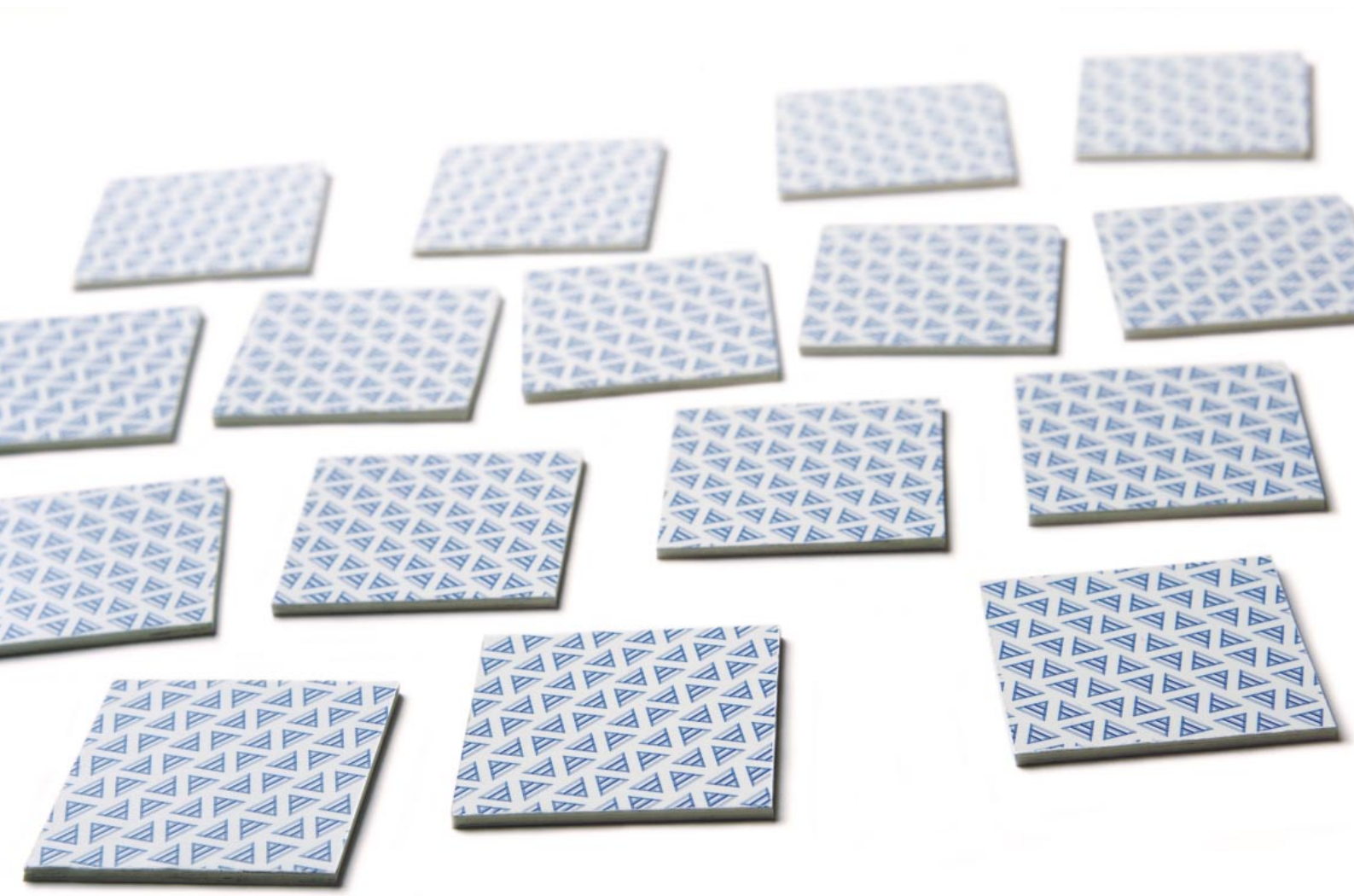
LEADERSHIP

Annual Report 2005



Fresenius Medical Care

Fresenius Medical Care is the world's leading dialysis company, but we do not take it for granted to be number one. Our leading position is the result of our strategic and operative initiatives which ensure our continuous development.

As in previous years, we introduced a number of measures in 2005 to advance the Company's business. It was our goal to preserve, improve and develop good things from the past, but we also wanted to break new ground.

Taking the famous game Memory® as an inspiration, we would like to present to you on the following pages the steps we took in 2005 to secure and maintain our global leading position today and in the future.

We hope you enjoy reading the 2005 Annual Report.

Vision: The global leader in dialysis

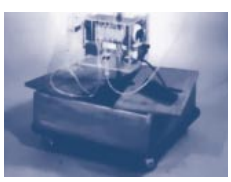
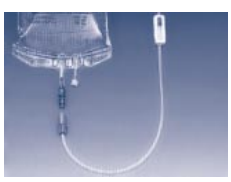
More than a quarter-century of experience in dialysis, innovative research, the global leader in dialysis services and dialysis products: This is Fresenius Medical Care. Patients with kidney disease can now look toward the future with much more confidence thanks to our innovative technologies and treatment concepts. We give them a future – one with the best-possible quality of life.

In order to meet the increasing demand for modern dialysis, we are working diligently to further the growth of our company. With our employees, we are pursuing goal-oriented strategies for continuous technological leadership. As a fully vertically integrated company, we offer products and services for the entire value chain in dialysis. The highest medical standards are our benchmark. This is our commitment to our patients, our partners in the healthcare system and our investors, who trust in the future of our company and our reliable performance.

Our goal: Creating a future worth living. For people. Worldwide. Every day.

DIALYSIS COMPACT

The history and development of peritoneal dialysis

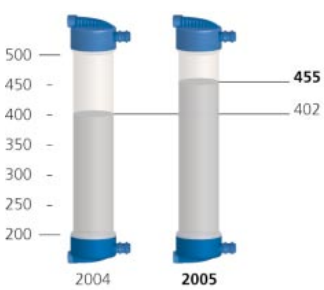
Fresenius Medical Care

Key Figures 2005

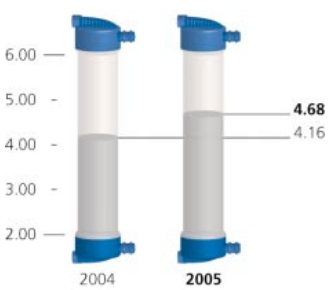
Operating data			
$ in millions	**2005**	2004	Change 2005 vs. 2004
Net revenue	6,772	6,228	9%
Earnings before interest and taxes, depreciation and amortization (EBITDA)	1,190	1,085	10%
Earnings before interest and taxes (EBIT)	939	852	10%
Net income	455	402	13%
Net Cash Flow from operating activities	670	828	-19%
Free Cash Flow[1]	373	567	-34%
Capital expenditure	315	279	13%
Capital expenditure including acquisitions	449	399	13%
Data per share			
Earnings per ordinary share ($)	4.68	4.16	13%
Dividend per ordinary share (€)	1.23	1.12	10%
Dividend per preference share (€)	1.29	1.18	9%
Key ratios (in %)			
EBIT margin	13.9	13.7	
Return on equity before taxes	19.3	18.4	
Equity to assets	49.8	45.7	
Before one-time costs[2]			
Earnings before interest and taxes, depreciation and amortization (EBITDA)	1,212	1,085	12%
Earnings before interest and taxes (EBIT)	961	852	13%
EBIT margin (in %)	14.2	13.7	
Net income	472	402	17%
Other data			
Employees (full-time equivalents, Dec. 31)	47,521	44,526	7%
Patients	131,450	124,400	6%
Clinics	1,680	1,610	4%
Treatments (in millions)	19.7	18.8	5%

Net revenue
$ in millions

Net income
$ in millions



Earnings per ordinary share
in $



[1] Before acquisitions and dividends

[2] One-time costs for the transformation of legal form and the settlement and related legal fees of $22 million ($17 million, net of taxes) in 2005

All figures in this report are stated in U.S.$ and in conformity with U.S. GAAP, if not indicated otherwise.
Unless specified, all charts refer to fiscal year 2005. For more details please look to the 5-year summary at the back of the report.

TODAY AND TOMORROW

Corporate Report

Content

Bad Homburg, March 2006

Dear ladies and gentlemen,

I am very proud to report to you that the past business year was once again very successful. We achieved new records in revenue and earnings and strengthened our global leading position.

We are honored to share this success with you and thank you for your trust in our Company. Therefore, we will propose a dividend increase of about 10% at the Annual General Meeting, raising the dividend per ordinary share to €1.23 and €1.29 per preference share. This would be the ninth consecutive annual dividend increase.

Please allow me to give you some further insight into the key figures for 2005. We achieved revenue growth of 9% to a record of approximately $6.8 billion. On a currency-adjusted basis this represents an increase of 8%, meeting the higher end of our target range. Excluding one-time costs we also significantly improved our operating margin in 2005 to 14.2%, up 50 basis points compared to 13.7% in 2004. We also achieved a new record in net income. Excluding one-time costs and on a like for like basis net income in 2005 was $472 million up 17% compared to the previous year. This result even exceeded our target. Including one-time costs, which were related primarily to the successful transformation of our legal form and conversion of the preference shares to ordinary shares, net income was $455 million, up 13% from 2004.

Our success was achieved due to the continued dedication and hard work by our management and employees. Every business segment contributed to this very positive development with North America and Europe accounting for the largest portion of group earnings. Both dialysis products and services continued to expand in all regions, increasing our market share.

At the beginning of 2005 we established a number of strategic initiatives to further strengthen and broaden our leadership position in the dialysis market. All of these initiatives are focusing towards advancing our company by taking advantage of our competitive edge, both from a technological and corporate strength perspective. We want to grow our core business in both products and patient care organically while taking advantage of growth opportunities within the global renal business. That means in detail: We aim at a revenue of $10 billion in the year 2010, which corresponds to an annual growth rate of 8%. With the acquisition of Renal Care Group we should be able to reach this goal earlier than originally anticipated. In the same period, we expect to achieve a sustainable earnings growth of more than 10% annually. Clearly these very ambitious goals require hard work but we are very confident to reach our targets for 2010.

Our strategic initiatives are described in greater detail on the “Leadership” pages of this annual report. Still, I would like to highlight the acquisition of Renal Care Group. This $3.5 billion purchase

is the largest in the history of our Company. The acquisition allows us to combine the key success factors of the dialysis industry – cost leadership and an attractive payor mix of private and public health insurance companies. Fresenius Medical Care and Renal Care Group both strive to provide the best-possible treatment and innovative therapies while maintaining high standards of patient care.

The global dialysis market is characterized by a growing number of patients and limited human and financial resources in the healthcare sector. Demands for improved treatment quality are also increasing. Here is where we, the management and employees, use our experience, know-how, dedication and innovative approach. We face and take on these challenges continuously with our renal products and services. We make dialysis treatment for kidney patients possible – affordable and with high quality.

We are indeed determined to continue our successful development in 2006. We expect to complete the merger with Renal Care Group in the first quarter of 2006. For the full year 2006, the Company expects to report revenue of more than $8 billion. The net income should significantly increase to more than $500 million. More details about our outlook for 2006 can be found from page 85 onwards.

Ladies and gentlemen, I would like to take this opportunity to thank you, the shareholders of Fresenius Medical Care, for your trust and support. I would also like to express my gratitude to the employees around the world, my colleagues on the Management Board and the members of the Supervisory Board. Together, we can continue to grow and excel as the world's leading renal therapy company.

Yours sincerely,

Dr. Ben Lipps
Chief Executive Officer
Chairman of the Management Board

A sincere "thank you" for a job well done

The Annual Report represents the efforts of many people rather than the work of just one individual. The last 18 months in particular have been very demanding and the numerous transactions and projects described in this Annual Report required extra dedication from all employees.

We, the Investor Relations team, are aware that we had to count on the support of our colleagues far beyond regular cooperation when writing the Annual Report 2005. At this point, we would like to sincerely thank all of those who contributed their impressive expertise and efforts to the publication of this report. Their work is not taken for granted. We are very lucky to be part of such a motivated and dedicated group of colleagues. The great cooperation of all people involved worldwide made our efforts a success.

Thank you.

Our Year 2005

January

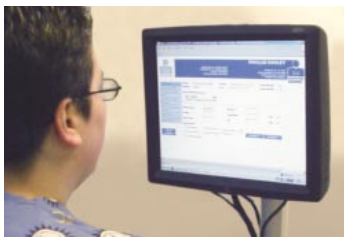
Immediate aid provided

Fresenius Medical Care donates US$ 500,000 after the tsunami catastrophe in Southeast Asia. This ensures care for renal patients in the region while providing essential medical products to local hospitals.

February

Charity founded

In Brazil, Fresenius Medical Care launches the "Kidney Foundation", a charitable institution for the medical and psychological care of children with kidney failure. More than 140 children receive vital treatment, education and financial support for medication and schooling.



March

Information system implemented

Fresenius Medical Care implements an electronic database known as Soarian to improve the documentation and analysis of individual treatment data from dialysis patients. Electronic processes will also replace most manual procedures to simplify cost calculations. The installation should be completed by 2007.

April

Doors opened

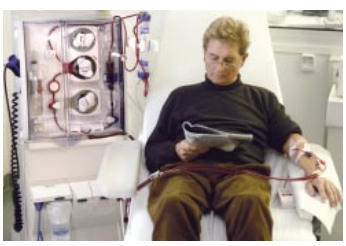
Fresenius Medical Care hosts a national Open House in the U.S. About 26,000 people visit our 1,100 dialysis clinics to learn about dialysis, the concept of an artificial kidney and the best-possible patient care based on our UltraCare treatment concept.

May

Course set

Fresenius Medical Care launches strategic initiatives for the continued growth of the Company: the acquisition of Renal Care Group in the U.S., the conversion of preference shares into ordinary shares and a change of the legal form to a KGaA (a commercial partnership limited by shares) are announced on May 4.

June



Innovation presented

Fresenius Medical Care introduces a new generation of dialysis machines to the markets outside North America: the 5008. Ground-breaking technologies and a particularly simple interface offer dialysis patients a significant improvement in the quality of life and allow an efficient use of resources.

July

Continuum launched

Our integrated treatment concept premieres at the "World Congress of Nephrology" in Singapore. The goal: raising the focus of home dialysis among specialists, patients and decision-makers in the health care industry.

August

Treatment guaranteed

The Gulf Coast of the U.S. is hit by hurricanes "Katrina" and "Rita" in August and September. Thanks to the quick reconstruction of dialysis centers and the tireless efforts of a great number of colleagues, Fresenius Medical Care is able to provide continuous care for dialysis patients in the affected regions.

September

Best candidates recognized

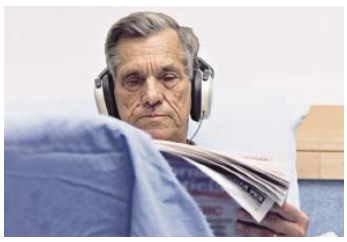
Three of our trainees are recognized by the German Chamber of Industry and Commerce for their exceptional examination results. They complete their professional training in office communication and as process technicians at the top of their class.

October

Relief operation started

A disastrous earthquake hits Pakistan on October 8. Fresenius Medical Care immediately begins collecting donations and distributing vital medical products to local hospitals and doctors.

November



Research commissioned

Fresenius Medical Care is commissioned by Center for Medicare and Medicaid Services to conduct a four-year study which will investigate the advantages of an integrated treatment concept known as Disease Management.

December

Company showcased

With the motto "Germany in Japan" German companies including Fresenius Medical Care present their business as part of a comprehensive networking program in cooperation with local business organizations and healthcare decision makers. Our activities include the support of a healthcare symposium in Tokyo, using the opportunity to raise awareness of our dialysis business in Japan.

Our Management Board

Dr. Ben J. Lipps (65)

has been Chief Executive Officer and Chairman of the Management Board of Fresenius Medical Care since 1999. He has held several senior offices within the Fresenius Group since 1985. The American has been active in the field of dialysis for more than 35 years. After earning his master's and doctoral degrees at the Massachusetts Institute of Technology in chemical engineering, Dr. Lipps led the research team that developed the first commercial Hollow Fiber Artificial Kidney at the end of the 1960s at DOW Chemical. With that, the triumphal procession of the artificial kidney – the dialyzer – commenced.

Lawrence A. Rosen (48)

joined Fresenius Medical Care on November 1, 2003 as Chief Financial Officer. Prior to that, he worked for Aventis S.A., Strasbourg/France, and its predecessor companies, including Hoechst AG, beginning in 1984. His last position was Group Senior Vice President for Corporate Finance and Treasury. He holds a Master of Business Administration (MBA) from the University of Michigan and a Bachelor of Science in Economics from the State University of New York at Brockport.

Dr. Rainer Runte (46)

is Member of the Management Board for Law & Compliance of Fresenius Medical Care and has worked for the Fresenius Group for 15 years. Previously he served as scientific assistant to the law department of the Johann Wolfgang Goethe University in Frankfurt and as an attorney in a firm specialized in economic law. Dr. Runte took the position as Senior Vice President for Law of Fresenius Medical Care in 1997 and was appointed as deputy member of the Management Board in 2002. Dr. Runte became a full member of the Management Board in early 2004.

Dr. Emanuele Gatti (50)

is Chief Executive Officer for Europe, Latin America, Middle East and Africa. After completing his studies in bioengineering, Dr. Gatti lectured at several biomedical institutions. He continues to be involved in comprehensive research and development activities focusing on health care products and services. Presently he is Visiting Professor at the Donau University in Krems, Austria. Dr. Gatti has been with the company since 1989. Before being appointed to the Management Board of Fresenius Medical Care in 1997, he was responsible for the dialysis business in Southern Europe.

Roberto Fusté (54)

is Chief Executive Officer for Asia-Pacific. After finishing his studies in economic sciences at the University of Valencia, the Spaniard founded the company Nephrocontrol S.A. in 1983. In 1991, Nephrocontrol was acquired by the Fresenius Group, where Mr. Fusté has worked since. Before being appointed to the Management Board of Fresenius Medical Care in 1999, Mr. Fusté held several senior positions within the company in the Latin America and Asia-Pacific regions.

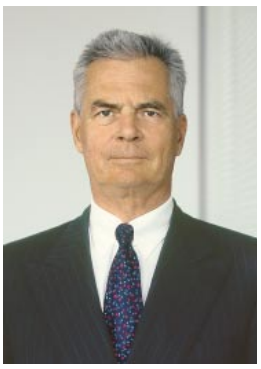
Mats Wahlstrom (51)

can look back on more than 20 years of experience in the renal field. From 1983 to 1999, Mats Wahlstrom held various positions at Gambro AB (Sweden), including President and CEO of Gambro in North America as well as CFO of the Gambro Group. In November 2002 he joined Fresenius Medical Care as President of Fresenius Medical Care's services division in North America. He became a member of the Management Board for dialysis care in North America in January 2004.

Rice Powell (50)

is Member of the Management Board for the Products & Hospital Group of Fresenius Medical Care in North America. He joined Fresenius Medical Care in 1997 and was appointed to the Management Board of the company in January 2004. Mr. Powell has more than 25 years of experience in the healthcare industry. From 1978 to 1996, he held various positions within Baxter International Inc. (U.S.), Biogen Inc. (U.S.) and Ergo Sciences Inc. (U.S.).

Report of the Supervisory Board of Fresenius Medical Care AG & Co. KGaA for the Fiscal Year 2005



The fiscal year 2005 was again a very successful year for the company in which, with the commenced acquisition of Renal Care Group (RCG), a further important step in improving the position in North America was successfully taken and in which the transformation of the company from a stock corporation (Aktiengesellschaft – AG) into a partnership limited by shares (Kommanditgesellschaft auf Aktien – KGaA) was initiated.

The company completed the reporting year still in the legal form of a stock corporation. In this period, the Managing Board, as corporate body, was responsible for the management. The then members of the Managing Board of the company are now members of the Managing Board of the general partner, i.e. Fresenius Medical Care Management AG. The members of the Supervisory Board, except Dr. Ulf M. Schneider, continued in office within the framework of the change in the legal form pursuant to Section 203 sentence 1 UmwG.

The Supervisory Board performed the tasks assigned to it by statute and the Articles of Association in the reporting year. We regularly advised the Managing Board on the management of the company and supervised the management of the company. The Supervisory Board was directly involved in decisions of fundamental significance. The Managing Board informed us regularly in written and oral reports, promptly and comprehensively on all material questions of company planning and strategy, the course of business, the situation of the group and the risk situation and risk management. We discussed in detail with the Managing Board deviations of the business development from the approved plans and targets. In particular, matters requiring approval were reviewed by the Supervisory Board and discussed with the Managing Board. In accordance with tradition, we again reviewed the business development of acquisitions of the previous years and compared this with the expectations at the time of the decision to make the relevant acquisition. We also reviewed the profitability of the individual national subsidiaries and discussed this with the Managing Board.

Five meetings of the Supervisory Board took place in the fiscal year 2005. No member took part in less than half of the meetings. In addition, between meetings, important or urgent information was provided in writing or in telephone conferences. Resolutions were passed by circular procedure on several occasions.

