1999 Annual Report

innovating for a better life

Fresenius Medical Care

Key Figures 1999

Operating data $ (in millions)	1999	1998	1997	Change 1999 vs. 1998
Net revenue	3,840	3,506	2,974	10%
Earnings before interest and taxes, depreciation and amortization (EBITDA)	844	768	641	10%
Earnings before interest and taxes (EBIT)	560	489	391	15%
Earnings before taxes	342	269	208	27%
Net income	170	132	104	30%
Net cash flow from operating activities	355	268	216	32%
Free cash flow[1]	202	136	8	49%
Capital expenditure including acquisitions	271	424	736	7%
Data per share				
Earnings per ordinary share ($)	2.15	1.62	1.34	33%
Earnings per ordinary ADR ($)	0.72	0.54	0.45	33%
Dividend per ordinary share (€)	0.69	0.59	0.51	17%
Dividend per preference share (€)	0.75	0.64	0.56	17%
Key ratios (in %)				
EBITDA margin	22.0	21.9	21.6	
EBIT margin	14.6	13.9	13.1	
Return on equity before taxes	17.1	11.4	8.5	
Equity to assets	34.8	41.5	44.1	
Other data				
Employees (full-time equivalents, Dec. 31)	29,318	27,423	n.a.	7%

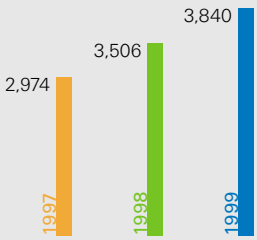
Excluding divested businesses and special OIG charge.

[1] Before acquisitions and dividends

All figures in this report are stated in U.S. $, if not indicated otherwise, and in conformity with U.S. GAAP.
Unless specified, all charts refer to fiscal year 1999.
For more detail refer to the 3-year summary at the back of the report.

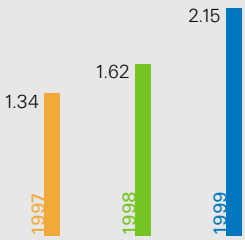
Net Revenue

$ in millions



Earnings per Share

in $



Mission

We set superior standards in renal patient care through our commitment to developing innovative dialysis products and therapies.

The unique position of Fresenius Medical Care in the dialysis field today builds on more than 25 years of experience and continual innovation. Accordingly, the focus of our research and development effort is to maintain the technological edge needed to create innovative products and enhanced therapies. Around 30,000 employees are united in their commitment to providing products of the very highest quality and bringing the best medical practices to renal patient care.

We provide a complete range of products for both treatment modalities, hemodialysis and peritoneal dialysis, and we are the world's largest full-service provider of dialysis care.

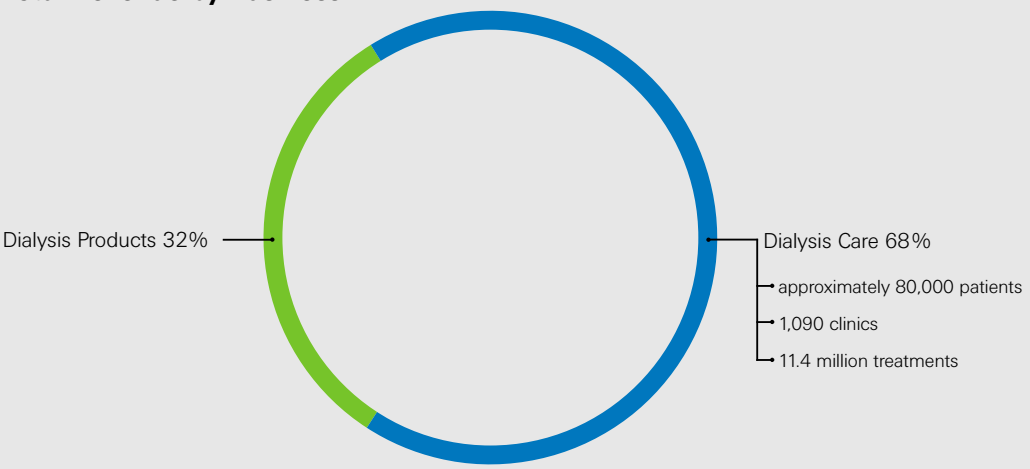
With operations in approximately 100 countries, we are a truly global Company. Our rigorous performance targets promote value creation throughout the Group, while allowing our regional managers to focus on their specific markets and define their own expansion strategies.

The number of dialysis patients in the world today is approaching one million. With the incidence of kidney failure increasing and thousands of people gaining access to life-saving dialysis treatment, the world dialysis patient population is expected to continue to grow at a rate of 7% annually.

We at Fresenius Medical Care remain dedicated to improving the quality of life for dialysis patients and to furthering our leadership in the industry. In short, we shall continue innovating – innovating for a better life.

At a Glance

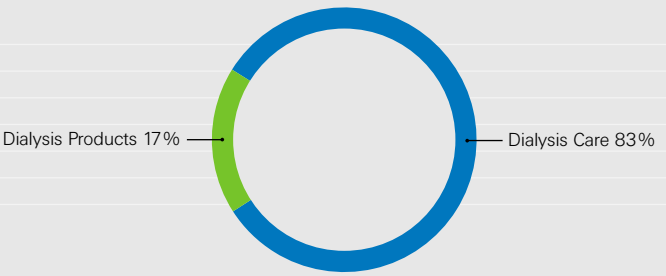
Total Revenue by Business



Total $ 3,840 million

North America

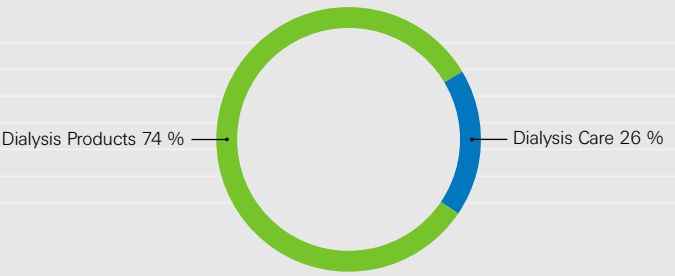
	1999	1998	1997
Revenue ($m)	2,807	2,563	2,157
EBITDA ($m)	611	549	457
Capital expenditure ($m)	81	75	133
Employees (full-time equiv.)	21,553	20,431	n.a.
Patients treated (year-end)	62,000	58,600	53,500
Number of clinics (year-end)	849	782	715
Number of treatments (m)	8.9	8.2	7.2



Total $ 2,807 million

International

	1999	1998	1997
Revenue ($m)	1,033	943	818
EBITDA ($m)	243	228	192
Capital expenditure ($m)	79	84	72
Employees (full-time equiv.)	7,765	6,992	n.a.
Patients treated (year-end)	18,000	15,600	14,500
Number of clinics (year-end)	241	218	193
Number of treatments (m)	2.5	2.3	1.9



Total $ 1,033 million

Contents

Letter to our Shareholders

Dear shareholders,

For a number of reasons, 1999 was an outstanding year for Fresenius Medical Care:

- We achieved strong operating performances in our business segments.
- We continued to meet our financial targets, before special charges.
- We reached an agreement with the U.S. government to resolve all legal issues inherited from the merger with National Medical Care.
- Our ordinary shares were included in the Deutscher Aktienindex (DAX), the index which represents the top 30 German companies.

Strong Operating Performances of Business Segments

The operating strength of our dialysis business was reflected by the growth of both the International and North America segments. The North America segment accounts for 73% of total revenue, and we have a very solid foundation in this region. Our revenue in North America increased 10% to $2.8 billion overall, with both Dialysis Care and Dialysis Products providing revenue growth at or above the market rate. Dialysis Care revenue increased 10%; Dialysis Products revenue expanded by 6% (including sales to our own clinics).

In the International segment revenue rose to $1.0 billion overall, a 10% increase compared to 1998, or 14% on a currency-adjusted basis. Dialysis Care revenue in this segment increased by 8% – more than 14% currency-adjusted – reflecting our continued success in expanding the International Dialysis Care business, particularly in Europe and Latin America. Dialysis Products revenue in the International segment (including sales to our own clinics) showed an 11% increase (16% currency-adjusted), and thus clearly surpassed the average market growth rates. In Asia-Pacific, the benefits of our product initiatives already began to emerge, leading to substantial revenue growth in Dialysis Products revenue. Both North America and International contributed to our very good progress in the operating margin, which increased from 13.9% to 14.6% in 1999.

As a global Company delivering dialysis care and dialysis products in approximately 100 countries worldwide, we successfully address the needs of dialysis patients in widely varying economic and health-care environments. Our corporate performance standards allow us to increase the value of the Company. At the same time, regional management is empowered to define expansion strategies at the local level in order to rapidly respond to growth opportunities.

While growth is strong in both business segments, the dynamics are different. In North America, the trend is same-store growth due to stable market expansion, while in the International segment growth is being driven by a shift toward more patient care activity. As more market opportunities open up outside North America for dialysis clinic ownership, we will continue to increase our level of investment in our International Dialysis Care business relative to North America.

This trend was already in evidence in our 1999 acquisition program, as we acquired 20 dialysis clinics in the International markets and 15 clinics in North America. In addition, we have signed a definitive agreement to acquire 86 clinics, which we announced in January 2000, adding another 5,100 patients, mainly in Argentina, Italy, the United Kingdom, Hawaii and Puerto Rico. However, if this project should not be closed there are other opportunities to purchase patient care clinics around the world. We will maintain our disciplined financial approach to selective acquisitions, and continue to generate strong organic business growth via the development of new products and services for patients suffering from renal disease. With our infrastructure in place for product sales and patient care we can integrate this additional treatment capacity with a strong focus on both quality and cost-effective operations. Continuous product innovations in both Dialysis Care and Dialysis Products sustained our technological edge and expanded our leading market positions even further.

In North America, we are able to focus on internal growth, supported by opening new clinics. As a result of our clear market leadership, we are also in the best position to develop new therapy models that allow cost-effective improved treatment. Our demonstration projects for disease state management (DSM) are progressing well. We expect to have the first set of data available in late 2000. Our DSM projects will provide insight and guidance for future reimbursement models.

Financial Targets Met

Revenue increased 10 % over the previous year and thus was in line with our expectations. Moreover, our quarterly earnings were consistently on target throughout 1999, and this clearly helped to strengthen investor confidence in the Company. Excluding the impact of the settlement of the above-mentioned legal issues, the increase in earnings per share of 33 % compared to 1998 met our targeted increase of more than 25 %. One of the strengths of our business is its ability to generate strong, predictable cash flows. During 1999 our free cash flow rose to $ 202 million, an increase of 49 % over the previous year which is in line with our target of $ 200 million.

U.S. Legal Issues Settled

In May 1999, we announced the settlement of the first of five legal issues for the amount of $ 16.8 million. At the time of the merger with National Medical Care we assumed responsibility for legal issues related to business practices prior to the formation of the Company, documentation deficiencies and differences in the interpretation of payment regulations. We supported the investigation with our full cooperation. Our overall goal was to achieve a resolution that was fair and did not compromise our ability to provide the best available care to our patients. While we had expected to resolve only one or two more issues during 1999, we are very pleased to have achieved a global settlement for the four remaining issues as well, which we believe to be in the best interest of the Company, our patients and shareholders.

Thanks to this settlement, the path of our activities in the U.S. now leads clearly forward with regard to treating our patients, business practices, interpretation of regulations and required documentation. We can now focus on the future rather than on the past. The announcement of the preliminary agreement in early November positively impacted on our share price – a clear signal of the capital markets' approval. The final terms for the preliminary agreement reached in November were negotiated and the final settlement was announced in January of the current year.

Ordinary Shares Included in the DAX

As of September 20, our ordinary shares were included in the DAX. Our efforts now focus on meeting shareholders' expectations as reflected in the strong performance of the shares during 1999. Our ordinary shares appreciated 41 % in the course of the year and outperformed the DAX. Management is well aware that the preference shares are still lagging behind the impressive performance of the ordinary shares and were trading at roughly a 50 % discount at the end of 1999. We have been assessing possible measures to change this unsatisfactory situation for our shareholders.

By issuing 8.97 million preference shares with the acquisition of Franconia Acquisition LLC in March 2000, we took the first step towards increasing liquidity of our preference shares in the mid term.

Growth Potential Reflected in Targets Set for 2000

The fundamentals of our market remain sound despite wide-spread pressure on the world's health care systems. In this regard, it is particularly noteworthy that in the U.S., our largest market, the government decided to increase reimbursement for the first time since 1983. We view this step as an acknowledgement that spending more healthcare dollars to improve treatment outcomes leads to savings in the overall healthcare system, as patients require less hospitalization.

In view of this favorable market environment and barring significant changes, we reiterate our targets: Net income growth is expected to exceed the low double-digit revenue growth we envisage for 2000. We assume the earnings per share growth rate to be in the range between the growth rates of net income and revenue for the year 2000. During 2001 we would expect earnings per share to increase in line with net income. All our financial targets are consistent with the overall objective of increasing the value of the Company.

Clearly Defined Long-Term Objectives

Only three years after the creation of the Company, the name Fresenius Medical Care has become synonymous with a globally recognized 'mark of quality' for innovative products and superior medical therapies. Over the years, our successful research has made blood purification more effective with fewer complications, and it has made treatment technology safer.

More importantly, for the second consecutive year, an independent survey carried out at our U.S. clinics showed that 90 % of the patients are satisfied with the treatment they receive.

We have succeeded in improving many aspects of dialysis treatment and want to achieve more in the future. For an even more comprehensive approach, the next logical step in this process is to provide opportunities for our patients to become actively involved in the rehabilitation process, both physically and mentally. Over the next five to ten years we see an opportunity for 30 % of all patients to be rehabilitated to the point where, hopefully, they can return to the workforce. This vision of a better life is very much in line with our strategy to evolve as a therapy company.

With a management team in place that has longstanding experience in the industry and is well rooted in regional markets, coupled with the efforts of around 30,000 employees, we are confident that we will successfully seize the tremendous opportunities that lie ahead and meet the ambitious targets that we have set ourselves.

In closing, I would like to recognize the tremendous dedication and accomplishments of our employees around the world. Their support is essential for our ongoing success.

Thank you for your continued support.

Dr. Ben Lipps
Chief Executive Officer

Management Board members
from left to right:
Dr. Werner Brandt
Chief Financial Officer
Roberto Fusté
Asia-Pacific
Dr. Ben Lipps
Chief Executive Officer
Dr. Emanuele Gatti
Europe/Latin America/
Middle East and Africa

Shareholder Value
Strong Commitment

strong

"My renal failure made me feel weak. After starting dialysis, I feel strong and vibrant again – it gave me back my life."

Tim K., Boston (USA), 6 years on dialysis

September 20, 1999 was a notable day for our Company. It was the day our ordinary shares joined the DAX, the index of the 30 blue-chip German companies. We regard our DAX membership – just three years after the Company was founded – as an impressive tribute to our successful work. DAX selection is based on two primary criteria: stock market turnover and market capitalization. Our shares have clearly ranked among the top 35 most heavily traded stocklisted German companies, thanks to increased interest on the part of mutual funds and other institutional investors as well as heightened public attention.

Our ordinary and preference shares are also traded on the New York Stock Exchange in the form of American Depositary Receipts (ADRs), where three ADRs represent one share. The average number of ADRs outstanding in 1999 was more than 21 million.

Ordinary Shares Outperform the DAX in 1999

Developments on the global financial markets in 1999 were stimulated primarily by an unexpectedly strong recovery from the financial crisis in the autumn of 1998. It was a recovery that led to record highs around the globe. The European markets initially lagged behind, however, and did not join the upward trend until October. The DAX paralleled this development with a rather moderate performance during the first nine months of 1999, and then staged a striking rally in the fourth quarter. Starting at a level of 5,200 points in mid-October, the DAX climbed to a high of 6,782 points on December 23, thus increasing some 30 % in less than 3 months. The index closed the year at a record level of 6,958 points.

The year-end price of our ordinary shares on the Frankfurt Stock Exchange was € 84.90, representing a gain of 41 % for the year. This was about 3 % percentage points better than the DAX. It was an impressive year for our ordinary shares.

The preference shares clearly underperformed the ordinary shares, closing the year at € 41.30 for just a 6% annual gain. The widening gap between the ordinary and preference shares leaves us unsatisfied, and we are evaluating various measures to counteract this trend. In March 2000, we acquired Franconia Acquisition LLC by issuing 8.97 million preference shares. For this capital increase in kind, we utilized our existing Autorized Capital II as a first step to increase the liquidity of the preference shares in the mid term. This transaction is expected to minimize the valuation gap between the two types of shares over time. Preference shares have no voting rights, but are entitled to a higher dividend than the ordinary shares.

The ordinary ADRs, reflecting the record high of the Dow Jones in December, hit their high for the year of $ 28 3/8 on December 1. This was also the level at which they ended the year. Thus, the ordinary ADRs appreciated 18 % over the year. The preference ADRs closed at $ 14, equating to a loss of 12 % over the year.

4008 S hemodialysis machine

Shareholder Value
Strong Commitment

FMC stock remains an attractive investment, indicated by the predominance of 'Buy' recommendations in the market. This reflects the analyst community's positive assessment of our future earnings power and its expectations regarding the performance of our stock.

Sustained Increase in Dividend

Despite the net loss reported for the Group, as a result of the OIG settlement, the Management Board and Supervisory Board are proposing a dividend increase for the fiscal year 1999 to € 0.69 per ordinary share (+17 %) and to € 0.75 per preference share (+17 %), in reflection of the strong performance of our underlying operating businesses. The dividend is to be paid out of the unconsolidated operating profits generated by Fresenius Medical Care AG, the holding company which determines the ability to distribute earnings. This dividend increase will raise the total amount distributed to our shareholders to € 55 million.

Conversion to No-Par Shares

Following a resolution at the Annual Shareholders' Meeting on June 2, 1999, we converted our capital stock from shares with a par value of DM 5 to no-par shares. Each no-par share represents an equal proportion of € 2.56 of the Company's total equity capital. The switch to no-par shares also affected the ADRs; previously three ADRs equaled one 5-DM share; now three ADRs represent one no-par share. Our shares have been traded on the stock market on a no-par basis since August 30, 1999.

Focus on Value Creation

Our decentralized management philosophy builds on empowered regional management at the local level while rigorous corporate-wide performance targets promote the creation of value throughout the Company. Our desire to create value for our shareholders is consistent with the type of lasting and valuable relationships we strive for with all our stakeholders, whether be they customers, employees or suppliers.

Our value management is based on the following principles:

- Focus on core competencies.
- Set corporate financial targets to increase revenue, net income, free cash flow and EPS.
- Establish corporate-wide, uniform assessment criteria for all investments to ensure compliance with uniform hurdle rates.
- Maintain our financial systems to measure the results by regions.
- Give regional managers entrepreneurial responsibility for revenue and earnings.
- Establish performance incentives for management.

Our corporate controlling system provides transparency for internal as well as external reporting. It therefore reduces complexity and strengthens the decentralized operations.

Dividend per Share and Distribution Amount

	Ordinary Share	Preference Share	Total Distribution Amount
	€	€	€m
1996		0.10[1]	0.876
1997	0.51	0.56	41
1998	0.59	0.64	47
1999	0.69	0.75	55

[1] Distributed in 1998

Increased Investor Relations Activities

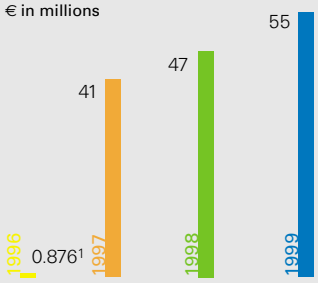
The objective of our worldwide Investor Relations activities is to ensure open, timely and comprehensive communication with shareholders and the financial community regarding developments in our Company. By so doing, we endeavor to reinforce the confidence of our shareholders and potential investors and enable financial analysts to adequately evaluate the Company.

During 1999, senior management visited a number a major financial centers both in Europe and the U.S. to increase the Company's visibility in the financial community and educate investors about the Company, its strategy, and opportunities for continued growth.

Our program of active communication with the financial community will be further intensified in 2000 in an effort to meet the growing interest in the Company.

Distribution Payment

€ in millions



[1] Distrubuted in 1998

Ticker Symbols

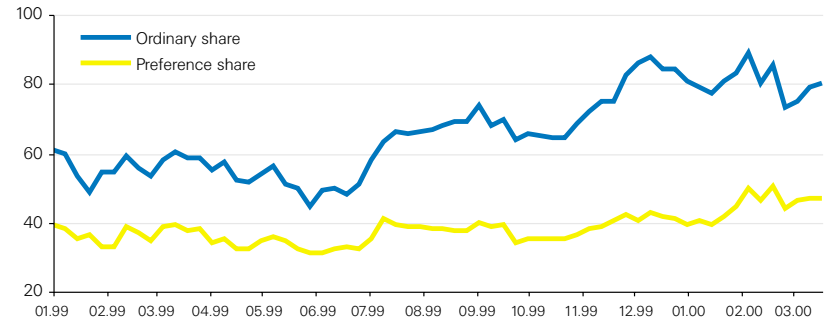
Frankfurt Stock Exchange (FSE)

Ordinary share	FME
Preference share	FME3

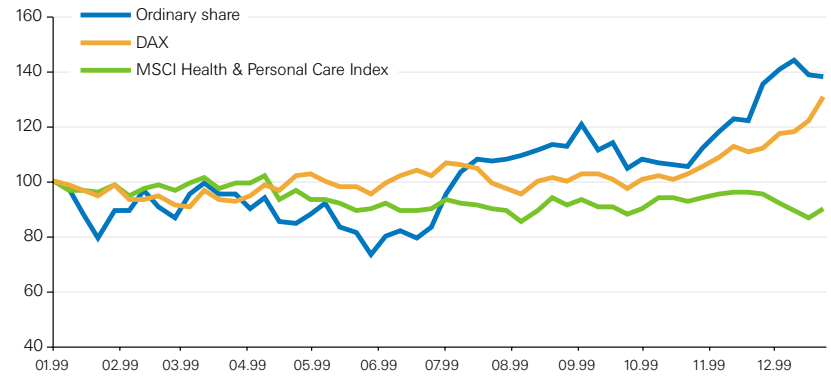
New York Stock Exchange (NYSE)

Ordinary ADR	FMS
Preference ADR	FMS_p

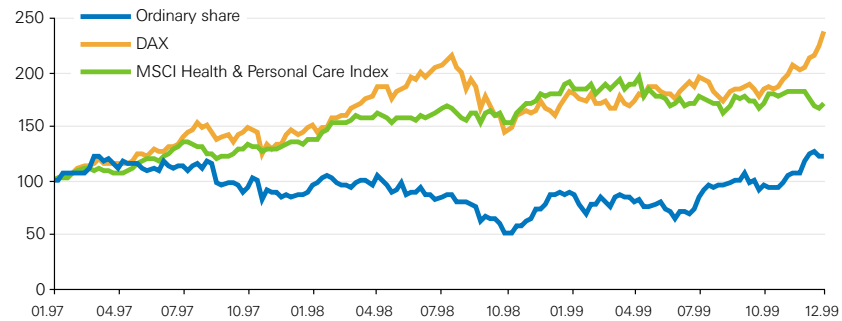
Absolute Share Price Performance 1/5/99 - 3/21/00
in €



Relative Share Price Performance 1999



3-Year Relative Share Price Performance 1997 - 1999



Key Data of the Fresenius Medical Care Shares

		1999		1998		1997		1996	
		Ordinary	Preference	Ordinary	Preference	Ordinary	Preference	Ordinary	Preference
Number of shares									
(no-par value)[1]	million	70	9.02	70	9.02	70	9.02	70	5.04
Share price (FSE)[2]									
high	€	90.00	45.00	72.43	57.26	85.9	71.07	74.39	64.78
low	€	43.94	29.40	30.68	25.56	55.73	46.02	57.98	62.43
year-end	€	84.90	41.30	60.08	39.63	61.10	49.59	67.34	63.37
Average daily trading volume (FSE)[3]		129,228	14,038	98,263	14,517	592,000	127,000	414,000	35,000
ADR share price (NYSE)[2]									
high	$	28.375	16.750	26.875	21.000	31.500	26.750	31.875	27.750
low	$	15.813	11.250	12.500	12.125	20.438	18.000	21.125	25.875
year-end	$	28.375	14.000	23.500	16.125	21.750	18.000	28.125	26.000
Market capitalization	€ bn	6.32		4.56		4.72		5.05	

[1] As from August 30, 1999; before nominal value DM 5.00
[2] Closing prices
[3] Volume according to the new counting rule, except data from 1996 and 1997

Fiscal Year 1999
Dynamic Growth

dynamic

"Dialysis has improved dramatically over the last years. So has my biking."

Christine H., Bad Homburg (Germany), 27 years on dialysis

Upward Trend in World Economy

The year 1999 was characterized by a strong global recovery, which was driven largely by the stabilization of the Japanese economy and the dynamic upswing in some countries of Southeast Asia. Most Latin American countries managed to stop the downward trend of their economies. The economies of Eastern Europe rebounded in the spring and even Russia showed signs of recovery after its sharp drop in output. The continued strong expansion of the U.S. economy had a significant positive impact on the recovery of the world economy. The German economy picked up during the second half of the year and registered a modest 1.4% increase over the year in gross domestic product. The favorable global trends are expected to continue through 2000. Currency fluctuations – mainly of the euro, Japanese yen and Brazilian real versus the U.S. dollar – impacted our sales and earnings through translation effects. During 1999, the dollar's 16% appreciation against the euro, affecting 16% of our total revenue, and its 54% increase against the real, affecting 1% of total revenue, had a negative impact. The depreciation of the dollar versus the yen (-13%), affecting 2% of revenue, had a positive effect. Overall, this led to a negative translation effect.

Dynamic Market Growth of the Dialysis Industry

The dialysis market has been characterized by relatively consistent growth over the past few years. The global dialysis patient population is approaching one million; overall, it has been growing at a rate of 7% per annum. This trend is expected to continue in the future due to the increase in general life-expectancy, a rise in the incidence of illnesses that can lead to chronic kidney failure (such as diabetes and hypertension), and enhanced treatment methods. The rates of incidence and prevalence of chronic kidney failure vary considerably by region mainly due to genetics, differences in lifestyle, transplant policies and financial constraints of the healthcare systems. The incidence of ESRD has continuously increased from approximately 50 new patients at the end of the 1970s to 300 new patients per million inhabitants currently. Furthermore, transplantation, the only alternative to dialysis treatment, has only been possible for approximately 5% of all patients. Relief through xenotransplants (transplants from different species, e.g. pig kidney to human recipient) are not expected to have an impact on ESRD treatment for another 10-15 years.

In general, healthcare is paid for by governments and financed through taxes and/or social security contributions, or private health plans. In many developing countries dialysis patients are obliged to finance their treatment entirely on their own or insure themselves privately with limited subsidization from government or charitable institutions. In the developed economies of Europe, Asia and Latin America, healthcare spending is absorbing an ever increasing portion of GDP, ranging from 6-10%. Hence, dialysis markets in 1999 were characterized by measures to cut healthcare expenses and to transfer costs from the public to the private sector.

stay•safe® production in St. Wendel, Germany

In this context, however, there is a growing awareness that better care quality delivered in the dialysis unit reduces overall healthcare spending for dialysis patients, as it reduces the need for supplementary treatment. Expenditure on healthcare in emerging markets is expected to grow as these economies create more wealth, allowing an increasing number of patients to gain access to life-saving dialysis treatments. In the U.S. the five biggest providers of dialysis care, all privately-run chains, treat over 60% of total patients. In Europe we expect the share of private chain providers to increase from current levels of about 5% to around 30%, thus creating further business opportunities and enabling us to expand our clinic network. Medicare reimbursement (composite rate) in the U.S., our biggest market, was increased by 1.2% effective January 1, 2000, and will grow by a further 1.2% one year later. This should lead to an additional $10 million in our revenue in 2000 and again $10 million in 2001. In total, the reimbursement situation outside the U.S. was stable in 1999.

Strong Revenue Growth in Both Segments[1]

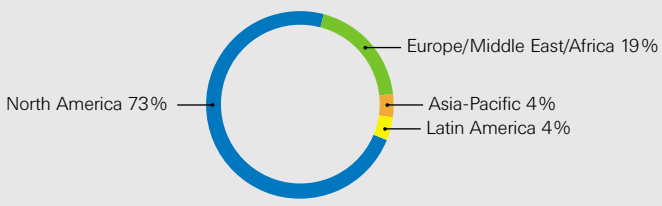
Revenue rose by $334 million to $3,840 million in 1999, which represents a 10% increase over 1998. This was driven by strong organic revenue growth of 10% (currency-adjusted) which was in line with targeted growth for the year 1999. The currency-adjusted increase of 11% shows the actual strength of our business. Both segments contributed to the strong revenue growth, with North America posting 10% revenue increase, and International 10%, or a strong 14% currency-adjusted. The regional revenue breakdown remained basically unchanged. North America generated 73% of total revenue, while the International segment contributed 27%. The growth in Dialysis Care revenue by 10% to $2,600 million was largely attributable to the 9% increase in treatments performed. Revenue from sales of Dialysis Products to third parties rose by 8% to $1,241 million. On a currency-adjusted basis, the increase of 11% was again clearly above the market growth rate. Sales of hemodialysis machines and dialyzers were especially strong during 1999. Including sales of products used in our own dialysis clinics, product sales totaled $1,521 million, an 11% currency-adjusted increase over 1998. Our share of the global products market rose significantly in 1999.

Substantial Earnings Growth[1 2]

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 10% (11% currency-adjusted) to $844 million. As a percentage of revenues, EBITDA increased slightly from 21.9% in 1998 to 22.0% in 1999. We increased earnings before interest and taxes (EBIT) by $71 million to $560, equating to a 15% gain of over 1998 (16% currency-adjusted) which shows the strength of our underlying business.

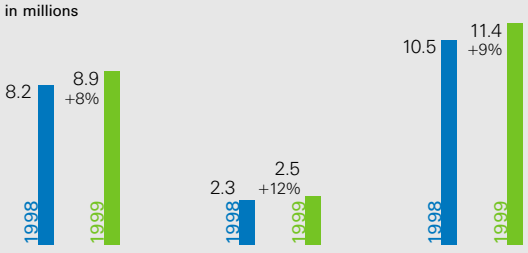
[1] Prior year comparisons refer to continuing operations.
[2] All figures stated in this section represent operating results before the OIG charge.

Revenue by Region



Total $3,840 million

Number of Treatments Performed
in millions



The EBIT margin increased from 13.9% to 14.6% in 1999 due to an increase of the average revenue per treatment in North America from $244 in 1998 to $252, and the decline in selling, general and administrative expenses as a percent of revenue from 22.2% in 1998 to 21.4% in 1999. The gross profit margin of 37% remained stable at the 1998 level.

As a result of the gain in EBIT coupled with stable interest expenses of $218 million, earnings before taxes increased by 27%, from $269 million to $342 million in 1999. The effective tax rate was 49.5%, down from 50.2% in 1998. Earnings after tax rose to $170 million, a 30% increase from $132 million in 1998. Earnings per share (EPS) were up by 33% to $2.15 from $1.62 in 1998. The increase in EPS was stronger than growth in earnings after tax due to distributions to equity securities holders of $2.8 million during 1998 that were retired in 1999. The pre-tax return on equity was 14.1% compared to 11.4% in 1998.

Impact of OIG Settlement on Earnings

On January 18, 2000 definitive agreements with the U.S. Government were reached. These settlement agreements resolve the matters covered by the investigation of the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services into the activities of the acquired subsidiary National Medical Care, Inc. (NMC) and its subsidiaries as well as NMC's claims of $153 million for outstanding Medicare receivables for intradialytic parenteral nutrition (IDPN) therapy rendered prior to December 31, 1999. The settlement requires the payment of $486 million to the U.S. Government. The net settlement amount of $427 million comprises (a) an initial payment of $286 million made in February, 2000, (b) installment payments over an 18 month period amounting to $186 million, (c) $14 million paid to the U.S. Government under the voluntary disclosure program and (d) less installment payments by the U.S. Government over an 18 month period for the IDPN receivable claims totaling $59 million. During 1999 we accrued a special charge of $601 million before taxes for the settlement amount of $486 million, the write-off of $94 million of IDPN receivables outstanding and other related costs of $20 million. The deduction of the pre-tax charge of $601 million lowers EBITDA to $243 million and EBIT to a loss of $(41) million for 1999. Estimated tax benefits of $182 million relating to civil charges and other related costs lead to an after tax charge of $419. Giving effect to the OIG related charges, a net loss of $(249) million was incurred, or a loss per ordinary share of $(3.15).

Strong Cash Flow Supports Expanding Business Operations

Net cash provided by operating activities from continuing operations increased strongly by 32% to $355 million (1998: $268 million). Capital spending of $160 million for maintaining and expanding production capacities as well as for opening and furnishing dialysis clinics remained at last year's level (1998: $159 million). This amount includes approximately $85 million for opening 71 new dialysis clinics and equipping dialysis clinics. Of the new clinics, 57 were located in North America.

