



# Fresenius Medical Care

**The World's Leading Renal Therapy Company**



**Conference Call, August 5, 2003**

# Agenda

I. Business Update

II. Financials Q2/H1 2003

III. Outlook



# Agenda

## I. Business Update

- Key accomplishments
- Dialysis services
- Dialysis products
- Reimbursement

## II. Financials Q2/H1 2003

## III. Outlook



# Key accomplishments Q2 2003

## Services

Strategic initiatives:  
differentiation and payment for quality on track

## Products

Strong worldwide product growth

## Reimbursement

North America: demo project announced  
International: increases for quality being achieved

## Regions

Improved margins - on track for full year targets

## Cash Flow

Continuous strong operating and free Cash Flow



# Services – North America

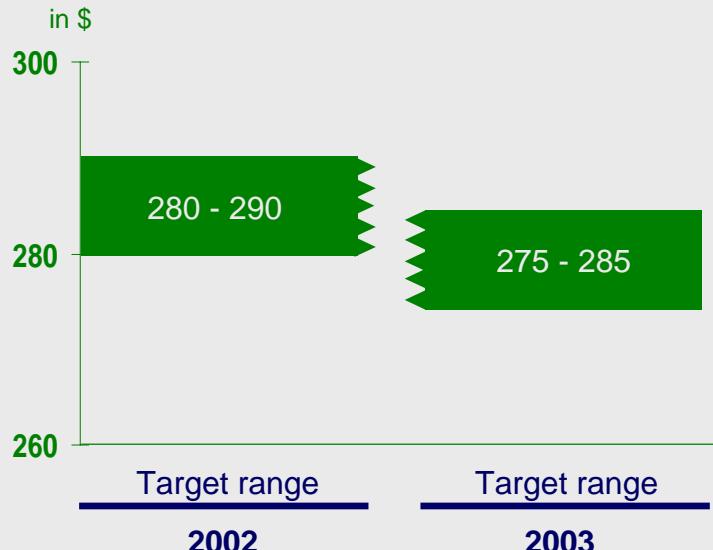
## Highlights Q2 2003

- *UltraCare™* – continued cost benefits in clinics
  - Personnel costs flat year-over-year
  - Treatment costs down year-over-year
  - Reduced staff turnover
- Same store treatment growth improved to 3.7% in Q2
- Continued improvements in patient care



# Services - North America

## Revenue per treatment



## Cost per treatment



## Operating within targeted range

- Follow Medicare directive on requirements for drug wastage
- Method II to Method I change - from products to services
- Drug compliance monitoring - normal swing