Principal Topics discussed in the Supervisory Board:
The transformation of the legal form of the company into a partnership limited by shares and the offer to the preference shareholders to convert their shares into ordinary shares was one of the main issues to occupy the Supervisory Board. We discussed the individual aspects of this project, which is principally aimed at securing the long-term position of the company on the DAX 30 and improving its access to equity funding, comprehensively and in detail with the Managing Board. We weighed up the effects of these measures on the company and the shareholders and considered the proposed new structure, in particular, the differences between the Articles of Association of the KGaA and those of the AG, as well as the changes in the form of the Corporate Governance. We became convinced that the interests of the company and the shareholders could be best secured, including from a long-term perspective, by these measures. By the conversion (ultimately of approx. 96%) of the preference shares into ordinary shares and the considerably higher market capitalization and liquidity of the latter class thereby obtained, a further important objective for the company was achieved. We actively followed the entire transaction until its conclusion and approved it at all of its stages.

Another major project of the company was the acquisition of the Renal Care Group (RCG). We discussed the effects of this transaction on the operative position of the company in North America comprehensively and in detail with the Managing Board. The effects, in particular, on the financial performance of the company were also the focus of our discussions with the Managing Board; we focused, in particular, on the additional financial burdens generated by the financing of this acquisition. In RCG, the company has been able to take over one of the fastest growing and most profitable competitors in the U.S.A. Although the concessions ultimately demanded by the U.S. Federal Trade Commission exceeded the original expectations as far as the number of clinics to be divested was concerned, we were able to satisfy ourselves that, despite high prices for the clinics sold, the original basic assumptions for the reasonableness of the acquisition from the business perspective may still be achieved. The geographic distribution of the RCG clinics, complementing the network of the company, and their high profitability will facilitate a further clear improvement in the position of our company in the North American market.

At a one and a half day's strategy meeting in the autumn, the Supervisory Board again discussed with the Managing Board the medium and long-term development, the existing and possible future business areas and the prospects for the company.

The Audit Committee:
The Audit Committee of the company is composed of three members; two of them are independent members who – apart from their membership of the Supervisory Board of the company and of the Supervisory Board of Fresenius Medical Care Management AG – have no substantial business or professional relations with the company, Fresenius AG or with any of their affiliated companies.

The Audit Committee held a total of five meetings and also several telephone or video conferences in the reporting year. The Audit Committee dealt with the annual and group financial statements and the risk management. It also discussed the quarterly reports, issued the instructions to the auditor and discussed and determined the main issues in the audit with him. Representatives of the auditor participated in all meetings of the Audit Committee and reported in each case on the audit work and the review of the quarterly financial statements.

In 2005, the Audit Committee was concerned, in particular, with the checking of the company's internal controlling system according to the Sarbanes-Oxley Act ("SOX 404") and observed the auditing procedure in this connection. On February 21, 2006, the company received the unqualified audit certificate of KPMG for 2005.

The Audit Committee also checked the legal relations of the company with Fresenius Aktiengesellschaft.

No committee other than the Audit Committee was formed within the company.

Corporate Governance:
At its first meeting in the fiscal year 2005, the Supervisory Board reviewed its efficiency. The quantity and flow of information between the Managing Board and the Supervisory Board and between the latter and the Audit Committee were the main focus of attention. No objections have been raised to the efficiency of the activity of the Supervisory Board and to its independence.

The declaration of compliance of the company pursuant to Section 161 Stock Corporation Act (AktG) to the German Corporate Governance Code was adopted at the meeting of the Supervisory Board on November 16, 2005. This declaration of compliance is permanently accessible on the company's Internet site.

Annual and Group Financial Statements:
The Supervisory Board reviewed the annual financial statements, the management report and the proposal for the appropriation of the balance sheet profit, the group financial statements and the group management report, in each case for the fiscal year 2005. The bookkeeping, the annual financial statements and the management report of Fresenius Medical Care AG & Co. KGaA (formerly Fresenius Medical Care Aktiengesellschaft) for the fiscal year 2005 and the group financial statements and the group management report of Fresenius Medical Care AG & Co. KGaA (formerly Fresenius Medical Care Aktiengesellschaft) were audited by KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, auditors appointed by general meeting resolution of May 24, 2005 and instructed by the Audit Committee of the Supervisory Board; they carry the unqualified audit certificate. The auditor's reports were presented to the Audit Committee and the Supervisory Board. The Supervisory Board approved the results of the audit. No objections are to be raised in respect of the annual financial statements of the company following the results of the review undertaken by the Supervisory Board itself.

On February 17, 2006, the Supervisory Board approved the annual financial statements of Fresenius Medical Care AG & Co. KGaA (formerly Fresenius Medical Care Aktiengesellschaft) for 2005, presented by the general partner. At this meeting, the draft of the report pursuant to form 20-F to be filed with the Securities and Exchange Commission (SEC), which, besides other information, contains the group annual financial statements according to US GAAP, was also discussed. The Supervisory Board also approved the general partner's proposal for the appropriation of profit, which provides for a dividend of €1.23 for ordinary shares and €1.29 for preference shares. On March 15, 2006, the Supervisory Board approved the group annual financial statements. Representatives of the auditors took part in the meetings of the Supervisory Board at which resolutions on the financial statements were taken.

Dependency Report:
The Managing Board has, in accordance with Section 312 Stock Corporation Act, prepared a report for the fiscal year 2005 on relations with affiliated companies. The report contains the concluding declaration of the Managing Board that the company received reasonable consideration in the course of the transactions listed in the report taking account of the circumstances known to the Managing Board at the time and other measures within the meaning of Section 312 Stock Corporation Act were neither taken nor omitted. The Supervisory Board reviewed the report. It shares the opinion of the auditor who certified the report as follows:

"After our conscientious audit and assessment, we confirm that (1) the statements of fact in the report are correct, (2) the consideration of the company in the course of the transactions listed in the report was not unreasonably high or that disadvantages have been compensated, and (3) the measures listed in the report are not the occasion for an assessment substantially different from that of the Managing Board".

The Supervisory Board thanks the members of the Managing Board of the general partner who were members of the Managing Board of the company in the fiscal year 2005 and all employees for their commitment and work contributed in 2005.

Bad Homburg v.d.H., March 16, 2006

The Supervisory Board

Dr. Gerd Krick

To Our Shareholders

Our shares developed positively in 2005 – for the third year in a row. This is the result of excellent operating earnings and strict adherence to a strategy of profitable and sustainable growth. Two significant structural changes were introduced in 2005: the conversion of our preference shares into ordinary shares and a change in the legal form of our Company to a Kommanditgesellschaft auf Aktien. Both structural measures received positive reactions from the capital markets and will support the further development of Fresenius Medical Care, while securing our long-term position as the leading dialysis company.

Content

Corporate Governance

Group Management and Monitoring

As a corporation with a stock market listing both in the U.S. and in Germany, we are subject to a number of regulations and recommendations for the management, administration and monitoring of the Company and its subsidiaries. We are subject to the regulations of Deutsche Börse AG and adhere voluntarily to most of the recommendations of the German Corporate Governance Code. At the same time, we are subject to the regulations connected to our listing in the U.S., with an emphasis on the Sarbanes-Oxley Act (SOX) and the Corporate Governance Code of the New York Stock Exchange. The Sarbanes-Oxley Act is a law for companies and their auditors aimed at improving disclosure and control. The broadening of regulations for financial reporting and related internal control systems is designed to increase the trust of investors and other interested parties. We meet all of the current requirements set forth in this law.

As a non-U.S. company (a so-called "Foreign Private Issuer"), we did not have to comply with the provisions within the Sarbanes-Oxley Act which required special risk management activities according to SOX 404 before December 31, 2006. However, we implemented these provisions early, on December 31, 2005.

Fresenius Medical Care's declaration concerning significant differences between the systems of corporate governance in Germany and the U.S. – based on the listing standards of the New York Stock Exchange – can be accessed on the Internet at www.fmc-ag.com.

The Articles of Association of Fresenius Medical Care determine the responsibilities of the various elements of the Company and may also be found online. These elements of Fresenius Medical Care as an Aktiengesellschaft or stock corporation included the Annual General Meeting, the Supervisory Board and the Management Board. In its new legal form as a partnership limited by shares (Kommanditgesellschaft auf Aktien, KGaA), the elements are the Supervisory Board, the personally liable partner Fresenius Medical Care Management AG and the Annual General Meeting. More on the transformation in the legal form can be found on page 24.

The corporate governance guidelines also remain binding within the new legal form.

There were no significant changes to the structure of the Group management and monitoring in 2005. The Management Board and Supervisory Board work closely together for the benefit of the Company with a joint goal of creating a sustainable increase in Group value. The Management Board regularly informed the Supervisory Board of its plans and strategic developments and about the progress of business activities and the Company's subsidiaries including the current risk situation. The Articles of Association require the Supervisory Board to approve all important business transactions. More can be found in the Supervisory Board report on page 8.

Compensation

Compensation for Management Board Members is a combination of fixed and performance-related compensation. For 2005, Fresenius Medical Care once again did not disclose the individual compensation of its Management Board members. From our point of view, this will limit the possibility for the Company to structure the compensation of the Management Board members differentiated by individual performance and entrepreneurial responsibility.

Compensation for the Supervisory Board was set by the Annual General Meeting on May 24, 2005 and is governed by article 13 of the Articles of Association, which can be found on Fresenius Medical Care's Internet pages. Supervisory Board members receive only fixed compensation.

Further details on the compensation of the Management and Supervisory Boards can be found in the financial section of this Annual Report beginning on page 36.

As a KGaA, Fresenius Medical Care is also not required to disclose the individual compensation of Management Board members of its personally liable partner, Fresenius Medical Care Management AG. However, in keeping with our declaration to maintain a high standard of corporate governance and transparency within the new legal form, we will publicize the individual compensations for the Management Board members of our personally liable partner for 2006.

Risk Management

Active risk management and transparent reporting are a mark of our careful entrepreneurial activities.

To us, good corporate governance means handling the risks of our business responsibly. A comprehensive management system is therefore of utmost importance to identify risks early and minimize the costs related to these risks through timely intervention. Our risk management is an integral component of our day-to-day business and is reviewed on a regular basis by independent external auditors. Our compliance program also plays a significant role in ensuring that our employees adhere to national and international regulations. Further information on Fresenius Medical Care's risk management and compliance activities can be found from pages 70 onwards and on page 67.

Transparency in our Financial Reporting

We place special importance on informing our shareholders simultaneously and uniformly during regular financial reporting events. Regulatory reports and our Web site play an essential role in these efforts. Institutional investors as well as private shareholders have equal and timely access to the information we release. All regulatory reports as well as other news for investors and the media are published on our Web site.

We keep our shareholders informed of key dates by means of a financial calendar, in the Annual Report, in quarterly reports and on the Web site of Fresenius Medical Care. Shareholders may exercise their voting rights during the Annual General Meetings themselves or select a proxy to exercise their voting rights for them. Shareholders can also authorize a company-appointed proxy to exercise their voting rights according to the shareholders' preferences. Shareholders were able to instruct proxies before and during the Annual General Meeting on May 24, 2005 and during the extraordinary meeting of ordinary shareholders and the separate meeting of preference shareholders on August 30, 2005 until the end of the open discussion period ended. Shareholders will also be entitled to their proxies for the upcoming Annual General Meeting on May 9, 2006. All documents and information about the meeting can be found on our Web site.

According to article 15 of the German Securities Trade Act, members of the Management and Supervisory Boards or other employees who assume management positions are required to inform the Company when buying or selling shares or derivatives in Fresenius Medical Care in excess of €5,000 within a single year. During 2005, two disclosures were provided to us according to article 15 of the German Securities Trade Act, which we publicized on our Web site in keeping with the regulations.

Annual General Meeting – New Regulations

As part of the Act for the Modernization of Corporate Integrity and the Right to Challenge Shareholders' Resolutions (Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts) that took effect on November 1, 2005, we have changed the deadline for the registration and identification of shareholders for the coming Annual General Meeting to the internationally recognized record date, which also simplifies the processes. The 21st day prior to an Annual General Meeting will serve as the deadline for the registration and identification of shareholders. This increases the incentive for shareholders to attend general meetings and exercise their voting rights, especially for foreign shareholders.

German Corporate Governance Code and Declaration of Compliance for the Fiscal Year 2005

The German Corporate Governance Code includes many recommendations for the management and monitoring of companies listed in Germany. The code aims to make the rules for managing and monitoring companies in Germany more transparent for investors. This code should also increase the trust of the public as well as employees and customers in the management and monitoring of listed stock corporations.

The Declaration of Compliance is available on the Internet at www.fmc-ag.com in the Investor Relations section.

The majority of the guidelines, recommendations and suggestions in the code have been an integral and active part of Fresenius Medical Care's day-to-day operations since the founding of the Company.

In December 2005, the Management and Supervisory Boards of Fresenius Medical Care AG published the Declaration of Compliance for the fiscal year 2005 required by article 161 of the German Stock Corporation Act. Fresenius Medical Care AG complies with the recommendations of the German Corporate Governance Code with the following exceptions:

Code Clause 4.2.4 "Individual Compensation"
The German Corporate Governance Codex determines that for each member of the Managing Board the compensation has to be disclosed individually. From our point of view this will limit the possibility for the company to structure the compensation of the management board members differentiated by individual performance and entrepreneurial responsibility.

Code Clause 5.1.2 and 5.4.1 "Age Limit Executive and Supervisory Board"
Based on the German Corporate Governance Code the Supervisory Board has to introduce an age limit for the members of the Management Board. For now, we will abstain from introducing an age limit for the members of the Management Board since that will limit the Supervisory Board in general selecting suitable management board members. We further abstain from introducing such an age limit for the Supervisory Board as we consider the Supervisory Board as an institution that inherits knowledge, abilities and expertise that are decisive for the Company.

Code Clause 5.4.5 "Compensation Supervisory Board"
Based on the German Corporate Governance Code Members of the Supervisory Board shall receive fixed as well as performance-related compensation. Performance-related compensation should also contain components based on the long-term performance of the company. Fresenius Medical Care AG does not pay any performance-related compensation to the members of the Supervisory Board in addition to the annual fixed compensation. For now, we do not intend to deviate from this compensation procedure as a performance-related compensation linked to the long term performance of the company is not common in our worldwide competitive environment.

LEADERSHIP BY

In the spring of 2005 we introduced GOAL 10, our strategy for further sustained growth of our Company. GOAL 10 stands for **G**rowth **O**pportunities to **A**ssure **L**eadership in 20**10**.

GOAL 10 defines our growth potential for the coming years. Fresenius Medical Care will follow four different paths in order to perform successfully in a broader spectrum of the global dialysis market and to achieve our own objectives.

Our GOAL 10 Objectives

	2004	2005	GOAL 10
Sales ($ in millions)	6,228	6,772	~ 10,000
Annual revenue growth at constant currency	10%	8%	~ 6% - 9%
Share of dialysis market*	~ 12%	12,9%	~ 15%
Market volume* ($ in millions)	~ 50,000	~ 52,500	~ 67,000
Operating margin	13.7%	14.2%	~ 15%
Annual net income growth	21%	17%	>10%

* Company estimates

Path 1: Organic Growth

For the coming years, we are aiming at an annual organic sales growth in dialysis care of 5% to 6%. To meet this goal, we are expanding our leading innovative treatment concepts such as UltraCare and Cardioprotective Hemodialysis, which make our portfolio stand out from our competitors'. In addition, we plan to open new dialysis clinics and increase the number of patients whose treatments are covered by private health insurance.

Our ability to innovate is proven by our groundbreaking dialysis products. New high-quality products such as the 5008 dialysis machine (please see page 56) and cost-effective manufacture add significantly to the organic growth of our dialysis products sector. Detailed information on cost-effective production can be found on page 76.

Path 2: Acquisitions

We want to increase our future profitability through attractive acquisitions broadening our network of dialysis clinics.

The targeted acquisition of dialysis clinics allows us to optimize our global and regional presence. In North America we plan on expanding our clinic network in particularly attractive regions. Despite the above-average size of the purchase, the acquisition of Renal Care Group that we announced in May of 2005 is an excellent example. More information on this acquisition can be found from page 104 onwards.

Outside North America we want to participate in the privatization process of healthcare systems and, for example, continue to achieve above-average growth in Eastern Europe; acquisitions will support these activities. In our clinic network outside North America, we continue to emphasize the improvement of our strategic position in selected markets.

Path 3: Horizontal Expansion

We plan to expand our product portfolio beyond patient care and dialysis products and increase our activities in some areas of dialysis medication. Our initial step will be to focus on drugs regulating the patients' mineral and blood levels. These include iron and vitamin D supplements as well as phosphate binders. High phosphate levels in the blood can lead to medium-term damage of patients' bones and blood vessels. Phosphates are not always removed sufficiently during dialysis, and phosphate binders can remedy this.

Extracorporeal therapies similar to dialysis, in which the blood is filtered outside the body, are another element of our horizontal expansion plans. We have already begun gaining experience in this field — as reported on pages 107 and 110 — in the U.S. and Europe. Still, it will take some time until these products are ready for the market and can contribute to the growth of Fresenius Medical Care.

Path 4: Home Therapies

We aim to achieve a long-term global leading position in the field of home therapies, including peritoneal dialysis and hemodialysis. Here we combine our comprehensive and innovative product portfolio with our expertise in dialysis care.

STRATE

Dr. Lipps presents our growth strategy. The goal: revenue of $10 billion in 2010.

More information can be found on page 119 under “Continuum”.

We expect these strategic steps — extracorporeal therapies, dialysis drugs and home therapies — to achieve annual growth rates of 2% to 3%. With an expected organic growth of 5% to 6% per year for our core business, our goal is to average an annual revenue growth of about 6% to 9%, reaching approximately $10 billion in 2010. In addition, the strong cash flow development in North America will enable us to service our debt and to finance investments outside of North America related to our growth strategy.

Financial prudence will guide us along all paths of GOAL 10 and strengthen our position as the world’s leading dialysis company.

GY

Stock Market

Most stock markets around the world developed positively in 2005. European and Asian exchanges in particular benefited from a continued rally in prices for raw materials, a strong dollar and a number of mergers, takeovers and restructurings. In Japan, the hope of a sustainable economic recovery rose, benefiting property and retail shares. Stock exchanges in the U.S. were not a part of the overall upward momentum in the worldwide markets: the benchmark Dow Jones stock index stood 0.6% lower at the end of 2005 than at the end of 2004. The Standard & Poor's index, which represents 500 stocks, rose just slightly less than 3%. The Nasdaq Composite Index increased 1.4%.

The reasons for the weak development in the U.S. include the gradual increase in interest rates by the Federal Reserve and the continued high price of crude oil, which crested $70 a barrel during the hurricanes in late summer, as well as the cooling of the previously steady real estate market. The Dow Jones itself was also affected by the shares of General Motors, which lost half their value. In addition, only one oil share is part of the Dow Jones – ExxonMobil – so that gains in energy stocks had little effect.

As in previous years, the oil price had the expected significant impact on stock markets. Hurricanes "Rita" and "Katrina" damaged some of the oil wells in the Gulf of Mexico, reducing the production capacity in America. As a result, the oil price rose. The U.S. dollar was able to make strong gains against the euro and the yen in 2005. Compared to the euro, the U.S. dollar made the strongest increases since 1999, gaining about 13%. One reason for the gain was the higher interest rate level in the U.S. At the end of the year, the exchange rate was about $1.18 per euro. This benefited the development of European and Asian exchanges when compared to their American counterparts.

European and Asian stock markets saw a positive overall development.

The German DAX index showed volatile lateral movement in the first months of 2005, moving within a range of 4,200 and 4,400 points. It reached its lowest point on April 28 with 4,178 points. Beginning in May, the index again began to climb and retreated only during the hurricanes in September and October due to fears of higher oil prices. At the end of the year, the index posted a strong growth due to encouraging economic data and supported by strong corporate earnings, reaching its highest point of the year of 5,459 points on December 20. By ending the year above 5,400, the DAX rose by 27% in 2005. This is the third consecutive year of DAX increases. An excellent development, even when compared to other large, international exchanges – the Euro STOXX 50 Index rose by about 17% during the year, the French benchmark index, the CAC 40, increased by 22% and the British FTSE 100 by 16%.

As in previous years, the shares of the individual sectors developed quite differently. The biggest gainers in the STOXX sector indices were raw materials, chemicals, construction and consumer goods shares as well as financial services. The relative sector indices rose by more than 30% in 2005. Pharmaceutical and health care shares increased by 28%. The telecommunications sector ended 2005 with a loss of nearly 2% and was the only sector without posting a gain during 2005.

Overall positive development is expected for 2006.

Overall, positive development of stock markets is expected in 2006. In addition to restrictive monetary policies of central banks, weakening economic growth, geopolitical uncertainties as well as a further increase in oil prices are among the key risk factors for the development of stock exchanges in 2006.

