its Audit Committee considered this mandate closely and it was approved by the Supervisory Board. Dr. Schenk did not take part in the voting. There are no other consulting or service contracts between Supervisory Board members and the Company.

There were no conflicts of interest involving members of the Supervisory or Management Boards in 2009. Members are required to notify the Supervisory Board immediately should such conflicts arise.

Fresenius has disclosed the information on related parties in the quarterly reports and on page 184 of the Annual Report.

WORK OF THE COMMITTEES

The Personnel Committee, whose responsibilities now are to prepare proposals on the compensation system for the Management Board and the compensation for the individual members of the Management Board and to resolve the non-compensation-related terms of contracts with members of the Management Board, held two meetings and one conference call.

The Audit Committee held three meetings. There were also four conference calls. The main focus of its controlling activities was on the preliminary audit of the annual financial statements of Fresenius SE and the Group for 2008 and discussions with the auditors about their report and the terms of reference of the audit, paying special heed to APP Pharmaceuticals in the United States. The Audit Committee also reviewed the 2009 quarterly reports, the risk management system, the internal control 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 the implications of the Accounting Law Modernization Act (BilMoG) that came into force in Germany on May 29, 2009.

The Supervisory Board delegated the resolutions on the terms of the financing of the APP Pharmaceuticals acquisition to the special "Transaction Financing APP Pharmaceuticals, Inc." Committee set up for this purpose in 2008. In 2009, this committee held two conference calls and approved the issuance of Senior Notes to replace the bridge financing for the APP Pharmaceuticals acquisition.

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

The Nomination Committee did not convene. There is no Mediation Committee since the German Co-Determination Act (MitbestG), which provides for this committee, does not apply to Fresenius SE.

Information on the present composition of the committees can be found on pages 194 and 195 of the Annual Report.

PERSONNEL – COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

There were no changes in the composition of the Management Board or the Supervisory Board in 2009.

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 2009 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. They were elected as auditors at Fresenius SE's Annual General Meeting on May 8, 2009, 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 12, 2010, the Supervisory Board approved the financial statements of Fresenius SE for 2009 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 2009 prepared voluntarily according to US GAAP.

The auditors delivered a detailed report on the results of the audit during this meeting. They found no weaknesses in the internal control system and risk management with regard to the accounting process. The auditors attended all meetings of the Supervisory Board and the Audit Committee.

The Supervisory Board concurs with the proposal by the Management Board on the appropriation of the 2009 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 12, 2010
The Supervisory Board

Dr. Gerd Krick
Chairman