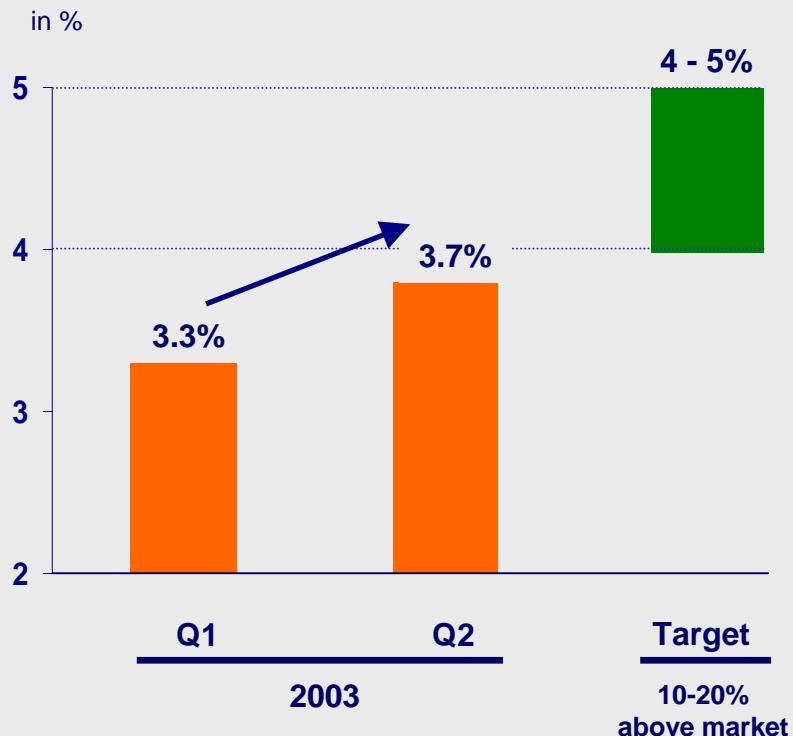
## Managing cost efficiencies

- Achieving cost efficiencies
- Continue to focus on operating improvements



# Services – North America

## Improved same store treatment growth



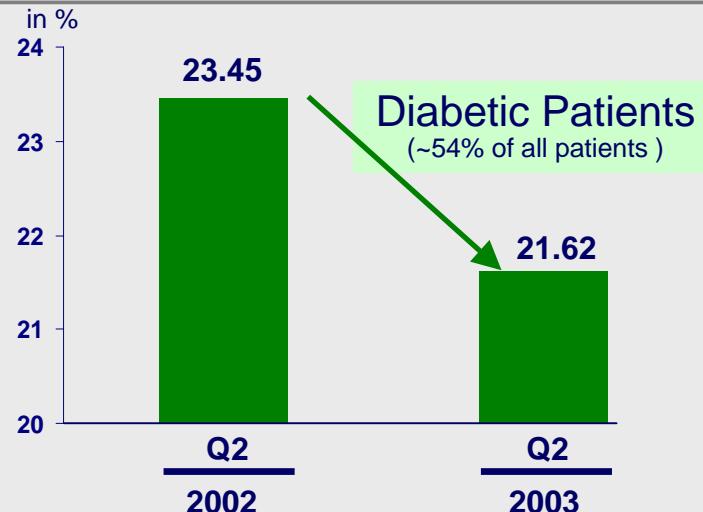
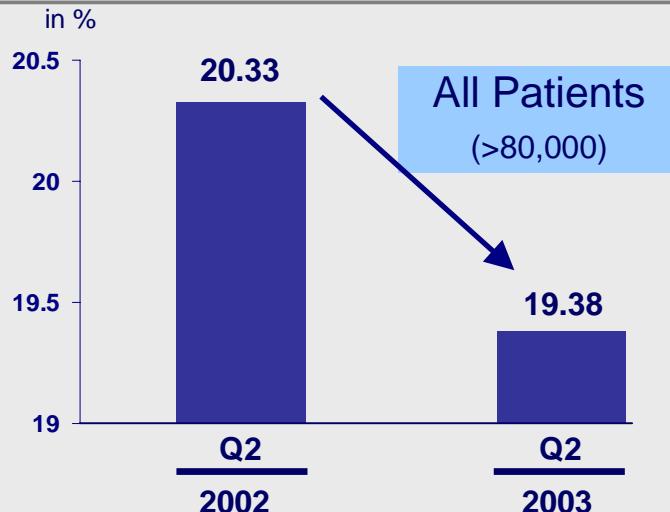
## Focusing on organic growth

- Same store growth up 40 basis points
- Same store growth drivers:
  - *UltraCare™* program well underway
- New and more focused organizational structure

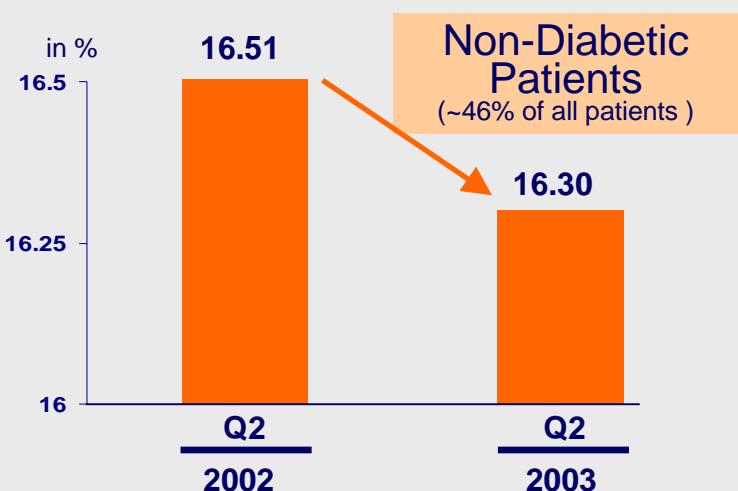


# Services – North America

## Continued improvements in patient care / Last twelve months gross mortality



- Observed relative improvement in mortality with total patient population
- Benefit to diabetic patients more pronounced



Source = internal new data warehouse system (see Investor News and attachments)

# Services – North America

## Continued focus achieving full year targets

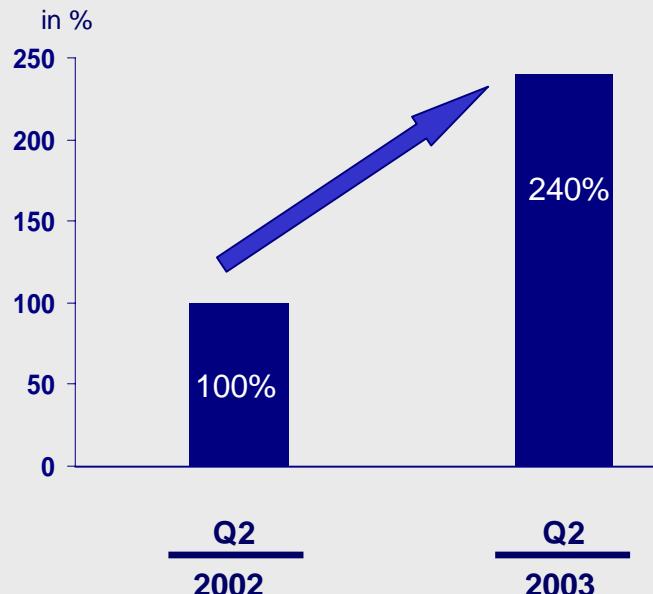
- Expect to focus on:
  - Maintaining cost efficiencies
  - Organic growth drivers
    - New streamlined organizational structure
    - Center for professional & leadership development
    - Q3 introduction of *UltraCare™* certification & marketing at clinic level
  - Revenue per treatment growth
    - Improve commercial payor contracting