Development of Our Shares

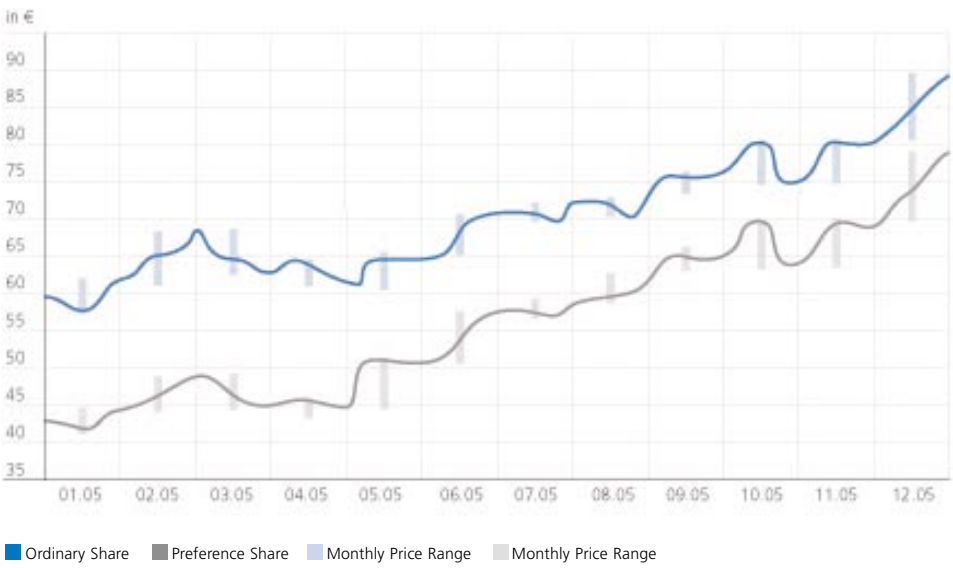
Our shares increased for the third consecutive year.

Fresenius Medical Care shares developed very positively in 2005, gaining for the third year in a row. The ordinary shares rose to €89, an increase by more than 50% compared to the previous year, thus significantly outpacing the DAX index. Compared to the 30 shares in the DAX, Fresenius Medical Care's ordinary shares were the seventh-best performer in 2005. The preference shares increased 88% to nearly €79.

Relative Share Price Performance

Based on the good operating results of the Company, both share classes of Fresenius Medical Care stock outpaced the market at the beginning of 2005. This trend increased with the announcement of our plans to convert the preference shares into ordinary shares and transform the legal form of our Company into a partnership limited by shares (Kommanditgesellschaft auf Aktien or KGaA). Both measures are discussed in detail from page 24 onwards. Overall, equity markets reacted positively to these steps, and the proposed conditions of the share conversion were reflected in the shares' development after the announcement of May 4, 2005. The stocks rose 14% in the three following days. They continued their climb afterwards and once again beat the overall positive development of the DAX. The ordinary and preference shares both reached their highest point of the year on December 28, 2005, at €89.45 and €79.30 respectively.

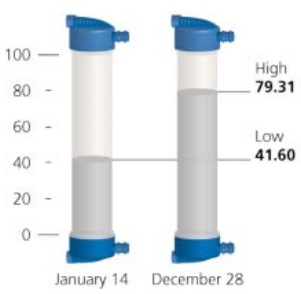
Share Price Development



The devaluation of the euro compared to the U.S. dollar was a key reason for our share price development. A weaker euro is an operational disadvantage for Fresenius Medical Care since we maintain our financial accounting in U.S. dollar. If our operational results in U.S. dollar are converted into euro, they are naturally lower with a stronger euro. For the valuation of our shares, however, this has a positive effect – the shares appear to be less expensive because the growth rates achieved in U.S. dollar are not as strongly affected by the conversion into euro as would be the case with a strong euro. In addition to the strong fundamental development and the announced strategic measures, currency exchange effects are likely to have had a slightly positive effect on the value of our shares last year.

Ordinary Share in €

Preference Share in €



The preference shares of Fresenius Medical Care saw a special development. During the first four months of the year, the preference and ordinary shares developed nearly parallel. With the announcement of the voluntary offer to convert preference shares into ordinary shares on May 4, 2005, the historic difference in the value of the shares shrunk significantly. Although the difference in price between the preference and ordinary shares was at least 25% to 30% in recent years, the difference decreased to a range that accounted for the proposed conversion premium to be paid by shareholders as well as a risk premium for the equity markets. This resulted in strong above-average gains for the preference shares. The range decreased further after the Extraordinary General Meeting in August of 2005 when the conversion premium was reduced from €12.25 to €9.75. Further information on the conversion can be found from page 24 onwards.

Our shares are traded on the New York Stock Exchange (NYSE) in the form of American Depository Shares (ADS) quoted in U.S. dollar. Three ADS represent one share. The development of the ADS is generally tied to the development of the ordinary and preference shares. However, the ADS ended the year with a significantly lower increase. The ADS for the ordinary shares ended the year with a growth of 30% at $35.03, while the ADS for preference shares finished the year 67% higher at $31.20.

Market Capitalization
at December 31
€ in million

In 2005, our market capitalization rose 58% to more than $8 billion.

The market capitalization of our Company increased significantly last year, standing at €8.31 billion on December 31, 2005, with an increase of €3.044 billion or 58% over 2004. This is the biggest annual increase in the ten-year history of the Company.

The average trading volume of our ordinary shares last year was about 335,000 shares per trading day, significantly higher than the nearly 256,000 shares of 2004. The average trading volume of the preference shares was about 96,000 shares per trading day compared with nearly 47,000 shares a year earlier. This strong increase is due to higher general interest in our shares as an investment vehicle and, definitely, increased interest because of the share conversion program launched in 2005.

Because of the lower liquidity of the preference shares and the fact that this share class does not carry voting rights, our preference shares historically traded at a discount to the ordinary shares. Until May 4, 2005, this difference was between 27% and 30%, as in previous years. Following that date, the difference decreased primarily because of the conversion premium for shares in the voluntary conversion offer and a risk premium that was determined by the market. At the end of the year, the difference was 11%.

Basic Data

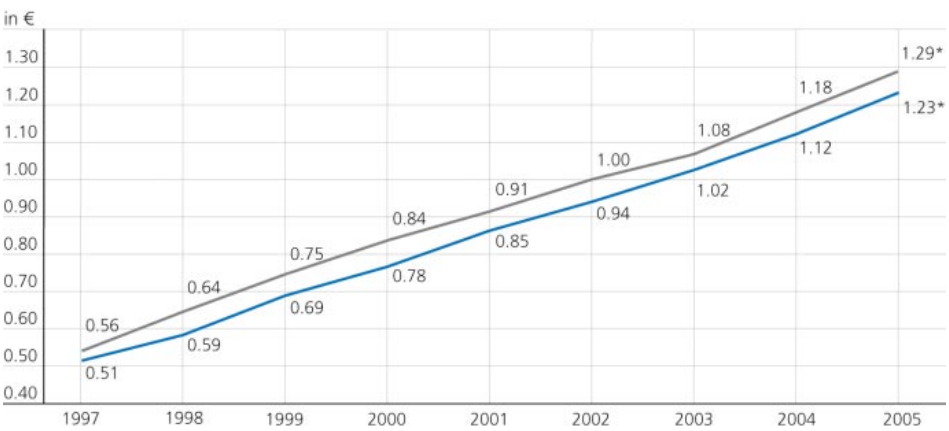
	Ordinary Share	Preference Share
Ticker Symbol		
Frankfurt Stock Exchange	FME	FME3
New York Stock Exchange	FMS	FMS-p
Security Code		
WKN	578 580	578 583
ISIN	DE 0005785802	DE 0005785836
CUSIP No. (NYSE)	358029106	358029205
Stock exchange		
Germany	Frankfurt (Prime Standard)	
United States	New York Stock Exchange (NYSE)	

Dividend

Dividends should increase for the ninth year in a row to €1.23 per ordinary share and €1.29 per preference share.

The ninth consecutive dividend increase will be proposed during the Annual General Meeting on May 9, 2006. Because of the operative development of the previous year, which led to new Company records in revenue and net income, the dividend is set to increase to €1.23 from €1.12 per ordinary share and to €1.29 from €1.18 per preference share. Compared to 2004, this is a dividend increase of about 10%. Fresenius Medical Care is continuing the profit-oriented dividend policy it has followed in previous years. Based on these proposed dividend increases and the closing share prices of Fresenius Medical Care at the end of 2004, this would be equivalent to a dividend yield of 1.4% for our ordinary shares and 1.6% for the preference shares, lower than last year's yields of 1.9% and 2.8% respectively. This decrease is predominantly the result of the significant increase in our share prices.

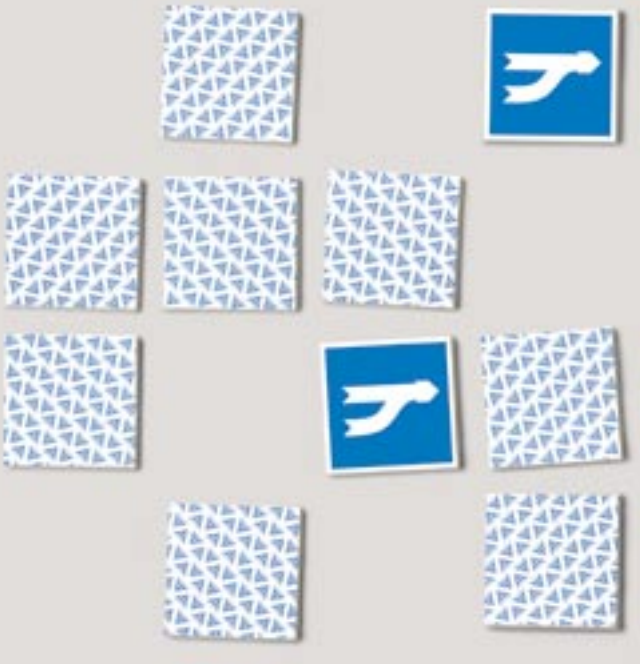
Dividend Development since 1997



* Proposal for approval at the Annual General Meeting on May 9, 2006

Ordinary Share Preference Share

If the proposal of our Company is accepted by the Annual General Meeting, total dividends of approximately €120 million will be distributed for 2005, an increase of about 10%. At an exchange rate of $1.1797 per euro at the end of 2005, this represents total dividends of approximately $142 million. Based on our net income before one-time items of $472 million, this is a payment ratio of just under a third, remaining almost unchanged compared to the previous year.



LEADERSHIP BY

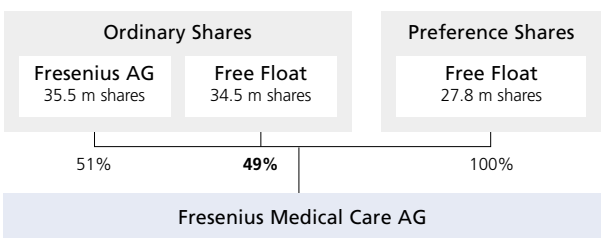
To expand our position as the leading dialysis company, we made two significant structural changes in 2005: the voluntary conversion of Fresenius Medical Care preference shares into ordinary shares and a change in the legal form into a partnership limited by shares (Kommanditgesellschaft auf Aktien or KGaA). This improves the liquidity and the attractiveness of our shares while strengthening our financial flexibility to take advantage of future growth opportunities.

After shareholders approved these measures by a wide majority during the extraordinary general meeting on August 30, 2005, we completed the changes on February 10, 2006. Although this Annual Report is a report on the 2005 business year, we decided to discuss the finalization of the structural changes as well.

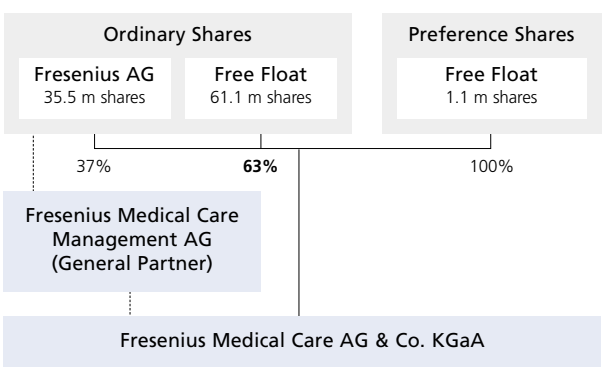
The conversion period of the preference shares into ordinary shares started on January 6 and ended on February 3, 2006. The shareholders of approximately 27.8 million preference shares (including holders of American Depository Shares that represent preference shares) had the opportunity to voluntary convert their shares into ordinary shares at a ratio of 1:1 including a conversion premium of €9.75 per preference share. This attractive offer was well-received: shareholders tendered about 26.6 million preference shares, i.e. represents approximately 96% of all outstanding preference shares into ordinary shares.

The legal transformation into a KGaA in detail:

Former Structure



New Structure



The change in legal form combined with the conversion of preference shares into ordinary shares created more room to maneuver both financially and operationally. We are now perfectly positioned to realize our clear long-term growth objectives and strategies.

Improved liquidity

The conversion of about 26.6 million preference shares into ordinary shares increased the free float of our ordinary shares from approximately 34.47 million ordinary shares to about 61.1 million ordinary shares. This is an increase of more than 77%. The larger free float is expected to lead to a significant increase in the daily trading volume of the ordinary shares and have a positive effect on their liquidity. Finally, liquidity is a key investment criteria for many investors — especially institutional investors — and can make our shares more attractive to shareholders.

Higher attractiveness for institutional investors

We secured and improved our position in the benchmark German stock index, the DAX, with the share conversion. When calculating the weighting of the index, only the market capitalization of the free float and the average daily trading volume of Fresenius Medical Care's ordinary shares are considered. We believe an improved position on the DAX will attract more institutional investors.

More flexibility in raising of capital

We can now issue new ordinary shares should we need or desire to raise capital. Until now, increasing our equity was fundamentally limited to an issue of new preference shares. However, this presented no true alternative since the preference shares traded at a discount to the ordinary shares.

Additional cash flow

Through the share conversion, we received new capital. The conversion premium of €9.75 per preference share paid by the preference shareholders was applied to our capital reserves.

STRUC

Approved: Our shareholders agreed to change of legal form and share conversion on August 30, 2005.

We expect net proceeds of €260 million to reduce our liabilities as well as for general operations.

Fresenius Medical Care will maintain Corporate Governance, essentially retaining the current standards, within the new legal form. We will also continue to provide the most transparency possible. As part of the legal change, a business segment of Fresenius AG — Fresenius Medical Care Management AG — became the partner with unlimited liability of Fresenius Medical Care AG & Co. KGaA (see chart). Concerning the corporate structure, the new Supervisory Board of the Fresenius Medical Care Management AG will, as already practiced in the former Fresenius Medical Care AG, include at least two independent members with no further connection to the Company. Furthermore the Fresenius Medical Care Management AG will continue guaranteeing required independence in the Supervisory Board via so called “Pooling Agreements”, which the Fresenius AG also obey to. More information on corporate governance can be found on page 12.

Following the legal change and the end of the conversion period, Fresenius AG’s holding of ordinary shares decreased from 50.8% to 36.8%. With the change of the legal form, Fresenius AG maintains the right to fully consolidate Fresenius Medical Care.

TURE

Capital Structure

The capital structure of Fresenius Medical Care remained largely unchanged in 2005. Fresenius AG held 50.76% of the 70 million ordinary shares at the end of the year, leaving 34.45 million ordinary shares as free float. About 27.6 million preference shares were outstanding with a free float of 100%. The registered capital of Fresenius Medical Care was practically unchanged at nearly €250.27 million on December 31, 2005. In the course of the business year 2005, about 1,466,000 options on preference shares were exercised as part of the stock option plan for management. More information on the stock option program can be found in the financial section on page 76.

The capital structure changed significantly as a result of the voluntary offer to convert preference shares into ordinary shares, which was completed in February 2006. Detailed information on the measure is available from page 83 onwards in this report.

Shareholder Structure

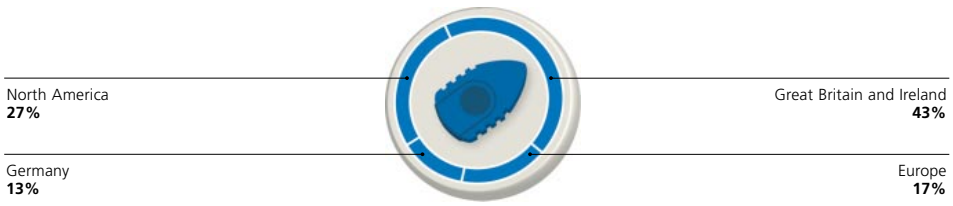
As in previous years, we conducted a survey of our shareholder structure in 2005. Because of the planned conversion of the preference shares and the change in legal form, there was a strong shift in our shareholder structure. We conducted another survey at the beginning of 2006 to gain a new overview of the shareholder structure following the completion of the programs mentioned above. Only a limited comparison with figures from previous years is possible, because at the end of the conversion period, just 1.1 million preference shares remained outstanding. Therefore, we decided to focus on the approximately 96.6 million ordinary shares and forego a comparison with the previous years because of the lack of comparable data.

Most of our ordinary shares are held in the UK and North America.

Our ordinary shares are primarily held by investors in the UK and North America. The percentage of North American investors was about 27% at the beginning of 2006 while 43% of our investors live in the UK and Ireland, and some 13% of our shareholders in Germany. One of the potential reasons for the shift in shareholders toward the UK and Ireland is the fact that a majority of our preference shares prior to the conversion were held in these countries.

We will once again review our shareholder structure at the beginning of 2007, if not before. The collected data will then be published, with comparisons to the previous year, in our 2006 Annual Report.

Regional Distribution of Ordinary Shares (Free Float) 2005



Extraordinary General Meeting

In addition to the Annual General Meeting on May 24, 2005, an Extraordinary General Meeting of the ordinary shareholders was held on August 30, immediately followed by a special meeting of the preference shareholders.

On August 30, the shareholders of Fresenius Medical Care approved the transformation of the legal form of the Company into a partnership limited by shares (Kommanditgesellschaft auf Aktien or KGaA). In addition, they approved the proposed voluntary offer for preference shareholders to convert their shares into ordinary shares.

A large majority of the ordinary shareholders approved both measures. For the change in legal form, 91% of the share capital present approved the measure while about 94% of the share capital present approved the conversion of the preference shares into ordinary shares. With this, both measures received the required three-quarter majority of the share capital present very explicitly.

The preference shareholders also approved the conversion of the preference shares into ordinary shares by a wide majority during the special meeting of preference shareholders. Nearly 85% of the preference share capital present approved the proposal, once again clearing the required three-quarters majority threshold. The preference shareholders were not allowed to vote on the change in legal form.

In addition, the Extraordinary General Meeting approved related adjustments to the existing employee profit-sharing program and new approved capital.

Ordinary shareholders and preference shareholders approved the conversion of the preference shares into ordinary shares based on a counter proposal by Citadel Equity Fund Ltd., London, to reduce the conversion premium to be paid by preference shareholders from €12.25 to €9.75. More information on the conversion of preference shares can be found on page 24f and page 83.

Investor Relations

The year 2005 was marked by a number of capital market-related developments at Fresenius Medical Care. In addition to the publication of quarterly results and the organization of General Meetings, these also included the process of converting the preference shares into ordinary shares, the planned change of the legal form from a stock corporation (Aktiengesellschaft or AG) into a partnership limited by shares (Kommanditgesellschaft auf Aktien or KGaA), the acquisition of Renal Care Group in the U.S. and our long-term growth plan GOAL 10.

Communicating all of these initiatives comprehensively, transparently, openly and in a timely manner to all participants in the capital markets was the focus of our investor relations activities in 2005. At the same time, we worked on expanding and improving the information we provided to allow for a fair assessment of the Company's situation.

Our comprehensive quarterly and annual reports are characterized by detailed segment reporting and comprehensive notes. The financial reports are published within the timeframes set by the various guidelines we are held to in both the U.S. and Germany. This includes the requirements of the German Corporate Governance Code, the Sarbanes-Oxley Act, Deutsche Börse and the New York Stock Exchange.

We also broadcast our analyst conferences live on the Internet and offer Web casts of these meetings for replay online. Telephone conferences as well as the speech given by our Chief Executive Officer at our Annual General Meeting and press conferences are available live on the Internet at www.fmc-ag.com.

More than 500 one-on-ones underscore the high demand for information from our shareholders in 2005.

The Investor Relations department continued active discussions with financial analysts as well as with institutional and private investors worldwide throughout the year. Because of the number of significant events in the past year, our shareholders naturally required an extraordinary amount of information. In the past year, we attended ten investment conferences and presented our Company at 24 roadshows in Europe and North America. This represents an increase of 40% over the previous year. We not only built upon the high level of communication of previous years, we also set a new record in the history of Investor Relations at Fresenius Medical Care. Since we are also dedicated to maintaining a continuous dialogue with our current and potential investors, we held more than 500 one-on-one meetings with analysts and institutional investors – an increase of 60% – once again proving our commitment to open communication. The extraordinary success of the conversion of preference shares and the change in legal form was, in the end, the result of an extensive investor relations program which was expanded significantly beyond its already impressive level.

In April 2005, we held an analysts and investors day in Boston. The main goal of this Capital Market Day was to describe in detail the long-term growth strategy of Fresenius Medical Care, GOAL 10. We reported on current projects, products and markets as well as the strategies and perspectives with which we hope to strengthen our position as the world's leading dialysis company in the future. More details can be found from page 16 onwards.