Impact of OIG Settlement on Earnings

$ in millions

		1999	1998	Change
EBITDA	before OIG	844	768	10%
	after OIG	243		
EBIT	before OIG	560	489	15%
	after OIG	(41)		
Net income/(loss)	before OIG	170	132	30%
	after OIG	(249)		
Earnings per share	before OIG	2.15	1.62	33%
	after OIG	(3.51)		

Abbreviated Statement of Earnings[1]

$ in millions, except share data

	1999	1998	Change
Net revenue	3,840	3,506	10%
Cost of revenue	2,425	2,206	10%
Gross profit	1,415	1,300	9%
in % of revenue	36.9	37.1	-1%
Selling, general and administrative	823	780	6%
in % of revenue	21.4	22.2	-4%
Research and development	32	31	4%
Operating income	560	489	15%
Interest (net)	218	220	-1%
Earnings before income taxes	342	269	27%
Net income	**170**	**132**	**30%**

[1] Before special OIG charge

In addition, we made major investments in our manufacturing facilities in St. Wendel (Germany), Lyon (France) and Ogden/Utah (USA). The projects were aimed at expanding production capacity for dialyzers and, in the case of St. Wendel, putting the new production line for Biofine® bag systems into operation. During 1999, 51 % of total capital spending was allocated in North America and 49 % in International. Going forward, we expect this split to remain virtually unchanged. Capital expenditure will increase as we expand our business and is expected to be in the range of 4–5 % of total revenue in the next two years. Free cash flow increased to $ 202 million, up 49 % compared to the previous year. $ 48 million was dedicated to paying dividends, including the dividend distribution of $ 27 million to our shareholders and $ 21 million to the parent company Fresenius AG, our majority shareholder. Acquisition spending was $ 101 million and the remainder was utilized for debt retirement.

Selective Acquisitions Support Growth

During 1999, we acquired 36 clinics globally of which 21 were located outside North America, mainly in Western Europe and Latin America. Cash acquisition spending amounted to $ 101 million (1998: $ 223 million). Non-cash acquisitions for 1999 were valued at $ 10 million (1998: $ 42 million). This is in line with our target to spend approximately half of the free cash flow on acquisitions. For 2000, acquisition spending will be above the usual target range due to the acquisition of Total Renal Care's international operations for a purchase price of $ 161 million in January 2000.

Dividend Increased

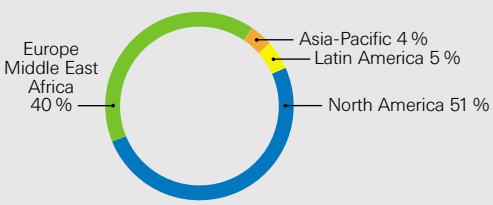
The Management Board and Supervisory Board will propose a dividend of € 0.69 per ordinary share and € 0.75 per preference share at the Annual General Meeting, both representing an increase of 17 % over the previous year. Despite the net loss from consolidated operations due to the settlement charges, dividends can be paid from the unconsolidated profits determined under German accounting principles, generated by the holding company, Fresenius Medical Care AG, which determines the ability to distribute earnings. This allows us to let shareholders participate in the strong performance of our operating business, which is consistent with our earnings-linked distribution policy. Total dividend distribution, if approved, will be € 55 million. Calculated at an exchange rate of $/€ 1.029 the amount distributed will be $ 57 million or 33 % of earnings after taxes of $ 170 million for the year before the OIG impact. For 2000, as our business develops favorably, we expect a further increase in the dividend, with a payout ratio of approximately 30–40 % of consolidated after tax earnings.

Abbreviated Statement of Cash Flows

$ in thousands

	1999	1998	Change
Cash at the beginning of the year	31,867	37,818	-16 %
Cash from operating activities	350,975	268,000	31 %
Cash used in investing activities	(254,472)	(280,266)	-9 %
Cash from financing activities	(79,318)	12,760	n.a.
Effect of exchange rate on cash	(14,292)	(6,445)	n.a.
Cash at the end of the year	34,760	31,867	9 %
Free cash flow from continuing operations	201,611	135,741	49 %

Capital Expenditure by Regions



Total $ 160 million

Solid Balance Sheet

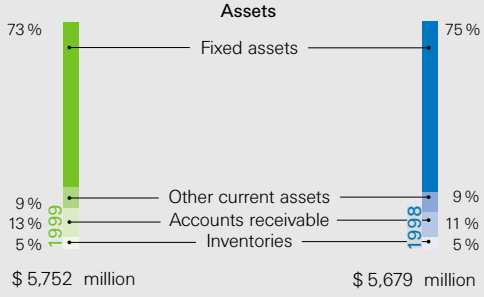
As of December 31, 1999, total assets were $5.75 billion (1998: $5.68 billion). Total assets include $2.86 billion of goodwill, of which 72% (approx. $2.06 billion) relates to the formation of Fresenius Medical Care AG. The asset structure was virtually unchanged compared to December 31, 1998. Total liabilities at December 31, 1999 were $3.75 billion, up from $3.32 billion at December 31, 1998. Most of the increase was a result of the OIG charges. Long-term liabilities decreased by $367 million to $1.98 billion from $2.35 billion at the end of 1998, as we utilized cash from the parent company to apply against our senior credit facility. Cash received from the U.S. Government payments for the IDPN receivables and cash savings from the realization of the tax benefit relating to the settlement will be used to reduce debt in 2000. Due to the OIG charges, net equity at December 31, 1999 decreased by $355 million to $2.0 billion (1998: $2.36 billion). Accordingly, the equity ratio decreased from 42% at year-end 1998 to 35% at year-end 1999. Working capital was $731 million up from $663 million in 1998.

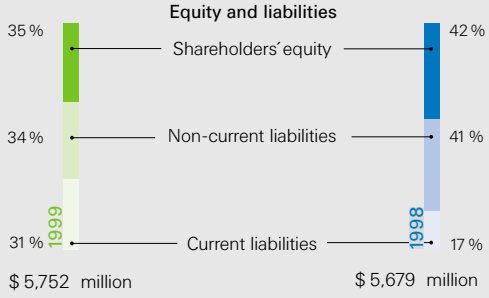
Expansion of Manufacturing Sites to Keep Pace with Growing Demand for Our Products

All our products are based on a single technological platform. This enables us to achieve a maximum of efficiencies and easily expand our production capacity. Manufacturing costs per unit have decreased over the past few years through the development of manufacturing technologies that streamlined and automated our production processes. During 1999, the production facility in Schweinfurt (Germany), our global center of competence for dialysis machines, increased output by 33% from 14,000 machines in 1998 to 18,600 machines. This remarkable growth was supported by the implementation of a process unit organization in 1998. We continued to outsource non-core technologies. In 1999, the facility was awarded second prize in the 'Best Factory' contest organized by the German business weekly Wirtschaftswoche and the highly recognized French business school INSEAD. In St. Wendel (Germany), our center of competence for dialyzers, we focused on the development of a new dialyzer series. Using our knowledge of polyolefins from the production of peritoneal dialysis solution bags, we have introduced these materials into our dialyzer production combined with new technologies such as laser welding and surface coating for improved compatibility with blood.

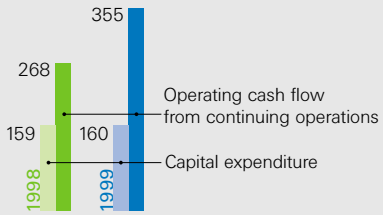
A new production line was put into operation in November 1999. In response to the steady, above-market increase in demand, we optimized production at our dialyzer facilities which resulted in a 50% increase in efficiency and quality improvements. The extension of the harmonization process for bloodlines has lowered manufacturing costs and enabled us to meet growing demand in 1999. To satisfy the rising demand for dry concentrates, we opened a second fully-automated line for bi*bag*® production made of Biofine® at our production facility in Lyon (France). 1999 marked the first year in which the production volume of Biofine® products was higher than that of PVC-based products at our main production sites in St. Wendel and in Barcelona (Spain).

Balance Sheet Structure
as at December 31, 1999





Cash Flow and Capital Expenditure
$ in millions



We have thus ensured sufficient capacity for the production of peritoneal dialysis bags for the next years. During 1999, production costs were lowered by 5-6 %, and we aim to achieve savings in the same range in 2000. In the years ahead we aim to further improve our proprietary, highly-automated manufacturing systems in order to continue to reduce costs while maintaining a high level of quality control and reliability. In North America, we continued to increase production during 1999. We opened a new 14,000 square meter bloodline manufacturing plant in Reynosa (Mexico) in May. Our dialyzer production site in Ogden/Utah (USA) initiated the first stages of a five-year expansion program in August. Both facilities also obtained ISO 9001 certification and approval for CE marking in 1999.

Optimized Financing

In December 1999, we amended certain covenants including, among other things, financial ratios contained in our senior credit facility that would have been affected by the impact of the OIG settlement. At December 31, 1999 we were in compliance with all such covenants and expect to remain in compliance in 2000. A loan from Fresenius AG was used to temporarily pay down bank debt. At year-end, the inter-company loan was $ 330 million (1998: $ 60 million). The availability under the senior credit facility was $ 777 million at year end.

Following the announcement of the – then preliminary – OIG settlement, Standard & Poor's and Moody's left their ratings unchanged, and just Standard & Poor's changed its outlook for Fresenius Medical Care from 'positive' to 'stable' at the end of November.

Growth in Value Added

The growth in net value added reflects the overall positive development of our business. The recipients of the increased value added were, as in the past, the employees, who received the largest share (63 %), as well as governments and lenders (26 %). The shareholders received 4 %, the Company itself retained 7 %.

Successful Conversion to the Euro and No Impact in Sum from German Tax Reform

In the International segment, more than 50 % of revenue and over three quarters of our production cost are generated in the euro zone. As we expected, the introduction of the euro has not had any significant effect on our business nor do we expect any significant changes in our pricing or cost structure in the near term. In total, the effects of the tax reform in Germany did not have any impact on our German entities and we do not expect any major change for 2000.

Leveraging Economies of Scale in Purchasing

The strategy of our International Purchasing Consulting Center is to realize cost savings by buying materials of strategic importance with global contracts for a current purchasing volume of approximately $ 239 million.

Value Added Statement

$ in millions

		1999[1]		1998[2]	
Creation	Company output	3,867	100%	3,521	100%
	- Materials and services purchased	(2,058)	53%	(1,880)	53%
	Gross value added	1,809	47%	1,641	47%
	- Depreciation and amortization	(284)	8%	(279)	8%
	Net value added	**1,525**	**39%**	**1,362**	**39%**
Distribution[3]	Employees	957	63%	865	63%
	Government	169	11%	135	10%
	Lenders	226	15%	228	17%
	Shareholders and minority interest holders	59	4%	51	4%
	Earnings retention	114	7%	83	6%
	Net value added	**1,525**	**100%**	**1,362**	**100%**

[1] Before special OIG charge [2] Continuing operations [3] Assuming that the proposal for the allocation of profits for 1999 is accepted

We aim to achieve global agreements with suppliers, made possible by our standardization of parts and materials and the concentration of suppliers. For key production processes, internal knowledge has been built up, which enables us to benchmark suppliers and/or cover the manufacture of parts for our internal needs. Of the 51 international projects started one year ago, 34 have been finalized with fixed agreements extending up to three years. Also, follow-up contracts for enlarged quantities, further price decreases and improved cooperation were concluded. At the same time, 29 new projects have been started, mainly in the fields of energy, waste disposal, services and clinical materials. The general scope of the projects has been expanded to include more plants and subsidiaries both in Europe and Latin America as well as to projects and tenders in African and Asian countries. Cooperation with suppliers has been extended in R&D matters as well as for the preparation of licensing agreements. In total, we have materials purchase commitments of $ 113 million for 2000. Our purchasing team successfully dealt with changes in the overall market. Although the rise in oil prices pushed up prices in the plastics industry, we were able to limit the effects of this on our costs through fixed contracts and renegotiations. We took advantage of the liberalization of the electricity market in Germany by initiating a pooling contract for our German sites to guarantee continuous supply and highly competitive pricing.

Quality Management to Ensure Patients' Health and Well-Being

Our international quality management program which puts the health and well-being of the patient at the center of our activities was continuously improved in the course of 1999. Quality objectives were set by the management at all levels and specified into individual projects. We have established a scheme to review and report the progress and effectiveness of these activities. In 1999, we established a harmonized internal corporate audit process. Corporate auditors are qualified at all levels of the organization to assess and report the effectiveness of systems, business processes and projects of all units. On the basis of the results of the internal and external audits, management determines measures to ensure continuous improvement. None of the external audits carried out during 1999 revealed any deviations from set quality standards. In the course of 1999, all dialysis centers in England, additional clinics in Portugal and Spain, and new units in Italy were organized using the ISO 9002 quality standard. We thus expanded our leadership in this field with 37 certified clinics in four countries at year-end 1999 compared to 20 clinics in 1998. In 2000, we will continue with the certification of our units in Italy and France.

In North America, all manufacturing facilities continue to operate within all applicable regulations. Our Continuous Quality Improvement Program constitutes a comprehensive approach to addressing not only the clinical aspects, but also technical, organizational and financial operations. In 1999, the Schweinfurt (Germany) facility underwent an inspection according to Quality System Regulations by the U.S. Food and Drug Administration and an inspection by the German TÜV according to the internationally recognized ISO 9001 standard. No deviations were noted in either inspection.

Further Expansion of Environmental Management

Our comprehensive environmental commitment aims at sustainable development. This is evidenced by the certification according to ISO 14001 and the EU Eco Audit of various locations. In 1999 we created a corporate environmental management system which was certified. R&D in Bad Homburg (Germany) and the production plants in St. Wendel (Germany) and Schweinfurt (Germany) were integrated into this corporate environmental management system and the employees trained intensively on environmental subjects. In addition, we began implementing an environmental reporting system to assure the collection and reporting of environmental data in certified units. We intend to include European clinics in this reporting system in 2000.

Our comprehensive approach starts with incorporating ecological considerations into the development of new products. Approximately 50 % of all the disposables we produce for CAPD in St. Wendel are now made from Biofine®, our proprietary polyolefine film.

We are working to ensure that our production processes reflect the same level of concern for the environment. For the production plant in St. Wendel, an environmental program was established in 1999 defining 16 projects, such as the new production line for CAPD system (*sleep•safe*™ disposables) which allows us to substitute PVC systems with Biofine® systems. In the fiber production we reduced raw and auxiliary material consumption by 10 % due to the optimization of the mass allocation in the nozzle elements of the fiber spinning plant. Our plant in Schweinfurt, together with the plant in Lyon (France), developed a dry-concentrate option for the 4008 machine generation. Major improvements of this project are less material consumption, weight reduction (leading to lower emissions during transport), and a sort-clean recyclable material which offers potential for waste reduction at dialysis clinics. In production, a test-run of the dialysis machines showed a drop in electricity consumption of 75 % combined with a significant reduction in water consumption. In addition, the number of hazardous material types decreased by more than 30 %. At our plant in Ogden/Utah (USA), the chemical waste generation rate was lessened by greater than 50 % as compared to 1998. Our manufacturing plant in Reynosa (Mexico) was recognized in 1999 by the Mexican Federal Government Secretary of Labor for excellence in environmental protection, health and safety and for compliance with the new Mexican Federal Laws. Only one-tenth of the approximately 177 foreign-owned companies operating in Reynosa received this recognition.

In 1999 we participated in an environmental rating of 12 internationally operating medical device companies performed by an independent research institute in Munich. We came second, which shows that the implementation of the corporate environmental policy is a successful and ongoing process at our Company. In 2000 we will continue our efforts to improve the environmental compatibility of our products, production sites and dialysis clinics.

Effective Risk Management

The assessment, analysis and management of risks is an essential part of our management system. Hence, the regulatory requirements resulting from KonTraG (Germany's Corporate Control and Transparency Act) did not create additional requirements for us. Our comprehensive risk management system forms part of the corporate strategy on how to deal with risks and allows management to recognize at an early stage risks that could endanger the survival of the Company. Responsible risk managers prepare two reports per year for the Management Board and inform it immediately of new risks. Continual monitoring of the market situation and close contact to our clients, suppliers and relevant institutions allow us to detect and respond immediately to any changes. The risk management system is part of the audit of the 1999 annual financial statements to ensure compliance with legal requirements. Our organizational safety measures as well as internal checks, such as our comprehensive quality management system, are subject to regular audits and complement the risk management system. This is necessary to obtain certifications according to international standards, which are required for medical products. In addition, strict compliance with the regulations for our chemical-pharmaceutical R&D is monitored and production processes audited internally and externally to make sure they conform to Good Manufacturing Practice (GMP) rules. In our dialysis clinics, patient treatment and billing is carried out according to our Quality Management and Compliance Program which promotes high ethical standards and legal compliance. Our internal audit teams as well as external auditors check the compliance and efficiency of business practices as well the efficacy of the internal control system. Our risk management is supported by corporate risk controlling and by management information systems at the individual business units. Detailed financial reports provide monthly and quarterly information on and analysis of the earnings and asset status and possible deviations from budgeted numbers. We are continuously improving the risk management system to ensure our ability to identify risks in our highly regulated business at all times, and adequately respond to changing requirements in the marketplace by developing alternative strategies and innovative products, improving therapeutic quality, and increasing overall productivity. At year-end, no particular issues were identified with regard to general business risks, risks associated with internal organization or with the external environment.

Active Management of Currency and Interest Rate Risks

We actively manage interest rate and foreign currency exposures. The exposures are managed centrally on the basis of strategies which have been defined in close co-ordination with the Management Board. Guidelines have been established for the various steps in the risk management process which define clear responsibilities for the determination of exposures, the application of financial instruments for hedging purposes, and the reporting routines.

The use of derivative instruments is restricted to the hedging of exposures which arise in the ordinary course of our business. All transactions are done with highly rated financial institutions as approved by the Management Board. On a considerable portion of our total debt, we pay interest on a floating-rate basis which means that it is exposed to the risk of rising U.S. dollar short-term money market rates. This exposure has been almost completely hedged from the beginning by means of interest rate swaps and options. The nominal value of these contracts was $1.6 billion as of December 31, 1999. These agreements fix the interest rates for the variable-rate borrowings to rates between 5.5% and 6.76%. The contracts mature on various dates up to January 2005. Foreign currency exposures are created mostly by intra-group sales and purchases between companies in different countries, reporting in different currencies. Sales from Germany to international subsidiaries have always been a major source of transaction exposure. The nominal value of foreign currency contracts as of December 31, 1999 was $183 million, primarily for the purchase of euro against U.S. dollar and various other currencies.

Employees' Commitment Creates Value

The number of full-time equivalents rose to 29,318 compared to 27,423 one year earlier. In this respect, 1999 showed a rise in revenue per employee of 2% to $131 thousand.

Efficient training and personnel development are key elements of our human resources policy. Our training consists of formal and informal, group and individual programs designed to impart and improve skills, knowledge and job performance. In cooperation with Fresenius AG we intensified our participation in recruiting events and college marketing.

Under our profit-sharing model, non-managerial employees in Germany who have been with the Company for a minimum of three years will participate in the corporate success by receiving €717 out of 1999 profits, paid mainly in preference shares. This reflects an increase of 15% on the 1998 figure. As in 1998, a high percentage of eligible employees, 46%, opted to invest further in the Company by purchasing additional shares with their own funds. The performance-based compensation plan for executive personnel outside the U.S., which was implemented in 1998, is a salient expression of our value-based philosophy.

Under this plan, managerial employees are granted part of their remuneration in the form of stock options in the Company; this aligns their performance directly with our long-term goal of value enhancement.

In North America we introduced and implemented an Employee Assistance Program to provide a broad range of counseling services to our employees and their families on a variety of issues including childcare, financial counseling and family relationship issues.

We thank all our employees around the world, who with their dedication and hard work made the Company's accomplishments in 1999 possible.

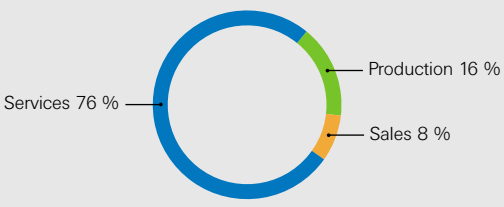
Employees by Region

Full-time equivalents

	1999	1998	Change
North America	21,553	20,431	5%
Europe	6,052	5,558	9%
Rest of the world	1,713	1,434	19%
Total	**29,318**	**27,423**	**7%**

Employees by Section

Full-time equivalents



Total 29,318

Course of Business since January 2000

A "Bug-Free" Start in the New Millennium. We began extensive preparation for the Year 2000 changeover starting in 1997. Approximately $10.5 million was spent to assure Year 2000 compliance. We are happy to report that our business operations continued normally and without disruption at the commencement of 2000. However, we will continue to monitor Year 2000 compliance, both internally and at our suppliers.

Final OIG Settlement Announced. On January 19, 2000 we announced the definitive settlement agreement with the U.S. government to resolve the legal issues covered by a four-year investigation into past business activities of NMC and its subsidiaries. The agreement will lead to additional interest expenses of approximately $29 million in 2000, and of $25 million in the following years.

Major Acquisition of International Dialysis Business. We have signed a definitive agreement to acquire 86 clinics, which we announced in January 2000, adding another 5,100 patients, mainly in Argentina, Italy, the United Kingdom, Hawaii, and Puerto Rico. The purchase price of $161 million for the clinics includes the assumption of $3 million in debt. Due to the expected closing date in the second quarter of 2000 and the required integration time, we expect only a marginal earnings enhancement in 2000 and clear earnings enhancement thereafter with an annual contribution of approximately 3% to total revenue. However, if this project should not be closed there are other opportunities to purchase patient care clinics around the world.

Preference Shares Issued. On March 2, a capital increase utilizing our existing Authorized Capital II was announced. We acquired Franconia LLC by issuing around 8.97 million preference shares. The $350 million obtained are expected to support our acquisition program, including the payment for the clinics acquired from TRC, over an estimated 18 month period. The issued shares have no dividend rights with respect to dividends for 1999 and have a 24 month lock-up period.

No Major Changes in the Economic or Business Climate. Since the close of 1999 there have been no major changes in the economic or business climate in which we operate. Our growth continues to be supported by favorable trends including overall growth in the number of patients requiring dialysis treatment as well as the ongoing consolidation of our industry. The development of business to date is in line with our expectations.

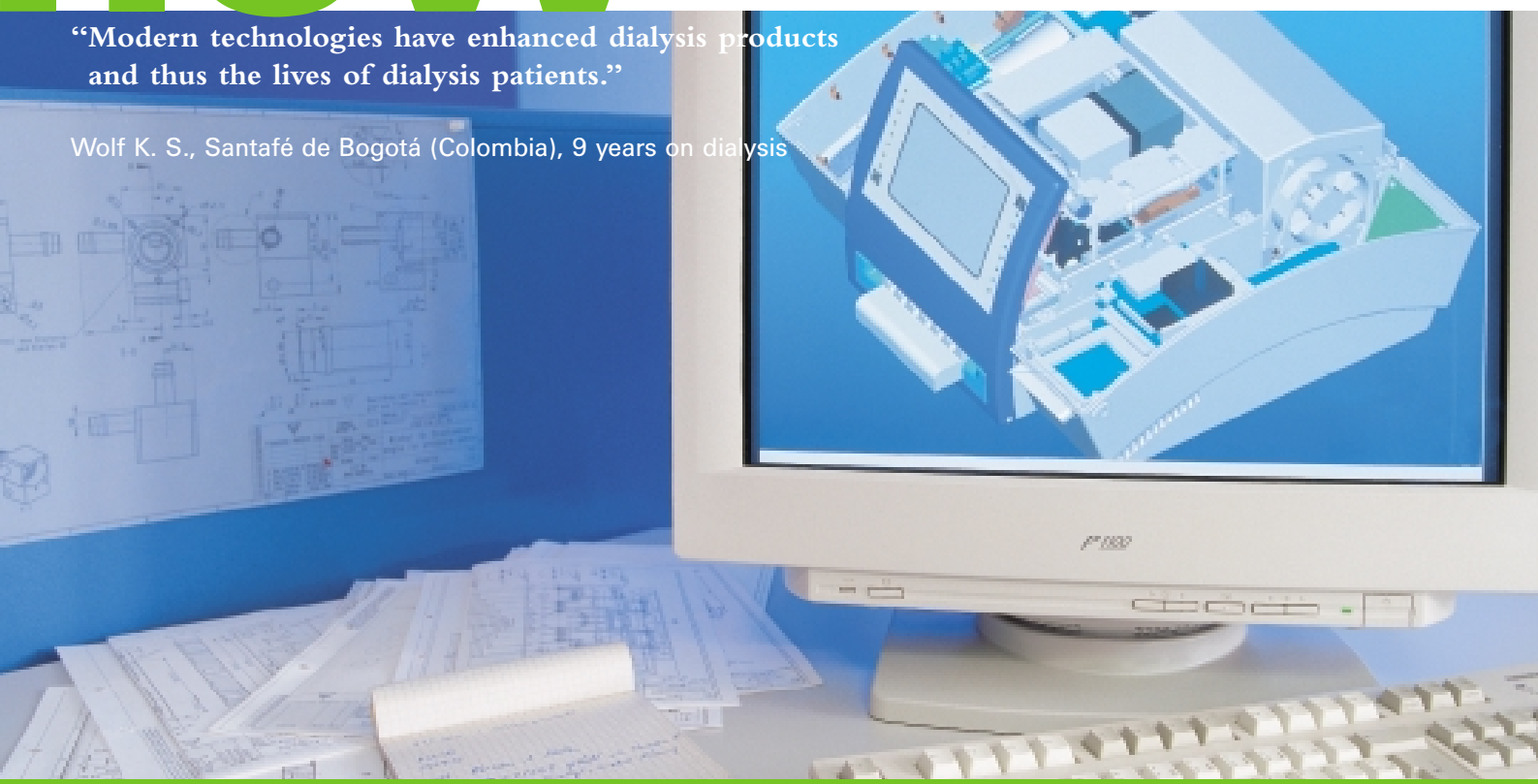
Positive Outlook for 2000. The positive market trends of 1999 continue to prevail in 2000. Currently we do not foresee any company-specific risks. Provided there are no significant changes, we reiterate our targets for 2000, all of which are in line with the overall objective to increase the value of the Company.

Research and Development
New Dimensions

new

"Modern technologies have enhanced dialysis products and thus the lives of dialysis patients."

Wolf K. S., Santafé de Bogotá (Colombia), 9 years on dialysis



Research and Development Activities Expanded

To continuously improve quality of life and treatment outcomes, we take a systems approach to adequate treatment. With our comprehensive and regionally focused approach we address the specific needs of the nephrological community; our ambitious aim is to provide a high quality of life for dialysis patients through adequate treatment modalities while at the same time ensuring cost-effective therapies. Our R&D efforts combine the development of innovative products with clinical research based on our extensive databases. The marriage of these two aspects has given a new dimension to our research work.

At the end of 1999, 238 employees were employed in R&D, maintaining and further enhancing the continuous stream of product innovations. Approximately two-thirds of our R&D activities are located in Germany and one third in North America. R&D expenditure increased to $ 32 million in 1999 (1999: $ 31 million). As in previous years, R&D spending represented close to 3% of Dialysis Products' revenue in 1999. For 2000 we expect our R&D expenditure to remain in the range of 2-3% of Dialysis Product revenue. We hold rights under more than 858 patents and patent applications relating to dialysis technology in major markets, and own trademarks throughout the world.

Continuous Product Innovations

In hemodialysis, we focus on various topics that directly influence treatment outcomes and thereby improve the quality of life for patients. Adequacy, i.e. the dialysis dose, can be optimized by our ONLINE *plus*™ hemodiafiltration (HDF) therapy mode. Our blood temperature monitor (BTM™) and the blood volume monitor (BVM™) contribute strongly to preventing complications during treatment by closed-loop control modes that respond immediately to the individual patient's needs. Another area we concentrate on is the reduction of inflammatory stimuli via ultrapure water using the DIASAFE® dialysate filter and our biocompatible membranes Fresenius Polysulfone®. Easy handling is an integral part of all our product developments. During 1999, we successfully established our ONLINE *plus*™ system for online HDF and online hemofiltration (HF). Another innovation was AutoPRIME™, which allows online priming and rinsing of the extracorporeal circuit and online infusion of a defined volume (bolus) with sterile fluid obtained by filtration of the dialysis fluid. A new version, AutoPRIME *plus*™, will be introduced at the beginning of 2000. We further concluded the development of a new class of dialyzer. It is based on new materials and new production technologies and offers significantly improved clearances. The new dialyzer series has been successfully tested in various clinical trials and will be officially launched in the market at the beginning of the second quarter of 2000.

In the U.S. market, a series of non-reuse dialyzers was introduced in 1998; these now account for 29% of our total dialyzer sales in North America.

Serum aluminum measurement in a U.S. laboratory

We are committed to the advancement of new dialysis membranes which will add to our market leadership in synthetic, biocompatible dialyzers that reduce dialysis-related morbidity and improve patient outcomes and survival. In 2000 we will once again lead the market with new innovative dialyzer technologies. After successful introduction in the U.S. of the On-line Clearance Monitor in 2008 H dialysis machines, another version for the 4008 H/S was CE-marked and field tested in the second half of 1999. With the On-line Clearance Monitor, the dialysis dose can be continuously assessed at no additional cost which allows us to further improve treatment outcomes. It represents another milestone in the quality assurance of dialysis treatments and will be launched in Europe in the year 2000. We were the first producer of dialysis products to obtain CE certification (in 1998) for an active feedback module for controlling the removal of excess fluid from the patient (BVM™). This enables us to significantly reduce hypotensive episodes, a serious – and the most frequent – complication during treatment. We started extensive field tests of this groundbreaking feature in 1999.

We will also launch a mixing system of three-fold concentrates with water as a new option for the 4008 machine generation in the second quarter of 2000. With this feature it will be possible for the first time to operate with pure sodium profiles while the advantages in logistics (transportation, storage) will contribute to saving costs. The launch of the new 2008 K machine in North America, planned for 2000, will also feature the heparin pump, blood pump and level detector modules and will provide an extremely user-friendly touch-screen system and data displays. Our R&D team also successfully addresses the particular challenges that peritoneal dialysis faces: treatment monitoring, patient compliance, adequacy, peritoneal membrane longevity and environmental impact. In the second half of 1999, we launched the *sleep•safe*™ cycler. It was developed especially to perform treatments at home during the night and is the only cycler in the market which uses disposables made of the proprietary polyolefine film Biofine®. PatientOnLine, the new patient management software, allows the online assessment of patient data and, via a PC card, supports the individual peritoneal dialysis regimen prescribed by the physician. This enables intervention in due time, should problems arise, and thus adds to the safety of the treatment. Another important factor that determines the efficacy of the treatment is the correct fluid status. Individualizing the glucose concentration in the dialysis solution necessary for fluid removal may help to normalize the fluid status of the patient. The software of the new cycler contains a completely new feature: glucose profiling. It is provided by the selection of one of two specific glucose concentration solution bags, or any mixture of the fluid from both bags to meet the patient's individual needs. This system will be released for full market availability in 2000. The *sleep•safe*™ complements our new generation of products in the field of peritoneal dialysis, namely the *stay•safe*® system for CAPD which was introduced in 1997 and has continuously gained recognition for the unique manner in which it addresses handling and safety issues. In view of the mounting controversy about the inherent risks associated with the use of PVC as a material for peritoneal dialysis systems, both the *stay•safe*® and the disposables of the *sleep•safe*™ system offer an alternative, as they are manufactured with Biofine®.

R&D Expenditure
$ in millions

This leads to a significant reduction of waste of approximately 250 kg per patient per year and avoids plasticizer leak out. The overwhelmingly positive feedback of the *sleep•safe*™ cycler confirms our technological leadership in peritoneal dialysis. We are now in the position to gain significant market share in 2000. The registration of *sleep•safe*™ is planned for Asia-Pacific. Clinical studies will be put into action to support the continuous effort to individualize the therapy with *sleep•safe*™. Further developments on the basis of the *sleep•safe*™ platform will lead to the market introduction of even more unique features in 2000. Another development is the introduction of the IQcard™ in the U.S. The Freedom™ Cycler PD-PLUS with IQcard™ includes a memory card where all the patient's treatment information is recorded. It helps the physician to optimize the treatment. Further enhancements will be introduced during 2000. Also the acid-base and electrolyte disturbances must be tailored to the patient's needs. Market authorization of the first purely bicarbonate-buffered solutions are expected in 2000. We will offer two concentrations of bicarbonate-buffered solutions in order to counterbalance metabolic acidosis. With the marketing approval in 1999 for the third calcium concentration in peritoneal dialysis solutions, we now offer the range of 1.0, 1.25 and 1.75 mmol/l for an optimized therapy of renal osteopathy. In 1999, we received the first market authorization, in Germany and Portugal, for CAPD *stay•safe*®balance, a pH-neutral, lactate-buffered peritoneal dialysis solution. Initial clinical experience suggests an improved bio-compatibility of this new solution. CAPD *stay•safe*® balance may help to prevent the peritoneal membrane, which acts as the filter, from being impaired. We are confident that we will gain further market shares and strengthen our position as the technology leader in the global dialysis market.