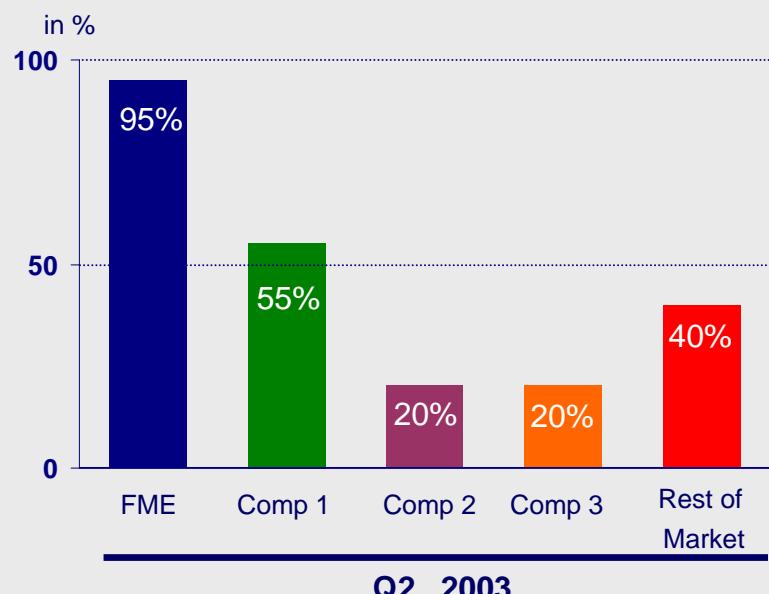
# Products – North America

## Strong growth of Optiflux® NR dialyzers

**Unit sales to NAEM<sup>1)</sup>  
up 140%**



**Practice of single-use  
in North America<sup>2)</sup>**



<sup>1)</sup> NAEM = net available external market

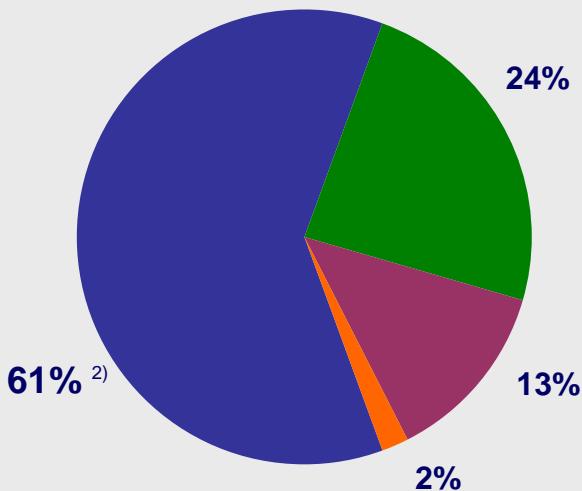
<sup>2)</sup> Sources: company data and industry estimates