Our shareholders can gather information online – and do so in increasing numbers.

In online communications, the number of page impressions rose by 30% to more than 21 million. In 2004, we had just 16 million page impressions. This illustrates the growing interest in our electronic communication offering. We see these figures as motivation to expand and optimize our Web pages once again in 2006. Suggestions on how we can further improve our Web site to meet your information needs are always welcome.

Key Figures of Fresenius Medical Care Shares

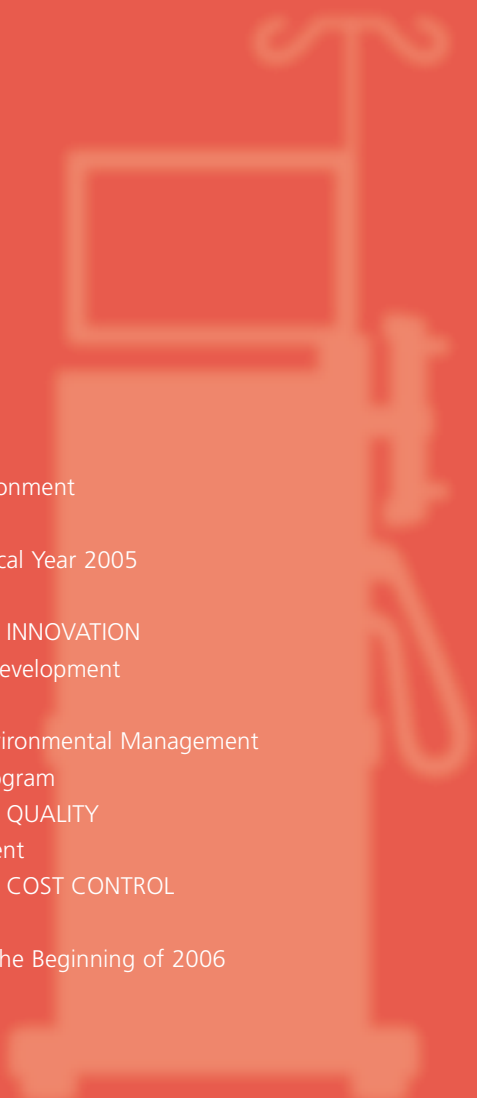
		2005		2004	
		Ordinary	Preference	Ordinary	Preference
Authorized capital	$ in mio.	229,494	74,476	229,494	69,878
Number of shares	mio.	70	27.76	70	26.30
Closing price (Xetra trading)					
High	€	89.45	79.31	63.6	45.2
Low	€	57.37	41.60	49.4	33.3
Year-end	€	89.00	78.85	59.2	42.7
Average daily trading volume	Share	335,056	96,038	256,000	47,000
Closing price (ADS - NYSE)					
High	$	35.22	31.20	27.2	19.2
Low	$	25.09	18.16	20.4	13.9
Year-end	$	35.03	31.20	26.8	19.2
Market capitalization					
(at December 31)	€ in bn	8.31		5.26	
Dividend					
Per share*	€	1.23	1.29	1.12	1.18
Dividend yield	%	1.4	1.6	1.89	2.76
Distribution amount	€ in mio.	120		109	
ADS (NYSE – Level III program)					
Shares	$	4.68	4.75	4.16	4.23
ADS (NYSE – Level III Programm)	$	1.56	1,58	1.39	1.41
Index weight					
DAX	%	0.53		0.45	

* 2005: Proposal for approval at the Annual General Meeting on May 9, 2006

For a more detailed version please refer to the 5-year summary on page 104.

Our Fiscal Year 2005

Last year was the most successful year in the history of our Company: revenue and earnings achieved record levels. On the following pages, we will report on the successful business development of Fresenius Medical Care and its key drivers. These include our ability to innovate, the high quality and value of our products and therapies as well as our efforts to maintain cost leadership. The combination of these motivating forces and our vertically integrated business model makes us the worldwide leader in the dialysis market. We will strive to expand this position with targeted, sustainable growth in the future.



Content

Economic Environment

General economic development

The year 2005 was marked by an overall positive economic growth, albeit at a slightly lower rate than in the previous year. High raw material prices – especially for oil – impeded business development and opposed expansive monetary policies. The rise of the oil price was due to a strong demand and historically high utilization of extraction capacities. Hurricanes "Katrina" and "Rita" further contributed to the price trend by damaging offshore oil rigs and refineries in the Gulf of Mexico and the southern United States. Private spending was also slowed as higher energy costs tapped the buying power of consumers. The price increases picked up speed as the year progressed, while inflation was only slightly, if at all, accelerated due to moderate wage increases.

The global economy grew by 3.0% in 2005 despite rising oil prices.

The global economy was supported by low long-term interest rates and excellent corporate earnings in 2005. Production capacity was also better utilized, especially in the U.S. and Japan. The U.S. and China remained the global economic drivers, while Europe failed to keep pace. Key currencies experienced only light fluctuations in their valuations, resulting in a stabilizing effect. In their Fall Report, economists from the leading German research institutes expected a global economic growth of 3.0%, a slightly lower rate than in the previous year.

United States

The world's largest economy proved to be stable in 2005 as the gross domestic product increased by 3.6% and, despite climbing energy prices, private spending remained robust. The higher costs were mainly offset by a low individual savings rate and rising real estate value, which bolstered private consumption by increasing personal net capital. The United States' trade deficit remained high in 2005 but did not expand further. The prime rate was raised from 2.25% to 4.0% to counter inflationary tendencies but, overall, monetary conditions supported economic growth.

Europe

Economic upturn remained out of Europe's reach. With the exception of Spain, the euro countries once again posted below-average growth. Overall, the gross domestic product rose by 1.0%, and continuously low interest rates failed to have a significant vitalizing effect on investment activities. Slightly higher consumer spending and a decrease in the utilization of production capacity also failed to spark the economy. Still, the increase in energy prices did not significantly affect inflation as wages – with the exception of those in France and Spain – were raised only moderately.

With a growth of 1.9%, Great Britain once again outpaced the euro region but still showed signs of slowing down as private spending softened. The ten new member countries of the European Union saw significant gross domestic product growth of 4.1%, mainly due to exports. As an oil exporter, Russia profited from the higher oil prices and distanced itself from Europe's economic woes with a growth of 6.0%. Still, massive government intervention in the energy sector has a negative impact on the country's general financial conditions.

European economic growth failed to keep pace with other regions and Germany continues to wait for an economic revival.

In their Fall Report, the leading German research institutes expected Germany's economic growth to be at 0.8%, a decrease compared to the previous year. Export growth was slowed by a slightly stronger euro and somewhat weaker global economy. Domestic demand stabilized at the previous year's low level as the buying power of private households remained unchanged, because moderate wage increases were offset by higher energy costs. Corporate earnings remained positive.

Gross Domestic Product

Change compared to previous year in %	2005	2004
United States	3.6	4.2
Germany	0.8	1.6
Euro region	1.0	2.1
Great Britain	1.9	3.2
New EU member states	4.1	5.1
EU 25	1.6	2.4
Russia	6.0	7.2
Japan	2.3	2.6
East Asia	4.0	5.5
China	9.2	9.5
Latin America	4.0	5.9
Total	**3.0**	**3.7**

Source: Association of German Economic Research Institutes e.V. "The State of the World Economy and the German Economy"; Essen, October 19, 2005

Asia

Asia was once again the region with the strongest economic growth in 2005. Japan appeared to have finally overcome its economic troubles – after initially slowing down, the gross domestic product expanded by 2.3%. Both foreign and domestic demand contributed to this, while private spending increased along with wages. Japan's financial sector saw lasting improvement as the government continued to bring budgets under control and deflationary pressures were curbed. This has resulted in improved economic conditions in Japan.

China grew by more than 9%, confirming its position as pace maker of the global economy.

With an expansion of 9.2%, China remained the key driver and the most important growth region despite higher energy prices. Exports increased more strongly than imports, preventing an overheating of the economy. Credit growth was halted and the money supply was reined in, while the trade surplus rose. The rigid link between China's Renminbi currency and the U.S. dollar was abandoned but the slight valuation increase has yet to show significant impact. However, the currency reform will gain long-term importance, as will the opening of Chinese financial markets to foreign capital.

The remaining East Asian economies grew by a total of 4.0%. The region's economic drivers were unable to keep up with previous years as demand slowed for the key computer sector and higher oil prices had an impact.

Latin America

Stabilizing monetary policies slowed the economies of Latin America.

The Latin American economy lost momentum in 2005 as prices for raw materials produced in the region – with the exception of energy-related materials – remained level. Latin American governments generally pursued stabilizing monetary policies, while Brazil's and Mexico's central banks worked to curb inflationary pressures, limiting their domestic economies at the same time. High foreign debt remains a risk in this region. Overall economic growth in Latin America was 4.0%, below the level of 2004.

Dialysis Market

Patients – A Global Approach

Renal replacement therapy in the form of dialysis or transplantation is offered to patients with end-stage renal disease (ESRD) in more than 120 countries worldwide.

The country prevalence values (the relative number of patients treated for ESRD) vary significantly, spanning a range from far less than 100 to more than 1,000 patients per million population (p.m.p.). Around 95% of ESRD patients are treated in only 60 countries. Analyzing these 60 countries with regard to their economic strength, using the gross national product per capita as a reference, three prevalence-wealth categories can be established. The 20 countries with the greatest economic power such as the U.S., Japan and Germany show an average ESRD prevalence of more than 1,000 p.m.p., and in none of these countries is the prevalence lower than 600 p.m.p. The 20 countries with moderate economic performance have an average prevalence of approximately

500 p.m.p. In the countries with less economic power, less than 100 p.m.p. receive treatment. The relatively low prevalence value in these countries suggests that the economic situation still plays a significant role regarding accessibility to ESRD treatment.

Patients – Regional Development

In developing nations, access to dialysis treatment improves as economic power increases.

By the end of 2005, the number of ESRD patients undergoing dialysis treatment had reached 1.45 million. Of these patients, around 23% were treated in the U.S., 18% in Japan and 18% in the 25 countries of the European Union. The remaining 41% of all dialysis patients were distributed throughout more than 90 countries in different geographical regions. In the past years, the number of dialysis patients increased annually by an average of approximately 6%. This growth rate also persisted in 2005.

Fresenius Medical Care expects the annual growth in the number of dialysis patients over the coming years to be in the range of 5 to 7%. Significant regional differences remain: a below average increase in patient numbers will probably be experienced in the U.S. and Japan, as well as in Western and Central Europe. In all these regions, the prevalence of terminal kidney failure is already relatively high and patients generally have secured access to treatment, usually dialysis. Annual growth rates in the economically weaker regions are expected to remain above average, with values of up to 10%. The relatively high growth in these areas indicates that accessibility to treatment is still somewhat limited, albeit gradually improving. As a global trend we expect that the increase in high blood pressure and diabetes in the general population will contribute to a sustained growth in the dialysis population.

2005 Dialysis Patients Split by Region
in thousands

¹ Company estimates

The dialysis markets in Asia, South America and Eastern Europe continue to exhibit enormous growth potential.

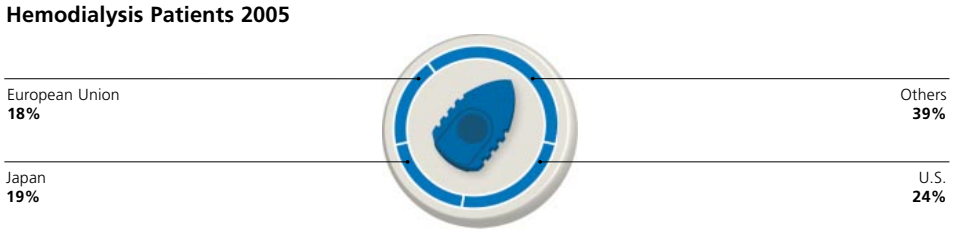
Given the observed annual growth rates and the differences between economically stronger and weaker regions, one can extrapolate potential future patient numbers. If regional growth patterns persist, a change in the regional distribution of patients in the coming years is inevitable: a significantly higher proportion of patients will undergo dialysis treatment in Asia, Latin America, Eastern Europe, the Middle East and Africa. The enormous potential regarding the entire spectrum of dialysis services and products is obvious here, as more than 80% of the world population live in these regions.

Patients – Treatment Mode Development

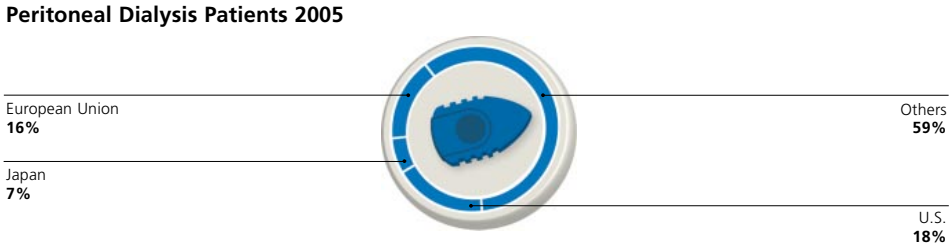
By the end of 2005, the total number of patients treated for terminal kidney failure had reached approximately 1.9 million. Of the 1.45 million that undergo dialysis treatment, 1.29 million are treated with hemodialysis and almost 160,000 receive peritoneal dialysis treatment. Approximately 450,000 kidney patients live with a transplanted kidney.

In a global comparison of treatment methods, hemodialysis dominates. More than 89% of all dialysis patients were treated with this method in 2005. Within the group of the 15 largest dialysis countries accounting for approximately 80% of the world dialysis population, hemodialysis is the predominant treatment method in all countries except in Mexico, where dialysis clinics have insufficient capacities. Apart from Mexico, only the Republic of Korea and Great Britain treat a high percentage of patients with peritoneal dialysis.

Hemodialysis Patients 2005



Peritoneal Dialysis Patients 2005



The present and future shortage of donor organs makes dialysis indispensable.

In addition to these two dialysis therapies, a third option in treating patients with terminal kidney failure is kidney transplantation. However, the number of donated organs worldwide has continued to be significantly lower than the number of patients on transplant waiting lists. Consequently, less than one quarter of the global ESRD population lives with a donor organ. Despite ongoing efforts by many regional authorities to increase awareness of and willingness for kidney donation, the distribution of patients between the various treatment modes remained unchanged.

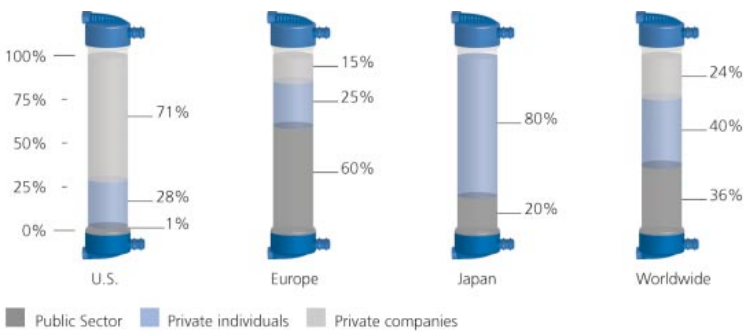
Xenotransplantation – the use of animal as opposed to human organs – is not likely, in our opinion, to affect this development in the near future. Due to remaining challenges, this method cannot be considered an alternative to well-known treatment methods. Among the difficulties xenotransplantation faces are the uncontrolled transfer of retroviruses and other potentially dangerous pathogens from animals to humans, unknown variables in the suppression of immune rejection reactions in the body, and the open question concerning the adequate functioning of animal organs in the human body. It has to be mentioned that not every dialysis patient would be suitable for xenotransplantation; even if there were an unlimited supply of organs, many patients

suffer from such severe co-morbid conditions that xenotransplantation is very unlikely to become the treatment of choice for them. Furthermore, many patients would still suffer from diseases that would detrimentally affect the new organ within a short period of time, making transplantation a stressful and only short-term alternative to dialysis with negative effects on the patients' quality of life. Given all these circumstances, xenotransplantation is far from becoming a routine organ replacement therapy. In contrast, dialysis treatment in the form of hemodialysis or peritoneal dialysis has proven to be a safe and reliable treatment option for more than 1.45 million patients yearly.

Dialysis Provider Business

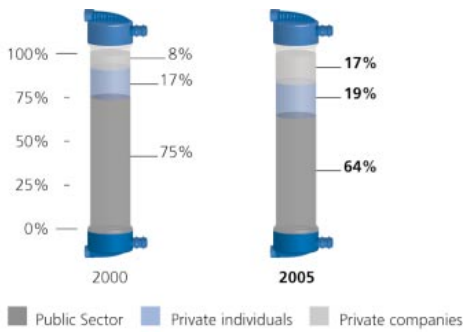
The majority of all hemodialysis patients are treated in over 23,500 dialysis centers worldwide, yielding an average of about 55 patients per center. Clear differences exist in the organizational structure of dialysis center operations, depending on whether a country's health system is predominantly private or public. In the U.S., for example, less than 5% of the approximately 4,500 dialysis centers are public, whereas about 60% of the approximately 4,000 dialysis centers in the European Union are publicly operated.

Dialysis Clinic Operators 2005
Number of Treated Patients in %



Private nephrologists play a key role in clinic operations in Japan, where they run about 80% of all facilities. The last few years have seen a significant increase in the number of company-owned clinics in Eastern Europe, possibly reflecting the fact that private companies are more efficient when it comes to modernization and capacity extension than the respective government bodies.

Dialysis Clinic Operators in Eastern Europe
in %



The acquisition of Renal Care Group will significantly strengthen our market leadership.

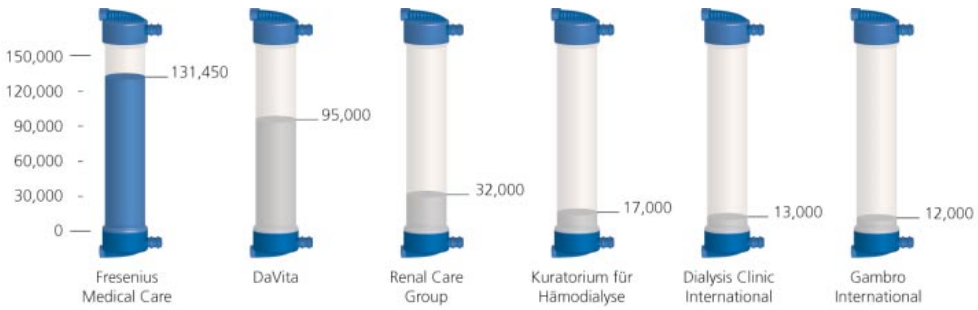
The acquisition of Renal Care Group started in 2005 will further strengthen Fresenius Medical Care's position as the market leader in dialysis care in the U.S. This acquisition is expected to receive regulatory approval from U.S. anti-trust authorities in spring 2006. Fresenius Medical Care will treat significantly more patients than its closest competitor, DaVita, which acquired the North American dialysis care business of Gambro in 2005. Following these two acquisitions, Fresenius Medical Care and DaVita together will operate approximately two-thirds of all dialysis clinics in the U.S. For additional information on the purchase of Renal Care Group, please see page 104.

As the U.S. market is undergoing this consolidation phase, going forward only smaller acquisitions are expected due to the lack of larger acquisition targets. The dialysis market outside the U.S. is much more fragmented. Here Fresenius Medical Care is also the largest dialysis provider and market leader. However, even when ranking our International dialysis business on a global basis, excluding our North American dialysis business, it is the world's third largest dialysis company. Consolidation is also expected to be a factor here, although individual future acquisitions would be on a smaller scale.

As a vertically integrated provider, Fresenius Medical Care offers complete dialysis – from products to treatment.

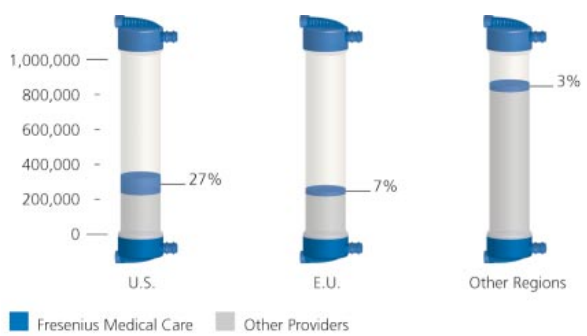
As in previous years, many healthcare systems continued to face increasing cost pressure in order to reduce welfare system expenditure while simultaneously striving to improve treatment standards for individual patients. Under these conditions, reliable product supply, patient education, quality and innovative approaches toward optimizing patient care constitute key success factors for market participants. A vertically integrated dialysis provider like Fresenius Medical Care, offering not only the entire product spectrum in the dialysis sector but also high quality treatment in dialysis clinics worldwide, has the best chances to improve its status in current and future healthcare systems and expand its market position even further. In 2005, Fresenius Medical Care continued to uphold its clear leadership as the largest private provider of dialysis care worldwide, treating more than 131,000 dialysis patients in about 1,680 clinics. Even without Renal Care Group, we are the undisputed number one in the global dialysis market.