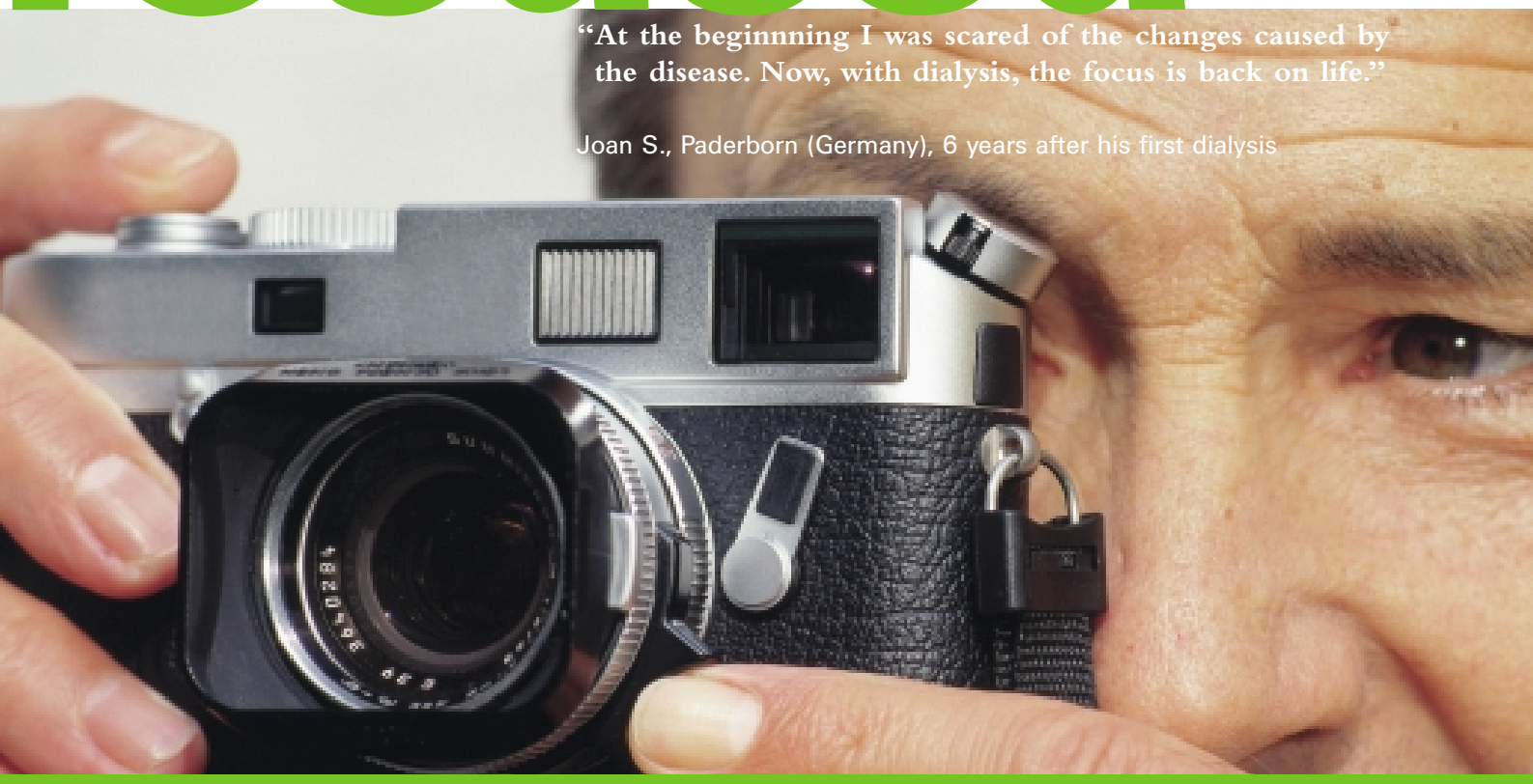
Clinical Research Enhanced

Together with our partner, Renal Research Institute (RRI), formed in 1997, we are conducting a number of studies with the aim of enhancing dialysis therapy. In 1999, we succeeded in adding three major U.S. universities to our research network in the U.S. The RRI conducts research and develops new technologies in state-of-the art dialysis facilities. The broad spectrum of issues under scrutiny includes hemodialysis, peritoneal dialysis, and the pre-ESRD population. New dialysis technologies and treatment methods are being continually developed and evaluated. Since 1985 we maintain an extensive patient database in North America, the Patient Statistical Profile (PSP), that enables us to analyze patient outcomes and prepare comprehensive demographic and clinical information. This is of importance, since we are convinced that reimbursement will be increasingly linked to quality indicators in the coming years. For this purpose we are establishing a patient register both in Europe and Latin America that will eventually include all our patients. In addition, we cooperate with well-known medical experts from 18 universities and academic centers, mainly in Europe, to define clinical guidelines and develop clinical algorithms to support doctors.

Active International Science and Product Consulting

Our intensive educational activities combined with scientific support have constituted a major driver for our success in the international markets as they enhance training of nurses and doctors. During 1999, we marketed our BioAdequacy™ approach at several international scientific congresses, including the meeting of the International Society of Nephrology (ISN) in Buenos Aires (held every two years), the annual meeting of the European Dialysis and Transplantation Association (EDTA), the European Nurses conference (EDTNA) and the Annual Congress of the American Society of Nephrology (ASN) in Miami. In addition, our scientific staff gave around 200 scientific presentations on product-related issues all over the world. This is a clear indication of the high quality and international acceptance of our scientific knowledge.

focused



"At the beginnning I was scared of the changes caused by the disease. Now, with dialysis, the focus is back on life."

Joan S., Paderborn (Germany), 6 years after his first dialysis

North America

In 1999 we continued to advance towards differentiating ourselves as a premier provider of technology, innovation and superior service. Our demonstration projects for disease state management are progressing well.

Dialysis Care

Our Dialysis Care activities are all about providing the very best in patient care and improving the life of our patients through personal attention and advances in therapy and technology. We now treat about 24 % of all dialysis patients in the U.S. Through our network of 849 clinics we provided more than 8.9 million dialysis treatments during 1999. To extend our leadership position further, we continue to advance our efforts in disease state management (DSM). To meet the changing needs of the market and to prepare for the transition from traditional fee-for-service reimbursement to fully capitated risk-sharing arrangements, we will continually strive to improve the quality of care and costs. Our extensive Patient Statistical Profile (PSP) contains a wealth of clinical information on our dialysis patients that is invaluable to our efforts in DSM. The bio-statistical analyses and research studies help us to understand how patient treatment affects outcomes. The insights gained from ongoing review of this clinical information are crucial to our efforts to improve the quality of patient care.

Additionally, we believe that the rehabilitation of patients so that that they can return to the work-force will be a major issue in the years ahead. The breadth of our product line in combination with our service technology will help us to evolve as a unique therapy company and enable us to improve out-comes and rehabilitation. Research has shown strong evidence of the link between physical functioning, treatment outcomes, and the quality of life of people on dialysis.

Disease State Management Studies

Optimal Renal Care is our joint venture with a division of the largest HMO in the U.S. called Kaiser Permanente. This joint venture complements our expertise in providing highest-quality patient care with Kaiser Permanente's clinical experience. Optimal Renal Care is dedicated to managing ESRD with the aim of making the healthcare system more effective for the patient while reducing the overall costs associated with treating dialysis patients. Renaissance Health Care is a joint venture with leading nephrologists across the U.S. dedicated to improving hemodialysis patient care through the de-velopment of disease management principles. It is in its second year of operation with full-risk contracts.

H*d*F 100S and HF 80S dialyzers

The Renal Research Institute (RRI)

The RRI was originally formed in 1997 as a partnership with the Beth Israel Medical Center in New York and aims at finding new and better methods of improving the quality of life and outcomes for dialysis patients. It conducts collaborative research in a variety of areas and has also created a database for drug-related problems in hemodialysis and peritoneal dialysis. Additionally, a major project on the epidemiology of pre-ESRD and the integration of renal rehabilitation into standards of dialysis care has been approved and funded for the participating academic centers. Overall, the RRI experience, now involving 17 units in five states, has been very successful in terms of research, the application of new methods, and improving outcomes and system efficiencies. Many of the techniques developed by the RRI may well be applied extensively in our worldwide operations.

Laboratory Services

Laboratory services continue to be a vital part of the dialysis care continuum that we provide in North America. Our three laboratory sites – Fremont, California; Rockleigh, New Jersey; and Chicago, Illinois – provided services for 1,461 dialysis clinics in 1999. During 1999 our laboratory services business, Spectra Renal Management, provided over 37 million tests, representing a leading market share of approximately 37 % for ESRD patients in the US. Spectra's Laboratory Information Access software, Lia®, which provides laboratory outcome and monitoring information to dialysis clinics, was enhanced in 1999 with new features, increased speed and Year 2000 compliance. Spectra also began the process of customizing and implementing ROE, a new Remote Order Entry system that will make clinics' communications with the laboratory virtually paperless. In addition to laboratory services, Spectra Renal Management provides mobile diagnostic services for ESRD patients that include echocardiography and doppler flow testing. These services enhance patient care by identifying potential access complications before they become acute and more costly. The Spectra Renal Management Vascular Access Flow (Q) Program was introduced in 1999, and utilizes the numerous advantages of current ultrasound technology to extend graft life and minimize vascular access thrombosis.

Dialysis Products

1999 was a year of continued success for the Dialysis Products Division. Total revenue for the division grew by nearly 6 % (including sales to our own clinics), driven by both our existing technologies and new product introductions for hemodialysis therapy. The additions of continuous renal replacement therapy, the new BTM™, and the On-line Clearance (OLC) monitoring capability were significant revenue contributors. One of the most exciting new product releases in 1999 was *HyperCare*, our medical record data management system. *HyperCare* successfully completed its pilot trial in 1999 and was released commercially in December 1999. Fresenius Polysulfone® dialyzers continue to be the dialyzer of choice in the North American market.

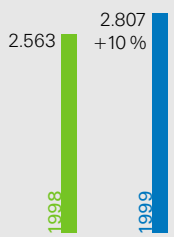
North America

Market Data[1]	
Total number of patients	~260,000
Patient growth p.a.	7 %

FMC Data	**1999**
Total number of patients (year-end)	62,000
Total number of clinics (year-end)	849

[1] Company estimates

Revenue
$ in millions



Across the board, our family of dialyzers contributed to revenue growth, including the line of non-reuse dialyzers introduced in 1998. Total revenue for dialyzers grew by 16%, well above the market, and rose to new heights. In addition, a presentation made in November at the annual meeting of the American Society of Nephrology reported the results of a study conducted by the USRDS (United States Renal Data System) on the use of Fresenius Polysulfone® dialyzers. Specifically, the study reported a significant drop in mortality and morbidity for those patients dialyzed with reused, synthetic dialyzers, as compared to those patients dialyzed with competing single-use modified cellulosic dialyzers. Our year-end 1999 market share in dialyzers was about 50%. In addition, we have a study underway to compare reuse with non-reuse of our high-flux polysulfone dialyzers. Our products for automated peritoneal dialysis continued to gain market share. In addition, we received clearance from the FDA in 1999 to begin marketing our new *Premier™ Plus Double Bag* for CAPD patients. The pilot trials for this new product were very successful, and its full market release is scheduled for the first part of 2000.

International

Our aim in international markets has been to lever our successful product business in approximately 100 countries into a platform for growth in Dialysis Care. Significant progress was made in 1999 with regard to our efforts to vertically integrate the products and services businesses.

Europe/Middle East/Africa

In Central Europe, we achieved our targets set for 1999. The product business remained the dominant part of operations in this region. Based on our overall product leadership in hemodialysis, the outstanding position that we have achieved in the region was further stabilized through continued volume growth and increased market shares, especially in Belgium, the Netherlands and Switzerland. Our superior ONLINE *plus*™ system constitutes a significant contribution towards improving treatment quality. Together with the HF80S and H*d*F100S dialyzers as well as the DIASAFE® *plus*, it had a positive impact on our hemodialysis business. The market acceptance of the GENIUS® system for hemodialysis continued to establish itself in 1999. Approximately 1,000 patients are currently treated and we expect this treatment alternative to gain further market share in 2000. During 1999 we established the Microbiological Quality Service in Germany, a center of competence designed to monitor the microbiological quality of all fluids used for dialysis, from water to dialysate, thus assuring safety and outcome quality of the dialysis treatment. This additional service complements our activities in the area of water treatment devices and strengthens our leadership in quality management. In peritoneal dialysis, our CAPD *stay•safe*® system continued to penetrate the market. New solution formulas and the market launch of the new pH-neutral solution *stay•safe*®balance helped us to gain market share in a highly competitive market.

Global Operations
Focused Expansion

The clinical evaluation of the *sleep•safe*™ cycler for APD treatments has begun and is expected to be fully completed in 2000. The total market for dialysis products in Central Europe increased by approximately 3% in 1999. We expect this trend to continue in 2000. Based on the excellent position we have already achieved in combination with the widespread introduction of the *sleep•safe*™ cycler and the launch of a new dialyzer generation in hemodialysis, we expect to be able to further increase market share. Innovative products are especially important in view of the price pressure in Central Europe.

Our overall strategy for Western Europe, the key countries being France, Italy, Portugal and Great Britain/Ireland, is to continue the integration of our Dialysis Care and Dialysis Product businesses. The strong results we achieved in 1999 demonstrate our very high quality standards in patient care and dialysis products. In hemodialysis, we increased market share by introducing new products such as ONLINE*plus*™, F10HPS and H*d*F100S as they address the specific market needs. The market situation for Dialysis Products is characterized by strong price pressure, especially for disposables. In peritoneal dialysis, we launched the new products *stay•safe*® system and *sleep•safe*™, which contributed significantly to our success. Our Dialysis Care business continued to grow faster than the overall market. Reimbursement rates remained stable. We were able to offset inflation with cost reductions and our enhanced portfolio of products and services. In patient care, we achieved cost reductions with the operation of limited care centers in France, where patients are actively involved in the hemodialysis treatment. Acquisitions focused on markets where we already operate clinics, such as Italy, France and Turkey. This approach enabled us to take advantage of existing infrastructures and to achieve organizational synergies. In Scandinavia, the field test of our new cycler *sleep•safe*™ was successfully completed and will be followed by its market introduction in the year 2000. For 2000, new product launches are planned, and in the Dialysis Care business we will support our growth strategy with selective acquisitions.

Business in Eastern European markets has recovered almost completely from the economic crisis in Russia. In 1999 we were able to increase our market shares in dialyzers, machines and concentrates. Growing sales of the bi*bag*® dry bicarbonate concentrate as well as the launch of the 4008 H machine contributed significantly to our success. In addition, FINESSE™, the dialysis data and acquisition management system for dialysis clinics, is being well received in the markets. In peritoneal dialysis, we continued market penetration with the CAPD *stay•safe*™system. As there is a trend towards automated peritoneal dialysis in Eastern European markets, we also expect growing market shares in 2000 from the introduction of the *sleep•safe*™cycler. Due to legal restraints in Eastern Europe, the operation of our own clinics has been restricted to Hungary and the Czech Republic. However, we are convinced that further privatization will make it possible for us to expand our Dialysis Care business in other markets. In 1999, we further enhanced our efforts to ensure and improve the quality of renal care offered by our clinics throughout Europe. The European Scientific Council, together with Medical Expert Groups, have continued to develop clinical guidelines for diagnosis and therapies in dialysis treatments. These will be published and implemented in 2000.

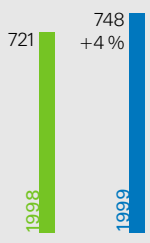
International – Europe/Middle East/Africa

Market Data[1]	
Total number of patients	~230,000
Patient growth p.a.	4%

FMC Data	**1999**
Total number of patients (year-end)	9,600
Total number of clinics (year-end)	129

[1] Company estimates

Revenue
$ in millions



Furthermore, our Clinical Management Europe continued its activities in coordinating medical matters and processes at our dialysis clinics. To this end, guidelines regarding the main quality indicators were discussed and distributed in 9 countries. In addition, the European Clinical Database (EuCliD), which stores and administers detailed patient and treatment data, was significantly improved in structure and flexibility, and new language versions were added. With this database, first implemented in 1998, we have been able to increase and intensify the collection of all relevant information on operative and clinical outcomes of dialysis treatments.

In the Middle East and Africa we achieved our targets for 1999. The 20% increase in product sales was especially significant, due to the difficult conditions of the markets in which we operate. In total, we sold over 1,500 hemodialysis machines and over 2 million dialyzers in the growing markets of the Middle East and Africa in 1999. In order to further increase our market presence in Africa, we are building up distribution and service organizations, with particular emphasis on South Africa.

Asia-Pacific

In 1999 we continued to expand our sales in Asia-Pacific. The new structure established in 1998 allowed us to develop a more service-oriented organization emphasizing pre- and after-sales services, clinical training and patient care. We will continue to observe the regulatory environment throughout the countries of Asia-Pacific, seeking to take advantage of changes that might lift limitations and make possible further increase in our Dialysis Care business. Meanwhile, we will continue to enter management agreements and local partnerships to manage dialysis clinics. Selective acquisitions in the Product and Dialysis Care businesses are part of this growth strategy. Due to the different development phases of the markets within the four operating regions – Japan, Greater China, Central and South Asia Pacific – our strategic approach is generally defined on a country or sub-regional basis. 1999 marked a year of significant change for our business in Japan, the key country within Asia-Pacific and the world's second largest market by number of dialysis patients. Remarkable increases in sales were realized following the agreement with our joint venture partner Kawasumi Laboratories in 1998 which allows our own subsidiary to independently market dialyzers. In addition, the joint venture continued to operate well, increasing its market penetration for dialyzers. Taking advantage of the continued growth, FMC Japan will build a new production facility during the year 2000 which will be operational by mid 2001. The main country in Central Asia Pacific is South Korea, where we achieved significant market shares in peritoneal dialysis and a leading position in the hemodialysis product market only three years after the foundation of FMC Korea. A significant step in 1999 was the acquisition of the dialysis business of Kolon Pharmaceutical and the foundation of FMC Kolon, Inc. In the future we anticipate a sizable Dialysis Care business through the management of dialysis clinics. During 1999 we appointed a number of new distributors for the region of Central Asia-Pacific. With new partners in India and the Philippines, we anticipate increasing market shares in these two interesting markets.

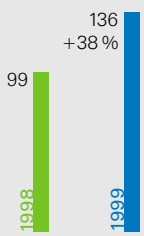
International – Asia-Pacific

Market Data[1]	
Total number of patients	~300,000
Patient growth p.a.	8%

FMC Data	**1999**
Total number of patients (year-end)	700
Total number of clinics (year-end)	15

[1] Company estimates

Revenue
$ in millions



In Thailand, the transfer of the business from distributors to FMC Thailand has resulted in a significant sales increase. This was also supported by the improvement in the general economic situation in that country.

We sell our products in mainland China through a number of local distributors with the support of a representative office in Shanghai, resulting in a significant market share in dialysis products. The capabilities of our distributors in China have been increased during the year through marketing and training, which will continue in 2000. We operate a number of clinics together with Chinese joint venture partners. An organization has been built during 1999 to better support our local partners in providing care to patients and through which we will enhance our services and further position ourselves as a reliable, high quality partner. In Hong Kong a slight reimbursement increase for peritoneal dialysis products has improved profitability, but it remains a low-price market. Therefore we will increasingly focus on the hemodialysis business. In 1999, we already achieved a significant market share in hemodialysis products. The government in Hong Kong has launched a campaign to evaluate a change in the current health care system. Any potential move towards more private initiative in health care would provide additional growth potential.

Asia's second largest market is Taiwan, where we will continue to expand the hemodialysis product business by selling through a local distributor with support from FMC Taiwan. In 1999, we were in a position to offer a full range of dialysis products, although we did not enter the market with peritoneal dialysis products until late 1998. Within one year, we have achieved satisfactory sales in peritoneal dialysis. Going forward, we expect this trend to continue. During 1999 we increased support for our partners in operating dialysis clinics in Taiwan.

In Australia, the main market in South Asia-Pacific, our strategy is to offer product packages supported by comprehensive services on a price per treatment basis. This allowed us to gain a significant market share. Privatization of health care services is being actively discussed in Australia, but we do not anticipate significant change in the short and middle term. With our proven ability to successfully operate a high quality dialysis unit in Australia we will continue to tender for privatization projects as they occur. Except for Indonesia, which has undergone a phase of economic and political instability, business in South Asia Pacific, including New Zealand and Singapore, continued to develop well during 1999. We expect the recovery of the Malaysian economy to continue. Therefore we are increasing our presence in Malaysia by creating a subsidiary which allows us to be more active in the local market.

Latin America

Activities in Latin America aim at expanding our Dialysis Care business, focusing on internal growth, and gaining further market shares with our products.

At the beginning of 1999 our operations in Latin America were reorganized by creating the two regional divisions Mercorsur and Latin America North.

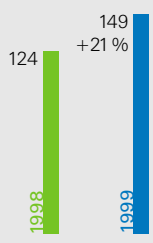
International – Latin America

Market Data[1]	
Total number of patients	~97,000
Patient growth p.a.	12%

FMC Data	**1999**
Total number of patients (year-end)	7,700
Total number of clinics (year-end)	97

[1] Company estimates

Revenue
$ in millions



This move was designed to further strengthen our local market presence, as geographic and demographic characteristics demand specific strategies. Mercosur comprises Brazil, Argentina, Paraguay and Uruguay as well as the associated countries Chile and Bolivia; the remaining countries of Latin America form the region Latin America North. 1999 was again a very successful year for us with high growth rates in Dialysis Care and Dialysis Products. Furthermore, we developed and implemented a database by which detailed treatment data is collected and analyzed to better monitor treatment outcomes and thus ensure the best treatment quality at all our clinics.

Argentina and Brazil maintained their strong growth rates and continued to increase market share. To better serve the rapid growth in the Dialysis Care business we established a head office in São Paulo for the Mercosur region to directly address local markets and thus further enhance our position as a high-quality provider. During 1999, growing price pressures in the Argentinean public health care sector were compensated by patient growth superior to the overall market and cost reductions. In Brazil, initiatives to have dialysis treatment reimbursed by HMOs are creating new prospects for market growth in products and services. The acquisition policy in 1999 for all countries of Mercosur was deliberately conservative to guard against possible variations in exchange rate policies accompanying government changes. It was also restricted to the incorporation of high-grade clinics. Investments in this region concentrated on the expansion of clinics to absorb patient growth, and on renewal of equipment.

Within the countries of Latin America North, reimbursement rates are relatively low and expected adjustments did not take place in 1999, but are expected during 2000. In Colombia and Venezuela we were able to enhance our position as the largest provider of dialysis treatments by opening three new clinics and obtaining a long-term management contract for another clinic in Colombia, and opening a new clinic in Venezuela. We increased our market share of installed hemodialysis machines to more than 25 % during the year. It is expected that the Social Insurance Institute will stop centralized purchasing in 2000 and include hemodialysis products in the reimbursement for the treatment. This should open up additional opportunities. In Mexico, we intend to carefully enter the dialysis care business during the year 2000. Import restrictions hinder us from participating in the peritoneal dialysis market in Mexico, but we have a strong market share in hemodialysis products of above 50 %. For the future, we anticipate an increasing shift from peritoneal towards hemodialysis treatments which would create further growth potential.

Overall, the dialysis market in Latin America continues to show very good growth prospects, as the average number of dialysis patients per million population is still very low compared to other regions. We expect our business to grow above market as the quality of our dialysis products, treatments and services are widely recognized. In 2000, we will add new clinics in Venezuela, Colombia and Mexico and target acquisitions that will complement our growth strategy. The introduction of new peritoneal and hemodialysis products will further strengthen our market leadership.

Financial Statements
Solid Positions

solid

"My disease made everything seem so fragile. Dialysis of today makes me feel secure."

Steve W., Florida (USA), 11 years on dialysis

Contents

Management's Discussion and Analysis

Our Business

We are the world's largest integrated kidney dialysis company. We provide dialysis treatment and related laboratory and diagnostic services at our more than 1,090 dialysis clinics and we manufacture a full range of hemodialysis machines, dialyzers, peritoneal dialysis solutions and ancillary products. We operate dialysis clinics in 16 countries, and our dialysis products are sold in approximately 100 countries. For the year ended December 31, 1999, we had revenues of $ 3.8 billion, 73 % of which were generated by our North American operations and 27 % of which were generated by our International operations.

Financial Condition and Results of Operations

The following is a discussion of the financial condition and results of operation of Fresenius Medical Care AG ("FMC"). The discussions should be read in conjunction with the consolidated financial statements included elsewhere in this document. The disaggregated financial results for FMC set forth in the table below entitled "Segment Data" have been prepared using a management approach, consistent with the basis and manner in which FMC Management internally disaggregates financial information for the purposes of assisting in making internal operating decisions and evaluating Management performance. This section contains forward-looking statements. These forward-looking statements are made based on our Management's expectations and beliefs concerning future events which may affect us, but no assurance can be given that such events will occur or that the results will be as anticipated.

The financial statements of Fresenius Medical Care AG will be included in the consolidated financial statements of Fresenius AG. Fresenius Medical Care AG is therefore not required to prepare consolidated financial statements under German GAAP. Fresenius Medical Care filed an annual report under Form 20-F with the Securities and Exchange Commission (SEC) with additional information on the Company. Fresenius Medical Care´s annual report on Form 20-F may be obtained from the Company or by shareholders in the United States by writing to:

ADR Service Center | P.O. Box 8205 | Boston, MA 02266 | USA | Tel. (800) 997 8970

The audited financial statement of the Group´s holding company, Fresenius Medical Care Aktiengesellschaft, will be published in the German Federal Gazette (Bundesanzeiger) and can be obtained from the Company.

Overview

Effective January 1, 1998, we adopted Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* issued by the U.S. Financial Accounting Standards Board. Commencing with the period ended March 31, 1999, we identified two operating segments, North America and International, that we determined based upon how we manage our businesses.

Each segment engages primarily in providing kidney dialysis services and performing related clinical laboratory testing and renal diagnostic services as well as manufacturing and distributing products and equipment for the treatment of end-stage renal disease. The management of each operating segment is under the supervision of our Management Board member responsible for the profitability and cash flow of each segment's various businesses. The accounting policies of the operating segments are the same as those we apply in preparing our consolidated financial statements under U.S. generally accepted accounting principles.

Our Management evaluates each segment using a measure that reflects all of the segment's controllable revenues and expenses. Our Management believes the most appropriate measure in this regard is earnings before interest and taxes, or EBIT, which measures our source of earnings. Financing is a corporate function and is not under the control of the segments. Therefore, we do not include interest cost as a segment measurement. We also regard taxes to be outside the segment's control. In addition to EBIT, our Management also believes that earnings before interest, taxes, depreciation and amortization, or EBITDA, is helpful for investors as a measurement of the segment's and our Company's ability to generate cash and to service our financing obligations. EBITDA is also the basis for determining compliance with certain covenants contained in our senior credit agreement and the indentures relating to our outstanding trust preferred securities.

EBITDA should not be considered as an alternative to net earnings determined in accordance with generally accepted accounting principles or to cash flow from operations, investing activities or financing activities or as a measure of cash flows. We believe our EBIT calculation is the functional equivalent of operating income. Because EBITDA and EBIT are not calculated consistently by all companies, the presentation herein may not be comparable to other similarly titled measures of other companies.

During 1998, we had discontinued operations resulting from our divestiture of our homecare and non-renal diagnostics businesses. Our results of operations for 1998 also reflect an accounting change relating to start-up costs as a result of our adoption in that year of Statement of Position No. 98-5, *Reporting on the Costs of Start-up Activities* as issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. Our quarterly financial information for 1998, where appropriate, have been restated to show the results of discontinued operations and to reflect the cumulative effect of the accounting change.

We obtained approximately 40% of our worldwide revenue for 1999 from sources subject to regulations under U.S. government health care programs. In the past, U.S. budget deficit reduction and health care reform measures have changed the reimbursement rates under these programs, including the Medicare composite rate, the reimbursement rate for EPO, and the reimbursement rates for other dialysis and non-dialysis related services and products, as well as other material aspects of these programs, and they may change in the future. We also obtain a significant portion of our net revenues from reimbursement by non-government payors. Historically, these payors' reimbursement rates generally have been higher than government program rates in their respective countries. However, non-governmental payors are imposing cost containment measures that are creating significant downward pressure on reimbursement levels that we receive for our services and products.

Our discussions relating to our consolidated financial condition and results of operations for 1999 reflect the effects of our agreement to settle with the U.S. government and the resulting special charge for the settlement costs.

Special Charge for Settlement of Government Investigations and Related Costs

Since January 1995, National Medical Care and its subsidiaries had been the subject of an investigation by the Office of the Inspector General of the U.S. Department of Health and Human Services, the U.S. Attorney for the District of Massachusetts and other authorities concerning possible violations of U.S. federal laws, including the anti-kickback statute and the False Claims Act. On January 18, 2000, Fresenius Medical Care Holdings, National Medical Care and six subsidiaries of National Medical Care executed a definitive agreement with the U.S. government to resolve both the investigation and National Medical Care's administrative appeals with respect to approximately $153.5 million of outstanding Medicare accounts receivable for nutrition therapy provided on or before December 31, 1999. The settlement was approved by the United States District Court for the District of Massachusetts on February 2, 2000. In anticipation of the settlement, we recorded a special pre-tax charge against our consolidated earnings in 1999 totaling $601 million ($419 million after tax). This special pre-tax charge includes (i) a charge of $486.3 million for settlement payment obligations to the Government, (ii) a $94.3 million write-off of the remaining Medicare receivables described above, and (iii) a reserve for other related costs of $20.4 million, primarily associated with legal fees for derivative litigation and with implementing the terms of the settlement. The settlement payment obligations to the Government and the amounts due to us for the outstanding Medicare receivables have been classified in the balance sheet based on their expected settlement dates.

In connection with this settlement, Fresenius Medical Care Holdings entered into a corporate integrity agreement with the U.S. government. This agreement requires that we staff and maintain a comprehensive compliance program, including a written code of conduct, training programs and compliance policies and procedures relating to the areas covered by the U.S. government investigation. The corporate integrity agreement also requires annual audits by an independent review organization and periodic reporting to the Government. The corporate integrity agreement permits the U.S. government to exclude Fresenius Medical Care Holdings and its subsidiaries from participation in U.S. federal health care programs if there is a material breach of the agreement that Fresenius Medical Care Holdings does not cure within thirty days after it receives written notice of the breach. We derive over 40 % of our consolidated revenue from U.S. federal health care benefit programs. Consequently a material breach by Fresenius Medical Care Holdings of the corporate integrity agreement that results in the exclusion of Fresenius Medical Care Holdings or its subsidiaries from continued participation in those programs would have a material adverse effect on our business, financial condition and results of operations.

Results of Operations

The following tables summarize our financial performance and certain operating results by principal business segment for the periods indicated. Inter-segment sales primarily reflect sales of medical equipment and supplies from the International segment to the North America segment. This information has been reorganized and prior period information has been reclassified to conform with our business segment reporting requirements and to distinguish between continuing and discontinued operations and the cumulative effect of the accounting change as previously noted.

Segment Data

Year ended December 31 $ in millions	1999	1998	1997
Total revenue			
North America	2,811	2,565	2,157
International	1,076	986	867
Totals	**3,887**	**3,551**	**3,024**
Inter-segment revenue			
North America	4	2	1
International	43	43	49
Totals	**47**	**45**	**50**
Total net revenue			
North America	2,807	2,563	2,156
International	1,033	943	818
Totals	**3,840**	**3,506**	**2,974**
EBITDA			
North America	611	549	457
International	243	228	192
Special charge for settlement costs	(601)	-	-
Corporate	(10)	(9)	(8)
Totals	**243**	**768**	**641**
Amortization and depreciation			
North America	217	215	199
International	65	62	50
Corporate	2	2	1
Totals	**284**	**279**	**250**
EBIT			
North America	394	334	258
International	178	165	142
Special charge for settlement costs	(601)	-	-
Corporate	(12)	(10)	(9)
Totals	**(41)**	**489**	**391**
Interest, net	(218)	(220)	(184)
Income tax (expense)/income	13	(135)	(101)
Minority interest	(2)	(2)	(2)
Loss from discontinued operations, net	-	(106)	(14)
Cumulative effect of accounting change, net	-	(7)	-
Net income	**(249)**	**19**	**90**

unaudited

1999 Compared to 1998

Net revenue from continuing operations for the year ended December 31, 1999 increased by 10% (11% at constant exchange rates) to $3,840 million from $3,506 million for the comparable period in 1998. Net loss for the year was $249 million, a decrease of $268 million from net income of $19 million for the comparable period in 1998. The loss was a result of a special charge and related costs of $601 million ($419 million after tax) relating to the settlement of the U.S. government investigation. Excluding the effects of the special charge, net earnings from continuing operations increased by 29% (32% at constant exchange rates) to $170 million from $132 million in 1998. The loss per ordinary share from continuing operations was $3.15. Earnings per ordinary share from continuing operations would have been $2.15, excluding the effects of the special charge, as compared to $1.62 for the same period in the prior year. The after tax effects of an accounting change of $7 million and losses on the sale of discontinued businesses of $106 million impacted income from continuing operations for 1998. As a result, net income was $19 million for 1998. The following discussions pertain to our business segments and the measures we use to manage these segments. These discussions are based on continuing operations unless otherwise indicated. The North America segment discussion excludes the effects of the special charge.