# Products – North America

## Strong acceptance of new hemodialysis technology

Total installed base of  
HD equipment 2002

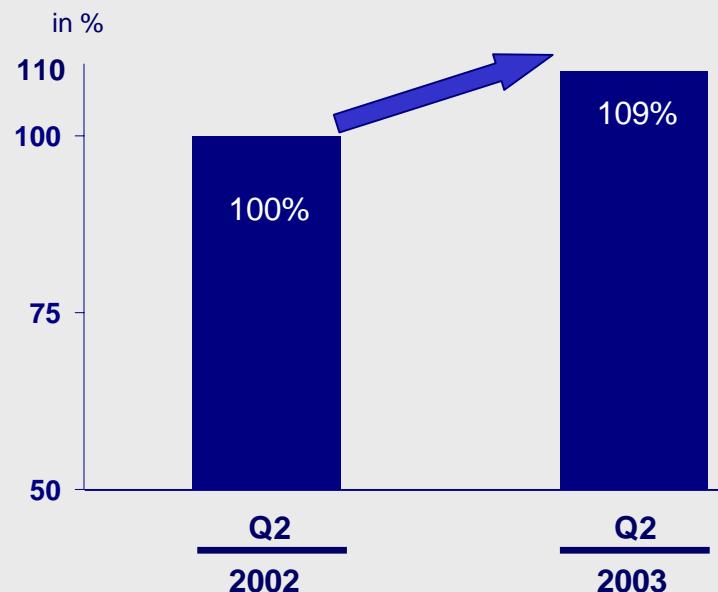


■ FME-NA      ■ Comp. 2  
■ Comp. 1      ■ Others

<sup>1)</sup> NAEM = net available external market

<sup>2)</sup> 66% including internal sales

2008 K machines sold to  
NAEM<sup>1)</sup> in Q2 2003

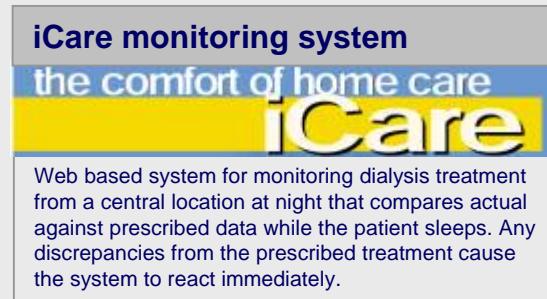
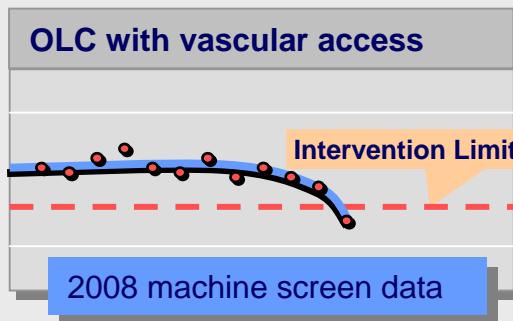


Acceptance of new technology  
2008 K (82%) vs. 2008 H (18%) of sales

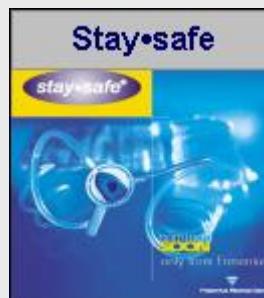
# Products – North America

## Continued focus achieving full year targets

- Dialyzers – Development of new single-use membranes to assist in the management of mineral metabolism in secondary hyperparathyroidism
- HD Machines - Additional features for integrated care



- Peritoneal dialysis - Introduction of stay-safe connectology system



HD = Hemodialysis   OLC = Online clearance system



# Services – International

## Highlights Q2 2003

- Same store treatment growth at 8% - better than market
- Reimbursement increases in France, Turkey and Portugal
- Continued improvement in patient care quality



# Products – International

## Highlights Q2 2003

- Above-market product revenue growth of +6%cc yoy (incl. internal sales)
- Peritoneal dialysis patients grew by 27% versus Q2 2002 (3-4x market)
- Successful introduction of FX-dialyzer in Japan
- Expand market position in acute dialysis and therapeutic apheresis



cc = constant currency



# Products & Services – International

## Continued focus achieving full year targets

- FX-dialyzers – Continued production & yield improvements
- Improvement in operating efficiencies to balance reimbursement pressures in Europe & Asia-Pacific
- Continued Middle East revenue improvement trend



# Reimbursement North America: development of ESRD payment structure

## 1996

- **Insurer/HMO based demonstration project**
  - Provided care for ESRD patients for a 3-year period (1998 – 2001)
  - Patients reported high satisfaction

## 2003

- **CMS<sup>1)</sup>** announced in 2003 **new** ESRD demonstration project
  - Provider based disease management demonstration project
- **Fresenius Medical Care**
  - Leader in Renal Disease Management
  - Welcomes the opportunity to be paid for quality of services
  - Studying proposal in detail for risk assessment

<sup>1)</sup> CMS = Center for Medicare and Medicaid Services



# Reimbursement North America: CMS disease demonstration project

**2003**

Two models are available:

## 1. Managed Care/Capitated Model

- A renal-related risk-adjusted payment rate for the demonstration project for delivery of all Medicare covered services

## 2. Expanded Dialysis Bundle Model

- An expanded dialysis bundle with add-on payments for drugs, labs, vascular access and disease management
- Other services continue to be paid by Medicare on fee for services basis

Risk sharing applies for both models:

- Surplus/deficit sharing based on Medicare costs per patient



# Agenda

## I. Business Update

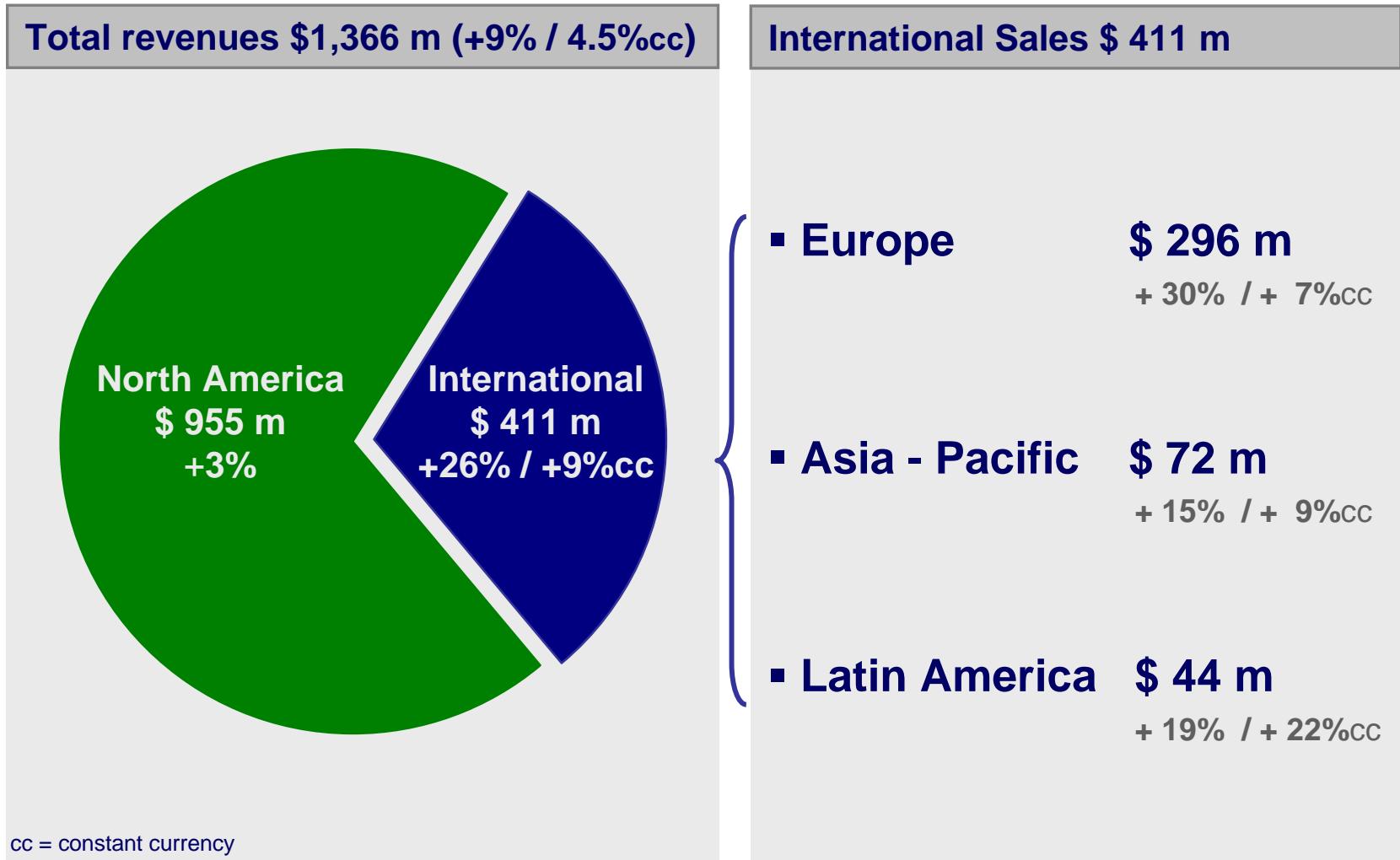
## II. Financials Q2/H1 2003

- Revenue growth by segment
- Key figures
- EBIT-margins
- Days sales outstanding (DSO)
- Cash Flow

## III. Outlook



# Revenue growth by segment Q2 2003



# Key figures Q2 2003

| \$ m                           | Q2 2003      | Q2 2002 | % | %occ |
|--------------------------------|--------------|---------|---|------|
| <b>Net revenue</b>             | <b>1,366</b> | 1,254   | 9 | 4.5  |
| <b>Operating income (EBIT)</b> | <b>184</b>   | 170     | 8 | 2    |
| <b>Net income</b>              | <b>79</b>    | 74      | 7 |      |
| <b>EPS per Ord. (\$)</b>       | <b>0.82</b>  | 0.77    | 7 |      |

cc = constant currency



# Key figures H1 2003

| \$ m                           | H1 2003      | H1 2002 | % | %occ |
|--------------------------------|--------------|---------|---|------|
| <b>Net revenue</b>             | <b>2,666</b> | 2,441   | 9 | 5.5  |
| <b>Operating income (EBIT)</b> | <b>353</b>   | 344     | 2 | (3)  |
| <b>Net income</b>              | <b>149</b>   | 138     | 8 |      |
| <b>EPS per Ord. (\$)</b>       | <b>1.54</b>  | 1.42    | 8 |      |

