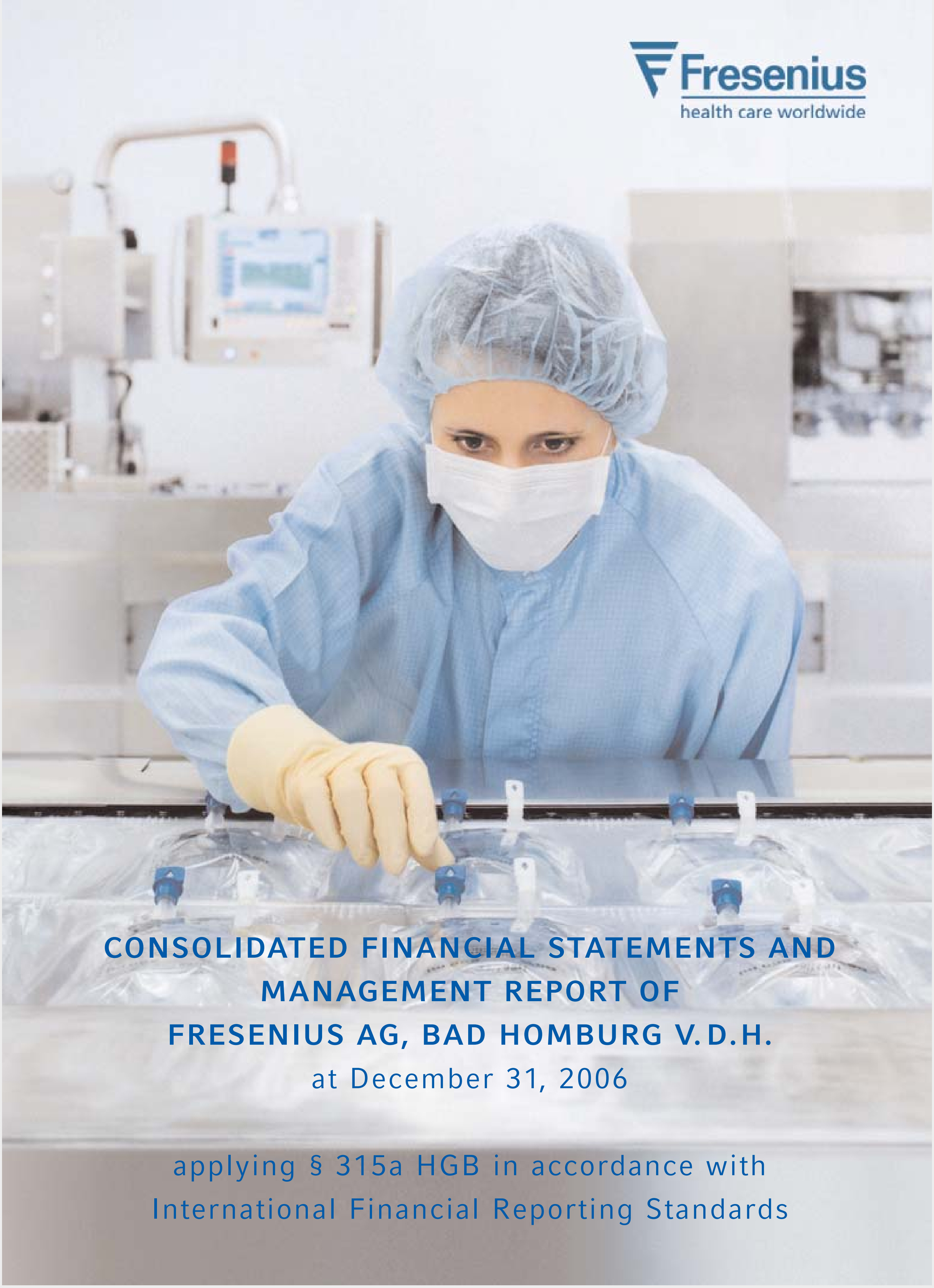
Fresenius
health care worldwide



CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF FRESENIUS AG, BAD HOMBURG V.D.H.

at December 31, 2006

applying § 315a HGB in accordance with
International Financial Reporting Standards

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MANAGEMENT REPORT

- Sales up 37 %, net income up 49 %.
- At € 1,443 million, EBIT exceeds the one billion mark for the first time.
- Operating cash flow of € 1,058 million achieved.
- Outlook 2007: Strong sales and earnings increase expected.

The Fresenius Group had an excellent year 2006. We not only achieved record levels in sales and earnings but also improved our profitability. The two major acquisitions – HELIOS Kliniken and Renal Care Group – have been successfully integrated. At the same time, our existing business expanded strongly and margins further improved. Acquisition spending, mainly financed through debt, remained at a high level.

OPERATIONS AND BUSINESS ENVIRONMENT

GROUP STRUCTURE AND BUSINESS

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

The operating business comprises the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe, which are all legally independent entities and managed by the operating parent company, Fresenius AG. The corporate structure remained unchanged in 2006.

Fresenius Medical Care mainly focuses on dialysis care and manufactures and markets products for the treatment of patients with end stage renal disease (ESRD). Fresenius Kabi specializes in the production and sale of products for infusion therapy, clinical nutrition and transfusion technology. Fresenius ProServe operates hospitals and provides management services for hospitals and other health care facilities. The segment Corporate/Other comprises the holding activities of Fresenius AG, the IT service provider Fresenius Netcare and Fresenius Biotech. Fresenius Biotech is active in research and development in the field of antibody and cell therapies. Corporate/Other also includes the consolidation measures conducted between the business segments.

Fresenius 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 orientated and target-linked compensation system.

Fresenius has an international marketing and production network with more than 60 production sites worldwide. Key production sites are located in the United States, Japan, Germany and Sweden. Fresenius also has production plants in other European countries, Latin America, Asia and South Africa. The international production network allows us to implement our business model while meeting the most exacting logistics and regulatory requirements. The decentralized structure of the production sites also substantially reduces transportation costs and currency exposure.

Management and control

The corporate organs of the Group are the Management Board, the Supervisory Board and the Annual General Meeting. In accordance with the German Stock Corporation Act (AktG), Fresenius AG has a dual management and control system consisting of the Management Board and the Supervisory Board. These two boards work independently of each other. No one is allowed to be a member of both organs simultaneously.

The Management Board conducts the business and represents the Company in dealings with third parties. The Management Board has five members. According to the Management Board's rules of procedure, each member is accountable for their 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, the profitability of the business, 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. The Management Board's rules of procedure require it to obtain the Supervisory Board's approval for specific activities, however, the Supervisory Board is fundamentally prohibited from managing the Company. The Supervisory Board is comprised of six shareholders' representatives and six employees' representatives. The shareholders' representatives are elected by the Annual General Meeting. The employees' representatives are elected in accordance with the German Co-Determination Act (MitBestG). The Supervisory Board must meet at least twice per calendar half-year.

The appointment and dismissal of the members of the Management Board is regulated in accordance with Sections 84 and 85 of the German Stock Corporation Act (AktG). The articles of association of Fresenius AG also provide that deputy members of the Management Board may be appointed.

For information on compensation, please see pages 141 to 144 of the Notes.

Key products, services and business processes

Fresenius Medical Care offers a comprehensive range of products for hemodialysis and peritoneal dialysis and provides dialysis care in its own dialysis clinics. Dialysis products are sold to Group clinics as well as to external dialysis care providers. Fresenius Kabi is one of the few companies to offer a comprehensive portfolio of enteral and parenteral nutrition therapies. The company also offers a broad spectrum of products for fluid and blood volume replacement as well as a portfolio of intravenously administered (IV) generic drugs. Fresenius Kabi sells its products mainly to hospitals. Fresenius ProServe is active as a hospital operator, primarily in Germany, through HELIOS Kliniken Group. The HELIOS Kliniken Group consists of HELIOS Kliniken GmbH, Wittgensteiner Kliniken GmbH and HUMAINE Kliniken GmbH. Fresenius ProServe also provides engineering and services for hospitals and health care facilities through VAMED.

Important markets and competitive position

Fresenius operates in more than 60 countries through its subsidiaries. The main markets are North America and Europe where Fresenius generates 45 % and 43 % of its sales, respectively.

Fresenius Medical Care is the largest dialysis company in the world. Fresenius Kabi holds leading positions in Europe and in the growth markets of Asia-Pacific, Latin America and South Africa. Fresenius ProServe is a leading private hospital operator in Germany through HELIOS Kliniken Group.

Legal and economic factors

The markets of the Fresenius Group are fundamentally stable and relatively independent of economic cycles because of the central importance of the life-saving and life-sustaining products and treatments that the Group offers. Furthermore, the markets in which we offer products and services are expanding mainly for two reasons: demographics and the demand for innovative therapies in the industrialized countries and the increasing availability of high-quality health care in the developing and newly industrializing countries.

The statement of income and the balance sheet can be influenced by currency translation effects as a result of exchange rate fluctuations, especially in the rate of the US dollar to the euro. This element had only a small effect on our statement of income in 2006 since the average annual exchange rate between these currencies was little changed: 1.2558 in 2006 versus 1.2442 in 2005. Our balance sheet, however, was significantly affected because the closing rate as of December 31, 2006 was 1.3170, compared to 1.1797 as of December 31, 2005.

There were no legal aspects that significantly impacted the business performance in 2006.

Capital, shareholders, articles of association

The summary below shows the subscribed capital of Fresenius AG. On December 4, 2006 the Extraordinary General Meeting of Fresenius AG approved a share split with capital increase from the Company's funds. These resolutions were entered in the Commercial Register on January 24, 2007. As a result, the Company's subscribed capital increased by € 22.6 million and the number of shares outstanding tripled. The share split does not affect the preference dividend or the minimum dividend payable on preference shares. Three preference shares now represent the preference that one preference share previously denoted.

The shares of Fresenius AG are no-par-value bearer shares. The subscribed capital is divided into an equal number of ordinary and preference shares. Shareholders' rights are regulated by the German Stock Corporation Act (AktG). Additionally, as of December 4, 2006, the articles of association of Fresenius AG contain the following three rules for the holders of non-voting preference shares: First, from retained earnings for the year they will receive a dividend of at least € 0.02 per preference share and higher by € 0.01 per preference share than that for an ordinary share. Second, the minimum dividend payable on preference shares takes precedence over payment of a dividend on ordinary shares. Third, 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.

The Management Board is authorized, with the consent of the Supervisory Board, to increase the subscribed capital of Fresenius AG in accordance with the Annual General Meeting's resolutions on approved capital. This involves two authorizations:

- Authorization to increase the subscribed capital by a maximum nominal amount of € 12,800,000 by May 9, 2011 through one or more issues of bearer ordinary shares and/or nonvoting bearer preference shares against cash contribution (Approved Capital I).
- Authorization to increase the subscribed capital by a maximum nominal amount of € 5,496,115.20 by May 9, 2011 through one or more issues of ordinary bearer shares and/or nonvoting preference bearer shares against cash contribution and/or assets in kind (Approved Capital II). Shareholders' preemptive rights of subscription can be excluded.

In addition, there is the following conditional capital:

- The subscribed capital is increased conditionally by a maximum nominal amount of € 1,971,966.00 by the issuance of new bearer ordinary shares and nonvoting bearer preference shares (Conditional Capital I). The conditional capital increase will be executed only to the extent that subscription rights to ordinary and preference shares are issued under the 1998 Stock Option Plan and the holders of these subscription rights exercise these rights.

	January 24, 2007			December 31, 2006		December 31, 2005	
	Number of shares (million)	Subscribed capital (€ million)	% of Subscribed capital	Number of shares (million)	Subscribed capital (€ million)	Number of shares (million)	Subscribed capital (€ million)
Ordinary shares/capital	77.18	77.18	50 %	25.73	65.86	25.36	64.92
Preference shares/capital	77.18	77.18	50 %	25.73	65.86	25.36	64.92
Total	154.36	154.36	100 %	51.46	131.72	50.72	129.84

- The subscribed capital is increased conditionally by a maximum nominal amount of € 5,104,962.00 by the issuance of new bearer ordinary shares and nonvoting bearer preference shares (Conditional Capital II). The conditional capital increase will be executed only to the extent that bonds convertible into ordinary and preference shares are issued under the 2003 Stock Option Plan and the holders of these convertible bonds exercise their conversion rights.

Fresenius AG does not have a share buyback program.

Direct and indirect ownership interests in Fresenius AG are listed on pages 111 and 112 of the Notes. The Else Kröner-Fresenius-Stiftung notified the Company in May 2005 that an ownership interest in Fresenius AG is attributable to it pursuant to Section 22 (2) sentence 1, first half-sentence of the German Securities Trading Act (WpHG). In addition, the executors of the will of Ms. Else Kröner notified the Company in January 2007 that an ownership interest in Fresenius AG is attributable to them pursuant to Section 22 (1) No. 6 of the WpHG and Section 22 (2) of the WpHG.

Changes to the articles of association are made in accordance with Sections 133 and 179 of the German Stock Corporation Act (AktG). The articles of association of Fresenius AG authorize the Supervisory Board to make changes to the Company's articles of association in its respective relevant version that relate to their wording without a resolution by the Annual General Meeting.

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

CORPORATE PERFORMANCE CRITERIA, GOALS AND STRATEGY

The Management Board controls the business segments by setting strategic and operative targets and through various financial ratios. In line with our growth strategy, organic growth is a key indicator. Operating income (EBIT – earnings before interest and taxes) is another useful yardstick for measuring the profitability of the business segments.

The Management Board believes that, in addition to operating income, EBITDA (earnings before interest and taxes, depreciation and amortization) is a good indicator of the business segments' ability to achieve positive financial results and to service their financial commitments. The operating cash flow contributions of our business segments are controlled on the basis of days sales outstanding (DSO) and inventory turnover.

Financing is a central Group function over which the business segments have no control. Therefore, interest expenses resulting from financing activities are not included in the financial targets for the business segments. The same applies to tax expenses. At Group level we use return on operating assets (ROOA) and return on invested capital (ROIC) as benchmarks to evaluate our business segments and their contribution to the value of the Group.

ROIC decreased slightly to 7.4 % from 8.0 % in 2005 due to the strong acquisition activity. Same was true for ROOA, which was 10.3 % in 2006 (2005: 11.7 %). The decrease is attributable to the acquisition of Renal Care Group. For the future we expect to see a continuous improvement in ROIC and ROOA.

Another key performance indicator at Group level is the net debt/EBITDA ratio.

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 improve its market position. Fresenius Medical Care is the largest dialysis company in the world. The acquisition of Renal Care Group as of

March 31, 2006 has further strengthened our position in the United States. Future opportunities in dialysis will arise from international expansion in dialysis care and in dialysis-related drugs. Fresenius Kabi is the European market leader in infusion therapy and clinical nutrition. The company plans to roll out more products from its portfolio in growth markets in order to strengthen this position. The company is also aiming to win further market share through the launch of new products in the field of intravenously administered generic drugs and new medical devices for infusion therapy and clinical nutrition. Through HELIOS Kliniken Group, Fresenius ProServe is in a strong position to take advantage of further growth opportunities as the privatization process in the German hospital market continues.

- 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. Fresenius plans to make further selective acquisitions to improve the Company's market position and to diversify its business geographically.
- To strengthen innovation in the development of new products and technologies: Fresenius' strategy is to continue building on its strong position in technology, its competence in patient care and its ability to manufacture cost-effectively. We are convinced that we can leverage our competence in research and development to develop products and systems that can be tailored to individual patient needs at the same time providing a high level of safety and user-friendliness. 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 ill. Fresenius ProServe's 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. On the costs side, 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. Focusing on operating cash flow with efficient working capital management will increase our flexibility for making investments and improve our balance sheet ratios. Another goal is to optimize our weighted cost of capital by deliberately employing a balanced mix of equity and debt funding.

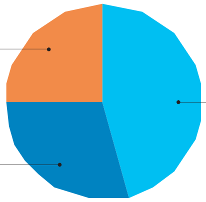
RESEARCH AND DEVELOPMENT

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

- Dialysis and other extracorporeal therapies
- Infusion and nutrition therapies as well as medical devices
- Antibody and cell therapies

Apart from products, we are concentrating on developing optimized or completely new therapies, treatment methods and services. In 2006, we successfully continued numerous projects and several new products were launched.

R & D EXPENSES BY SEGMENT



2006: € 166 million

Fresenius Medical Care continued to work hard to improve dialysis therapies. Our projects' main focus was on the further development of dialyzers and market-specific adaptations to our new 5008 hemodialysis machine. Another important area was peritoneal dialysis and extracorporeal liver support. Fresenius Kabi focused on developing new products and product enhancements in its core areas of infusion therapy, clinical nutrition and medical devices. Main areas included the development work on a novel product for blood volume substitution and on intravenously administered drugs.

Important projects at Fresenius Biotech involved trifunctional antibody therapies: In 2006, phase II clinical studies on the treatment of patients with breast and gastric cancer were started. A phase II/III study in the indication of malignant ascites on patients with ovarian cancer was completed, with positive results.

Expenditure on research and development was € 166 million in 2006, 13 % more than the € 147 million spent the previous year. In 2006, we invested about 5 % of our product sales in R&D. The pie chart shows the R & D expenses by business segment. Increases were at Fresenius Kabi, from € 64 million in 2005 to € 75 million in 2006, and in the segment Corporate/Others from € 40 million to € 49 million. The latter increase was mainly for the clinical development of the trifunctional antibody at Fresenius Biotech.

As of December 31, 2006, 911 people were employed in research and development in the Group (December 31, 2005: 856). Of that number, 356 were employed at Fresenius Medical Care (2005: 353), 467 at Fresenius Kabi (2005: 432) and 88 at Fresenius Biotech (2005: 71). The table shows a historical comparison of R & D expenses and the number of employees working in R & D.

	2006	2005	2004	2003	2002
R & D-expenses (in million €)	**166**	147	122	121	138
R & D employees	**911**	856	819	790	711

from 2004 onwards IFRS; 2003 and 2002 US-GAAP

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

OVERALL BUSINESS DEVELOPMENT

Economic environment

The upward trend in the global economy continued in 2006. With growth of 5.0 % in global gross domestic product (GDP), the dynamic of the global economy well exceeded expectations at the beginning of the year, and marked the second highest growth rate, after 2000, of the last 15 years. International trade was again a key growth driver. The world economy benefited from continued favorable monetary conditions in the main economic areas, despite increases in interest rates by a number of central banks. Record high levels of oil and industrial commodity prices had especially negative impacts on the economy. In addition to the dynamic economies of Asia and the United States, the Eurozone also witnessed a marked upturn in 2006.

- **Europe**
  With a rate of 2.7 %, GDP growth in the Eurozone exceeded the 2.0 % mark for the first time in six years (2005: 1.5 %). At the same time, the differences in the rates of

growth among the larger member states narrowed. Spain for instance posted GDP growth of 3.8 % (2005: 3.5 %), Germany and France 2.5 % and 2.0 % respectively (2005: 0.9 % and 1.2 %) and Italy 1.8 % (2005: 0.0 %). Private consumption in the Eurozone picked up much more strongly than in the previous years. This is mainly due to the positive trend of the labor market. Higher property values and the associated wealth effects contributed in large part to the growth in consumption, especially in France, Spain and Italy. Exports were buoyant thanks to the robustness of the global economy. Companies' positive earnings accelerated investment activity in the corporate sector. Prime rate increases by the European Central Bank (ECB) scarcely dampened economic development in 2006.

Germany witnessed its strongest GDP growth since 2000. Unlike the past, the upswing was not driven solely by exports but also by a positive development at home. The momentum came from a largely consolidated economic basis – and benefited from a number of atypical occurrences (such as the anticipated impact of the value added tax increase as from January 1, 2007).

The economic dynamic of the new EU member states continued undiminished, with an aggregate GDP growth of 5.5 % (2005: 4.3 %).

United States

GDP grew by 3.3 % in 2006 (2005: 3.2 %). Private consumer spending, at about 70 % the largest component of GDP in the United States, lost momentum as an economic growth driver in the course of the year. Purchasing power slowed, mainly as a result of sharply increased energy prices. The property market also clouded over, with the result that the wealth effects which had previously bolstered private consumption faded. Once more, the current account deficit increased slightly, also due to the oil price, and reached a new record level in relation to nominal gross domestic product.

Asia

Asia (excluding Japan) was once again the world's fastest growing region with GDP growth of 8.8 % (2005: 8.5 %). China sustained its impressive pace of expansion, with GDP growth of 10.6 % in 2006 (2005: 10.4 %). Exports continued to play an important role. In India, the services sector was again the strongest part of the economy. With GDP growth of 9.0 % in 2006 (2005: 8.4 %), India continues to be one of the main growth centers of the world. The growth momentum in Southeast Asia slowed a little, mainly due to high commodity prices. Here, too, the countries profited from the strength of the world economy, but mainly from the stimulus emanating from China. Exports are also likely to have benefited from currency weakness in some of these countries. Japan's economy saw its fifth year of continued growth. However, its economic dynamic slowed down in the course of the year, leading to a GDP growth of 2.1 %, roughly on a par with the previous year (1.9 %). The main drivers were exports and domestic and foreign investment.

Latin America

Economic growth in Latin America remained robust in 2006, with GDP growth of 4.9 % (2005: 4.5 %). Argentina posted GDP growth of 8.5 % (2005: 9.2 %), Brazil 2.7 % (2005: 2.3 %) and Mexico 4.6 % (2005: 3.0 %). Domestic growth was bolstered by global economic growth and the sustained demand for raw materials, from which the commodity-exporting countries of Latin America profited. As a whole, exports and domestic demand were the main drivers. In Brazil and Mexico, interest rate cuts boosted investment activity and consumption, while inflation remained moderate. Argentina faced higher inflation as a result of its dynamic economic development.

Source: German Council of Economic Exports Annual Report 2006/2007, bank research

Health care industry

The health care sector is one of the world's most stable industries and, compared with other sectors, has set itself apart through years of continuous growth and its relative insensitivity to economic fluctuations. Aging populations, demand for innovative medicine especially in industrialized nations and the demand for primary care in emerging markets are the main contributing factors.

At the same time, the cost of health care is rising and is claiming an ever increasing share of national income. Health care spending in the OECD countries has climbed from an average of 7.1 % of GDP in 1990 to an average of 8.9 % in 2004. In 2004, the United States had the highest health care spending relative to GDP of 15.3 % (2003: 15.0 %), followed by Switzerland with 11.6 % (2003: 11.5 %) and Germany with 10.9 % (2003: 11.1 %). The decline in expenditure relative to GDP in Germany is the result of cost dampening effects of the health care reform which came into force on January 1, 2004.

Reforms and cost-control measures are the main reactions to the explosion in costs in the health care systems. The main concern is to make patient care more efficient and improve the quality of medical services, and at the same time insuring that the health care system can be financed. The quality of treatment is a crucial factor in improving medical results and reducing treatment costs. Against this background, ever greater importance is being attached to disease prevention programs and innovative reimbursement models where the quality of treatment is the key parameter.

Our most important markets developed as follows:

▶ The dialysis market

The number of dialysis patients worldwide increased by about 6 % in 2006. At the end of the year approximately 1.53 million patients worldwide receive regular dialysis treatment. More than 89 % of these are treated with hemodialysis, while about 11 % choose peritoneal dialysis. Kidney failure has a number of causes. Diseases such as diabetes and high blood pressure are the leading causes of terminal kidney failure. Aging populations, improved treatments and higher living standards in the industrialized countries are additional reasons for the increase in patient numbers.

The prevalence, or the number of patients treated for terminal kidney failure as a proportion of the population, differs widely from region to region. The 20 strongest economies, which include the two largest dialysis markets, the United States and Japan, have an average prevalence of more than 1,000 per million population. In countries with lower economic success, the prevalence is about 500 patients per million population and in countries with weak economies it is less than 100 patients per million population. These figures show that the economic situation of a country has a significant impact on access to life-saving dialysis treatment.

In 2006, about 22 % of the world's dialysis patients were treated in the United States, 18 % each in Japan and the European Union and the remaining 42 % in various other regions of the world. The majority of hemodialysis patients are treated in dialysis clinics. There are about 25,000 dialysis centers worldwide with an average of 55 hemodialysis patients per clinic. In the United States, most of the approximately 5,000 clinics are run privately, with fewer than 1 % publicly operated. By contrast, some 60 % 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 2006, the global dialysis market grew by about 5 % and was worth approximately US$ 55 billion. Dialysis products accounted for about US$ 9 billion of the total market. The most important products are dialyzers, hemodialysis machines, concentrates and dialysis solutions and products for peritoneal dialysis. Fresenius Medical Care is the world leader in dialysis care as well as in dialysis products. In dialysis products the company has a market share of about 30 %. With the acquisition of Renal Care Group, Fresenius Medical Care further expanded its market leadership in dialysis care in the United States, to a market share of 34 %. Together, Fresenius Medical Care and the second largest dialysis care provider DaVita operate about two-thirds of all the dialysis clinics in the United States. Outside the United States, the markets for dialysis care are significantly more fragmented.

Because treatment costs in the United States are covered primarily by public health insurers, providers mainly compete on quality and availability. In most countries outside the United States, Fresenius Medical Care competes mainly with independent clinics and clinics that are affiliated to hospitals.

Changes in the reimbursement system came into force in the United States in 2006. Among other things, the reimbursement rate per dialysis treatment (Composite Rate) was increased by 1.6 % and the reimbursement procedure for dialysis-related drugs that have to be billed separately was changed. New rules for the treatment of anemia in dialysis patients also apply as from April 2006. Overall, these changes had a slightly positive effect on Fresenius Medical Care's operating performance.

The market for infusion therapy and clinical nutrition

In Fresenius Kabi's market for infusion therapy and clinical nutrition, demographic changes, the resulting higher need for medical services and the demand for innovative therapies are the main growth drivers. However, market conditions vary widely from region to region.

In Central and Western Europe, cost-saving measures and health care reforms are the key factors affecting the public health systems. Therapies that lead to better clinical results while reducing the length of hospital stays are gaining in importance in these countries. At the same time, cost pressure in hospitals, budget caps and health care cost-containment schemes are leading to a shift away from inpatient treatment to more outpatient care.

In Central and Western Europe the total market for infusion therapy and clinical nutrition is growing at a low single-digit rate. The market for intravenously administered generic drugs for the hospital is growing at a mid single-digit rate. The increasing use of generic drugs and the expiration of patents for many original drugs will further accelerate this growth in the future.

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

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

The German hospital market

Annual health care expenditure in Germany is in the range of € 240 billion. The hospital market is the biggest segment, accounting for more than € 60 billion, or about one quarter of the total. In 2005, the German hospital market consisted of 2,139 hospitals, with a total of 523,824 beds and treating about 16.9 million inpatients a year. As in the other OECD countries, the number of hospital beds per capita is declining in Germany. In 2004, there were 6.4 acute care beds per 1,000 population. This was still well above the OECD average of 4.1 (United States: 2.8). The average stay of a patient in an acute care clinic (excluding specialized psychiatric clinics) has dropped by about one day between 2000 and 2005 and was 8.6 days at the end of 2005. The average length of stay at the HELIOS acute care clinics in 2005 was only 7.1 days, a result of its efficient processes.

For acute care hospitals, 2006 was marked by continued activities for the switch to the DRG (Diagnosis Related Groups) reimbursement system. This reimbursement system which in future will be applied on a standardized basis in each federal state, will lead to an increase in competition among hospitals. Medical quality will become a key criterion. Moreover, clinics with unfavorable cost structures and that operate inefficiently will be at a disadvantage.

According to a study published by Steria Mummert Consulting, almost half of the German hospitals have restructured their business. Clinics also hope to unlock additional cost-cutting potential by setting up interdisciplinary medical centers. One in every two clinics plans to merge previously separate faculties and departments and expand them into specialized interdisciplinary units. By merging operating units, processes can be made more efficient and patient care optimized. Synergies can be realized, for instance, by sharing infrastructure, medical equipment, or laboratories. At the same time, hospitals will be seeking to strengthen their market position externally to make themselves more attractive to patients and those who refer them.

The demand for medical staff is rising despite the financial constraints faced by hospitals. The trend toward the recruitment of new staff is largely due to the new agreements on working hours for hospital doctors now that standby duty is to be counted as normal working hours.

The annual survey by the German Hospital Institute showed that the number of inpatient cases in 2005 remained more or less unchanged compared to 2004. Hospitals with less than 100 beds registered fewer cases than in 2004 (a decrease of 6 %). Case numbers also tended to decline at hospitals with 100 to under 300 beds. In contrast, larger hospitals generally reported higher case numbers, indicating that as a whole there has been a shift towards larger institutions. In 2005, case numbers at the HELIOS acute care clinics were slightly below previous years' figures (not taking Wittgensteiner Kliniken into account). These numbers were achieved despite stiffer competition and the growing pressure from health insurers to provide more health care services on an outpatient basis.

Quality is the key competitive factor in the hospital market. To promote transparency in hospital services, the German government has introduced a system of structured quality reports. All acute care hospitals had to submit these reports for the first time in 2005. The reports include key data on hospital operations, such as the type and number of treatments and information on quality management. Patients can find out on the Internet which hospital in their area specializes in the treatment of a given disease, how often a hospital has performed specific operations and which had a particularly low rate of complications. HELIOS Kliniken has been publishing quality reports since 1999 and also publishes figures for mortality rates.

Source: German Federal Ministry of Health, German Federal Statistics Office, OECD Indicators – 2006 Edition, Krankenhaus-Barometer Survey 2006, Steria Mummert Consulting Survey (July 2006)

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

On the whole, the global economy and the health care sector – in the mature and the growth markets – developed positively for Fresenius in 2006. While these factors were responsible for much of the Group's growth, strong demand for its products and services enabled Fresenius to outpace the growth of the health care industry as a whole.

Significant factors affecting operating performance

In 2006, the Group statement of income was affected to a large extent by the consolidation of HELIOS Kliniken as of December 31, 2005 and the consolidation of Renal Care Group as of April 1, 2006. In addition, Clinico Group was consolidated as of December 31, 2005, the Australian company Pharmatel as of January 1, 2006, and HUMAINE Kliniken as of July 1, 2006. Our positive development was also driven by very good performance from the business segments' existing activities, where significant increases in sales as well as in earnings were achieved. The balance sheet of the Fresenius Group as of December 31, 2006 was mainly affected by the first-time consolidation of Renal Care Group and HUMAINE Kliniken and their financing.

The Management Board's assessment of the business results

The Management Board is of the opinion that the economic development of the Fresenius Group in 2006 was excellent. The two business segments Fresenius Medical Care and Fresenius Kabi especially profited from the continued strong demand for products and services and generally outperformed the market. This was reflected in sustained strong organic growth and higher profitability. Fresenius ProServe also performed well, achieving improved earnings. Moreover, the two major acquisitions, HELIOS Kliniken and Renal Care Group, were successfully integrated. We consider it to be an exceptional achievement to have swiftly integrated these two companies and, at the same time, to have expanded our existing business strongly, with organic growth of 9 % and further margin improvements.

Comparison of the actual business results with the forecasts

As the summary below shows, all the targets set by Fresenius for 2006 were either achieved or exceeded.

Group*	Targets for 2006 announced in February 2006	Raised targets announced in August 2006	Raised targets announced in October 2006	**Achieved in 2006**
Sales (in constant currency)	€ ~10.5 billion	€ ~10.7 billion	€ > 10.7 billion	**€ 10.8 billion**
Net income (growth, in constant currency)	> 30 %	~40 %	40-45 %	**49 %**
Capital expenditure	€ 550-600 million			**€ 606 million**
Net debt/EBITDA	~3.5			**3.0**

* Targets according to US GAAP

With sales of approximately € 10.8 billion, Fresenius fully achieved its forecast of growth to more than € 10.7 billion. The guidance for net income growth, which had been raised again at the end of October to 40 to 45 % in constant currency, was exceeded with 49 %. This was mainly attributable to the even better than expected performance of Fresenius Medical Care and Fresenius Kabi. At 3.0 as at December 31, 2006, the net debt/EBITDA ratio was below the targeted 3.5. The balance sheet as of December 31, 2006 includes the debt for the acquisition of Renal Care Group, however, this business is only included in the statement of income as from April 1, 2006. We have therefore included Renal Care Group's EBITDA in the net debt/EBITDA calculation on a full-year basis. Please see page 24 of the Management Report and page 80 of the Notes for more details.

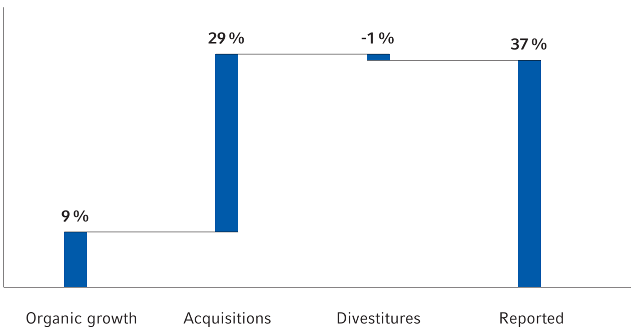
RESULTS OF OPERATIONS, FINANCIAL POSITION, ASSETS AND LIABILITIES

Fresenius completed the following significant acquisitions in 2006:

Effective March 31, 2006, Fresenius Medical Care acquired Renal Care Group, Inc., Nashville, Tennessee, one of the leading private dialysis care providers in the United States. Renal Care Group achieved revenues of US$ 1.57 billion and net income of US$ 130 million in 2005. The purchase price for all the outstanding shares of Renal Care Group was US$ 3.5 billion plus the company's indebtedness. The acquisition was entirely debt financed.

The expansion in the German hospital market continued in 2006 with the acquisition of a 60 % interest in HUMAINE Kliniken GmbH. HUMAINE operates six acute and post-acute care hospitals in the areas of neurology, oncology and traumatology, with a total of 1,850 beds, 1,530 of these for acute care. HUMAINE achieved revenues of € 197 million and an EBIT of € 14 million in 2005.

SALES GROWTH ANALYSIS



RESULTS OF OPERATIONS

Sales

In 2006, we increased Group sales by 37 % to € 10,776 million (2005: € 7,889 million). Organic growth reached an excellent 9 %, while acquisitions contributed 29 % to the growth in sales. This growth was mainly attributable to the consolidation of Renal Care Group and HELIOS Kliniken. Divestitures had an effect of -1 %. Currency translation in total had no impact. The table shows the different influences on Fresenius Group sales. There were no significant consequences from changes in product mix. Price effects in the dialysis care business contributed positively. In the foreseeable future no significant changes of these items are expected.

The largest regions in the Group were North America, which contributed 45 % of total sales and Europe with a contribution of 43 %. These were followed by Asia-Pacific with 6 %, Latin America with 4 % and Africa with 2 %. Germany contributed 22 % to Group sales.

We increased sales in all regions of the world. The consolidation of Renal Care Group had a considerable influence on sales growth in North America. Very good organic growth of 9 % was achieved in this region. In Europe, the consolidation of HELIOS Kliniken Group was responsible for much of the growth. However, Fresenius also achieved very good organic growth of 5 %. Excellent growth rates of 25 % were reached in the Asia-Pacific region, 27% in Latin America and 16 % in Africa.