Top 6 Dialysis Providers Worldwide 2005
Number of Treated Patients



Dialysis reimbursement schemes differ from country to country, and also vary within the countries due to factors such as the type of treatment provided, the type of care provider and respective regulatory issues. The establishment of reimbursement schemes based on treatment quality data for individual patients remains a focus of discussions. The goal of this reimbursement method is to uphold the treatment quality while maintaining the current level of costs for the treatment of a dialysis patient. Fresenius Medical Care has been active in many countries with differing healthcare systems and reimbursement schemes for many years now. This international experience puts us in a position to offer support to national health systems in their endeavours to customizing structures, to adapt our business according to local needs and regulations, and to act profitably in different healthcare environments.

Fresenius Medical Care 2005
Number of Treated Patients by Region in %

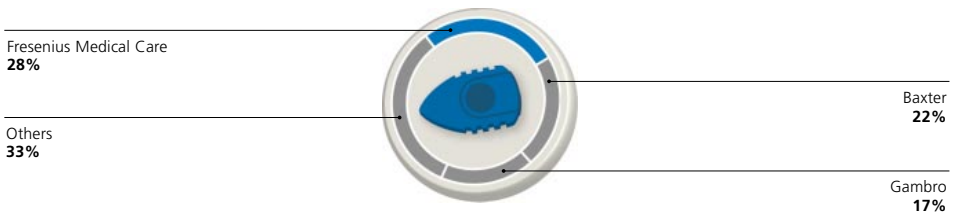


Dialysis Product Business

Our market share as a global provider of dialysis products was 28% in 2005.

According to our estimates, the global dialysis product market reached a value of more than $8 billion in 2005. The key products offered in this market include dialyzers, hemodialysis machines, concentrates and solutions, and peritoneal dialysis products. The three largest suppliers of dialysis products together hold a worldwide market share of nearly 70%, with Fresenius Medical Care being the market leader and commanding a market share of around 28% in 2005.

Dialysis Products 2005
Market Shares



The largest single product group in this market is dialyzers, of which about 150 million were needed by dialysis patients worldwide in 2005. The fact that about 60 million of these dialyzers were produced by Fresenius Medical Care underlines our leadership in this market. Dialyzers can be categorized as cellulosic or synthetic depending on the material used for the production of the dialysis membrane. The trend towards the use of dialyzers containing membranes made from synthetic material prevailed in 2005. The market for synthetic-membrane dialyzers now constitutes about 70% of the dialyzer market. Cutbacks in the production capacity for cellulose-based dialyzers have opened the door for increased sales of synthetic dialyzers in years to come. The pioneering work of Fresenius Medical Care in the development and production of synthetic dialyzers is now being followed by other major competitors. Our leading position in dialyzers, as well as in other hemodialysis products, is the main reason that Fresenius Medical Care remained the overall leading company for dialysis products.

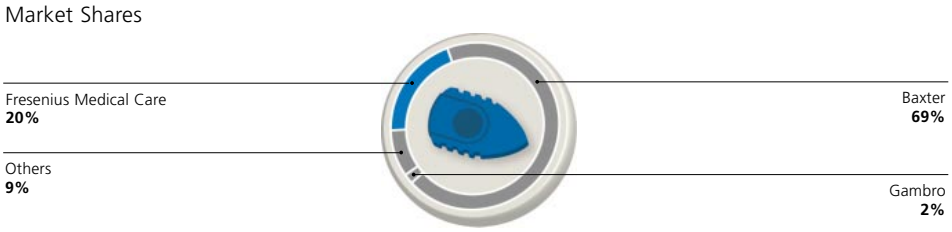
Our dialysis machines have a market share of more than 40% and are an example of our leading position as industry innovators.

Dialysis machines constitute another key segment of our product business, in which Fresenius Medical Care also holds a leading position. Of the more than 46,000 new dialysis machines sold in 2005, more than 40% were produced by Fresenius Medical Care. The introduction of the new generation of hemodialysis machines in 2005, the 5008 series, contributed to that development (for additional information, please see page 56). Its innovative user interface and technologies that set new standards in dialysis resulted in the 5008 finding a high level of market acceptance within the first few months of its market debut. This new machine not only reinforces our strong market position, but also provides excellent prospects for future market share growth.

Fresenius Medical Care also grew in the market for peritoneal dialysis products and holds 20% of a market that has traditionally been dominated by Baxter. Further information on our position in the home therapies market, which comprises peritoneal dialysis and home hemodialysis, can be found on page 119.

Hemodialysis Products 2005
Market Shares

Peritoneal Dialysis Products 2005
Market Shares



Overview of the Fiscal Year 2005

Fresenius Medical Care's business continued to develop very successfully in 2005 and exceeding our targets. All in all, we have reached new company revenue and earnings records.

Constant-currency sales: +8%
Net income excluding one-time costs: +17%
Forecasts confirmed.

At the beginning of 2005, we expected constant-currency revenue growth between 6% and 9%. By the end of the year, sales grew 8% at constant currency, confirming our outlook.

We expected net income growth of more than 10% at the beginning of last year. After a very positive first half, we revised the outlook upward to growth rates between 12% and 15%. With an increase of 17% in net income, excluding one-time costs, we exceeded our forecast.

This figure does not include one-time costs in 2005 associated with the transformation of Fresenius Medical Care's legal form into KGaA and settlement and related legal fees of the shareholders suit. Including these one-time costs of $17 million (net of taxes), net income rose by 13%.

Revenue

In 2005, our revenue increased by 9% to $6.77 billion. Currency-adjusted growth came to 8%, which – as already discussed – was within expectations. With the exception of the Renal Care Group merger, which was initiated but not completed in 2005, we made only minor acquisitions. The revenue increase was therefore predominantly due to an organic growth of 7%. Acquisitions contributed one percentage point to the increase.

Fresenius Medical Care's activities are organized geographically into three operating segments: North America, International and Asia-Pacific. For reporting purposes, we aggregated the International and Asia-Pacific segments into the segment "International" because of similar economic conditions in the operating segments.

As in the past, North America remains the most important market for Fresenius Medical Care, accounting for 68% of revenue in 2005, with the revenue rising by 8% to $4.58 billion. The inclusion of Mexico in this region at the beginning of the year was a significant organizational change. We accounted for this change in the report on the revenue development of North America and Latin America.

Revenue by Region

$ in millions	2005	2004	Change
North America	4,577	4,248	8%
Europe/Middle East/Africa	1,592	1,458	9%
Asia-Pacific	339	314	8%
Latin America	264	208	27%
Total	**6,772**	**6,228**	**9%**

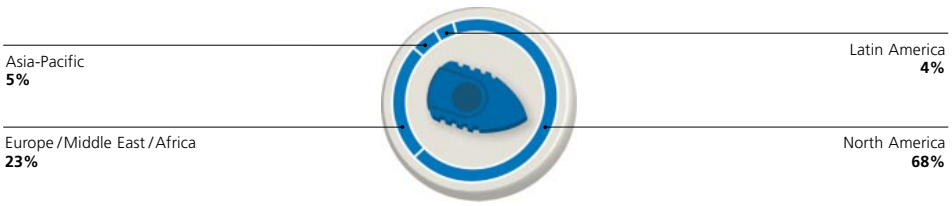
Revenue in the International segment increased 9% in constant currency.

Revenue in the International segment, which includes all business regions outside North America, increased by 11% to $2.19 billion, representing 32% of Fresenius Medical Care's total revenue. Currency-adjusted growth was 9%. The contribution to overall sales of the individual regions within the International segment changed only marginally over the previous year.

Europe, including the Middle East and Africa, is the largest region within the segment International and saw a revenue increase of 9% to $1.59 billion. Because of the relatively stable exchange rates in 2005, currency-adjusted growth was also 9%. The contribution of European revenue to our total revenue remained unchanged at 23%.

Revenue growth in Latin America was above-average. In our smallest business region, revenue rose by 27% to $264 million. The contribution to total sales remained unchanged at 4%. Because of the strong U.S. dollar in comparison with Latin American currencies, constant-currency revenue growth was 17%.

Revenue by Region



In Asia-Pacific, we achieved revenue growth of 8% to $339 million. This is a constant-currency increase of 5%, and the contribution to total revenue remained level at 5%.

As a vertically integrated dialysis company, Fresenius Medical Care offers a full range of dialysis products as well as dialysis care in the form of high-quality treatments in dialysis centers around the world. While dialysis care continued to be the largest revenue generator in the North American region, dialysis products dominated in the International region. Dialysis products contributed 63% of revenue outside of North America. The regions outside North America also achieved strong revenue growth in dialysis care last year, proving that dialysis services are becoming increasingly important in the International segment.

We treated about 6% more patients in 2005 than in the previous year.

Providing high-quality treatments in our dialysis clinics is the core of our dialysis care services. At the end of 2005, our company operated 1,680 dialysis centers, 4% more than a year earlier. By December 31, 2005, we had treated a total of 131,450 patients in these clinics, an increase of 6% over the previous year. The number of treatments rose by 5% to about 19.73 million compared with 2004.

Revenue by Segment

$ in millions	2005	2004	Change
North America			
Dialysis Products	523	446	17%
Dialysis Services	4,054	3,802	7%
	4,577	**4,248**	**8%**
International			
Dialysis Products	1,382	1,281	8%
Dialysis Services	813	699	16%
	2,195	**1,980**	**11%**
Dialysis Products Total	**1,905**	**1,727**	**10%**
Dialysis Services Total	**4,867**	**4,501**	**8%**
Total	**6,772**	**6,228**	**9%**

The dialysis care business in all regions achieved revenue growth of 8% to $4.87 billion, or 72% of total revenue, the same level as in the previous year. In constant currency, dialysis care revenue also grew 8%. Organic growth accounted for seven percentage points while acquisitions accounted for one percentage point. A same store increase of 5% in the number of treatments performed as well as a 2% increase in the revenue per treatment accounted for the organic revenue growth.

In dialysis products, we were able to increase our revenue by 10% to $1.90 billion. Currency-adjusted, the increase was 9%. Dialysis product revenue, including sales to our own clinics, rose by 10% to $2.46 billion. Currency-adjusted, the increase was 9%. Dialysis products once again contributed 28% of Fresenius Medical Care's overall revenue.

Earnings

Our gross profit margin rose to 34.4% in 2005 compared to 33.5% in 2004.

In 2005, gross profit rose 12% over the previous year to $2.33 billion, resulting in a gross profit margin of 34.4%. The gross profit margin in 2004 was 33.5%. A contributing factor in this growth were increases in reimbursement rate mainly with private insurers, partially offset by higher personnel costs, higher facility costs and the loss of a treatment day in North America. Better use of capacities in our production facilities contributed to the margin improvement, as well as one-time discount granted to a distributor in Japan in 2004 and higher reimbursement in Turkey.

Abbreviated Statement of Earnings

$ in millions	2005	2004	Change
Net revenue	**6,772**	**6,228**	**9%**
Cost of revenue	4,439	4,142	7%
Gross profit	**2,333**	**2,086**	**12%**
in % of revenue	34.4	33.5	
EBITDA	1,190	1,085	10%
Operating income	**939**	**852**	**10%**
Interest (net)	173	183	-6%
Earnings before income taxes	**766**	**669**	**15%**
Net income	**455**	**402**	**13%**
Net income before one-time costs	**472**	**402**	**17%**

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) were $1.19 billion in 2005, an increase of 10% over the $1.08 billion reported a year earlier. The EBITDA includes one-time costs of $22 million associated with the transformation of Fresenius Medical Care's legal form into KGaA and the settlement and related legal fees of the shareholders suit. The conversion of approximately 96% of our preference shares into ordinary shares and the legal transformation occurred on February 10, 2006. More details can be found from page 82 onwards. Excluding these one-time expenses, our EBITDA increased by 12% to $1.21 billion.

We were also able to increase our operating income (Earnings before Interest and Taxes – EBIT) once again in 2005. It rose by 10% to $939 million. Without the one-time costs of $22 million as explained above, operating income increased 13% to $961 million. This represents an EBIT margin of 14.2% compared with 13.7% in 2004. The significantly better operating margin is the result of an improvement in the gross profit margin, and partially offset an increase in selling and administrative costs as a percentage of sales. The increase was primarily due to higher fuel prices for company owned vehicles and higher transport and other third party commercial delivery in North America. Higher insurance costs in North America were another primary cause of the increase. Restructuring costs in Japan as well as an indemnification payment received in 2004 related to a clinic in the Asia-Pacific region also contributed to the rise. This was partially offset by favorable currency gains, the settlement of a patent litigation in the International segment and one-time impact of compensation for cancellation of a distribution contract in Japan.

Profitability increased: EBIT in North America rose by 10% and by 21% within the Segment International.

Operating income rose 10% to $644 million in the North American region last year after EBIT of $587 million in 2004. The International region comprising all areas outside North America, achieved even stronger growth of 21% to $362 million after $300 million in the previous year. Expenses for our central administration rose significantly in 2005 but are not included in the calculations for EBITDA and EBIT (operating income). Fresenius Medical Care believes these costs to be beyond the control of the individual regions. These expenses primarily include certain headquarter overhead charges such as accounting and finance as well as other staff functions. The total operating expense for central administration was $67 million in 2005 compared to $35 million in 2004. The primary reasons for this increase are the one-time costs associated with the transformation of Fresenius Medical Care's legal form into KGaA and the settlement and related legal fees of the shareholders suit. These one-time costs totaled $22 million last year.

Fresenius Medical Care's net interest expenses were $173 million in 2005, 6% lower than the $183 million of the previous year. The decrease in interest expenses was the result of two factors: the debt development, which we were able to reduce further due to our strong operating Cash Flow, and changes in our credit agreement which led to lower interest rates. (More details may be found in the financial section in note 9 on page 63.)

Including one-time costs, earnings before tax rose by 15% to $766 million last year from $669 million in 2004. Excluding the one-time costs, earnings before tax would have been $788 million, exceeding that of the previous year by 18%.

Tax expenses were $309 million in 2005 compared to $265 million in the previous year. This represents an effective tax rate of 40.3%, after 39.7% in 2004.

Net income rose to $455 million, an increase of 13% over the $402 million of the previous year. Excluding one-time costs, net income rose by 17% to $472 million, exceeding our expectations of net income growth of up to 15%.

Earnings Per Share

Earnings per share (EPS) were calculated in accordance with U.S. GAAP using the weighted average number of outstanding shares. Earnings per ordinary share are calculated by dividing net income minus preference dividends for preference shares by the weighted average number of outstanding shares during the fiscal year. In keeping with our Articles of Association, preference shares receive a premium dividend of €0.06 per share more than ordinary shares. Based on the average exchange rate of the euro and the U.S. dollar during 2005, this equals $0.07, resulting in a total preference dividend payment of $2 million. This must be subtracted from net income to determine earnings per ordinary share. In 2005, an average of 96.8 million shares were outstanding, comprised of 70 million ordinary shares and approximately 26.8 million preference shares.

Earnings per ordinary share increased by 13% to $4.68 in 2005.

Based on our 2005 net income of $455 million, earnings per ordinary share rose to $4.68, an increase of 13% compared to $4.16 in the previous year. Considering the preference dividend of $0.07, we were able to increase earnings per preference share to $4.75, a rise of 12% compared with $4.23 in 2004.

Dividends

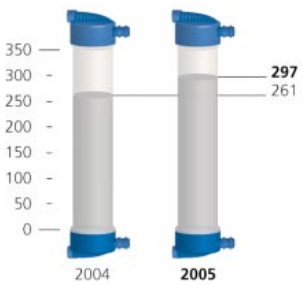
The dividend should increase for the ninth consecutive time to €1.23 per ordinary share and €1.29 per preference share.

Once again, Fresenius Medical Care followed an earnings-driven dividend policy in 2005 and will propose to the annual general meeting the ninth dividend increase in a row to allow shareholders to participate in the company's positive operative development. The dividend per share is proposed to increase to €1.23 per ordinary share and to €1.29 per preference share. Last year, ordinary shareholders received €1.12 per share while preference shareholders received €1.18. This would represent a dividend increase of 10% for ordinary shares and 9% for preference shares. The total dividend volume after the conversion of 96% of the preference shares into ordinary shares would amount to €120.3 million. Further information on dividends can be found on page 23, "To Our Shareholders".

Investments and Acquisitions

In 2005, Fresenius Medical Care invested a net amount of $297 million, or 4% of the Company's revenue. This was within our adjusted forecast of $250 to $300 million for capital expenditures in 2005. Originally, expenditures between $350 and $400 million had been expected. We reduced this forecast when we released earnings figures for the third quarter of 2005. In the previous year, capital expenditures on property, plant and equipment and intangible assets were $261 million, or 4% of revenue, $36 million less than in 2005.

Net Capital Expenditures
$ in millions

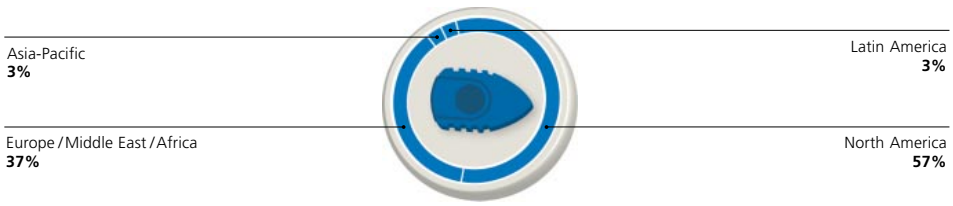


Expenditures of $175 million on upgrading and expanding existing as well as equipping new clinics accounted for more than half of our capital expenditures. We invested about $87 million in the expansion and modernization of existing production facilities in North America, Germany, France and Italy. A further $53 million went to our sales and distribution activities, primarily to the capitalization of dialysis machines provided to customers. Some $17 million came from the sale of property, plant and equipment.

Of net capital expenditures, 56% were invested in our dialysis care activities and 44% in our dialysis products business. About 51% of the net capital expenditures were used for expanding existing facilities and 49% were used for the maintenance of existing production sites and dialysis clinics.

The regional breakdown of capital expenditures remained predominantly unchanged last year: roughly 57% of all capital expenditures in 2005 went to North America, compared to 60% in the previous year. Europe received 37% while the Asia-Pacific and Latin America regions each received 3%.

Net Capital Expenditures
Total: $297 million



Our acquisition spending rose by 20% over 2004 to $125 million.

Our acquisition spending increased to $125 million in 2005, compared with $104 million in the previous year, an increase of 20%. This was at the lower end of our expectations regarding acquisition volume, which we had put between $125 million and $175 million, and well below our initial forecast of $200 to $250 million. Because of the initiation of the $3.5 billion acquisition of Renal Care Group (RCG) last year, we reduced the original forecast when we released earnings figures for the third quarter of 2005.

As the final approval by U.S. anti-trust authorities to the acquisition of Renal Care Group is expected for the end of March 2006, this was not included in the report on acquisitions in 2005. Further information on the acquisition of RCG may be found on pages 83 and 104.

The majority of the acquisitions took place in the dialysis care business. Some 54% of the total volume was used to buy dialysis clinics in North America, while dialysis clinic purchases in Latin America, Europe and Asia-Pacific accounted for 16%. Another 4% was used in the dialysis product business in North America and 4% went to Renaissance Health Care. The remaining 22% were used in the dialysis product business in the International segment.

Overall, $422 million were spent for capital expenditures and acquisitions in 2005. This was $57 million higher compared with the $365 million of the previous year.

Cash Flow

Abbreviated Statement of Cash Flow

$ in millions	2005	2004	Change
Cash at the beginning of the year	59	48	23%
Cash from operating activities	670	828	-19%
Cash from investing activities	(422)	(365)	16%
Cash from financing activities	(220)	(452)	-51%
Effect of exchange rate changes on cash	(2)	0	
Cash at the end of the year	85	59	44%
Free Cash Flow	373	567	-34%

Operating Cash Flow decreased by 19%, or $158 million, to $670 million in 2005, following $828 million in the previous year. The decrease is primarily due:

– to a German income tax payment of $78 million on a disputed tax assessment related to deductions of write-downs in prior years,

– a payment of $41 million in North America resulting from a tax assessment relating to the deductibility of payments made pursuant to the OIG settlement at the beginning of 2000, and

– of differences in the days sales outstanding (DSO) (reduced by two days in 2005 over 2004, compared with a reduction of five days in 2004 over 2003).

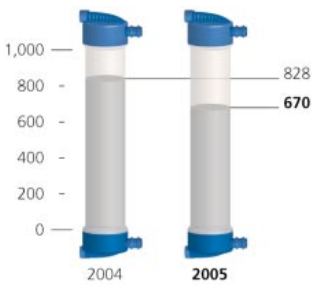
We reduced the DSO in North America to 63 days by the end of 2005, from 67 days in 2004. Outside North America, the DSO remained almost unchanged at 120 days at the end of 2005. Overall, the company reduced DSO by two days to 82 days.

Days Sales Outstanding (DSO)

in days	2005	2004
North America	63	67
International	120	119
Group	82	84

As in 2004, we were able to fully finance the capital expenditures and acquisitions last year, as well as the dividends distributed to our shareholders from operating cash flow.