cc = constant currency



# Key figures H1 2003 (adjusted)

| \$ m   | H1 2003      | H1 2002            | %        | %occ       |
|--|--------------|--------------------|----------|------------|
| <b>Net revenue</b>   | <b>2,666</b> | 2,441              | <b>9</b> | <b>5.5</b> |
| <b>Operating income (EBIT)</b><br>(H1 2002 adjusted for one-time effects)              | <b>353</b>   | 338 <sup>1)</sup>  | <b>4</b> | <b>(1)</b> |
| <b>Net income</b><br>(H1 2002 prior SFAS 145 and adjusted for one-time effects)        | <b>149</b>   | 145 <sup>1)</sup>  | <b>3</b> |            |
| <b>EPS per Ord. (\$)</b><br>(H1 2002 prior SFAS 145 and adjusted for one-time effects) | <b>1.54</b>  | 1.51 <sup>1)</sup> | <b>3</b> |            |

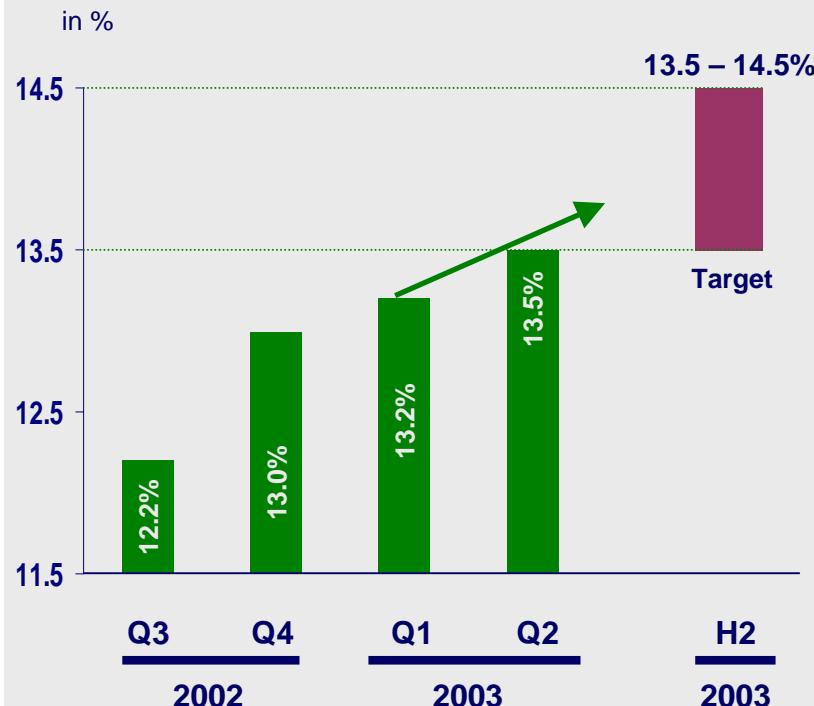
<sup>1)</sup> A reconciliation to the most directly comparable US-GAAP financial measure is provided in the attachment.  
Before extraordinary redemption cost for Trust Preferred Securities of \$ 12 million after taxes and one-time effects (pension curtailment gain and severances of \$4 million after taxes).

cc = constant currency



# North America – Continuing margin improvement

## North America – EBIT margin



## Services

- Same store growth trend on track
- Personnel costs flat with industry level wage increase

## Products

- Strong machine and dialyzer growth
- Optiflux® manufacturing on target



# International – improving margin

## International – EBIT margin



## Europe

- Revenue growth on track with margins improving
- Financially - one of the most interesting regions