Sales performance by business segment was as follows:

- Fresenius Medical Care achieved a substantial sales increase of 24 % to € 6,767 million (2005: € 5,443 million) in 2006. This was driven by high organic growth of 10 % and the consolidation of Renal Care Group. Currency translation effects had an impact of -1 %. Fresenius Medical Care achieved strong growth especially in dialysis care, driven also by the first-time consolidation of Renal Care Group. In dialysis products, Fresenius Medical Care also achieved a remarkable increase of 11 %.
- Fresenius Kabi increased its sales by 13 % to € 1,893 million (2005: € 1,681 million). The company achieved strong organic growth of 8 %. Acquisitions added another 4 % to sales. Most of this was attributable to the consolidation of the Clinico Group and the Australian company Pharmatel. Currency translation had a positive effect, contributing 1 %. Performance in Asia-Pacific and in Latin America was excellent. Here, Fresenius Kabi achieved strong growth of 41 % and 27 %, respectively.
- Fresenius ProServe achieved sales of € 2,155 million in 2006 (2005: € 809 million). On a comparable basis (2005 including HELIOS Kliniken: € 2,009 million), this was an increase of 7 %. The growth was driven partly by the acquisition of HUMAINE Kliniken, which was consolidated as from July 1, 2006. Fresenius ProServe achieved organic growth of 3 %.

Order intake and order backlog were well above the previous year's levels. Order intake in Fresenius ProServe's engineering business rose 19 % to € 407 million (2005: € 341 million), while order backlog at year-end was also up 19 % to € 428 million (December 31, 2005: € 360 million).

SALES BY REGION

in million €	**2006**	2005	Change	Organic growth	Currency translation effects	Acquisitions/ Divestitures	% of total sales
Europe	**4,535**	3,030	50 %	5 %	0 %	45 %	43 %
North America	**4,862**	3,746	30 %	9 %	-1 %	22 %	45 %
Asia-Pacific	**696**	557	25 %	19 %	0 %	6 %	6 %
Latin America	**452**	356	27 %	21%	3 %	3 %	4 %
Africa	**231**	200	16 %	18 %	-3 %	1 %	2 %
Total	**10,776**	7,889	37 %	9 %	0 %	28 %	100 %

SALES BY BUSINESS SEGMENT

in million €	**2006**	2005	Change	Organic growth	Currency translation effects	Acquisitions/ Divestitures	% of total sales
Fresenius Medical Care	**6,767**	5,443	24 %	10 %	-1 %	15 %	63 %
Fresenius Kabi	**1,893**	1,681	13 %	8 %	1 %	4 %	17 %
Fresenius ProServe*	**2,155**	2,009	7 %	3 %	-	4 %	20 %

* 2005: including HELIOS Kliniken

Earnings structure

We achieved excellent growth rates in net income in 2006. Group net income rose 49 % to € 330 million. All business segments contributed to this success. Group net income includes a total of € 26 million for one-time expenses. Currency translation had in total no impact. Inflation had no significant effect on results of operations in 2006.

Group earnings before interest, taxes, depreciation and amortization (EBITDA) increased 43 % to € 1,849 million (2005: € 1,292 million). Group EBIT rose 50 % in constant currency and 49 % at actual exchange rates to € 1,443 million (2005: € 967 million). EBIT includes a gain of € 32 million from the divestitures of dialysis clinics in the United States. The sale was a condition of the US Federal Trade Commission for approval of the Renal Care Group acquisition. EBIT also includes a total of € 49 million for one-time expenses at Fresenius Medical Care.

EBIT of the business segments developed as follows:

in million €	2006	2005	Change
Fresenius Medical Care	**1,046**	755	39 %
Fresenius Kabi	**296**	229	29 %
Fresenius ProServe	**152**	20	--

- Fresenius Medical Care increased EBIT by 39 % to € 1,046 million from € 755 million in 2005. The EBIT margin was 15.5 % (2005: 13.9 %). EBIT includes a gain of € 32 million from the divestitures of dialysis clinics in the United States. EBIT also includes a total of € 49 million for one-time expenses, e. g. for the integration of Renal Care Group. The strong increase in operating profit was driven mainly by the performance of the dialysis care business in the United States as well as significant improvements in the international business.
- In 2006, Fresenius Kabi sustained the excellent earnings performance achieved in 2005. EBIT increased by 29 % to € 296 million (2005: € 229 million). The EBIT margin improved to 15.6 %, from 13.6 % in 2005. The growth was driven by a good operating performance in all regions and by cost optimization and efficiency improvement measures, especially in production.
- Fresenius ProServe achieved a good EBIT performance, too. This business segment closed 2006 with EBIT of € 152 million (2005: € 20 million). Including HELIOS Kliniken in the figure for 2005, this corresponds to a strong increase of 20 % (2005 including HELIOS Kliniken: € 127 million).

Development of other major items in the statement of income

Gross profit increased to € 3,437 million, exceeding the € 2,595 million in 2005 by 32 % (33 % in constant currency). The gross profit margin was 31.9 % (2005: 32.9 %). The lower margin compared to 2005 is a result of the first-time consolidation of HELIOS Kliniken and is due to the different structure of this business. The cost of goods sold rose 39 % to € 7,339 million. This is 68.1 % of Group sales, compared to 67.1 % in 2005. Selling, general and administrative expenses consist primarily of personnel costs, marketing and distribution costs and depreciation and amortization. These expenses rose by 23 % to € 1,828 million in 2006 (2005: € 1,481 million). Depreciation and amortization were € 406

STATEMENT OF INCOME (SUMMARY)

in million €	2006	2005	Change	Change in constant currency
Sales	**10,776**	7,889	37 %	37 %
Cost of goods sold	**-7,339**	-5,294	-39 %	-39 %
Gross profit	**3,437**	2,595	32 %	33 %
Operating expenses	**-1,994**	-1,628	-22 %	-23 %
EBIT	**1,443**	967	49 %	50 %
Net interest	**-395**	-203	-95 %	-96 %
Income taxes	**-413**	-293	-41 %	-42 %
Minority interest	**-305**	-249	-22 %	-23 %
Net income	**330**	222	49 %	49 %
Earnings per ordinary share (in €)	**2.15**	1.76	22 %	22 %
Earnings per preference share (in €)	**2.16**	1.77	22 %	22 %
EBITDA	**1,849**	1,292	43 %	44 %
Depreciation and amortization	**406**	325	25 %	25 %

million (2005: € 325 million). As a percentage of sales, depreciation and amortization dipped slightly from 4.1 % in 2005 to 3.8 % in 2006.

Group net interest expense was € -395 million. This is € 192 million more than the figure of € -203 million in 2005. This change is mainly due to the debt financing of the acquisitions of Renal Care Group and HELIOS Kliniken. Net interest, however, also includes one-time expenses of € 30 million associated with the early refinancing of Group debt.

The tax rate was 39.4 % in 2006 (2005: 38.4 %). It was substantially influenced by the tax expense associated with the divestiture of the dialysis clinics in the United States because the goodwill attributable to the divested clinics is not considered for tax purposes. Excluding this effect, the tax rate was 37.1 %.

Minority interest increased from € 249 million in 2005 to € 305 million in 2006, mainly due to the excellent earnings situation of Fresenius Medical care. Of this, 93 % was attributable to the minority interest in Fresenius Medical Care.

Earnings per ordinary share rose to € 2.15 from € 1.76 in 2005 and earnings per preference share to € 2.16 from € 1.77. This is an increase of 22 % for both share classes and is lower than the growth in net income due to the higher average number of shares outstanding. The number of shares had risen mainly as a result of the capital increases to finance the acquisitions of HELIOS Kliniken and HUMAINE Kliniken. Moreover, the number of shares outstanding has tripled because of the share split executed in February 2007. Previous year’s numbers were adjusted accordingly.

Profitability also improved significantly in 2006, as the table below shows:

in %	2006	2005
EBITDA margin	**17.2**	16.4
EBIT margin	**13.4**	12.3
Return on sales (before taxes and minority interest)	**9.7**	9.7

Value added

The value added statement shows Fresenius' total output in 2006 less goods and services purchased and less depreciation and amortization. The value added of the Fresenius Group amounted to € 5,490 million in 2006 (2005: € 3,518 million). This is an increase of 56 %. The distribution statement shows that, at € 3,959 million or 72 %, the largest portion of our value added went to our employees. Governments and lenders came next with € 501 million and € 395 million, or 9 % and 7 % respectively. Shareholders received € 89 million and minority interest € 305 million. The Company retained € 241 million for reinvestment.

FINANCIAL POSITION

Financial management policies and goals

Ensuring financial flexibility is key to the financing strategy of the Fresenius Group. We achieve this flexibility through a broad spectrum of financing instruments and a wide diversification of our investors. The maturity profile is characterized by a broad spread of maturities with a large proportion of mid to long-term financing.

Sufficient financial cushion is assured for the Fresenius Group by the revolving syndicated credit lines that are only partly drawn and the unused bilateral credit lines at our disposal. Market capacity, investor diversification, flexibility, qualification requirements and the current maturity profile are all taken into consideration when selecting financing instruments. At the same time, we seek to optimize our financing costs.

In line with the Group's structure, the financing for Fresenius Medical Care and for the rest of the Fresenius Group is conducted separately. There are no joint loans or credit agreements and no mutual guarantees. The Fresenius Kabi and Fresenius ProServe business segments are financed primarily through Fresenius AG in order to avoid any structural subordination.

VALUE ADDED STATEMENT

in million €	2006	%	2005	%
Creation				
Company output	**10,798**	**100**	7,907	100
- Materials and services purchased	**4,902**	**45**	4,064	51
Gross value added	**5,896**	**55**	3,843	49
- Depreciation and amortization	**406**	**4**	325	4
Net value added	**5,490**	**51**	3,518	45
Distribution				
Employees	**3,959**	**72**	2,479	71
Governments	**501**	**9**	365	10
Lenders	**395**	**7**	203	6
Shareholders	**89**	**2**	76	2
Company and minority interest	**546**	**10**	395	11
Net value added	**5,490**	**100**	3,518	100

Financing

Fresenius meets its financing needs through a combination of operating cash flows generated in the business segments and short, mid and long-term debt. In addition to conventional bank loans, important financing instruments include the issuance of bonds, trust preferred securities and the commercial paper program.

The main Group financing activities in 2006 were to refinance the bridge loan for the HELIOS acquisition at the end of 2005 and to finance the Renal Care Group acquisition completed on March 31, 2006. Financing commitments from banks had already been in place when the acquisitions were announced. The positive acceptance of our business strategy in the financial market and the financing mix enabled us to secure advantageous conditions for the individual financing measures. Our good business performance and sustained cash flows also had a positive effect on the financing conditions. The significant reduction in debt in recent years and the much improved financial ratios have strengthened investor confidence in Fresenius. The generally positive environment in the banking and bond markets was also beneficial.

In May 2005, Fresenius Medical Care received financing commitments from Bank of America and from Deutsche Bank for the Renal Care Group acquisition for a credit line to be provided by a syndicate of banks as well as a loan from a syndicate of banks and institutional investors. Under the new credit agreement concluded on March 31, 2006 senior credit facilities of US$ 4.6 billion were then made available to pay the purchase price of Renal Care Group, to refinance existing loans under Fresenius Medical Care's 2003 credit agreement, to service certain liabilities of Renal Care Group, and for general corporate purposes.

The new senior credit facilities comprise a US$ 1 billion revolving credit line with a maturity of 5 years, a loan (Term Loan A) of US$ 1.85 billion with a maturity of 5 years, and a loan (Term Loan B) of US$ 1.75 billion with a maturity of 7 years.

The interest payable on the new senior bank loans is based on the prevailing market reference rates plus a spread. The spread is variable and depends on the ratio of Fresenius Medical Care's debt to EBITDA. Fresenius Medical Care has largely limited its risk exposure to higher interest payments from rising variable reference rates through appropriate interest hedging instruments. The credit agreements contain covenants that limit Fresenius Medical Care's debt ratio and require it to meet certain fixed-cost coverage ratios. There are other restrictions, too, regarding collateral, asset disposals, levels of capital expenditure, dividend payments, etc.

Fresenius Medical Care, Fresenius AG and HELIOS Kliniken have long-term credit facilities with the European Investment Bank (EIB). The agreements on the loans and credit lines were concluded in 2005 and 2006. Under these facilities Fresenius Medical Care has a credit line of € 221 million and Fresenius AG a credit line of € 96 million until 2013. The HELIOS Kliniken facility provides a credit line of € 100 million and is due for repayment in 2019. The credit lines, which are still only partly drawn, provide additional room for maneuver and, because of their structure, allow greater financing flexibility.

In January 2006, a bond was issued to partially finance the HELIOS acquisition. This bond generated gross proceeds of € 1 billion. The size of the issue was initially € 700 million but was increased in order to exploit an advantageous opportunity to refinance a € 300 million bond issued in 2003 and due in 2009. We offered to redeem this bond at 105.168 % of its nominal value in January 2006. This offer was accepted by bondholders representing 71 %, or about € 212 million of the issue. We exercised our call option on the remaining € 88 million, enabling us to redeem the outstanding volume on April 30, 2006.

The new bond comprises one tranche with a nominal value of € 500 million, a maturity of 7 years and an annual interest rate of 5.0 % and a second tranche with a nominal value of € 500 million, a maturity of 10 years and an annual interest rate of 5.5 % as well as a call option for the issuer after five years.

The terms of the bond contain the usual conditions. These limit certain payments, such as dividends and share buybacks and place restrictions on increasing debt beyond refinancing and on an agreed financing cushion if the EBITDA/-interest ratio falls below 2.5. We believe this agreement gives us enough room to maneuver and achieve our goals without limiting our financial flexibility.

The HUMAINE Kliniken acquisition was partly financed by a capital increase against assets in kind. 176,540 ordinary shares and 176,540 preference shares were issued. The capital increase was recorded in the Commercial Register on November 17, 2006.

Fresenius AG has a commercial paper program under which up to € 250 million in short-term notes can be issued. No commercial papers were outstanding as of December 31, 2006 (December 31, 2005: € 22 million).

On October 13, 2006 Fresenius AG signed a syndicated credit agreement in an amount of € 350 million with a group of banks. This is a revolving credit line with a tenor of five years. It was not utilized in 2006. This credit line replaces a € 100 million syndicated credit facility of Fresenius AG and a € 115 million syndicated credit line of HELIOS Kliniken GmbH.

The Fresenius Group has drawn about € 3.4 billion of bilateral and syndicated credit lines. In addition, on December 31, 2006 the Group had more than € 1.9 billion in unused credit lines at its disposal (including confirmed credit lines of € 1.4 billion). These credit facilities are generally used for covering corporate purposes and are – except the Fresenius Medical Care credit agreement – usually unsecured.

As of December 31, 2006, both Fresenius AG and Fresenius Medical Care AG, including all subsidiaries, complied with the covenants under all the credit agreements.

Effect of off-balance-sheet financing instruments on the financial position and assets and liabilities

Fresenius is not involved in any off-balance-sheet transactions that could have or will have a significant impact on its financial position, expenses or earnings, results of operations, liquidity, investments, assets, or capitalization.

Liquidity analysis

In 2006, key sources of liquidity were operating cash flow and short, medium and long-term debt. Cash flow from operations is influenced by the profitability of Fresenius' business and by working capital, especially accounts receivable. Cash flow can be generated from short-term borrowings through the sale of receivables under the Fresenius Medical Care accounts receivable securitization program, which is included in the balance sheet, as well as through the use of the commercial paper program. Medium and long-term funding is provided by the revolving credit facilities of Fresenius Medical Care, the revolving credit facilities of Fresenius AG, bonds issued by Fresenius AG, bilateral bank credit agreements and trust preferred securities issued by Fresenius Medical Care. Fresenius believes that the existing and new credit facilities as well as the operating cash flow and additional short-term borrowings are sufficient to meet the Company's foreseeable liquidity needs.

Dividend

The Management and Supervisory Boards will propose a dividend increase to the Annual General Meeting. For 2006, a dividend of € 0.57 per ordinary share and € 0.58 per preference share is proposed. This is an increase of about 15 % on the basis of the dividend of € 0.49 per ordinary share and € 0.50 per preference share for 2005 adjusted for the share split. The total dividend distribution will be € 88.8 million (2005: € 75.8 million).

Cash flow analysis

The Group cash flow statement shows a positive development. Group cash flow increased by 33 % to € 1,050 million in 2006 (2005: € 792 million) due to the excellent growth in net income. The change in working capital was € 8 million (2005: € -8 million). This was mainly due to improvements in working capital management whereas net tax payments and other payments related to the divestiture of dialysis clinics and the Renal Care Group acquisition, as well as by an US tax payment for the years 2000 and 2001 had a negative effect.

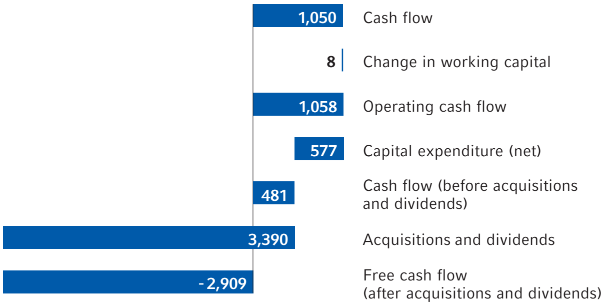
Operating cash flow was € 1,058 million in 2006 (2005: € 784 million). It was more than sufficient to meet all the financing needs for investing activities, excluding acquisitions. Cash used for capital expenditure totaled € 595 million, while proceeds from the sale of property, plant and

CASH FLOW STATEMENT (SUMMARY)

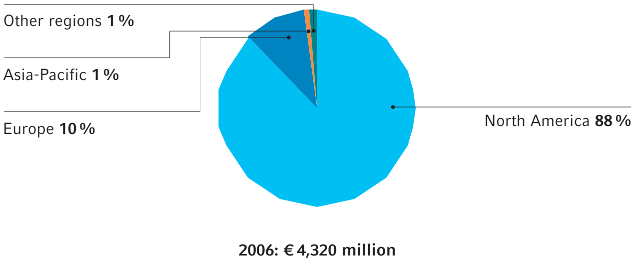
in million €	**2006**	2005
Net income before minority interest	**635**	471
Depreciation and amortization	**406**	325
Change in pension provisions	**9**	-4
Cash flow	**1,050**	792
Change in working capital	**8**	-8
Operating cash flow	**1,058**	784
Property, plant and equipment	**-595**	-357
Proceeds from the sale of property, plant and equipment	**18**	22
Cash flow before acquisitions and dividends	**481**	449
Cash used for acquisitions/proceeds from disposals	**-3,219**	-1,606
Dividends	**-171**	-132
Free cash flow after acquisitions and dividends	**-2,909**	-1,289
Cash provided by/used for financing activities (without dividends paid)	**2,931**	1,388
Effect of exchange rate changes on cash and cash equivalents	**-13**	13
Change in cash and cash equivalents	**9**	112

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

CASH FLOW STATEMENT IN MILLION €



INVESTMENTS BY REGION



equipment amounted to € 18 million (2005: € 357 million and € 22 million, respectively). Cash flow before acquisitions and dividends came to € 481 million (2005: € 449 million), sufficient to finance all Group dividends of € 171 million and 10 % of the net acquisitions in 2006. The remaining balance was financed with debt.

Cash from financing activities (including dividend payments) amounted to € 2,760 million in 2006 (2005: € 1,256 million). In 2006, these were primarily influenced by the financing related to the acquisition of Renal Care Group. In addition to the acquisition spending, Group dividend payments led to a cash outflow of € 171 million in 2006 (2005: € 132 million), with the Fresenius AG dividend accounting for € 76 million (2005: € 56 million). Cash and cash equivalents amounted to € 261 million on December 31, 2006 (December 31, 2005: € 252 million).

Investments and acquisitions

The Fresenius Group invested € 4,320 million in 2006 (2005: € 2,251 million). Investment in property, plant and equipment and in intangible assets amounted to € 606 million (2005: € 357 million). Acquisitions accounted for € 3,714 million (2005: € 1,894 million). Of the total investment volume in 2006, 14 % was invested in property, plant and equipment and in intangible assets. 86 % was invested in acquisitions.

The table below shows the distribution of investments by business segment. The chart shows the regional breakdown.

The high cash outflow for acquisitions related mainly to the acquisition of Renal Care Group. Funds were also invested for the expansion of our global dialysis care business and in dialysis-related drugs at Fresenius Medical Care. At Fresenius ProServe, the expenditure was primarily for the acquisition of HUMAINE Kliniken.

INVESTMENTS BY BUSINESS SEGMENT

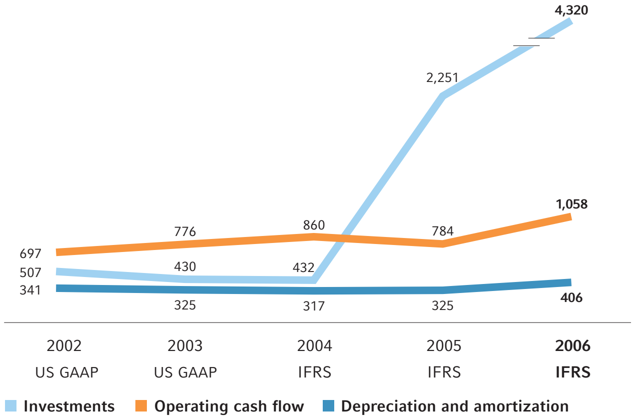
in million €	2006	2005	Thereof property, plant and equipment and intangible assets	Thereof acquisitions	Change	% of total
Fresenius Medical Care	**3,934**	361	373	3,561	-	91 %
Fresenius Kabi	**131**	355	117	14	-63 %	3 %
Fresenius ProServe	**245**	1,519	106	139	-84 %	6 %
Corporate/Other	**10**	16	10	0	-38 %	0 %
Total	**4,320**	2,251	606	3,714	92 %	100 %

The main investments in property, plant and equipment and in intangible assets were as follows:

- Start-up of new dialysis clinics, primarily in the United States, and expansion and modernization of existing clinics
- Expansion and modernization of production sites at Fresenius Medical Care and Fresenius Kabi
- Hospital modernization at Fresenius ProServe. The largest single investment is the construction of the new clinic in Berlin-Buch.

Investments in property, plant and equipment of € 149 million will be made in 2007 to continue with major investment projects that were already underway on the reporting date. These are chiefly investment obligations for hospitals at Fresenius ProServe as well as investments to expand and optimize production plants. These projects will be financed from operating cash flow.

DEVELOPMENT OF INVESTMENTS, OPERATING CASH FLOW, DEPRECIATION AND AMORTIZATION IN MILLION €



ASSETS AND LIABILITIES

Asset and liability structure

The total assets of the Group rose by € 3,422 million (29 %) to € 15,024 million (December 31, 2005: € 11,602 million). At constant exchange rates, this was an increase of 38 %. Of this strong growth, 33 % is attributable to the acquisitions of 2006, especially Renal Care Group. The expansion of existing business activities accounted for 5 % of the increase in total assets. Inflation had no significant impact on the assets of Fresenius.

Non-current assets were € 11,176 million (2005: € 8,259 million). Based on the exchange rates as of December 31, 2005, this was an increase of 45 %, and was driven mainly by additions to property, plant and equipment as well as goodwill. Goodwill from acquisitions in 2006 was € 2,813 million as at December 31, 2006, of which € 2,679 million resulted from the acquisition of Renal Care Group.

Current assets rose by 15% to € 3,848 million (2005: € 3,343 million). At constant exchange rates this is an increase of 21 %. Within current assets, trade accounts receivable rose to € 2,088 million, primarily due to business expansion resulting from acquisitions (2005: € 1,871 million). Adjusted for currency effects, receivables grew by 18 %. Benefits resulted from more efficient receivables management. Days sales outstanding improved further to 71 days (2005: 79 days). Scope of inventory was also improved in 2006 to 38 days (2005: 48 days). These improvements were mainly driven by the consolidation of the Renal Care Group and HELIOS Kliniken.

Shareholders' equity including minority interest rose by 11 % to € 5,798 million (2005: € 5,204 million). Adjusted for currency effects, the increase was 19 %. Group net income increased shareholders' equity by € 330 million. The capital increase against assets in kind in the fourth quarter of 2006 to partly finance the HUMAINE Kliniken acquisition had an effect of € 42 million. The equity ratio, including minority interest decreased from 44.9 % as of December 31, 2005 to 38.6 % at the end of 2006.

The liabilities and equity side of the balance sheet shows a solid financing structure. Shareholders' equity of the Group including minority interest covers 52 % of non-current assets (2005: 63 %). The change versus 2005 is due to the debt financing of the Renal Care Group acquisition. Shareholders' equity, minority interest and long-term liabilities encompass all non-current assets and inventories.

Long-term liabilities amounted to € 6,177 million as of December 31, 2006, an increase of € 2,857 million or 86 % compared with the previous year's figure of € 3,320 million (see pages 19 and 20 – Financing). In constant currency, the increase was 97 %. Short-term liabilities were € 3,049 million, 1 % below the previous year's figure of € 3,078 million (5 % in constant currency).

The Group has no significant accruals. The largest single accrual is to cover the settlement of fraudulent conveyance claims and all other legal matters relating to the National Medical Care 1996 transaction resulting from the bankruptcy of W.R. Grace. This accrual amounts to US$ 115 million (€ 87 million). Please see page 116 of the Notes for details.

Bank loans, Eurobonds, Euro Notes and trust preferred securities of the Group increased, primarily as a result of the acquisition of Renal Care Group, to € 5,879 million (December 31, 2005: € 3,502 million); in constant currency: € 6,294 million. Of the Group's financial liabilities, 60 % are in US dollars. Liabilities due in less than one year amounted to € 603 million (December 31, 2005: € 1,047 million), while liabilities with a remaining tenor of one to five years and over five years amounted to € 5,276 million (December 31, 2005: € 2,455 million).

The net debt to equity ratio including minority interest (gearing) now stands at 96.9 % due to the debt financing of the Renal Care Group acquisition (2005: 62.5 %). The return on equity after taxes reached 10.3 % (2005: 11.2 %). The return on total assets after taxes and before minority interest was 4.3 % in 2006 (2005: 4.9 %). In calculating the profitability ratios, Renal Care Group business was included in the respective items of the statement of income on a full-year basis.

The table below shows other key asset and capital ratios:

	Dec 31, 2006	Dec 31, 2005
Debt/EBITDA*	**3.1**	2.5
Net debt/EBITDA*	**3.0**	2.3
EBITDA*/interest ratio**	**4.6**	6.4

* includes EBITDA of Renal Care Group for the full year 2006, excluding EBITDA and proceeds from the sale of the US dialysis clinics
** before one-time refinancing expenses

Currency and interest risk management

On December 31, 2006, the nominal value of all foreign currency hedging contracts was € 1,186 million. These contracts had a market value of € 4 million. The nominal value of interest rate hedging contracts was € 2,911 million. These contracts had a market value of € 35 million. Please see the Risk Report on page 32 and the Notes on pages 120 to 125 for further details.

NON-FINANCIAL PERFORMANCE INDICATORS AND OTHER SUCCESS FACTORS

EMPLOYEES

The Fresenius Group had 104,872 employees worldwide at the end of 2006, an increase of 12,901 or 14 % (December 31, 2005: 91,971). This is mainly due to the Renal Care Group acquisition.

The numbers of employees in the business segments were as follows:

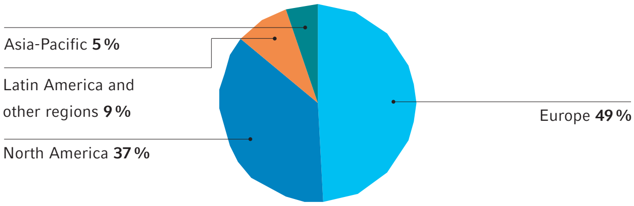
Number of employees	Dec 31, 2006	Dec 31, 2005	Change
Fresenius Medical Care	**59,996**	50,250	19 %
Fresenius Kabi	**15,591**	14,453	8 %
Fresenius ProServe	**28,615**	26,664	7 %
Corporate/Other	**670**	604	11 %
Total	**104,872**	91,971	14 %

In the segment Corporate/Other the increase was attributable to e.g. Fresenius Netcare and Fresenius Biotech.

The chart shows the distribution of our employees by region. These percentages roughly correspond to the sales contributions of the respective continents. In Germany, 31,955 people are employed (2005: 29,975). The increase in Germany is mainly due to the acquisition of HUMAINE Kliniken.

Personnel expenses for the Fresenius Group came to € 3,959 million in 2006 (2005: € 2,479 million). Personnel expenses per employee were € 39,700 (2005: € 34,700).

EMPLOYEES BY REGION



2006: 104,872

HELIOS Kliniken was the first private hospital group to negotiate a group wage tariff agreement with the trade union Marburger Bund in December 2006 and with the trade union ver.di in January 2007 for all employees of the clinics covered so far. Otherwise, there were no significant changes to compensation or employment agreements in 2006.

PROCUREMENT

The efficient procurement of goods and services is important for Group profitability since the health care sector faces cost containment pressure from health insurers as well as price pressure. We are constantly striving to optimize our purchasing processes, to tap new procurement sources and to achieve the best possible pricing structures while remaining flexible and maintaining our strict quality and safety standards. Fresenius coordinates global procurement centrally enabling us to bundle similar requirements and negotiate global framework agreements. These central coordinating offices organize purchasing for the production sites and arrange comprehensive quality and safety checks of purchased goods. Current market and price developments are analyzed on an ongoing basis. We are also endeavoring to optimize our procurement logistics.

Since the supply agreements for electricity and gas at Fresenius Medical Care had been concluded when market prices were still low, purchasing prices were held stable in 2006. Oil price rises prevented savings in our sourcing of plastics even at higher volumes and bundling effects. We were similarly impacted with regard to various types of foil used in product packaging.

In 2006, Fresenius Medical Care concluded a five-year agreement with the biotechnology firm Amgen for the supply of EPOGEN and Aranesp in the United States and Puerto Rico. Amgen is the only supplier of these two products in the United States. The new agreement replaces the previous supply agreement and runs from October 1, 2006 to December 31, 2011.

At Fresenius Kabi, too, sharply increased prices for heating oil, gas and electricity were a central focus of negotiations in 2006. Through sourcing projects it was possible to conclude supply contracts for 2006 at prices well below the market level. Energy prices were also a key issue for products requiring a high energy input, such as glass for packaging and aluminum for fastenings. By bundling requirements we were able to keep the rise in prices at a moderate level.

Products derived directly from crude oil were also heavily affected by the increase in oil prices. Here, a supply contract concluded in 2005 for certain plastics allowed prices to be adjusted to market levels on a quarterly basis during the year 2006. However, this still led to much higher prices than in 2005.

Marked benefits have been felt from a multiyear supply agreement concluded at the end of 2003 for cardboard boxes. The agreement prevented a number of increases in paper prices implemented in the past, leading to a moderate price rise only in 2006.

Various projects for the strategic sourcing of active substances used in our drugs are producing very good results. We have been able to bundle requirements and now procure a number of goods directly from the manufacturer, achieving substantial price reductions. Tapping new sources has also had a positive effect.

The synergy project for starch derivatives implemented worldwide between Fresenius Kabi and Fresenius Medical Care has been very successful. Since we had already fixed the prices back in 2004, some of our purchasing prices in 2006 were partly well below the prevailing market level despite the rise in energy and grain prices. Further synergy projects were initiated within the Fresenius Group in 2006.

QUALITY MANAGEMENT

Our process-oriented quality management fulfills ISO 9001: 2000 standards and is designed to meet the demands of our customers. The quality of our products as well as the business processes and additional services and therapies that we provide are all covered. The quality management system integrates all product groups, such as drugs, medical products and nutrition, and also includes clinics. The system is regularly evaluated through internal quality audits and external certification bodies. Its effectiveness was again confirmed in 2006.

Our products are closely controlled already at the development stage. Our drugs are subject to regulatory approval, so that appropriate documentation has to be submitted to the regulatory authorities for scrutiny. Medical devices undergo a conformity assessment procedure that documents compliance with the appropriate norms. In enteral nutrition, we already follow the Hazard Analysis Critical Control Point (HACCP) principle during the development process.

We have established quality assurance systems in all our production facilities. In addition to the controlled use of raw materials, validated production procedures as well as ambience and in-process controls, each batch also undergoes final controls and a formal release procedure. Our production facilities are regularly inspected by regulatory authorities or other independent institutions. All audits and inspections led to the renewal of the respective manufacturing authorization or certification.

Sales and marketing are also an integral part of the quality management system. For example, at any given time we are able to trace which batch was supplied to which customer.

ISO 9001:2000 quality management standards were introduced in about 40 more European dialysis clinics in 2006. Approximately 65 % of Fresenius Medical Care's clinics in Europe are now certified – compared to about 55 % in 2005.

To assess quality in dialysis care, we use the generally accepted quality parameters customary in dialysis, such as the hemoglobin values. Hemoglobin mainly serves to transport oxygen from the respiratory organs to the body tissues that use oxygen. Our patients should have a hemoglobin level of at least 11 grams per deciliter of blood. The average hemoglobin value for healthy people is only slightly above that. Other indicators we use to assess treatment quality include phosphate level and the so-called Kt/V value, which measures the effectiveness of the dialysis treatment on the basis of the filtration rates for certain given toxic molecules in relation to the length of the treatment. Another important indicator for treatment quality is the number of days which the dialysis patients have to spend in the hospital.

At Fresenius Kabi, the Clinico sites acquired at the end of 2005 were integrated into the quality management system. All processes at the four locations were reviewed in an internal quality audit. In addition, all of Fresenius Kabi's European sales organizations were included in the ISO 9001:2000 certification process.

In India, our production site in Ranjangaon, which already manufactures according to local and WHO-GMP standards, was certified to European Good Manufacturing Practice (EU-GMP) standards. This plant is the third production facility in the Asia-Pacific region to receive this certification. Among other things, Ranjangaon produces intravenously administered drugs. The Chinese plants in Wuxi and Beijing already have this certification.

The plant in Graz, Austria, which specializes in the production of parenteral nutrition and intravenously administered drugs, is already certified to EU-GMP, WHO-GMP, ISO 9001:2000 and ISO 13485:2003 standards. In 2006, this production site was also inspected successfully by the US Food and Drug Administration (FDA). The FDA examines whether the manufacturing facilities and procedures for a given product comply with US standards. When this "pre-approval" inspection and the regulatory approval process have been completed, the product can be exported to the United States. This inspection took place in 2006 and we expect to receive an official approval of the production facility in 2007.