Operating Cash Flow
$ in millions



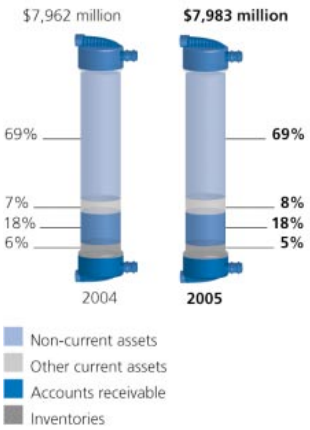
Capital expenditures were $297 million in 2005. This resulted in Free Cash Flow before acquisitions and dividends of $373 million, a decrease of 34% over 2004. We spent $125 million on acquisitions and paid $137 million in dividends in the year 2005, resulting in a Free Cash Flow after acquisitions and dividend payments of $110 million, also significantly lower than the $341 million in 2004. As previously explained, this was primarily due to tax payments for previous years and a smaller reduction in DSO compared to 2004 (see page 49). The Free Cash Flow after acquisitions and dividend payments as well as the proceeds from the exercise of stock options could be used to reduce debt.

Based on a devaluation of the euro in relation to the U.S. dollar, the liabilities denominated in euros on the balance sheet were valued lower. Considering these currency exchange effects, the net decrease in our financial liabilities was $288 million.

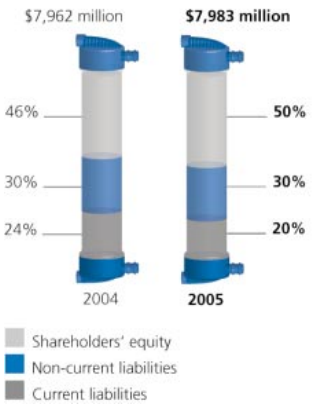
Balance Sheet, Assets and Financial Situation

The Company's total assets remained nearly unchanged at $7.98 billion compared to 2004. Currency effects were largely responsible for this gain as the euro weakened against the U.S. dollar. In constant currency, the total assets increased $346 million or 4%.

Assets



Equity and Liabilitites



Non-current assets remained unchanged compared to 2004 at $5.52 billion.

Non-current assets remained mostly unchanged compared to 2004 at nearly $5.52 billion, representing 69% of total assets. Non-current assets include goodwill of $3.46 billion. Thereof goodwill of $2.14 billion is related to the founding of Fresenius Medical Care in 1996. Property, plant and equipment rose by 3% to $1.22 billion in 2005 as a result of investments of $308 million minus depreciation of $211 million and currency effects. The investments included equipping new clinics and modernizing existing clinics, as well as maintaining and expanding production capacities in North America, Germany, France and Italy. Investments also included the capitalization of dialysis machines provided by our selling organizations to our customers. Current assets remained nearly unchanged with an increase of almost 1% to $2.46 billion or 8% in constant currency. Trade accounts receivable of $1.47 billion were largely unchanged from the $1.46 billion of 2004 – an increase of 5% in constant currency.

Shareholders' equity increased by 9% to $3.97 billion.

Shareholders' equity increased significantly by 9% to $3.97 billion compared to $3.63 billion in 2004. This increase was mainly due to the net income of $455 million and proceeds from the exercise of stock options of $87 million. The 2004 dividend distribution of $137 million as well as currency effects of $105 million partially offset the increase. The equity ratio also improved significantly by four percentage points from 46% to 50% in 2005.

Total liabilities decreased by 7% to $4 billion on December 31, 2005, primarily because of currency effects due to the weakening of the euro compared to the U.S. dollar.

The ratio of debt to Earnings Before Interest, Taxes and Amortization (EBITDA) was 1.82 at the end of 2005 after 2.26 in 2004. Thus, we achieved our goal of a debt/EBITDA ratio of less than 2.5 in 2005. However, because the entire purchase price of Renal Care

Group will be fully debt-financed, this ratio will increase significantly in 2006. More on this can be found in the outlook section on page 89.

Value Added Statement

$ in millions	2005		2004	
Creation				
Company Output	6,790	100%	6,230	100%
Materials and services purchased	(3,426)	-50%	(3,120)	-50%
Gross value added	3,365	50%	3,110	50%
Depreciation and amortization	(251)	-4%	(233)	-4%
Net value added	3,113	46%	2,877	46%
Distribution[1]				
Employees	2,174	69%	2,012	70%
Government	309	10%	265	9%
Lenders	191	6%	197	7%
Shareholders & minority interest holders	154	5%	152	5%
Company	303	10%	251	9%
Net value added	**3,131**	**100%**	**2,877**	**100%**

[1] Assuming that the proposal for the allocation of profits for 2005 is accepted.

Employees

Our economic success is based on the experience, knowledge and motivation of the people working for us. We continuously support our employees to prepare each one of them – and the Company – to master the demands and challenges of the future. This is the key factor to human resources development at Fresenius Medical Care.

Employees

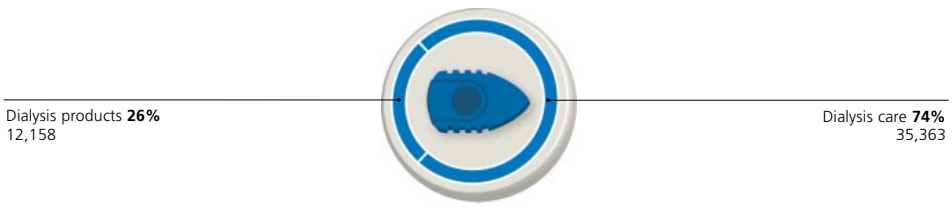
Full-time equivalents	2005	2004	2003	2002	2001
	47,521	44,526	41,097	39,264	37,331

Last year, the number of employees at Fresenius Medical Care once again rose. On December 31, 2005, Fresenius Medical Care employed 47,521 people, an increase of 7% compared to the previous year. This meets our projection of employing about 48,000 people by the end of 2005.

74%, with the majority of our employees, are working in dialysis care.

The majority of our employees – more than 35,000 people or approximately 74% – are employed in the dialysis care sector, while about 26% or 12,000 people work in the dialysis products area. An important factor here is that our workforce has grown less than the Company's revenue (+8% at constant currency) and the net income (+17%), which is an indication that we improved both the profitability per employee and increased the efficiency of our workforce.

Employees by Segment
Full-time equivalent



The expansion of our production sites and our clinic network contributed to the increase in the number of employees in every region. There are clearly different conditions in each market and region as to the growth number of our employees. While the workforce grew moderately in more mature dialysis markets such as the U.S. and France, growth regions such as Eastern Europe, Asia or Latin America saw an above-average increase in the number of employees.

Employees by Region

Full-time equivalents	2005	2004	Change
North America	30,129	28,618	5%
Europe	11,208	9,999	12%
Other regions	6,184	5,909	5%
Total	**47,521**	**44,526**	**7%**

In the growth market of Poland, the number of employees nearly doubled.

The acquisition and expansion of dialysis clinics in countries such as Poland, Romania, Turkey and South Africa, but also in Great Britain significantly increased the number of people working for us in these countries – in Poland, the workforce nearly doubled. In other countries such as Argentina and Hungary, the number of employees expanded mainly through organic growth rather than acquisitions, resulting in lower growth rates.

We created more jobs in our production area, in Germany with the launch of the new generation of dialysis machines, the 5008 machine, and the expansion of production capacity in Italy.

Comprehensive human resources management ensures that we can meet our demand for qualified specialists.

To fill vacancies in North America and other regions with adequate candidates, we are constantly seeking highly qualified specialists and managers with experience from a variety of industries and positions. The shortage of qualified personnel continued in 2005 and was not limited to academically qualified personnel. Comprehensive recruiting programs as well as personnel development efforts offset the lack of skilled candidates.

In 2005, our Center for Leadership and Professional Development expanded its initiatives and is now certified as a continuing education provider. This means that it can now offer further training units to our nurses which they need to maintain their licenses. These types of leadership initiatives keep us competitive in the marketplace when it comes to hiring qualified employees.

In 2005, we trained approximately 20,000 employees in the UltraCare treatment concept.

Last year, we trained more than 20,000 employees of our clinic network in a variety of subjects including team building and conflict resolution, as well as in customer service and other skills related to the five elements of the UltraCare Program. These elements are paramount in caring for our patients. These five elements are: Exemplary Customer Service, Team Approach to Care, Innovative Technology, Individualized Patient Care and Clinical Leadership.

Hurricanes "Katrina" and "Rita" did not only affect our operative business in the U.S., but also our human resources management. More than 1,000 colleagues in the U.S. – with the explicit support of Fresenius Medical Care – quickly volunteered to assist in relief efforts, shifting the focus of our personnel management to the coordination and administration of our employees in the region. Further information on our aid activities can be found in the section "Global Operations" beginning on page 100.

In addition, we also intensified the support of our employees with the "Alternative Career Opportunities" program. They can now benefit from broader career opportunities as specialists or project managers within the Company. One component of the program provides our employees with specialized training and supervision for individual positions they would like to attain.

The training and education of our workforce is a key component of a human resources strategy that safeguards the future of the Company. In addition to our participation in both internal and external training programs, we continued a successful cooperation with INSEAD (Fontainebleau and Singapore) and strengthened our relationships with other international business schools.

Our human resources marketing program is supported by our Internet presence and our good relationships with selected academic institutions, maintained through conventions, internships and research support for degree dissertations. These activities form an early bond between the Company and potential employees.

In 2005, Fresenius Medical Care once again employed more trainees than the Company required.

The Fresenius Group once again employed more trainees above its demand to fill internal positions. This ensures an adequate pool of potential employees as competition for qualified personnel will continually increase in the future. At the end of the year, we offered 450 young people an attractive trainee program, the same number as in 2004.

In 2005, we added careers in logistics and shipping to our catalog of trainee programs and are now able to offer 17 different career choices. A "trainee database" was created to improve a trainee's chances to join the Company after completing a program. The database gives trainees a platform to discover job openings within the Company, so that they can take the initiative to apply early and meet the managers. We have also increased the opportunities for internal education with additional computer courses, telephone training and languages classes to ensure that the young women and men receive training at the highest level.

Profit Sharing and Stock Option Plan

Profit sharing and stock option programs motivate our employees and help them identify with the Company.

One key element of our economic success is our employees' high level of identification with the Company and our goals. The chance to profit personally from the success of Fresenius Medical Care is a major part of this development. The amount of profit-sharing bonuses is linked to the EBIT of the Fresenius Group, offering a value-oriented incentive. In 2005, each employee received €1,000 as part of the program. Two-thirds of the bonuses are paid in shares. Employees can then opt to take the final third in either cash or shares. Those opting for shares are awarded bonus shares to acknowledge their trust in the Company.

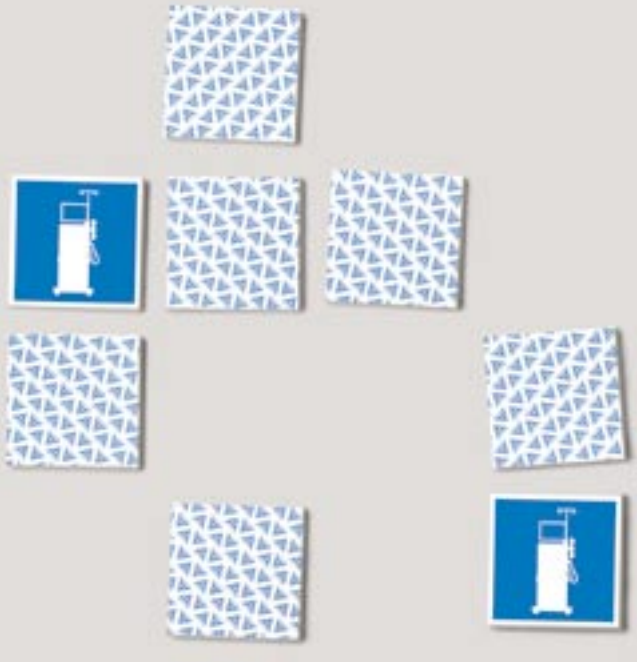
Profit Sharing

Year*	2005	2004	2003	2002	2001
In €	1,000	1,000	1,050	956	869
Number of qualified employees	2,298	2,101	1,768	1,624	1,576

* Profit sharing is paid retroactively and reflects the Fresenius Group EBIT for the respective year.

Upper management continued to be covered with the "2001 International Stock Incentive Plan" that offers convertible bonds. The plan is used worldwide to increase the managements' identification with our corporate goals and strengthen their focus on creating and implementing them. Last year, approximately 600 managers took part in the program.

Significant changes were made to the "2001 International Stock Incentive Plan" last year since it expired at the end of 2005. These amendments took into account the conversion of preference shares into ordinary shares at the beginning of 2006. The new program would only award ordinary shares. For further information about the Stock Option Program, please refer to page 76 of the Consolidated Financial Statements (Note 15).



LEADERSHIP BY

The ability to innovate is an essential characteristic of Fresenius Medical Care. We develop state-of-the-art products incorporating the latest technologies. The best example is our new generation of dialysis machines, the 5008 series.
The machine was officially introduced during the international congress hosted by the European Dialysis and Transplantation Association/European Renal Association (EDTA/ERA) in Istanbul in June 2005.
The 5008 treatment system is intended to make a lasting contribution to our leadership in innovation.

Flexible, simple, cost-efficient

Apart from key factors such as reliability, performance and user-friendliness, this dialysis machine features a number of newly developed technical components and improved processes which we will now discuss in detail. We have also kept the system of the 5008 flexible, in order to allow for easy upgrades as scientific standards progress.

We were able to significantly extend the required maintenance interval of the machine. A number of components within the 5008 will neither require regular maintenance nor calibration during its entire lifespan. The machine's design also simplifies servicing processes, reducing the overall maintenance time.

The machine includes a number of new "Eco" functions: though providing the same level of treatment, the amount of energy and supplies (ultrapure water, electrolyte concentrate) required during dialysis has been reduced considerably. When selected to perform high adequacy therapy, the new dialysis machine consumes up to 30 percent less water and electricity per treatment, thus cutting operating costs while protecting the environment.

The 5008 series is characterized by a modern, ergonomic design. The machine is easy to use, thanks to a large touch-screen and simple user prompts, which leaves more time for the nursing staff to attend to other patient-related tasks. Significant advances in electronics make it possible to control even the most complex procedures safely and easily with this type of user interface.

Best dialysis with the 5008

Our new dialysis machines also offer the option of online hemodiafiltration (HDF) — currently the best and most efficient dialysis method — as a standard feature. Online HDF is believed to reduce the risk of cardiovascular complications, which are the cause of death for more than 50% of dialysis patients. Blood pressure and anemia are better controlled with online HDF, among other benefits. The procedure also removes excess water more gently while filtering toxins from a patient's blood more efficiently. A retrospective analysis of extensive patient data from Fresenius Medical Care's EuCliD database (see page 113) indicates that the widespread use of online HDF is expected to lead to a long-term decrease in the mortality rate of patients receiving this type of treatment. We presented the analysis to specialists at the 2005 EDTA Congress in Istanbul.

The machine also offers other recognized therapeutic options, such as the use of sterile and endotoxin-free dialysate, automatic regulation of fluid removal based on relative blood volume, automatic body temperature control, non-invasive measurement of total recirculation and automatic determination of treatment effectiveness. These well-known options were significantly improved, based on our experience with the preceding 4008 model, and we made them available to all users of the 5008. The new machine with its versatile functions is a perfect fit for the principles of "physiological dialysis" which Fresenius Medical Care has been following for years. This treatment concept is described in detail from page 61 onwards.

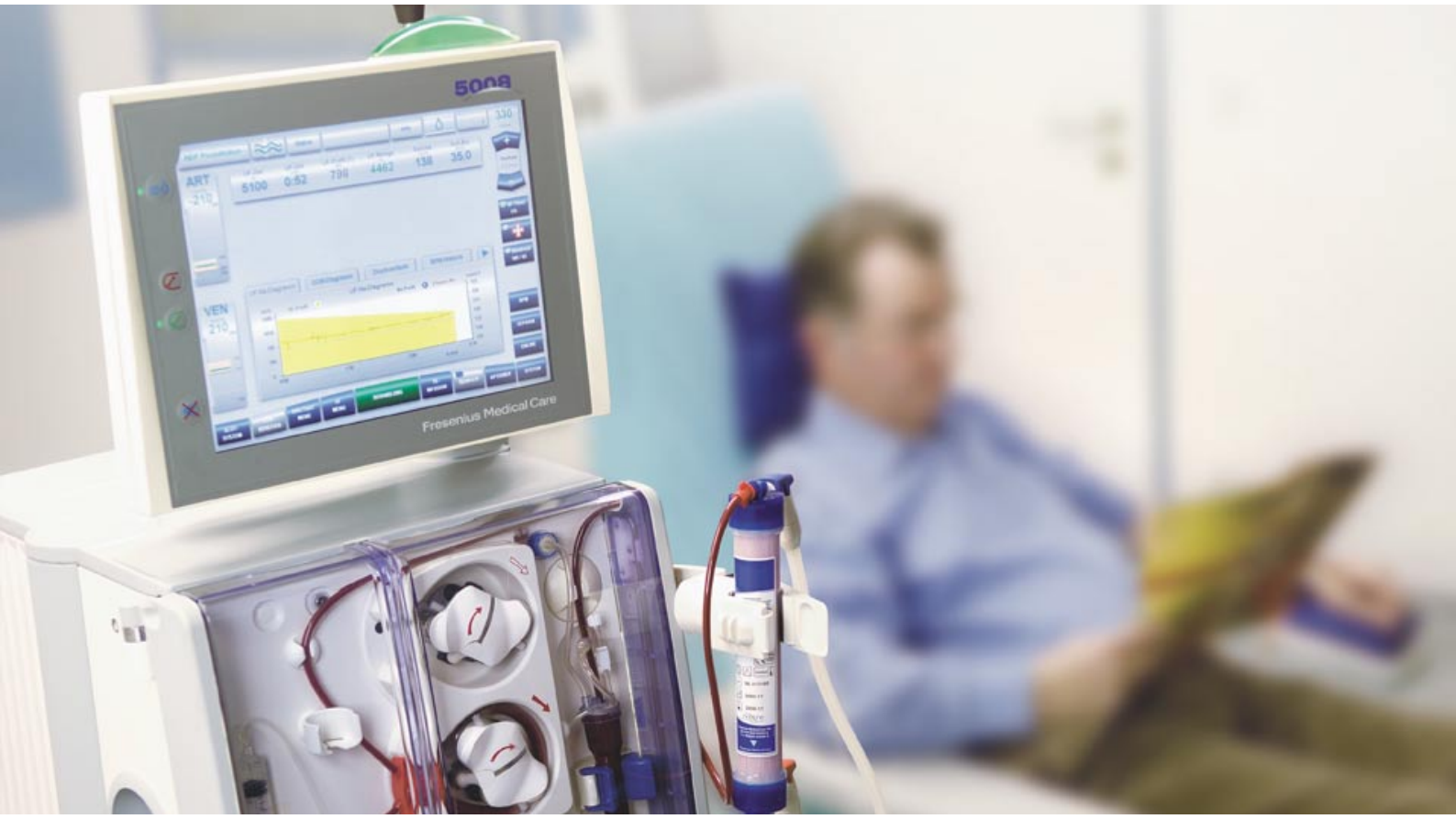
Safety through automatization

We redesigned parts of the extracorporeal circulation for the 5008 treatment system so that it offers users such as doctors and nursing staff considerable advantages during operation: a number of otherwise labor-intensive procedures have been automated. For patients, improved safety is a key benefit of the new extracorporeal circulation. The well-known critical treatment areas are now monitored even closer for the best-possible prevention of potential user errors. Regarding the costs, it is important to note that these improvements were not achieved through the addition of sensors but rather through a more intelligent use of signals available within the existing system.

Success in the dialysis market

The 5008 takes two key developments in the global dialysis market into account: the growing number

INNO



The 5008 dialysis machine demonstrates what we stand for: innovation, success and quality.

of patients as well as the limited financial and human resources in the healthcare industry. It was our goal to create a treatment system that offers the best-possible treatment to patients with chronic kidney disease at reasonable cost.

The initial response to the 5008 dialysis machine has been very positive. Doctors and patients praise the particularly gentle treatment with the new therapy system, the simple operation and the reduced consumption of water and electricity. Within a short period, we have delivered more than 1,000 machines worldwide. With the 5008 therapy system, we are continuing the success of its predecessor, the 4008, the world's leading dialysis machine.

In January 2006, we won the 26th German Business Innovation Award (*Innovationspreis der deutschen Wirtschaft*) for the newly developed 5008 dialysis machine. Since 1980, the annual award recognizes the best innovations and exceptional technological or scientific advances in Germany. Nearly 220 companies participated in the competition.

The German Business Innovation Award is an important acknowledgement of our research and development activities in Germany. For many years, our work has made a significant difference in the best-possible treatment of patients with kidney disease. With the 5008 treatment system, we want to build on this success and further expand our position as global market leader.

VATION

Research and Development

Our research and development activities in 2005 continue to demonstrate our leading position as innovators in the field of dialysis products and patient care.