North America Segment

Revenue

Net revenue for the North America segment for 1999 grew by 10% from $2,563 million to $2,807 million. This resulted from a 10% increase in Dialysis Care revenue to $2,335 million and a 5% increase in Dialysis Products revenue to $472 million. The increase in Dialysis Care revenue resulted primarily from approximately a $155 milion (8%) increase in treatments and an increase in revenue per treatment of approximately $66 million (3%) as a result of the beneficial impact of the extension of the Medicare Secondary Payor provision and higher EPO usage as compared to 1998. This growth was partially offset by decreased laboratory testing revenue derived from lower laboratory testing volume during 1999 as competitors consolidated laboratory activity. Acquisitions contributed 2% of Dialysis Care revenue growth. The increase in Dialysis Product revenue resulted from increased sales volumes of dialyzers, machines, concentrates, and other products which accounted for approximately $43 million (10%) and was partially offset by lower average sales prices of approximately $20 million (4%).

EBITDA

EBITDA for the North America segment prior to the effects of the special charge grew by 11%. Due to the increase in our base business, improved treatment rates, and increased ancillary services. Product revenue growth, product mix and improvements in manufacturing efficiencies from increased production volume also contributed to the increased EBITDA growth. However, this growth was partially offset by decreased EBITDA in laboratory testing.

Amortization and Depreciation

Amortization and depreciation decreased slightly as a percentage of revenue, in 1999. This is mainly due to the impact of internal revenue growth while amortization and depreciation has remained fairly constant.

EBIT

EBIT for the North America segment prior to the effects of the special charge increased by 18% as a result of the increase in EBITDA and the positive impact of the decreased rate of amortization and depreciation to revenue as previously mentioned.

International Segment

Revenue

Net revenue for the International segment during 1999 grew by 10% (14% at constant exchange rates) from $943 million in 1998 to $1,033 million in 1999 due to a 4% (8% at constant exchange rates) increase in the European region, 38% (28% at constant exchange rates) in the Asia Pacific region and a 21% (40% at constant exchange rates) increase in the Latin America region. Total Dialysis Care net revenue increased during 1999 by 8% (14% at constant exchange rates) to $265 million. This increase is a result of base business growth, as reflected by approximately $30 million (12%) increase in Dialysis Care treatments and an approximately $6 million (2%) increase in average price per treatment. Total Dialysis Product net revenue for 1999 increased by 10% (14% at constant exchange rates) to $769 million. Product volume increased by $ 123 million which was offset by lower average pricing of $ 28 million (4%).

EBITDA

EBITDA for the International segment for 1999 grew by 7% (11% at constant exchange rates) primarily due to the increased revenue noted above. During the beginning of 1999 we elected to reduce shipments of equipment, which would normally have higher EBITDA margins, to some of the eastern European countries due to the economic situation in those countries, which partially offset EBITDA growth in the International segment. Lower EBITDA generated from reduced fiber shipments to the North America segment during 1999 due to increased fiber production capabilities in the North America segment also offset EBITDA growth.

Amortization and Depreciation

Amortization and depreciation, as a percentage of revenue, decreased slightly for 1999. This is mainly due to the impact of internal revenue growth while straight-line amortization of goodwill associated with prior years' acquisitions has remained fairly constant.

EBIT

EBIT for the International segment for 1999 increased by 8% (12% at constant exchange rates) due to the increased EBITDA mentioned above and the positive impact of the decreased rate of amortization and depreciation to revenue as previously mentioned.

The following discussions pertain to our total Company costs.

Interest

Interest expense for 1999, remained relatively constant compared to the same period in 1998 as a result of similar levels of average debt outstanding during the two periods.

Income Taxes

The effective tax rate was 4.9% for 1999 and 50.2% for 1998. Excluding the effects of the U.S. government settlement, the effective tax rate was 49.5% for 1999. The net settlement payments included $101.2 million in non-deductible criminal fines, which limited the tax benefits from the government investigation to $182 million. The 1998 effective income tax rate decreased primarily due to the use of net operating losses that became realizable after we transfered ownership of National Medical Care's international business to the International business segment at the beginning of 1998. As a result of a reduction of the German federal corporate income tax rate for undistributed earnings from 45% to 40% effective the first quarter of 1999, our net deferred taxes and deferred income tax expense during 1999 decreased by approximately $1 million.

Liquidity and Capital Resources

We generated cash from operating activities of continuing operations of $355 million in 1999 and $268 million in the comparable period in 1998. Cash on hand was $35 million at December 31, 1999 compared to $32 million, at December 31, 1998.

On January 18, 2000, we reached a final settlement agreement with respect to the U.S. government investigation. The agreement requires net settlement payments totaling approximately $427 million, of which $14 million had previously been paid. We paid another $286 million after court approval of the settlement and will pay an additional $186 million over the next 18 months. As part of the settlement, we will receive $59 million over the next 18 months from the U.S. government against receivable claims of $153 million for intradialytic parenteral nutrition therapy rendered on or before December 31, 1999. We have amended the letter of credit that was given to the government in 1996 from $150 million to $190 million which will be reduced over a period of time as we make installment payments to the government.

We anticipate that our net cash obligations related to the special charge will be approximately $266 million. This amount reflects the special charge of $601 million reduced for the resolution of our intradialytic parenteral nutrition receivable claims of approximately $153 million, and the estimated cash savings for the tax effect of the special charge of $182 million. We expect to realize the cash impact of the tax benefit over time in relation to the cash outflows of the settlement payment obligations to the government and expenditures for other related costs.

We believe that we will have sufficient cash flows from continuing operations and borrowing capacity under our revolving credit facility to make the payments required by the settlement agreement. We also believe that following such payments, we will have sufficient funds available for both our day to day operations and our anticipated growth.

In December 1999, we and the lenders under our senior credit facility, amended the financial ratios in the senior credit facility to accommodate our obligations under the settlement agreements and to enable us to continue in compliance with the covenants upon consummation of the settlement.

If cash flows from operations or availability under existing banking arrangements fall below expectations, or if we are unsuccessful in amending our existing banking agreements, we may be required to consider other alternatives to maintain sufficient liquidity.

On January 18, 2000, we signed a definitive agreement to purchase substantially all the international and non-continental U.S. operations business of Total Renal Care Holding, Inc., for $ 161 million in cash and the assumption of approximately $ 3 million of debt. The purchase is expected to be completed during the second quarter 2000. We will fund with a portion of the $ 350 million cash balance of Franconia Acquisition LLC, which we received in exchange for 8,974,359 preference shares on March 2, 2000.

On March 2, 2000, we issued 8,974,359 non-voting preference shares to a limited number of institutional and other accredited investors in exchange for the investors' interests in Franconia Acquisition LLC, an entity formed to acquire dialysis clinics and other related businesses. Franconia's principal asset at the time of this transaction was $ 350 million in cash and it owned the rights to acquire dialysis clinics, including the Total Renal Care business described above. The investors have agreed not to effect sales or transfers of the preference shares for a period of 24 months after issuance, except as permitted by the contribution agreement. After this time, the investors will have the right to require us, under the specified conditions, to register the preference shares for sale under the Securities Act of 1933, as amended, and to provide them with assistance in connection with public offerings of their preference shares outside the United States. We anticipate that Franconia's cash balance will finance the Total Renal Care acquisition and other anticipated acquisitions.

We declared and paid dividends per ordinary share of DM 1.15 in 1999 and DM 1.00 in 1998 and per preference share DM 1.25 in 1999 and DM 1.10 in 1998. The Company paid aggregate dividends of $ 48 million during the second quarter 1999 and $ 45 million, including $ 1 million in arrearages for 1996, during the second quarter 1998, respectively. Under the terms of our senior credit agreement we are restricted as to the level of dividends we may pay in any calendar year, $ 75 million for 1999. Annual dividend distributions by our subsidiary, National Medical Care, in any year, may not exceed 50 % of its consolidated net income of the preceding year, as defined in our senior credit agreement. These payment restrictions do not apply to any other subsidiaries.

We made acquisitions of $ 101 million in 1999 (excluding International segment non-cash acquisitions of $ 10 million) and $ 223 million (excluding the North America segment non-cash acquisitions of $ 42 million) in 1998. In 1999, $ 65 million of acquisitions were made in North America and $ 36 million of acquisitions (excluding the non-cash acquisitions) were made in the International segment. In 1998, $ 128 million of acquisitions (excluding non-cash acquisitions) were made in the North America segment and $94 million of acquisitions were made in the International segment. In addition, capital expenditures for property, plant and equipment were $ 160 million in 1999 and $ 159 million in 1998. In 1999, $ 81 million of capital expenditures was made in the North America segment and $ 79 million of capital expenditures was made in the International segment. In 1998, $ 75 million of capital expenditures was made in the North America segment and $ 84 million of capital expenditures was made in the International segment. Capital expenditures were used for automation of production processes and increased production capacity, internal expansion, improvements, furnishings and equipment. We believe that an increasing percentage of our Dialysis Care growth will be derived from worldwide markets and we envision making acquisitions in selected international markets. In the U.S., we generally intend to continue to enhance our presence in the market by focusing our expansion on the acquisition of individual or small groups of clinics, expansion of existing clinics, and opening of new clinics. Nevertheless, we will consider large acquisitions in the U.S. if suitable opportunities become available to us.

On September 27, 1999, we amended our accounts receivable facility increasing it from $ 331,500 to $ 360,000, and extending its maturity to September 25, 2000. Under the terms of the amended facility, the interest rate is based upon the commercial paper rate, which was approximately 5.90 % at December 31, 1999. At December 31, 1999 we had received $ 335,000 and at December 31, 1998, $ 305,600 pursuant to sales of our receivables and which are reflected as reductions to accounts receivable. Under the terms of the facility, new interests in accounts receivable are sold as collections to reduce previously sold accounts receivable. The costs related to such sales are expensed as incurred and recorded as interest expense and related financing costs.

Managed care plans typically remit reimbursement more slowly than traditional indemnity plans. As a result of an increase in the percentage of net revenues derived from managed care plans from 10% in 1998 to 12% in 1999 (an increase in net revenues of approximately $45 million), there was an increase in the days sales outstanding for third party payors. In addition, 1999 was the first full year of the extension of Medicare Secondary Payor regulations that increased the coverage period for commercial payors from 18 to 30 months thereby increasing the average balance of receivables as commercial payors generally pay at a higher rate than government payment programs. The increase in days outstanding and the increase in the average receivable amount resulted in a corresponding increase in the allowance for doubtful accounts as they are considered in the calculation for determining the allowance for doubtful accounts. Any negative impact to liquidity related to the increase days sales outstanding is mitigated by the increase in revenues and the higher reimbursement generally received from third party payors.

Total long-term debt net of current portion at December 31, 1999, decreased to $654 million from $1,081 million at year-end 1998, primarily as a result of an increase in short-term borrowings from related parties. Short-term borrowings from related parties increased to $330 million at December 31, 1999 from $60 million at December 31, 1998, with interest rates from 7.06% to 7.44% and maturities in less than 90 days. Other short-term borrowings decreased by approximately $13 million from year-end 1998 to $96 million at year-end 1999. Funds generated from operations were used to fund capital expenditures and acquisitions as well as to pay dividends. The remainder was used to reduce long-term debt. As of April 7, 2000, the unused portion of our senior credit facility was approximately $693 million.

In January 2000, interest rate swap agreements with a notional amount of $ 850 million expired. The remaining interest rate swap agreements with various commercial banks have notional amounts totaling $ 600 million. These agreements effectively fix our variable interest rate exposure on the majority of our revolving loans and accounts receivable securitization program to fixed rates of interest between 6.05 % and 6.6025 %. The swap agreements expire at various dates between December 2003 and January 2004. We also have an interest collar agreement to fix our interest rate exposure for a notional amount of $ 150 million, to rates between 5.55 % and 6.76 %, during the period January 2000 to January 2005. Under our senior credit agreement, we have agreed to maintain at least $ 500 million of interest rate protection.

Outlook and Contingencies

Recently Issued Accounting Standards

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which establishes accounting and reporting standards for financial derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The statement also provides the criteria for determining whether a derivative may be specifically designated as a hedge of a particular exposure with the intent of measuring the effectiveness of that hedge in the statement of operations. In June 1999, the Financial Accounting Standards Board issued SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities*, which amended the effective date of SFAS No. 133. The amended SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. We are currently analyzing the complexities of SFAS 133 and its effect on consolidated financial statements.

Euro Conversion

Germany, our country of domicile, is one of the eleven members of the European Union who have adopted the euro as their currency. We elected to change our functional currency to euro effective January 1, 1999, but will continue using the U.S. dollar as our reporting currency. In addition, at our general meeting on June 2, 1999, our shareholders approved the currency conversion of our share capital to euro from deutsche mark. All internal reporting entities situated in the eleven member states are submitting their reports in euro. The euro conversion may affect cross-border competition by creating cross-border price transparency. Given the nature of the our business, customers may not have the luxury to "shop" cross-border due to the nature of their illness, the type of reimbursement program they are enrolled in and the fact that they maintain a medical relationship with their supplier, a doctor or clinic. Our currency risks and risk management may be reduced by the introduction of the euro.

Year 2000

The year 2000 problem developed as the result of computer software programs using two digits rather than four to define the applicable years. Such software may recognize a date using "00" as the year 1900 rather than the year 2000. These programs are present in software applications running on desktop computers and network servers. These programs are also present in microchips and microcontrollers incorporated into equipment. Some of our computer hardware and software, building infrastructure components, such as alarm systems, HVAC systems, etc. and medical devices that are date sensitive may contain programs with susceptibility to the year 2000 problem. Investigation and, if found, correction of the program was necessary to avoid computer system and program failures or equipment and medical device malfunctions or miscalculations that could result in a disruption of business operations, billing and reimbursement breakdowns or affect patient treatment. We believe that our competitors faced a similar risk. We engaged in extensive preparation for the year 2000 changeover. As a result of this preparation, our business operations continued normally and without disruption at the commencement of the year 2000.

Contingencies

We are a plaintiff in litigation against the U.S. federal government with respect to the implementation of the Omnibus Budget Reconciliation Act of 1993. We are also a defendant in significant commercial insurance litigation relating to the same alleged practices that were the subject of the recently settled government investigations. An adverse outcome in any of these matters, could have a material adverse effect on our business, financial condition and results of operations. Because of the significant complexities and uncertainties associated with these proceedings, we cannot provide either an estimate of the possible loss or range of loss we may incur in respect of such matters, and a reserve based on any such estimate cannot be reasonably made.

We believe that our existing credit facilities, cash generated from operations and other current sources of financing are sufficient to meet our foreseeable needs. If cash flows from operations or availability under existing banking arrangements fall below expectations, we may have to consider other alternatives to maintain sufficient liquidity. There can be no assurance that we will be able to do so on satisfactory terms, if at all. See "– Liquidity and Capital Resources" above.

Inflation

The effects of inflation during the periods covered by the consolidated financial statements have not been significant to our results of operations. However, most of our net revenue from Dialysis Care is subject to reimbursement rates regulated by governmental authorities, and a significant portion of other revenue, especially revenue from the U.S., is received from customers whose revenue is subject to such regulated reimbursement rates. Non-governmental payors are also exerting downward pressure on reimbursement rates. Increased operation costs that are subject to inflation, such as labor and supply costs, may not be recoverable through price increases in the absence of a compensating increase in reimbursement rates payable to us and our customers and could materially adversely affect our business, financial condition and results of operations.

Quantitative and Qualitative Disclosures About Market Risk

Management of Currency and Interest Rate Risks

We are primarily exposed to market risk from changes in foreign currency exchange rates and changes in interest rates. In order to manage the risks from such foreign currency exchange rate and interest rate fluctuations, we enter into various hedging transactions with investment grade financial institutions as authorized by the Management Board. We do not contract for financial instruments for trading or other speculative purposes.

Our financial instrument activity is conducted under the control of a single centralized department. We have established guidelines for risk assessment procedures and controls for the use of financial instruments. They include a clear segregation of duties with regard to execution on one side and administration, accounting and controlling on the other.

Foreign Currency Exposure

We conduct our business on a global basis in several major international currencies, although our operations are located principally in Germany and the United States. For financial reporting purposes, we have chosen the U.S. dollar as our reporting currency. Therefore, changes in the rate of exchange between the U.S. dollar, the Euro and the local currencies in which the financial statements of our international operations are maintained, affect our results of operations and financial position as reported in our consolidated financial statements.

We have consolidated the balance sheets of our non-U.S. dollar denominated operations into U.S. dollars at the exchange rates prevailing at the balance sheet date. Revenues and expenses are translated at the average exchange rates for the period.

Our exposure to market risk for changes in foreign exchange rates relates to transactions such as sales and purchases, lendings and borrowings. We sell significant amounts of products from our manufacturing facilities in Germany to our other international operations. In general, our German sales are denominated in euro. Accordingly, our subsidiaries are exposed to fluctuations in the rate of exchange between the euro and the currency in which their local operations are conducted. We employ, to a limited extent, forward contracts and options to hedge our currency exposures. Our policy, which has been consistently followed, is that forward currency contracts and options be used only for purposes of hedging foreign currency exposures. We have not used such instruments for purposes other than hedging.

The table below provides information about our foreign exchange forward contracts. The information is provided in U.S. dollar equivalent amounts. The table presents the notional amounts, the weighted average contractual foreign currency exchange rates, and the fair values of the contracts, which show the unrealized net gain (loss) on existing contracts as of December 31, 1999. All contracts expire within 17 months after the reporting date.

In addition to the foreign exchange forward contracts, we maintain a foreign exchange option contract which enables us to buy € 2,500,000 against the U.S. dollar in May 2000 at an exchange rate between $ 1.0730 and $ 1.0988. The fair value of this zero-cost collar on December 31, 1999 was $ (155) thousand.

Foreign Currency Risk

December 31, 1999 $ in thousands, except contract rates	2000	2001	Total	Fair Value
Foreign Currency Forwards				
Purchases of currencies against U.S. Dollar				
Euro				
Notional amount	79,973	11,251	91,224	(3,847)
Average contract rate	1.0910	1.085		
Singapore Dollar				
Notional amount	1,216	-	1,216	4
Average contract rate	1.6443			
Total	**81,189**	**11,251**	**92,440**	**(3,843)**
Sales of currencies against U.S. Dollar				
Hong Kong Dollar				
Notional amount	5,344	-	5,344	(185)
Average contract rate	8.2147			
Total	**5,344**	**-**	**5,344**	**(185)**
Other sales of currencies against Euro				
Australian Dollar				
Notional amount	16,731	-	16,731	(1,914)
Average contract rate	1.7656			
Swiss Franc				
Notional amount	5,063	422	5,485	50
Average contract rate	1.5781	1.5668		
British Pound				
Notional amount	16,104	-	16,104	(1,242)
Average contract rate	0.6742			
Japanese Yen				
Notional amount	20,477	-	20,477	(6,509)
Average contract rate	140.75			
New Zealand Dollar				
Notional amount	2,785	-	2,785	(534)
Average contract rate	2.3670			
Singapore Dollar				
Notional amount	3,812	-	3,812	(448)
Average contract rate	1.8853			
Total	**64,972**	**422**	**65,394**	**(10,597)**
Other purchases of currencies against Euro				
Swiss Franc				
Notional amount	11,681	-	11,681	(1)
Average contract rate	n.a.			
British Pound				
Notional amount	3,977	-	3,977	1
Average contract rate	n.a.			
Japanese Yen				
Notional amount	1,951	-	1,951	(1)
Average contract rate	n.a.			
Total	**17,609**	**-**	**17,609**	**(1)**

A summary of the high and low exchange rates for the deutsche mark to U.S. dollars and the average exchange rates for the last five years is set forth below. As the deutsche mark ("DM") was replaced by the euro in the foreign exchange markets since the beginning of 1999, the table includes the respective rates for the euro/dollar quotations which were applied to calculate the respective 1999 deutsche mark/dollar values, using a fixed conversion rate of DM 1.95583 = € 1.

Year ending December 31	Year's High	Year's Low	Year's Average	Year's Close
1995	0.7384	0.6415	0.6989	0.6987
1996	0.6979	0.6395	0.665	0.6432
1997	0.6468	0.5299	0.5764	0.558
1998	0.6256	0.5395	0.5685	0.5977
1999 ($ per DM)	0.6028	0.5121	0.5449	0.5136
1999 ($ per €)	1.1790	1.0015	1.0658	1.0046

Interest Rate Exposure

We are exposed to changes in interest rates that affect our variable-rate based borrowings. We enter into debt obligations and into accounts receivable financings to support our general corporate purposes including capital expenditures and working capital needs.

Our subsidiary, National Medical Care, has entered into derivatives, particularly interest rate swap agreements and an interest rate collar agreement with various commercial banks for notional amounts totaling $ 1.6 billion as of December 31, 1999. Of the total, $ 250 million is related to forward starting contracts which replace part of the $ 1.6 billion total, with the result that at no future time will there be more than $ 1.350 billion of interest rate hedge agreements effectively outstanding. National Medical Care entered into all of these agreements for purposes other than trading.

The interest rate swaps effectively change National Medical Care's interest rate exposure on the majority of its variable-rate loans under our senior credit agreement ($ 738 million outstanding as of December 31, 1999), loans extended to us by Fresenius AG ($ 330 million outstanding as of December 31, 1999), and the drawdowns under the receivables financing facility (drawn as of December 31, 1999, $ 335 million) to fixed rates of interest between 6.05 % and 6.6025 %. Our accounts receivable financing facility has been reflected in our consolidated financial statements as a reduction to accounts receivable. The interest rate collar agreement effectively protects National Medical Care's interest expense on a notional amount of $ 150 million against an increase of the 3-month $ LIBOR rate above 6.76 % ("cap") whereas National Medical Care would have to pay the difference between the current market rates and 5.55 % to the bank counterparty if the 3-month LIBOR rate were to fall below 5.55 % ("floor").

The derivatives agreements expire at various dates between January 4, 2000 and January 5, 2005. At December 31, 1999, the fair value of these agreements is $ 9.24 million.

The table below presents principal amounts and related weighted average interest rates by year of maturity for the various interest rate swap agreements, the interest rate collar agreement, and for our significant fixed-rate long-term debt obligations.

Interest Rate Exposure

December 31, 1999 $ in millions	2000	2001	2002	2003	2004	There-after	Totals	Fair Value 1999
Principal payments on senior credit agreement	**139**	**150**	**150**	**299**	**0**	**0**	**738**	**738**
Variable interest rate = 7.41 %								
Interest rate derivation agreements								
Notional amount	850			500	100	150	1.600	9
Average fixed pay rate = 6.43 %	6.37 %			6.60 %	6.05 %	5.55-6.76 %		
Receive rate = 3-month $ LIBOR								
Company obligated mandatorily redeemable preferred securities of subsidiary Fresenius Medical Care Capital Trusts								
Fixed interest rate = 9 %						360	360	374
Fixed interest rate = 7.875 %						450	450	414
Fixed interest rate = 7.375 %						154	154	156

Compensation of Directors and Officers

For the year ended December 31, 1999, the aggregate compensation we paid to all members of the Management Board was € 2,536,200 (DM 4,960,377), including compensation paid by Fresenius USA to Dr. Lipps (with Dr. Lipps' compensation converted to DM at the average exchange rate for 1999). The aggregate compensation fees to all members of the Supervisory Board was € 278,334 (DM 544,374), including compensation to Dr. Krick for his duties as Chairman of the Supervisory Board. We pay an annual retainer fee of $ 40,000 to each member of the Supervisory Board, with the Chairman paid twice that amount and the Deputy Chairman paid 150 % of that amount. All Supervisory Board members are compensated for their reasonable travel and accommodation expenses incurred with respect to their duties as Supervisory Board members. The aggregate compensation reported above does not include amounts paid as fees for services rendered by certain business or professional entities with which some of the Supervisory Board members are associated.

Independent Auditors' Report

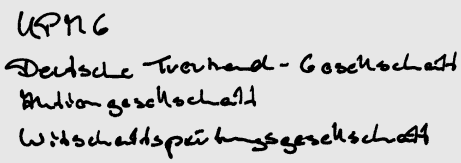
To the Shareholders
Fresenius Medical Care Aktiengesellschaft
Hof an der Saale, Germany

We have audited the accompanying consolidated balance sheets of Fresenius Medical Care Aktiengesellschaft and subsidiaries (the "Company") as of December 31, 1999 and 1998 and the related consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles in the United States of America.

March 2, 2000
Frankfurt am Main, Germany



KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

Consolidated Statements of Earnings

For the years ended December 31, 1999, 1998 and 1997 $ in thousands, except share data	Note	1999	1998	1997
Net revenue				
Dialysis Care	1i)	2,599,688	2,358,577	1,901,189
Dialysis Products		1,240,741	1,147,099	1,073,180
		3,840,429	**3,505,676**	**2,974,369**
Cost of revenue				
Dialysis Care		1,736,165	1,568,192	1,238,612
Dialysis Products		688,438	637,394	647,874
		2,424,603	2,205,586	1,886,486
Gross profit		**1,415,826**	**1,300,090**	**1,087,883**
Operating expenses				
Selling, general and administrative		823,124	779,962	674,811
Research and development	1j)	32,488	31,150	22,136
Special charge for settlement of investigations and related costs		601,000	-	-
Operating (loss) income		**(40,786)**	**488,978**	**390,936**
Other (income) expense				
Interest income		(8,094)	(8,641)	(10,312)
Interest expense		226,218	228,182	193,860
(Loss) income from continuing operations before income taxes, minority interests and cumulative effect of accounting change		(258,910)	269,437	207,388
Income tax (benefit) expense	1k)	(12,744)	135,366	101,472
Minority interest		2,378	2,454	1,971
(Loss) income from continuing operations before cumulative effect of accounting change		**(248,544)**	**131,617**	**103,945**
Loss from discontinued operations, net	5	-	(105,897)	(13,783)
Cumulative effect of accounting change, net	1s)	-	(6,589)	-
Net (loss) income		**(248,544)**	**19,131**	**90,162**
Basic and fully diluted (loss) income from continuing operations before cumulative effect of accounting change per ordinary share	1q)	(3.15)	1.62	1.34
Basic and fully diluted net (loss) income per ordinary share		**(3.15)**	**0.20**	**1.16**
Basic and fully diluted (loss) income from continuing operations before cumulative effect of accounting change per preference share	1q)	(3.15)	1.78	1.39
Basic and fully diluted net (loss) income per preference share		**(3.15)**	**0.36**	**1.21**

See accompanying notes to consolidated financial statements

Consolidated Balance Sheets

At December 31, 1999 and 1998 $ in thousands, except share data	Note	1999	1998
Assets			
Current assets			
Cash and cash equivalents	1c), 21	34,760	31,867
Trade accounts receivable, less allowance for doubtful accounts of $ 101,262 in 1999 and $ 78,167 in 1998	6, 21 3	667,739	590,125
Accounts receivable from related parties	1d), 7	49,129	48,031
Inventories	8	301,302	297,449
Prepaid expenses and other current assets	2, 5, 20	179,392	134,624
IDPN accounts receivable	14	53,962	151,067
Deferred taxes		254,925	170,931
Total current assets		**1,541,209**	**1,424,094**
Property, plant and equipment, net	1e), 9	642,121	631,546
Intangible assets, including goodwill, net	1f), 10	3,438,756	3,483,913
Investments in unconsolidated subsidiaries	1a)	13,056	19,307
Deferred taxes	14	25,121	23,188
Non-current IDPN accounts receivable	2, 5, 20	5,189	-
Other assets		86,931	97,371
Total assets		**5,752,383**	**5,679,419**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	21	193,120	149,502
Accounts payable to related parties	3	89,453	93,195
Short-term accrued settlement	2, 20	386,815	-
Accrued expenses and other current liabilities	12	415,061	443,123
Short-term borrowings	11	96,383	108,827
Short-term borrowings from related parties	3	330,000	60,000
Current portion of long-term debt and capital lease obligations	13	147,484	45,931
Income tax payable	1k), 21	78,438	57,077
Deferred taxes	14	33,438	17,975
Total current liabilities		**1,770,192**	**975,630**
Long-term debt and capital lease obligations, less current portion		653,776	1,081,080
Long-term accrued settlement	13, 20	85,920	-
Other liabilities	2, 20	24,686	17,129
Pension liabilities	15	61,578	49,759
Deferred taxes	14	168,037	190,005
Company-obligated mandatorily redeemable preferred securities of Fresenius Medical Care Capital Trusts holding solely Company-guaranteed debentures of subsidiary	16	964,103	988,904
Minority interests	17	21,774	19,946
Total liabilities		**3,750,066**	**3,322,453**
Shareholders' equity	18		
Preference shares, no par value, € 2,56 nominal value, 42,500,000 shares authorized, 9,023,341 issued and outstanding		27,623	27,623
Ordinary shares, no par value, € 2,56 nominal value, 70,000,000 shares authorized, issued and outstanding		229,494	229,494
Additional paid-in capital		2,097,480	2,095,761
Retained (deficit) earnings		(216,870)	80,078
Accumulated other comprehensive loss		(135,410)	(75,990)
Total shareholders' equity		**2,002,317**	**2,356,966**
Total liabilities and shareholders' equity		**5,752,383**	**5,679,419**

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash-Flows

For the years ended December 31, 1999, 1998 and 1997 $ in thousands	Note	1999	1998	1997
Operating Activities				
Net (loss) income		(248,544)	19,131	90,162
Adjustments to reconcile net (loss) income to cash and cash equivalents provided by (used in) operating activities				
Cumulative effect of accounting change	1s)	–	6,589	–
Depreciation and amortization	1e), 1f)	284,208	278,984	250,388
Loss from discontinued operations	5	–	105,897	13,783
Write-off of IDPN accounts receivable	2, 5, 20	94,349	–	–
Change in deferred taxes, net	14	(89,925)	23,586	13,275
Loss (gain) on sale of fixed assets		991	213	(1,703)
Changes in assets and liabilities, net of amounts from businesses acquired or disposed of				
Trade accounts receivable, net		(136,262)	(160,051)	(101,480)
Inventories	1d), 7	(15,754)	(39,304)	9,953
Prepaid expenses, other current and non-current assets	8	(36,718)	(37,295)	(8,920)
Accounts receivable from/payable to related parties	3	(14,946)	3,174	(19,835)
Accounts payable, accrued expenses and other current and non-current liabilities		488,696	(6,336)	(32,788)
Income taxes payable	1k), 21	28,662	73,669	3,053
Net cash provided by operating activities of continuing operations		354,757	268,257	215,888
Net cash provided by operating activities of discontinued operations		(3,782)	(257)	(21,628)
Net cash provided by operating activities		350,975	268,000	194,260
Investing Activities				
Purchases of property, plant and equipment	1e), 9	(160,276)	(158,695)	(208,855)
Proceeds from sale of property, plant and equipment	1e), 9	7,130	26,179	776
Acquisitions, net of cash acquired	4	(101,326)	(222,935)	(424,599)
Proceeds from disposition of businesses	5	–	82,500	–
Net cash used in investing activities of continuing operations		(254,472)	(272,951)	(632,678)
Net cash used in investing activities of discontinued operations		–	(7,315)	(20,171)
Net cash used in investing activities		(254,472)	(280,266)	(652,849)
Financing Activities				
Proceeds from short-term borrowings	11	79,580	54,954	89,287
Repayments of short-term borrowings	11	(80,946)	(44,795)	(124,470)
Proceeds from short-term borrowings from related parties	3	270,000	60,000	100,000
Repayments of short-term borrowings from related parties	3	–	(66,428)	(33,572)
Proceeds from long-term debt	13	26,895	60,150	253,426
Principal payments of long-term debt and capital lease obligations	13	(310,476)	(640,497)	(81,217)
Retirement of convertible investment securities	18	(47,664)	(61,725)	–
Proceeds from issuance of mandatorily redeemable preferred securities	16	–	597,810	–
Proceeds from issuance of preference shares	18	–	–	168,774
Proceeds from increase of accounts receivable securitization program	6	29,400	105,600	52,000
Proceeds from exercise of FMC Rollover options	19	1,719	1,047	4,903
Dividends paid	18	(48,404)	(49,214)	–
Distributions on convertible investment securities	18	–	(2,752)	(1,302)
Change in minority interest	17	578	717	954
Net cash (used in) provided by financing activities of continuing operations		(79,318)	14,867	428,783
Net cash used in financing activities of discontinued operations		–	(2,107)	(4,462)
Net cash (used in) provided by financing activities		(79,318)	12,760	424,321
Effect of exchange rate changes on cash and cash equivalents		(14,292)	(6,445)	8,449
Cash and Cash Equivalents				
Net increase (decrease) in cash and cash equivalents		2,893	(5,951)	(25,819)
Cash and cash equivalents at beginning of period		31,867	37,818	63,637
Cash and cash equivalents at end of period		**34,760**	**31,867**	**37,818**

See accompanying notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity

For the years ended December 31,
1999, 1998 and 1997
$ in thousands, except share data

	Note	Preference Shares		Ordinary Shares						
		Number of shares	No par value amount[1]	Number of shares	No par value amount[1]	Convertible investment securities	Additional paid in capital	Retained Earnings (Deficit)	Accumulated other comprehensive Loss	Total
Balance at December 31, 1996		**5,400,000**	**17,705**	**70,000,000**	**229,494**	**-**	**1,897,200**	**20,015**	**(8,318)**	**2,156,096**
Proceeds from issuance of preference shares	18	3,623,341	9,918	-	-	-	193,281	-	-	203,199
Proceeds from issuance of convertible investment securities	18	-	-	-	-	67,584	-	-	-	67,584
Contributed capital from Fresenius AG	18	-	-	-	-	-	3,392	-	-	3,392
Proceeds from exercise of FMC Rollover options	19	-	-	-	-	-	4,903	-	-	4,903
Distributions on convertible investment securities	18	-	-	-	-	-	-	(1,302)	-	(1,302)
Comprehensive income										
Net income		-	-	-	-	-	-	90,162	-	90,162
Foreign currency translation adjustment		-	-	-	-	-	-	-	(78,069)	(78,069)
Comprehensive income		-	-	-	-	-	-	-	-	12,093
Balance at December 31, 1997		**9,023,341**	**27,623**	**70,000,000**	**229,494**	**67,584**	**2,098,776**	**108,875**	**(86,387)**	**2,445,965**
Proceeds from exercise of FMC Rollover options	19	-	-	-	-	-	1,047	-	-	1,047
Retirement of convertible investment securities	18	-	-	-	-	(67,584)	-	-	-	(67,584)
Distributions on convertible investment securities	18	-	-	-	-	-	-	(2,752)	-	(2,752)
Distributions to Fresenius AG	18	-	-	-	-	-	(4,062)	-	-	(4,062)
Dividends paid	18	-	-	-	-	-	-	(45,176)	-	(45,176)
Comprehensive income										
Net income		-	-	-	-	-	-	19,131	-	19,131
Foreign currency translation adjustment	1h)	-	-	-	-	-	-	-	10,397	10,397
Comprehensive income		-	-	-	-	-	-	-	-	29,528
Balance at December 31, 1998		**9,023,341**	**27,623**	**70,000,000**	**229,494**	**-**	**2,095,761**	**80,078**	**(75,990)**	**2,356,966**
Proceeds from exercise of FMC Rollover options	19	-	-	-	-	-	1,719	-	-	1,719
Dividends paid	18	-	-	-	-	-	-	(48,404)	-	(48,404)
Comprehensive loss										
Net loss		-	-	-	-	-	-	(248,544)	-	(248,544)
Foreign currency translation adjustment	1h)	-	-	-	-	-	-	-	(59,420)	(59,420)
Comprehensive loss		-	-	-	-	-	-	-	-	(307,964)
Balance at December 31, 1999		**9,023,341**	**27,623**	**70,000,000**	**229,494**	**-**	**2,097,480**	**(216,870)**	**(135,410)**	**2,002,317**

See accompanying notes to consolidated financial statements

[1]No par, € 2.56

Notes to Consolidated Financial Statements

1. The Company and Summary of Significant Accounting Policies

Fresenius Medical Care AG and its subsidiaries ("FMC" or the "Company") are an integrated provider of kidney dialysis products and dialysis care. Fresenius Medical Care AG ("FMC AG") was created by conversion of Sterilpharma GmbH, a limited liability company incorporated in 1975, into a stock corporation (Aktiengesellschaft). The resolutions for this conversion were adopted by a shareholder meeting on April 17, 1996. On September 30, 1996, Fresenius Medical Care AG initiated a series of transactions to consummate an Agreement and Plan of Reorganization entered into on February 4, 1996 by Fresenius AG and W.R. Grace. Pursuant to that Agreement, Fresenius AG contributed Fresenius Worldwide Dialysis or FWD, its global dialysis business, including its controlling interest in Fresenius USA, Inc. ("FUSA"), in exchange for Fresenius Medical Care AG ordinary shares. Thereafter, FMC acquired:

(i) all of the outstanding Common stock of W.R. Grace, whose sole business at the time of the transaction consisted of National Medical Care, Inc., its global dialysis business, in exchange for ordinary shares

(ii) publicly-held minority interest of Fresenius USA, Inc., in exchange for ordinary shares.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP").