SALES, MARKETING AND LOGISTICS

Long-term, trustful cooperation with our customers is an essential basis for sustainable growth. We strive to guarantee to our customers top quality and top service together with reliable logistics and product availability. Thanks to its broad product portfolio and long experience, Fresenius has been able to build and maintain close relationships with its customers worldwide. Close cooperation between Sales and Research and Development enables the Company to integrate concepts and ideas generated by the sales force regarding the development of products. Fresenius has its own sales organizations with trained salespersons. The sales teams coordinate direct sales promotion measures, including visits to doctors, medical specialists, hospitals and clinics. The Company also employs external distributors in countries where we do not have our own sales force.

Fresenius' products are shipped by the production plants to central warehouses, which are mostly located not far from the production sites. These central warehouses dispatch the products to the regional warehouses which then distribute them to the clinics and other customers, or directly to a patient's home.

The business segments offer after-sales services, training in the local language, technical support, servicing & maintenance and warranty arrangements in every country in which Fresenius sells its products. Product training is also provided at the Company's production sites. Regional service centers are operated, which are responsible for day-to-day international service support.

The business segments have the following customer structure:

Dialysis clinics and hospitals are Fresenius Medical Care's main customers in its products business. In dialysis care, approximately 38 % of Fresenius Medical Care's revenues are derived from the US Government's Medicare/Medicaid programs, about 62 % from private and other heath care payors and from hospitals.

Fresenius Kabi has a broadly diversified customer base. This includes hospitals, wholesalers, purchasing associations, medical and similar institutions, hospital operators and home care patients. There is no significant dependence on one source of revenue.

In the hospital operations business, Fresenius ProServe's customers are social security institutions, health insurers and private patients. In the engineering and services business, customers include public and private hospitals and other health care facilities.

OVERALL ASSESSMENT OF THE BUSINESS SITUATION

At the time this Group Management Report was prepared, the Management Board continued to assess the development of the Fresenius Group as positive. Our products and services are in strong demand around the world. Operating performance in the first weeks of 2007 has been fully in line with our expectations, with further increases in sales and earnings.

OPPORTUNITIES AND RISK REPORT

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

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

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 tap new potential and consolidate and improve on what we have already achieved. Opportunities management is linked to the Fresenius Group's long-term strategy and medium-term planning. The Group's decentralized and regional management structure enables early identification of trends and requirements 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 tapped through continuous communication involving the exchange of information and know-how between the various business segments.

We will continue to exploit all available opportunities. Anticipated future opportunities for the Fresenius Group are discussed in the Outlook starting at page 35.

RISK MANAGEMENT

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

- Risk situations are evaluated regularly using standardized processes and compared with given requirements. Responses can be initiated at an early stage should negative developments emerge.
- The managers responsible are required to report any relevant changes in the risk profile without delay to the Management Board.
- Markets are kept under constant observation and close contacts maintained with customers, suppliers and institutions. These practices 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 as well as our management information system. Based on detailed monthly and quarterly financial reports, deviations in earnings and assets from budget figures can be identified and analyzed. In addition to risk management, a monitoring system has been established comprising 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 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.

The Fresenius Group's currency and interest rate risk management activities are based on a policy approved by the Management Board that defines the targets, organization and handling of the risk management processes. In particular, the guidelines assign responsibilities for risk determination, the execution of hedging transactions and for the regular reporting of risk management activities. These responsibilities are coordinated with the management structures in the other business areas 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 functionality and effectiveness of the risk management system is reviewed as part of the audit of the annual financial statements. Conclusions arising from the audit are taken into account in the ongoing refinement of our risk management system.

RISK AREAS

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

- General economic risks

  From today's point of view, the development of the global economy presents no significant risk to the Fresenius Group. In 2007, we expect overall economic growth to continue. For the Fresenius Group, we therefore expect continued strong demand for our life-saving and life-sustaining products and services.

- Risks in the general operating framework

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

- Risks in the health care sector

  Risks related to changes in the health care market are of major importance to the Fresenius Group. The main risks are the development of new products and therapies by competitors, the financing of health care systems and reimbursement in the health care sector. 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. The same is true for the hospital market in Germany. Hospitals will have to contribute with a lump-sum toward improving the finances of the German public health insurance system. The introduction of Diagnosis Related Groups is intended to increase the efficiency of hospitals while reducing expenditure in the health care system. Patients are largely assigned to hospitals by the public health and pension insurers. It is therefore especially important for the Company that the contracts between its hospitals and the insurers and health care institutions are maintained. For this reason, we not only continually monitor legislative changes but proactively work together with governmental health care institutions. Furthermore, our close ties with the medical and scientific communities allow us to identify and support relevant technological innovations and keep abreast of current developments in alternative treatment methods. This allows us to evaluate and adjust our corporate strategy if necessary.

- Operating risks

- Production, products and services

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

Performing medical procedures on patients in our hospitals and postacute care clinics presents inherent risks; at the same time operational risks, e.g. 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 methods.

Risks can also arise from increasing pressure on our product prices and from price increases on the procurement side. For instance, changes in the United States in the regulations concerning the reimbursement of erythropoetin (EPO), or a change in the dosage, could have a significant impact on the sales 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 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 9 % of total sales of the Fresenius Group in 2006.

- ▶ Research and development
  The development of new products and therapies always carries the risk that the development target is not achieved. Regulatory approval of new products requires comprehensive, cost-intensive preclinical and clinical studies. The Fresenius Group spreads its risk widely by conducting development activities in various product segments. We also counteract risks from research and development projects by regularly analyzing and assessing development trends and examining the progress of research projects. We also strictly comply with the legal regulations for clinical and chemical-pharmaceutical research and development.

- ▶ Risks from the integration of acquisitions
  The integration of acquisitions or potential acquisitions carries risks that can adversely affect assets and liabilities, the financial position and results of operations of Fresenius. Following an acquisition, the infrastructure of the acquired company must be integrated while legal questions and contractual obligations are clarified. Marketing, patient services and logistics must also be unified. Ongoing business processes as well as relationships with customers can be harmed by losing key managers during integration. The integration process could prove to be more difficult and cost-intensive or last longer than expected. Risks could arise from the operations of the newly acquired company that Fresenius believed to be insignificant or was unaware of. An acquisition may also prove to be less beneficial than initially expected.

▶ Personnel risks
Risks in personnel marketing are not considered to be significant. Nevertheless, the Group uses comprehensive recruiting and personnel development programs to counteract a possible shortage of skilled personnel. Fresenius counters the general shortage of specialized hospital personnel through targeted personnel marketing measures to recruit a qualified and dedicated workforce, and thus ensure the high standards of treatment quality. At the same time, young people should become qualified and be committed to the Company. At the end of 2006 for instance, HELIOS Kliniken signed the first-ever group wage tariff agreement in Germany that pays medical students a monthly compensation during their one-year internship. This has put HELIOS at a considerable competitive advantage over other hospital operators in recruiting staff.

▶ Financial risks
Potential financial risks can arise from exposure to foreign currencies and interest rates. Controlling and limiting these risks is an integral part of our risk management. We also use derivative financial instruments to hedge against interest rate and foreign currency risks. However, these instruments are used solely for hedging current operations and are not used for trading or speculative purposes. Please see pages 120 to 125 of the Notes for further details.

The Fresenius Group is protected to a large extent against currency and interest rate risks. As at December 31, 2006, 79 % of the Fresenius Group's debt is protected against increases in interest rates either by fixed-rate financing arrangements or by interest rate hedges. Only 21 % or € 1,245 million is exposed to an interest rate risk. A rise of 0.5 % in the reference rates relevant for Fresenius would have a less than 1 % impact on Group net income. As a globally active company, Fresenius has production facilities in all the main currency areas. Consequently, the increase in exposure to currency risks arising from increased business activities is far lower than the growth rate in sales.

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

As a globally active 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 due to our extensive operations in the United States.

Fresenius' debt could limit its ability to pay dividends or to implement its corporate strategy.

▶ Government reimbursement payments
Fresenius is subject to comprehensive government regulations in nearly all countries where it is active. 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 if Fresenius fails to comply with any of 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 law, or changes in the reimbursement method, could affect the amounts of these payments and could have a significant adverse impact on the assets and liabilities, financial position and results of operations of the Group.

▶ Legal risks

Risks that arise from legal issues are continually identified, analyzed and communicated. At the beginning of 2003, a definitive agreement was signed regarding the settlement of fraudulent conveyance claims and all other legal matters in connection with the National Medical Care transaction in 1996 arising from the bankruptcy of W.R. Grace & Co. Under the settlement agreement, Fresenius Medical Care will pay a total of US$ 115 million into the W.R. Grace & Co. bankruptcy estate or as otherwise directed by the court upon plan confirmation. The settlement agreement has been approved by the court. Also, subject to the confirmation of the W.R. Grace & Co settlement agreement, 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 concluded subject to plan confirmation. Please see pages 116 and 117 of the Notes for details.

In October 2004, Fresenius Medical Care Holdings, Inc., and its subsidiaries, received subpoenas from the U.S. Department of Justice, Eastern District of New York. The subpoenas require production of a broad range of documents relating to the companies' operations, with specific attention to documents relating to a certain hormone test and vitamin D therapies for dialysis patients. Furthermore, in April 2005 Fresenius Medical Care Holdings, Inc., received a subpoena from the U.S. Department of Justice in St. Louis (Missouri) in connection with civil and criminal investigations. Documentation must be provided on clinical quality programs, business development activities, compensation of clinic managers, contractual relationships with doctors, joint ventures, and our anemia treatment therapy. Please see pages 118 and 119 of the Notes for further details.

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

▶ Other risks

Other risks, including those involving our IT systems, are not considered to be significant. IT risks are countered through security measures such as controls and monitoring. In addition, we counter these risks with constant investment in hardware and software as well as by improving our system expertise.

ASSESSMENT OF OVERALL RISK

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

CORPORATE RATING

The acquisition of Renal Care Group, Inc., which was financed entirely with debt, led to a downgrade in the ratings of Fresenius Medical Care and Fresenius AG. Standard & Poors revised the ratings from BB+ to BB with "negative outlook". Moody's lowered the ratings of Fresenius Medical Care and Fresenius AG before the closing of the acquisition from Ba1 to Ba2. The outlook is "stable". Given our intention to finance the acquisition with debt, we had anticipated these downgrades.

RATING OF FRESENIUS AG

	Rating	Outlook
Standard & Poors	BB	negative
Moody's	Ba2	stable

SUBSEQUENT EVENTS

CONVERSION OF FRESENIUS AG INTO A EUROPEAN COMPANY (SOCIETAS EUROPAEA, SE)

The Extraordinary General Meeting on December 4, 2006 approved the Management and Supervisory Boards' proposal to convert Fresenius AG into a European Company (SE). An SE is a public limited company under European law.

After the successful expansion of the Group's international business and the strong growth in recent years, the conversion is a consistent step in the Company's development. The SE is a modern legal form which underlines the Group's international business focus and facilitates the development of an open and international corporate culture. The conversion does not have any effect on the Company's corporate structure and management organization. The two-tier system consisting of Management Board and Supervisory Board will remain unchanged. The future Fresenius SE will continue to have a Supervisory Board with twelve members and parity representation just like Fresenius AG today. However, the legal form of an SE allows representatives of the employees from various European countries to be represented on the Supervisory Board. Retaining the present size of the Supervisory Board will ensure that the efficiency and flexibility of the Company's corporate governance is preserved. Without the conversion to an SE, the number of Supervisory Board members of Fresenius AG would have had to be increased by eight to twenty because of the increased number of employees in Germany. The change of legal form will therefore enable Fresenius to continue its well-proven corporate governance.

Fresenius will continue to be based and have its registered office in Germany. Fresenius AG's conversion to an SE will not lead to the Company's liquidation nor to the formation of a new legal entity. The Company's legal and economic identity will be preserved. All shareholder's stakes in Fresenius will remain unchanged.

It is expected that the SE will be registered in the Commercial Register in the third quarter of 2007, following the conclusion of the employee participation procedure.

SHARE SPLIT WITH CAPITAL INCREASE FROM THE COMPANY'S FUNDS

The Extraordinary General Meeting on December 4, 2006 approved a share split with capital increase from the Company's funds, tripling the number of shares outstanding. This measure was registered in the Commercial Register on January 24, 2007, and the conversion of the stock quotation took place on February 2, 2007. See page 5 of the Management Report for further details. The share split is intended to promote trading activity in Fresenius shares and to increase the shares' attractiveness for a broader group of investors. The share split arithmetically reduces the share price without affecting the overall value for shareholders.

SALE OF PHARMAPLAN GMBH

In December 2006, Fresenius ProServe signed an agreement for the sale of its subsidiary Pharmaplan GmbH to NNE A/S, a subsidiary of Novo Nordisk A/S, Copenhagen. Pharmaplan provides consulting, engineering and qualification/validation services for production plants for the pharmaceutical industry worldwide. The transaction is expected to be completed in the first quarter of 2007 after approval by the antitrust authorities.

The Pharmaplan subsidiary Pharmatec, which is not part of the transaction, is to be sold at a later date. Pharmatec manufactures high quality pure steam, pure water and sterilization equipment for the pharmaceutical industry.

With this divestitures, Fresenius ProServe is focusing on its business with hospitals and other health care facilities through HELIOS Kliniken Group and VAMED.

FRESENIUS MEDICAL CARE EXPANDS IN ASIA

Fresenius Medical Care has acquired a 51 % stake in the dialysis services provider Jiate Excelsior Co. Ltd. (Excelsior), Taiwan. Excelsior is the leading provider of dialysis care in Taiwan, with a market share of about 14 %, and currently treats over 6,500 patients in 90 dialysis clinics. Fresenius Medical Care expects Excelsior to contribute about US$ 80 million to sales in 2007 and to be accretive to earnings. The price of the 51 % stake is US$ 38 million. The acquisition still has to be approved by the antitrust authorities in Taiwan.

Otherwise, no major changes in the situation of the Company or our sector have occurred since the beginning of 2007. There are also no plans for major changes to the structure and administration of the Group or in human resources. No other events of material importance have occurred since the close 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 28 f.

* Targets according to US-GAAP

GENERAL OUTLOOK

The outlook for the Fresenius Group for the coming years continues to be very positive. Going forward, we expect sales growth of 6 to 8 % in constant currency. Earnings are expected to rise at a higher rate, with further improvements in profitability.

Acquisitions have led to a much higher level of debt within the Group, with related effects on net interest. Our goal is to improve the Group's debt ratios.

Excellent growth opportunities for Fresenius are presented above all by

- the sustained growth of the markets in which we operate
- the development of innovative products and therapies
- the expansion of our regional presence
- the broadening of our services business, and
- selective acquisitions to strengthen our product portfolio and regional presence.

ECONOMIC OUTLOOK

The present dynamic of the world economy is likely to weaken slightly in 2007. However, the expansion in Europe and in the emerging countries of Asia should continue, despite slightly slower growth rates, and largely compensate for the more pronounced downturn in the United States and Japan. The relatively strong growth dynamic in countries such as China and India should help to keep the expected dip in growth in the industrial countries fairly short. Inflation rates should remain low in 2007. With the slowdown expected in the United States, the US dollar will probably depreciate both against the euro and against the Asian currencies.

- Europe

  The economic trend in the Eurozone will remain robust in 2007, but growth will be more moderate than in 2006. A slight dip is expected at the beginning of 2007. However, this should be overcome again in the second half of the year at the latest. GDP growth of about 2 % should be within reach for the full year. A weakening global economy and a further appreciation of the euro could be factors leading to the expected slower economic growth in the Eurozone. As a result of the more restrictive fiscal policy, the upturn in domestic demand is also expected to be damped down. Economists predict GDP growth of 1.5 % for Germany. The main reasons for the lower growth as compared with 2006 are seen in the economic slowdown in the United States and the VAT increase in Germany.

- United States

  Growth in private consumer spending should be somewhat more moderate in 2007 due to static property prices and slower growth in employment. Consumer spending is also likely to be curbed by a rise in the savings ratio. Since weaker growth should dampen inflation, the Federal Reserve will probably lower rates in the course of the year. The budget deficit should stabilize in 2007, helped not least by the slightly higher savings ratio expected. All in all, GDP growth of about 2.0 % is forecast for 2007.

- Asia

  GDP growth in Asia is expected to be about 8 % in 2007 (without Japan). China's growth will continue in 2007 at an only marginally slower pace. Despite declining demand from the United States, the country's export dynamic will barely weaken thanks to its highly competitive export industry. Growth of 9.5 % is forecast for China. Japan's economy could see a temporary dip in growth. Less stimulus from monetary policy and budget consolidation efforts in the form of lower government spending will have a dampening effect. GDP growth of about 1.8 % is forecast for Japan.

- Latin America

Economic growth in Latin America should continue at a slightly weaker pace in 2007. On the one hand, commodity and energy prices are not expected to rise further. On the other, the stimulus from the world economy, especially from the United States, are expected to weaken. GDP growth should be about 4.0 %. The strong demand for commodities and the resulting stable price trend should continue to support Brazil's economy. In Mexico, a continued strong export dynamic could have a positive effect on domestic demand. In Argentina, on the other hand, the pace of GDP growth is expected to slacken a little.

HEALTH CARE SECTOR AND MARKETS

- The dialysis market

We expect the number of dialysis patients to rise 5 to 7 % in the coming years, although significant regional differences are anticipated. In the industrialized nations such as the United States, Japan and the countries of Central and Western Europe where people already have broad access to dialysis treatment, we expect below-average patient growth. In many developing nations, where the needs of patients with chronic kidney failure are still not met sufficiently, we expect above-average growth rates of up to 10 % in these markets. That about 80 % of the world's population lives in these growth countries highlights the enormous potential of the dialysis market in the developing countries.

The reimbursement schemes for dialysis treatment vary from country to country. They may depend for instance on regional specifics, the method of treatment, regulatory aspects or the status of the dialysis care provider. The reimbursement of dialysis treatment according to quality-based criteria, defined individually for each patient, also remains a central issue. In this reimbursement model, the quality of treatment should increase while the total cost of treating a dialysis patient should remain constant.

Fresenius Medical Care is active in many countries with a variety of health care systems and reimbursement schemes. In the United States, our largest market, patients covered by the public health insurers Medicare and Medicaid account for about 58 % of Fresenius Medical Care's dialysis care revenues.

A bill was introduced toward the end of 2006 in which the US Congress and Senate proposed a 1.6 % increase in the reimbursement rate as from April 1, 2007. This bill already became law in 2006.

Source: German Council of Economic Experts Annual Report 2006/2007, bank research

The market for infusion therapy and clinical nutrition

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

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

There continues to be high growth potential in Latin America and in Asia-Pacific, espescially in China. In China, Fresenius Kabi has been growing at double-digit rates for years. China is Fresenius Kabi's third largest single market in terms of sales. The rising demand for primary care in hospitals and thus for high-quality therapies, will result in continued strong growth rates in many countries in these regions in the coming years. We expect the markets of Asia-Pacific and Latin America to continue growing at high single to double-digit rates. We also expect a rising demand for medical devices in these growth regions.

The German hospital market

The German health care reform will continue to be a foremost topic in early 2007. The main aim of the reform is to place the financing of the German health care system on a sustainable basis. Among other things, the hospitals have to contribute toward improving the finances of the public health insurance system, mainly by deducting 0.5 % from bills issued to the public health insurers. Apart from the impact of the health care reform, in 2007 German hospitals will also have to cope with pay rises for hospital doctors and an increase in VAT from 16 % to 19 %.

Whatever concrete shape the future reform measures take, one thing is already clear. Crucial for a clinic's survival will be excellent medical standards, well-trained staff, well-organized processes and a well-structured treatment spectrum with a focus on high quality, complex medical services.

Private hospital chains and alliances will tend to be able to respond to the pressure to improve efficiency better than public hospitals. Given their traditional orientation to profitability, they often have more experience in creating efficient structures and processes and achieving cost benefits in procurement. In addition, they are generally better placed to finance the necessary investments. The process of concentration and privatization, especially among public hospitals, is therefore expected to further accelerate. Overall, experts expect the market share of private operators in terms of beds to rise from about 11 % at present to nearly 30 to 40 % over the next ten years.

Source: Economic Research Allianz Group (July 2005), A.T. Kearney, Study on Health Care Financing (September 2005)

GROUP SALES AND GROUP EARNINGS

With its international production and sales platform and its market-oriented products and services the Fresenius Group is excellently positioned for continued growth. At the same time, opportunities for profitable growth are indicated by the developments described in the chapter "Health Care Sector and Markets."

In 2007, we therefore expect to increase Group sales by 8 to 10 % at 2006 exchange rates. The growth in sales will be influenced by the consolidation of Renal Care Group and HUMAINE Kliniken for the full year.

While our traditional markets in Europe and North America are growing at average low to mid single-digit rates, we see far stronger growth potential in the Asia-Pacific and Latin America regions. Here, the demand for our life-saving and life-sustaining products continues to be very high due to the still very limited access to medical care. This will also be reflected in the development of sales. While we expect single-digit rates of growth in our major markets of the United States and Europe, sales in the growth regions should increase at double-digit rates.

We plan to increase Group net income significantly again in 2007. We aim to achieve this through sustained sales growth and ongoing cost-reduction measures, especially in production. Despite a market environment which continues to be marked by cost containment and price pressure, we expect to be able to increase net income by 20 to 25 % in constant currency.

SUMMARY OF GROUP TARGETS FOR 2007

	Targets 2007 (US GAAP)	Fiscal year 2006 (IFRS)
Sales, growth (in constant currency)	8 - 10 %	€ 10.8 billion
Net income, growth (in constant currency)	20 - 25 %	€ 330 million
Capital expenditure	€ 600 - 700 million	€ 606 million
Net debt/EBITDA (December 31)	2.8 - 3.0	3.0
Dividend	Continued profit-driven dividend policy	Proposed: ~15 % per ordinary and preference share

SALES AND EARNINGS BY BUSINESS SEGMENT

Overall, we expect good improvements in sales and earnings in 2007 in each of our business segments. The table below gives an overview:

The number of dialysis patients should rise by about 5 to 7 % again in 2007, leading to a continued growth in demand for dialysis products and a higher number of treatments. In 2007, Fresenius Medical Care expects sales to grow to about 9.4 billion in US dollars, its reporting currency. For net income Fresenius Medical Care forecasts US$ 675 to 695 million.

Fresenius Kabi expects its positive operating performance to continue in 2007. The company estimates an organic sales growth of about 6 to 8 %. Good growth potential is expected again in Asia-Pacific and Latin America. Based on the positive sales projection and further cost optimizations, especially in production, Fresenius Kabi expects further significant earnings improvement in 2007. The EBIT margin should rise in the 16.0 to 16.5 % range.

Fresenius ProServe expects a continued good performance in the hospital operations business. A good performance is also expected in the engineering and services business given the excellent order situation. Sales will be influenced on the one hand by the full-year consolidation of HUMAINE Kliniken and on the other by the sale of Pharmaplan GmbH. In 2007, Fresenius ProServe projects organic sales growth of about 2 to 3 %. EBIT is expected to increase to € 160 to 170 million. Future growth potential is expected from further hospital privatizations in Germany.

Fresenius Biotech will continue its clinical study program. We expect that the expenditures for our biotechnology projects will lead to negative EBIT of about € -50 million in 2007. This increase is largely due to higher expenditures for clinical studies.

FINANCING

In 2006, we generated an excellent operating cash flow of € 1,058 million. The key drivers were the strong increase in earnings and further improvements in working capital management. The cash flow margin was 9.8 %. Judged from today's point of view, we estimate that this margin will again be in the high single-digit rate in 2007, especially through further earnings improvements.

A key performance target figure for the Fresenius Group is the net debt/EBITDA ratio. On December 31, 2006 this ratio was at 3.0. Our goal in 2007 is to reach a ratio of 2.8 to 3.0. To achieve this, we focus on increasing earnings and on a further positive cash flow development.

2007 FINANCIAL TARGETS BY BUSINESS SEGMENT

	Targets 2007 (US GAAP)	Fiscal year 2006 (IFRS)
Fresenius Medical Care		
Sales	US$ ~9.4 billion	US$ 8,498 million
Net income	US$ 675 - 695 million	US$ 535 million
Fresenius Kabi		
Sales growth (organic)	6 - 8 %	€ 1,893 million
EBIT margin	16.0 - 16.5 %	15.6 %
Fresenius ProServe		
Sales growth (organic)	2 - 3 %	€ 2,155 million
EBIT	€ 160 - 170 million	€ 152 million
Fresenius Biotech		
EBIT	€ ~ -50 million	€ -45 million

Overall, we have a sufficient financial cushion with substantial unused credit lines under syndicated or bilateral credit facilities from banks. On December 31, 2006 the receivables securitization program at Fresenius Medical Care was only partially utilized and Fresenius Groups' commercial paper program of € 250 million had not been utilized at all. (Please see page 20 of the Management Report for details.)

INVESTMENTS

Fresenius plans to invest in further growth and to increase capital expenditure in property, plant and equipment. In 2007, we expect to invest about € 600 to 700 million (2006: € 606 million) in property, plant and equipment and in intangible assets. The strong increase will mainly be in the Fresenius Medical Care and Fresenius ProServe business segments. About 60 % of the capital expenditure budgeted will be invested at Fresenius Medical Care, over 20 % at Fresenius ProServe and about 15 % at Fresenius Kabi. The focus of the investments at Fresenius Medical Care will be on the construction and expansion of dialysis clinics, and on the expansion and maintenance of production plants. As an example, we are expanding our dialyzer production plant in Germany. This will increase the annual production capacity of this plant from 25 million at present to 35 million dialyzers. Fresenius Kabi will invest in expanding and maintaining production facilities and in introducing new manufacturing technologies. These developments will enable further improvements in production efficiency. At Fresenius ProServe we will be investing primarily in modernizing hospitals and in hospital equipment. The regional focus of the investments will be on Europe and North America, accounting for about 50 % and 40 %. The remainder will be invested in Asia, Latin America and Africa. About 30 % of the funds will be invested in Germany.

PROCUREMENT

Procurement optimization, including price and conditions as well as product quality, is an important component of earnings growth. We are also focusing on optimizing the procurement process as well as the cooperation between individual sites. Procurement alliances across various sectors allow us to increase purchasing volumes and secure better conditions from our suppliers.

The situation regarding prices of energy and oil-based products is unlikely to ease much. This is mainly because of the continued strong demand for oil and gas, which will probably be even greater given the rising demand in growth regions such as China. We therefore do not expect any reduction in the prices of energy and oil-based products in 2007.

Cost savings can be achieved especially through the further standardization of products, packaging and packaging materials. This standardization will also simplify logistics since transport can be better coordinated, allowing a more efficient use of loading capacities.

Fresenius Medical Care plans to optimize its purchasing of chemicals. From 2007, it intends to bundle demands and procure products directly from the manufacturers. It plans to counter rising pallet prices due to timber shortages by switching to special pallets that contain less wood. Fresenius Kabi and Fresenius Medical Care are likely to face higher prices for starch-based products after they had been held significantly below the market level in 2006 as a result of a multi-year supply agreement.

RESEARCH AND DEVELOPMENT

Our R&D activities will continue to play a key role in securing the Group's long-term growth through innovative and new therapies. We are concentrating our R&D on products for the treatment of patients with chronic kidney failure. The emphasis will be on dialysis membranes, dialysis machines and other products. We are also focusing on other extracorporeal therapies, such as those used in the treatment of patients with liver disease, as well as our main research areas of infusion and nutrition therapies. We are also concentrating on targeted development in the biotechnology sector, mainly in the field of antibody therapies. Biotechnology research opens up possibilities for treating diseases which cannot be cured today, and offers Fresenius potential for further growth with innovative cancer therapies. Results of a phase II/III study in the indication malignant ascites for patients with other than ovarian cancer are expected to be published in the first quarter of 2007. The phase II study in the indication breast cancer and the phase II study in gastric cancer are ongoing. Documentation for the registration of the antibody removab® for the indication malignant ascites is due to be submitted to the EMEA (European Medicines Agency), the European drug approval agency, in the second half of 2007.

We are planning to invest more in research and development in 2007. The increase should be higher than the forecast organic growth rate in sales. The number of employees in research and development will also be increased.

Market-oriented research and development with strict time to market management processes is crucial to the success of new products. We continually review our R&D results based on clearly defined milestones.

Innovative ideas, product development and therapies with a high level of quality will continue to be the basis for market-leading products in the future.

CORPORATE LEGAL STRUCTURE AND ORGANIZATION

The Fresenius Group is divided into three business segments, each of which is a legally independent entity. The business segments are organized on a regional and decentralized basis to provide the greatest flexibility to meet the demands of the respective markets. The “entrepreneur in the enterprise” principle with clearly defined responsibilities has proven itself over many years. We will continue to follow this principle.

On December 4, 2006, the Extraordinary General Meeting of Fresenius AG approved the conversion of the Company’s legal form from a public limited company incorporated under German law into a European Company (SE) (see “Subsequent Events” on page 34 for more details).

PLANNED CHANGES IN HUMAN RESOURCES AND THE SOCIAL AREA

The number of employees in the Group will continue to rise in the future as a result of strong organic expansion. However, the growth in the number of employees will be held below the expected rate of organic sales growth. The regional distribution of our employees will not change significantly – about 50 % will be located in Europe (with about 30 % in Germany), about 35 % in North America and about 15 % in Asia-Pacific, Latin America and Africa.

DIVIDEND

Continuity in our dividend policy remains an important priority. This has been demonstrated impressively by steady dividend increases over the last 13 years. We want to remain true to this policy in the 2007 fiscal year and offer our shareholders a dividend in line with our positive earnings forecasts.

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CONSOLIDATED STATEMENT OF INCOME

January 1 to December 31, in million €	Note	2006	2005
Sales	3	**10,776**	7,889
Cost of sales	4	**-7,339**	-5,294
Gross profit		**3,437**	2,595
Selling, general and administrative expenses	6	**-1,828**	-1,481
Research and development expenses	7	**-166**	-147
Operating income (EBIT)		**1,443**	967
Interest income	8	**23**	20
Interest expenses	8	**-418**	-223
Earnings before income taxes and minority interest		**1,048**	764
Income taxes	9	**-413**	-293
Earnings after income taxes and before minority interest		**635**	471
Minority interest	22	**-305**	-249
Net income of the Group		**330**	222
Basic earnings per ordinary share in €	10	**2.15**	1.76
Fully diluted earnings per ordinary share in €	10	**2.12**	1.75
Basic earnings per preference share in €	10	**2.16**	1.77
Fully diluted earnings per preference share in €	10	**2.13**	1.76

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

CONSOLIDATED BALANCE SHEET

ASSETS

as of December 31, in million €	Note	2006	2005
Cash and cash equivalents	11	**261**	252
Trade accounts receivable, less allowance for doubtful accounts	12	**2,088**	1,871
Accounts receivable from and loans to related parties		**8**	15
Inventories	13	**761**	727
Prepaid expenses and other current assets	14	**730**	478
I. Total current assets		**3,848**	3,343
Property, plant and equipment	15	**2,715**	2,359
Goodwill	16	**7,119**	4,696
Other intangible assets	16	**571**	559
Other non-current assets	14	**387**	362
thereof at equity consolidated financial investments		**12**	14
Deferred taxes	9	**384**	283
II. Total non-current assets		**11,176**	8,259
Total assets		**15,024**	11,602

LIABILITIES AND SHAREHOLDERS' EQUITY

as of December 31, in million €	Note	2006	2005
Trade accounts payable		**464**	353
Short-term accounts payable to related parties		**2**	2
Short-term accrued expenses and other short-term liabilities	17, 18	**1,821**	1,530
Short-term borrowings	19	**330**	824
Short-term loans from related parties		**1**	1
Current portion of long-term debt and liabilities from capital lease obligations	19	**272**	222
Accruals for income taxes		**159**	146
A. Total short-term liabilities		**3,049**	3,078
Long-term debt and liabilities from capital lease obligations, less current portion	19	**4,330**	1,455
Long-term liabilities and loans from related parties		**–**	–
Long-term accrued expenses and other long-term liabilities	17, 18	**283**	288
Pension liabilities	20	**260**	256
Deferred taxes	9	**358**	321
Trust preferred securities of Fresenius Medical Care Capital Trusts	21	**946**	1,000
B. Total long-term liabilities		**6,177**	3,320
I. Total liabilities		**9,226**	6,398
A. Minority interest	22	**2,595**	2,323
Subscribed capital	23	**132**	130
Capital reserve	23	**1,770**	1,603
Other reserves	23	**1,239**	985
Accumulated other comprehensive income (loss)	24	**62**	163
B. Total Group's equity		**3,203**	2,881
II. Total shareholders' equity		**5,798**	5,204
Total liabilities and shareholders' equity		**15,024**	11,602

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

CONSOLIDATED CASH FLOW STATEMENT

January 1 to December 31, in million €	Note	2006	2005
Cash provided by/used for operating activities			
Net income of the Group		**330**	222
Minority interest	22	**305**	249
Adjustments to reconcile net income of the Group to cash and cash equivalents provided by operating activities			
Cash inflow from hedging		**9**	0
Depreciation and amortization	28	**406**	325
Loss on sale of investments		**2**	0
Change in deferred taxes	9	**76**	14
Loss on sale of fixed assets		**14**	7
Change in assets and liabilities, net of amounts from businesses acquired or disposed of			
Change in trade accounts receivable, net	12	**-86**	-42
Change in inventories	13	**-49**	-12
Change in prepaid expenses and other current and non-current assets	14	**-126**	-132
Change in accounts receivable from/payable to related parties		**4**	6
Change in trade accounts payable, accruals and other short-term and long-term liabilities		**582**	406
Received interest	8	**23**	20
Paid interest	27	**-393**	-208
Change in accruals for income taxes		**362**	289
Tax payments related to divestitures and acquisitions	27	**-52**	0
Income taxes paid	27	**-349**	-360
Cash provided by operating activities		**1,058**	784
Cash provided by/used for investing activities			
Purchase of property, plant and equipment		**-595**	-357
Proceeds from the sale of property, plant and equipment		**18**	22
Acquisitions and investments, net of cash acquired	2, 27	**-3,657**	-1,608
Proceeds from divestitures	2	**438**	2
Cash used for investing activities		**-3,796**	-1,941

January 1 to December 31, in million €	Note	2006	2005
Cash provided by/used for financing activities			
Proceeds from short-term borrowings	19	**54**	37
Repayments of short-term borrowings	19	**-670**	-70
Repayments of borrowings from related parties		**-1**	-4
Proceeds from long-term debt and liabilities from capital lease obligations	19	**4,301**	945
Repayments of long-term debt and liabilities from capital lease obligations	19	**-1,228**	-310
Changes of accounts receivable facility	19	**137**	-194
Proceeds from the exercise of stock options	29	**75**	90
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares	1	**258**	0
Dividends paid		**-171**	-132
Proceeds from the issuance of bearer ordinary shares	23	**0**	438
Proceeds from the issuance of bearer preference shares	23	**0**	481
Payments of additional costs of capital increase	23	**0**	-22
Change in minority interest	22	**1**	-1
Exchange rate effect due to corporate financing		**4**	-2
Cash provided by financing activities		**2,760**	1,256
Effect of exchange rate changes on cash and cash equivalents		**-13**	13
Net increase in cash and cash equivalents		**9**	112
Cash and cash equivalents at the beginning of the year	11	**252**	140
Cash and cash equivalents at the end of the year	11	**261**	252