The continuous development and refinement of dialysis therapies and products as well as other extracorporeal treatments is an integral component of our corporate strategy. More than 350 of our highly qualified employees (full-time equivalents) work in the Research and Development department. This strong commitment to research and development has a good reason: our innovations improve quality of life for our patients and ensure the future of our Company.

R&D expenditure

$ in millions	2005	2004	2003	2002	2001
	51	51	50	47	36

The expenditures for research and development remained unchanged at $51 million in 2005. This means we invested – as in the previous year – about 3% of our total dialysis product sales in this area.

Our business model led to years of success as the leader in innovation: Fresenius Medical Care has a unique competitive position as a vertically integrated dialysis company that offers dialysis products and dialysis services around the world. Within this structure, the development of new products is an extra advantage. Our research and development activities benefit from the practical experience we collect daily during the treatment of patients with kidney disease in 1,680 dialysis clinics around the world. We receive first-hand feedback from doctors, nurses and patients on our products. These expectations – such as easy-to-use, high-quality equipment and the highest level of treatment safety at low costs – are a strong influence on our work.

In addition, we rely on the experience we are able to gather as the world's largest provider of dialysis products. Fresenius Medical Care has a market share of about 28% in this area. Thus manufacturing high-quality products in large numbers is the main objective of our everyday operations. This provides us with unique know-how in production technology, which is as vital as the products themselves. We develop our own equipment and have, for example, mastered the production of microscopic dialysis fibers in great quantities.

The analysis of clinical treatment data is a key component in the development of dialysis products.

Our market position provides us with a vast amount of information through our clinical database that collects treatment data provided by our dialysis centers. This information allows us to adjust our development activities in order to create and manufacture the right products for the best-possible dialysis treatment.

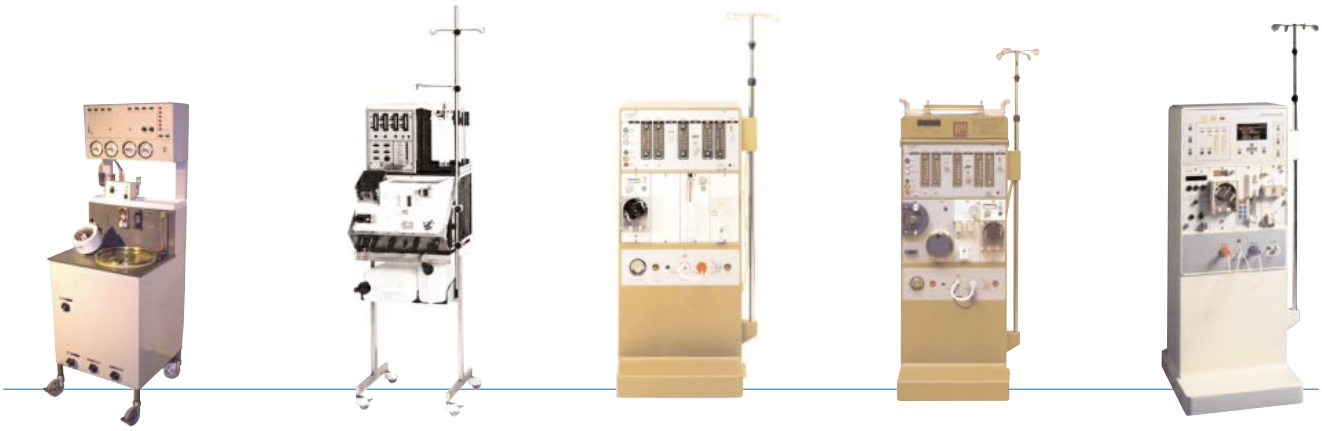
Hemodialysis machines

In 2005, we focused our research and development activities on completing the development of the new therapy system 5008. We aim at gradually replacing the 4008 in the coming years, which is the most successful and most widely implemented machine for hemodialysis treatment outside North America.

Since the 1970s, Fresenius Medical Care has steadily expanded from a mid-sized family-run company to the world's largest manufacturer of dialysis machines. On the following pages we would like to highlight the principles and guidelines we follow regarding the design, development and manufacture of dialysis products.

In accordance with our corporate goals, we place patient health in the center of our development activities. The new generation of dialysis machines needs to be safe and easy to operate, and it must allow life-saving treatment for patients with chronic kidney disease while optimizing the use of financial and human resources. These objectives have evolved and been tried and tested in years of research and development. Moreover, these goals have gained importance over the years, individually and as a whole. The main challenge for our Research and Development is transforming these purposefully simple objectives into viable technical concepts which can be developed and tested to produce an economically attractive machine that meets all the demands of our users.

Our technical development department works in cooperation with the machine's potential users, which allows us to integrate the needs of our customers including easy operation, ergonomic design and the best-possible use of resources. Market success is a good indicator of how well the development process has met these demands.



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Artificial kidney "Stuttgart"

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First machine for hemodiafiltration

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In the development of new technologies, quality of life for our patients is the basis of our efforts.

Our commitment to developing devices with a positive effect on a patient's quality of life is very challenging: the entire spectrum of therapeutic experience and treatment methods for end-stage renal disease must be considered. Creating a successful treatment system for hemodialysis requires design teams to decide which scientifically discussed treatment options should be included in a new hemodialysis machine. In addition, many medical aspects regarding the treatment of chronic kidney failure change over time, since this area of scientific research is particularly dynamic. The research and development department at Fresenius Medical Care is committed to producing dialysis machines which reflect the current state of scientific expertise. The company possesses the experience, the close relationships with internationally recognized clinical partners and the genuine fascination with the clinical questions of dialysis therapy – a sound basis for making our dialysis machines correspond with the latest scientific findings.

A number of the machine's features and functions have proven indispensable in the successful, high-quality treatment of patients with chronic kidney failure. Such functions include the precise and reliable control of fluid removal, the use of bicarbonate-buffered and ultrapure dialysate as well as the use of the appropriate dialysis dosage and measuring equipment to monitor each treatment. Machines made by Fresenius Medical Care have been at the forefront on each of these points for years and set the standard in dialysis care.

In addition to the indispensable attributes of high-quality kidney replacement therapy, there are a number of modern procedures which can provide much more than just basic care for dialysis patients and further improve their quality of life – and, presumably, lower their mortality rate. Today procedures can be selected which result in an increased dialysis dosage and implemented together with the so-called closed loop control (keyword: physiological dialysis, please see next page) lead to a better tolerated and higher adequacy in dialysis. By its nature, dialysis is a massive intrusion into various physiological processes of the patient. Patients react very differently to these therapy-related influences. Many of the complications affecting patients during treatment are the result of standard therapies which fail to integrate the individual requirements of a patient.

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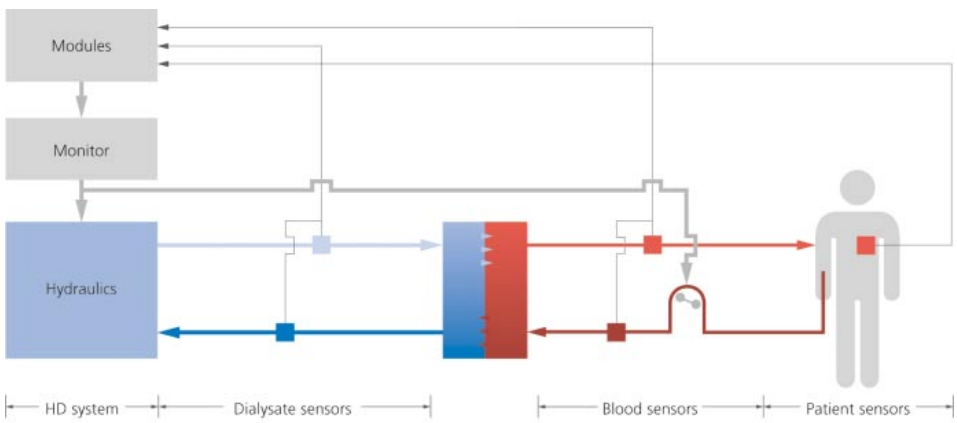
5008

Integrated treatment systems allow us to provide the best-possible customized therapy.

For many years, Fresenius Medical Care – motivated by related scientific literature – has followed a concept introduced in the late 1980s known as "physiological dialysis". Physiological dialysis means that a dialysis machine collects information from various sensors and monitors in the dialysate and in the extracorporeal blood circulation to determine how a patient reacts to certain aspects of treatment. Special dialysis machine components – small expert systems, as it were – analyze this information and automatically control the dialysis machine without the help of an attendant. This can, for example, reduce the probability of complications or, ideally, eliminate them. These components are illustrated in the following graphic.



Until now, all of these features were offered as options for Fresenius Medical Care dialysis machines. This very user-friendly product strategy allowed the 4008 dialysis machine to be customized according to individual requirements. The following graphic illustrates a number of optional modules for the 4008 dialysis machine.

Our new 5008 therapy system combines proven treatment functions with the latest medical knowledge.

Although this customization was desirable in the past, it created a significant cost factor. For this reason, the research and development department at Fresenius Medical Care decided to take a radical step when developing the successor to the 4008: options which had proved to be indispensable and beneficial to high-quality dialysis over years of practical experience were made standard. These modules are now cost-effectively integrated into the dialysis machine. This allows the best-possible treatment while minimizing treatment costs for the patient. Furthermore, we have maintained the principle of upgrades with the new treatment system to allow room for future options. For more information on the 5008, please see page 56.

Further research areas

In the 2004 Annual Report we offered detailed information not only on our development efforts for the new generation of dialysis machines but also on the complete spectrum of our research and development activities. We built on these efforts last year and further explored the impact of the frequency, duration and therapy selected with regard to its influence on treatment quality. We share the point of view of many opinion leaders that treatment quality and patient outcome can be positively influenced by more frequent dialysis, longer dialysis (accommodated by performing dialysis overnight) and by highly effective online hemodiafiltration therapy.

Selective dialysis membranes to improve dialysis – this is one focus of our research activities.

The dialyzer – the artificial kidney – continues to play a key role in the dialysis system. Fresenius Medical Care is researching selective dialysis membranes, the unique traits of which would influence treatments. Membranes could either have specific adsorption properties or contain substances for targeted release.

Another focus of our development activities is the field of alternative anticoagulants which temporarily prevent blood coagulation. Here we are looking for an alternative to Heparin. The objective is to reduce the coagulation in the extracorporeal circulation, not during circulation in the patient's body, and only for a certain period of time. This is known as "regional anticoagulation". The use of citrate has become popular in recent years. A solution containing citrate is introduced into the patient's blood as it enters

We are researching new ways to improve control of blood coagulation.

extracorporeal circulation and, through complex formation with calcium ions in the blood, effectively interrupts the clotting cascade. The controlled addition of a calcium solution at the end of the extracorporeal circulation neutralizes the effect of citrate and reinstates the original coagulability. The correct dosing of both solutions requires appropriate pumping units as well as computer-aided calculations and a great store of practical experience with these solutions in extracorporeal circulation.

Disposable products and dialysis solutions for peritoneal dialysis are another focus of our research and development activities: special design details and the simple and safe handling of the tubes and connectors used to infuse the peritoneal dialysis solution into the abdominal cavity reduce the risk of bacterial contamination which could, for example, lead to peritonitis. Peritonitis can reduce the effectiveness of the peritoneum, the body's own membrane used in peritoneal dialysis treatment, or render it entirely unsuitable for use in further treatments. The composition of the solutions as well as the selection of buffer systems can also influence the long-term success of peritoneal dialysis. Further information on the history of peritoneal dialysis can be found in "Dialysis Compact" inside the front cover.

In the future we will further improve the quality of life of our patients with innovative solutions.

A South Korean study demonstrated the good tolerance of our biocompatible peritoneal dialysis (PD) solution balance. In the professional journal Peritoneal Dialysis International (Vol. 25, pp. 248-255), researchers compared mortality rates of patients using standard PD solutions and biocompatible PD solutions in the largest study to date. Their clinical results showed that the use of biocompatible solutions led to a lower mortality rate and better protection of the peritoneum.

Extracorporeal therapies for the treatment of liver disease are another important area of research. These therapies are based on the experience and techniques of dialysis. In many cases, these therapies can offer the patients more time while waiting for a liver transplantation or for the diseased liver to use its extraordinary healing abilities to regenerate itself. Fresenius Medical Care offers the Prometheus system for this important aspect of intensive care. Clinical studies prove that the machines have a significantly higher detoxification ability than similar devices on the market. The procedure was developed in cooperation with the Danube University Krems in Austria.

In addition, we are researching methods of harvesting cells and developing bioreactors. This includes investigating the functional capability of cells in various bioreactors for several potential applications including support systems for liver functions. The research is conducted in close cooperation with Fresenius Biotech, a subsidiary of Fresenius AG, as well as other research institutes in Italy, Austria and Germany. Research and Development is also working on new procedures to further increase the already impressive detoxification effectiveness for specific toxins.

Our research programs in the areas described above are long-term projects, scheduled for several years. Thus, they were an essential part of our research and development activities in 2005. We did not extend our research and development activities beyond this scope last year.

Procurement

Efficient procurement is vital to the profitability of a company. First of all, it is crucial for us to negotiate the best possible prices and conditions and, secondly, to ensure the highest quality and safety of the acquired materials and semi-finished products. We require high-quality materials to manufacture products for the best-possible therapies and to meet our own high-quality standards.

Cost-effective procurement and high-quality products are the main focus of our PCC.

Our international Purchasing Consulting Center (PCC) serves as the central coordination and contact point in the procurement process. It bundles similar needs, enters into global supply contracts and negotiates price and delivery conditions. In addition, the PCC organizes purchasing for our production facilities and performs extensive quality and safety checks of the purchased materials. The PCC also keeps abreast of current market and price trends to be able to react quickly to changes. Close relationships with suppliers guarantee a consistently high quality of purchased products as well as reliable deliveries.

Last year we pushed the internationalization of our procurement strategy. We see three major advantages in building a global network of suppliers for materials and unfinished goods: reducing exposure to currency fluctuations, being able to choose from a larger number of suppliers for specific items and building strong relationships with these suppliers to ensure that our procurement needs are always met.

Standardized products are very cost-efficient. Therefore, Fresenius Medical Care focuses on creating similar designs for its products and components. Uniform products simplify logistics, for example, transports can be better coordinated for a more efficient use of loading capacities. Furthermore, we are able to purchase standardized packing materials at lower prices.

Our most important task last year was the consistent procurement of oil-based products such as polycarbonate, a key plastic for manufacturing dialyzers. Because of the rise in oil prices and the still strong demand from China, we saw price increases of 20% and more in 2005. Even prices for plastic pellets and packing materials such as foil were relatively volatile due to the oil price.

Long-term supply contracts helped stabilize procurement spending for semi-finished products such as chlorides and glucose, which are made without raw oil. Here we were able to keep prices at the level of 2004. This strategy also applied to electricity and telephone services for 2005, which we were able to purchase under the same conditions as in the previous year, due to long-term service agreements. Prices for cardboard boxes were also kept stable with a multi-year contract.

Quality and Environmental Management

The best-possible treatment and innovative dialysis products – that is what Fresenius Medical Care stands for. Our high quality standards are an integral component of this promise and on par with our position as the leading dialysis company in the world.

Further information on ISO standards can be found at www.iso.org.

To ensure high quality standards, Fresenius Medical Care developed an Integrated Management System (IMS) in 2002 that has been in use at our production facilities since. It is gradually being introduced at our dialysis clinics, while continually undergoing further development. The IMS works with the legal and normative guidelines for our products and services and focuses on the established practices of the related operational workflows. The system fulfills the ISO norm 9001:2000 requirements for quality control systems in combination with the ISO norm 14001:2004 for environmental control systems. At the same time, it conforms to the requirements for medical devices of ISO norm 13485:2003.

More than half of our European dialysis clinics have been certified by our IMS.

In 2005, our business segments in Eastern European countries were the focus of our IMS certification activities. Our subsidiaries in Romania, Slovenia and Turkey were certified according to ISO 9001:2000 and ISO 13485:2003. The certification proves that these companies fulfill EU quality standards, even if – as in the case of Romania and Bulgaria – they do not yet belong to the European Union. We have also made progress with the certification of our clinic networks in Hungary, Poland and others. Overall, the IMS was introduced in 48 of our dialysis clinics in 2005, bringing the total percentage of our certified European dialysis centers to approximately 55%, compared to about 46% in the previous year.

The approval of drugs is subject to numerous national and international regulations. Quality Management is responsible for controlling their internal realization. Apart from complying with domestic regulations, we also focus on the use of the so-called Mutual Recognition Procedure. Valid throughout the EU, this directive allows for the accelerated approval of medical products – if they have already been approved by another EU member state.

We applied the Mutual Recognition Procedure in all EU member states in 2005 and expect approval of bicaVera forte and multibic products (see the glossary beginning on page 124). In addition, bicaVera is now approved for the important Canadian market by local healthcare authorities.

As previously mentioned, the IMS covers environmental as well as quality management, taking into account the new standards set by ISO 14001:2004 for environmental control systems. It can be used for both production and dialysis clinics. It is also integrated into our standard business practices. For example, we set environmental protection goals for each phase of our product lifecycle – from development to disposal – and follow up to determine if these goals have been met. We expanded our environmental controlling in 2005 to include Poland and Romania.

Last year we also implemented and certified our environmental control system at our production sites in France and Italy. In addition to our Europe's largest production plants

in St. Wendel and Schweinfurt, Germany, which have been using active environmental control since 1997, now the third- and fourth-largest European plants fulfill the norms for environmental protection and resource preservation.

New environmental technologies reduce costs: the St. Wendel plant saved more than 13,000 tons of steam in 2005.

Active environmental protection at our production sites means continuous improvement of our processes, in order to be more environmentally compatible and, usually, more cost-efficient. In particular, we considerably reduced the amount of steam and packaging materials used at the St. Wendel plant last year. With the help of an improved heat recovery system we were able to save 7,300 tons of steam compared to 2004. A new electrical sealing system for stay·safe dialysis bags eliminated the need for an additional 6,000 tons of steam. The standardization of packaging material lowered transport costs for standard dialyzers by 12% and reduced the volume of cardboard boxes required by 15 tons. A more compact packing technique for the sterile shipment of our medical products saved 61 tons of plastic film at this plant alone.

Saving at the source: the 5008 dialysis machine reduces operating costs.

The Schweinfurt production plant proved that sustained environmental protection is not just a consideration for the production process, but also during development. The 5008 hemodialysis machine developed and produced here requires significantly lower operating expenses, because it uses up to 30% less water and electricity. This will generate new opportunities for resource preservation as the dialysis clinics operated by Fresenius Medical Care outside North America will switch to the new generation of hemodialysis machines in the medium to long term. You can find more information on the 5008 on page 56.

Fresenius Medical Care introduced waste separation to its North American dialysis clinics two years ago, thus considerably reducing the amount of residual trash. This program was successfully expanded from 640 to 880 facilities in 2005, contributing nearly 2,600 tons of cardboard and paper for recycling.

The environmental protection measures at our North American dialysis clinics include more than 70 water preparation systems producing three-fourths of the ultrapure water required. This saves nearly 100 liters of freshwater per dialysis treatment. Ultrapure water is a key quality criterion in the production process for dialyzers and during dialysis treatments. We need large amounts of this resource, so even small changes in the required quantities can lead to considerable savings.

The transportation of goods between production sites, dialysis centers and warehouses provides many opportunities to conserve resources. We continue to use trucks with double-decker cargo areas, because they can transport more goods than trucks with a single cargo area.

Compliance Program

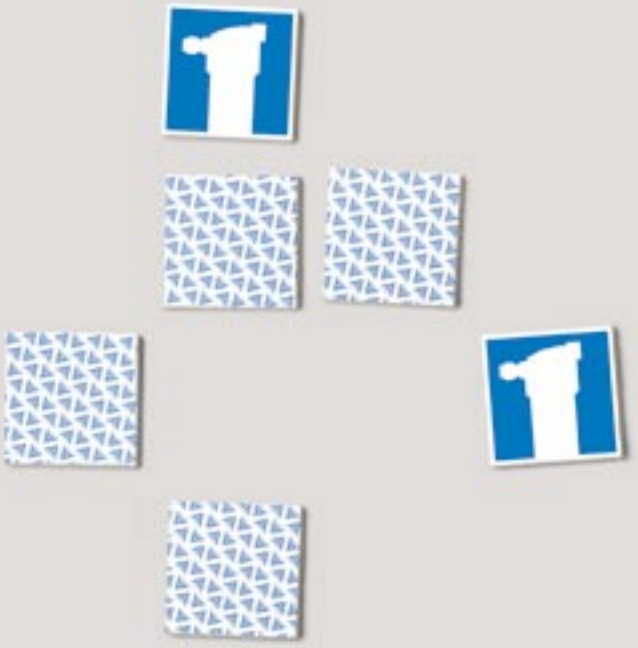
Our Compliance program is available at www.fmc-ag.com

For us, compliance means adhering to defined ethical and legal guidelines as part of our business activities. Voluntarily following our compliance guidelines is an integrated component of our corporate culture. Fresenius Medical Care's Compliance Program is one of the most demanding in our industry. Our Compliance Program was first introduced to our American subsidiary at the end of the '90s and afterwards implemented in all of our business regions. Since 2004 our guidelines apply in every country from Argentina to Thailand and from Belgium to Australia. We also have specially trained compliance officers in every country where we have subsidiaries, who act in accordance with the requirements of the respective local legal environment. Each employee has been fully informed about our code of conduct and its goals.