## Middle East

- Situation improving; shipments normalizing

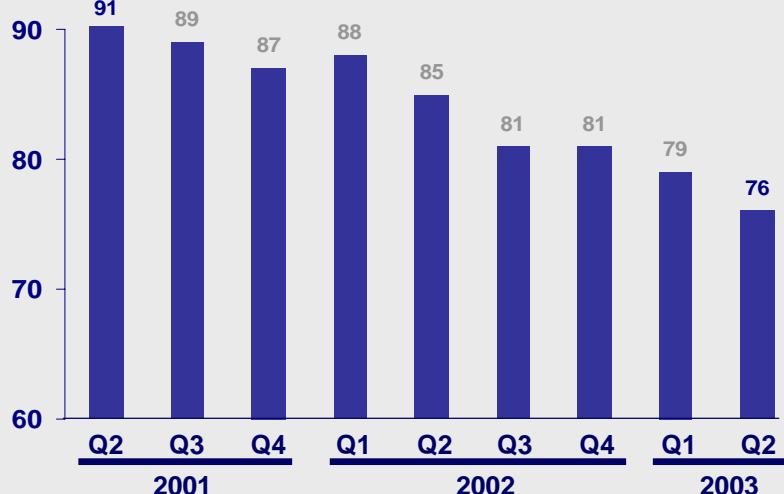
## Latin America

- Positive development in Argentina but other countries are still difficult



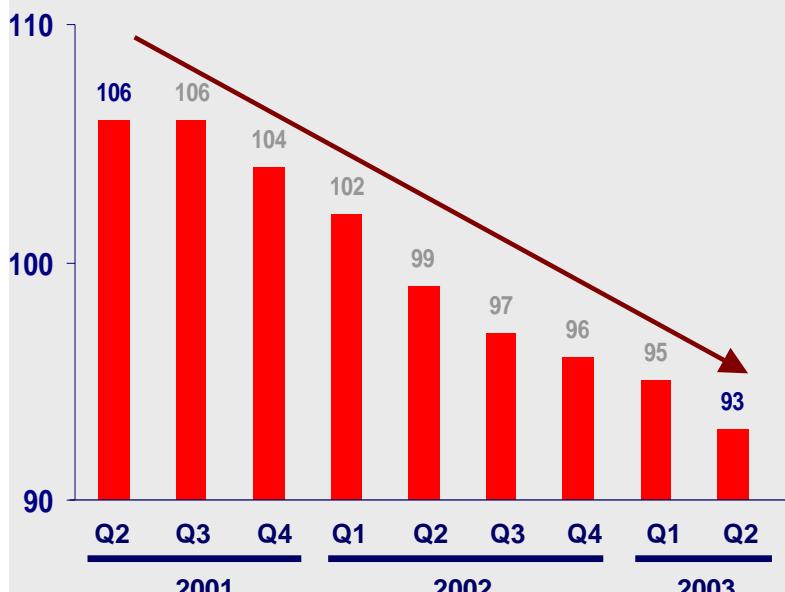
# Days Sales Outstanding (DSO)

## North America – in days



## Group – in days

- Reduced by 6 days in the last twelve months



## International – in days



# Cash Flow Q2 2003

| \$ m   | Q2 2003 | Q2 2002 |
|--|---------|---------|
| <b>Net cash provided by operating activities</b> | 175     | 173     |
| <b>Capital expenditure (net)<sup>1)</sup></b>    | (37)    | (39)    |
| <b>Free Cash Flow</b>                            | 138     | 134     |
| <b>Acquisitions</b>                              | (29)    | (31)    |
| <b>Free Cash Flow after acquisitions</b>         | 109     | 103     |

<sup>1)</sup> A reconciliation to the most directly comparable US-GAAP financial measure is provided in the attachment.



# Cash Flow H1 2003

| \$ m   | H1 2003     | H1 2002 |
|--|-------------|---------|
| <b>Net cash provided by operating activities</b> | <b>300</b>  | 244     |
| <b>Capital expenditure (net)<sup>1)</sup></b>    | <b>(78)</b> | (90)    |
| <b>Free Cash Flow</b>                            | <b>222</b>  | 154     |
| <b>Acquisitions</b>                              | <b>(57)</b> | (40)    |
| <b>Free Cash Flow after acquisitions</b>         | <b>165</b>  | 114     |

<sup>1)</sup> A reconciliation to the most directly comparable US-GAAP financial measure is provided in the attachment.



# Financial ratio H1 2003

| \$ m                                     | June 30, 2003 |
|--|---------------|
| <b>EBITDA</b> (annualized) <sup>1)</sup> | 922           |
| Dec. 31, 2002 Debt <sup>1)</sup>         | 2,833         |
| + CapEx <sup>1)</sup>                    | 78            |
| + Acquisitions                           | 57            |
| + FX-effects                             | 62            |
| + Redemption costs Class D               | 9             |
| + Refinancing new credit agreement       | 18            |
| + Dividends                              | 108           |
| + Others                                 | 12            |
| - Cash from operations                   | 300           |
| June 30, 2003 Debt                       | 2,877         |
| <b>Total debt / EBITDA</b>               | 3.12          |

<sup>1)</sup> A reconciliation to the most directly comparable US-GAAP financial measure is provided in the attachment.



# Agenda

I. Business Update

II. Financials Q2/H1 2003

III. Outlook

- Financial outlook



# Confirmed outlook 2003

Revenue growth  
(constant currency)

**Mid single digit**

Capital expenditure<sup>1)</sup>

**~ \$220 m**

Acquisitions

**< \$100 m**

Net income growth<sup>1)</sup>  
(expected to be at the lower end)

**High single /  
low double digits**

<sup>1)</sup> A reconciliation to the most directly comparable US-GAAP financial measure is provided in the attachment.