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

CONSOLIDATED STATEMENT OF EQUITY

		Ordinary shares		Preference shares		Subscribed Capital	
	Note	Number of shares (thousand)	Amount (thousand €)	Number of shares (thousand)	Amount (thousand €)	Amount (thousand €)	Amount (million €)
As of December 31, 2004		20,486	52,443	20,486	52,443	104,886	105
Issuance of bearer ordinary and bearer preference shares	23	4,700	12,032	4,700	12,032	24,064	24
Proceeds from the exercise of stock options	29	175	449	175	449	898	1
Compensation expense related to stock options	29						
Dividends paid	23						
Comprehensive income (loss)							
Net income of the Group							
Other comprehensive income (loss) related to							
Cash flow hedges	24, 26						
Foreign currency translation	24						
Comprehensive income (loss)							
As of December 31, 2005		25,361	64,924	25,361	64,924	129,848	130
Issuance of bearer ordinary and bearer preference shares	23	177	453	177	453	906	1
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares	1						
Proceeds from the exercise of stock options	29	188	481	188	481	962	1
Compensation expense related to stock options	29						
Minimum dividend of ordinary shareholders							
Dividends paid	23						
Comprehensive income (loss)							
Net income of the Group							
Other comprehensive income (loss) related to							
Cash flow hedges	24, 26						
Foreign currency translation	24						
Comprehensive income (loss)							
As of December 31, 2006		25,726	65,858	25,726	65,858	131,716	132

	Note	Reserves		Other comprehensive income (loss)				
		Capital reserve (million €)	Other reserves (million €)	Foreign currency translation (million €)	Cash flow hedges (million €)	Total share-holders' equity (million €)	Minority interest (million €)	Total equity (million €)
As of December 31, 2004		696	819	15	-18	1,617	1,766	3,383
Issuance of bearer ordinary and bearer preference shares	23	872				896	0	896
Proceeds from the exercise of stock options	29	25				26	64	90
Compensation expense related to stock options	29	10				10	5	15
Dividends paid	23		-56			-56	-76	-132
Comprehensive income (loss)								
Net income of the Group			222			222	249	471
Other comprehensive income (loss) related to								
Cash flow hedges	24, 26				32	32	0	32
Foreign currency translation	24			134		134	315	449
Comprehensive income (loss)			222	134	32	388	564	952
As of December 31, 2005		1,603	985	149	14	2,881	2,323	5,204
Issuance of bearer ordinary and bearer preference shares	23	41				42	0	42
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares	1	94				94	164	258
Proceeds from the exercise of stock options	29	31				32	43	75
Compensation expense related to stock options	29	12				12	8	20
Minimum dividend of ordinary shareholders		-11				-11	0	-11
Dividends paid	23		-76			-76	-95	-171
Comprehensive income (loss)								
Net income of the Group			330			330	305	635
Other comprehensive income (loss) related to								
Cash flow hedges	24, 26				16	16	0	16
Foreign currency translation	24			-117		-117	-153	-270
Comprehensive income (loss)			330	-117	16	229	152	381
As of December 31, 2006		1,770	1,239	32	30	3,203	2,595	5,798

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

SEGMENT REPORTING

by business segment

in million €	Fresenius Medical Care **2006**	2005	Change	Fresenius Kabi **2006**	2005	Change
Sales	**6,767**	5,443	24 %	**1,893**	1,681	13 %
thereof contribution to consolidated sales	**6,762**	5,418	25 %	**1,853**	1,651	12 %
thereof intercompany sales	**5**	25	-80 %	**40**	30	33 %
contribution to consolidated sales	**63 %**	69 %		**17 %**	21 %	
EBITDA	**1,295**	958	35 %	**378**	316	20 %
Depreciation and amortization	**249**	203	23 %	**82**	87	-6 %
EBIT	**1,046**	755	39 %	**296**	229	29 %
Net interest	**-280**	-139	-101 %	**-70**	-51	-37 %
Net income of the Group	**426**	371	15 %	**146**	106	38 %
thereof from associates and joint ventures	**0**	-3	100 %	**0**	-1	100 %
Operating cash flow	**724**	539	34 %	**206**	241	-15 %
Cash flow before acquisitions and dividends	**365**	300	22 %	**101**	167	-40 %
Debt	**4,243**	1,857	128 %	**880**	903	-3 %
Other operating liabilities	**1,561**	1,203	30 %	**588**	545	8 %
Total assets	**9,917**	6,782	46 %	**1,948**	1,856	5 %
Capital expenditure	**373**	253	47 %	**117**	81	44 %
Acquisitions	**3,561**	108	--	**14**	274	-95 %
Research and development expenses	**41**	42	-2 %	**75**	64	17 %
Employees (per capita on balance sheet date)	**59,996**	50,250	19 %	**15,591**	14,453	8 %
Key figures						
EBITDA margin	**19.1 %**	17.6 %		**20.0 %**	18.8 %	
EBIT margin	**15.5 %**	13.9 %		**15.6 %**	13.6 %	
ROOA	**11.2 %**[1]	12.6 %		**17.5 %**	14.1 %	
Depreciation and amortization in % of sales	**3.7 %**	3.7 %		**4.3 %**	5.2 %	

[1] Calculation is based on the pro forma EBIT excluding the gain on the sale of Fresenius Medical Care's dialysis clinics (see Note 2, Acquisitions and divestitures)
[2] Operating assets excluding HELIOS Kliniken

Fresenius ProServe			Corporate/Other			Fresenius Group		
2006	2005	Change	**2006**	2005	Change	**2006**	2005	Change
2,155	809	166 %	**-39**	-44	11 %	**10,776**	7,889	37 %
2,145	804	167 %	**16**	16	0 %	**10,776**	7,889	37 %
10	5	100 %	**-55**	-60	8 %	**0**	0	
20 %	10 %		**0 %**	0 %		**100 %**	100 %	
216	45	--	**-40**	-27	-48 %	**1,849**	1,292	43 %
64	25	156 %	**11**	10	10 %	**406**	325	25 %
152	20	--	**-51**	-37	-38 %	**1,443**	967	49 %
-40	-10	--	**-5**	-3	-67 %	**-395**	-203	-95 %
73	1	--	**-315**	-256	-23 %	**330**	222	49 %
0	1	-100 %	**0**	0	0%	**0**	-3	100 %
177	19	--	**-49**	-15	--	**1,058**	784	35 %
74	7	--	**-59**	-25	-136 %	**481**	449	7 %
932	229	--	**-176**	513	-134 %	**5,879**	3,502	68 %
887	819	8 %	**-47**	8	--	**2,989**	2,575	16 %
3,112	2,863	9 %	**47**	101	-53 %	**15,024**	11,602	29 %
106	12	--	**10**	11	-9 %	**606**	357	70 %
139	1,507	-91 %	**0**	5	-100 %	**3,714**	1,894	96 %
1	1	0 %	**49**	40	23 %	**166**	147	13 %
28,615	26,664	7 %	**670**	604	11 %	**104,872**	91,971	14 %
10.0 %	5.6 %					**17.2 %**	16.4 %	
7.1 %	2.5 %					**13.4 %**	12.3 %	
6.8 %	3.5 %[2]					**10.3 %[1]**	11.7 %[2]	
3.0 %	3.1 %					**3.8 %**	4.1 %	

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

SEGMENT REPORTING

by region

in million €	Europe 2006	Europe 2005	Europe Change	North America 2006	North America 2005	North America Change
Sales	**4,535**	3,030	50 %	**4,862**	3,746	30 %
contribution to consolidated sales	**43 %**	38 %		**45 %**	47 %	
EBIT	**499**	322	55 %	**769**	533	44 %
Depreciation and amortization	**217**	175	24 %	**150**	112	34 %
Total assets	**6,257**	5,791	8 %	**7,694**	4,752	62 %
Capital expenditure	**294**	182	62 %	**245**	141	74 %
Acquisitions	**150**	1,791	-92 %	**3,544**	62	--
Employees (per capita on balance sheet date)	**52,062**	48,169	8 %	**38,597**	31,031	24 %

Asia-Pacific			Latin America			Africa			Fresenius Group		
2006	2005	Change	**2006**	2005	Change	**2006**	2005	Change	**2006**	2005	Change
696	557	25 %	**452**	356	27 %	**231**	200	16 %	**10,776**	7,889	37 %
6 %	7 %		**4 %**	5 %		**2 %**	3 %		**100 %**	100 %	
103	59	75 %	**48**	32	50 %	**24**	21	14 %	**1,443**	967	49 %
20	22	-9 %	**16**	14	14 %	**3**	2	50 %	**406**	325	25 %
573	556	3 %	**443**	428	4 %	**57**	75	-24 %	**15,024**	11,602	29 %
25	15	67 %	**38**	17	124 %	**4**	2	100 %	**606**	357	70 %
4	33	-88 %	**13**	7	86 %	**3**	1	--	**3,714**	1,894	96 %
4,968	4,296	16 %	**8,499**	7,772	9 %	**746**	703	6 %	**104,872**	91,971	14 %

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1. PRINCIPLES

I. GROUP STRUCTURE

Fresenius is a worldwide operating health care group with products and services for dialysis, the hospital and the medical care of patients at home. Further areas of activity are hospital operations as well as engineering and services for hospitals. In addition to the activities of the Fresenius AG, the operating activities are split into the following legally-independent business segments (sub-groups) as of December 31, 2006:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats 163,517 patients in its 2,108 own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe is a leading German hospital operator. Moreover, the company offers engineering and services for hospitals and other health care facilities.

Fresenius AG owned 36.6 % of the ordinary voting shares of Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) and Fresenius AG's share of the total subscribed capital of FMC-AG & Co. KGaA continued to be 36.1 % at the end of the fiscal year 2006. Fresenius Medical Care Management AG (FMC Management AG), the general partner of FMC-AG & Co. KGaA, is a wholly-owned subsidiary of Fresenius AG. Due to this structure, FMC-AG & Co. KGaA is fully consolidated in the consolidated financial statements of the Fresenius Group. Fresenius AG continued to hold 100 % of the management companies of business segments Fresenius Kabi (Fresenius Kabi AG) and Fresenius ProServe (Fresenius ProServe GmbH) on December 31, 2006. In addition, Fresenius AG holds interests in companies with holding functions regarding real estate, financing and insurance, as well as in Fresenius Netcare GmbH which offers services in the field of information technology and in Fresenius Biotech Beteiligungs GmbH.

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

II. CONVERSION OF FRESENIUS AG INTO A EUROPEAN COMPANY (SE) AND NEW DIVISION OF THE SUBSCRIBED CAPITAL

On December 4, 2006, at the Extraordinary General Meeting Fresenius AG's shareholders approved the proposal to convert the Company's legal form from a German stock corporation (Aktiengesellschaft) into a European Company (Societas Europaea – SE). The conversion becomes effective upon the registration in the commercial register. This is scheduled for the third quarter of 2007 after the completion of the procedure for the involvement of the employees. Fresenius AG's name after the conversion will be Fresenius SE. The conversion of Fresenius AG into an SE does neither lead to a liquidation of the company nor the formation of a new legal entity. The Company's corporate structure and management organization as well as the interests of the shareholders in the company continue to exist unchanged because of the identity of the legal entity. In the statutes of the future Fresenius SE the existing two-tier system consisting of Management Board and Supervisory Board will remain unchanged. The Supervisory Board of Fresenius SE will continue to have twelve members.

Furthermore, Fresenius AG's shareholders approved at the Extraordinary General Meeting to conduct a new division of the subscribed capital of Fresenius AG (share split) in connection with a capital increase from the company's funds without the issuance of new shares. As a result, the number of ordinary shares and preference shares issued tripled. The share split in connection with an increase of the subscribed capital became effective upon the registration in the commercial register on January 24, 2007. The subscribed capital of Fresenius AG amounted to € 131,715,307.52 before the registration in the commercial register and was divided into 25,725,646 ordinary shares and 25,725,646 preference shares. Through a conversion of capital reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided into 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is € 1,00 per share. After the share split, every holder of an ordinary share holds three ordinary shares and every holder of a preference share holds three preference shares.

III. TRANSFORMATION OF FRESENIUS MEDICAL CARE AG'S LEGAL FORM AND CONVERSION OF ITS PREFERENCE SHARES

On February 10, 2006, Fresenius Medical Care completed and registered in the commercial register of the local court in Hof an der Saale, the transformation of its legal form under German law from a stock corporation (Aktiengesellschaft) to a partnership limited by shares (Kommanditgesellschaft auf Aktien) with the name Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA). The transformation was approved by its shareholders during an Extraordinary General Meeting held on August 30, 2005 (EGM). Fresenius Medical Care as a KGaA is the same legal entity under German law, rather than a successor to the AG. FMC Management AG, a wholly-owned subsidiary of Fresenius AG, the majority voting shareholder of Fresenius Medical Care AG prior to the transformation, is the general partner of FMC-AG & Co. KGaA. FMC Management AG assumed the management of Fresenius Medical Care through its position as general partner. FMC Management AG was formed for the sole purpose of serving as the general partner of FMC-AG & Co. KGaA and managing the business of FMC-AG & Co. KGaA. FMC Management AG has the same duty to FMC-AG & Co. KGaA as the Management Board of a stock corporation has to the corporation. The Management Board of FMC Management AG must carefully conduct the business of FMC-AG & Co. KGaA and is liable for any breaches of its obligations. The Supervisory Board of FMC Management AG, elected by Fresenius AG, must carefully supervise the Management Board of FMC Management AG in the conduct of the business of FMC-AG & Co. KGaA. The Supervisory Board of FMC-AG & Co. KGaA, which is elected by Fresenius Medical Care's shareholders (other than Fresenius AG), oversees the management of the business of Fresenius Medical Care, but has less power and scope for influence than the supervisory board of a stock corporation. Upon effectiveness of the transformation of legal form, the share capital of Fresenius Medical Care AG became the share capital of FMC-AG & Co. KGaA, and persons who were shareholders of Fresenius Medical Care AG became shareholders of the company in its new legal form.

This transformation of legal form has no impact on the consolidation of Fresenius Medical Care in the consolidated financial statements of the Fresenius Group.

Prior to registration of the transformation of legal form, Fresenius Medical Care AG offered holders of its non-voting preference shares (including preference shares represented by American Depositary Shares (ADSs)) the opportunity to convert their shares into ordinary shares at a conversion ratio of one preference share plus a conversion premium of € 9.75 per ordinary share. Fresenius Medical Care received a total of € 258 million in premiums from the holders upon the conversion of their preference shares, net of costs of € 2 million.

Several ordinary shareholders challenged the resolutions adopted at the EGM approving the conversion of the preference shares into ordinary shares, the adjustment of the employee participation programs, the creation of authorized capital and the transformation of the legal form of Fresenius Medical Care AG, with the objective of having the resolutions declared null and void. On December 19, 2005, Fresenius Medical Care AG and the claimants agreed to a settlement with the participation of Fresenius AG and FMC Management AG, and all proceedings were terminated. Fresenius Medical Care agreed to bear court fees and shareholder legal expenses in connection with the settlement. The total costs of the settlement were estimated to be € 5.9 million. A further part of the settlement agreement and German law require that these costs be borne by Fresenius AG and FMC Management AG. Under accounting principles, however, these costs must be reflected by the entity benefiting from the actions of its controlling shareholder. The actual total costs of all ex gratia payments and all payments to shareholders who voted against the conversion proposal and who filed written claims in a timely fashion incurred in the settlement were € 5.2 million. The difference of € 0.7 million was recorded as a reduction of selling, general and administrative expense and additional paid in capital within shareholders' equity in the year 2006.

IV. BASIS OF PRESENTATION

Since January 1, 2005, Fresenius AG as a stock exchange listed company with a domicile in a member state of the European Union has the obligation to prepare and publish the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applying § 315a of the German Commercial Code (HGB). The consolidated financial statements of Fresenius AG at December 31, 2006 have been prepared and will be published in accordance with the Standards valid on the balance sheet date issued by the International Accounting Standards Board (IASB) and the mandatory Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), which are binding to be applied in the EU. In addition, the Fresenius Group voluntarily continues to prepare and publish consolidated financial statements in accordance with United States Generally Accepted Accounting Principles (US GAAP).

In order to improve clarity of presentation, various items are aggregated in the consolidated balance sheet and statement of income. These items are analyzed separately in the Notes where this provides useful information to the users of the consolidated financial statements.

Moreover, the Notes include information required by HGB according to § 315a (1) sentence 1 HGB. The consolidated financial statements include a management report according to § 315a HGB in conjunction with § 315 HGB.

The consolidated balance sheet contains all information required to be disclosed by IAS 1 (Presentation of Financial Statements) and is in accordance with RIC 1 (Balance Sheet Classification according to current/non-current Distinction in compliance with IAS 1 Presentation of Financial Statements) classified on the basis of the liquidity of assets and liabilities following the consolidated balance sheet in accordance with US GAAP; the consolidated statement of income is classified using the cost-of-sales accounting format.

At February 23, 2007, the Management Board authorized the consolidated financial statements for issue and passed it through to the Supervisory Board. The Supervisory Board has to control and approve the consolidated financial statements.

V. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Priciple of consolidation

The financial statements of consolidated entities have been prepared using uniform accounting methods in accordance with IAS 27 (Consolidated and Separate Financial Statements).

Capital consolidation is performed according to IFRS 3 (Business Combinations) by offsetting investments in subsidiaries against the underlying revaluated equity at the date of acquisition. The identifiable assets and liabilities of subsidiaries are recognized at their fair values. Any remaining debit balance is recognized as goodwill and is tested at least once a year for impairment.

The equity method is applied in accordance with IAS 28 (Investments in Associates).

All significant intercompany revenues, expenses, income, receivables and payables are eliminated.

Profits and losses on items of property, plant and equipment and inventory acquired from other group entities are also eliminated.

Deferred tax assets and liabilities are recognized on temporary differences resulting from consolidation procedures.

Minority interest comprises the interest of minority shareholders in the consolidated equity of group entities, including profits and losses attributable to the minority shareholders.

b) Composition of the Group

Besides Fresenius AG, the consolidated financial statements include all material subsidiaries in which Fresenius AG, directly or indirectly, holds a majority investment or the majority of the voting power and has the possibility of control.

Special purpose entities as defined by SIC 12 (Consolidation – Special Purpose Entities) are consolidated if they are controlled by a Fresenius Group company, i. e. risk and rewards remain with the Group.

Joint ventures and entities in which Fresenius AG, directly or indirectly, holds between 20 % and 50 % of the voting power and can exercise a significant influence over their financial and operating policies, are consolidated using the equity method.

The consolidated financial statements of the year 2006 include, in addition to Fresenius AG, 123 (2005: 117) German and 838 (2005: 634) foreign companies.

The composition of the Group changed as follows:

	Germany	Abroad	Total
December 31, 2005	**117**	**634**	**751**
Additions	16	246	262
of which newly founded	2	4	6
of which acquired	9	235	244
Disposals	10	42	52
of which no longer consolidated	4	36	40
of which merged	6	6	12
December 31, 2006	**123**	**838**	**961**

13 companies (2005: 17) were accounted for under the equity method.

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

c) Classifications

Certain items in the prior year's consolidated financial statements have been reclassified to conform with the current year's presentation. In the year 2005, the reclassification includes € 100 million relating to rents for clinics of Fresenius Medical Care which were removed from selling, general and administrative expenses and included in its cost of sales. The calculation of earnings per share (see Note 10, Earnings per share) has been adjusted due to the share split of Fresenius AG recorded in the commercial register on January 24, 2007, for the increased number of shares in the fiscal years 2006 and 2005.

d) Sales recognition policy

Sales from services are recognized at amounts estimated to be received under the reimbursement arrangements. Sales are recognized on the date services and related products are provided and the payor is obligated to pay.

Product sales are recognized when title to the product passes to the customers either at the time of shipment, upon receipt by the customer or upon any other terms that clearly define passage of title. As product returns are not typical, no return allowances are established. In case of a return, an appropriate reduction to sales, cost of sales and accounts receivable is made . Sales are stated net of discounts, allowances, settlement discounts and rebates.

In the business segment Fresenius ProServe, sales for long-term production contracts are recognized depending on the individual agreement, using the percentage-of-completion (PoC) method when the conditions of IAS 18 (Revenue) and IAS 11 (Construction Contracts) are met. The sales to be recognized are calculated as a percentage of the costs already incurred based on the estimated total cost of the contract, milestones laid down in the contract or according to the proportion of work completed. Profits are only recognized when the outcome of a production contract accounted for using the PoC method can be measured reliably.

e) Government grants

In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), public sector grants are not recognized until there is reasonable assurance that the respective conditions are met and the grants will be received. At first, the grant is recorded as a liability and as soon as the asset is acquired it is offset against the acquisition costs. Expense-related grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate.

f) Research and development costs

Research costs are incurred in conjunction with original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge. Development is the technical and commercial implementation of research results. Research costs are expensed as incurred. This also applies to non-capitalizable development costs that do not fully meet the criteria for the recognition of an intangible asset set out in IAS 38 (Intangible Assets).

g) Impairment

The Fresenius Group reviews the carrying amount of its property, plant and equipment, its intangible assets with definite useful lives as well as other non-current assets for impairment whenever events or changes in circumstances indicate that the carrying amount is higher than the asset's net realizable value or its value in use in accordance with IAS 36 (Impairment of Assets). The net realizable value of an asset is defined as its fair value less costs to sell. The value in use is the present value of future cash flows expected to be derived from the relevant asset. If it is not possible to estimate the future cash flows from the individual assets, impairment is tested on the basis of the future cash flows of the corresponding cash generating units (CGUs).

Impairment losses, except impairment losses recognized on goodwill, are reversed as soon as the reasons for impairment no longer exist.

In accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) assets held for sale are reported at the lower of their carrying amount and fair value less costs to sell. As long as the company intends to sell the asset, it is not depreciated. Assets to be disposed of other than by sale are considered to be held and used until disposal.

h) Interest

The Fresenius Group includes capitalized interest as part of the cost of the asset if they are directly attributable to the acquisition, construction or manufacture of qualifying assets in accordance with IAS 23 (Borrowing Costs).

For the fiscal years 2006 and 2005, interest of € 5 million and € 2 million, based on an average interest rate of 7.9 % and 7.2 %, respectively, was recognized as a component of the cost of assets.

i) Deferred taxes

In accordance with IAS 12 (Income Taxes), deferred tax assets and liabilities are recognized for the future consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis as well as on consolidation procedures affecting net income. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of existing tax losses available for carryforward where future recoverability is probable.

Deferred taxes are computed using enacted or planned tax rates which are expected to apply in the relevant national jurisdictions when the amounts are recovered.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. The reduction is reversed to the date and extent that it becomes probable that sufficient taxable profit will be available (see Note 9, Income taxes).

j) Earnings per ordinary share and preference share

Basic earnings per ordinary share and preference share are computed in accordance with IAS 33 (Earnings per Share). Basic earnings per ordinary share is computed by dividing net income of the group less preference amounts by the weighted-average number of ordinary shares and preference shares outstanding during the year. Basic earnings per preference share is derived by adding the preference per preference share to the basic earnings per ordinary share. Diluted earnings per share include the effect of all potentially dilutive instruments on ordinary shares and preference shares that would have been outstanding during the year. The awards granted under Fresenius' and Fresenius Medical Care's stock incentive plans (see Note 29, Stock options) can result in a dilutive effect.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash funds and all short-term, liquid investments with original maturities of up to three months.

l) Trade accounts receivable

Trade accounts receivable are stated at their nominal value less allowance for doubtful accounts. Allowances are estimated individually and mainly on the basis of payment history to date, the age structure of balances and the contractual partner involved. In order to assess the appropriateness of allowances, checks are carried out at regular intervals by the Fresenius Group, to determine whether there have been any divergences to previous payment history.

Receivables with maturities exceeding one year and receivables which bear no or lower-than-market interest are discounted.

m) Inventories

In accordance with IAS 2 (Inventories), inventories comprise all assets which are held for sale in the normal course of business (finished products), in the process of production for such sale (work in progress) or consumed in the production process or in the rendering of services (raw materials and supplies).

Inventories are measured at the lower of acquisition or manufacturing cost (determined by using the average or first-in, first-out method) or net realizable value. Manufacturing costs comprise direct costs, production and material overhead, including depreciation charges.

n) Property, plant and equipment

Property, plant and equipment are stated at acquisition and manufacturing cost less accumulated depreciation. Significant improvements are capitalized; repair and maintenance costs that do not extend the useful lives of the assets are charged to expense as incurred. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years for buildings and improvements (with a weighted-average life of 15 years) and 3 to 15 years for machinery and equipment (with a weighted-average life of 10 years).

o) Intangible assets with definite useful lives

In accordance with IAS 38 (Intangible Assets), intangible assets with definite useful lives, for example technology, patents and distribution rights, are amortized over their respective useful lives to their residual values and reviewed for impairment in accordance with IAS 36 (Impairment of Assets) (see Note 1.V.g, Impairment). They could be purchased and internally generated intangible assets. Non-compete agreements have useful lives ranging from 7 to 25 years with an average useful life of 8 years. Technology has a useful live of 15 years. All other intangible assets are amortized over their individual estimated useful lives between 3 and 40 years.

Impairment losses are recognized in the event of losses in value of a lasting nature and are reversed when the reasons for impairment no longer exist.

Development costs are capitalized as manufacturing costs when the recognition criteria set out in IAS 38 (Intangible Assets) are met.

For development costs of dialysis machines manufactured by Fresenius Medical Care, the timing of the recognition as assets is based on the technical utilizability of the machines. Capitalized development costs are amortized on a straight-line basis over a useful life of 10 years.

Fresenius Kabi capitalizes development costs after the registration of a new product. Costs are depreciated on a straight-line basis over a useful life of 5 years.

p) Goodwill and other intangible assets with indefinite useful lives

Intangible assets such as tradenames and certain qualified management contracts acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by IAS 38 (Intangible Assets). They are recorded at acquisition costs. Goodwill and intangible assets with indefinite useful lives are not amortized but tested for impairment annually or when an event becomes known that could trigger an impairment (impairment test).

To perform the annual impairment test of goodwill, the Fresenius Group identified several cash generating units (CGUs) in accordance with IAS 36 (Impairment of Assets) and determined the carrying amount of each CGU by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those CGUs. A CGU is usually defined one level below the segment level according to regions or legal entities. Six CGUs were identified in the segment Fresenius Medical Care (Europe, Latin America, Asia-Pacific, North America Dialysis Products, North America Dialysis Services, North America Laboratory Services), while only one CGU exists in the segment Fresenius Kabi. The segment Fresenius ProServe is divided into three CGUs (HELIOS Group, VAMED Group, Pharmaplan-Group). At least once a year, the Fresenius Group compares the fair value of each CGU to the CGU's carrying amount. The fair value of a CGU is determined using a discounted cash flow approach based upon the cash flow expected to be generated by the CGU. In case that the fair value of the CGU is less than its carrying amount, the difference is at first recorded as an impairment of the fair value of the goodwill.

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

The recoverability of goodwill and other separable intangible assets with indefinite useful lives recorded in the Group's consolidated balance sheet was verified. As a result, the Fresenius Group did not record any impairment losses in 2006 and 2005.

Impairment losses recognized on goodwill in prior years are not reversed at a later date if the reasons for impairment no longer exist.

Any excess of the net fair value of identifiable assets and liabilities over cost still existing after reassessing the purchase price allocation is recognized immediately in profit or loss.

q) Leases

Leased assets assigned to the Fresenius Group based on the risk and rewards approach (finance leases) are recognized as property, plant and equipment in accordance with IAS 17 (Leases) and measured on receipt date at their fair values as long as the present values of the lease payments are not lower. Leased assets are depreciated in straight-line over their useful lives. If there is doubt as to whether title to the asset passes at a later stage and there is no purchase option the asset is depreciated over the lease term, if this is shorter. The payment obligations relating to future lease installments are recognized as financial liabilities. An impairment loss is recognized if the recoverable amount is lower than the amortized cost of the leased asset. The impairment loss is reversed if the reasons for impairment no longer exist.

Finance lease liabilities are measured at the present value of the future lease payments.

Property, plant and equipment, which is rented by the Fresenius Group is accounted at its purchase costs. Its depreciation is calculated using the straight-line method over the leasing time and its expected residual value.

r) Derivative financial instruments

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), derivative financial instruments which primarily include foreign currency forward contracts and interest rate swaps are recognized as assets or liabilities at fair value in the balance sheet. Changes in the fair value of derivative financial instruments classified as fair value hedges and in the corresponding underlyings are recognized periodically in earnings. The effective portion of changes in fair value of cash flow hedges is recognized in accumulated other comprehensive income (loss) in shareholders' equity (see Note 26, Financial instruments). The non-effective portion of cash flow hedges is recognized in earnings immediately.

s) Liabilities

At the balance sheet date, liabilities are stated in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) at amortized cost which normally corresponds to the settlement amount. As general rule, short-term liabilities are measured at their repayment amount.

t) Legal contingencies

From time to time, during the ordinary course of Fresenius Group's operations, the Fresenius Group is party to litigation and arbitration and is subject to investigations relating to various aspects of its business. The Fresenius Group regularly analyzes current information about such claims for probable losses and provides accruals for such matters, including the estimated legal expenses, as appropriate. The Fresenius Group utilizes its internal legal department as well as external resources for these assessments. In making the decision regarding the need for loss accrual, the Fresenius Group considers the degree of probability of an unfavorable outcome and its ability to make a reasonable estimate of the amount of loss. These accruals include expenses for legal and consulting services in connection with these legal issues.

The filing of a suit or formal assertion of a claim or assessment, or the disclosure of any such suit or assertion, does not necessarily indicate that accrual of a loss is appropriate.

u) Other accrued expenses

In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), accruals for taxes and other obligations are recognized when there is a present obligation to a third party arising from past events, it is probable that the obligation will be settled in the future and a reliable estimate can be made of the amount.

Tax accruals include obligations for the current year and for prior periods.

Non-current accruals with a remaining period of more than one year are discounted to the present value of the expenditures expected to settle the obligation.

v) Pension liabilities and similar obligations

Pension obligations for post-employment benefits are measured in accordance with IAS 19 (Employee Benefits) sing the projected unit credit method, taking into account future salary and trends for pension increase. Actuarial gains and losses that exceed a corridor of 10 % of the present value of the defined benefit obligation are spread over the expected average remaining working lives of the employees participating in the plans, adjusted for fluctuation.

w) Debt issuance costs

Debt issuance costs are amortized over the term of the related obligation.

x) Stock option plans

The total cost of stock options and convertible equity instruments granted to members of the Management Board and executive employees of the Fresenius Group at the grant date is measured in accordance with IFRS 2 (Share-based Payment) using an option pricing modell and recognized as expense over the vesting period of the stock option plans.

y) Self-insurance programs

The largest subsidiary of the Fresenius Group in North America is partially self-insured for professional, product and general liability, auto liability and worker's compensation claims under which the Fresenius Group assumes responsibility for incurred claims up to predetermined amounts above which third party insurance applies. Reported balances for the year include estimates of the anticipated expense for claims incurred (both reported and incurred but not reported) based on historical experience and existing claim activity. This experience includes both the rate of claims incidence (number) and claim severity (cost) and is combined with individual claim expectations to estimate the reported amounts.

z) Foreign currency translation

The reporting currency is the euro. The Fresenius Group follows the provisions of IAS 21 (The Effects of Changes in Foreign Exchange Rates). Substantially all assets and liabilities of the foreign subsidiaries are translated at year-end exchange rates, while revenues and expenses are translated at average exchange rates. Adjustments due to foreign currency translation fluctuations are excluded from net earnings and are reported in accumulated other comprehensive income (loss). In addition, the translation adjustments of certain intercompany borrowings, which are considered foreign equity investments, are also reported in accumulated other comprehensive income (loss).

Gains and losses arising from the translation of foreign currency positions as well as those arising from the elimination of foreign currency intercompany loans are recorded as selling, general and administrative expenses, as far as they are not considered foreign equity instruments. Out of this transaction only immaterial gains resulted in the fiscal year 2006.

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

	Year-end exchange rate* Dec 31, 2006	Year-end exchange rate* Dec 31, 2005	**Average exchange rate 2006**	Average exchange rate 2005
US dollar per €	**1.3170**	1.1797	**1.2558**	1.2442
Pound sterling per €	**0.6715**	0.6853	**0.6817**	0.6839
Swedish krona per €	**9.0404**	9.3885	**9.2530**	9.2816
Chinese renminbi per €	**10.2793**	9.5204	**10.0099**	10.1639
Japanese yen per €	**156.93**	138.90	**146.06**	136.86

* mid-closing rate on balance sheet date

aa) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

bb) Receivables management

The entities of the Fresenius Group perform ongoing evaluations of the financial situation of their customers and generally do not require a collateral from the customers for the supply of products and provision of services. Approximately 24 % and 25 % of the sales of the Fresenius Group were earned and subject to the regulations under governmental health care programs, primarily Medicare and Medicaid, administered by the United States government in 2006 and 2005, respectively.

cc) Recent pronouncements and accounting changes

The Fresenius Group has prepared its consolidated financial statements at December 31, 2006 in conformity with IFRS that have to be applied for fiscal years starting on January 1, 2006.

The Fresenius Group applies the following standards, as far as they are relevant for the Fresenius Group's business, for the first time in 2006:

- Amendment to IAS 21 (Effects of Changes in Foreign Exchange Rates)
- Amendment to IAS 39 (Financial Instruments: Recognition and Measurement
  1. Fair Value Option
  2. Financial Guarantee Contracts) and IFRS 4 (Insurance Contracts)
- IFRIC 4 (Determining whether an Arrangement contains a Lease)

The application of the standards is in compliance with the respective transition principles. As far as it is not explicitly mentioned and subsequently separately allowed, changes are applied retroactively. That means the prior periods are presented as if the new accounting policy had always been applied. Amounts of prior years are adjusted accordingly.

In the following, the effects on the consolidated financial statements of the fiscal year 2006 are shown in detail:

In December 2005, the IASB issued an **amendment to IAS 21** (The Effects of Changes in Foreign Exchange Rates). The amendment simplifies the recognition of exchange differences of certain monetary items that form part of a net investment in a foreign operation.

In June 2005, the IASB issued the **amendment to IAS 39** (Financial Instruments: Recognition and Measurement): Fair Value Option. This amendment restricts the use of the fair value option on financial instruments that meet specific criteria.

In August 2005, the IASB issued the **amendment to IAS 39** (Financial Instruments: Recognition and Measurement) and to **IFRS 4** (Insurance Contracts) addressing the accounting for financial contracts. Under the amendments, the issuer generally accounts for financial guarantee contracts as a financial liability. The amendments define a financial guarantee contract as a contract, that requires the issuer to make specified payments to reimburse the holder of the contract for a loss that the holder incurs because a specified debtor fails to make payments when due.