Summary of Significant Accounting Policies

a) Principles of Consolidation

The consolidated financial statements include all material companies in which the Company has legal or effective control. All significant intercompany transactions and balances have been eliminated. The equity method of accounting is used for investments in associated companies (20% to 50% owned).

b) Classifications

Certain items in prior years' consolidated financial statements have been reclassified to conform with the current year's presentation.

c) Cash and Cash Equivalents

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

d) Inventories

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

e) Property, Plant and Equipment

Property, plant, and equipment are stated at cost. Significant improvements are capitalized; repairs and maintenance costs that do not extend the useful lives of the assets are charged to expense as incurred. Property and equipment under capital leases are stated at the present value of future minimum lease payments at the inception of the lease. The cost and accumulated depreciation of assets sold or otherwise disposed are removed from the accounts, and any resulting gain or loss is included in income when the assets are disposed.

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 11 years and 3 to 15 years for machinery and equipment with a weighted average life of 7 years. Equipment held under capital leases and leasehold improvements are amortized using the straight-line method generally over the shorter of the lease term or the estimated useful life of the asset.

The Company capitalizes interest on borrowed funds during construction periods. Interest capitalized during 1999, 1998, and 1997 was $224, $221, and $51, respectively.

f) Intangible Assets

The Company has adopted the following useful lives and amortizes intangible assets using the straight-line method: goodwill – 20 to 40 years with a weighted average life of 39 years; tradename and patents – 6 to 40 years with a weighted average life of 32 years; patient relationships, distribution rights and other intangible assets – over the estimated period to be benefited, generally from 5 to 40 years with a weighted average life of 11 years.

g) Derivative Financial Instruments

The Company utilizes derivative financial instruments including forward currency contracts and interest rate swaps.

Forward currency contracts – Gains and losses on forward currency contracts that are designated and effective as hedges of existing assets or liabilities are included in the carrying amount of those hedged items. Foreign currency forward contracts hedging firm commitments are deferred and recognized along with the effects of the hedged transaction. Gains and losses on other forward currency contracts not qualifying for hedge accounting are recognized as selling, general and administrative expenses in the period in which the gain or loss occurs.

Interest rate swaps – Interest rate agreements that are designated as a hedge of a debt or other long-term obligations are accounted for on an accrual basis. That is, the interest payable and interest receivable under the terms of the swaps are accrued and recorded as an adjustment to the interest or related expense of the designated liability or obligation.

Amounts due from and payable to the counterparties of interest rate swaps are recorded on an accrual basis at each reporting date on amounts computed by reference to the respective interest rate swap contract. Realized gains and losses that occur from the early termination or expiration of contracts are deferred and recorded in income over the remaining period of the original swap agreement. Gains and losses arising from interest differential on contracts that hedge specific borrowings are recorded as a component of interest expense over the life of the contract.

In the event the hedged asset or liability is terminated, sold, or otherwise disposed of, the timing of the gain or loss on the interest rate swap would be matched with the offsetting gain or loss of the related item.

h) Foreign Currency Translation

For purposes of these consolidated financial statements, the U.S. dollar is the reporting currency. The Company follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, *Foreign Currency Translation*.

Substantially all assets and liabilities of the Company and all Non-U.S. subsidiaries are translated at year end exchange rates, while revenues and expenses are translated at exchange rates prevailing during the year. Adjustments for foreign currency translation fluctuations are excluded from net earnings and are included in other comprehensive income.

Gains and losses resulting from the translation of intercompany borrowings, which are not considered equity investments, are included in selling, general and administrative expense. Transaction gains (losses) amounted to $(264), $366 and $28,286 for 1999, 1998 and 1997, respectively.

i) Revenue Recognition Policy

Health care revenues are recognized on the date services and related products are provided and are recorded at amounts estimated to be received under reimbursement arrangements with third party payors. Medicare and Medicaid programs are built at pre-determined net realizable rates per treatment that are established by statute or regulation. Most non-governmental payors, including contracting managed care payors, are billed at our standard rates for services, but a contractual allowance is recorded to reflect the estimated amounts to be received under reimbursement arrangement with these payors´ expected net realizable revenue for services provided. Product revenues are recognized when title to the product has passed to the buyer, either at the time of shipment or upon receipt by the customer.

j) Research and Development Expenses

Research and development expenses are expensed as incurred.

k) Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, deferred tax assets and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred taxes in Germany are calculated using the "undistributed earnings" tax rate.
(see Note 14)

l) Impairment

In accordance with Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, the Company reviews the carrying value of its property, plant and equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. The Company considers various valuation factors including discounted cash flows, fair values and replacement costs to assess any impairment of goodwill and other long lived assets.
Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

m) Debt Issuance Costs

Costs related to the issuance of debt are amortized over the term of the related obligation.

n) Self Insurance Programs

A major subsidiary of the Company is self-insured for professional, product and general liability, auto and worker's compensation claims up to predetermined amounts above which third party insurance applies. Estimates are made for both reported and incurred but not reported claims

o) Use of Estimates

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

p) Concentration of Credit Risk

The Company is engaged in the manufacture and sale of products for all forms of kidney dialysis equipment, principally to health care providers throughout the world, and the providing of kidney dialysis treatment, clinical laboratory testing and other medical ancillary services. The Company performs ongoing evaluations of its customers' financial condition and, generally, requires no collateral.

A significant percentage of the Company's health care services revenues are paid by and subject to regulations under governmental programs, primarily Medicare and Medicaid, health care programs administered by the United States government. The Company reserves for losses related to these programs.

q) Earnings per Ordinary and Preference Share

Basic net (loss) income per ordinary share and basic net (loss) income per preference share for all years presented have been calculated using the two-class method required under U.S. GAAP based upon the weighted average number of ordinary and preference shares outstanding. Basic earnings per share are computed by dividing net income less preference amounts and distributions earned by convertible investment securities by the weighted average number of ordinary and preference shares outstanding during the year. Diluted earnings per share include the effect of all potentially dilutive ordinary and preference shares that would have been outstanding during the year.

The convertible investment securities (see Note 18) and awards, granted under the FMC stock incentive plans (see Note 19), are potentially dilutive equity instruments.

r) Stock Option Plans

The Company accounts for its stock option plans in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. As such, compensation expense is recorded on the measurement date only if the current market price of the underlying stock exceeds the exercise price. For stock incentive plans which are performance based, the Company recognizes compensation expense over the vesting periods, based on the then current market values of the underlying stock. In addition, the Company has adopted the disclosure only provisions required by SFAS No. 123, *Accounting for Stock-Based Compensation*.

s) Accounting Changes

In April 1998, Statement of Position No. 98-5, *Reporting on the Costs of Start-up Activities* ("SOP 98-5"), was issued by the Accounting Standards Executive Committee (AcSEC) of the AICPA and was adopted by the Company, effective January 1, 1998. SOP 98-5 requires that the costs of start-up activities, including organization costs, which have been previously capitalized, should be expensed as incurred. As a result of the adoption of SOP 98-5, deferred start-up activities in the amount of $11,279 as of January 1, 1998, have been recognized as a cumulative effect of a change in accounting, net of related tax benefit of $4,690, in the consolidated statements of earnings for the year ended December 31, 1998. Costs for start-up activities are expensed as incurred beginning in 1998.

2. Special Charge for Settlement of Investigations and Related Costs

Since 1995, National Medical Care, Inc., and certain of its subsidiaries, were the subject of an investigation by the Office of Inspector General of the United States Department of Health and Human Services, the United States Attorney for the District of Massachusetts and other government authorities concerning possible violations of federal laws including the anti-kickback statute and the False Claims Act.

On January 18, 2000, the Company, National Medical Care, Inc. and certain affiliated companies executed definitive agreements with the United States Government to settle the matters covered in the government investigations and National Medical Care, Inc.'s claims with respect to approximately $153.5 million of outstanding Medicare receivables for interdialytic parenteral nutrition therapy rendered on or before December 31, 1999. The settlement was approved by the United States District Court for the District of Massachusetts on February 2, 2000.

In anticipation of the Settlement, the Company recorded a special pre-tax charge against its consolidated earnings in 1999 totaling $601 million ($419 million after tax). This special pre-tax charge includes (i) a charge of $486.3 million for settlement payment obligations to the Government, (ii) a $94.3 million write-off of the remaining receivables described above, and (iii) a reserve for other related costs of $20.4 million, primarily associated with legal fees for derivative litigation and with implementing the terms of the Settlement. The settlement payment obligations to the Government and the amounts due to the Company for the outstanding Medicare receivables have been classified in the balance sheet at their expected settlement dates.

See Note 20 – "Commitments and Contingencies – Legal Proceedings".

3. Related Party Transactions

a) Shared Services

Fresenius AG, the majority shareholder, historically provided services to and incurred costs on behalf of the Company. In addition, FMC has provided certain services to Fresenius AG. The costs of such services, including, but not limited to, administrative services, management information services, employee benefit administration, legal and environmental consultation and administration insurance, central purchasing, tax services, treasury services, and accounting and reporting have been allocated to the Company. In the opinion of Management of the Company, such expenses are indicative of the actual expenses that would have been incurred if the Company had been operating as an independent entity.

In connection with the formation of Fresenius Medical Care AG, the Company entered into service agreements with Fresenius AG to continue to receive the foregoing services at negotiated amounts. For the years 1999, 1998 and 1997, amounts charged from Fresenius AG to FMC under the terms of the agreement are $ 16,387, $ 21,298 and $ 17,517, respectively. FMC charged amounts of $ 6,821, $ 5,233 and $ 5,858 for services rendered to Fresenius AG in 1999, 1998 and 1997, respectively.

During 1999, 1998 and 1997, there were certain intercompany and related party transactions recorded as a result of the services performed as previously noted. Intercompany transactions are generally settled according to their respective terms and are eliminated in consolidation. Related party transactions pertaining to services performed between affiliated entities are recorded as accounts receivable or payable to related parties. At December 31, 1999 and 1998 FMC had accounts receivable from related parties of $ 49,129 and $ 48,031, respectively. The FMC accounts payable to related parties at December 31, 1999 and 1998 were $ 89,453 and $ 93,195, respectively.

Under operating lease agreements entered into in conjunction with the formation of Fresenius Medical Care, FMC will pay Fresenius AG approximately DM16,800 (€ 8,590) per year. Beginning in 1998, the lease amounts escalate annually, based upon the published indices in Germany, representing a fair market value rental for such properties. Converted to USD, this amounts to approximately $ 10,642, $ 10,101 and $ 9,684 during 1999, 1998 and 1997, respectively. The leases commenced in 1996 and have terms of 10 years with options for renewal.

b) Financing Provided by Fresenius AG

At December 31, 1999, and 1998, the Company had loans outstanding of $ 330,000 and, $ 60,000, respectively, at a range of interest rates of 7.06 % to 7.44 % for 1999 and 6.53 % for 1998. The funds were used primarily to reduce long-term debt. At December 31, 1999, the loans are due at various dates throughout the first quarter of 2000 with the last expiring on March 22, 2000. Interest expense on these borrowings was $ 13,037, $ 1,096 and $ 6,000 for the years 1999, 1998 and 1997, respectively.

c) Sales to Fresenius AG and its Subsidiaries

During the years ended December 31, 1999, 1998, and 1997, the Company recognized sales of $ 28,563, $ 13,237 and $ 22,874, respectively, to non-FMC businesses of Fresenius AG.

d) Other

During 1999, the Company granted to a member of the Management Board a five year unsecured loan of $ 2 million with interest at 6.0 % per annum. Only interest is due during the first four years of the term, with both principal and interest due in the fifth year. The Company may call the loan at any time and the loan can be repaid without penalty, at any time during the period of the loan.

A member of the Company's Supervisory Board is a partner in a law firm which provided services to the Company. The Company paid the law firm approximately $ 107, $ 254, and $ 554 in 1999, 1998, and 1997, respectively.

The Chairman of the Company's Supervisory Board and former Chief Executive Officer of FMC are members of the Management Board of Fresenius AG, the majority shareholder of FMC.

4. Acquisitions

The Company acquired certain health care facilities and clinical laboratories for a total consideration of $ 111 million, $ 265 million and $ 527 million in 1999, 1998 and 1997, respectively. In 1999, consideration consisted of cash of $101 million and notes for $ 10 million. In 1998, the consideration consisted of cash of $ 223 million and convertible investment securities of $ 42 million. The consideration in 1997 consisted of $ 425 million in cash and $ 102 million in convertible investment securities and preference shares. These acquisitions have been accounted for as purchase transactions and, accordingly, are included in the results of operations from the

dates of acquisition. The excess of the total acquisition costs over the fair value of the tangible net assets acquired was $94 million, $243 million and $436 million for 1999, 1998 and 1997, respectively.

Had the acquisitions occurring in 1997 been consummated at January 1, 1997, unaudited pro forma net revenue from continuing operations would have been $3,096 million and unaudited pro forma net income $99 million for the twelve months ended December 31, 1997. Unaudited pro forma basic and diluted net income per ordinary share and per preference share would have been $1.19 and $1.25, respectively. The effects of 1999 and 1998 acquisitions are immaterial.

5. Discontinued Operations

Effective June 1, 1998, the Company classified its Homecare/Non-renal Diagnostics businesses as discontinued operations. The sale of the Non-renal Diagnostics business was completed on June 26, 1998 while the sale of the Homecare business was completed on July 29, 1998. In connection with the sale of Homecare, the Company retained the assets and the operations associated with the delivery of IDPN and records, for accounting purposes, its activity as part of discontinued operations. The Company has recorded net after tax losses of $9 million from operations of discontinued businesses and $97 million from the disposal of these businesses for the year ended December 31, 1998. The net loss on the disposal of these businesses and their results of operations have been accounted for as discontinued operations.

IDPN receivables of $153.5 million, which had been included in the retained assets of discontinued operations were resolved as part of the settlement agreements with the U.S. Government as part of the OIG investigations. As a result, a $94.3 million write off was taken against these receivables. The remaining receivables have been classified separately on the balance sheet and will be collected from the U.S. Government over the next eighteen months according to the terms under the settlement agreement.

See Note 2 – "Special Charge for Settlement of Investigations and Related Costs" and Note 20 - "Commitments and Contingencies – Legal Proceedings

The revenue and results of operations of the discontinued operations in 1998 and 1997 were as follows:

For the year ended December 31 in thousands	1998	1997
Net revenue	120,940	283,006
Cost of revenue	73,950	161,556
Gross profit	46,990	121,450
Selling, general & administrative	61,202	142,451
Loss from operations of discontinued businesses before income tax benefit	(14,212)	(21,001)
Income tax benefit	(5,543)	(7,218)
Loss from operations of discontinued businesses	(8,669)	(13,783)
Loss on disposal before income tax benefit	(140,000)	-
Income tax benefit	(42,772)	-
Loss on disposal	(97,228)	-
Loss from discontinued operations	**(105,897)**	**(13,783)**

6. Sale of Accounts Receivable

On September 27, 1999, National Medical Care, Inc. amended its accounts receivable facility increasing it from $331,500 to $360,000, maturing on September 25, 2000. Under the terms of the current agreement, interest rate is based upon the commercial paper rate, which was approximately 5.90% at year end 1999. At December 31, 1999, and 1998, $335,000 and $305,600, respectively, had been received pursuant to such sales and are reflected as reductions to accounts receivable. Under the terms of the agreement, new interests in accounts receivable are sold as collections to reduce previously sold accounts receivable. The costs related to such sales are expensed as incurred and recorded as interest expense and related financing costs. There were no gains or losses on these transactions.

7. Inventories

As of December 31, inventories consisted of the following:

$ in thousands	1999	1998
Raw materials and purchased components	62,595	63,404
Work in process	22,704	29,326
Finished goods	178,330	182,865
	263,629	**275,595**
Health care supplies	49,652	31,828
Reserves	(11,979)	(9,974)
Inventories	**301,302**	**297,449**

Under the terms of certain (unconditional) purchase agreements, the Company is obligated to purchase approximately $ 239,368 of materials of which $ 113,017 is committed at December 31, 1999 for fiscal year 2000. The terms of these agreements run 2 to 5 years. Inventories as of December 31, 1999, include approximately $ 17.7 million of 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 the Company. In 1999, the Company derived approximately 24% of its total revenue per treatment from EPO in the United States.

8. Prepaid Expenses and Other Current Assets

As of December 31, prepaid expenses and other current assets consisted of the following:

$ in thousands	1999	1998
Receivables from employees	3,116	3,671
Deposits / Guarantee / Security	9,211	7,341
Tax - and VAT receivables	13,439	9,990
Prepaid operating expenses	19,541	13,744
Notes receivable	21,692	18,803
Other	112,393	81,075
Total prepaid expenses and other current assets	**179,392**	**134,624**

9. Property, Plant and Equipment

As of December 31, properly, plant and equipment consisted of the following:

$ in thousands	1999	1998
Land and improvements	9,717	8,560
Buildings and improvements	336,782	296,553
Machinery and equipment	620,024	580,955
Machinery, equipment and rental equipment under capitalized leases	24,001	23,126
Construction in progress	48,832	42,678
	1,039,356	**951,872**
Accumulated depreciation and amortization	(397,235)	(320,326)
Property, plant and equipment, net	**642,121**	**631,546**

Depreciation and amortization expense for property, plant and equipment, amounted to $ 131,623, $ 130,628, and $ 120,540 for the years ended December 31, 1999, 1998, and 1997, respectively.

Included in property, plant and equipment as of December 31, 1999, 1998 and 1997 were $ 36,015, $ 36,996 and $ 32,198, respectively, of peritoneal dialysis cycler machines which the Company leases to customers with end-stage renal disease on a month-to-month basis and hemodialysis machines which the Company leases to physicians under operating leases. Identification of the rental income from the Company's leasing activities is not practicable as the Company's return on the machines is received through contractual arrangements whereby a premium is charged for other support equipment sold during the life of the lease.

Accumulated depreciation related to machinery, equipment and rental equipment under capital leases was $ 14,330, $ 10,785 and $ 16,067 at December 31, 1999, 1998 and 1997, respectively.

10. Intangible Assets, Net

As of December 31, intangible assets consisted of the following:

$ in thousands	1999	1998
Goodwill	3,114,063	3,020,123
Patient relationships	180,067	173,604
Tradename and patents	252,923	266,919
Distribution rights	4,349	6,601
Other	354,400	343,086
	3,905,802	**3,810,333**
Accumulated amortization	(467,046)	(326,420)
Intangible assets, net	**3,438,756**	**3,483,913**

Amortization expense for intangible assets amounted to $151,735, $147,616, and $127,297 for the years ended December 31, 1999, 1998, and 1997, respectively.

11. Short-Term Borrowings

Short-term borrowings of $96,383, and $108,827 at December 31, 1999, and 1998, respectively, represent amounts borrowed by certain of the Company's subsidiaries under lines of credit with commercial banks. The average interest rates on these borrowings at December 31, 1999, and 1998 was 4.6%, and 4.2%, respectively.

Excluding amounts available under the senior credit agreement (see Note 13), at December 31, 1999, FMC had $27,171 available under such commercial bank agreements. These lines of credit are generally secured by the Company's accounts receivable and contain various covenants including, but not limited to, requirements for maintaining defined levels of working capital, net worth, capital expenditures and various financial ratios.

12. Accrued Expenses and Other Current Liabili

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

$ in thousands	1999	1998
Accrued operating expenses	68,599	55,503
Accrued legal and compliance costs	12,991	51,319
Accrued insurance	54,518	66,321
Accrued salaries and wages	75,163	68,875
Accounts receivable credit balances	48,932	42,804
Accrued interest	25,429	44,933
Accrued restructuring	2,472	10,651
Accrued physician compensation	17,721	18,321
Bonus and incentive plan compensation	2,746	4,302
Withholding and tax VAT	17,294	14,366
Commissions	10,406	12,061
Deferred income	5,770	7,470
Bonuses and rebates	9,303	8,882
Other	43,140	37,315
Accrued other costs related to OIG investigation	20,577	-
Total accrued expenses and other current liabilities	**415,061**	**443,123**

13. Long-Term Debt and Capital Lease Obligations

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

$ in thousands	1999	1998
Senior Credit Agreement	738,150	1,032,700
Capital leases	8,067	15,126
Other	55,043	79,185
	801,260	**1,127,011**
Less current maturities	(147,484)	(45,931)
	653,776	**1,081,080**

The Company's senior credit agreement, as amended, includes a revolving credit facility of up to $1,000,000 (of which up to $250,000 is available for letters of credit, up to $450,000 is available for borrowings in certain non-U.S. currencies, up to $50,000 is available as swing lines in U.S. dollars and up to $20,000 is available as swing lines in certain non-U.S. currencies) for up to seven years expiring on September 30, 2003 and a term loan facility of $1,000,000 for up to seven years, also expiring September 30, 2003. It also included a term loan facility of $500,000, which was repaid in November 1996, prior to its maturity date on September 30, 1998. The terms of the senior credit agreement relating to the term loan facility require payments that permanently reduce the term loan facility. The repayment began in the fourth quarter of 1999 and will continue quarterly until the expiration of the agreement in 2003.

Loans under this senior credit agreement bear interest at one of the following rates, at (i) LIBOR plus an applicable margin or (ii) a base rate equal to the sum of (1) the higher from time to time of (A) the prime rate of the Lenders or (B) the federal funds rate plus 0.50% and (2) an applicable margin. A fee is payable to the Lenders equal to a percentage per annum (initially 0.375%) of the portion of the senior credit agreement not used.

In addition to scheduled principal payments, the senior credit agreement will be reduced by certain portions of the net cash proceeds from certain sales of assets, sales of accounts receivable and the issuance of subordinated debt and equity securities. Prepayments are permitted at any time without penalty, except in certain defined periods. The senior credit agreement contains customary affirmative and negative covenants with respect to the Company and its subsidiaries and other payment restrictions, mainly related to dividends. Under the terms of agreement the Company is restricted as to the level of dividends that can be paid in any calender year, which was $75 million in dividends in 1999. The Company's dividend distribution in 1999 was $48 million. Dividends from Fresenius Medical Care Holdings, Inc., a wholly owned subsidiary, are limited as a result of a restriction on dividends from its subsidiary, National Medical Care, Inc., and its subsidiaries. The restriction limits National Medi- cal Care dividends to 50% of its consolidated net income of the preceding year. National Medical Care had losses in 1999 as a result of a special charge (See Note 2) and losses in 1998 as a result of discontinued operations (See Note 5).

In December 1999, the Company successfully amended certain covenants including, among other things, financial ratios contained in its senior credit facility that would have been affected by the impact of the settlement related to U.S. government investigation (see Note 2). At December 31, 1999 the Company was in compliance with all such covenants.

At December 31, 1999, the Company had $776,628 of additional borrowing capacity available under the revolving credit facility of the senior credit agreement including $48,528, for additional letters of credit. Of the $201,472 letters of credit outstanding under the senior credit agreement, a $150,000 irrevocable letter of credit was issued to the U.S. government in connection with certain agreements with the U.S. government when the Company was formed. On January 18, 2000, the letter of credit issued to the U.S. government was increased to $189,600 to reflect the terms of the final settlement (see Note 2).

Aggregate annual payments applicable to the senior credit agreement, term loan, note payable, capital leases and other borrowings for the five years subsequent to December 31, 1999 are ($ in thousands):

2000	147,484
2001	170,681
2002	157,396
2003	303,036
2004	2,882
Thereafter	19,781
	801,260

14. Income Taxes

Income before income taxes, minority interest, and cumulative effect of accounting change is attributable to the following geographic locations:

$ in thousands	1999	1998	1997
Germany	93,653	70,877	73,663
United States	(408,060)	118,574	87,764
Other	55,497	79,986	45,961
	(258,910)	**269,437**	**207,388**

Income tax expense (benefit) for the years ended December 31, consisted of the following:

$ in thousands	1999	1998	1997
Current			
German corporation and trade income taxes	43,876	23,990	33,164
United States income taxes	12,088	54,600	40,541
Other income taxes	28,797	22,246	16,071
	55,964	**78,590**	**73,705**
Deferred			
Germany	791	15,281	1,964
United States	(92,907)	16,800	12,605
Other income taxes	(5,389)	(2,449)	(2,873)
	(97,907)	**34,530**	**11,686**
	(12,744)	**135,366**	**101,472**

German corporation tax law applies a split rate imputation system to the income taxation of a corporation and its shareholders. Upon distribution of retained earnings in the form of a dividend, shareholders subject to German tax receive a credit for corporation taxes paid by the corporation on such distributed earnings. In addition, the corporation receives a tax refund to the extent such earnings had been initially subjected to a corporation income tax in excess of 30%. The tax refund is also distributable to the shareholder.

In 1999, various changes to the German corporation tax law were made effective, including the reduction of the tax rate applied to undistributed earnings from 45% to 40%. The effects of such law changes to the Company are principally attributable to the required revaluation of deferred tax balances at the beginning of the year to reflect the reduction in German tax rates. The impact of the revaluation is to reduce income tax expense for 1999 by approximately $850.

In general, retained (undistributed) German corporate income is initially subject to a federal corporation income tax currently at a rate of 40% (45% for 1998 and 1997) plus a surcharge of 5.5% (5.5% in 1998 and 7.5% in 1997). Giving effect to the surcharge, the federal corporate tax rate is 42.2% (47.475% in 1998 and 48.375% in 1997). The distributed earnings rate is 31.65% (31.65% in 1998 and 32.25% in 1997) as a result of the surcharge.

The income tax expense reflects the actual amount of distribution of that year's earnings of the German operations. As such, the refund of tax described above is reflected in the income tax expense reconciliation presented below.

For the years ended December 31, 1999, 1998, and 1997 income tax expense differed from the amounts computed by applying the German federal corporation income tax rate of 42.2% for 1999, 47.475% for 1998 and 48.375% for 1997, respectively, to income before income taxes, minority interest and cumulative effect of accounting change as a result of the following:

$ in thousands	1999	1998	1997
Computed "expected" income tax (benefit) expense at the undistributed earnings rate	(109,260)	127,929	100,324
Increase (decrease) in income taxes resulting from:			
Items not deductible for tax purposes	680	843	801
Dividend distributions credit	(7,797)	(5,803)	(7,455)
Trade income taxes, net of German federal corporation income tax benefit	8,758	8,351	8,467
Foreign tax rate differential	24,847	2,571	51
Foreign tax rate differential on special charge for settlement of investigations and related costs	71,622	–	–
Other	(1,594)	(1,475)	(716)
Provision for Income Taxes	**(12,744)**	**135,366**	**101,472**
Effective Tax Rate	**4.9%**	**50.2%**	**48.9%**

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

$ in thousands	1999	1998
Deferred tax assets		
Accounts receivable, primarily due to allowance for doubtful accounts	27,844	29,591
Inventory, primarily due to additional costs capitalized for tax purposes, and inventory reserve accounts	21,427	18,068
Reserves for financial accounting purposes, not currently tax deductible	141,123	132,185
Capital leases, principally due to capitalization of costs for tax purposes	1,839	5
Government settlement	92,469	-
Net operating loss carryforwards	21,807	36,698
Other	1,895	918
Total deferred tax assets	**308,404**	**217,465**
Less valuation allowance	(6,360)	(5,340)
Net deferred tax assets	**302,044**	**212,125**
Deferred tax liabilities		
Accounts receivable, primarily due to allowance for doubtful accounts	4,553	2,892
Inventory, primarily due to additional costs capitalized for tax purposes, and inventory reserve accounts	6,262	5,929
Reserves for financial accounting purposes, not currently taxable	40,365	36,019
Plant and equipment, principally due to differences in depreciation	169,813	178,704
Other	2,480	2,442
Total deferred tax liabilities	**223,473**	**225,986**
Net deferred tax liability	**78,571**	**(13,861)**

During 1999 and 1998, the valuation allowance increased by $1,020 and $15,436, respectively, primarily attributable to a change in Management's evaluation of future utilization of operating losses.

At December 31, 1999 and 1998, FMC had approximately $49,051 and $86,183, respectively, of net operating losses, the majority of which are not subject to an expiration period.

In assessing the realizability of deferred tax assets, 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. 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 which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 1999.

Provision has been made for additional taxes on those earnings that will not be reinvested. Provision has not been made for additional taxes on $72,547 undistributed earnings of foreign subsidiaries. The majority of these earnings have been, and will continue to be, reinvested. The earnings could become subject to additional tax if remitted or deemed remitted as dividends. The Company estimates that the distribution of these earnings would result in $4,431 of additional withholding and corporation income taxes.