# Attachment I

Reconciliation of non US-GAAP financial measures to the most directly comparable US-GAAP financial measure

All numbers are in \$ millions

| <b>EBITDA</b>  |  | Q2 2002    |
|--|--|------------|
| Last twelve months operating income (EBIT)                 |  | 703        |
| + Last twelve months depreciation and amortization         |  | 211        |
| + Non-cash charges   |  | 8          |
| <b>= EBITDA</b>  |  | <b>922</b> |
| <b>Net income growth</b>                                   |  | FY 2002    |
| Net income   |  | 290        |
| + Loss from early redemption of Trust Preferred Securities |  | 12         |
| <b>= Net income prior SFAS 145 (basis for guidance)</b>    |  | <b>302</b> |
| <b>Capital expenditure (net)</b>                           |  | Q2 2003    |
| Purchase of property, plant and equipment                  |  | 42         |
| - Proceeds from sale of property, plant and equipment      |  | (5)        |
| <b>= Capital expenditure (net)</b>                         |  | <b>37</b>  |
|  |  | Q2 2002    |
|  |  | 61         |
|  |  | (22)       |
|  |  | 39         |



# Attachment II

Reconciliation of non US-GAAP financial measures to the most directly comparable US-GAAP financial measure

All numbers are in \$ millions

| <b>Capital expenditure (net)</b>  | H1 2003              | H1 2002              |
|---|----------------------|----------------------|
| Purchase of property, plant and equipment   | 86                   | 116                  |
| - Proceeds from sale of property, plant and equipment                                   | (8)                  | (26)                 |
| <b>= Capital expenditure (net)</b>  | <b>78</b>            | <b>90</b>            |
|   |                      |                      |
| <b>Debt</b>   | <b>June 30, 2003</b> | <b>Dec. 31, 2002</b> |
| Short term borrowings   | 112                  | 125                  |
| + Short term borrowings from related parties  | 50                   | 6                    |
| + Current portion of long-term debt and capital lease obligations                       | 24                   | 23                   |
| + Long-term debt and capital lease obligations, less current portion                    | 1,254                | 1,089                |
| + Trust Preferred Securities  | 1,188                | 1,145                |
| + Accounts receivable securitization program  | 249                  | 445                  |
| <b>Total debt</b>   | <b>2,877</b>         | <b>2,833</b>         |
|   |                      |                      |
| <b>Net available external market (NAEM)</b>   | <b>Q2 2003</b>       | <b>Q2 2002</b>       |
| External dialysis product sales   | 109                  | 114                  |
| Sales to other vertically integrated dialysis providers and <b>to leasing companies</b> | (11)                 | (12)                 |
| <b>Method II and others</b>   | <b>0</b>             | <b>(10)</b>          |
| <b>Adsorber business sales</b>  | <b>(1)</b>           | <b>0</b>             |
| <b>Dialysis product sales to net available external market</b>                          | <b>97</b>            | <b>92</b>            |



# Attachment III

Reconciliation of non US-GAAP financial measures to the most directly comparable US-GAAP financial measure

All numbers are in \$ millions

| H2 2002: Adjusted EBIT,<br>net income, EPS | US-GAAP     | Loss from early<br>redemption of trust<br>pref. securities | One-time effects<br>(pension curtailment<br>gain and severances) | Adjusted    |
|--|-------------|--|--|-------------|
|  |             |  |  |             |
| <b>Operating Income (EBIT)</b>             | <b>344</b>  |  | <b>(6)</b>   | <b>338</b>  |
| Interest expenses                          | (130)       | 20   |  | (110)       |
| Interest income                            | 6           | -  |  | 6           |
| Interest expenses, net                     | (124)       | 20   |  | (104)       |
| Earnings before taxes                      | 220         | 20   | (6)  | 234         |
| Income tax expenses                        | (81)        | (8)  | 2  | (87)        |
| Minority interest                          | (2)         |  |  | (2)         |
| <b>Net income</b>                          | <b>138</b>  | <b>12</b>  | <b>(4)</b>   | <b>145</b>  |
| <b>Earnings per share (EPS in \$)</b>      | <b>1.42</b> | <b>0.12</b>  | <b>(0.03)</b>  | <b>1.51</b> |

| External Revenue              | Q2 2003    | Q2 2002    | growth      |
|-------------------------------|------------|------------|-------------|
| International product revenue | 309        | 251        | +23%        |
| - Internal revenue            | (30)       | (23)       | +35%        |
| <b>= External revenue</b>     | <b>279</b> | <b>228</b> | <b>+22%</b> |



# Safe harbor statement

This presentation includes certain forward-looking statements. Actual results could differ materially from those included in the forward-looking statements due to various risk factors and uncertainties, including changes in business, economic competitive conditions, regulatory reforms, foreign exchange rate fluctuations, uncertainties in litigation or investigative proceedings, and the availability of financing. These and other risks and uncertainties are detailed in the Company's reports filed with Securities and Exchange Commission and the German Exchange Commission „Deutsche Börse“.





# Fresenius Medical Care

**The World's Leading Renal Therapy Company**



**Conference Call, August 5, 2003**