In December 2004, IFRIC issued **IFRIC Interpretation 4** (Determining whether an Arrangement contains a Lease) (IFRIC 4). IFRIC 4 results in the application of IAS 17 (Leases) when an arrangement is place which does not take the legal form of a lease (a so called undisclosed lease agreement) but which qualifies as a lease under the definition contained in IAS 17. A contract is a lease or contains a lease if fulfilment of the arrangement is dependent on the use of a specific asset or specific assets.

dd) New accounting standards

The IASB or IFRIC issued the following for the Fresenius Group relevant new standards and interpretations, which are mandatory for fiscal years commencing on or after January 1, 2007.

- Amendment to IAS 1 (Presentation of Financial Statements)
- IFRS 7 (Financial Instruments: Disclosures)
- IFRS 8 (Operating Segements)
- IFRIC 7 (Applying the Restatement Approach under IAS 29 (Financial Reporting in Hyperinflationary Economies))
- IFRIC 8 (Scope of IFRS 2)
- IFRIC 9 (Reassessment of Embedded Derivatives)
- IFRIC 10 (Interim Financial Reporting and Impairment)
- IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions)
- IFRIC 12 (Service Concession Arrangements)

In August 2005, the IASB issued the **amendment to IAS 1** (Presentation of Financial Statements). The changes to IAS 1 require an entity to disclose certain quantitative information about its objectives, policies and processes for their capital management. Application of this amendment is mandatory for fiscal years commencing on or after January 1, 2007. The first time adoption of IAS 1 in the fiscal year 2007 will result in additional notes.

In August 2005, the IASB issued **IFRS 7** (Financial Instruments: Disclosures). IFRS 7 introduces new requirements to improve the information on financial instruments with regard to risk management, besides the already existing disclosures (about approach/definition, presentation and measurement of financial instruments) in the IFRS-consolidated financial statements. IFRS 7 is effective for fiscal years beginning on or after January 1, 2007. The first time adoption of this standard in the fiscal year 2007 will result in additional notes on financial instruments.

In November 2006, the IASB issued **IFRS 8** (Operating Segments) which replaces IAS 14 (Segment Reporting). IFRS 8 requires an entity to provide certain information about its operating segments in its annual and interim financial statements. Operating segments are determined under IFRS 8 using the financial information provided to and evaluated by the chief operating decision maker (CODM) for the purpose of allocating the entity's resources and evaluating the entity's performance. A reportable segment may include one or more operating segments. However, certain criteria must be met to include more than one operating segment in a reportable segment. IFRS 8 requires the disclosure of specific financial information (e.g. profit or loss and assets) for each reportable segment as well as a reconciliation of certain reportable segment information (e.g. total reportable segment revenues) to the corresponding amount in the entity's financial statements. IFRS 8 requires further disclosures as well, such as information about the revenues generated by an entity's products or services and information about its application of IFRS 8 (e.g. how did the entity determine its operating segments). IFRS 8 is effective for fiscal years beginning on or after January 1, 2009. The Fresenius Group's segment reporting has already met the requirements of IFRS 8.

In November 2005, the IFRIC issued **IFRIC Interpretation 7** (Applying the Restatement Approach under IAS 29 (Financial Reporting in Hyperinflationary Economies)) (IFRIC 7). The interpretation clarifies the requirements of IAS 29 relating to two issues that constituents had raised with the IFRIC. The first requirement is how comparative amounts in financial statements should be restated when an entity identifies the existence of hyperinflation in the economy of the currency in which its financial statements are measured (its functional currency). The second requirement is how deferred tax items in the opening balance sheet should be restated. IFRIC 7 shall be applied for fiscal years beginning on or after March 1, 2006. The Fresenius Group is currently analyzing the potential impact of the interpretation, if any, on the Group's consolidated financial statements.

In January 2006, the IFRIC issued **IFRIC Interpretation 8** (Scope of IFRS 2) (IFRIC 8). The interpretation clarifies that IFRS 2 (Share-based Payment) applies to arrangements where an entity makes share-based payments for non or inadequate consideration. IFRIC 8 explains that, if the identifiable consideration given appears to be of less value than the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. In accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), IFRIC 8 shall be applied retroactively for fiscal years beginning on or after May 1, 2006. The Fresenius Group is currently analyzing the potential impact of the interpretation, if any, on the Group's consolidated financial statements.

In March 2006, the IFRIC issued **IFRIC Interpretation 9** (Reassessment of Embedded Derivatives) (IFRIC 9). This interpretation clarifies the treatment of embedded derivatives after first time recognition. The conditions as explained in IAS 39 regulate, if an embedded derivative has to be recognized separately and to be measured as a derivative financial instrument. IFRIC 9 shall be applied for fiscal years beginning on or after June 1, 2006. The Fresenius Group is currently analyzing the potential impact of the interpretation, if any, on the Group's consolidated financial statements.

In July 2006, the IFRIC issued **IFRIC Interpretation 10** (Interim Financial Reporting and Impairment) (IFRIC 10). IFRIC 10 addresses the interaction between certain requirements in IAS 34 (Interim Financial Reporting) and the requirements of IAS 36 (Impairment of Assets) on the recognition of impairment losses on goodwill and the requirements of IAS 39 (Financial Instruments: Recognition and Measurement) on certain financial assets, and the effect of those interactions on subsequent interim and annual financial statements. IFRIC 10 states that any such impairment loss recognized in an interim financial statement must not be reversed in subsequent interim or annual financial statements. The IFRIC explicitly concluded that this consensus should not be extended to address potential conflicts between IAS 34 and other standards. IFRIC 10 shall be applied for fiscal years beginning on or after November 1, 2006. The interpretation has currently no impact on the Group's consolidated financial statements.

In November 2006, the IFRIC issued **IFRIC Interpretation 11** (IFRS 2 – Group and Treasury Share Transactions) (IFRIC 11). The interpretation addresses how to apply IFRS 2 to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity of the same group. The interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. The interpretation also provides guidance on whether share-based payment arrangements should be accounted for as cash-settled or equity-settled in the entity's financial statements, if equity instruments of the parent company are granted. IFRIC 11 shall be applied for fiscal years beginning on or after March 1, 2007. The Fresenius Group is currently analyzing the potential impact of the interpretation, if any, on the Group's consolidated financial statements.

In November 2006, the IFRIC issued **IFRIC Interpretation 12** (Service Concession Arrangements) (IFRIC 12). Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services – such as roads, airports, prisons, and energy and water supply and distribution facilities – to private sector operators. Control of the assets remains in public hands, but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. IFRIC 12 shall be applied for fiscal years beginning on or after January 1, 2008. The Fresenius Group is currently analyzing the potential impact of the interpretation, if any, on the Group's consolidated financial statements.

The endorsements of IFRIC 10 and IFRIC 11 by the EU Commission are still outstanding.

VI. CRITICAL ACCOUNTING POLICIES

In the opinion of the Management of the Fresenius Group, the following accounting policies and topics are critical for the consolidated financial statements in the present economic environment. The influences and judgements as well as the uncertainties which affect them are also important factors to be considered when looking at present and future operating earnings of the Fresenius Group.

a) Recoverability of goodwill and intangible assets with indefinite useful lives

Fresenius Group's acquisitions in the fiscal year have created a significant amount of intangible assets, including goodwill, tradenames and management contracts. At December 31, 2006 and December 31, 2005, the carrying amount of goodwill and non-amortizable intangible assets with indefinite useful lives amounted to € 7,469 million and € 5,085 million, respectively, which represented 50 % and 44 %, respectively, of total assets.

In accordance with IFRS 3 (Business Combinations), an impairment test of goodwill and non-amortizable intangible assets with indefinite useful lives is performed at least once a year, or if events occur or circumstances change that would indicate the carrying amount might be impaired (impairment test).

To comply with the regulation of IFRS 3 and determine possible impairments of these assets, the fair value of the cash generating units (CGUs) is compared to the CGUs' carrying amount. The fair value of each CGU is estimated using estimated future cash flows for the unit discounted by a weighted-average cost of capital (WACC) specific to that CGU. Estimating the discounted future cash flows involves significant assumptions, especially regarding future reimbursement rates and sales prices, number of treatments, sales volumes and costs. In determining discounted cash flows, the Fresenius Group utilizes for every CGU its three-year budget, projections for years four to ten and a corresponding growth rate for all remaining years. These growth rates are for Fresenius Medical Care between 0 % and 4 %, for Fresenius Kabi 2 % and for Fresenius ProServe 1 %. This discount factor is determined by the WACC of the respective CGU. The Fresenius Medical Care's WACC consists of a basic rate of 6.83 % for 2006. This basic rate is then adjusted by a country specific risk rate within each CGU for determining the CGU's fair value. In 2006, this rate ranged from 0 % to 9 %. In the business segments Fresenius ProServe and Fresenius Kabi, the WACC amounts to 6.75 %, country specific adjustments did not occur. In case that the fair value of the CGU is less than its carrying amount the difference is at first recorded as an impairment of the fair value of the goodwill. In case that the fair value of the CGU is less than its carrying amount, the difference is at first recorded as an impairment of the fair value of the goodwill.

A prolonged downturn in the health care industry with higher than expected costs for providing health care services could adversely affect the estimated future cash flows of certain countries or segments. Future adverse changes in a reporting unit's economic environment could affect the discount rate. A decrease in the estimated future cash flows and/or a decline in the reporting unit`s economic environment could result in impairment charges to goodwill and other intangible assets with indefinite lives which could materially and adversely affect the Group's future operating results.

b) Legal contingencies

The Fresenius Group is involved in several legal matters arising from the ordinary course of Fresenius Group's business. For details, please see Note 25, Commitments and contingent liabilities.

The Fresenius Group regularly analyses current information including its legal defenses and provides accruals for probable contingent losses including the estimated legal expenses to resolve the matters. Fresenius uses the resources of its internal legal department as well as external lawyers for the assessment. In making the decision regarding the need for loss accrual, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss is considered.

The filing of a suit or formal assertion of a claim or assessment, or the disclosure of any such suit or assertion, does not necessarily indicate that accrual of a loss is appropriate.

c) Allowance for doubtful accounts

Trade accounts receivable are a significant asset and the allowance for doubtful accounts is a significant estimate made by the Management. Trade accounts receivable were € 2,088 million and € 1,871 million in 2006 and 2005, respectively, net of allowance. More than two thirds of receivables derives from the business segment Fresenius Medical Care and mainly relates to the dialysis care business in North America.

The allowance for doubtful accounts was € 218 million and € 200 million as of December 31, 2006 and December 31, 2005, respectively.

Sales are invoiced at amounts estimated to be receivable under reimbursement arrangements with third party payors. Estimates for the allowance for doubtful accounts are mainly based on historic collection experience, taking into account the aging of accounts receivable and the contract partners. The Fresenius Group believes that these analyses result in a well-founded estimate of allowances for doubtful accounts. From time to time, the Fresenius Group reviews changes in collection experience to ensure the appropriateness of the allowances.

Deterioration in the aging of receivables and collection difficulties could require that Fresenius increases the estimates of allowances for doubtful accounts. Additional expenses for uncollectible receivables could have a significant negative impact on future operating results.

d) Self-insurance programs

The largest subsidiary of the Fresenius Group in North America is partially self-insured for professional, product and general liability, auto liability and worker's compensation claims under which the Fresenius Group assumes responsibility for incurred claims up to predetermined amounts above which third party insurance applies. Reported balances for the year include estimates of the anticipated expense for claims incurred (both reported and incurred but not reported) based on historical experience and existing claim activity. This experience includes both the rate of claims incidence (number) and claim severity (cost) and is combined with individual claim expectations to estimate the reported amounts.

2. ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

The Fresenius Group made acquisitions amounting to € 3,714 million and € 1,894 million in 2006 and 2005, respectively. Of this amount, € 3,657 million were paid in cash and € 17 million were assumed obligations in the year 2006. Futhermore, € 42 million were paid in stocks, and a purchase price in an amount of € 7 million is still outstanding. In connection with an acquisition in the first quarter of 2005, purchase price considerations in an amount of € 30 million were due in subsequent years, whereof € 9 million were paid in 2006.

All acquisitions have been accounted for applying the purchase method and accordingly have been consolidated starting with the date of acquisition. The excess of the total acquisition costs over the fair value of the net assets acquired amounted to € 2.8 billion and € 1.5 billion in 2006 and 2005, respectively.

Acquisitions of Fresenius Medical Care in the year 2006 in an amount of € 3,561 million related mainly to the purchase of Renal Care Group, Inc. (RCG).

On March 31, 2006, Fresenius Medical Care completed the acquisition of RCG, a Delaware corporation with principal offices in Nashville, Tennessee, for an all cash purchase price, net of cash acquired, of US$ 4,158 million for all of the outstanding common stock and the retirement of RCG stock options. The purchase price included the concurrent repayment of US$ 658 million indebtedness of RCG.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition. This preliminary allocation of the purchase price is based upon the best information available to the Management. Any adjustments to the preliminary allocation, net of related income tax effects, will be recorded with a corresponding adjustment to goodwill.

The preliminary purchase price allocation is as follows:

in million US$

Assets held for sale	330
Other current assets	414
Property, plant and equipment	301
Intangible assets and other assets	150
Goodwill	3,382
Trade accounts payable, accrued expenses and other current liabilities	-276
Income tax payable and deferred taxes	-64
Long-term debt and liabilities from capital lease obligations	-4
Other liabilities	-75
Total allocation of acquisition cost	**4,158**

The purchase price for the acquisition of RCG amounted to US$ 4,158 million plus US$ 57 million for net cash. The purchase price includes additional expenses in amount of US$ 48 million. The balance sheet total according to IFRS prior to the acquisition of US$ 1,754 million has been reduced by US$ 869 million. This effect primarily results from redemption of goodwill and intangible assets amounting to US$ 922 million, which was partly offset by the revaluation of assets in the amount of US$ 53 million. In addition, liabilities increased by US$ 152 million. These liabilities were not recorded in the balance sheet of RCG. Due to the revaluation of the assets and liabilities, the equity (before minority interest) in an amount of US$ 751 million prior to the acquisition has been reduced by US$ 1,021 million to US$ -270 million. The difference between the purchase price including additional expenses and net cash and the proportional equity in an amount of US$ 4,485 million results from reimbursement of acquired indebtedness (US$ 655 million) and acquired liabilities in connection with stock options (US$ 203 million). The remaining difference corresponds to the capitalized intangible assets (US$ 74 million), the capitalized goodwill (US$ 3,364 million) (less deferred tax liabilities in an amount of US$ 2 million) and assets which were sold in connection with the divestiture of clinics of RCG (US$ 191 million) in the second quarter of 2006.

On November 14, 2006, Fresenius Medical Care acquired the worldwide rights to the PhosLo® phosphate binder product business and its related assets of Nabi Biopharmaceuticals, Inc. PhosLo® is an oral application calcium acetate phosphate binder for treatment of hyperphosphatemia primarily in end-stage renal disease patients. Fresenius Medical Care paid cash of US$ 65.3 million including related direct costs of US$ 0.3 million plus a US$ 8 million milestone payment in December 2006 and a US$ 2.5 million milestone payment in 2007. An additional milestone payment of US$ 10.5 million will be paid over the next two to three years, contingent upon the achievement of certain performance criteria. The purchase price was allocated to technology with an estimated useful live of 15 years (US$ 64.8 million), and in-process research and development project (US$ 2.8 million) which is immediately expensed, goodwill (US$ 7.3 million) and other net assets (US$ 0.9 million).

In connection with the transaction, Fresenius Medical Care also acquired worldwide rights to a new product formulation currently under development, which Fresenius Medical Care expects will be submitted for approval in the United States during 2007. Following the successful launch of this new product formulation, Fresenius Medical Care will pay Nabi Biopharmaceuticals, Inc. royalties on sales of the new product formulation commencing upon the first commercialization of the new product and continuing until November 13, 2016. Total consideration, consisting of initial payment, milestone payments and royalties will not exceed US$ 150 million.

In 2005, Fresenius Medical Care made acquisitions amounting to € 108 million, of which € 101 million was paid in cash. Purchase prices in an amount of € 7 million will be paid in subsequent years. The majority of this amount (€ 76 million) was used to purchase dialysis clinics.

In 2006, Fresenius Kabi made acquisitions of € 14 million, referring mainly to subsequent costs for the acquisition of Endomed Laboratório Farmacéutico Ltda., Brazil, as well as the taking over of a distributor in South Africa. In September 2006, Fresenius Kabi has agreed to acquire all stakes in Filaxis, Argentina, and made a down payment. The acquisition still requires approval by the antitrust authorities.

In the year 2005, Fresenius Kabi made acquisitions of € 274 million, referring mainly to the acquisition of the Portuguese company Labesfal – Laboratório de Especialidades Farmacêuticas Almiro S.A. (Labesfal), the Czech company Infusia a.s., the acquisition of the remaining 35 % shares of Beijing Fresenius Kabi Pharmaceutical Co., Ltd., China and the business of Clinico GmbH, Bad Hersfeld, Germany (Clinico).

Fresenius ProServe made acquisitions in an amount of € 139 million, which mainly refers to the acquisition of stakes in the HUMAINE Kliniken GmbH (HUMAINE) by HELIOS Kliniken GmbH (HELIOS) and additional stakes in HELIOS in 2006. Initially, 60 % of the shares of HUMAINE were acquired, for the remaining 40 % HELIOS received an option. Since the beginning of the third quarter of 2006, HUMAINE has been consolidated.

In 2005, Fresenius ProServe made acquisitions of € 1,507 million, referring mainly to the acquisition of HELIOS. In December 2005, Fresenius AG first acquired HELIOS and then assigned its share in HELIOS to Fresenius ProServe GmbH. The purchase price for 100 % of the HELIOS shares was € 1.5 billion plus € 100 million for the net cash position. Fresenius AG acquired 94 % of the HELIOS shares.

In the last quarter of 2006, Fresenius Biotech signed a contract to acquire additional shares of Trion Pharma GmbH, Germany in an amount of € 9 million. Contingent upon the achievement of certain performance criteria, additional contractual milestone payments in a maximum amount of € 14 million have been agreed. The acquisition was closed in the first quarter of 2007. In 2005, Fresenius Biotech paid additional costs in an amount of € 4 million for the shares of Trion Pharma GmbH acquired in 2002.

IMPACTS ON THE FRESENIUS GROUP RESULTING FROM ACQUISITIONS

The acquisitions completed in 2006, or which were included in the consolidated statements for the first full year, contributed the following amounts to the development of sales and earnings:

in million €	2006
Sales	2,202
EBITDA	378
EBIT	308
Net interest	-186
Net income	71

The acquisitions increased the total assets of the Fresenius Group by € 3.8 billion mainly due to the acquisition of RCG (€ 3.5 billion).

The following unaudited financial information, on a pro forma basis, reflects the consolidated results of operations as if the acquisition of RCG, the main acquisition in the year 2006, and the divestitures of the clinics described below had been consummated at the beginning of 2006. The pro forma information includes adjustments mainly for interest expense on acquisition debt and income taxes. The pro forma financial information is not necessarily indicative of the results of operations as it would have been had the acquisition of RCG been consummated at the beginning of the respective period.

in million €	as reported	pro forma
Sales	10,776	11,023
Net income	330	330
Basic earnings per ordinary share in €	2.15	2.15
Fully diluted earnings per ordinary share in €	2.12	2.12
Basic earnings per preference share in €	2.16	2.16
Fully diluted earnings per preference share in €	2.13	2.13

DIVESTITURES

Fresenius Medical Care was required to divest a total of 105 renal dialysis centers, consisting of both former Fresenius Medical Care clinics (legacy clinics) and former RCG clinics, in order to complete the RCG acquisition in accordance with a consent order issued by the United States Federal Trade Commission (FTC) on March 31, 2006. Fresenius Medical Care sold 96 of such centers on April 7, 2006 to a wholly-owned subsidiary of DSI Holding Company, Inc. (DSI) and sold DSI the remaining 9 centers effective as of June 30, 2006. Separately, in December 2006, Fresenius Medical Care also sold the former laboratory business acquired in the RCG acquisition receiving cash consideration of US$ 9 million. Fresenius Medical Care received cash consideration of US$ 516 million, net of related expenses, for all centers divested and for the divested laboratory, subject to customary post-closing adjustments. Pre-tax income of US$ 40 million on the sale of the legacy clinics was recorded in income from operations. Due to basis differences, tax expense of US$ 44 million was recorded, resulting in a net loss on sale of US$ 4 million.

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

3. SALES

Sales by activity are as follows:

in million €	**2006**	2005
Sales of services	**7,017**	4,462
Sales of products and related goods	**3,426**	3,113
Sales from long-term production contracts	**333**	314
Other sales	**–**	–
Sales	**10,776**	7,889

An analysis of sales by business segment and region is shown in the segment information on pages 52 to 55.

4. COST OF SALES

Cost of sales comprises the following:

in million €	**2006**	2005
Costs of services	**5,241**	3,373
Manufacturing cost of products and related goods	**1,829**	1,668
Cost of long-term production contracts	**269**	253
Other cost of sales	**–**	–
Cost of sales	**7,339**	5,294

5. PERSONNEL EXPENSES

Cost of sales, selling, general and administrative expenses and expenditure on research and development include personnel expenses amounting to € 3,959 million and € 2,479 million in the year 2006 and 2005, respectively.

Personnel expenses comprise the following:

in million €	**2006**	2005
Wages and salaries	**3,217**	1,990
Social security contributions and cost of retirement pensions and social assistance	**742**	489
thereof amount for retirement pensions	**90**	54
Personnel expenses	**3,959**	2,479

The annual average number of employees by function in the Fresenius Group was:

	2006	2005
Production and service	**79,025**	53,334
Administration	**12,922**	11,084
Sales and marketing	**6,852**	6,340
Research and development	**888**	853
Total employees	**99,687**	71,611

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses amount to € 432 million (2005: € 402 million) and mainly include expenditure for sales personnel amounting to € 209 million (2005: € 184 million).

General and administrative expenses amounted to € 1,396 million (2005: € 1,079 million) and are related to expenditure for administrative functions not attributable to research and development, production or selling.

7. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of € 166 million (2005: € 147 million) include expenditure for research and non-capitalizable development costs as well as depreciation and amortization expenses referring to capitalized development costs of € 4 million (2005: € 4 million).

8. NET INTEREST

The negative net interest in an amount of € 395 million, resulting from interest income of € 23 million and interest expenses of € 418 million, includes interest income on interest-bearing securities and loans, gains and losses relating to current securities and all interest expenses. It also includes profit-share and dividend income from current and non-current securities. The interest component of additions to provisions comprises the expense arising from unwinding the interest each year on non-current provisions in conjunction with their measurement at present value.

9. INCOME TAXES

Earnings before income taxes and minority interest is attributable to the following geographic regions:

in million €	**2006**	2005
Germany	**191**	80
Abroad	**857**	684
Total	**1,048**	764

Income tax expense (benefit) for the years 2006 and 2005 consists of the following:

in million €	**Germany**	**Abroad**	**2006 Total**	Germany	Abroad	2005 Total
Current taxes	**119**	**218**	**337**	37	242	279
Deferred taxes	**-27**	**103**	**76**	-13	27	14
Income taxes	**92**	**321**	**413**	24	269	293

In the years 2006 and 2005, Fresenius AG is subject to German federal corporation income tax at a base rate of 25 % plus a solidarity surcharge of 5.5 % on federal corporation taxes payable.

A reconciliation between the expected and actual income tax expense is shown below. The expected corporate income tax expense is computed by applying the German corporation tax rate (including the solidarity surcharge) and the effective trade tax rate on income before income taxes and minority interest. The respective combined tax rates are 37.36 % for the fiscal year 2006 and 37.31 % for the fiscal year 2005.

in million €	**2006**	2005
Computed "expected" income tax expense	**391**	285
Increase (reduction) in income taxes resulting from:		
Items not recognized for tax purposes	**18**	31
Foreign tax rate differential	**-25**	-23
Tax-free income	**-26**	-18
Taxes for prior years	**47**	23
Taxes in connection with divestitures	**23**	0
Other	**-15**	-5
Income tax	**413**	293
Effective tax rate	**39.4%**	38.4%

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

in million €	2006	2005
Deferred tax assets		
Accounts receivable	**36**	25
Inventories	**39**	39
Other current assets	**–**	7
Other non-current assets	**60**	32
Accrued expenses	**211**	179
Other short-term liabilities	**17**	14
Other liabilities	**21**	10
Pension obligations	**17**	21
Losses carried forward from prior years	**67**	50
Deferred tax assets	**468**	377
Deferred tax liabilities		
Accounts receivable	**10**	10
Inventories	**11**	12
Other current assets	**–**	3
Other non-current assets	**297**	270
Accrued expenses	**58**	50
Other short-term liabilities	**32**	47
Other liabilities	**34**	23
Deferred tax liabilities	**442**	415
Accumulated deferred taxes	**26**	-38

in million €	2006	2005
Deferred tax assets	**384**	283
Deferred tax liabilities	**358**	321
Accumulated deferred taxes	**26**	-38

The expiration of net operating losses is as follows:

for the fiscal years	in million €
2007	12
2008	6
2009	5
2010	10
2011	10
2012	5
2013	2
2014	1
2015	0
2016	0
Subsequent years	12
Total	**63**

The total remaining operating losses of € 357 million can mainly be carried forward for an unlimited period.

In assessing the realizability of deferred tax assets, the Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Management of Fresenius Group believes it is more likely than not that the Fresenius Group will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2006.

Provision has not been made for additional taxes on approximately € 846 million undistributed earnings of foreign subsidiaries of Fresenius Medical Care as these earnings are considered permanently reinvested.

10. EARNINGS PER SHARE

The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations and shows the basic and fully diluted earnings per ordinary and preference share, retroactively considering the share split of Fresenius AG entered into the commercial register on January 24, 2007, for the years ending December 31.

in million €, except amounts per share (€)	2006	2005
Numerators		
Net income	330	222
less preference on preference shares	1	1
less effect from dilution due to Fresenius Medical Care shares	1	–
Income available to all classes of shares	328	221
Denominators (number of shares)		
Weighted-average number of ordinary shares outstanding	76,503,006	60,820,624
Weighted-average number of preference shares outstanding	76,503,006	60,820,624
Weighted-average number of shares outstanding of all classes	153,006,012	125,641,248
Potentially dilutive ordinary shares	758,400	488,247
Potentially dilutive preference shares	758,400	488,247
Weighted-average number of shares outstanding of all classes assuming dilution	154,522,812	126,617,742
Weighted-average number of ordinary shares outstanding assuming dilution	77,261,406	63,308,871
Weighted-average number of preference shares outstanding assuming dilution	77,261,406	63,308,871
Basic earnings per ordinary share	2.15	1.76
Preference per preference share	0.01	0.01
Basic earnings per preference share	2.16	1.77
Fully diluted earnings per ordinary share	2.12	1.75
Preference per preference share	0.01	0.01
Fully diluted earnings per preference share	2.13	1.76

The owners of preference shares are entitled to a preference of € 0.01 per bearer preference share per fiscal year.

NOTES ON THE CONSOLIDATED BALANCE SHEET

11. CASH AND CASH EQUIVALENTS

As of December 31, cash and cash equivalents are as follows:

in million €	2006	2005
Cash	259	209
Securities (with a maturity of up to 90 days)	2	43
Cash and cash equivalents	**261**	252

As of December 31, 2006 and December 31, 2005, committed funds in an amount of € 32 million and € 10 million, respectively, are included in cash and cash equivalents

12. TRADE ACCOUNTS RECEIVABLE

As of December 31, trade accounts receivable are as follows:

in million €	2006	2005
Trade accounts receivable	2,306	2,071
less allowance for doubtful accounts	218	200
Trade accounts receivable, net	**2,088**	1,871

All trade accounts receivable are due within one year.

13. INVENTORIES

As of December 31, inventories consist of the following:

in million €	2006	2005
Raw materials and purchased components	191	176
Work in process	103	117
Finished goods	512	465
less reserves	45	31
Inventories, net	**761**	727

Reversals of write downs of inventory amounted to € 3 million in the year 2006 and 2005, respectively.

The companies of the Fresenius Group are obligated to purchase approximately € 260 million of raw materials and purchased components under fixed terms, of which € 172 million is committed at December 31, 2006 for 2007. The terms of these agreements run one to eight years. Advance payments from customers of € 27 million have been offset against inventories.

Inventories as of December 31, 2006 and December 31, 2005 include approximately € 35 million and approximately € 23 million, respectively, of the product Erythropoietin (EPO), which is supplied by a single source supplier in the United States. Delays, stoppages, or interruptions in the supply of EPO could adversely affect the operating results of Fresenius Medical Care. In October 2006, Fresenius Medical Care entered into a five-year exclusive sourcing and supply agreement with its EPO supplier. Revenues from EPO accounted for approximately 9 % and 10 % of total sales of the Fresenius Group for 2006 and 2005, respectively.

14. PREPAID EXPENSES AND OTHER CURRENT AND NON-CURRENT ASSETS

As of December 31, prepaid expenses and other current and non-current assets comprise the following:

in million €	**2006**	**thereof short-term**	2005	thereof short-term
Accounts receivable resulting from German "Krankenhausfinanzierungsgesetz"	**220**	**160**	175	105
Tax receivables	**126**	**124**	118	115
Prepaid expenses	**74**	**13**	39	10
Derivative financial instruments	**64**	**10**	52	9
Investments and long-term loans	**54**	**0**	72	0
Re-insurance claims	**23**	**0**	24	0
Advances made	**17**	**17**	43	22
Accounts receivable from management contracts in clinics	**10**	**10**	18	18
Other assets	**537**	**403**	306	205
Prepaid expenses and other assets, gross	**1,125**	**737**	847	484
less allowances	**8**	**7**	7	6
Prepaid expenses and other assets, net	**1,117**	**730**	840	478

The receivables resulting from the German "Krankenhausfinanzierungsgesetz" primarily contain approved but not yet received earmarked subsidies of Fresenius ProServe's hospital operations. The approval is evidenced in a letter written by the granting authorities.

Depreciations of € 6 million and € 3 million were recognized on other non-current assets in the fiscal years 2006 and 2005, respectively. In the year 2006 as well as in the year 2005, there were no reclassifications to other non-current assets.

15. PROPERTY, PLANT AND EQUIPMENT

As of December 31, the acquisition and manufacturing costs and accumulated depreciation of property, plant and equipment consist of the following:

ACQUISITION AND MANUFACTURING COSTS

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	**As of December 31, 2006**
Land and land facilities	166	-3	9	3	-1	3	**171**
Buildings and improvements	1,525	-67	149	90	50	66	**1,681**
Machinery and equipment	2,044	-82	96	229	41	146	**2,182**
Machinery, equipment and rental equipment under capital leases	135	-1	6	5	-4	9	**132**
Construction in progress	257	-14	13	263	-98	9	**412**
Property, plant and equipment	4,127	-167	273	590	-12	233	**4,578**

DEPRECIATION

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	**As of December 31, 2006**
Land and land facilities	0	0	0	0	0	0	**0**
Buildings and improvements	504	-29	0	112	2	38	**551**
Machinery and equipment	1,211	-39	0	231	-6	138	**1,259**
Machinery, equipment and rental equipment under capital leases	52	0	0	8	-2	6	**52**
Construction in progress	1	0	0	0	0	0	**1**
Property, plant and equipment	1,768	-68	0	351	-6	182	**1,863**

CARRYING AMOUNTS

in million €	**December 31, 2006**	December 31, 2005
Land and land facilities	**171**	166
Buildings and improvements	**1,130**	1,021
Machinery and equipment	**923**	833
Machinery, equipment and rental equipment under capital leases	**80**	83
Construction in progress	**411**	256
Property, plant and equipment	**2,715**	2,359

Depreciation on property, plant and equipment for the years 2006 and 2005 amounted to € 351 million and € 276 million, respectively.

LEASING

Included in property, plant and equipment as of December 31, 2006 and 2005 were € 142 million and € 111 million, respectively, of peritoneal dialysis cycler machines which Fresenius Medical Care leases to customers with end-stage renal disease on a month-to-month basis and hemodialysis machines which Fresenius Medical Care leases to physicians under operating leases.

To a lesser extent, property, plant and equipment are also leased for the treatment of patients by other business segments.

Depreciation on machinery, equipment and rental equipment under capital leases amounted to € 8 million and € 13 million in the years 2006 and 2005, respectively.

For details of minimum lease payments see Note 19, Debt and liabilities from capital lease obligations.

16. GOODWILL AND OTHER INTANGIBLE ASSETS

In connection with the acquisition of RCG (see Note 2, Acquisitions and divestitures), Fresenius Medical Care and the Fresenius Group performed a detailed review of the identification of intangible assets related to Fresenius Medical Care's dialysis clinic operations in the United States. As part of this review, Fresenius Medical Care and the Fresenius Group considered the conditions for recognition as an intangible asset apart from goodwill and practices in the dialysis care industry. The amortizable intangible assets acquired included US$ 64 million for non-compete agreements, US$ 4 million for acute care agreements, US$ 2 million for lease agreements and US$ 4 million for software.

As a result of the detailed review of the identification of intangible assets related to the RCG acquisition, Fresenius Medical Care and the Fresenius Group concluded that their past practice to identify certain intangible assets separate from goodwill should be revisited and adjusted certain amounts, primarily with respect to patient relationships that had been identified as separate intangible assets in prior business combinations. Additionally, Fresenius Medical Care and the Fresenius Group identified non-compete agreements as separate intangible assets. In connection with the adjustments, the carrying amount of goodwill increased by US$ 35 million, other intangible assets and deferred tax liabilities decreased by US$ 37 million and US$ 2 million, respectively, as of the beginning of the current year.

This accounting treatment did not result in a material understatement of Fresenius Medical Care's and Fresenius Group's results of operations or shareholders' equity in prior years.