Intraperiod Tax Allocation

Income tax expense was allocated among the following items as follows:

$ in thousands	1999	1998	1997
Continuing operations	(12,744)	135,366	101,472
Operations of discontinued businesses	-	(5,543)	(7,218)
Disposal of discontinued businesses	-	(42,772)	-
Total income tax expense	**(12,744)**	**87,051**	**94,254**

15. Employee Benefit Plans

Defined Benefit Pension Plans

Plan benefits are generally based on employee years of service and final salary. Consistent with normal business custom in the Federal Republic of Germany, FMC's pension obligations in Germany are unfunded. In the United States, substantially all U.S. employees are covered by NMC's non-contributory, defined benefit pension plan. Each year, NMC contributes to this plan at least the minimum amount required by law. Plan assets consist principally of publicly traded common stock, fixed income securities and cash equivalents. In addition, NMC also sponsors a supplemental executive retirement plan to provide certain key executives with benefits in excess of normal pension benefits.

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

$ in thousands	1999	1998	1997
Change in benefit obligation			
Benefit obligation at beginning of year	111,832	88,713	79,609
Translation loss (gain)	(3,611)	1,432	(2,242)
Service cost	10,040	8,905	8,484
Interest cost	7,300	6,418	5,589
Amendments	(5)	-	-
Transfer of plan participants	3,706	28	94
Actuarial loss (gain)	(15,826)	9,400	(1,897)
Divestitures	-	(1,717)	-
Benefits paid	(1,693)	(1,387)	(928)
Benefit obligation at end of year	**111,753**	**111,832**	**88,713**
Change on plan assets			
Fair value of plan assets at beginning of year	77,019	65,088	54,218
Actual return on plan assets	3,145	13,218	11,794
Benefits paid	(1,404)	(1,287)	(924)
Fair value of plan assets at end of year	**78,760**	**77,019**	**65,088**
Funded Status	(32,996)	(34,813)	(23,625)
Unrecognized net gain	(23,405)	(11,821)	(15,328)
Unrecognized prior service cost	(4)	-	-
Unrecognized transition obligation	326	475	531
Accrued benefit costs	**(56,079)**	**(46,159)**	**(38,422)**
Weighted - average assumptions as of Dec. 31,			
Discount rate	7.28%	6.59%	7.41%
Expected return of plan assets	9.70%	9.70%	9.00%
Rate of compensation increase	4.60%	4.60%	4.60%
Components of net period benefit cost			
Service cost	10,040	8,905	8,484
Interest cost	7,300	6,418	5,589
Expected return on plan assets	(7,401)	(6,430)	(4,758)
Amortization of transition obligation	87	56	184
Amortization unrealized losses	61	-	-
Amortization of prior service cost	(1)	-	-
Recognized net (gain)/loss	(520)	(857)	(231)
Curtailment net gain	-	(1,717)	-
Net periodic benefit costs	**9,566**	**6,375**	**9,268**

In addition to the principal pension plans, certain of the Company's other subsidiaries offer separate retirement plans. The total accrued pension cost for these plans was $ 5,499, $ 3,600, and $ 3,154 at December 31, 1999, 1998 and 1997, respectively. The Company does not provide any postretirement benefits to its employees other than those provided under its pension plans and supplemental executive retirement plan.

Defined Contribution Plans

NMC and FUSA sponsor defined contribution plans. Total contributions for the year ended December 31, 1999, 1998 and 1997 were $ 7,298, $ 7,195 and $ 6,385, respectively.

16. Mandatorily Redeemable Trust Preferred Securities

In November, 1996 the Company, through Fresenius Medical Care Capital Trust (the "1996 Trust"), a statutory business trust organized under the laws of the State of Delaware, issued $ 360,000 of 9 % Trust Preferred Securities (the "Trust Securities"). FMC owns all of the common securities of the 1996 Trust. The sole asset of the Trust is $ 360,500 aggregate principal amount of 9 % Senior Subordinated Debentures due 2006 of FMC Trust Finance S.à.r.l. Luxembourg, a wholly owned subsidiary of the Company ("Luxco"), and related guarantees by the Company, Fresenius Medical Care Deutschland GmbH ("D-GmbH") and Fresenius Medical Care Holdings, Inc. ("FMCH"), D-GmbH and FMCH being the "Subsidiary Guarantors". The Trust Securities are guaranteed by FMC through a series of undertakings by the Company and the Subsidiary Guarantors.

The Trust Securities entitle the holders to distributions payable at an annual rate of 9 % and are mandatorily redeemable on December 1, 2006. The holders of the Trust Securities are entitled upon liquidation of the 1996 Trust to a distribution equal to the stated amount of the Trust Securities. Except in limited circumstances, the holders of the Trust Securities have no voting rights.

Luxco has the right to redeem the 9 % Senior Subordinated Debenture, in whole or in part, at any time or from time to time after December 1, 2001, at specified redemption prices plus accrued and unpaid interest. In connection with any such redemption, the 1996 Trust must redeem a like amount of Trust Securities.

In February, 1998, the Company, through Fresenius Medical Care Capital Trust II ("Trust II") and Fresenius Medical Care Capital Trust III ("Trust III", and collectively with Trust II, "the 1998 Trusts"), statutory business trusts created under the laws of the State of Delaware, issued $ 450,000 of 7 7/8 % USD Trust Preferred Securities (the "Trust II Securities") and DM 300,000 of 7 3/8 % DM Trust Preferred Securities (the "Trust III Securities" and, together with the Trust II Securities, the "Trust Preferred Securities"). FMC owns all of the common securities of the 1998 Trusts. The sole asset of Trust II is $ 450,450 aggregate principal amount of Luxco 7 7/8 % USD Senior Subordinated Debentures due 2008 and related guarantees by the Subsidiary Guarantors. The sole asset of Trust III is DM 300,300 aggregate principal amount of Luxco 7 3/8 % DM Senior Subordinated Debentures due 2008 and related guarantees by the Subsidiary Guarantors. The Trust Preferred Securities are guaranteed by FMC through a series of undertakings by the Company and the Subsidiary Guarantors.

The Trust II and Trust III Securities entitle the holders to distributions payable at the annual rate of 7 7/8 % and 7 3/8 %, respectively, and are mandatorily redeemable on February 1, 2008. The holders of the Trust Preferred Securities are entitled, upon liquidation of the 1998 Trusts, to a distribution equal to the stated amount of the Trust Preferred Securities. Except in limited circumstances, the holders of the Trust Preferred Securities have no voting rights.

17. Minority Interests

At December 31, minority interests were as follows:

$ in thousands, except share data	1999	1998
FMCH Preferred Stock		
Preferred Stock, $100 par value		
- 6% Cumulative; 40,000 shares authorized; 36,460 outstanding	3,646	3,646
- 8% Cumulative Class A; 50,000 shares authorized; 16,176 outstanding	1,618	1,618
- 8% Noncumulative Class B; 40,000 shares authorized; 21,483 outstanding	2,148	2,148
Preferred Stock, $0.10 par value		
- Noncumulative Class D; 100,000,000 shares authorized; 89,062,316 outstanding	8,906	8,906
Sub-total FMCH minority interest	**16,318**	**16,318**
Other minority interest	5,456	3,628
Total minority interest	**21,774**	**19,946**

In conjunction with the formation of FMC, each holder of W.R. Grace common stock received one share of a Class D Preferred stock of FMCH for each share of stock previously held. The Class D Preferred stock entitles the holder to receive, when, if and as declared by the board of directors of FMCH, a special dividend, payable in cash in annual installments beginning on October, 2002 (and in each subsequent year until the dividend is fully paid) in an amount based on the adjusted cash flow, as defined in the terms of the Class D Preferred Stock, of FMCH for the period from January 1, 1997 to December 31, 2001.

18. Shareholders' Equity

The Company requested and received approval from its shareholders at the annual shareholder meeting on June 2, 1999, to change the currency of the Company's share capital from deutsche mark (DM) to euro to prepare for the transition by the European Community to euro which began January 1, 1999 and is scheduled for completion by mid 2002. The exchange rate for DM to euro was set at DM 1.95583 to €1. As a result, the per share nominal value changed from DM 5 per share to €2.55646 per share. For convenience, shareholders approved an increase to the nominal value to €2.56 resulting in a Capital Stock increase of €280 ($290). The increase in value of Capital Stock was offset by a decrease in Additional Paid-in-Capital. No new shares were issued for this revaluation. The effect of the conversion has been recognized retroactively in the shareholders' equity accounts on the balance sheets as of December 31, 1996 and in the consolidated financial statements. Shareholders' equity accounts have been restated to reflect the reclassification of an amount equal to the nominal value of the increase in ordinary shares from additional paid in capital.

In addition, the Company's shareholders approved a change in the dividend premium for the preference shares from a percentage of the nominal value per share to an absolute amount. If dividends are declared, the preference shareholder will receive €0.06 per share more than the dividend for an ordinary share, but no less than €0.12 per share.

In another matter approved by the shareholders, the Company's shares have been changed to no par value.

Under the German Stock Corporation Act, the shareholders of a stock corporation may empower the Management Board to issue shares in a specified aggregate nominal value not exceeding 50% of the issued share capital at the time of the passing of the resolution, in the form of Conditional Capital (bedingtes Kapital) or Approved Capital (genehmigtes Kapital).

The authorization for the issuance of Approved Capital is limited for a period not exceeding five years from the date the shareholders' resolution becomes effective. By way of a shareholders' resolution, FMC's Management Board has been authorized to issue Approved Capital for cash ("Approved Capital I") up to a total of € 13,901 nominal amount. In addition, for non-cash consideration in connection with acquisitions by FMC, up to a total of € 52,508 was approved ("Approved Capital II").

During 1997, the Company issued 3,623,341 preference shares, no par value per share, for net proceeds of $ 203,199. The preference shares issued rank equally with the ordinary shares with respect to liquidation rights and pre-emptive rights. The minimum annual dividend payable on the preference shares is € 0.12. The Company's Articles of Association also provide that the annual dividend paid on the preference shares must exceed the annual dividend of the ordinary shares by € 0.06. Holders of preference shares have no voting right except in certain specific situations. The preference shares are not entitled to a preference in liquidation but rank pari passu with the ordinary shares.

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

In accordance with a contribution agreement between the Company and Fresenius AG, which was entered into in connection with the Agreement and Plan of Reorganization (See Note 1), the Company distributed $ 4,062 during the year ending December 31, 1998, to Fresenius AG. These funds represented earnings of the former Fresenius Worldwide Division (FWD), prior to the contribution of FWD by Fresenius AG to the Company, as part of the formation of the FMC. These earnings were not distributed at the time of the formation of FMC due to the application of local generally accepted accounting principles in determining the amount of pre-formation earnings and the legal requirement of a shareholder declaration to remit those earnings. In anticipation of a determination of the amount and a positive shareholder declaration, an estimate of the amount that would be due was made. The estimated amount was loaned by the Company to Fresenius AG with any distribution of earnings to be utilized to reduce the receivable from Fresenius AG. During 1998, the $ 4,062 distribution of earnings was subsequently applied against the receivable by the Company.

In connection with certain acquisitions made during 1997, a subsidiary of the Company issued convertible investment securities (Wandel-Genußrechte) with a nominal (par) value of $ 67,584. The convertible investment securities, which are non-voting, carry a cumulative dividend rate between 6.12 % and 6.25 % payable only out of legally available earnings of FMC AG and are redeemable ten years from date of issuance. The Company and the convertible investment security holders also entered into agreements which permit the Company to exchange, and under certain circumstances permit the convertible investment security holders to request that the Company exchange the convertible investment securities solely at the Company's option, for cash or for preference shares or other specified securities of an equal value. As the Company has the unilateral ability to exchange the convertible investment securities for preference shares and the preference shares represent permanent equity, the Company had classified the convertible investment securities within shareholders' equity. During the year ended December 31, 1998, a decision was made to redeem a portion of these securities for cash rather than convert such securities into preference shares. A total of approximately $ 61,725 nominal amount of these securities were redeemed during the year ended December 31, 1998. Approximately $ 5,859 nominal amount of these securities remained outstanding at year end 1998. At December 31, 1998, it was the intent of the Company to release the remaining securities for cash during 1999 and therefore reclassified such amounts as liabilities. These securities were subsequently redeemed during the fourth quarter of 1999 for cash.

If no dividend is declared for two consecutive years after the year for which the preference shares are entitled to dividends, then the holders of such preference shares will be entitled to the same voting rights as holders of ordinary shares until all arrearages are paid. In addition, the payment of dividends by FMC is subject to limitations under the senior credit agreement (see Note 13).

The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations. Stock options granted in 1998 and 1999 are subject to performance criteria.

At December 31, 1997, the performance criteria for 1998 and 1999 stock options had not been met. Therefore, the stock options granted have been excluded from the diluted earnings per share computations.

$ in thousands, except share data	1999	1998	1997
Numerators			
(Loss)/income from continuing operations before cumulative effect of accounting change	**(248,544)**	**131,617**	**103,945**
less			
Distributions on convertible investment securities	–	(2,752)	(1,302)
Dividend arrearages on preference shares for 1996, declared and paid in 1998	–	(974)	–
Preference on preference shares	–	(513)	(375)
Income available to preference shares only	–	(1,487)	(375)
(Loss) income from continuing operations before cumulative effect of accounting change available to all classes of shares	**(248,544)**	**127,378**	**102,268**
Loss from discontinued operations, net	–	(105,897)	(13,783)
Cumulative effect of accounting change	–	(6,589)	–
Denominators			
Weighted average number of			
ordinary shares outstanding	70,000,000	70,000,000	70,000,000
preference shares outstanding	9,023,341	9,023,341	6,506,917
Total weighted average shares outstanding	79,023,341	79,023,342	76,506,917
potentially dilutive ordinary shares	–	–	–
potentially dilutive preference shares	–	2,522	–
Total weighted average shares outstanding assuming dilution	79,023,341	79,025,863	76,506,917
Total weighted average preference shares outstanding assuming dilution	9,023,341	9,025,863	6,506,917
Basic (loss)/income from continuing operations before cumulative effect of accounting change per ordinary share	(3.15)	1.62	1.34
Preference and declared dividend arrearages per preference share	–	0.16	0.05
Basic (loss)/income from continuing operations before before cumulative effect of accounting change per preference share	(3.15)	1.78	1.39
Fully diluted (loss)/income from continuing operations before cumulative effect of accounting change per ordinary share	(3.15)	1.62	1.34
Preference and declared dividend arrearages per preference share assuming dilution	–	0.16	0.05
Fully diluted (loss)/income from continuing operations before cumulative effect of accounting change per preference share	(3.15)	1.78	1.39
Basic loss from discontinued operations per ordinary and preference share	–	(1.34)	(0.18)
Basic accumulative effect of accounting change per ordinary and preference share	–	(0.08)	–
Fully diluted loss from discontinued operations per ordinary and preference share	–	(1.34)	(0.18)
Fully diluted accumulative effect of accounting change per ordinary and preference share	–	(0.08)	–

19. Stock Options

In connection with the formation of Fresenius Medical Care in 1996, certain options outstanding under stock option plans of acquirees' were exchanged, for equivalent options with respect to FMC ordinary shares (the "FMC Rollover Plan").

The resulting total number of shares issuable upon exercise of options under the FMC Rollover Plan at the formation of FMC, September 30, 1996, was approximately 333,000. No additional ordinary shares are available for granting of options under the FMC Rollover Plan. The ordinary shares issuable upon exercise of FMC Rollover options were issued to Fresenius AG which is holding the shares pending exercise of the options. Fresenius AG has agreed, with respect to the ordinary shares underlying options related to W.R. Grace common stock, to not exercise voting power over such ordinary shares and to return any dividends paid. Upon exercise of any of the FMC Rollover options, the exercise price will be paid to the Company and Fresenius AG will deliver the ordinary shares to the option holder. Upon cancellation or expiration without exercise of options formerly relating to W.R. Grace common stock, the underlying ordinary shares held by Fresenius AG will be transferred to FMC at no cost to it. Upon cancellation or expiration without exercise of options formerly relating to FUSA common stock, the underlying ordinary shares will revert to Fresenius AG.

During the year ended December 31, 1999, 134,924 FMC Rollover Plan options were exercised by employees. In connection therewith, Fresenius AG transferred 44,975 ordinary shares to employees and remitted $1,719 to the Company. During the same period, 4,448 options were canceled. At December 31, 1999, the $1,719 has been accounted for as a capital contribution within additional paid in capital.

Immediately prior to the formation of Fresenius Medical Care, FMC adopted a stock incentive plan (the "FMC Plan") for FMC's key management and executive employees. Under the FMC Plan, eligible employees will have the right to acquire preference shares of the Company. Awards under the FMC Plan are evidenced by a non-transferable convertible bond and corresponding non-recourse loan to the employee, secured solely by the bond with which it was made. The bonds mature in ten years and are generally fully convertible after three or five years. Each convertible bond, which is DM denominated, entitles the holder thereof, upon payment of a conversion price equal to the fair market value of the preference shares on the award date, to convert the bond into a number of preference shares equal to the face amount of the bond divided by the preference shares' nominal value (DM5 per preference share). During 1997, the Company awarded 2,697,438 awards (of which 216,663 were forfeited in 1997) with a bond nominal value of DM4,135 and exercisable upon vesting for 826,757 preference shares (net of forfeitures). The awards issued and forfeited during 1997 and outstanding as of December 31, 1997 had a weighted average price of $ 76.03 per preference share. During 1998, 2,169,711 awards were cancelled or forfeited leaving 311,064 awards outstanding under this plan. If these awards were exercised, a total of approximately 103,688 preference shares would be issued. At December 31, 1999, awards for 187,333 ADSs were exercisable under the FMC Plan with a weighted average exercise price of $ 76.03 per share.

During 1998, the Company adopted two new stock incentive plans ("FMC 98 Plan 1" and "FMC 98 Plan 2") for FMC's key management and executive employees. Under FMC 98 Plan 1, eligible employees have the right to acquire preference shares of the Company. Grants for these rights (the "Grants") under FMC 98 Plan 1 will be evidenced by a non-transferable convertible bond and corresponding non-recourse loan to the employee, secured solely by the bond with which it was made. The bonds mature in ten years and are generally fully convertible after three or five years. Each convertible bond, which is DM denominated, entitles the holder thereof, upon payment of a conversion price equal to the fair market value of the preference shares one day after the grant date, to convert the bond into a number of preference shares equal to the face amount of the bond divided by the preference shares' nominal value (DM 5 per preference share). FMC 98 Plan 1 was amended in 1999 to increase the number of preference shares available for issuance pursuant to grants under FMC 98 Plan 1 by 450,000 shares. The maximum number of preference shares that may be issued under this plan is 1,783,333 less any shares issued, or subject to issue, under the FMC Plan. Any shares available due to forfeiture of Grants under the FMC Plan would be considered available under FMC 98 Plan 1 as long as the total preference shares issued under both plans does not exceed the 1,783,333 shares noted above. During 1998, the Company awarded 1,024,083 Grants with a bond nominal value of DM 5,120,415 and exercisable upon vesting for 1,024,083 preference shares. During 1999, grants for 571,940 preference shares were issued under FMC Plan 1 at an exercise price of € 32.41. During 1999, awards for 140,168 preference shares were forfeited or cancelled under FMC 98 Plan 1. At December 31, 1999, there were 233,812 preference shares for which grants could be issued. Grants for 314,285 preference shares were exercisable under FMC 98 Plan 1 at December 31, 1999.

Under FMC 98 Plan 2, eligible employees will have the right to acquire preference shares (the "Options") of the Company. The share price of the preference share shall be equal to the average of the official daily quotation prices of the preference shares on the Frankfurt Stock Exchange on the thirty days (30) of trading immediately prior to the date of grant of the award. One third of an option vests on each of the second, third and fourth anniversary of the award date, provided that the Company achieves certain performance criteria for the full fiscal year following the grant date in comparison to its performance for the full fiscal year preceding the grant date. The term of FMC 98 Plan 2 is five years and not more than 20 % of the total options available under the plan may be issued in any year. Options granted under FMC 98 Plan 2 have a 10-year term. The maximum number of preference shares that may be issued under this plan is 2,500,000 shares, of which 500,000 are designated for Management Board members and 2,000,000 are for other managerial staff. During 1998, the Company awarded 258,314 options at a weighted average exercise price of € 44.66. During 1999, the Company awarded options under FMC 98 Plan 2 to purchase 296,526 preference shares at a weighted average exercise price of € 32.41. During 1999, awards for 5,850 preference shares were forfeited or cancelled under FMC 98 Plan 2. At December 31, 1999, no options were exercisable under FMC 98 Plan 2.

The following table shows the number of shares available and average price range for each stock options plan:

	Shares in thousands	Average price range in $
FUSA and NMC Plans		
Opening balance at September 30, 1996	333	8.43-46.53
Exercised	35	9.78-41.07
Forfeited	3	36.69-41.07
Exercisable at December 31, 1996	295	8.43-46.53
Exercised	126	9.78-41.07
Forfeited	1	39.06-41.07
Exercisable at December 31, 1997	168	8.43-46.53
Exercised	46	9.78-41.07
Forfeited	1	41.07-41.07
Exercisable at December 31, 1998	121	8.43-46.53
Exercised	45	8.60-41.07
Forfeited	1	19.23-19.23
Exercisable at December 31, 1999	75	9.78-46.53
FMC Plan		
Balance at December 31, 1996	-	
Granted	899	55.59-78.33
Forfeited	72	55.59-78.33
Balance at December 31, 1997	827	55.59-78.33
Forfeited	723	55.59-78.33
Balance at December 31, 1998	104	55.59-78.33
Forfeited	10	55.59-78.33
Balance at December 31, 1999	94	55.59-78.33
FMC Plan 1		
Balance at December 31, 1997	-	
Granted	1.024	40.91-57.29
Balance at December 31, 1998	1.024	40.91-57.29
Granted	572	32.56
Forfeited	140	32.56-57.29
Balance at December 31, 1999	1.456	32.56-57.29
FMC Plan 2		
Balance at December 31, 1997	-	
Granted	258	48.92
Balance at December 31, 1998	258	48.92
Granted	297	34.28
Forfeited	5	34.28-57.29
Balance at December 31, 1999	550	34.28-57.29

Fair Value Stock Options

The per share weighted-average fair value of stock options granted during 1998 was $18.41 on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: expected dividend yield of 1%, risk-free interest rate of 5.56%, expected volatility of 35% and an expected life of 5.3 years.

The per share weighted-average fair value of stock options granted during 1998 was $18.41 on the date of grant using the binominal option-pricing model with the following weighted-average assumptions: expected dividend yield ranging from 1.39% to 2.11%, risk-free interest rate ranging from 3.78% to 4.74%, expected volatility of 35% and an expected life of 5.3 years.

The per share weighted-average fair value of stock options granted during 1997 was $27.82 on the date of grant using the binominal option-pricing model with the following weighted-average assumptions: expected dividend yield 1.0%, risk-free interest rate of 5.0%, expected volatility of 35% and an expected life of 5.3 years.

Had the Company used the Black-Scholes option-pricing model in 1998 and 1997, the per share weighted-average fair value of stock options granted would have been $14.20 and $27.92, respectively.

The Company applies APB Opinion No. 25 in accounting for stock compensation and, accordingly, recognized compensation expense of approximately $517 for stock options granted in 1999. No compensation cost has been recognized in 1998 and 1997 for its stock options in the consolidated financial statements. Prior to 1998, no stock options had been granted which would have resulted in significant compensation costs under SFAS No. 123. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's 1998 net income would have been reduced to the pro forma amounts indicated below:

$ in thousands, except share data	1999	1998	1997
Net (loss)/income			
As reported	(248,544)	19,131	90,162
Effect of FMC Plan benefit/(expense)	(247)	1,726	(4,103)
Effect of FMC 98 Plans (expense)	(2,253)	(2,967)	
Effect of 1999 Option grants	(615)		
Pro forma	(251,659)	17,890	86,059
Basic and diluted net (loss)/income per ordinary share			
As reported	(3.15)	0.20	1.16
Pro forma	(3.19)	0.18	1.11
Preference share			
As reported	(3.15)	0.36	1.21
Pro forma	(3.19)	0.34	1.16

The Company revised its estimates of compensation costs for the FMC Plan due to the large amount of forfeitures and cancellations that occurred in 1998. This resulted in a significant reduction in the pro forma compensation cost for 1998 relating to the FMC Plan. The pro forma compensation cost relating to options still outstanding at December 31, 1998 was $348. This amount has been included in determining the total compensation benefit for the FMC Plan for 1998.

20. Commitments and Contingencies

The Company was formed as a result of a series of transactions pursuant to the Agreement and Plan of Reorganization (the "Merger") dated as of February 4, 1996. The Company may be subject to certain liabilities with respect to pre-Merger matters that are not related to NMC operations. However, in connection with the Merger W.R. Grace & Co. Connecticut ("Grace Chemicals") agreed to indemnify the Company and NMC against all liabilities of the Company and its successors, whether relating to events occurring before or after the Merger, other than liabilities arising from or relating to NMC operations. The Company believes that in view of the nature of the non-NMC liabilities on Grace Chemicals' current financial position, the current risk of significant loss from non-NMC liabilities is remote. However, there can be no assurance that Grace Chemicals' financial position will not deteriorate or that the Company will be able to collect on the indemnity from Grace Chemicals.

Were events to violate the tax-free nature of the Merger, the resulting tax liability would be the obligation of the Company. Subject to representations by Grace Chemicals, the Company, and Fresenius AG, Grace Chemicals has agreed to indemnify the Company for such a tax liability. If the Company was not able to collect on the indemnity, the tax liability would have a material adverse effect on the Company's business, the financial condition of the Company and the results of operations.

Operating Leases

The Company leases buildings and machinery and equipment under various lease agreements expiring on dates through 2010. Rental expense recorded for operating leases for the years ended December 31, 1999, 1998, and 1997 was $160,624, $122,459, and $99,429, respectively.

In September 1997, FUSA amended a sale and leaseback arrangement with a bank that covers the sale by FUSA of approximately $40,100 of certain new equipment of FUSA's dialyzer manufacturing facility at its Ogden, Utah plant. The agreement has an expiration date of January 1, 2010, with renewal options and a purchase option. If FUSA elects not to purchase the equipment or renew the lease at the end of the lease term, FUSA will be obligated to pay a remarketing fee of up to $1,350.

Future minimum rental payments under noncancelable operating leases for the five years succeeding December 31, 1999 are ($ in thousands):

2000	139,306
2001	129,358
2002	104,732
2003	91,139
2004	109,570
Thereafter	135,000
	709,105

Legal Proceedings

Settlement of the U.S. Government Investigation

Since 1995, National Medical Care and certain of its subsidiaries had been the subject of an investigation by the Office of Inspector General of the United States Department of Health and Human Services, the United States Attorney for the District of Massachusetts and other government authorities concerning possible violation of federal laws, including the anti-kickback statute and the False Claims Act.

On January 18, 2000, Fresenius Medical Care Holdings, National Medical Care and certain affiliated companies executed definitive agreements with the U.S. government to settle the matter covered in the government investigations and National Medical Care's claim with respect to approximately $153.5 million of outstanding Medicare accounts receivable for intradialytic parenteral nutrition therapy provided on and before December 31, 1999. The settlement was approved by the United States District Court of Massachusetts on February 2, 2000.

Under the settlement agreements, the Company will make a net settlement payment to the U.S. government of approximately $427.1 million. These amounts comprise:

- an initial payment to the government of approximately $286.4 million paid in February, 2000.
- additional installment payments over the next eighteen months following court approval totaling approximately $186.3 million; and
- payments previously made to the government under the government's voluntary disclosure program totaling approximately $13.6 million; less
- installment payments to be made by the government to Fresenius Medical Care Holdings over the eighteen months following court approval totaling approximately $59.2 million related to the intradialytic parenteral nutrition therapy accounts receivable claims.

The government payments bear interest on unpaid amounts at 7.5% per annum. Interest on installment payments payable to the government will accrue at 6.3% on $51.2 million of the installment payments and at 7.5% annually on the balance of the installment payment, until paid in full. As security for the Company's obligations under the settlement agreement, a $150 million letter of credit that was issued to the government in 1996 has been amended to increase the amount available for drawing under the letter of credit to $189.6 million. The maximum drawing amount will be reduced over time as Fresenius Medical Care Holdings makes installment principal payments to the government.

The Company anticipates that the net cash outflow resulting from the settlement agreements will be approximately $265.5 million. This amount reflects the anticipated receipt of the account receivable payment from the government, the tax benefit of a special charge the Company recorded in connection with the settlement, which is discussed below, and the payment terms of the net settlement amount. The Company expects to realize the cash impact of the tax benefit over the next eighteen months.

The Company believes it will have sufficient cash flows from continued operations and borrowing capacity under its senior credit agreement to make the settlement payments in accordance with the settlement agreements. The Company also believes that following these payments, the Company will continue to have sufficient funds available for both our day-to-day operations and our anticipated growth.

In anticipation of the settlement, a pre-tax charge totaling $590 million ($412 million net of taxes) was recorded against consolidated earnings in the three month period ended September 30, 1999. The Company recorded an additional $11 million in the three-month period ended December 31, 1999 to reflect the reduction in anticipated payments from the government for the resolution of the intradialytic parenteral nutrition therapy receivable claims. These charges will cover the payment of the net settlement amount, a $94.3 million write-off of the remaining nutrition therapy accounts receivable, and other related costs.

In December 1999, the senior credit agreement was amended to enable the Company to continue in compliance with the financial ratios upon consummation of the settlement.

The government investigations covered the following areas:

- National Medical Care's dialysis services business, principally relating to its Medical Director contracts and compensation;
- National Medical Care's treatment of credit balances resulting from overpayments received under the Medicare, Medicaid, TriCare and other government programs, NMC Medical Products, Inc.'s billing for home Dialysis Products, and National Medical Care's payment of supplemental medical insurance premiums on behalf of indigent patients;
- LifeChem, Inc.'s laboratory business, including testing procedures, marketing, customer relationships, competition, overpayment that were received by LifeChem, Inc. from the Medicare program, a 1997 review of dialysis facilities' standing orders, and the provision of discounts on products from NMC Medical Products, Inc, grants, equipment and entertainment to LifeChem, Inc.'s customers;
- NMC Homecare, Inc.'s intradialytic parenteral nutrition therapy business and, in particular, information concerning utilization of intradialytic parenteral nutrition therapy, documentation of claims and billing practices including various services, equipment and supplies, and payments made to third parties as compensation for administering intradialytic parenteral nutrition therapy; and
- billing for certain Doppler flow and bio-impedance analysis tests performed in clinical studies.

As a result of the settlement, National Medical Care's subsidiaries, Lifechem, Inc., NMC Homecare, Inc. and NMC Medical Products, Inc. pled guilty to certain violations of federal law. The plea agreements impose a total of $101 million in federal criminal fines, which have been included in net settlement amount described above. As a consequence of these guilty pleas, these subsidiaries will be excluded effective March 31, 2000 from further participation in federally funded health care program, including Medicare, Medicaid and TriCare.

The Company believes that these exclusions will not materially impact the Company providing or receiving payment for the products and services that the excluded subsidiaries provided, as other subsidiaries will continue to provide these products and services and are qualified to participate in federal health care programs. With the exception of the three guilty pleas, the Company was advised in connection with the settlement that the government had declined criminal prosecution of FMC and its subsidiaries, with respect to all aspects of the government investigations and that there was no pending federal criminal investigation of Fresenius Medical Care Holdings. Further, with respect to the settlement, the government released Fresenius Medical Care Holdings from civil liability for all of the conduct described in the settlement agreements. The government also advised the Company that, with the limited exception described below, the government had no current investigation and no intention of initiating an investigation in connection with any conduct that had been the subject of the government investigations. The continued effectiveness of these releases is subject to the Company satisfying all payment obligations under the settlement agreements. There have been allegations recently raised by private parties against Fresenius Medical Care Holdings, including matters which have been previously investigated by the government in the course of the government investigation and resolved without a finding of liability against Fresenius Medical Care Holdings. The government has reserved the right to investigate elements of these allegations that have not previously been investigated. While there can be no assurance, the Company believes that the resolution of these recent allegations will not have a material adverse impact on the business, financial position and results of operations.

"Whistleblower" actions are filed under seal as a matter of law in the first instance, thereby preventing disclosure to the Company and to the public, except by court order. The Company and its subsidiaries may be the subject of other "whistleblower" action not known, or which have not yet been unsealed. The resolution of any such action could have a material adverse impact on our business, financial condition and results of operations.

With one exception, each of the qui tam or "whistleblower" actions which served as the basis for the government investigation have been dismissed as a result of the settlement. The exception is a portion of a qui tam proceeding filed in the United States District Court for the Middle District of Tennessee on December 15, 1994. That action was transferred to the United Stated District Court for the District of Massachusetts in 1995, and disclosed to the Company in September 1999. The portion of this qui tam action that will not be dismissed as a result of the settlement alleges, among other things, that the Company violated the Medicare and Medicaid Anti-kickback Statute by providing discounted hemoDialysis Products to induce the purchase of laboratory services. In the settlement agreement, the U.S. government declined to continue to pursue further the investigation or prosecution of these allegations. The government and the current and former employees who filed this qui tam action, called "relators", offered to dismiss this portion of this qui tam action in connection with the settlement. However, this offer required that the Company grant a full release of all of its claims against the relators, and the Company is unwilling to do so. While there can be no assurance, the Company believes that the resolution of these remaining allegations will not have a material adverse impact on the business, financial position and results of operations.

The settlement does not extend to any current or former employees of National Medical Care or its subsidiaries, including those who have been, or may be, indicted in connection with the government investigations.