As of December 31, the acquisition cost and accumulated amortization of intangible assets consist of the following:

ACQUISITION COST

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2006**
Goodwill	4,700	-406	2,777	129	16	93	**7,123**
Tradenames	204	-19	0	0	0	0	**185**
Non-compete agreements	0	-8	58	0	107	3	**154**
Technology	0	-3	52	0	0	0	**49**
Capitalized development costs	30	0	0	5	0	1	**34**
Patient relationships	137	-8	0	0	-129	0	**0**
Other	446	-32	20	11	-5	34	**406**
Goodwill and other intangible assets	5,517	-476	2,907	145	-11	131	**7,951**

AMORTIZATION

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Disposals	**As of December 31, 2006**
Goodwill	4	0	0	0	0	0	**4**
Tradenames	0	0	0	0	0	0	**0**
Non-compete agreements	0	-5	0	13	85	3	**90**
Technology	0	0	0	0	0	0	**0**
Capitalized development costs	10	0	0	4	0	1	**13**
Patient relationships	96	-6	0	0	-90	0	**0**
Other	152	-7	0	32	3	26	**154**
Goodwill and other intangible assets	262	-18	0	49	-2	30	**261**

CARRYING AMOUNTS

in million €	December 31, 2006	December 31, 2005
Goodwill	7,119	4,696
Tradenames	185	204
Non-compete agreements	64	0
Technology	49	0
Capitalized development costs	21	20
Patient relationships	0	41
Other	252	294
Goodwill and other intangible assets	7,690	5,255

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

REGULARLY AMORTIZABLE INTANGIBLE ASSETS

	December 31, 2006			December 31, 2005		
in million €	Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated amortization	Carrying amount
Non-compete agreements	154	90	64	0	0	0
Technology	49	0	49	0	0	0
Capitalized development costs	34	13	21	30	10	20
Patient relationships	0	0	0	137	96	41
Other	241	154	87	261	152	109
Total	478	257	221	428	258	170

NON-REGULARLY AMORTIZABLE INTANGIBLE ASSETS

	December 31, 2006			December 31, 2005		
in million €	Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated amortization	Carrying amount
Tradenames	185	0	185	204	0	204
Management contracts	165	0	165	185	0	185
Subtotal	350	0	350	389	0	389
Goodwill	7,123	4	7,119	4,700	4	4,696
Total	7,473	4	7,469	5,089	4	5,085

The accumulated amortization of non-amortizable intangible assets is due to impairments in accordance with IAS 36 (Impairment of Assets).

Amortization on intangible assets amounted to € 49 million and € 46 million for the years 2006 and 2005, respectively.

In 2002, in connection with an acquisition, the Fresenius Group acquired research results which have an alternative future use. The costs of € 12 million were recognized as assets and are being amortized over their estimated useful life. In 2005, € 4 million were recognized as subsequent acquisition cost.

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

in million €	2007	2008	2009	2010	2011
Estimated amortization expenses for the next five fiscal years	45	41	36	34	32

The carrying amount of goodwill has developed as follows:

in million €	
Carrying amount as of January 1, 2006	**4,696**
Additions/disposals, net	2,813
Reclassifications	16
Foreign currency translation	-406
Carrying amount as of December 31, 2006	**7,119**

The increase in the carrying amount mainly results from the addition of the goodwill due to the RCG acquisition of approximately € 2.7 billion.

Fresenius Medical Care capitalized development costs in an amount of € 13 million for the fiscal year 2006 (2005: € 13 million). Capitalized development costs are amortized on a straight-line basis over a useful life of 10 years. The amortization expense for the fiscal year 2006 amounted to € 1 million (2005: € 1 million).

In the case of Fresenius Kabi, costs capitalized amounted to € 8 million in the fiscal year 2006 (2005: € 7 million). Amortization is recorded on a straight-line basis over a useful life of 5 years and amounted to € 3 million for the fiscal year 2006 (2005: € 3 million).

17. OTHER ACCRUED EXPENSES

As of December 31, other accrued expenses consist of the following:

in million €	2006	thereof short-term	2005	thereof short-term
Personnel expenses	**301**	**293**	254	242
Advances received	**96**	**96**	84	84
Self-insurance programs	**94**	**94**	64	64
Special charge for legal matters	**87**	**87**	100	100
Legal matters, advisory and audit fees	**49**	**49**	23	23
Bonuses and discounts	**47**	**47**	38	38
Warranties and complaints	**26**	**22**	21	21
Commissions	**20**	**20**	20	20
Physician compensation	**14**	**14**	18	18
All other accrued expenses	**302**	**219**	271	193
Other accrued expenses	**1,036**	**941**	893	815

The following table shows the development of other accrued expenses in the fiscal year:

in million €	As of January 1, 2006	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Utilized	Reversed	**As of December 31, 2006**
Personnel expenses	254	-15	-3	184	-8	-100	-11	**301**
Advances received	84	–	-1	78	-4	-49	-12	**96**
Self-insurance programs	64	-9	–	40	–	-1	–	**94**
Special charge for legal matters	100	-10	0	0	0	-3	0	**87**
Legal matters, advisory and audit fees	23	-1	–	43	-2	-12	-2	**49**
Bonuses and discounts	38	–	–	41	–	-29	-3	**47**
Warranties and complaints	21	1	1	20	–	-14	-3	**26**
Commissions	20	1	–	15	–	-14	-2	**20**
Physician compensation	18	-2	0	0	-2	–	0	**14**
All other accrued expenses	271	-6	-16	136	8	-66	-25	**302**
Total	893	-41	-19	557	-8	-288	-58	**1,036**

Accruals for personnel expenses mainly refer to bonus, severance payments, contribution of partial retirement as well as holiday entitlements.

In 2001, Fresenius Medical Care recorded a US$ 258 million special charge to address legal matters relating to transactions pursuant to the Agreement and Plan of Reorganization dated as of February 4, 1996 by and between W.R. Grace & Co. and Fresenius AG (Merger), estimated liabilities and legal expenses arising in connection with the W.R. Grace & Co. Chapter 11 proceedings (Grace Chapter 11 Proceedings) and the cost of resolving pending litigation and other disputes with certain commercial insurers. During the second quarter of 2003, the court supervising the Grace Chapter 11 Proceedings approved a definitive settlement agreement entered into among Fresenius Medical Care, the committee representing the asbestos creditors and W.R. Grace & Co. Under the settlement agreement, Fresenius Medical Care will pay US$ 115 million (€ 87 million) upon plan confirmation (see Note 25, Commitments and contingent liabilities). With the exception of the proposed US$ 115 million settlement payment, all other matters included in the special charge have been resolved.

18. OTHER LIABILITIES

As of December 31, other liabilities consist of the following:

in million €	**2006**	**thereof short-term**	2005	thereof short-term
Accounts payable resulting from German "Krankenhausfinanzierungsgesetz"	**194**	**168**	174	129
Personnel liabilities	**94**	**91**	114	111
Tax liabilities	**89**	**86**	80	77
Interest liabilities	**64**	**64**	27	27
Advance payments from customers	**63**	**58**	87	82
Derivative financial instruments	**25**	**13**	39	15
Accounts receivable credit balance	**18**	**13**	11	7
All other liabilities	**521**	**387**	393	267
Other liabilities	**1,068**	**880**	925	715

The liabilities resulting from the German "Krankenhausfinanzierungsgesetz" primarily contain earmarked subsidies received but not yet spent by Fresenius ProServe´s hospital operations. This unspent amount is classified as liability.

Of the total amount of other non-current liabilities amounting to € 188 million at December 31, 2006, € 143 million are due in between one and five years and € 45 million are due later than five years. The balance sheet line item "long-term accrued expenses and other long-term liabilities" of € 283 million also includes long-term accrued expenses of € 95 million as of December 31, 2006.

19. DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

SHORT-TERM BORROWINGS

Lines of credit and short-term borrowings

Short-term borrowings of € 330 million and € 824 million at December 31, 2006, and 2005, respectively, consisted of the accounts receivable facility described below and € 128 million borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks. The average interest rates on these borrowings (excluding the accounts receivable facility) at December 31, 2006 and 2005 were 4.45 % and 4.66 %, respectively.

Excluding amounts available under the Fresenius Medical Care 2006 Senior Credit Agreement (as described below), the Fresenius Group had additional approximately € 1 billion available under such commercial bank agreements, which were unused at December 31, 2006. This includes a syndicated credit facility in an amount of € 350 million with a tenor of five years which Fresenius AG concluded with a group of banks on October 13, 2006. In some instances, lines of credit are secured by assets of the Fresenius Group's subsidiary that is party to the agreement or may require the guarantee of the holding company of the respective business segment. In exceptional circumstances, the subsidiary may be required to meet certain covenants. In addition, Fresenius AG has a commercial paper program under which up to € 250 million in short-term notes can be issued. No commercial papers were outstanding as of December 31, 2006.

Accounts receivable facility

Fresenius Medical Care has an asset securitization facility (accounts receivable facility), which is typically renewed in October of each year and was most recently renewed and increased in October 2006. The accounts receivable facility currently provides borrowings up to a maximum of US$ 650 million (€ 494 million) (US$ 460 million (€ 349 million) through October 18, 2006). Under the accounts receivable facility, certain receivables are sold to NMC Funding Corp. (NMC Funding), a wholly-owned subsidiary of Fresenius Medical Care. NMC Funding then assigns undivided ownership interests in the accounts receivable to certain bank investors. Under the terms of the accounts receivable facility, NMC Funding retains the right to recall all transferred interests in the accounts receivable assigned to the banks under the facility. As Fresenius Medical Care has the right at any time to recall the then outstanding interests, the receivables remain on the consolidated balance sheet and the proceeds from the transfer of undivided interests are recorded as short-term borrowings.

At December 31, 2006, there are outstanding short-term borrowings under the accounts receivable facility of US$ 266 million (€ 202 million). NMC Funding pays interest to the bank investors, calculated based on the commercial paper rates for the particular tranches selected. The average interest rate at December 31, 2006 was 5.31 %. Annual refinancing fees, which include legal costs and bank fees (if any), are amortized over the term of the facility.

Bridge loan facility

In October 2005, Fresenius AG entered into an agreement pursuant to which two banks agreed to provide a loan facility in the amount of € 700 million with a term of 364 days to bridge the issuance of a bond. The loan facility was guaranteed by Fresenius Kabi AG and Fresenius ProServe GmbH and was used in addition to the proceeds from the capital increase placed at the end of 2005 to fund the acquisition of HELIOS Kliniken GmbH and the business of Clinico GmbH. From December 1, 2005, the bridge loan facility was reduced by € 100 million to € 600 million because the proceeds from the capital increase exceeded the amount according to the original finance concept. At the end of December 2005, the loan facility was fully used for the payment of the purchase prices of the acquisitions, and was repaid at the end of January 2006 using the proceeds of the bond issuance.

LONG-TERM DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

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

in million €	**2006**	2005
Fresenius Medical Care 2006 Senior Credit Agreement	**2,707**	0
Euro Bonds	**1,100**	400
Euro Notes	**366**	460
European Investment Bank Agreements	**169**	41
Capital lease obligations	**39**	40
Fresenius Medical Care 2003 Senior Credit Agreement	**0**	399
Other	**221**	337
Subtotal	**4,602**	1,677
less current portion	**272**	222
Long-term debt and liabilities from capital lease obligations, less current portion	**4,330**	1,455

Aggregate annual repayments applicable to the above listed long-term debt and liabilities from capital lease obligations for the five years subsequent to December 31, 2006 are:

for the fiscal years	in million €
2007	272
2008	175
2009	451
2010	143
2011	1,054
Subsequent years	2,507
Total	**4,602**

The weighted-average interest rates at the balance sheet date for long-term liabilities are shown in the following table:

in %	**2006**	2005
Liabilities to banks	**6.1**	6.8
Capital lease obligations	**5.9**	5.7

Interest rate risks in connection with liabilities mentioned above are generally hedged with interest rate swaps (for details on interest rate hedges see Note 26, Financial instruments).

Fresenius Medical Care 2006 Senior Credit Agreement

Fresenius Medical Care entered into a new US$ 4.6 billion syndicated credit agreement (Fresenius Medical Care 2006 Senior Credit Agreement) with Bank of America, N.A. (BofA); Deutsche Bank AG New York Branch; The Bank of Nova Scotia; Credit Suisse, Cayman Islands Branch; JP Morgan Chase Bank, National Association; and certain other lenders (collectively the Lenders) on March 31, 2006 which replaced the existing credit agreement (Fresenius Medical Care 2003 Senior Credit Agreement).

The following table shows the available and outstanding amounts under the Fresenius Medical Care 2006 Senior Credit Agreement at December 31, 2006 and under the Fresenius Medical Care 2003 Senior Credit Agreement at December 31, 2005:

	Maximum Amount Available		Balance Outstanding	
in million US$	**2006**	2005	**2006**	2005
Revolving Credit	**1,000**	750	**68**	46
Term Loan A/A-1	**1,760**	425	**1,760**	425
Term Loan B	**1,737**	0	**1,737**	0
Total	**4,497**	1,175	**3,565**	471

In addition, at December 31, 2006, US$ 85 million and at December 31, 2005, US$ 80 million were utilized as letters of credit which are not included as part of the balances outstanding at those dates.

The Fresenius Medical Care 2006 Senior Credit Agreement consists of:

- A 5-year US$ 1 billion revolving credit facility (of which up to US$ 250 million is available for letters of credit, up to US$ 300 million is available for borrowings in certain non-US currencies, up to US$ 150 million is available as swing line loans in US dollars, up to US$ 250 million is available as a competitive loan facility and up to US$ 50 million is available as swing line loans in certain non-US currencies, the total of which cannot exceed US$ 1 billion) which will be due and payable on March 31, 2011.

- A 5-year term loan facility (Loan A) of US$ 1,850 million, also scheduled to mature on March 31, 2011. The Fresenius Medical Care 2006 Senior Credit Agreement requires 19 quarterly payments on Loan A of US$ 30 million each that permanently reduce the term loan facility which began June 30, 2006 and continue through December 31, 2010. The remaining amount outstanding is due on March 31, 2011.
- A 7-year term loan facility (Loan B) of US$ 1,750 million scheduled to mature on March 31, 2013. The terms of the Fresenius Medical Care 2006 Senior Credit Agreement require 28 quarterly payments on Loan B that permanently reduce the term loan facility. The repayment began June 30, 2006. The first 24 quarterly payments will be equal to one quarter of one percent (0.25 %) of the original principal balance outstanding, payments 25 through 28 will be equal to twenty-three and one half percent (23.5 %) of the original principal balance outstanding with the final payment due on March 31, 2013, subject to an early repayment requirement on March 1, 2011 if the Trust Preferred Securities due June 15, 2011 are not repaid or refinanced or their maturity is not extended prior to that date.

Interest on these facilities will be, at Fresenius Medical Care's option, depending on the interest periods chosen, at a rate equal to either LIBOR plus an applicable margin or the higher of (a) BofA's prime rate or (b) the Federal Funds rate plus 0.5 %, plus an applicable margin.

The applicable margin is variable and depends on Fresenius Medical Care's consolidated leverage ratio which is a ratio of its consolidated funded debt less up to US$ 30 million cash and cash equivalents to consolidated EBITDA (as these terms are defined in the Fresenius Medical Care 2006 Senior Credit Agreement).

In addition to scheduled principal payments, indebtedness outstanding under the Fresenius Medical Care 2006 Senior Credit Agreement will be reduced by mandatory prepayments utilizing portions of the net cash proceeds from certain sales of assets, securitization transactions other than Fresenius Medical Care's existing accounts receivable facility, the issuance of subordinated debt other than certain intercompany transactions, certain issuances of equity and excess cash flow.

The obligations under the Fresenius Medical Care 2006 Senior Credit Agreement are secured by pledges of capital stock of certain material subsidiaries in favor of the lenders.

The Fresenius Medical Care 2006 Senior Credit Agreement contains affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Certain of the covenants limit indebtedness of Fresenius Medical Care and investments by Fresenius Medical Care, and require Fresenius Medical Care to maintain certain financial ratios defined in the agreement. Additionally, the Fresenius Medical Care 2006 Senior Credit Agreement provides for a limitation on dividends and other restricted payments which is US$ 240 million for dividends paid in 2007, and increases in subsequent years. Fresenius Medical Care paid dividends of US$ 154 million (€ 120 million) in May of 2006 which was in compliance with the restrictions set forth in the Fresenius Medical Care 2006 Senior Credit Agreement. In default, the outstanding balance under the Fresenius Medical Care 2006 Senior Credit Agreement becomes immediately due and payable at the option of the Lenders. As of December 31, 2006, Fresenius Medical Care is in compliance with all financial covenants under the Fresenius Medical Care 2006 Senior Credit Agreement.

Fresenius Medical Care incurred fees of approximately US$ 86 million in conjunction with the Fresenius Medical Care 2006 Senior Credit Agreement which will be amortized over the life of this agreement and wrote off approximately US$ 15 million in unamortized fees related to its prior Fresenius Medical Care 2003 Senior Credit Agreement in the year 2006.

Euro Bonds

In April 2003, Fresenius Finance B.V. issued Euro Bonds for a total amount of € 400 million in two tranches in order to repay short-term bank loans. Both tranches have a tenor of six years. The first tranche of € 300 million bore interest at 7.75 % p. a. and was callable by the issuer for the first time on April 30, 2006. The redemption prices were fixed at the date of issue. The Fresenius Group issued a tender offer to repurchase the bonds in January 2006 and 71 % of the volume of the first tranche were actually repurchased. At the end of March, Fresenius Finance B.V. has exercised its option to redeem the remaining outstanding amount. The redemption price was 103.875 % or € 1,038.75 per € 1,000 nominal value of the Notes, plus accrued interest. The redemption was effective on April 30, 2006 and payment was made on May 2, 2006. The second tranche of € 100 million bears interest at 7.5 % p. a. and is not callable before maturity.

In January 2006, Fresenius issued a bond with a total value of € 1 billion through its wholly-owned subsidiary Fresenius Finance B.V. The new bond comprises one tranche with a nominal value of € 500 million, a tenor of seven years and an annual coupon of 5.0 % and a second tranche with a nominal value of € 500 million, a tenor of ten years and an annual coupon of 5.5 % as well as a call option for the issuer after five years. The above mentioned bridge loan facility was repaid by the proceeds of this bond issuance.

The Euro Bonds of Fresenius Finance B.V. are guaranteed by Fresenius AG, Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius AG 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 AG and its subsidiaries (excluding FMC-AG & Co. KGaA and its subsidiaries). These covenants include, amongst other things, restrictions in the amount of further debt that can be raised, the payment of dividends, the volume of capital expenditure, the redemption of subordinated liabilities and the mortgaging or sale of assets. Some of these restrictions are lifted automatically when the rating of the company reaches investment grade. In the event of non-compliance with the terms of the Euro Bonds, the bondholders (owning in aggregate more than 25 % of the outstanding Euro Bonds) are entitled to call the Euro Bonds and demand immediate repayments plus interest. As of December 31, 2006, the Fresenius Group is in compliance with all of its covenants.

Euro Notes

The Euro Notes (Schuldscheindarlehen) issued by Fresenius Finance B.V. amounting to € 166 million will mature in 2007 and 2008. The Euro Notes bear variable interest rates and are fully hedged by means of interest rate swaps (for further information on interest rate swaps see Note 26, Financial instruments).

On July 27, 2005, Fresenius Medical Care issued new Euro Notes (Schuldscheindarlehen) totaling € 200 million with a € 126 million tranche at a fixed interest rate of 4.57 % and a € 74 million tranche with a floating rate at EURIBOR plus applicable margin resulting in an interest rate of 5.49 % at December 31, 2006. The Euro Notes mature on July 27, 2009. The proceeds were used to liquidate € 129 million of Euro Notes issued in 2001 that were due in July 2005 and for working capital.

European Investment Bank Agreements

Fresenius Medical Care entered into various credit agreements with the European Investment Bank (EIB) in July 2005 and December 2006 amounting to € 131 million and € 90 million. The July 2005 agreements consist of a term loan of € 41 million (US$ 49 million) and a revolving facility of € 90 million (US$ 116 million). Both agreements have a maturity of 8 years. The December 2006 term loan allows distribution of proceeds for up to 6 separate tranches until June 2008. Each tranche will mature 6 years after the disbursement of proceeds for the respective tranche. Fresenius Medical Care had borrowings under the July 2005 agreements of € 41 million (US$ 49 million) and € 28 million (US$ 36 million) under the term loan and the revolving facility, respectively at December 31, 2006. All advances under these agreements can be denominated in certain foreign currencies including US dollars.

As of December 31, 2006, a subsidiary of Fresenius ProServe had borrowings of € 60 million under a term loan agreement with the EIB. The total amount of this term loan agreement is € 100 million which can be drawn down in several tranches. The term loan will mature in December 2019 and will be permanently reduced with constant half-yearly payments starting in December 2007. In addition, Fresenius AG has a revolving credit line of € 96 million provided by the EIB which had been utilized as of December 31, 2006 with € 40 million. This revolving credit facility is available until June 2013.

The above mentioned loans bear variable interest rates that change quarterly. The US dollar borrowings of Fresenius Medical Care had an interest rate of 5.29 % as of December 31, 2006, the euro borrowings of Fresenius AG and of the subsidiary of Fresenius ProServe bore an interest rate of 3.65 % as of December 31, 2006. The borrowers have options to convert those interest rates into fixed rates. The loans under these EIB Agreements are secured by bank guarantees and have customary covenants. The EIB is a not-for-profit long-term lending institution of the European Union and loans funds at favorable rates for the purpose of capital investment and R & D projects, normally for up to half of the funds required for such projects. The facilities were granted to refinance certain R & D projects, to make investments in expansion and optimization of existing production facilities in Germany and for the construction of a hospital.

Capital lease obligations

Details of capital lease obligations are given below:

in million €	**2006**
Capital lease obligations (minimum lease payments)	**47**
due within one year	7
due between one and five years	22
due later than five years	18
Interest component included in future minimum lease payments	**8**
due within one year	1
due between one and five years	4
due later than five years	3
Present value of capital lease obligations (minimum lease payments)	**39**
due within one year	6
due between one and five years	18
due later than five years	15

20. PENSIONS AND SIMILAR OBLIGATIONS

GENERAL

The Fresenius Group recognizes pension costs and related pension liabilities for current and future benefits to current and former employees of the Fresenius Group. Fresenius Group's pension plans are structured differently according to the legal, economic and financial circumstances in each country. The Fresenius Group currently has two types of plans, defined benefit and defined contribution plans. In general, plan benefits in defined benefit plans are based on all or a portion of the employees' years of services and final salary. Plan benefits in defined contribution plans are usually determined by the employer but may be limited by legislation.

Upon retirement under defined benefit plans, the Fresenius Group is required to pay defined benefits to former employees when the defined benefits become due. Defined benefit plans may be funded or unfunded. The Fresenius Group has funded defined benefit plans in particular in the United States, Norway, the United Kingdom, the Netherlands and Austria.

Actuarial assumptions generally determine benefit obligations under defined benefit plans. The actuarial calculations require the use of estimates. The main factors used in the actuarial calculations affecting the level of the benefit obligations are: assumptions on life expectancy, the discount rate, salary and pension level trends. Under Fresenius Group's funded plans, assets are set aside to meet future payment obligations. An estimated return on the plan assets is recognized as income in the respective period. Actuarial gains and losses are generated when there are variations in the actuarial assumptions and differences between the actual and the estimated return on plan assets for that year. A company's pension liability is impacted by these actuarial gains or losses.

In the case of Fresenius Group's funded plans, the defined benefit obligation is offset against plan assets. A pension liability is recognized in the balance sheet if the defined benefit obligation exceeds the fair value of plan assets. A pension asset is recognized (and reported under other assets in the balance sheet) if the fair value of plan assets exceeds the defined benefit obligation and if the Fresenius Group has a right of reimbursement against the fund or a right to reduce future payments to the fund.

Under defined contribution plans, the Fresenius Group pays defined contributions during the employee's service life which satisfies all obligations of the Fresenius Group to the employee. The Fresenius Group has a defined contribution plan in North America.

DEFINED BENEFIT PENSION PLANS

One half of the pension obligations totaling € 268 million relates to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1988, which applies for most of the German entities of the Fresenius Group. The other half of the benefit obligations relates to individual plans from mostly non-German Group entities.

As of December 31, 2006, the current portion of the pension liability in an amount of € 8 million is recognized as a current liability in the line item "short-term accrued expenses and other short-term liabilities" in the balance sheet. The non-current portion of € 260 million is recorded as non-current pension liability in the balance sheet.

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

Fresenius Medical Care currently has two principal pension plans, one for German employees, and the other covering employees in the United States. During the first quarter of 2002, Fresenius Medical Care's North America subsidiary, Fresenius Medical Care Holdings, Inc. (FMCH), curtailed its defined benefit and supplemental executive retirement plans. Under the curtailment amendment for substantially all employees eligible to participate in the plan, benefits have been frozen as of the curtailment date and no additional defined benefits for future services will be earned. FMCH has retained all employee benefit obligations as of the curtailment date. Each year FMCH contributes at least the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. There was no minimum funding requirement for FMCH for the defined benefit plan in the year 2006. FMCH voluntarily contributed US$ 11 million (€ 9 million) during the year 2006.

The benefit obligation (DBO) of the Fresenius Group amounting to € 553 million (2005: € 571 million) includes € 235 million (2005: € 232 million) which is funded by plan assets and € 318 million (2005: € 339 million) which is covered by pension provisions.

The following table shows the changes in benefit obligations, the changes in plan assets and the funded status of the pension plans. Benefits paid as shown in the changes in benefit obligations represent payments made from both the funded and unfunded plans while the benefits paid as shown in the changes in plan assets include only benefit payments from Fresenius Group's funded benefit plans.

The funded status has developed as follows:

in million €	**2006**	2005
Benefit obligations at the beginning of the year	**571**	434
Changes in entities consolidated	**2**	40
Foreign currency translation	**-20**	26
Service cost	**18**	14
Interest cost	**26**	24
Other changes in plans	**1**	1
Transfer of plan participants	**–**	–
Change in amendments	**-6**	-6
Actuarial losses	**-19**	49
Benefits paid	**-13**	-11
Divestitures	**-7**	0
Benefit obligations at the end of the year	**553**	571
thereof vested	**481**	478
Fair value of plan assets at the beginning of the year	**232**	178
Changes in entities consolidated	**0**	-1
Foreign currency translation	**-18**	21
Actual return on plan assets	**19**	14
Employer contribution	**12**	24
Employee contribution	**1**	1
Transfers	**-6**	0
Benefits paid	**-5**	-5
Fair value of plan assets at the end of the year	**235**	232
Funded status as of December 31	**318**	339
thereof used by the employees of the companies (real estate and other assets)	**0**	0
thereof invested in companies of the Fresenius Group	**0**	0

The discount rates for all plans are derived from an analysis and comparison of yields of portfolios of highly rated equity and debt instruments with maturities that mirror the plan's benefit obligation. Fresenius Group's discount rate is the weighted-average of these plans based upon their benefit obligation at December 31, 2006.

As of 31 December 2006 and 2005, respectively, the pension liability is calculated as follows:

in million €	2006	2005
Funded status	318	339
Unrecognized actuarial loss	-53	-85
Unrecognized prior service cost	3	2
Net amount recognized	268	256

The following weighted-average assumptions were utilized in determining benefit obligations as of December 31:

in %	2006	2005
Discount rate	5.0	4.7
Rate of compensation increase	3.8	3.5
Rate of pension increase	1.6	1.4

As of December 31, the three-years-analysis is as follows:

	2006	2005	2004
Pension obligation	553	571	434
Plan assets	235	232	178
Funded status	318	339	256
Actuarial gains/losses	-53	-85	-35

Defined benefit pension plans gave rise to a net periodic benefit cost of € 30 million (2005: € 24 million) for the Fresenius Group, comprising the following components:

in million €	2006	2005
Components of net periodic benefit cost		
Service cost	18	14
Interest cost	26	24
Expected return on plan assets	-16	-14
Amortization of unrealized actuarial losses, net	4	1
Settlement loss	-2	–
Amortization of prior service costs	–	-1
Net periodic benefit cost	30	24

Net periodic benefit cost is allocated as personnel expense to each of the income statement function lines.

The following weighted-average assumptions were used in determining net periodic benefit cost for the year ended December 31:

in %	**2006**	2005
Discount rate	**4.7**	5.3
Expected return of plan assets	**7.1**	7.1
Rate of compensation increase	**3.5**	3.7

Changes in the discount factor, inflation and mortality assumptions used for the actuarial computation resulted in actuarial losses in the year 2006 which increased the fair value of the defined benefit obligation. Unrecognized actuarial losses outside the 10 % corridor for each defined benefit plan amounted to € 53 million (2005: € 85 million).

The following table shows the expected future benefit payments:

for the fiscal years	in million €
2007	14
2008	15
2009	16
2010	18
2011	19
2012 to 2016	124
Total expected benefit payments for the next 10 years	**206**

The Fresenius Group uses December 31 as the measurement date in determining the funded status of all plans.

Pension liabilities at December 31, 2006 and 2005 relate to the following geographical regions:

in million €	**2006**	2005
Germany	**214**	199
Europe (excluding Germany)	**54**	55
North America	**0**	2
Asia-Pacific	**0**	0
Latin America	**0**	0
Africa	**0**	0
Total pension liabilities	**268**	256

Approximately two thirds of beneficiaries are located in North America, approximately one quarter in Germany and the remainder throughout the rest of Europe and other continents.

Plan investment policy and strategy

For the North America funded plan, Fresenius Group periodically reviews the assumptions for long-term expected return on pension plan assets. As part of the assumptions review, independent consulting actuaries determine a range of reasonable expected investment returns for the pension plan as a whole based on their analysis of expected future returns for each asset class weighted by the allocation of the assets. The range of returns developed relies both on forecasts, which include the actuarial firm's expected long-term rates of return for each significant asset class or economic indicator, and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class. As a result, the expected rate of return on pension plan assets was 7.5 % for the year 2006.

The investment policy, utilizing a target investment allocation of 36 % equity and 64 % long-term US bonds, considers that there will be a time horizon for invested funds of more than five years. The total portfolio will be measured against a policy index that reflects the asset class benchmarks and the target asset allocation. The Plan policy does not allow investments in securities of FMC-AG & Co. KGaA or other related party securities. The performance benchmarks for the separate asset classes include: S & P 500 Index, Russell 2000 Growth Index, MSCI EAFE Index, Lehman U.S. Long Government/Credit bond Index and the HFRI Fund of Funds Index. The Fresenius Group expects to contribute US$ 1 million (€ 0.8 million) to plan assets during 2007.

The following schedule describes Fresenius Group´s allocation of its funded plans.

in %	**Allocation 2006**	Allocation 2005	Target allocation
Categories of plan assets			
Equity securities	**40**	43	39
Debt securities	**57**	55	59
Real estate	**1**	1	1
Other	**2**	1	1
Total	**100**	100	100

The overall expected long-term rate of return on assets of the Fresenius Group amounts to 7.0 % compounded annually. Contributions to plan assets for the fiscal year 2007 are expected to amount to € 6 million.

DEFINED CONTRIBUTION PLANS

Fresenius Group's total expense under defined contribution plans for the years 2006 was € 18 million (2005: € 14 million). The main part relates to the 401(k) savings plan, which most employees of FMCH are eligible to join. Employees can deposit up to 75 % of their pay up to a maximum of US$ 15,500 if under 50 years old (US$ 20,500 if 50 or over) under this savings plan. Fresenius Medical Care will match 50 % of the employee deposit up to a maximum Company contribution of 3 % of the employee's pay. Fresenius Medical Care's total expense under this defined contribution plan for the years ended December 31, 2006 and 2005 was € 16 million and € 12 million, respectively.

21. TRUST PREFERRED SECURITIES

Fresenius Medical Care issued trust preferred securities through Fresenius Medical Care Capital Trusts, statutory trusts organized under the laws of the State of Delaware/USA. FMC-AG & Co. KGaA owns all of the common securities of these trusts. The sole asset of each trust is a senior subordinated note of FMC-AG & Co. KGaA or a wholly-owned subsidiary of FMC-AG & Co. KGaA. FMC-AG & Co. KGaA, Fresenius Medical Care Deutschland GmbH and Fresenius Medical Care Holdings, Inc. have guaranteed payment and performance of the senior subordinated notes to the respective Fresenius Medical Care Capital Trusts. The trust preferred securities are guaranteed by FMC-AG & Co. KGaA through a series of undertakings by Fresenius Medical Care and Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Deutschland GmbH.

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

The indentures governing the notes held by the Fresenius Medical Care Capital Trusts contain affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Some of the covenants limit Fresenius Medical Care's indebtedness and its investments, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. As of December 31, 2006, Fresenius Medical Care is in compliance with all financial covenants under all trust preferred securities agreements.

The trust preferred securities outstanding as of December 31, 2006 and 2005 are as follows:

	Year issued	Stated amount	Interest rate	Mandatory redemption date	**2006 in million €**	2005 in million €
Fresenius Medical Care Capital Trust II	1998	US$ 450 million	7 7/8 %	Feb 1, 2008	**330**	366
Fresenius Medical Care Capital Trust III	1998	DM 300 million	7 3/8 %	Feb 1, 2008	**154**	154
Fresenius Medical Care Capital Trust IV	2001	US$ 225 million	7 7/8 %	Jun 15, 2011	**165**	183
Fresenius Medical Care Capital Trust V	2001	€ 300 million	7 3/8 %	Jun 15, 2011	**297**	297
Trust preferred securities					**946**	1,000

22. MINORITY INTEREST

As of December 31, minority interest in the Group is as follows:

in million €	2006	2005
Minority interest in FMC-AG & Co. KGaA	**2,398**	2,182
Minority interest in the business segments		
Fresenius Medical Care	**57**	12
Fresenius Kabi	**24**	25
Fresenius ProServe	**118**	104
Corporate/Other	**-2**	–
Total minority interest	**2,595**	2,323

Minority interest increased in the year 2006 by € 272 million to € 2,595 million. The change resulted from the minorities' share of profit of € 305 million, dividend payments of € 95 million and from negative currency effects, capital measures as well as first-time consolidations in a total amount of € 62 million.

23. SHAREHOLDERS' EQUITY

SUBSCRIBED CAPITAL

Development of subscribed capital

The Management Board resolved on October 25, 2005, and on November 15, 2005, with the approval of the Supervisory Board on the same dates, to increase the issued share capital for cash consideration by € 24,064,000 from € 105,785,036.80 to € 129,849,036.80 by issuing 4,700,000 new bearer ordinary shares (new ordinary shares) and 4,700,000 new bearer preference shares (new preference shares). The new ordinary shares and the new preference shares were offered to the shareholders at a ratio of 9:2 in each case. The subscription price per new ordinary share and per new preference share was € 93 and € 102, respectively. The capital increase generated gross proceeds of € 919 million. The registration of the capital increase with the commercial register in Bad Homburg v. d. H. took place on November 29, 2005.

In the course of the acquisition of HUMAINE Kliniken GmbH in the third quarter of 2006, the subscribed capital was increased against contribution in kind in an amount of € 903,884.80 by issuing 176,540 bearer ordinary shares and 176,540 bearer preference shares in the fourth quarter of 2006. The registration of the capital increase with the commercial register took place on November 17, 2006.

During the fiscal year 2006, 375,932 stock options were exercised.

Accordingly, at December 31, 2006, the subscribed capital of Fresenius AG is divided into 25,725,646 bearer ordinary shares and 25,725,646 non-voting bearer preference shares. The shares are issued as non-par value shares with a proportionate amount of the subscribed capital of € 2.56.

Notification in accordance with § 25 of the German Securities Trading Act (WpHG)

In a letter dated May 19, 2005, Vermögensverwaltungsgesellschaft Nachlass Else Kröner mbH notified Fresenius AG that, effective May 12, 2005, the voting rights held by it in Fresenius AG, fell below the 50 % threshold and that it no longer holds any of the company's voting rights. Also in a letter dated May 19, 2005, Else Kröner-Fresenius-Stiftung, Bad Homburg v.d.H., which owns 100 % of Vermögensverwaltungsgesellschaft Nachlass Else Kröner mbH, notified the company that, effective May 12, 2005, the voting rights held by it in Fresenius AG continued to exceed the 50 % threshold and that it still owns 74.241 % of the voting rights. However since May 12, 2005, 67.286 % of the voting rights are no longer attributable according to § 22 (1) No. 1 of the German Trade Securities Act (WpHG) but are led directly – just as 2.226 % of the voting rights have been. 4.729 % of the shares continue to be attributable to the Foundation in accordance with § 22 (2) sentence 1, 1st half-sentence of the German Securities Trading Act (WpHG).

In a letter dated November 21, 2005, Allianz AG, Munich, notified Fresenius AG in accordance with § 21 (1) and § 24 of the WpHG that the number of Fresenius AG voting rights held by AZ-Argos 19 AG – that in future will operate under the name Allianz Deutschland AG, Königinstraße 28, 80802 Munich – exceeds the 5 % threshold on November 17, 2005 due to an internal reorganization of the group and that it now owns 9.73 % of the voting stock. These voting rights are allocated to AZ-Argos 19 AG in accordance with § 22 (1) sentence 1 No. 1 of the WpHG. The number of the voting rights of Fresenius AG, Bad Homburg v.d.H. held by Allianz Aktiengesellschaft, Königinstraße 28, 80802 Munich, has changed in a manner that does not require notification.

Dipl.-Kfm. Winfried Baranowski, Germany, has assumed the office as co-executor of the will of Else Kröner and, performing that office, has, on January 4, 2007, exceeded the 5 %, 10 %, 25 % and 50 % thresholds of the voting rights of Fresenius AG. Acting as co-executor, 60.359 % of the voting rights are allocated to Mr. Baranowski in accordance with § 22 (1) No. 6 of the German Securities Trading Act and 3.769 % are allocated to him in accordance with § 22 (2) of the German Securities Trading Act – in total 64.128 % of the voting rights of Fresenius AG.

APPROVED CAPITAL

By resolution of the Annual General Meeting on May 10, 2006, the previous Approved Capital II was revoked. The Management Board of Fresenius AG was authorized, with the approval of the Supervisory Board, until May 9, 2011,

- to increase Fresenius AG's subscribed capital by a nominal total amount of up to € 12,800,000.00 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 AG's subscribed capital by a nominal total amount of up to € 6,400,000.00 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, with the consent of the Supervisory Board, to decide on the exclusion of the shareholders' subscription right (§§ 203 (2), 186 (3) sentence 4 German Stock Corporation Act (AktG)).

As of December 31, 2006, the Approved Capital II decreased by € 903,884.80 to € 5,496,115.20 due to the payment in shares in connection with the aquisition of HUMAINE.

CONDITIONAL CAPITAL

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

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

The following table shows the development of the conditional capital:

in €	Ordinary shares	Preference shares	Total
Conditional Capital I Fresenius AG Stock Option Plan 1998	1,246,248.96	1,246,248.96	2,492,497.92
Conditional Capital II Fresenius AG Stock Option Plan 2003	2,254,433.28	2,254,433.28	4,508,866.56
Total conditional capital as of January 1, 2006	**3,500,682.24**	**3,500,682.24**	**7,001,364.48**
Fresenius AG Stock Option Plan 1998 – options exercised	-404,876.80	-404,876.80	-809,753.60
Fresenius AG Stock Option Plan 2003 – options exercised	-76,316.16	-76,316.16	-152,632.32
Total conditional capital as of December 31, 2006	**3,019,489.28**	**3,019,489.28**	**6,038,978.56**

CAPITAL RESERVES

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

In the year 2006, the capital reserve increased by € 41 million in connection with the aquisition of HUMAINE. The costs of the share capital increase of € 23 million in 2005 have been set off against the capital reserves directly without any impact on the consolidated statement of income.

OTHER RESERVES

Other reserves comprise earnings generated by group entities in prior years to the extent that they have not been distributed.

CHANGE IN SHAREHOLDERS' EQUITY AFTER THE BALANCE SHEET DATE

On December 4, 2006, at the Extraordinary General Meeting, Fresenius AG's shareholders approved a new division of the subscribed capital in connection with a capital increase from the company's funds. The registration in the commercial register took place on January 24, 2007. Through a conversion of capital reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided into 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is € 1.00 per share. The conditional capital increased in the same proportion as the subscribed capital by operation of law (cf. § 218 sentence 1 of German Stock Corporation Act (AktG)) and is divided into Conditional Capital I in an amount of € 1,971,966.00 and Conditional Capital II in an amount of € 5,104,962.00 after the share split (see Note 1.II, Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital).

DIVIDENDS

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

At the Annual General Meeting on May 10, 2006, a resolution was passed to pay a dividend of € 1.48 per bearer ordinary share and € 1.51 per bearer preference share, i. e. a total dividend of € 76 million was resolved.

24. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) comprises all amounts recognized directly in equity resulting from the currency translation of foreign subsidiaries' financial statements and the effects (net of tax) of measuring financial instruments at their fair value.

Changes in the components of other comprehensive income (loss) in the years 2006 and 2005 were as follows:

in million €	2006 Amount before taxes	2006 Tax effect	2006 Amount after taxes	2005 Amount before taxes	2005 Tax effect	2005 Amount after taxes
Unrealized gains/losses on securities	–	–	–	–	–	–
Change in unrealized gains/losses	–	–	–	–	–	–
Realized gains/losses due to reclassifications	–	–	–	–	–	–
Changes in unrealized gains/losses on derivative financial instruments	**24**	**-8**	**16**	55	-23	32
Change in unrealized gains/losses	**21**	**-7**	**14**	56	-23	33
Realized gains/losses due to reclassifications	**3**	**-1**	**2**	-1	–	-1
Foreign currency translation adjustment	**-117**	**0**	**-117**	134	0	134
Other comprehensive income (loss)	**-93**	**-8**	**-101**	189	-23	166

OTHER NOTES

25. COMMITMENTS AND CONTINGENT LIABILITIES

CONTINGENT ASSETS AND LIABILITIES

As of December 31, 2006, the Fresenius Group does not have any contingent assets. Contingent liabilities are not material.

OPERATING LEASES AND RENTAL PAYMENTS

The companies of the Fresenius Group lease office and manufacturing buildings as well as machinery and equipment under various lease agreements expiring on dates through 2026. Rental expense recorded for operating leases for the years ended December 31, 2006 and 2005 was € 369 million and € 297 million, respectively.

Future minimum rental payments under non-cancellable operating leases for the five years succeeding December 31, 2006 and thereafter are:

for the fiscal years	in million €
2007	267
2008	232
2009	202
2010	167
2011	140
Subsequent years	496
Total	**1,504**

As of December 31, 2006, reconstruction obligations exist up to the year 2010 from the acquisition contracts for hospitals at projected costs of up to € 99 million. Thereof € 79 million relate to the year 2007.

Besides the above mentioned contingent liabilities, the amount of other commitments is immaterial.

LEGAL PROCEEDINGS

Commercial litigation

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

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

In 2003, Fresenius Medical Care reached agreement with the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate and W.R. Grace & Co. in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to Fresenius Medical Care that arise out of the bankruptcy of W.R. Grace & Co. Under the terms of the settlement agreement as amended (Settlement Agreement), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and Fresenius Medical Care will receive protection against existing and potential future W.R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W.R. Grace & Co. consolidated tax group upon confirmation of a W.R. Grace & Co. final bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, Fresenius Medical Care will pay a total of US$ 115 million to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation. No admission of liability has been or will be made. The Settlement Agreement has been approved by the U.S. District Court. Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (Sealed Air, formerly known as Grace Holding, Inc.). Fresenius Medical Care is engaged in litigation with Sealed Air to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by Fresenius Medical Care relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of Fresenius Medical Care's payment obligation, this litigation will be dismissed with prejudice.

On April 4, 2003, FMCH filed a suit in the U.S. District Court for the Northern District of California, (Fresenius USA, Inc., et al., v. Baxter International, Inc., et al.), Case No. C 03-1431, seeking a declaratory judgment that FMCH does not infringe on patents held by Baxter International, Inc. and its subsidiaries and affiliates (Baxter), that the patents are invalid, and that Baxter is without right or authority to threaten or maintain suit against FMCH for alleged infringement of Baxter's patents. In general, the alleged patents concern touch screens, conductivity alarms, power failure data storage, and balance chambers for hemodialysis machines. Baxter filed counterclaims against FMCH seeking monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. On July 17, 2006, the court entered judgement in favor of FMCH finding that all the asserted claims of the Baxter patents are invalid as obvious and/or anticipated in light of prior art. On February 13, 2007, the court granted Baxter's motion to set aside the jury's verdict in favor of FMCH and retry certain aspects of the case. Fresenius Medical Care will appeal the court's rulings. An adverse judgment in any new trial could have a material adverse impact on the business, financial condition and results of operations of Fresenius Medical Care.

Fresenius Medical Care AG & Co. KGaA's Australian subsidiary, Fresenius Medical Care Australia Pty Limited (hereinafter referred to as Fresenius Medical Care Australia) and Gambro Pty Limited and Gambro AB (hereinafter referred to as the Gambro Group) are in litigation regarding infringement and damages with respect to the Gambro AB patent protecting intellectual property in relation to a system for preparation of dialysis or replacement fluid, the Gambro bicart device in Australia (Gambro Patent). As a result of the commercialisation of a system for the preparation of dialysis fluid based on the Fresenius Medical Care Bibag device in Australia, the Australian courts concluded that Fresenius Medical Care Australia infringed the Gambro Patent. The parties are still in legal dispute with respect to the issue of potential damages related to the patent infringement. As the infringement proceedings have solely been brought in the Australian jurisdiction any potential damages to be paid by Fresenius Medical Care Australia will be limited to the potential losses of the Gambro Group caused by the patent infringement in Australia.

Other litigation and potential exposures

RCG has been named as a nominal defendant in a second amended complaint filed September 13, 2006, in the Chancery Court for the State of Tennessee Twentieth Judicial District at Nashville against former officers and directors of RCG which purports to constitute a class action and derivative action relating to alleged unlawful actions and breaches of fiduciary duty in connection with the RCG Acquisition and in connection with alleged improper backdating and/or timing of stock option grants. The amended complaint is styled Indiana State District Council of Laborers and Hod Carriers Pension Fund, on behalf of itself and all others similarly situated and derivatively on behalf of RCG, Plaintiff, vs. RCG, Gary Brukardt, William P. Johnston, Harry R. Jacobson, Joseph C. Hutts, William V. Lapham, Thomas A. Lowery, Stephen D. McMurray, Peter J. Grua, C. Thomas Smith, Ronald Hinds, Raymond Hakim, and R. Dirk Allison, Defendants. The complaint seeks damages against former officers and directors and does not state a claim for money damages directly against RCG. Fresenius Medical Care anticipates that the individual defendants may seek to claim indemnification from RCG. Fresenius Medical Care is unable at this time to assess the merits of any such claim for indemnification.

FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. FMCH received its subpoena in April 2005. RCG received its subpoena in August 2005. The subpoenas require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relationships, joint ventures, anemia management programs, RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, and RCG's purchase of dialysis equipment from FMCH. Fresenius Medical Care is cooperating with the government's requests for information. An adverse determination in this investigation could have a material adverse effect on Fresenius Medical Care's business, financial condition and results of operations.

In October 2004, FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of New York, in connection with a civil and criminal investigation, which requires production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents relating to laboratory testing for parathyroid hormone (PTH) levels and vitamin D therapies. Fresenius Medical Care is cooperating with the government's requests for information. While Fresenius Medical Care believes that it has complied with applicable laws relating to PTH testing and use of vitamin D therapies, an adverse determination in this investigation could have a material adverse effect on Fresenius Medical Care's business, financial condition, and results of operations.

In May 2006, RCG received a subpoena from the U.S. Department of Justice, Southern District of New York, in connection with an investigation into RCG's administration of its stock option programs and practices, including the procedure under which the exercise price was established for certain of the option grants. The subpoena requires production of a broad range of documents relating to the RCG stock option program prior to the RCG acquisition. Fresenius Medical Care is cooperating with the government's requests for information. The outcome and impact of this investigation cannot be predicted at this time.

Accrued special charge of Fresenius Medical Care for legal matters

At December 31, 2001, Fresenius Medical Care recorded a pre-tax special charge of US$ 258 million to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. With the exception of the proposed US$ 115 million (€ 87 million) payment under the Settlement Agreement, all other matters included in the special charge have been resolved. While Fresenius Medical Care believes that its remaining accrual reasonably estimates its currently anticipated costs related to the continued defense and resolution of this matter, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual (see Note 17, Other accrued expenses).

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

26. FINANCIAL INSTRUMENTS

MARKET RISK

I.) General

The Fresenius Group is inevitably exposed to effects related to foreign exchange fluctuations in connection with its international business activities that are denominated in various currencies. In order to finance its business operations, the Fresenius Group issues bonds, trust preferred securities and commercial papers and concludes mainly long-term credit agreements and mid-term Euro Notes (Schuldscheindarlehen) with banks. Due to these financing activities, the Fresenius Group is exposed to interest risk caused by changes in variable interest rates and the risk of changes in the fair value of balance sheet items bearing fixed interest rates.

In order to manage the risks of interest rate and foreign exchange rate fluctuations, the Fresenius Group enters into appropriate hedging transactions with highly rated financial institutions as authorized by the Management Board. Derivative financial instruments are not used for trading purposes.

In general, the Fresenius Group conducts its derivative financial instrument activities under the control of a single centralized department. The Fresenius Group has established guidelines derived from best practice standards in the banking industry for risk assessment procedures and supervision concerning the use of financial derivatives. These guidelines require amongst other things a clear segregation of duties in the areas of execution, administration, accounting and controlling.

The Fresenius Group calculates benchmarks for individual exposures in order to quantify interest and foreign exchange risks. The benchmarks are derived from achievable and reasonable market rates. Depending on the individual benchmarks, appropriate hedging strategies are determined and implemented as scheduled.

As of December 31, 2006, the notional amounts of Fresenius Group's foreign exchange derivatives amounted to € 1,186 million and the notional amounts of interest rate derivatives amounted to € 2,911 million. In the case of interest rate derivatives, it should be noted that the notional amounts generally only represent the base for contract specific computations and not necessarily the exchange of those amounts by the parties. Therefore, a potential risk resulting from the use of interest rate derivatives cannot be measured solely on the bases of the notional amounts of the contracts.

The after tax losses of € 14 million deferred in accumulated other comprehensive income (loss) at December 31, 2005 had a low negative currency impact.

Earnings of the Fresenius Group were not materially affected by hedge ineffectiveness in the reporting period since the critical terms of the interest and foreign exchange derivatives matched the critical terms of the underlying exposures.

II.) Fair value of financial instruments

The following table presents the carrying amounts and fair values of the Group's financial instruments as of December 31.

in million €	2006 Carrying amount	2006 Fair value	2005 Carrying amount	2005 fair value
Non-derivatives				
Assets				
Cash and cash equivalents	**261**	**261**	252	252
Accounts receivable	**2,088**	**2,088**	1,871	1,871
Liabilities				
Trade accounts payable (including related parties)	**466**	**466**	355	355
Income taxes payable	**159**	**159**	146	146
Long-term loans (excluding trust preferred securities, notes and bonds)	**3,136**	**3,136**	817	817
Short-term loans (including related parties)	**331**	**331**	825	825
Trust preferred securities	**946**	**1,005**	1,000	1,082
Euro Notes	**366**	**368**	460	460
Bonds	**1,100**	**1,124**	400	427
Derivatives				
Foreign exchange contracts	**4**	**4**	-3	-3
thereof short-term	**4**	**4**	-2	-2
Dollar interest rate hedges	**34**	**34**	19	19
thereof short-term	**–**	**–**	–	–
Euro interest rate hedges	**1**	**1**	-1	-1
thereof short-term	**–**	**–**	–	–
Other interest rate hedges	**–**	**–**	–	–
thereof short-term	**–**	**–**	–	–

The carrying amounts in the table (except derivatives), are included in the consolidated balance sheet under their corresponding line item. Derivatives were recognized at gross values as other current assets in an amount of € 64 million and other liabilities in an amount of € 25 million.

Estimation of fair values
The significant methods and assumptions used to estimate the fair values of financial instruments are as follows:

Short-term financial instruments are valued at their carrying amounts, which are reasonable estimates of the fair value due to the relatively short period to maturity of the instruments. This approach applies to cash and cash equivalents, receivables and accounts payables, including income tax payables.

Long-term bank debt of Fresenius Medical Care is valued at its carrying amount because the actual drawings under the Fresenius Medical Care 2006 Senior Credit Agreement carry interest on a variable basis, mainly with an interest rate fixed for three months. The interest rates reflect actual money market conditions, plus specific margins which represent company-related financial ratios as well as the entire set of terms and conditions including covenants as determined in the Fresenius Medical Care 2006 Senior Credit Agreement.

The fair value of the bonds and trust preferred securities is calculated based on market prices on the balance sheet date. The fair value of the Euro Notes (Schuldscheindarlehen) is calculated as the differential between the coupon and the market quotation at the reporting date including a company specific margin. Due to the relatively short period between reporting date and the issuance of the notes, the specific margin changes since inception are deemed to be immaterial.

The fair value of financial instruments is defined as the amount at which the instrument could be exchanged between willing parties. Market quotes are available for all material financial instruments of the Fresenius Group.

III.) Accounting for and reporting of non-derivative financial instruments
The carrying amounts of the non-derivative financial instruments are included in the consolidated balance sheet under their related item.

IV.) Accounting for and reporting of derivative financial instruments (and hedge accounting)
Foreign exchange risk management
The Fresenius Group has determined the euro as its financial reporting currency. Therefore, foreign exchange translation risks resulting from the fluctuation of exchange rates between the euro and the local currencies in which the financial statements of the foreign subsidiaries are maintained, have an impact on results of operations and financial positions reported in the consolidated financial statements.

Fresenius Group's foreign exchange transaction risks mainly relate to transactions such as sales and purchases as well as project business denominated in foreign currency. Particularly products manufactured in Fresenius Group's worldwide production sites are mainly denominated in the local currency of the respective manufacturer and are delivered worldwide to various Fresenius Group entities. These intragroup sales are mainly denominated in euro, US dollar and yen. Group companies are therefore exposed to changes of the foreign exchange rates between the invoicing currencies and the local currencies in which they conduct their businesses. For the purpose of hedging existing and foreseeable foreign exchange transaction exposures, the Fresenius Group enters into foreign exchange forward contracts and, on a small scale, foreign exchange options. Foreign exchange forward contracts and options are not used for purposes other than hedging foreign exchange exposures. As at December 31, 2006, the Fresenius Group had no foreign exchange options.

In connection with intercompany loans in foreign currency, the Fresenius Group normally uses foreign exchange swaps thus assuring that no foreign exchange risks arise from those loans.

The hedge-effective portion of changes in the fair value of foreign exchange forward contracts that are designated and qualified as cash flow hedges is reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of cost of sales, of selling, general and administrative expenses or as interest income or expenses in the same period in which the hedged transaction affects earnings.

Recognition in equity

		Cash flow hedges of forecasted product purchases		**Cash flow hedges associated with foreign currency denominated inter-company financing transaction**	
	Balance sheet date	in million €	affecting net income probably in	in million €	affecting net income probably in
Income/loss before tax	December 31, 2006	2.9	2007	–	–
	December 31, 2005	-6.7	2006-2009	–	–
Income/loss after tax	December 31, 2006	1.7	2007	–	–
	December 31, 2005	-5.0	2006-2009	–	–

Recognition in the consolidated statement of income

	Fiscal year	**Cash flow hedges of forecasted product purchases** in million €	**Cash flow hedges associated with foreign currency denominated inter-company financing transaction** in million €
Income/loss before tax	2006	1.0	–
	2005	0.7	–
Income/loss after tax	2006	0.7	–
	2005	0.6	–

As of December 31, 2006, the notional volume and fair value of foreign exchange contracts relating to foreign currency intercompany loans amounted to € 654 million and € 0 million, respectively. Hedge accounting is not applied to these foreign exchange contracts. Accordingly, the respective foreign exchange contracts are recognized as assets or liabilities and changes in fair values are recognized against earnings, thus offsetting with changes in fair values of the underlying foreign currency denominated intercompany loans.

As of December 31, 2006, the notional amounts of foreign exchange forward contracts in place to hedge risks from operational business totalled € 532 million with a fair value of € 4 million.

As of December 31, 2006, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 36 months.

Interest rate risk management

Fresenius Group's interest rate risks mainly arise from money market and capital market transactions of Fresenius Group for financing its business activities. Interest rate hedging transactions are primarily concluded by Fresenius AG and FMC-AG & Co. KGaA.

The Fresenius Group enters into interest rate swaps and, on a small scale, into interest rate options in order to hedge against interest rate exposures arising from short-term and long-term borrowings and accounts receivable securitization programs at variable rates by swapping them into fixed rates or to hedge against changes of the fair value of the underlying fixed rate financial liabilities.

Cash Flow Hedge

The Fresenius Group enters into interest rate swaps that are designated as cash flow hedges effectively converting certain variable interest rate payments, resulting from existing revolving loans, Euro Notes (Schuldscheindarlehen) and an accounts receivable facility mainly denominated in US dollar or euro, into fixed interest rate payments. The US dollar interest rate swaps with a notional volume of US$ 3,165 million expire at various dates between 2007 and 2012. The Euro interest rate swaps with a notional volume of € 166 million expire in 2007 and 2008. The US dollar interest rate swaps bear an average interest rate of 4.50 % and the Euro interest rate swaps bear an average interest rate of 3.06 %, plus an applicable margin each.

At December 31, 2006, after-tax gains of € 28.0 million (pre-tax € 44.7 million) were recognized in accumulated other comprehensive income (loss). At December 31, 2005, the equivalent amounts were € 18.8 million and € 30.6 million. Interest payables and interest receivables under the swap agreements are accrued or deferred as appropriate and recorded as an adjustment to the interest expense at each reporting date.

Fair Value Hedge

Fresenius Medical Care entered into US dollar interest rate swaps designated as fair value hedges to hedge the risk of changes in the fair value of parts of its fixed rate borrowings. These interest rate swaps effectively convert the fixed interest payments on Fresenius Medical Care Capital Trust II trust preferred securities denominated in US dollars into variable interest rate payments. Since the critical terms of the interest rate swap agreements are identical to the terms of Fresenius Medical Care Capital Trust II trust preferred securities, the hedging relationship is expected to be highly effective and no ineffectiveness affects earnings. The interest rate swaps are reported at fair value in the balance sheet. The reported amount of the hedged portion of fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts and trust preferred securities offset each other in the income statement. At December 31, 2006, the notional volume of these swaps at Fresenius Medical Care was US$ 450 million (€ 342 million).

CREDIT RISK

The Fresenius Group is exposed to potential losses in the event of non-performance by counterparties to financial instruments but does not expect any counterparty to fail to meet its obligations as the counterparties are highly rated financial institutions. In the opinion of Fresenius Group's Management, all other credit risks are covered by the allowance for doubtful accounts in an amount of € 218 million (see Note 12, Trade accounts receivable).

27. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

The cash flow statements of the Fresenius Group for the fiscal years 2006 and 2005 are shown on pages 48 to 49.

Cash funds reported in the cash flow statement comprise all cash and cash equivalent items reported in the balance sheet (i. e. cash in hand, cheques, central bank balances, securities and cash at bank) which are readily convertible within three months and are subject to insignificant risk of changes in value.

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

in million €	**2006**	2005
Interest paid	**393**	208
Income taxes paid	**401**	360

The increase in interest paid related mainly to higher interest payments in connection with the acquisition of RCG, payments in connection with the issuance of the Eurobond 2006, the repurchase of the Eurobond 2003 as well as interest payments for the financing of the acquisition of HELIOS Kliniken.

The increase in income taxes paid mainly referred to one-time effects. In 2006, Fresenius Medical Care made a single tax payment of € 52 million (US$ 64 million) related to the acquisition of RCG as well as tax payments of € 79 million (US$ 99 million) for tax audit adjustments related to Fresenius Medical Care's 2000 and 2001 US tax filings. In the previous year, Fresenius Medical Care made a single tax payment of € 96 million (US$ 119 million). Without these one-time effects, the income taxes paid were nearly unchanged.

Cash paid for acquisitions consists of the following:

in million €	**2006**	2005
Assets acquired	**4,196**	2,697
Liabilities assumed	**-402**	-605
Minority interest	**-45**	-60
Notes assumed in connection with acquisitions	**-24**	-193
Cash paid	**3,725**	1,839
Cash acquired	**-68**	-231
Cash paid for acquisitions, net	**3,657**	1,608

28. NOTES ON SEGMENT REPORTING

GENERAL

The segment reporting tables shown on pages 52 to 55 of this annual report are an integral part of the Notes.

The Fresenius Group has identified the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe which corresponds to the internal organizational and reporting structures (Management Approach) at December 31, 2006.

The key data disclosed in conjunction with segment reporting correspond to the key data of the internal reporting system in place across the Fresenius Group. Internal and external reporting and accounting correspond to each other; the same key data and definitions are used.

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

The business segments were identified in accordance with IAS 14 (Segment Reporting), which defines the segment reporting requirements in annual financial statements and interim reports with regard to the operating business, product and service businesses and regions. The business segments of the Fresenius Group are as follows:

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats 163,517 patients in its 2,108 own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe is a leading German hospital operator. Moreover, the company offers engineering and services for hospitals and other health care facilities.

The segment Corporate/Other mainly comprises the holding functions of Fresenius AG as well as Fresenius Netcare GmbH, which provides services in the field of information technology as well as Fresenius Biotech, which does not fulfill the characteristics of a reportable segment. In addition, the segment Corporate/Other includes intersegment consolidation adjustments.

Segment reporting by region takes account of geographical factors and the similarity of markets in terms of opportunities and risks. The allocation to a particular region is based on the domicile of the customers.

NOTES ON THE BUSINESS SEGMENTS

The key figures used by the Management Board to assess segment performance, have been selected in such a way that they include all items of income and expenses which fall under the area of responsibility of the business segments. The Management Board is convinced that the most suitable performance indicator is the operating income (EBIT). The Management Board believes that, in addition to the operating income, the figure for earnings before interest, taxes and depreciation/amortization (EBITDA) can also help investors to assess the ability of the Fresenius Group to generate cash flows and to meet its financial obligations. The EBITDA figure is also the basis for assessing Fresenius Medical Care's compliance with the terms of the 2006 Senior Credit Agreement and other obligations concerning trust preferred securities, the credit agreement with the European Investment Bank and that of Fresenius AG in conjunction with the Eurobonds.

Depreciation and amortization is presented for the intangible assets with definite useful lives and property, plant and equipment of the respective business segment as well as impairment losses on goodwill.

Net interest comprises interest and other similar expenses and income.

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

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

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

Debt comprises bank loans, bonds, trust preferred securities, liabilities from capital lease obligations, liabilities relating to outstanding acquisitions as well as intercompany liabilities.

Capital expenditure includes additions to intangible assets and property, plant and equipment.

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

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

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

The return on operating assets (ROOA) is defined as the ratio of EBIT to average operating assets. Operating assets are defined as total assets less deferred tax assets, trade accounts payable and advance payments from customers.

In addition, the key indicator "Depreciation and amortization as a percentage of sales" is also disclosed.

Reconciliation of key figures to consolidated earnings

in million €	2006	2005
Total EBITDA of reporting segments	**1,889**	1,319
Depreciation and amortization	**-406**	-325
General corporate expenses Corporate/Other	**-40**	-27
Interest expenses	**-418**	-223
Interest income	**23**	20
Total earnings before income taxes and minority interest	**1,048**	764
Total EBIT of reporting segments	**1,494**	1,004
General corporate expenses Corporate/Other	**-51**	-37
Interest expenses	**-418**	-223
Interest income	**23**	20
Total earnings before income taxes and minority interest	**1,048**	764
Depreciation and amortization of reporting segments	**395**	315
Depreciation and amortization Corporate/Other	**11**	10
Total depreciation and amortization	**406**	325

Reconciliation of net debt

in million €	**December 31, 2006**	December 31, 2005
Short-term borrowings	**330**	824
Short-term liabilities and loans from related parties	**1**	1
Current portion of long-term debt and liabilities from capital lease obligations	**272**	222
Long-term debt and liabilities from capital lease obligations, less current portion	**4,330**	1,455
Trust preferred securities of Fresenius Medical Care Capital Trusts	**946**	1,000
Debt	**5,879**	3,502
less cash and cash equivalents	**261**	252
Net debt	**5,618**	3,250

Non-current assets by geographical region

in million €	**December 31, 2006**	December 31, 2005
Germany	**2,317**	2,175
Europe (excluding Germany)	**1,659**	1,600
North America	**6,302**	3,692
Asia-Pacific	**266**	166
Latin America	**162**	265
Africa	**32**	33
Total non-current assets*	**10,738**	7,931

* The aggregate amount of net non-current assets is the sum of non-current assets less deferred tax assets and derivative financial instruments.

29. STOCK OPTIONS

COMPENSATION COST IN CONNECTION WITH STOCK OPTION PLANS OF THE FRESENIUS GROUP

The Fresenius Group accounts for its stock option plans in accordance with IFRS 2 (Share-based Payment). As such, compensation cost is calculated by multiplying the fair value on the issuing date with the number of issued options. For stock incentive plans which are performance based, the Fresenius Group recognizes compensation cost over the vesting periods, based on the then current market values of the underlying stock.

The Fresenius Group recognized compensation cost of € 20 million in the year 2006 for stock options granted since 1998.

FAIR VALUE OF STOCK OPTIONS

Fresenius Group's determination of the fair value of grants is based on the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair values of options that have no vesting restrictions. Option valuation models require the input of highly subjective assumptions including expected stock price volatility. Fresenius Group's assumptions are based upon its past experiences, market trends and the experiences of other entities of the same size and in similar industries. Fresenius Group's stock options have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option.

The weighted-average assumptions for the calculation of the fair value of grants made during the year ending December 31, 2006 are as follows:

Weighted-average assumptions of Fresenius AG	2006
Expected dividend yield	1.50 %
Risk-free interest rate	3.80 %
Expected volatility	35.50 %
Expected life of options	5.3 years
Exercise price per option in €	121.36

Weighted-average assumptions of Fresenius Medical Care	2006
Expected dividend yield	1.64 %
Risk-free interest rate	3.78 %
Expected volatility	30.03 %
Expected life of options	7 years
Exercise price per option in €	91.63

The weighted-average assumptions for the calculation of the fair value of grants made during the year ending December 31, 2005 are as follows:

Weighted-average assumptions of Fresenius AG	2005
Expected dividend yield	2.10 %
Risk-free interest rate	2.50 %
Expected volatility	40.00 %
Expected life of options	5.3 years
Exercise price per option in €	92.26

Weighted-average assumptions of Fresenius Medical Care	2005
Expected dividend yield	2.88 %
Risk-free interest rate	2.76 %
Expected volatility	40.00 %
Expected life of options	5.3 years
Exercise price per option in €	62.36

The expected volatility results from the historical volatility calculated over the expected live of options. The volatility was determined when the fair value of stock options was calculated for the first time and since then has been controlled every year upon issuance of a new tranche.

FRESENIUS AG STOCK OPTION PLANS

Description of the Fresenius AG stock option plans in place

On December 31, 2006, Fresenius AG has two stock option plans in place; the stock option based plan of 1998 and the currently active plan from the year 2003 which is based on convertible bonds. The latter is currently the only plan under which options in the form of convertible bonds are granted.

Under the Fresenius AG Stock Option Plan 2003 (2003 Plan), convertible bonds with a principal of up to € 4.6 million may be issued to the members of the Management Board, to members of the management of affiliated companies, to employees of the company and to employees of its affiliated companies representing grants for up to 900,000 bearer ordinary shares and up to 900,000 non-voting bearer preference shares. Members of the Management Board and employees of FMC-AG & Co. KGaA and its affiliated companies which are only affiliated with the company through FMC-AG & Co. KGaA are excluded. Members of the Management Board of Fresenius AG are entitled, in total, up to 400,000 convertible bonds given the right to subscribe up to 200,000 bearer ordinary shares and the same number of non-voting bearer preference shares. Employees are entitled, in total, up to 1,400,000 convertible bonds given the right to subscribe up to 700,000 bearer ordinary shares and the same number of non-voting bearer preference shares.

The convertible bonds have a par value of € 2.56 and bear interest at a rate of 5.5 %. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of the convertible bond. Fresenius AG has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by Fresenius AG and are not reflected in the consolidated financial statements. The options expire in ten years and one third of them can be exercised beginning after two, three and four years, respectively. Bonds issued to members of the Management Board, to members of the management of affiliated companies, to employees of Fresenius AG and to employees of its affiliated companies who did not issue a note to Fresenius AG are recognized as a liability on Fresenius Group's consolidated balance sheet.

Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target corresponds to the stock exchange quoted price of the ordinary or preference shares upon the first time the stock exchange quoted price exceeds the initial value by at least 25 %. 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 option entitles the holder thereof, upon payment of the respective conversion price, to acquire one ordinary or one preference share. Up to 20 % of the total amount available for the issuance of awards under the 2003 Plan may be issued each year. At December 31, 2006, the number of outstanding stock options issued under the 2003 Plan was 962,850, thereof 139,886 were exercisable.

During 1998, Fresenius AG adopted a stock incentive plan (1998 Plan) for Fresenius AG's key management 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 AG. Options granted under this plan have a ten-year term, and one third of them vest on each of the second, third and fourth anniversaries of the award date. One ordinary or one preference share can be acquired for each option. At December 31, 2006, the number of outstanding and exercisable stock options issued under the 1998 Plan was 430,754.

Changes due to capital measures

Due to the capital increase completed in December 2005 which involved the granting of subscription rights to stockholders, the exercise prices under the 1998 Plan and, for the past, the conversion prices of the 2003 Plan were reduced in line with the provisions of both stock option plans. The amount of reduction corresponded to an amount calculated on the basis of the average price of the stockholders' subscription right during their entire trading period on the Frankfurt Stock Exchange – rounded to the nearest full € 0.05. For ordinary shares, this meant a reduction of the exercise or conversion price of € 1.90 per share and for preference shares of € 2.05 per share.

At December 4, 2006, the Extraordinary General Meeting of Fresenius AG resolved to newly divide the subscribed capital of Fresenius AG at a ratio of 1 (previously) : 3 (in the future) (share split). Furthermore, the General Meeting agreed to a capital increase from Fresenius AG's funds in order to attain, after the share split, a proportionate nominal value of € 1.00 per ordinary and preference share to the subscribed capital. The entry of both measures into the commercial register on January 24, 2007 resulted in the following consequences for the two stock option plans:

Under the 1998 Plan, upon exercise, one granted option now entitles to receipt of three instead of one ordinary or preference share of Fresenius AG, respectively. The maximum number of ordinary or preference shares to be issued to the members of the Management Board or senior employees of Fresenius AG is adjusted accordingly. The calculation of the exercise price remains unaffected.