In connection with the settlement, Fresenius Medical Care Holdings entered into an eight-year Corporate Integrity Agreement dated January 18, 2000 with the government. During the term of this agreement, Fresenius Medical Care Holdings is required, among other things, to ensure that its current compliance program includes at least the following:

- a written code of conduct;
- compliance training program, compliance policies and procedures relating to the areas covered by the government investigation;
- screening of employees and others for eligibility to participate in federal health care programs;
- annual audits by an independent review organization;
- a confidential disclosure program; and
- periodic reporting to the government.

The Corporate Integrity Agreement provides for penalties of up to $2,500 per day for each day during which Fresenius Medical Care Holdings fails to satisfy its obligations under the agreement. The Corporate Integrity Agreement permits the government to exclude Fresenius Medical Care Holdings and its subsidiaries from participation in federal health care programs if a material breach of the agreement occurs and is not corrected by Fresenius Medical Care Holdings within thirty days after Fresenius Medical Care Holdings receives written notice of the breach. The Company derives a substantial portion of its consolidated revenue from U.S. federal health care benefit programs. Consequently, a material breach by Fresenius Medical Care Holdings of the Corporate Integrity Agreement that results in the exclusion of Fresenius Medical Care Holdings or its subsidiaries from continued participation in federal health care programs would have a material adverse effect on its business, financial condition and result of operations.

The foregoing discussion of the settlement, the settlement agreements, the plea agreements and the Corporate Integrity Agreement describes the material terms of the agreement but is not complete and is qualified in its entirety by reference to the full text of the agreements. These agreements have been filed as exhibits to the Company and Fresenius Medical Care Holdings' periodic reports to the Securities and Exchange Commission.

Other Legal Proceedings

District of New Jersey Investigation

National Medical Care had received multiple subpoenas from a federal grand jury in the District of New Jersey investigating, among other things, whether National Medical Care sold defective products, the manner in which National Medical Care handled customer complaints and certain matters relating to the development of a new dialyzer product line. National Medical Care cooperated with this investigation and provided the grand jury with extensive documents. In February, 1996, National Medical Care received a letter from the U.S. Attorney's Office for the District of New Jersey indicating that it was the target of a federal grand jury investigation into possible violation of criminal law in connection with its efforts to persuade the Food and Drug Administration to lift a January 1991 import hold issued with respect to National Medical Care's Dublin, Ireland manufacturing facility. In June 1996, National Medical Care received a letter from the U.S. Attorney for the District of New Jersey indicating that the U.S. Attorney had declined to prosecute National Medical Care with respect to a submission related to National Medical Care's effort to lift the important hold. The letter added that National Medical Care remains a subject of a federal grand jury's investigation into other matters. National Medical Care also produced documents in response to a June 1996 subpoena from the federal grand jury requesting certain documents in connection with National Medical Care's imports of the Focus® dialyzer from January 1991 to November 1995. Pursuant to a plea agreement entered into with the U.S. Attorney for the District of New Jersey and the Food and Drug Administration, National Medical Care's subsidiary, NMC Medical Products, Inc. in December 1999 pled guilty to two misdemeanor violations of the Federal Food, Drug and Cosmetic Act, and agreed to pay the U.S. government $3.8 million. The U.S. District Court for the District of New Jersey approved the terms of the plea agreement and the judgement has been satisfied by payment of the $3.8 million.

Under the terms of the plea agreement, NMC Medical Products has been released, together with National Medical Care and its related entities and their present officers, directors and employees, from any further civil or criminal liability with respect to all matters investigated by the U.S. Attorney's Office for the District of New Jersey, including the matters described above, or arising out of Food and Drug Administration inspection of NMC Medical Products' facilities prior to October 20, 1995. The $3.8 million paid in January 2000 pursuant to this agreement does not constitute part of the $427.1 million in net payments relating to the settlement of the U.S. government investigation.

Commercial Insurer Litigation

In 1997, Fresenius Medical Care Holdings, National Medical Care, and certain named National Medical Care subsidiaries, were served with civil complaint filed by Aetna Life Insurance Company in the U.S. District Court for the Southern District of New York. Based in large part on information contained in prior reports filed by Fresenius Medical Care Holdings with the Securities and Exchange Commission, the lawsuit alleges inappropriate billing practices for nutritional therapy, diagnostic and clinical laboratory tests and misrepresentations. In April 1999, Aetna amended its complaint to include its affiliate, Aetna U.S. Healthcare, Inc., as an additional plaintiff, and to make certain other limited changes in its pleading. The amended complaint seeks unspecified damages and costs. In February 2000, the Company was served with a similar complaint filed by Connecticut General Life Insurance Company, Equitable Life Assurance Society of the United States, Cigna Employer Benefits Services, Inc. and Guardian Life Insurance Company of America, Inc. *(Connecticut General Life Insurance Company et al v. National Medical et al, 00-CIV-0932)* seeking unspecified damages. However, Fresenius Medical Care Holdings, National Medical Care and its subsidiaries believe that there are substantial defenses to the claim asserted, and intend to vigorously defend the lawsuits. Other private payors have contacted Fresenius Medical Care Holdings and may assert that National Medical Care received excess payment and similarly, may join the lawsuit or file their own lawsuit seeking reimbursement and other damages from National Medical Care. An adverse result could have a material adverse effect on the Company's business, financial condition and result of operations.

In May 1999, Fresenius Medical Care Holdings filed counterclaims against Aetna Life Insurance Company and Aetna U.S. Healthcare, Inc. based on inappropriate claim denials and delays in claim payments. Fresenius Medical Care Holdings is investigating similar counterclaims against other private payors that have filed a complaint or contacted them. An adverse result of these litigations could have a material adverse effect on the Company's business, financial position and results of operations. The settlement of the U.S. government investigations does not resolve these proceedings and claims. The ultimate outcome and impact on the Company of these proceedings cannot be predicted at this time.

OBRA 93

The Omnibus Budget Reconciliation Act of 1993 affected the payment of benefits under Medicare and employer health plans for dual-eligible ESRD patients. In July 1994, the Health Care Financing Administration issued an instruction to Medicare claims processors to the effect that Medicare benefits for the patients affected by that act would be subject to a new 18-month "coordination of benefits" period. This instruction had a positive impact on National Medical Care's dialysis revenues because, during the 18-month coordination of benefits period, patients' employer health plans were responsible for payment, which was generally at rates higher than those provided under Medicare.

In April 1995, the Health Care Financing Administration issued a new instruction, reversing its original instruction in a manner that would substantially diminish the positive effect of the original instruction on National Medical Care's dialysis business. The Health Care Financing Administration further proposed that its new instruction be effective retroactive to August 1993, the effective date of the Omnibus Budget Reconciliation Act of 1993.

National Medical Care ceased to recognize the incremental revenue realized under the original instruction as of July 1, 1995, but it continued to bill employer health plans as primary payors for patients affected by the Omnibus Budget Reconciliation Act of 1993 through December 31, 1995. As of January 1, 1996, National Medical Care commenced billing Medicare as primary payor for dual eligible ESRD patients affected by the act, and then began to re-bill in compliance with the revised policy for services rendered between April 24 and December 31, 1995.

On May 5, 1995, National Medical Care filed a complaint in the U.S. District Court for the District of Columbia *(National Medical Care, Inc. and Bio-Medical Applications of Colorado, Inc. d/b/a Northern Colorado Kidney Center v. Shalala, C.A. No.95-0860)* (WBB) seeking to preclude the Health Care Financing Administration from retroactively enforcing its April 24, 1995 implementation of the Omnibus Budget Reconciliation Act of 1993 provision relating to the coordination of benefits for dual eligible ESRD patients. On May 9, 1995, National Medical Care moved for a preliminary injunction to preclude the Health Care Financing Administration from enforcing its new policy retroactively, that is, to billing for services provided between August 10, 1993 and April 23, 1995. On June 6, 1995, the court granted National Medical Care's request for a preliminary injunction and in December of 1996, National Medical Care moved for partial summary judgment seeking a declaration from the Court that the Health Care Financing Administration's retroactive application of the April 1995 rule was legally invalid. The Health Care Financing Administration cross-moved for summary judgement on the grounds that April 1995 rule was validly applied prospectively.

In January 1998, the court granted National Medical Care's motion for partial summary judgment and entered a declaratory judgement in favor of National Medical Care, holding the Health Care Financing Administration's retroactive application of the April 1995 rule legally invalid. Based on its finding, the Court also permanently enjoined the Health Care Financing Administration from enforcing and applying the April 1995 rule retroactively against National Medical Care. The Court took no action on the Health Care Financing Administration's motion for summary judgement pending completion of the outstanding discovery. On October 5, 1998, National Medical Care filed its own motion for summary judgement requesting that the Court declare the Health Care Financing Administration's prospective application of the April 1995 rule invalid and permanently enjoin Health Care Financing Administration from prospectively enforcing and applying the April 1995 rule. The Court has not yet ruled on the parties' motions. The Health Care Financing Administration elected not to appeal the Court's June 1995 and January 1998 orders. The Health Care Financing Administration may, however, appeal all rulings at the conclusion of the litigation. If the Health Care Financing Administration should successfully appeal so that the revised interpretation would be applied retroactively, National Medical Care may be required to refund the payment received from employer health plans for services provided after August 10, 1993 under the Health Care Financing Administration's original implementation, and to re-bill Medicare for the same services, which would result in a loss to National Medical Care of approximately $120 million attributable to all periods prior to December 31, 1995. Also, in this event, the business, financial condition and results of operations would be materially adversely affected. The settlement of the U.S. government investigation does not resolve these proceedings and claims.

Administration Appeals

National Medical Care and its subsidiaries regularly pursue various administrative appeals relating to reimbursement issues in connection with their dialysis facilities. One such appeal consists of a challenge to the Medicare regulation which capped reimbursement for the bad debts incurred by dialysis facilities. In 1998, the U.S. Court of Appeals for the District of Columbia ruled favorably in connection with the bad debt issue, holding that the Secretary of Health and Human Services had not adequately justified the bad debt regulation, and ruling that the government's order adopting the rule was arbitrary and capricious. The Court of Appeals remanded the matter to the Secretary to provide a more adequate explanation of the bad debt cap or to abandon it. Subsequently, the Court modified its holding to continue the bad debt regulation in effect pending remand. Accordingly, the Company has revised its estimate of recoveries for the previously disallowed bad debt expense associated with the regulation. The Company has reached an agreement with the Health Care Financing Administration to resolve this matter. Pursuant to the agreement the Health Care Financing Administration paid the Company $20.9 million in February 2000.

State of Florida

In October 1999, National Medical Care received an Antitrust Civil Investigative Demand ("CID") from the Attorney General of the State of Florida ("Florida AG"). The CID was issued by the Florida AG in the course of an investigation to determine whether there is, has been, or may be a violation of federal and Florida laws resulting from the possible monopolization of, or the entering into agreement in restraint of, trade relating to the provision of dialysis products and services in Florida.

The Company is cooperating with the Florida AG's investigation by providing documents and other information to them. The impact of this investigation on the business and financial condition, if any, cannot be determined at this time.

Other Litigation and Potential Exposures

In recent years, physicians, hospitals and other participants in the health care industry have become subject to an increasing number of lawsuits alleging professional negligence, malpractice, product liability, worker's compensation or related claims, many of which involve large claims and significant defense costs. The Company has been subject to these suits due to the nature of its business and expects lawsuits of those types to continue from time to time. Although the Company maintains insurance at a level which is believed to be prudent, the Company cannot assure that the coverage limits will be adequate or that all asserted claims will be covered by insurance. In addition, there can be no assurance that liability insurance will continue to be available at acceptable costs. A successful claim against the Company or any of its subsidiaries in excess of insurance coverage could have a material adverse effect on the results of operations.

The Company operates a large number and wide variety of facilities throughout the U.S. In such a decentralized system it is often difficult to maintain the desired level of oversight and control over the thousands of individuals employed by many affiliated companies. The Company relies upon management structure, regulatory and legal resources, and the effective operation of its compliance program to direct, manage and monitor the activities of these employees. However, on occasion, the Company has identified instances where employees, deliberately or inadvertently, have submitted inadequate or false billing while employed by an affiliated company. The illegal action of such persons may subject the Company to liability under the False Claims Act, among other laws, and the Company cannot predict whether such law enforcement authorities may use such information to initiate further investigations of the business practice disclosed or any of the Company's other business activities.

21. Financial Instruments

Market Risk

The Company is exposed to market risk from changes in interest rates and foreign exchange rates. In order to manage the risk of interest rate and currency exchange rate fluctuations, the Company enters into various hedging transactions with investment grade financial institutions as authorized by the Company's Management Board. The Company does not use financial instruments for trading purposes.

Foreign Exchange Risk Management

The Company conducts business on a global basis in several international currencies. As such, it is exposed to movements in foreign currency exchange rates. The Company enters into foreign exchange forward and option contracts to reduce certain currency exposures. The Company hedges only those currency exposures associated with certain nonfunctional currency assets and liabilities.

Gains and losses on the contracts are included in other income and offset foreign exchange gains or losses from the revaluation of intercompany balances or other current assets and liabilities denominated in currencies other than the functional currency of the reporting entity. The Company's forward currency contracts generally range from 1 to 24 months in original maturity. Foreign exchange contracts outstanding, their unrealized gains and losses and the related credit exposure of all contracts with unrealized gains as of December 31, 1999 are summarized as follows:

$ in thousands	Contract Amount	Unrealized Gain/ (Loss)	Credit Exposure
Purchases of currencies against Dollar			
Forward contracts	92,440	(3,843)	91
Option contracts	2,512	(155)	12
Total	**94,952**	**(3,998)**	**103**
Sales of currencies against Dollar	5,344	(185)	3
Sales of currencies against Euro	65,394	(10,597)	78
Purchases of currencies against Euro	17,609	(1)	97
Total	**183,299**	**(14,781)**	**281**

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

Interest Rate Risk Management

The Company enters into derivatives, particularly interest rate swaps, to protect interest rate exposures arising from long-term and short-term borrowings and accounts receivable securitization programs at floating rates by effectively swapping them into fixed rates. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed nominal principal amount.

The Company also enters into forward starting derivatives, including an interest rate collar agreement to reduce the impact of changes in interest rates on its floating-rate long-term debt. No premiums were paid or received for the interest rate collar agreement.

Interest rate hedging contracts outstanding as of December 31, 1999 and 1998 are summarized in the following table.

$ in thousands	1999		1998	
	Nominal Amount	Credit Exposure	Nominal Amount	Credit Exposure
Interest rate swaps	1,350,000	3,766	1,350,000	-
Forward starting interest rate derivatives	250,000	7,612	250,000	-

The nominal amounts of derivatives do not represent amounts exchanged by the parties and, thus, are not a measure of credit exposure. The amounts exchanged are determined by reference to the nominal amounts and the other terms of the derivatives.

FMC is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments but does not expect any counterparties to fail to meet their obligations. The current credit exposure of derivatives is represented by the fair value of contracts with a positive fair value at the reporting date.

The Company had receive-variable/pay-fixed swaps with nominal amounts of $1,450,000 with average pay rates of 6.43% as of December 31, 1999 and 1998.

Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Company's financial instruments at December 31, 1999 and 1998. FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

$ in thousands	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivatives				
Assets				
Cash and cash equivalents	34,760	34,760	31,867	31,867
Receivables	667,739	667,739	590,125	590,125
IDPN receivables	59,151	59,151	151,067	151,067
Liabilities				
Accounts and income taxes payable	361,011	361,011	299,774	299,774
Debt	801,260	801,260	1,127,011	1,127,011
Trust Preferred Securities	964,103	944,044	988,904	1,002,390
Derivatives				
Foreign exchange contracts	(4,384)	(14,783)	4,042	4,042
Swaps and interest rate collars	0	9,242	0	(51,541)

The carrying amounts in the table are included in the statement of financial position under the indicated captions, except for derivative asset amounts, which are included in other assets.

Estimation of Fair Values

The following notes summarize the major methods and assumptions used in estimating the fair values of financial instruments. Short-term financial instruments are valued at their carrying amounts included in the statement of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash and cash equivalents, receivables, and accounts and income taxes payable.

Because of the unique structure of the Company's long-term bank debt which represents borrowings from a syndicated bank credit facility, the long-term bank debt is valued at its carrying amount because the actual drawings under the facility carry interest on a variable basis which reflects the actual money market conditions, plus specific margins which represent Company-related performance ratios as well as the entire set of terms and conditions including covenants as determined in the credit agreement.

The fair value of the Trust Preferred Securities is based upon market quotes.

The fair value of derivatives generally reflects the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts. Dealer quotes are available for all of the Company's derivatives.

22. Business Segment Information

During fiscal year 1998, Fresenius Medical Care AG 1) reorganized its reporting structure to conform to the manner in which the Company is managed and 2) adopted SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 131 establishes the standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services, and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. FMC's chief operating decision maker is the Chief Executive Officer. The accounting policies of the operating segments are the same as those the Company uses in preparing its consolidated financial statements.

Commencing with the period ended March 31, 1999, the Company has identified three segments, North America, International, and Asia Pacific, which were determined based upon how the Company manages its businesses. All segments are primarily engaged in a) providing kidney dialysis and related services and performing related clinical laboratory testing and renal diagnostic services and b) manufacturing and distributing products and equipment for the treatment of end-stage renal disease. The Company has aggregated the International and Asia Pacific operating segments as "International". The segments are aggregated due to their similar economic characteristics. These characteristics include the same products sold, the same type patient population, similar methods of distribution of products and services and similar economic environments.

Management evaluates each segment using a measure that reflects all of the segment's controllable revenues and expenses. Management believes that the most appropriate measure in this regard is earnings before interest and taxes (EBIT). In addition to EBIT, Management believes that earnings before interest, taxes, depreciation and amortization (EBITDA) is helpful for investors as a measurement of the segment's and the Company's ability to generate cash and to service its financing obligations. EBITDA is also the basis for determining compliance with certain covenants contained in the Company's principal senior bank credit agreement and indentures relating to the Trust Preferred Securities. Management has excluded the effects of the special change in the calculation of EBIT and EBITDA in 1999.

EBITDA should not be construed as an alternative to net earnings determined in accordance with generally accepted accounting principles or to cash flow from operations, investing activities or financing activities or as a measure of cash flows. The Company believes its EBIT calculation is the functional equivalent of operating income. Because EBITDA and EBIT are not calculated consistently by all companies, the presentation herein may not be comparable to other similarly titled measures of other companies.

Approximately 40 % of the Company's worldwide revenue is derived from sources subject to regulations under U.S. governmental programs. The Company maintains reserves for losses related to these programs, including uncollectable accounts receivable, and operating losses from such programs have been within Management's expectations.

Information pertaining to the Company's two business segments is set forth below:

$ in thousands	North America	International	Corporate	Total
1999				
Net revenue external customers	2,807,186	1,033,243	–	3,840,429
Inter - segment revenue	4,195	42,853	(47,048)	–
Total net revenue	**2,811,381**	**1,076,096**	**(47,048)**	**3,840,429**
EBITDA	**611,478**	**243,373**	**(10,429)**	**844,422**
Depreciation and amortization	(217,584)	(64,674)	(1,950)	(284,208)
EBIT	**393,894**	**178,699**	**(12,379)**	**560,214**
Segment assets	4,653,058	1,064,108	35,217	5,752,383
Capital expenditure and acquisitions (1)	146,498	124,236	330	271,064
1998				
Net revenue external customers	2,562,603	943,073	–	3,505,676
Inter - segment revenue	2,159	43,476	(45,635)	–
Total net revenue	**2,564,762**	**986,549**	**(45,635)**	**3,505,676**
EBITDA	**548,986**	**227,789**	**(8,813)**	**767,962**
Depreciation and amortization	(214,940)	(62,362)	(1,682)	(278,984)
EBIT	**334,046**	**165,427**	**(10,495)**	**488,978**
Segment assets	4,630,168	961,972	87,279	5,679,419
Capital expenditure and acquisitions (1)	244,788	177,886	761	423,435
1997				
Net revenue external customers	2,156,622	817,747	–	2,974,369
Inter - segment revenue	733	49,540	(50,273)	–
Total net revenue	**2,157,355**	**867,287**	**(50,273)**	**2,974,369**
EBITDA	**456,898**	**192,112**	**(7,686)**	**641,324**
Depreciation and amortization	(199,048)	(50,093)	(1,247)	(250,388)
EBIT	**257,850**	**142,019**	**(8,933)**	**390,936**
Segment assets	4,766,249	730,001	44,783	5,541,033
Capital expenditure and acquisitions	607,193	125,391	2,879	735,463

(1) International acquisitions include $10 million of non-cash acquisitions for 1999 and North America acquisitions include $42 million of non-cash acquisitions for 1998.

$ in thousands	1999	1998	1997
Reconcilation of measures to consolidated totals			
Total EBITDA of reporting segments	854,851	776,775	649,010
Total depreciation and amortization	(284,208)	(278,984)	(250,388)
Special charge for settlement of investigations and related costs	(601,000)	–	–
Corporate expenses	(10,429)	(8,813)	(7,686)
Interest expense	(226,218)	(228,182)	(193,860)
Interest income	8,094	8,641	10,312
Total (loss) income from continuing operations before income taxes, minority interest and cumulative effect of accounting change	**(258,910)**	**269,437**	**207,388**
Total EBIT of reporting segments	572,593	499,473	399,869
Special charge for settlement of investigations and related costs	(601,000)	–	–
Corporate expenses	(12,379)	(10,495)	(8,933)
Interest expense	(226,218)	(228,182)	(193,860)
Interest income	8,094	8,641	10,312
Total (loss) income from continuing operations before income taxes, minority interest and cumulative effect of accounting change	**(258,910)**	**269,437**	**207,388**
Depreciation and amortization			
Total depreciation and amortization of reporting segments	282,258	277,302	249,141
Corporate depreciation and amortization	1,950	1,682	1,247
Total depreciation and amortization	**284,208**	**278,984**	**250,388**
Assets (Dec. 31)			
Total assets of reporting segments	5,717,166	5,592,140	
Corporate assets	35,217	87,279	
Total assets	**5,752,383**	**5,679,419**	

For the geographic presentation, revenues are attributed to specific countries based on the end user's location for products and the country in which the service is provided. Information with respect to the Company's geographic operations is set forth in the table below:

$ in thousands	Germany	United States	Rest of the World	Total
1999				
Net revenue external customers	213,209	2,807,186	820,034	3,840,429
Long - lived assets	83,384	483,872	180,041	747,297
1998				
Net revenue external customers	203,886	2,562,603	739,187	3,505,676
Long - lived assets	105,505	478,801	163,986	748,224
1997				
Net revenue external customers	288,297	2,156,622	529,450	2,974,369

23. Supplementary Cash Flow Information

The following additional information is provided with respect to the Consolidated Financial Statement of Cash Flows:

$ in thousands	1999	1998	1997
Supplementary cash flow information			
Cash paid for interest	215,836	207,944	147,336
Cash paid for income taxes, net	27,954	(1,250)	88,955
Supplementary schedule of non-cash investing and financing activities			
Issuance of debt	9,462	-	-
Issuance of convertible investment securities for acquisitions	-	41,805	67,584
Issuance of preference shares for acquisitions	-	-	34,425
Contributions in kind from Fresenius AG	-	-	3,392
Supplemental disclosures of cash flow information Details for acquisitions			
Assets acquired	124,598	286,413	572,973
Liabilities assumed	13,186	14,331	40,739
Notes issued in connection with acquisition	9,462	41,805	67,584
Preference shares issued in connection with acquisition	-	-	34,425
Contributions in kind from Fresenius AG	-	-	3,392
Cash paid	101,950	230,277	426,833
Less cash acquired	624	7,342	2,234
Net cash paid for acquisitions	**101,326**	**222,935**	**424,599**

24. Subsequent Events

On January 18, 2000, the Company signed a definitive agreement to purchase substantially all the international and non-continental U.S. operations business of Total Renal Care Holdings, Inc. for $ 161 million and the assumption of approximately $ 3 million of debt. The Company will account for the acquisition as a purchase. The excess of the purchase price over the fair value of net tangible assets is estimated to be approximately $ 100 million. The actual amount of goodwill and other intangible assets ultimately recorded may vary from the above estimate as a result of the completion of an evaluation of all assets acquired and liabilities assumed as part of the acquisition. The purchase is expected to be completed during the end of the second quarter 2000.

On March 2, 2000, we issued 8,974,359 non-voting preference shares to a limited number of institutional and other accredited investors in exchange for the investors' interests in Franconia Acquisition LLC ("Franconia"), an entity formed to acquire dialysis clinics and other related businesses. For financial reporting purposes, the transaction will be accounted for as a financing at fair value.

Franconia's principal asset was a cash balance of $ 350 million and the rights to acquire certain dialysis clinics including the Total Renal Care business described above. The investors have agreed not to effect sales or transfers of the preference shares for a period of 24 months after issuance, except as permitted by the contribution agreement. After this period, the investors will have rights to require, under specified conditions, that the Company registers these preference shares for sale under the Securities Act of 1933, as amended, and that the Company provides assistance to them in connection with public offerings of their preference shares outside the United States. The Company intends to use Franconia's cash balance to finance the Total Renal Care acquisition and for other acquisitions.

Report of the Supervisory Board

The Management Board informed the Supervisory Board regularly both in writing and orally about the progress of the business activities, the situation of the Company and important business transactions. On the basis of written and oral reports of the Management Board, the Supervisory Board held a total of eight meetings, and in some cases consulted members of the Boards who were not present in person via video and telephone conferences. In particular, transactions requiring approval were reviewed by the Supervisory Board and discussed with the Management Board. The main topics were the acquisition of dialysis clinics, the results of previous acquisitions and the expansion of the production capacities in Japan. During a full-day meeting in St. Wendel the Supervisory Board viewed the production premises there and received detailed information as to the activities of the Company in the area of R&D. In particular, the Supervisory Board dealt repeatedly and intensively with the negotiations of the Company for settlement of the investigations of the Office of the Inspector General concerning certain business practices of National Medical Care, Inc., which was acquired in 1996, and its subsidiaries. The Supervisory Board did not establish any committees during the reporting period.

The Supervisory Board examined the financial statements, the management report and the proposal for the appropriation of the net profit for the year, in each case for the 1999 financial year. A representative of the auditor was present when the Supervisory Board dealt with these documents. Since the financial statements of the Company are part of the consolidated financial statements of Fresenius Aktiengesellschaft, Bad Homburg v.d.H., and the latter are deemed to be exempting consolidated financial statements pursuant to Section 291 HGB (German Commercial Code), the Company was not obligated to prepare (partially) consolidated financial statements in accordance with the provisions of German commercial law. The accounting, the financial statements and the management report of Fresenius Medical Care AG for the 1999 financial year were audited by KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, elected as auditors by resolution of the shareholders' meeting of June 2, 1999, and commissioned by the Supervisory Board; they bear the unqualified audit certificate. The auditor's reports were submitted to the Supervisory Board. The Supervisory Board noted the auditor's findings with approval. No objections are to be made to the financial statements of Fresenius Medical Care AG, even according to the final result of the review by the Supervisory Board itself.

In its meeting of April 11, 2000, the Supervisory Board approved the financial statements of Fresenius Medical Care AG for the 1999 financial year as submitted by the Management Board, which thereby became final. In accordance with Section 312 AktG (German Stock Corporation Act), the Management Board prepared a report for the 1999 financial year on the relations with affiliated companies. The report contains the Management Board's final statement that Fresenius Medical Care AG in the transactions mentioned in the report has received adequate consideration under the circumstances known to the Management Board at the time when such transactions were carried out and that no other measures within the meaning of Section 312 AktG were taken or omitted. The Supervisory Board has reviewed this report and concurs with the auditor who added the following audit certificate to the report:

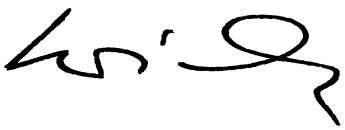
"Following our proper review and judgement, we confirm that (1) the factual statements made in the report are correct, that (2) with respect to the transactions mentioned in the report, the consideration made by the Company was not disproportionate or that any disadvantages have been offset and that (3) regarding the measures reported, no major objections are to be raised to the Management Board's judgement."

According to the final result of the review by the Supervisory Board, no objections are to be raised to the Management Board's final statement as contained in the subordinate status report.

Dr. Eckart O. Ebner resigned from his Supervisory Board seat at the end of 1999. The Supervisory Board thanks Dr. Ebner for his valuable contribution to this board.

The Supervisory Board thanks the Management Board and all the employees for their efforts and achievements in 1999.

Bad Homburg v.d.H., April 11, 2000
The Supervisory Board



Dr. Gerd Krick
Chairman

Dr. Gerd Krick
Chairman of the Supervisory Board

Supervisory Board and Management Board

Supervisory Board

Dr. Gerd Krick

Chairman
Chief Executive Officer of Fresenius AG
Bad Homburg, Germany

Dr. Gerd Krick, 61, has been Chairman of our Supervisory Board since January 1, 1998. Since 1992, he had been Chairman of the Fresenius AG Management Board. Prior to 1992, he was a Director of the Medical Systems Division of Fresenius AG and Deputy Chairman of the Fresenius AG Management Board. From September 1996 until December 1997, Dr. Krick was Chairman of the Management Board of Fresenius Medical Care. Dr. Krick also sits on the Supervisory Boards of Adelphi Capital Management; Dresdner Bank Luxembourg S.A.; Vereinigte Krankenversicherung AG; and is the Chairman of Vamed AG.

Dr. Dieter Schenk

Vice Chairman
Attorney and Tax Advisor, Munich, Germany

Dr. Dieter Schenk, 47, has been Deputy Chairman of our Supervisory Board since 1996. He is an attorney and tax advisor and has been a partner in the law firm of Nörr Stiefenhofer Lutz since 1986. Dr. Schenk is also a member of the Supervisory Board of Fresenius AG and a member and vice-chairman of the Supervisory Board of Greiffenberger AG and a member of the Supervisory Boards of Schmidt Bank KGaA and Feintechnik Eisfeld GmbH.

Stephen M. Peck[1]

Private Investor
New York, USA

Stephen M. Peck, 65, was elected to our Supervisory Board in 1999. He is a private investor and a former managing and special partner of Weiss, Peck & Greer which was founded in 1970. He served as Chief Investment Officer and Director of Reliance Insurance Company, Inc. from January 1986 to July 1988. Mr. Peck is a member of the Board of Directors of Hamischfeger, Inc. and Greyhound Lines, Inc., a member of the Advisory Board of the Torrey Funds, Chairman of the Board of Trustees of the Mount Sinai-NYU Medical Center and Health System and the Mount Sinai School of Medicine. He is also a member of the Board of Trustees of New York University and The Jewish Theological Seminary.

Dr. Bernd Fahrholz

Lawyer
Member of the Management Board of Dresdner Bank AG,
Bad Homburg, Germany

Dr. Bernd Fahrholz, 52, has been a member of our Supervisory Board since 1998. He is an attorney and has been a member of the Management Board of Dresdner Bank AG since 1998. Dr. Fahrholz is also a member of the Supervisory Boards of ASTA Medica AG; BNP-Dresdner European Bank AG; DEGI Deutsche Gesellschaft für Immobilienfonds mbH; Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG; Deutsche Schiffsbank AG (Chairman); Diskont und Kredit AG; dresdnerbank investment management Kapitalanlagegesellschaft mbH; Dresdner Bank Lateinamerika Aktiengesellschaft (Vice Chairman); Dresdner Capital International Kapitalanlagegesellschaft mbH; Dresdner Kleinwort Benson North America Inc.; Dynamit Nobel AG; Kommanditgesellschaft Allgemeine Leasing GmbH & Co. (Chairman); Oldenburgische Landesbank AG; Reuschel & Co.

Walter L. Weisman[1]

Former Chairman of the Board and Chief Executive Officer of American Medical International, Inc., Beverly Hills, USA

Walter Weisman, 64, has been a member of our Supervisory Board since 1996. He is a private investor and a former Chairman and Chief Executive Officer of American Medical International, Inc., which he joined in 1972; he was elected President in 1979 and served as Chief Executive Officer from 1985 to 1988. Mr. Weisman is Vice Chairman of the Board of the California Institute of Technology and Chairman of its Institute Relations Committee, a Trustee of Harvey Mudd College, a Trustee of the Los Angeles County Museum of Art, Chairman of the Board of the Sundance Institute, a Trustee of the Ashland Shakespeare Festival, and a Director of Price REIT, Inc. and Clinical Micro Sensors, Inc.

Dr. Theo Spettmann

Spokesman of the Management Board of Südzucker AG,
Mannheim/Ochsenfurt, Germany

Dr. Theo Spettmann, 55, has been a member of our Supervisory Board since April 1, 2000. He has been a member of the Management Board of Südzucker AG since 1988 and spokesman of the Management Board of Südzucker AG since 1995.

[1] Independent Director

Management Board

Dr. Ben Lipps

Chairman and Chief Executive Officer
Chief Executive Officer for North America
Boston, Massachusetts, USA

Dr. Ben Lipps, 59, was appointed Chairman of the Management Board effective May 1, 1999. He has been Vice Chairman of Fresenius Medical Care AG's Management Board since September 1998 and has been President, Chief Executive Officer and a Director of Fresenius Medical Care Holdings, Inc. since 1996. Prior to September 1996 Dr. Lipps served as President, Chief Executive Officer, Chief Operating Officer and a Director of Fresenius USA, Inc. ("FUSA") and in various executive capacities with FUSA's predecessor. Dr. Lipps joined Dow Chemical Company in 1966 and led the research team that developed the first hollow fiber dialyzer. Prior to joining FUSA's predecessor, Dr. Lipps was Vice President of Research and Development for Cordis Dow Corporation.

Roberto Fusté

Chief Executive Officer for Asia-Pacific
Hong Kong, China

Mr. Roberto Fusté, 47, was appointed to the Management Board of Fresenius Medical Care AG effective January 1, 1999. Mr. Fusté is responsible for the Asia-Pacific area, for which he assumed responsibility in 1998. His business office is in Hong Kong.

Mr. Fusté joined Fresenius in 1991 when Fresenius acquired Nephrocontrol S.A., a Spanish company which he founded in 1985 and of which he was Managing Director and joint owner. After the company was acquired by Fresenius, he continued as Managing Director. In 1995, he joined the Head Office of Fresenius where he has held various executive positions.

Dr. Emanuele Gatti

Chief Executive Officer for Europe, Latin America,
Middle East and Africa
Bad Homburg, Germany

Dr. Emanuele Gatti, 44, has been a member of the Management Board of Fresenius Medical Care AG since May 1997 and is President and Chief Executive Officer of Europe, Latin America, Middle East and Africa within the International segment. Previously he was Executive Vice President with responsibility for the dialysis business in Southern Europe. Dr. Gatti joined the Fresenius Group in 1989 when the Italian company Sis-Ter, of which he was the General Manager, was acquired by Fresenius AG. He has worked in the field of dialysis since 1981 after leaving the Polytechnic School of Milan where he was involved in teaching and biomedical research.

Internal mandates:
Fresenius Medical Care France S.A.
Centre d'Hémodialyse du Languedoc Méditerranéen S.A.
Centre Néphrologique d'Occitanie S.A.
NephroCare France S.A.
Fresenius Medical Care Magyarország Egészségügyi Kft.
Fresenius Medical Care Dializis Center Egészségügyi Kft.
Magyar-Med Egészségügyi Kft.

Dr. Werner Brandt

Chief Financial Officer
Munich, Germany

Dr. Werner Brandt, 46, has been Chief Financial Officer and Labor Relations Director of Fresenius Medical Care AG since May 1999. Prior to this, he was a member of the management team at Baxter Germany GmbH for six years. During his tenure with Baxter, he assumed additional responsibility in 1996 as Vice President Finance for Baxter's European operation. Prior to 1993, he was with Price Waterhouse GmbH in Stuttgart, Germany.

Internal mandates:
Fresenius Medical Care France S.A.
Centre d' Hémodialyse du Languedoc Méditerranéen S.A.
Centre Néphrologique d'Occitenie S.A.
NephroCare France S.A.

Glossary

Products and Services of Fresenius Medical Care

AutoPRIME™
Option for the 4008 dialysis machine enabling online priming and rinsing of the extracorporeal circuit and online bolus infusion, i.e. infusion of a defined volume, with sterile fluid obtained by filtration of the dialysis fluid.

bi*b*ag®
Flexible bag containing dry bicarbonate powder to support online production of dialysis fluid with high microbiological quality.

Bicarbonate concentrate
Basic concentrate for bicarbonate hemodialysis.

BioAdequacy™
Approach designed to give dialysis patients the best possible care on the basis of biocompatible products and procedures. BioAdequacy™ aims to increase life expectancy and to improve the quality of life of patients with kidney failure.

Biofine®
Polyolefine material developed by Fresenius, used to produce foils, tubings and other components.

Blood Temperature Monitor™ (BTM™)

Module for the hemodialysis machine to measure the blood temperature and actively control the body temperature of dialysis patients.

Blood Volume Monitor™ (BVM™)
Module for the hemodialysis machine to measure the relative blood volume and actively control fluid removal from the patient in order to reduce the occurrence of severe complications during dialysis treatment.

DIASAFE®
Filter for the purification of dialysis fluid during hemodialysis to obtain ultrapure dialysis fluid.

DIASAFE® *plus*
Optimized filter with a new design and increased retention capacity for water-borne microbial contaminants.

European Clinical Database (EuCliD)
Multi-language database for the collection of clinical data of all patients treated in our clinics in Europe. The collected data is held in strict confidentiality, and by virtue of this fact the database has the authorities' approval.

F10HPS
Low-flux hemodialyzer with an extra large surface area combining unsurpassed blood compatibility and outstanding clearances of small uremic toxins.

FINESSE™
The Flexible Integrated Network System FINESSE™ covers the full range of data management in dialysis units. It includes automatic data transfer from and to medical devices and offers fully windows-based software applications for data acquisition and data storage.

Freedom™ Cycler PD-PLUS
Automated cycling machine used to provide peritoneal dialysis therapy; can be used with the IQcard™.

Fresenius Polysulfone® dialyzer
Dialyzer containing the unique Fresenius Polysulfone® membrane.

GENIUS®
Innovative hemodialysis system based on a single-pass batch system. The dialysate is prepared as one batch individually for each treatment.

H*d*F100S
Large surface area hemodiafilter suited especially for convective therapies with high exchange volumes.

HF80S
Large surface area hemodialyzer designed to maximize the dose of dialysis.

HyperCare
Electronic medical record system for ESRD clinic management. The *HyperCare* information technology product includes software, server hardware, personal computer hardware, peripherals, networks, support, service and training.

IQcard™
The IQcard™ is used with the Freedom™ Cycler PD-PLUS to monitor every minute of automated peritoneal dialysis therapy. Provides integrated data for patient evaluation and research models.

Laboratory Information Access (Lia®)
The most advanced ESRD laboratory data management system in the dialysis industry, applying computer technology to the delivery and analysis of laboratory results.

Microbiological Quality Service (MQS)
System to comprehensively monitor the microbiological quality of all fluids used for dialysis, from water to dialysate, to assure safety and outcome quality of the dialysis treatment in dialysis clinics. This additional service complements our activities in the area of water treatment devices and strengthens our leadership in quality management.

On-line Clearance (OLC)/On-line Clearance Monitor (OCM)
Optional component of a hemodialysis machine to measure online the effective in vivo dialyzer clearance for quality assurance purposes.

ONLINE*plus*™ system
A newly introduced system for our 4008 series hemodialysis machines to perform online hemodiafiltration (HDF) and online hemofiltration. Infusion fluid is prepared from dialysate by filtration in a convenient and cost-effective way.

PatientOnLine
An information management system for peritoneal dialysis to evaluate and define prescriptions as well as to organize, store and access patient information and images.

PD-PLUS™ therapy
Special form of Automated Peritoneal Dialysis (APD) where cycler-supported nocturnal dialysate exchanges are combined with a dialysate exchange during the daytime.

Premier™ Plus Double Bag
System of continuous ambulatory peritoneal dialysis (CAPD) in which the solution bag and the tubing are pre-attached, resulting in fewer connections and easier user interface for the patient.

Remote Order Entry (ROE)
An enhancement to Spectra Renal Management's Lia® laboratory reporting software for the U.S. that will allow clients to communicate in a completely paperless system, in real time, with Spectra's laboratories regarding all laboratory specimen orders and reports.

sleep•safe™
New automated peritoneal dialysis system offering the full range of peritoneal dialysis options and a maximum of safety and comfort for the patient, physician and nurse.

stay•safe®
Completely PVC-free peritoneal dialysis system that is biocompatible, safe and environmentally friendly.

***stay•safe®* balance**
Lactate-buffered peritoneal dialysis solution in a two-compartment bag which is offered in the *stay•safe®* system. After mixing of the two compartments, the ready-to-use solution has a physiological pH and a highly reduced amount of glucose degradation products.

Vascular Access Flow (Q) Program
Compromised vascular access flow has been recognized as the single most sensitive indicator of pending access failure. If the integrity of the access to the bloodstream fails, hemodialysis cannot occur. The main cause of compromised access flow is blockage or stenosis at the venous anastomosis. The (Q) program was developed to incorporate measurement of volume flow (Q) as well as visualization of the venous anastomosis using mobile ultrasound technology.

Healthcare and Dialysis Related Terms

Anemia
Reduced oxygen transport capacity of the blood, measured as reduced content of hemoglobin in the blood.

Automated Peritoneal Dialysis (APD)
Machine (cycler) supported version of peritoneal dialysis treatment usually performed during the night.

Arterio-venous (AV) fistula
An arterio-venous fistula is a direct, surgically created communication between a patient's artery and a vein. This communication forms a large blood vessel to continuously supply an increased blood flow for performing hemodialysis.

Biocompatibility
Quality of a material, device, system or solution that avoids any adverse reaction in the patient.

Bloodlines
System of tubes connecting the patient's blood circulation with the dialyzer during dialysis treatment.

CE certification
Mark which signifies compliance with the directives of the European Union.

Clearance
A quantitative parameter to describe dialyzer performance in terms of uremic toxin removal.

Continuous ambulatory peritoneal dialysis (CAPD)
A treatment method of peritoneal dialysis. The peritoneal dialysis solution is exchanged manually, generally four times per day.

Convective therapies
Therapies such as hemofiltration (HF) or hemodiafiltration (HDF) using high ultrafiltration fluxes to improve the removal of high molecular weight solutes.

Dialysate
Fluid used in the process of dialysis.

Dialysis
Form of renal replacement therapy where a semi-permeable membrane - in peritoneal dialysis the peritoneum of the patient, in hemodialysis the membrane of the dialyzer - is used for solute transport.

Dialyzer
Special filter used in hemodialysis for removing toxic substances and excess water from the blood. It is sometimes referred to as the 'artificial kidney'.

ESRD (end-stage renal disease)
Terminal kidney failure accompanied by long-term complications such as renal anemia, hypertension and other cardiovascular problems, bone disease, loss of appetite and malnutrition.

Erythropoietin (EPO)
Protein that stimulates red blood cell production. Recombinant human EPO is commonly prescribed to patients on dialysis who suffer from anemia.

Health Maintenance Organization (HMO)
Special form of private health insurance in the U.S. where the insured persons are members, and the treatments are provided by contracted physicians (or member physicians) of the organization.

Hemodiafiltration (HDF)
Special mode of ESRD treatment, combining advantages of hemodialysis and hemofiltration, i.e. high elimination rates for small and large molecular weight substances.

Hemodialysis (HD)
Treatment mode for ESRD where the blood of the patient flows outside the body through disposable bloodlines into a special filter, the dialyzer. Dialysis solution carries away waste products and excess water, and the cleaned blood is returned to the patient. The process is controlled by a hemodialysis machine, which pumps blood, adds coagulants, regulates the purification process and controls the mixing of the dialysis solution and its flow rate through the system. A patient typically receives three treatments per week, lasting from three to six hours each.

Hemofiltration (HF)
ESRD treatment mode where no dialysate is used. The solutes are removed following convective forces (convective therapies) by filtering plasma water through a semi-permeable membrane. The volume removed by filtering is balanced by substitution fluid.

High-flux dialyzers
Dialyzers containing highly permeable membranes allowing the effective removal of water and large uremic toxins such as β_2-microglobulin.

Incidence
The incidence rate is the number of patients who are newly diagnosed with a specific disease during a certain time interval.

Kidney failure, acute
Acute loss of renal function. There is a good chance for the recovery of renal function if the cause of acute kidney failure can be eliminated. Depending on the severity of renal function loss, intermittent dialysis treatment may be necessary.

Kidney failure, chronic
Chronic loss of renal function, also referred to as end-stage renal disease. The recovery of renal function is not possible, thus the patient has to be treated with renal replacement therapy, i.e. kidney transplantation or dialysis.

Medicaid
A joint federal/state health care program in the U.S. that reimburses health plans and providers for medical care given to qualifying individuals in need of financial assistance.

Medicare
A program under the federal U.S. Social Security Administration that reimburses health plans and providers for medical care given to qualifying individuals over 65, those with ESRD and the disabled.

Peritoneal dialysis
Dialysis treatment method using the patients' peritoneum, the tissue which covers the inner surface of the abdominal cavity and the abdominal organs, as the dialyzing membrane for the purification of the blood. A sterile dialysis solution is introduced and removed through a surgically implanted catheter into and from the abdominal cavity of the patient to absorb toxins and excess water. Most treatments are self-administered by patients in their homes or workplaces several times a day or during the night supported by a machine, the cycler.

Prevalence
The prevalence rate is the number of all patients who have a specific disease during a certain time interval.

Polyolefines
Polymer materials, containing only carbon an hydrogen.

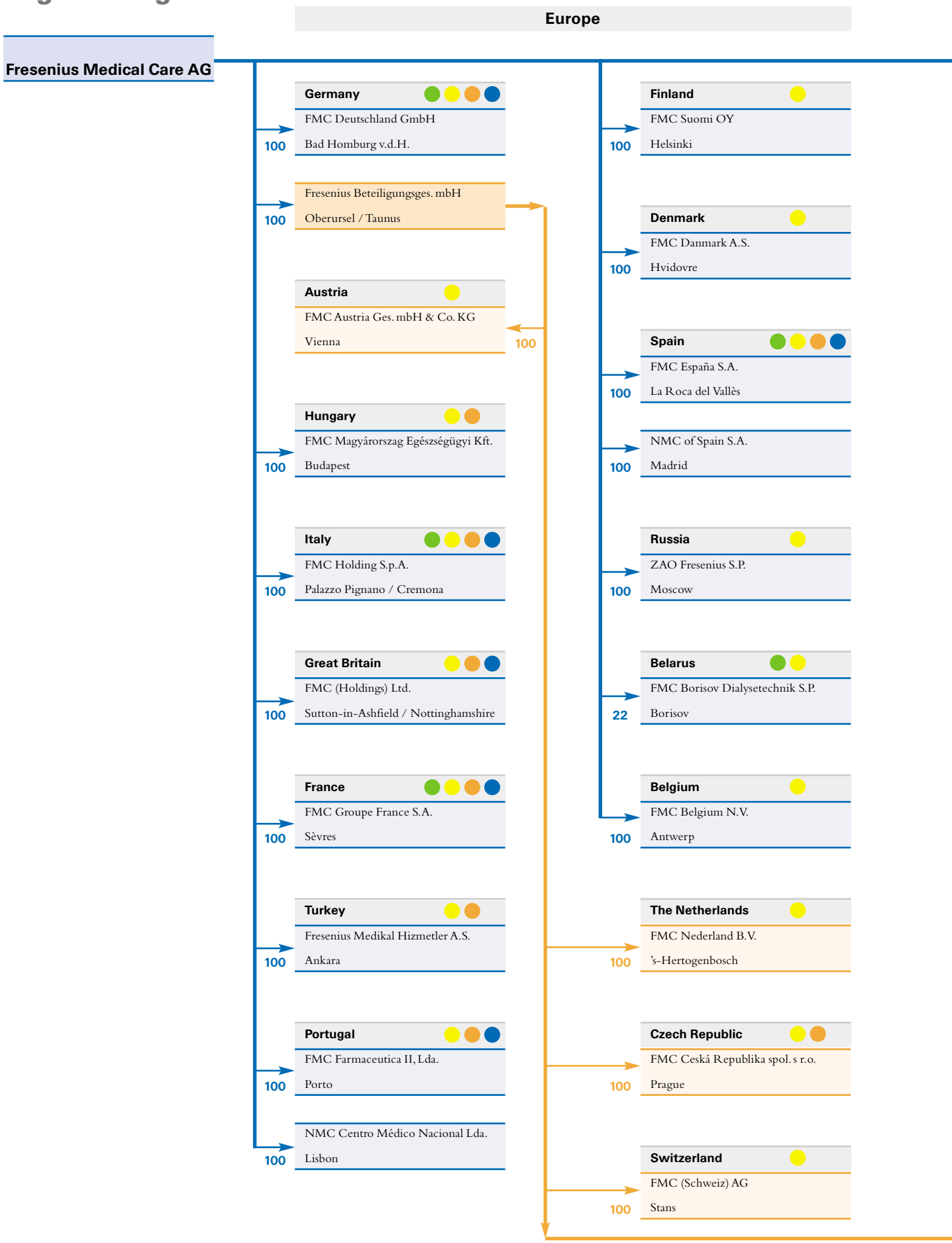
Polyvinyl chloride (PVC)
PVC is a plastic (synthetic material) with a broad range of uses. Because it is very brittle, PVC normally contains plasticizers, which are subject to extraction when they come into contact with body fluids such as blood or tissue fluids. Extracted plasticizers may then accumulate in the body, which is a potential long-term hazard for patients.

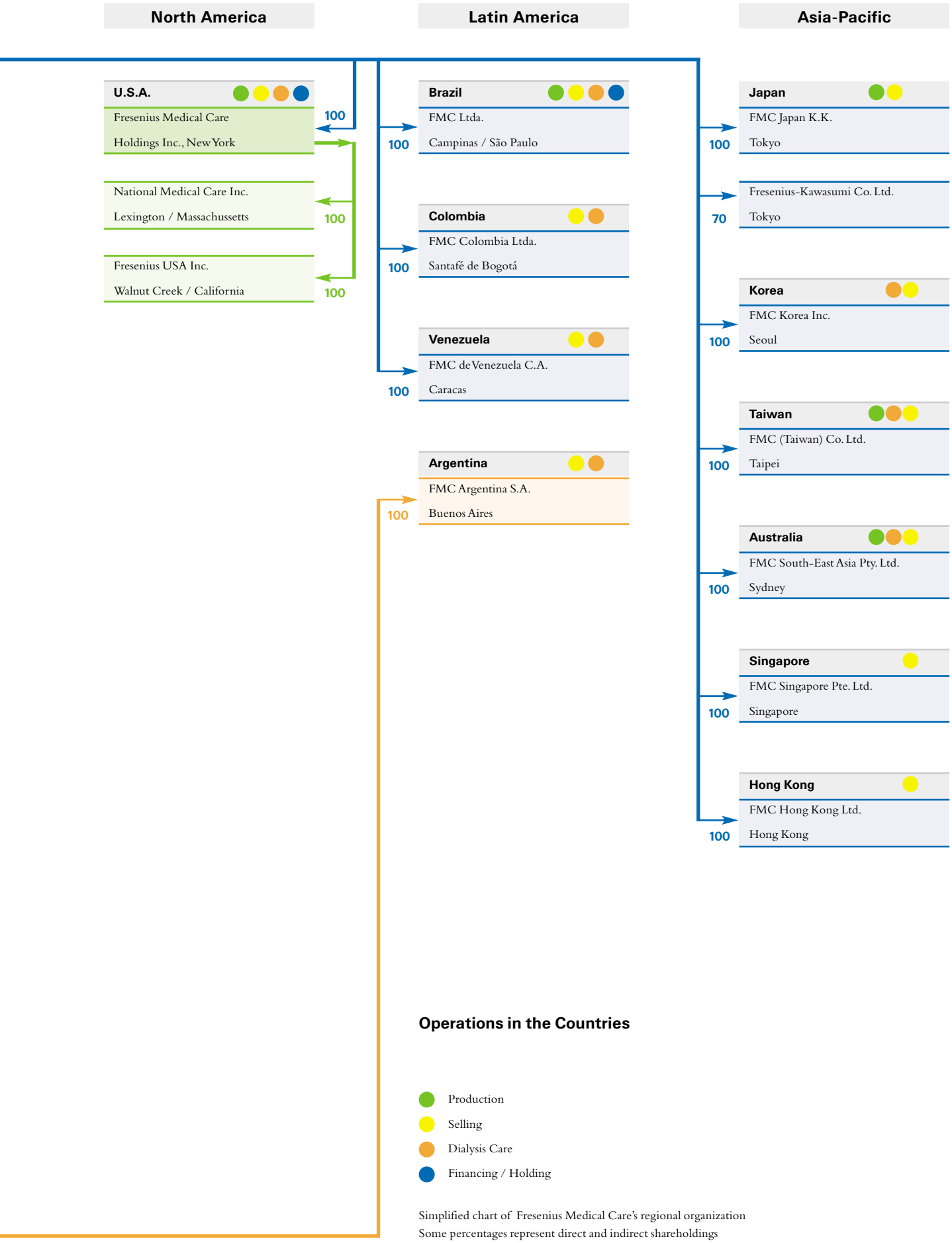
Ultrafiltration rate
Rate of fluid removal from the patient's blood circulation. This rate must be chosen carefully. If the rate is too high, it jeopardizes the cardiovascular stability of the patient; if it is too low, the necessary amount of excess water cannot be removed from the patient.

Vascular access
Mode of connecting the patient's blood circulation to the dialyzer. The vascular access must allow sufficient blood flows and connection as often as necessary, normally three times weekly.

Xenotransplant
Transplant from one species to another.

Regional Organization





Operations in the Countries

- Production
- Selling
- Dialysis Care
- Financing / Holding

Simplified chart of Fresenius Medical Care's regional organization
Some percentages represent direct and indirect shareholdings

Major Subsidiaries

Name and location, ownership[1]		Revenue 1999	Net income/(loss) 1999	Equity Dec. 31, 1999	Employees (full-time equiv.) Dec. 31,1999
$ in millions, except employees					
Europe					
Germany	FMC Deutschland GmbH, Bad Homburg, 100%	556.4	0.0	128,2	1,842
Austria	FMC Austria GmbH & Co KG,Vienna, 100%	11.4	4.1	0.1	17
Hungary	FMC Magyarorszag Egeszsegügyi Kft., Budapest, 100%	9.3	1.1	10.9	20
Italy	FMC Italia S.p.A., Palazzo Pignano/Cremona, 100%	46.5	1.3	6.9	67
Great Britain	FMC (UK) Ltd., Sutton-in-Ashfield/Nottinghamshire, 100%	48.5	3.3	5.0	134
France	FMC France S.A., Sèvres, 100%	49.6	1.0	11.3	73
Turkey	Fresenius Medikal Hitzmetler A.S., Ankara, 100%	13.2	0.1	1.6	62
Portugal	FMC Portugal Lda., Porto, 100%	21.4	(1.6)	(0.3)	39
Finland	FMC Suomi OY, Helsinki, 100%	4.3	0.8	1.0	9
Denmark	FMC Danmark A.S., Hvidovre, 100%	4.0	0.6	0.8	9
Spain	FMC Espana S.A., La Roca del Vallès, 100%	33.5	0.9	5.6	120
Russia	ZAO Fresenius S.P., Moscow, 100%	7.5	(1.3)	0.7	71
The Netherlands	FMC Nederland B.V., 's Hertogenbosch, 100%	12.7	2.7	3.6	21
Belgium	FMC Belgium N.V., Antwerp, 100%	16.9	3.1	7.3	48
Czech Republic	FMC Ceska Republika spol. s.r.o., Prague, 100%	7.9	0.5	1.2	25
Switzerland	FMC Schweiz AG, Stans, 100%	14.9	4.1	11.1	35
North America					
USA	FMC Holdings Inc.[3], New York, 100%	2,815.2	(327)	1,622	21,576
Latin America					
Brazil	FMC do Brazil, Ltda., Campinas/ São Paulo, 100%	28.6	2.6	16.9	109
Colombia	FMC Colombia Ltda., Santafé de Bogotá, 100%	27.4	(0.6)	13.5	288
Venezuela	FMC de Venezuela C.A., Caracas, 100%	8.6	0.7	2.1	164
Argentina	FMC Argentina S.A., Buenos Aires, 100%	65.6	2.5	22.2	746
Asia-Pacific					
Japan	FMC Japan K.K., Tokyo, 100%	9.1	(1.3)	0.0	24
	Fresenius-Kawasumi Co. Ltd., Tokyo, 70%	60.8	8.3	15.2	52
South Korea	FMC Korea Inc., Seoul, 100%	12.8	0.0	9.1	38
Taiwan	FMC Taiwan Inc., Taipei, 100%	5.5	(0.6)	(0.1)	29
Australia	FMC South-East-Asia Pty. Ltd., Sydney, 100%	19.7	(0.9)	5.9	61
Singapore	FMC Singapore Pte. Ltd., Sydney, 100%	3.7	0.3	0.1	15
Hong Kong	FMC Hong Kong Ltd., Hong Kong, 100%	8.5	(0.3)	(1.3)	34

[1] Direct and indirect interest

[2] These figures comply with the financial statements prepared in accordance with the specific generally accepted accounting principles of each country and do not reflect the amounts included in the Consolidated Financial Statements. Shareholders' equity and earnings are translated at the year-end current rate, and sales are translated at the average rate of the year.

[3] These figures represent the Consolidated Financial Statements published in the Form 10-K.

3-Year Summary

	1999	1998	1997
Statements of Earnings ($ in thousands, except share data)			
Net revenue	3,840,429	3,505,676	2,974,369
Cost of revenue	2,424,603	2,205,586	1,886,486
Gross profit	1,415,826	1,300,090	1,087,883
Selling, general and administrative	823,124	779,962	674,811
Research and development	32,488	31,150	22,136
Operating income before special charge (EBIT)	560,214	488,978	390,936
Interest expenses, net	218,124	219,541	183,548
Income tax expense, net	169,256	135,366	101,472
Income from continuing operations before cumulative effect of accounting change and special charge	170,456	131,617	103,945
Loss from discontinued operations and cumulative effect of accounting change	–	(112,486)	(13,783)
Special charge for settlement of investigations and related costs, net of taxes	419,000	–	–
Net income (loss)	**(248,544)**	**19,131**	**90,162**
Basic and fully diluted income from continuing operations			
before cumulative effect of accounting change and before special charge			
per ordinary share	2.15	1.62	1.34
per preference share	2.21	1.78	1.39
Basic and fully diluted net (loss) income per ordinary share	(3.15)	0.20	1.16
Basic and fully diluted net (loss) income per preference share	(3.15)	0.36	1.21
Personnel expenses	(956,609)	(865,156)	(719,086)
Depreciation	(131,623)	(130,628)	(120,540)
Amortization	(152,585)	(148,356)	(129,848)
thereof amortization of goodwill	(80,807)	(79,665)	(64,703)
Earnings before interest and taxes, depreciation and amortization (EBITDA)	844,422	767,961	641,324
Balance Sheet ($ in thousands)			
Current assets	1,541,209	1,424,094	1,418,908
Non-current assets	4,211,174	4,255,325	4,122,125
Total assets	**5,752,383**	**5,679,419**	**5,541,033**
Short-term debt	573,867	214,758	169,771
Other current liabilities	1,196,325	760,872	700,257
Current liabilities	1,770,192	975,630	870,028
Long-term debt	1,617,879	2,069,984	2,000,991
Other non-current liabilities	361,995	276,839	224,049
Non-current liabilities	1,979,874	2,346,823	2,225,040
Total liabilities	3,750,066	3,322,453	3,095,068
Shareholders' equity	2,002,317	2,356,966	2,445,965
Total liabilities and shareholders' equity	**5,752,383**	**5,679,419**	**5,541,033**
Total debt incl. accounts receivable securitization program	2,529,945	2,590,342	2,370,762
Credit Rating			
Standard & Poor's			
Corporate credit rating	BB	BB	BB
Subordinated debt	B+	B+	B+
Moody's			
Corporate credit rating	Ba1	Ba1	Ba1
Subordinated debt	Ba3	Ba3	Ba3
Cash Flow ($ in thousands)			
Net cash provided by operating activities[1]	354,757	268,257	215,888
Capital expenditures, net	(153,146)	(132,516)	(208,079)
Free cash flow	201,611	135,741	7,809
Acquisitions and investments, net of cash acquired	(101,326)	(222,935)	(424,599)
Share Data			
Year-end share price Frankfurt (€)			
Ordinary shares	84.90	60.08	61.10
Preference shares	41.30	39.63	49.59
Year-end ADR share price New York ($)			
Ordinary shares	28.375	23.500	21.750
Preference shares	14.000	16.125	18.000
Average number of ordinary shares	70,000,000	70,000,000	70,000,000
Average number of preference shares	9,023,341	9,023,341	9,023,341
Total dividend amount (€ in thousands)	(55,068)	(46,911)	(40,855)
Dividend per ordinary share (€)	0.69	0.59	0.51
Dividend per preference share (€)	0.75	0.64	0.56
Employees (full-time equivalents, Dec, 31)	**29,318**	**27,423**	**n.a.**
Operational Ratios			
before discontinued operations, cumulative effect of accounting change and special charge (in %)			
EBITDA margin	22.0	21.9	21.6
EBIT margin	14.6	13.9	13.1
EPS growth	33	21	163
Organic revenue growth (currency-adjusted)	9.6	11.4	n.a.
Return on invested capital (ROIC)	7.6	6.8	5.9
Return on operating assets (ROOA)	10.7	9.4	7.9
Return on equity before taxes	17.1	11.4	8.5
Return on equity after taxes	8.5	5.6	4.2
Cash flow return on invested capital (CFROIC)	15.6	14.8	13.9
Leverage ratio (total debt/EBITDA[2])	3.0	3.3	3.6
Gearing [(total debt - cash)/equity]	1.2	1.1	1.0
EBITDA/Interest expenses	3.9	3.5	3.5
Cash from operating activities in percent of sales	9.2	7.6	7.3
Equity ratio (equity/total assets)	34.8	41.5	44.1
Working capital[3]	731,544	663,222	718,651
Dialysis Care Data			
Treatments (millions)	11.4	10.5	9.1
Patients treated	80,000	74,200	68,000
Number of clinics	1,090	1,000	908

The table shows figures for the first three full years of operation since the formation of the Company.
[1] From continuing operations
[2] Correction of non-cash charges of $ 2,5 million per quarter
[3] Current assets less current liabilities (excluding current debt)

Financial Glossary

American Depositary Receipt (ADR)
: Share certificate traded at the New York Stock Exchange, representing (parts of) shares of a foreign company.

DAX
: The DAX index comprises 30 German blue chip stocks, quoted on the Frankfurt Stock Exchange. The criteria for including the stock of a corporation in the DAX are the volume of trading in its stock and its market capitalization.

EBIT
: Earnings before interest and taxes – corresponding to operating income.

EBITDA
: Earnings before interest, taxes, depreciation and amortization - corresponding to cash flow before taxes.

Euro (€)
: With the beginning of stage three of the European Monetary Union, conversion factors between the currencies of the eleven member states were set irrevocably on January 1, 1999. One euro equals 1.95583 Deutsche mark. Starting on January 4, the German stock exchange has quoted share prices in euros.

Free cash flow
: Net cash provided by operating activities less capital expenditure (purchases of property, plant and equipment, net of proceeds from sale of property, plant and equipment).

Gross Domestic Product (GDP)
: Total final value of goods and services produced in a national economy over a particular period of time, usually one year.

Market capitalization
: Number of shares multiplied by the share price.

MSCI Health & Personal Care Index
: Index calculated by Morgan Stanley Capital International that is a common benchmark for healthcare companies for fund managers.

Net operating profit adjusted for taxes (NOPAT)
: Earnings before interest and taxes (EBIT) plus goodwill amortization less taxes.

No-par share
: Stock issued with no-par or nominal value.

Operating margin
: Earnings before interest and taxes (EBIT) divided by revenues.

Ordinary and preference shares
: The capital stock of the Company is divided into ordinary and preference shares. Both are bearer shares. Preference shares are non-voting, but are entitled to a dividend that exceeds that for the ordinary shares, and the distribution of the minimum dividend on the preference shares has precedence over the distribution of a dividend on the ordinary shares.

Return on operating assets (ROOA)
: EBIT divided by average operating assets. Operating assets consist of cash and cash equivalents, accounts receivable (including those due from related parties), inventories, prepaid expenses and other current assets, non-current assets, less non-current deferred tax assets and accounts payable (including those due to related parties).

Return on invested capital (ROIC)
: NOPAT divided by average invested capital. Invested capital consists of current and non-current assets plus accumulated goodwill amortization less cash and cash equivalents, deferred tax assets, accounts payable (including those due to related parties), accrued expenses and current liabilities and income tax payable.

U.S. GAAP
: United States Generally Accepted Accounting Principles.

Weighted average cost of capital (WACC)
: The weighted average cost of the after tax capital cost of debt and cost of equity. Cost of equity is based on a risk free interest rate (30 year U.S. Treasury Bonds), the market risk premium expected for investments in equity, weighted by the sensitivity of changes in returns compared to changes of the market (ß-coefficient) and the target capital structure.

Working capital
: Current assets minus current liabilities.

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Financial Calendar 2000

May 3	Release of First Quarter 2000 Earnings
May 30	Annual General Meeting (Kurhaus, Bad Homburg v.d.H., Germany)
May 31	Dividend Payment
August 1	Release of Second Quarter 2000 Earnings
October 31	Release of Third Quarter 2000 Earnings

This report contains forward-looking statements that are subject to various risks and uncertainties. Actual results could differ materially from those described in these forward-looking statements due to certain factors. The risks and uncertainties are detailed in Fresenius Medical Care AG's reports filed with the U.S. Securities and Exchange Commission. We do not undertake any responsibility to update the forward-looking statements in this report.

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