Under the 2003 Plan, a convertible bond granted prior to entry of the share split in the commercial register but converted after the commercial registration, now entitles to receipt of three instead of one ordinary or preference share of Fresenius AG, respectively. The calculation of the conversion price remains unaffected for all convertible bonds without stock price target.

Regarding convertible bonds with stock price target, the stock price target is reached if the applicable stock price target has been reached prior to the commercial register entry of the share split, or if, after the commercial registration, the stock exchange quoted average price of the ordinary and preference shares reaches on one day a 25 % increase against one third of the average stock exchange rate of the ordinary and preference shares on the grant date. The calculation of the conversion price remains unaffected if the stock price target has been reached prior to the date of entry into the commercial register. If the stock price target is reached for the first time after the commercial registration the conversion price for receipt of three ordinary shares or preference shares, respectively, per each convertible bond, shall be the triple of one third of the initial value.

After entry of the share split into the commercial register, each convertible bond granted has a nominal value of € 1.00, instead of previously € 2.56. The number of convertible bonds with a nominal value of € 1.00 each, still to be issued under the 2003 Plan, increases to 1,080,000, of which 240,000 are attributable to the members of the Management Board and 840,000 to the senior employees.

Transactions during the year 2006

In the year 2006, the Fresenius Group awarded 300,920 stock options, including 36,550 to members of the Management Board of Fresenius AG, at a weighted-average exercise price of € 121.36, a weighted-average fair value of € 47.99 each and a total fair value of € 14 million, one third of which will be amortized evenly over two, three and four years, respectively.

At December 31, 2006, of 430,754 outstanding options issued under the 1998 Plan, 17,200 were held by the members of the Fresenius AG Management Board. The number of outstanding stock options issued under the 2003 Plan was 962,850, of which 131,580 were held by the members of the Fresenius AG Management Board.

During the year 2006, Fresenius AG received € 32 million from the exercise of 375,932 stock options. The intrinsic value of options exercised in the year 2006 was € 19 million.

Stock option transactions are summarized as follows:

Ordinary shares December 31	Number of options	Weighted-average exercise price in €	Number of options exercisable
Balance 2004	836,265	72.75	433,251
Granted	155,101	90.49	
Exercised	175,621	70.71	
Forfeited	50,450	74.12	
Balance 2005	765,295	73.67	361,980
Granted	150,460	119.93	
Exercised	187,966	77.61	
Forfeited	30,987	73.25	
Balance 2006	696,802	83.90	285,320

Preference shares December 31	Number of options	Weighted-average exercise price in €	Number of options exercisable
Balance 2004	836,265	79.72	433,251
Granted	155,101	94.03	
Exercised	175,621	78.28	
Forfeited	50,450	82.13	
Balance 2005	765,295	80.91	361,980
Granted	150,460	122.78	
Exercised	187,966	90.72	
Forfeited	30,987	73.16	
Balance 2006	696,802	87.64	285,320

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at December 31, 2006:

	Number of options in thousand	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Aggregate intrinsic value in million €
Options for ordinary shares	285,320	4.73	72.28	23
Options for preference shares	285,320	4.73	81.21	23

At December 31, 2006, there was € 14 million of total unrecognized compensation costs related to non-vested options granted under the Fresenius AG plans. These costs are expected to be recognized over a weighted-average period of 2.2 years.

FRESENIUS MEDICAL CARE STOCK OPTION PLANS

Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006

On May 9, 2006, the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 (2006 Plan) was established by resolution of FMC-AG & Co. KGaA's annual general meeting with a conditional capital increase up to € 13 million subject to the issue of up to five million no par value bearer ordinary shares with a nominal value of € 2.56 each. Under the 2006 Plan, up to five million options can be issued, each of which can be exercised to obtain one ordinary share, with up to one million options designated for members of the Management Board of FMC Management AG, FMC-AG & Co. KGaA's General Partner, up to one million options designated for members of management boards of direct or indirect subsidiaries of FMC-AG & Co. KGaA and up to three million options designated for managerial staff members of FMC-AG & Co. KGaA and such affiliates. With respect to participants who are members of FMC Management AG's Management Board, its Supervisory Board has sole authority to grant stock options and exercise other decision making powers under the 2006 Plan (including decisions regarding certain adjustments and forfeitures). FMC Management AG has such authority with respect to all other participants in the 2006 Plan.

Options under the 2006 Plan can be granted the last Monday in July and/or the first Monday in December. The exercise price of options granted under the 2006 Plan shall be the average closing price on the Frankfurt Stock Exchange of FMC-AG & Co. KGaA's ordinary shares during the 30 calendar days immediately prior to each grant date. Options granted under the 2006 Plan have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is subject to satisfaction of success targets measured over a three-year period from the grant date.

For each such year, the success target is achieved if FMC-AG & Co. KGaA's adjusted basic income per ordinary share (EPS), as calculated in accordance with the 2006 Plan, increases by at least 8 % year over year during the vesting period, beginning with EPS for the year of grant as compared to EPS for the year preceding such grant. Calculation of EPS under the 2006 Plan excludes, among other items, the costs of the transformation of Fresenius Medical Care's legal form and the conversion of preference shares into ordinary shares. For each grant, one-third of the options granted are forfeited for each year in which EPS does not meet or exceed the 8 % target. The success target for the year 2006 was met. Vesting of the portion or portions of a grant for a year or years in which the success target is met does not occur until completion of the entire three-year vesting period. Upon exercise of vested options, FMC-AG & Co. KGaA has the right to issue ordinary shares it owns or that it purchases in the market in place of increasing capital by the issuance of new shares.

Options granted under the 2006 Plan to US participants are non-qualified stock options under the United States Internal Revenue Code of 1986, as amended. Options under the 2006 Plan are not transferable by a participant or a participant's heirs, and may not be pledged, assigned, or otherwise disposed of.

Fresenius Medical Care 2001 International Stock Option Plan

Under the Fresenius Medical Care 2001 International Stock Incentive Plan (2001 Plan), options in the form of convertible bonds with a principal of up to € 10 million were issued to the members of the Management Board and other employees of FMC-AG & Co. KGaA representing grants for up to four million non-voting preference shares. The convertible bonds have a par value of € 2.56 and bear interest at a rate of 5.5 %. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of and secured by the bond. FMC-AG & Co. KGaA has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by FMC-AG & Co. KGaA and are not reflected in the consolidated financial statements. The options expire ten years from issuance and can be exercised beginning two, three or four years after issuance. Compensation costs related to awards granted under this plan are amortized on a straight-line basis over the vesting period for each separately vesting portion of the awards. Bonds issued to Management Board members who did not issue a note to FMC-AG & Co. KGaA are recognized as a liability on Fresenius Group's balance sheet.

Upon issuance of the option, the employees had 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 preference shares upon the first time the stock exchange quoted price exceeds the initial value by at least 25 %. The initial value is the average price of the preference shares during the last 30 trading days prior to the date of grant. 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. The conversion price of the options without a stock price target is the initial value. Each option entitles the holder thereof, upon payment of the respective conversion price, to acquire one preference share. Effective May 2006, no further grants can be issued under the 2001 Plan and no options were granted under the 2001 Plan during the year 2006.

Transactions during the year 2006

During the year 2006, Fresenius Medical Care awarded 772,280 options, including 132,800 to members of the Management Board of FMC Management AG, at a weighted-average exercise price of € 91.63, a weighted-average fair value of € 29.65 each and a total fair value of € 23 million, which will be amortized on a straight line basis over the three year vesting period.

At December 31, 2006, the Management Board members of FMC Management AG held 548,197 stock options for ordinary shares and employees of FMC-AG & Co. KGaA held 2,525,659 stock options for ordinary shares and 122,697 stock options for preference shares.

During the year 2006, FMC-AG & Co. KGaA received € 37 million from the exercise of stock options and € 6 million from a related tax benefit. The intrinsic value of options exercised in the year 2006 was € 22 million.

In connection with the conversion of FMC-AG & Co. KGaA's preference shares into ordinary shares, holders of options to acquire preference shares had the opportunity to convert their options so that they would be exercisable to acquire ordinary shares. Holders of 3,863,470 options converted resulting in 2,849,318 options for ordinary shares (see Note 1.III, Transformation of Fresenius Medical Care AG's legal form and conversion of its preference shares). Holders of 234,311 options elected not to convert.

The table below provides reconciliations for options outstanding at December 31, 2006, as compared to December 31, 2005 taking in consideration the conversion, options exercised and forfeited.

	Number of options in thousand	Weighted-average exercise price in €
Balance at December 31, 2005 (options for preference shares)	**4,103**	**47.88**
Forfeited prior to conversion	5	41.00
Eligible for conversion	4,098	47.94
Options not converted	235	49.18
Options converted	3,863	
Reduction due to impact of conversion ratios	1,014	
Balance of options outstanding after conversion into options for ordinary shares as of February 10, 2006	2,849	64.22
Granted	772	91.63
Exercised	520	61.39
Forfeited	27	68.94
Balance at December 31, 2006 (options for ordinary shares)	**3,074**	**61.18**
Balance of options not converted as of February 10, 2006	**235**	**49.18**
Exercised	104	49.82
Forfeited	8	50.61
Balance at December 31, 2006 (options for preference shares)	**123**	**48.56**

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at December 31, 2006:

	Number of options in thousand	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Aggregate intrinsic value in million €
Options for ordinary shares	959	4.86	59.10	40
Options for preference shares	71	3.63	43.37	4

At December 31, 2006, there was € 29 million of total unrecognized compensation costs related to non-vested options granted under all plans. These costs are expected to be recognized over a weighted-average period of 1.7 years.

30. RELATED PARTY TRANSACTIONS

Dr. Gerhard Rupprecht, a member of the Supervisory Board of Fresenius AG, is the Chief Executive Officer of Allianz Deutschland AG. Dr. Gerd Krick, chairman of the Supervisory Board of Fresenius AG, is a member of the Supervisory Board of Allianz Private Krankenversicherungs-AG. In the year 2006, the Fresenius Group paid € 2.1 million for insurance premiums to the Allianz Group. Furthermore, the Allianz Group received € 2.15 million for services mainly in connection with the commitment relating to the new Fresenius Medical Care 2006 Senior Credit Agreement and the issuance of a corporate bond.

Dr. Gerd Krick is also a member of the Advisory Board of HDI Haftpflichtverband der deutschen Industrie V. a. G. In the year 2006, this insurance company received € 6.3 million for insurance premiums.

Dr. Dieter Schenk is a member of the Supervisory Board of Fresenius AG and a partner in the law firm Nörr Stiefenhofer Lutz that provides legal services to the Fresenius Group. In the year 2006, the Fresenius Group paid this law firm € 1.9 million.

31. SUBSEQUENT EVENTS

There have been no significant changes in the group position or environment sector since the end of the year of 2006. At present, the Fresenius Group is not planning to carry out any significant changes in its structure, administration or legal form or in the area of personnel.

NOTES IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

32. COMPENSATION REPORT

COMPENSATION OF THE MANAGEMENT BOARD OF FRESENIUS AG

The compensation report of Fresenius AG summarizes the principles applied to the determination of the compensation of the Management Board members of Fresenius AG and explains the amount and structure of the Management Board compensation. The compensation report is based mainly on the recommendations of the German Corporate Governance Code and also provides the information which is part of the notes (§ 285 German Commercial Code) and the consolidated notes (§ 314 German Commercial Code) or the management report (§ 289 German Commercial Code) and the consolidated management report (§ 315 German Commercial Code) according to the German Act on the Disclosure of Management Board Compensation.

The principles for the compensation of the Management Board were determined by the Supervisory Board of Fresenius AG, its structure and amount by the personnel committee of the Supervisory Board of Fresenius AG. The personnel committee is composed of the Supervisory Board members Dr. Gerd Krick, Dr. Karl Schneider and Volker Weber.

The objective of the compensation system is to enable the members of the Management Board to participate in the development of the business in accordance with their tasks and performance and the successes in the structuring of the economic and financial situation of the company taking account of its comparable environment.

The compensation of the Management Board is, as a whole, performance oriented and consists in the fiscal year 2006 of three elements:

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

Furthermore, in the period under report, there is a valid pension commitment applicable to one member of the Management Board.

The composition of the individual elements is as follows:

The non-performance-related compensation was paid in fiscal year 2006 in twelve monthly installments as non-performance-related basic salary. In addition, the members of the Management Board received additional benefits consisting mainly of insurance premiums, the private use of company cars, special payments such as rent supplements and refunds of charges and contributions to pension and health insurance.

The performance-related compensation will be granted for the fiscal year 2006 as a variable bonus. The amount of the bonus in each case depends on the achievement of the individual targets relating to the net income of the Fresenius Group and its segments. For the total performance-related compensation, the maximum achievable bonus is fixed.

For the fiscal year 2006, the amount of cash payment of the Management Board of Fresenius AG consists of the following:

	Non-performance related compensation		Performance related compensation	Cash compensation (without long-term incentive components)
	Salary € thousand	Other[1] € thousand	Bonus € thousand	€ thousand
Dr. Ulf M. Schneider	600	41	954	**1,595**
Rainer Baule	425	43	825	**1,293**
Andreas Gaddum	325	86	498	**909**
Dr. Ben Lipps[2]	836	150	1,627	**2,613**
Stephan Sturm	425	87	756	**1,268**
Total	2,611	407	4,660	**7,678**

[1] Includes insurance premiums, private use of company cars, contributions to pension and health insurance and other benefits.
[2] Dr. Ben Lipps receives his compensation only by Fresenius Medical Care, of which Fresenius AG held 36.1 % of the total subscribed capital. As Dr. Ben Lipps is a member of the Management Board of Fresenius AG, his compensation has to be included in the compensation report of the Fresenius Group.

As elements of long-term incentives in the fiscal year 2006, convertible bonds and stock options on the basis of the Fresenius AG Stock Option Plan 2003 and the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 were granted. The principles of both plans are described in Note 29, Stock options.

For the fiscal year 2006, the number and value of convertible bonds and stock options issued and the value of the share price-related compensation is shown in the following table:

	Components with long-term incentive effects	
	Number	Value in € thousand
Dr. Ulf M. Schneider	14,620	700
Rainer Baule	7,310	350
Andreas Gaddum	7,310	350
Dr. Ben Lipps[1]	33,200	985
Stephan Sturm	7,310	350
Total	**69,750**	**2,735**

[1] Dr. Ben Lipps received stock options under the Fresenius Medical Care stock option plan.

The values of convertible bonds and stock options granted to members of the Management Board in the fiscal year 2006 stated above correspond to their fair value at the time of their having been granted, namely a value of € 47.90 per convertible bond of Fresenius AG and € 29.67 per stock option of FMC-AG & Co. KGaA. The exercise price for the granted convertible bonds of Fresenius AG is € 120.38 and for the granted stock options of FMC-AG & Co. KGaA is € 91.48.

On the basis of the financial targets achieved in the fiscal year 2006, Dr. Ben Lipps, in connection with a bonus agreement of Fresenius Medical Care, earned rights to share price-related compensation at a value of € 791 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 2006, the members of the Management Board held a total of 148,780 stock options and convertible bonds of Fresenius AG and 253,383 stock options and convertible bonds of FMC-AG & Co. KGaA.

The components with long-term incentive effect can be exercised only after the expiry of the vesting period. The value is recognized over the vesting period as expense in the respective fiscal year. The expenses attributable to the fiscal year 2006 are stated in the following table and are included in the overall compensation of the Management Board of Fresenius AG.

	Cash compensation (without long-term incentive components) € thousand	Expenses 2006 for long-term incentive components € thousand	Compensation (including long-term incentive components) Total € thousand
Dr. Ulf M. Schneider	1,595	444	**2,039**
Rainer Baule	1,293	224	**1,517**
Andreas Gaddum	909	233	**1,142**
Dr. Ben Lipps [1)]	2,613	385	**2,998**
Stephan Sturm	1,268	233	**1,501**
Total	7,678	1,519	**9,197**

1) Dr. Ben Lipps received stock options under the Fresenius Medical Care stock option plan.

The non-performance related compensation elements and the basic structures of the performance-related compensation elements are agreed in the service agreements with the individual Management Board members. The convertible bonds and stock options are granted by the personnel committee of the Supervisory Board on a yearly basis.

Commitments to Members of the Management Board for the event of the ending of their appointment

There is an individual contractual pension commitment for the Management Board member Rainer Baule. With regard to this pension commitment, the Fresenius Group had pension obligations of € 1,753 thousand as of December 31, 2006. The addition to pension liability in the year under report amounts to € 319 thousand. The pension commitment provides a pension and survivor benefit, depending on the amount of the basic salary, from the 63rd year of life, or, in the case of leaving because of professional or occupational incapacity, from the time of leaving active work. The starting percentage of 30 % increases with every year of service by 1.5 percentage points, whereby the maximum attainable amount is 45 %. 30 % of the gross amount of any later income from an occupation of the Management Board member is credited against the pension.

With the Management Board member Dr. Ben Lipps an individual agreement exists instead of a pension provision, to the effect that, taking account of a competitive restriction after the ending of the service agreement between him and Fresenius Medical Care Management AG, he can, for a period of ten years, act in a consultative capacity for the company. The consideration to be granted by Fresenius Medical Care Management AG in return would amount per annum in value to approximately 46 % of the non-performance related compensation elements paid to him in the fiscal year 2006.

The service agreements of the Management board members 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 2006, no loans or advance payments of future compensation components were made to members of the Management Board of Fresenius AG. No member of the Management Board received in the fiscal year 2006 payments or commitments from third parties in relation to his work as Management Board member.

Fresenius AG undertook, to the extent legally admissible, 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 (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.

To former members of the Management Board and their surviving dependents € 588 thousand was paid in the year 2006. The pension obligation for these persons amounts to € 9,696 thousand.

33. INFORMATION ON THE SUPERVISORY BOARD

The Supervisory Board appoints the members of the Management Board and supervises and advises the Management Board in managing the company. However, the Supervisory Board is fundamentally prohibited from managing the company in any way. The remuneration of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in § 13 of the statutes of Fresenius AG. The total remuneration of the members of the Supervisory Board of Fresenius AG in 2006 was € 1,127 thousand. This included € 253 thousand relating to fixed and € 874 thousand relating to variable components. The fixed remuneration per Supervisory Board member was equivalent to € 13 thousand, whereby the Chairman receives double of this amount and the deputy to the Chairman receives one and half times the amount of a Supervisory Board member. The members of the Audit Committee and the Personnel Committee of the Supervisory Board receive an additional € 10 thousand each and the Chairman of the committee receives a further € 10 thousand. For each full fiscal year, the variable 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 13 % of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. Thus, the variable remuneration per Supervisory Board member amounted to € 73 thousand for the year 2006. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board.

One subsidiary paid € 11 thousand to the surviving dependents of a former Supervisory Board member.

34. D & O INSURANCE

Fresenius AG has concluded a consequential loss liability insurance policy (D & O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of Fresenius AG and for all representative bodies of affiliates in Germany and elsewhere. The D & O policy applies throughout the world and runs until the end of June 2007. 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.

35. FEES FOR THE AUDITOR

In 2006 and 2005, fees for the auditor in Germany were expensed as follows:

in million €	**2006**	2005
Audit fees	**4**	4
Tax consulting fees	**–**	–
Audit-related fees	**–**	–
Other fees	**–**	1
Total auditor fees	**4**	5

36. CORPORATE GOVERNANCE

The members of the Management Boards and the Supervisory Boards of Fresenius AG and FMC-AG & Co. KGaA have submitted the Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act (AktG) in accordance with the German Corporate Governance Code dated June 12, 2006 and made this permanently available to the shareholders.

37. PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

The Management Board of Fresenius AG proposes to the Annual General Meeting that the earnings for 2006 of Fresenius AG be distributed as follows:

in €

Payment of a dividend of € 0.57 per bearer ordinary share on the 77,176,938 ordinary shares entitled to dividend	**43,990,854.66**
Payment of a dividend of € 0.58 per bearer preference share on the 77,176,938 preference shares entitled to dividend	**44,762,624.04**
Balance to be carried forward	**330,806.07**
	89,084,284.77

Bad Homburg v. d. H., February 27, 2007

The Management Board

Dr. U. M. Schneider R. Baule A. Gaddum Dr. B. Lipps S. Sturm

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Fresenius Aktiengesellschaft, Bad Homburg v. d. Höhe, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (Handelsgesetzbuch „German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with International Financial Reporting Standards (IFRS), as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

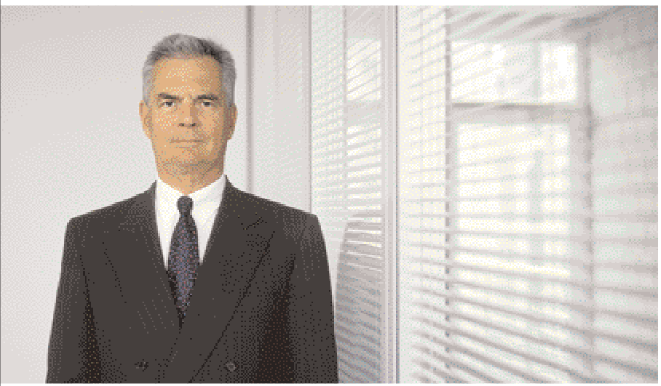
Frankfurt am Main, February 27, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Hölzl Hommel

Hölzl
German Public Auditor

Hommel
German Public Auditor



REPORT OF THE SUPERVISORY BOARD

In 2006, the Supervisory Board performed the duties assigned to it by law and by the Company's Articles of Association, regularly advising and monitoring the Management Board. It was closely involved in all decisions that were of major importance to the Group.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Carrying out its monitoring and advisory activities, the Supervisory Board was kept regularly informed by the Management Board – in a timely manner and comprehensively, both in writing and orally – about the business development, the economic and financial position, and the profitability of the Company and the Group, the corporate strategy and planning, the risk situation, and important business events. Before each of the Supervisory Board's four regular meetings, detailed Management Board reports and comprehensive approval documents concerning the agenda were distributed to its members. At its meetings the Supervisory Board used the Management Board's reports as the basis for its comprehensive discussions about business development and important corporate decisions. All matters requiring Supervisory Board approval were submitted with sufficient time for proper scrutiny. After reviewing the related approval documents and after detailed consultation with the Management Board, the Supervisory Board was able to give its approval in all matters submitted to it. The Supervisory Board was also informed about any important business events occurring between meetings and, in urgent cases, was requested to pass resolutions by written proceeding in lieu of a meeting. In addition, the chairman of the Management Board informed in individual discussions the chairman of the Supervisory Board regularly about the latest business developments and forthcoming decisions. Every member of the Supervisory Board attended more than half of the Supervisory Board meetings in 2006.

MAIN FOCUS OF THE SUPERVISORY BOARD'S ACTIVITIES

The Supervisory Board's monitoring and advisory activities were mainly focused on overall business operations as well as on business segment investments and acquisitions, or acquisition plans, and any related financing. The Supervisory Board carefully examined the opportunities and risks relating to acquisitions, such as HUMAINE Kliniken, and was kept informed by the Management Board about the integration of the strategically important acquisitions, Renal Care Group and HELIOS Kliniken.

At a special joint meeting with the Management Board on September 22, 2006 the Supervisory Board discussed in detail the conversion of Fresenius AG into a European Company (SE) and the new division of the subscribed capital (share split) with a capital increase from Company's funds. In particular, the effect of the conversion on corporate governance, especially on employee co-determination in the Supervisory Board, was discussed intensively. The Supervisory Board approved both measures unanimously on October 11, 2006. They were passed by the General Meeting on December 4, 2006.

The Supervisory Board also thoroughly reviewed and discussed all other significant business activities with the Management Board. It approved the budget for 2007 and the Group's medium-term planning, following a detailed review and discussions with the Management Board. At its regular meetings and within the Audit Committee, the Supervisory Board also kept itself informed about the Group's risk management activities.

The German Commercial Code (HGB), in pursuant of section 289 (4) and section 315 (4), requires disclosures, among other things, about the capital of Fresenius AG, voting rights, and ownership interests. Please see pages 60 to 62 of the Management Report for this information, which was reviewed and approved by the Supervisory Board.

CORPORATE GOVERNANCE

The further development of the corporate governance at Fresenius was reviewed by the Supervisory Board with regard to the conversion of Fresenius AG into an SE. This matter was also examined within the framework of the review of amendments to the rules of procedure of the Management Board and amendments to the Articles of Association that were proposed for adoption to the Annual General Meeting of Fresenius AG on May 10, 2006. In accordance with the German Corporate Governance Code, the Management Board and the Supervisory Board jointly issued a Declaration of Conformity on November 28, 2006. For further information on corporate governance at Fresenius, see the Corporate Governance Report issued jointly by the Management and Supervisory Boards on pages 26 to 29 of this Annual Report.

WORK OF THE COMMITTEES

In addition to the Mediation Committee, as required by section 27 (3) of the German Co-determination Act (MitbestG), the Supervisory Board also formed an Audit Committee and a Personnel Committee as permanent committees.

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

The Audit Committee held four meetings. The main focus of its activities was on the preliminary audit of the annual financial statements of Fresenius AG and the Group for 2005 and discussions with the auditors about their report and the terms of reference of the audit. The Audit Committee also reviewed the 2006 quarterly reports and the risk management system.

Following their own meetings, the chairmen of the committees reported regularly to the next Supervisory Board meeting on the work of the committees.

The Mediation Committee did not meet in 2006.

The Supervisory Board formed an additional committee, "Capital Increase 2006", on March 17, 2006 in order to insure timely authorization by the Supervisory Board for utilization of the approved capital in connection with the financing of the HUMAINE Kliniken acquisition. The Supervisory Board delegated approval of the Management Board's decisions on share rights and conditions of issue to this committee. The "Capital Increase 2006" Committee passed the necessary resolutions by means of a telephone vote. The functions and activities of the "Capital Increase 2006" Committee ceased with the entry in the Commercial Register of the capital increase from approved capital on November 17, 2006.

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The accounting records, the Fresenius AG financial statements prepared according to the German Commercial Code (HGB), and the Fresenius AG Management Report for 2006 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. They were elected as auditors at Fresenius AG's Annual Shareholders' Meeting on May 10, 2006 and were subsequently commissioned by the Supervisory Board. The auditors issued their unqualified audit opinion for these statements. The same applies to Fresenius AG's consolidated financial statements, which were prepared according to IFRS accounting principles, and the US GAAP statements, which were prepared voluntarily. Management Reports were added to the consolidated financial statements. The financial statements, consolidated financial statements, Management Reports, and auditors' reports were submitted to each Supervisory Board member within the required time. The Supervisory Board noted and approved the auditors' findings. The Supervisory Board's own review found no objections to the Fresenius AG financial statements or the consolidated financial statements. The Supervisory Board equally agrees with the Management Reports and the statements contained therein with respect to future development.

At its meeting on March 16, 2007 the Supervisory Board approved Fresenius AG's financial statements for the fiscal year 2006 as presented by the Management Board, thereby adopting them as official. The Supervisory Board also approved the consolidated financial statements prepared according to IFRS standards and the consolidated financial statements prepared voluntarily according to US GAAP for 2006. The auditors delivered a detailed report on the results of the audit during this meeting. The auditors attended all four Supervisory Board meetings and all four meetings of the Audit Committee. The Supervisory Board concurs with the proposal by the Management Board on the appropriation of the 2006 retained earnings.

PERSONNEL

No changes took place within the Supervisory Board or the Management Board in 2006.

The Supervisory Board, the Management Board, and the employees of Fresenius sadly mourn the passing of the former Chairman of the Management Board and Honorary Chairman of the Supervisory Board, Dr. h.c. Hans Kröner, who died on June 27, 2006 at the age of 96. Before he retired in 1992, Dr. h.c. Hans Kröner had been with Fresenius for more than 40 years. His commitment was instrumental to the development of the Company. Under his leadership, Fresenius grew from a medium size firm into a global group, with about 7,000 employees and sales of approximately DM 1.5 billion in 1992. We are deeply indebted to Dr. h.c. Hans Kröner for his enormous services to the Company.

The Supervisory Board would like to thank the Management Board and all employees for their achievements and commitment during the fiscal year 2006.

Bad Homburg v. d. H., March 16, 2007

The Supervisory Board

Dr. Gerd Krick
Chairman

MANAGEMENT BOARD

Dr. Ulf M. Schneider

Frankfurt am Main

Chairman

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

Andreas Gaddum

Mainz

Business Segment Fresenius ProServe

Corporate Offices
Supervisory Board
HELIOS Kliniken GmbH
VAMED AG, Austria
Wittgensteiner Kliniken GmbH (Chairman)

Dr. Ben Lipps

Boston, Massachusetts (USA)

Business Segment Fresenius Medical Care

Corporate Offices
Management Board
Fresenius Medical Care AG (Chairman) (until February 10, 2006)
Fresenius Medical Care Management AG (Chairman)

Rainer Baule

Ettlingen

Business Segment Fresenius Kabi

Corporate Offices
Supervisory Board
Fresenius Kabi Austria GmbH, Austria (Chairman)
Fresenius HemoCare Netherlands B.V., Netherlands (Chairman)
Fresenius Kabi España S.A., Spain
Calea Ltd., Canada
Administrative Board
Fresenius Kabi Groupe France S.A., France (Chairman)
Board of Directors
FHC (Holdings), Ltd., Great Britain

Stephan Sturm

Hofheim am Taunus

Chief Financial Officer and Labor Relations Director

Corporate Offices
Supervisory Board
Fresenius Kabi AG
HELIOS Kliniken GmbH
Wittgensteiner Kliniken GmbH
Fresenius HemoCare Netherlands B.V., Netherlands
Board of Directors
FHC (Holdings), Ltd., Great Britain

SUPERVISORY BOARD

Dr. h. c. Hans Kröner

(† June 27, 2006)
Bad Homburg v. d. H.
Honorary Chairman of the Supervisory Board

Dr. Gerd Krick

Königstein
Former Chairman of the Management Board Fresenius AG
Chairman

Chairman of the Personnel Committee
Member of the Audit Committee
Member of the Mediation Committee

Offices
Supervisory Board
Fresenius Medical Care AG & Co. KGaA (Chairman)
Fresenius Medical Care Management AG
VAMED AG, Austria (Chairman)
Allianz Private Krankenversicherungs-AG
Advisory Board
HDI Haftpflichtverband der deutschen Industrie V.a.G.
Board of Directors
Adelphi Capital Europe Fund, Cayman Islands
Board of Trustees
Donau-Universität Krems, Austria (until April 30, 2006)

Gerhard Herres

Beckingen-Haustadt
Member of the Trade Union Deutscher Handels- und Industrie-angestellten Verband im CGB
Member of the Works Council St. Wendel plant
(Chairman until April 24, 2006)
Member of the General Works Council
(until April 24, 2006)
Spokesman of the Standing Committee on Industry and Trade
(until April 24, 2006)

Dr. Gabriele Kröner

Berg
Doctor

Offices
Management Board
Else Kröner-Fresenius-Stiftung

Dr. rer. nat. Bernd Mathieu

Bad Homburg v. d. H.
Graduate chemist

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

Christel Neumann

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

Ilona Oesterle

Waldsolms
Member of the Works Council Bad Homburg v. d. H.
(Deputy Chairlady until April 23, 2006)

Dr. Gerhard Rupprecht

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

Offices
Supervisory Board
Heidelberger Druckmaschinen AG
Quelle GmbH (until March 20, 2006)
ThyssenKrupp Automotive AG
Allianz Lebensversicherungs-AG (Chairman)
Allianz Versicherungs-AG (Chairman)
Allianz Private Krankenversicherungs-AG (Chairman)
Allianz Beratungs- und Vertriebs-AG
(since February 24, 2006) (Chairman since March 18, 2006)
Allianz Elementar Lebensversicherungs-AG, Austria
(Chairman) (until January 16, 2006)
Allianz Elementar Versicherungs-AG, Austria
(until January 16, 2006)
Allianz First Life Insurance Co. Ltd., Korea

Wilhelm Sachs

Friedrichsdorf
Chairman of the General Works Council
Deputy Chairman of the Works Council Friedberg plant
Deputy Chairman of the Standing Committee on Industry and Trade
(until July 5, 2006)

Member of the Mediation Committee

Dr. Dieter Schenk

Munich
Lawyer and tax consultant

Member of the Mediation 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)
TOPTICA Photonics AG (Deputy Chairman)
Administrative Board
Else Kröner-Fresenius-Stiftung

Dr. Karl Schneider

Mannheim
Former Spokesman Südzucker AG

Member of the Personnel Committee

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

Volker Weber

Löhnberg
Deputy Chairman
Full-time Secretary of the Trade Union IG Bergbau, Chemie, Energie

Member of the Personnel Committee
Member of the Audit Committee
Member of the Mediation Committee

Offices
Supervisory Board
SV Deutschland GmbH (until December 12, 2006)

Dr. Bernhard Wunderlin

Bad Homburg v. d. H.
Former Managing Director Harald Quandt Holding GmbH

Chairman of the Audit Committee

Offices
Supervisory Board
Equita Management GmbH (since November 15, 2006)
Hertie School of Governance
Augsburger Aktienbank AG (until March 14, 2006)
Advisory Board
Harald Quandt Holding GmbH (since May 17, 2006)
Von Rautenkranz Nachfolger GbR
Marsh & McLennan Deutschland GmbH
Administrative Board
Senckenbergische Naturforschende Gesellschaft
Management Board
Gemeinnützige Hertie-Stiftung (Deputy Chairman)
Foundation Council
PwC-Stiftung0

FINANCIAL CALENDAR

Report on 1st quarter 2007 Conference call	May 2, 2007
Annual General Meeting, Frankfurt am Main (Germany)	May 16, 2007
Payment of dividend*	May 17, 2007
Report on 1st half 2007 Analysts' meeting, Bad Homburg v. d. H. Live webcast	August 2, 2007
Report on 1st-3rd quarters 2007 Analysts' meeting, Bad Homburg v. d. H. Live webcast Press conference, Bad Homburg v. d. H. Live webcast	October 31, 2007

* subject to the prior approval by the Annual General Meeting

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e-mail: ir-fre@fresenius-ag.com

Contact for journalists
Corporate Communications
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Telefax: ++49 61 72 6 08-22 94
e-mail: pr-fre@fresenius-ag.com

Commercial Register: AG Bad Homburg v. d. H.; HRB 2617
Management Board: Dr. Ulf M. Schneider (Chairman), Rainer Baule, Andreas Gaddum, Dr. Ben Lipps, Stephan Sturm
Chairman of the Supervisory Board: Dr. Gerd Krick

The German version of this Report is legally binding.

The financial statements of Fresenius AG are available on our website and may be obtained upon request.

You will find further information and current news about our company on our website at: http://www.fresenius-ag.com

Forward-looking statements:
This Report contains forward-looking statements. These statements represent assessments which we have made on the basis of the information available to us at the time. Should the assumptions on which the statements are based on not occur, or if risks should arise – as mentioned in the risk report – the actual results could differ materially from the results currently expected.