In the business year 2005, we trained additional compliance officers for several Asian and Latin American subsidiaries. They act as contact persons for our employees and can be reached via special telephone numbers, by email as well as personally.

Our global compliance program is an important component of our corporate principles.

Compliance is a major indicator of the quality-related activities our Company performs for our customers, patients and investors. The highest-possible quality, compliance and Corporate Governance are the principles that guide Fresenius Medical Care. They are the guidelines that we use to shape and frequently realign our operational business. Our Compliance Program is one of the most admired in the healthcare industry and we will continue to rely on and expand it in the future, emphasizing the integrity of our employees and the quality of our corporate activities.



LEADERSHIP BY

Dialysis patients should look toward a future with the best-possible quality of life — this is a major element of Fresenius Medical Care's corporate vision. At the same time it illustrates how we operate our business while strengthening our commitment as a leader in the field of dialysis — leadership by quality. Quality is the key to both our therapeutic and economic success.

Our attention to quality affects all aspects of our business activities — from procurement to production to dialysis care and even patient training programs. This integrated approach is designed to ensure that we conform to our high standards.

Quality in manufacture ...

We begin by laying the foundation for the quality of our products during procurement by setting high material standards and selecting qualified suppliers. The next step in our continuous pursuit of quality is the production process where, for example, many of our procedures include a quality management system that conforms to norms ISO 9001 und ISO 9002. More information can be found on page 65 in the chapter "Quality and Environmental Management".

... in dialysis therapy ...

In dialysis care, it is our goal to continually improve treatment quality, and by doing so improving the quality of life for our patients. In order to reach this goal, we introduced and are using in all of our clinics innovative treatment concepts such as UltraCare. UltraCare combines ground-breaking technologies with exemplary patient care to achieve the best-possible clinical results. We also comply with a number of quality standards recognized within the dialysis community, such as hemoglobin levels. As described on page 98, we have been able to improve these parameters continuously over the past three years in North America, our most important market.

Fully integrated dialysis care is a key component of dialysis quality. For this reason, Fresenius Medical Care has been active in Disease Management for several years and restructured this segment in 2005, as described in detail on page 102.

The objective of disease management is to further enhance treatment quality and expand services provided to the patients and therefore be able to manage the overall cost of dialysis care more effectively. This holistic approach benefits everyone — while patients enjoy a lasting improvement in the quality of life, social systems and insurers see a reduction in costs. Dialysis companies gain more freedom in structuring their care as well as the opportunity to improve their value chain without affecting the quality of dialysis treatment.

Disease management includes all aspects of dialysis treatment — from taking care of the vascular access on the forearm of hemodialysis patients to high-quality dialysis to the patient's individual nutritional needs. In close cooperation with the patients, we develop customized treatment programs.

In addition, our clinical databases form another important pillar of quality assurance. We use these databases to collect information on treatment quality, identify weaknesses and — if necessary — introduce countermeasures. Our completely self-developed EuCliD is a good example: we enter a large number of treatment parameters into this database. By comparing clinics, we can quickly identify individual areas with room for quality improvement. Further information on EuCliD can be found on page 113.

... in training ...

We also offer intensive training programs for dialysis patients and their relatives. The Open House Week that we hosted in the U.S. and that we describe on page 97 is a good example. Even patients with kidney disease who are not receiving regular dialysis care yet — and their families — are offered a detailed preview of different treatment types to help with the adjustment to this new stage of life. After all, informed and active patients can make a significant contribution to the success of their treatment, and thus their own quality of life.

Patients and other interested parties as well as doctors and nurses can also access comprehensive information on different treatment modalities at www.kidneyoptions.com and www.pdserve.com. These information sources also play a major role in treatment quality.

The use of advanced technologies in the development of new products, the production of

QUALI

High treatment quality with top-of-the-line products: dialyzers by Fresenius Medical Care.

dialysis equipment and dialysis care calls for qualified employees. Employee training is an important element in our aim toward a continuous improvement of our product and service portfolio. These initiatives, which are described in more detail on page 54, emphasize our pursuit of leadership by quality in all areas of our Company. Compliance (see page 67) is a significant indicator for the success of our quality assurance efforts and benefits the Company's customers, as well as its patients and investors. A global corporate code of conduct in combination with appropriate training strengthens our employees' sense of responsibility, which in turn creates the basis for quality in all corporate areas.

.. in research.

Research and development of new dialysis products and therapies is another field where quality is of vital importance. Our innovations contribute to improvements in treatment quality and our patients' quality of life, thus securing our company's future. In 2005, the 5008 dialysis machine, which is described in more detail from page 56 onwards, played an important role here.

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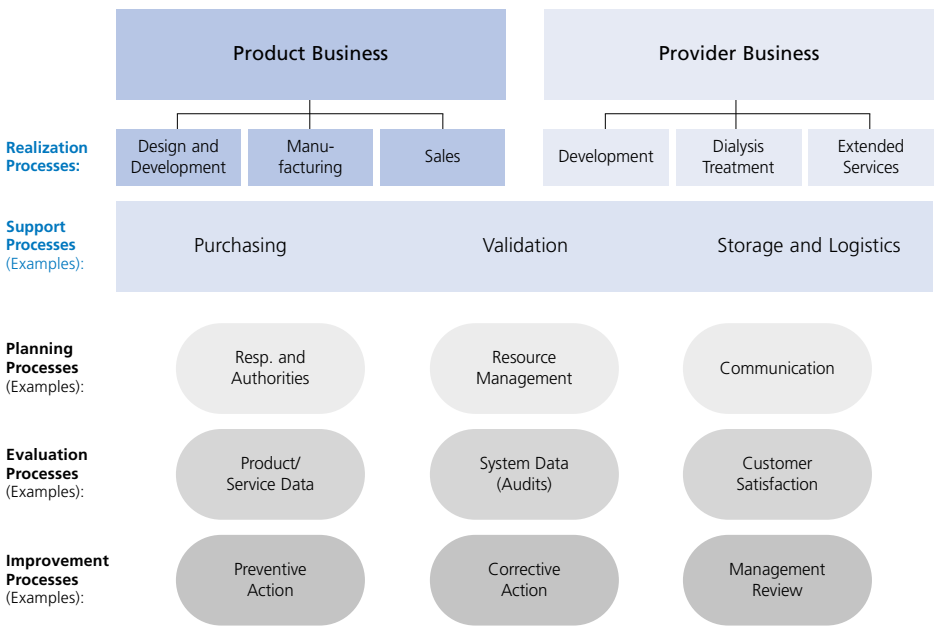
Risk Management

Fresenius Medical Care Group, with its worldwide activities, is naturally exposed to a variety of risks, and the active management of the business is directly related to these challenges. Managing the risks allows us to seize corresponding opportunities. As a provider of often life-saving products and therapies, we are only marginally exposed to economic cycles, a key difference between us and, for example, a manufacturer of consumer goods. At the same time, our technical experience and broad market knowledge provide a reliable basis for detecting risks as early as possible.

The goal of our risk management is to ensure the Group's success by identifying potential threats early.

Fresenius Medical Care sees risk management as a means of determining, analyzing and managing new and potential developments. Our broad risk management system, which is set by internal guidelines, is an important component of company management and allows us to make changes when necessary. It enables management to identify and eliminate risks that could threaten the health or growth of the Company at an early stage, quickly minimizing unfavorable impacts.

Risk Management System



Risk management is part of our integrated management information system, based on group-wide controlling as well as an internal monitoring system that identifies risks as early as possible. Regional monitoring systems form the backbone of the risk management system and identify all inherent industry- and market-specific risks. Status reports are presented to the Management Board by the corresponding risk managers twice a year. They give qualitative and quantitative appraisals of the likelihood of risks that have been identified as potentially harmful to the company as well as the extent of the possible damage. In addition, the Board is immediately and directly informed of any newly identified risks.

No increased risks were identified in 2005 for our area of business or related markets.

As required by law, the functionality and effectiveness of the risk management system were included in the 2005 financial audit. Our external auditors confirmed our implemented internal control system to be appropriate for early identification of developments that could put our company's continuity at risk (see page 97f in the Financial Report). At the end of the year, no increased risk affecting the Group's general business, internal organization or external environment were identified.

Efficient reporting is the basis for controlling, monitoring and acting quickly to minimize risks. Therefore, the management of Fresenius Medical Care receives monthly and quarterly data on the condition of the healthcare sector, the operating and non-operating businesses, and analyses on assets, financial position and results. This enables us to detect risks in a timely manner and react promptly, if necessary.

Risk Areas

The main risk areas for the business activities of the Fresenius Medical Care Group are as follows:

Risks due to economic conditions
The economic development of corresponding markets only indirectly affects the risk situation of individual business segments. However, our international business is influenced by fluctuations in foreign currency exchange rates, leading us to carefully monitor and assess the development of the global economy as well as political, legal and financial conditions. The international strategy of the Fresenius Medical Care Group also makes it essential for us to conduct continuous, intensive analyses of country-specific risks.

Risks related to the general economic environment
From today's point of view, the global economy presents no substantial danger to the Fresenius Medical Care Group. For 2006, we expect positive economic development at the level of 2005.

Risks in the healthcare industry
Risks related to changes in the healthcare market are of major importance to the Fresenius Medical Care Group. The main risks are the development of new products and therapies by competitors, the financing of healthcare systems and reimbursement in the healthcare sector.

Risks are actively kept to a minimum by closely monitoring the market, especially the products of our competitors and the introduction of new dialysis-related products. As part of our active risk management, Fresenius Medical Care maintains strategic business units that help anticipate and quickly react to new market conditions. Their main activity is to identify, analyze and internally communicate activities that could affect the dialysis market and the Group's business. In addition, close ties with the medical and scientific communities enable us to quickly identify and capitalize on technological innovation. This involvement also keeps us up-to-date on alternative treatment methods and enables us to evaluate and adjust our corporate strategy. Consequently, we continuously analyze trends and review improvements in research and development. The development of new and innovative products will remain a decisive factor in the dialysis market for the foreseeable future.

We currently expect no negative effects from changes in national healthcare systems.

Because we operate in a highly regulated environment, changes in the law, such as those relating to reimbursement, can have a major economic and strategic impact on the Group. This is especially true in the United States, where about 89% of our sales are generated with dialysis care, the majority of which are financed by public health insurance programs. In 2005, regulations governing the Centers for Medicare/Medicaid Services were the focus as they recalculated the methodology for the reimbursement of dialysis-related drugs administered to patients in the public Medicare/Medicaid program. For 2006, the basis for the price determination was changed again. Furthermore, long-term demonstration projects were launched to investigate the effectiveness of disease management programs for the treatment of publicly insured patients. Regulatory changes outside our most important market could also have a significant impact on the Group. For this reason, we do not only carefully monitor regulatory planning and changes, but actively work together with government healthcare agencies. More details on changes to reimbursement in the U.S. can be found in the "Global Operations" section on page 107.

Consolidation in the dialysis industry continued in 2005. Our U.S.-based competitor DaVita received the approval of U.S. antitrust authorities to acquire the dialysis services business of Gambro in the U.S. in October. This makes DaVita the world's second-largest provider in the dialysis care sector. At the same time, DaVita and Gambro also entered into a ten-year contract for the supply of dialysis products in North America. This so-called "Preferred Provider Contract" could result in the expiration of current supply contracts between Fresenius Medical Care and DaVita. From our point of view, the risk related to this is small since DaVita contributes only about 1% of Fresenius Medical Care's overall sales.

We consider the further consolidation of the dialysis market as positive.

Fresenius Medical Care announced the acquisition of Renal Care Group in May 2005. This acquisition still requires the approval of U.S. antitrust authorities. The consolidation process will continue within the U.S. as well as globally, but due to the lack of large acquisition targets, only smaller acquisitions are to be expected. Therefore, Fresenius Medical Care expects the potential impact of future acquisitions and divestitures to be minor. Further information on the industry's condition can be found in the "Dialysis Market" section on page 34.

Operating risks

We confront potential risks in production, products and services using the following active quality-control measures:

Purchasing of products. Substantial requirements are placed on suppliers to control the risk of low-quality raw materials, consumable goods and other external products. This includes demanding external certification, performing our own inspections of suppliers and sample products, and performing regular quality control checks. Fresenius Medical Care demands high-quality, safe products from certified suppliers that meet the Group's specifications and requirements, and have a proven track record. These suppliers are constantly evaluated using a supplier assessment system.

Suppliers. We monitor and work to avoid market-related dependencies with major suppliers. Our strategy calls for a primary and back-up source for every product and raw material required. Where this is not possible, we minimize the risk by entering into long-term contracts to ensure a steady supply and price advantages while avoiding price fluctuations. Fresenius Medical Care is also exposed to general price changes in raw materials. Continuous market analysis is used to anticipate such price movements and quickly counteract any potential negative impact. Further information on procurement can be found on page 64.

Services. Performing medical procedures on patients at our dialysis clinics presents inherent risks. Operational risks include, for example, the need for hygienic conditions. We counteract these risks by using strict organizational and operational procedures, continuous personnel training and patient-oriented methods. Our ISO 9001 certified clinic-quality management system is linked with our Integrated Management System (IMS) as detailed on page 65. The ISO 9001 certificate attests to "Good Dialysis Practice". In addition to internal assessments of treatment data, annual internal audits of operations provide constant opportunities for improvement. Our clinic quality management system is also audited each year by external certification institutes such as the German TÜV. As a consequence, quality flaws and risks can be identified quickly and remedied in a timely manner.

Strict on-site monitoring of our production plants guarantees high quality and safety standards for our products.

Production. Compliance with product and manufacturing regulations is ensured by our Integrated Management System in accordance with ISO 9001, ISO 13485 and "Good Manufacturing Practice" requirements as well as by the application of internal standards as defined by written process and work instructions. Regular audits are carried out by authorized quality management staff at each of the Group's sites to ensure adherence to guidelines. The audits include all areas and aspects affecting quality, from the management and administration to development, production and customer satisfaction.

Debtors. The risk of late or non-payment is reduced by evaluating the credit standing of new clients and reviewing the credit limits of our regular customers. Outstanding payments are monitored while assessing the possibility of default.

Other operative risks. Potential financial risks arising from acquisitions and capital expenditures are identified ahead of time by performing careful, in-depth reviews with the help of external and internal professionals. Potential acquisitions or divestitures are also reviewed at regular intervals by a committee using internal guidelines based on various key factors such as profitability ratios. The development of acquisitions is monitored using specific financial indicators including Return on Invested Capital (ROIC), cash flow and performance ratios.

Potential risks, such as those arising from the introduction of a new production site or new technologies, are countered through careful planning and continual progress reviews. For the construction of new production sites, we use internal milestones which are monitored constantly.

The manufacture of dialysis products requires the use of environmental resources. An environmental management system, certified under the DIN-ISO 14001 standards, has been introduced at many of our production sites to help protect the environment and raw materials while identifying potential savings. This simplifies the monitoring and reduction of raw material use while providing better cost control. Our environmental goals have been further supported by the optimization of recycling and logistics. More information on environmental protection management at Fresenius Medical Care can be found in the "Quality and Environmental Management" section, beginning on page 65.

Technical preventive measures ensure the treatment of our patients during natural disasters.

Further risk management measures limit the effect of environmental factors on dialysis services. Many of our own dialysis clinics have emergency generators that allow the continuation of life-saving dialysis treatments even in the case of a complete loss of electricity. In the U.S., for example, an emergency Fresenius Medical Care team steps in during natural disasters such as hurricanes to professionally coordinate relief efforts and allow dialysis treatment for patients in the affected region. A comprehensive description of our response to hurricanes "Katrina" and "Rita" begins on page 100 in the chapter "Global Operations".

Non-operative risks

We confront potential risks outside the operating business using the following active quality-control measures:

Research and development. Failing to achieve goals is an inherent risk in the development of new products and therapies. Comprehensive, cost-intensive pre-clinical and clinical studies are necessary before a new product can receive regulatory approval. We counteract risks from research and development projects by regularly analyzing and assessing development trends and examining the progress of research projects. We also strictly comply with legal regulations governing clinical and chemical-pharmaceutical research and development.

Personnel risks. Fresenius Medical Care has developed guidelines and codes of conduct for its employees worldwide to establish authoritative standards for our internal as well as external communication. With these guidelines and our Compliance Program, we aim to fulfill our own expectations as well as those of our partners, while aligning our

business activities with recognized standards as well as local laws and regulations. Further details on Fresenius Medical Care's Compliance Program can be found on page 67.

Employees who are trusted with confidential or so-called insider information are under obligation to comply with relevant guidelines, such as German investor protection law, and will handle the information responsibly.

Risks presented by employee recruiting are seen as insignificant due to risk management strategies. We counteract the risk of a shortage of qualified personnel through pre-emptive measures, such as comprehensive recruiting and employee development programs. We work against a general shortage of trained clinical personnel using targeted marketing programs to locate qualified and motivated personnel for our clinics and ensure a high standard of treatment quality.

IT risks. Information technology (IT) risks are controlled using protective measures, monitoring and tests. To counteract organizational risks such as manipulation or unauthorized access to sensitive data and programs, we use access protection (passwords) and internal guidelines to govern authorization. Procedures are monitored for adherence/compliance in the context of paragraph 404 of the Sarbanes-Oxley Act (see page 12). Software used to support key processes requires prior approval.

We use comprehensive security systems to minimize IT risks.

With the exception of North America and Asia-Pacific, our Lotus Notes and SAP systems as well as several other networks are maintained by Fresenius Netcare, a business unit of Fresenius AG, under a comprehensive contract covering responsibilities, availability, data security and archiving. Fresenius Netcare is contractually committed to a DIN ISO 9001 certification, which requires implementation of a quality management system. A monthly review of key indicators guarantees Netcare's adherence to the agreed IT systems service standards. The indicators include accessibility during specific periods, response times within the system as well as the availability and problem-solving ratio of Fresenius Netcare's hotline.

Software used by Fresenius Medical Care is validated when legally necessary. For example, the European region installed its own Corporate Software Validation Committee (CSVC), which identified and validated critical production and logistics processes supported by SAP as part of its risk analyses. Global software changes that affect validated processes must always be approved by the CSVC, which then may initiate a new validation review before they can be implemented.

In North America and Asia-Pacific, availability, data security and archiving are handled by the regions' own business units. The IT systems are continually monitored for quality, functionality and adherence to service standards.

Risks related to infrastructure as well as program- and process-related risks, which can include the breakdown or restriction of data and programs due to virus attacks, are

LEADERSHIP BY

Fresenius Medical Care is a globally active, vertically integrated dialysis company. We provide dialysis products and patient care to our customers around the world – and we also manufacture worldwide. Our global network of production sites reflects our goal of combining the highest possible level of product quality with innovative research and cost-effective manufacture.

Global network of production sites

The choice of individual production sites is primarily determined by the related product. For the production of highly complex dialysis machines, for example, we rely on decades of experience at a central facility. Our analysis shows that the concentrated production know-how regarding this product group offsets the costs of transporting the machines to our international markets. Other products are manufactured in the region where demand is particularly strong. As the global market leader in dialysis, we have the necessary expertise to develop efficient production processes that are customized for each specific product type.

Our products are primarily in demand within the euro and U.S. dollar regions. We have established a predominantly decentralized structure for our production sites to meet this demand and significantly reduce transport costs. An additional advantage: our plants in the U.S., Japan and Europe help protect us from currency fluctuations and minimize transaction risks.

We have implemented a particularly consistent global production network for dialyzers: our sites in Ogden (Utah, U.S.), St. Wendel (Germany) and Inukai (Japan) allow us to operate not only as a provider of dialysis products but also as a producer in these large dialysis markets. In addition, we operate a plant for dialyzers in France.

Hemodialysis machines are produced mainly at two sites — in Schweinfurt (Germany) and in Walnut Creek (California, U.S.). While the German plant manufactures components as well as complete dialysis machines, the American plant is primarily specialized in the production of dialysis machines. Concentrates for hemodialysis are produced at various sites around the world — including Italy, Great Britain, Spain, Turkey, Morocco, Argentina, Brazil, Colombia, Australia and the U.S.

We operate two of our largest plants for peritoneal dialysis supplies in Mexico and Japan. Our extensive product portfolio includes peritoneal dialysis machines, bloodlines and water preparation equipment manufactured in our factories in North America, Europe, Latin America, Asia and Australia.

Cost-efficient production

We have secured cost leadership by producing as close to the market as practicable and at the lowest possible unit cost. The U.S. is an excellent example: in 2001, we produced about 9 million single-use dialyzers in our Ogden plant. At the end of 2005, that figure had climbed to about 26 million. In the same period, we significantly reduced the unit cost — while maintaining the high level of quality.

Overall we produced about 60 million dialyzers and fiber bundles in 2005. Considering the total volume of approximately 150 million dialyzers produced globally in 2005, Fresenius Medical Care supplied about 40% of them.

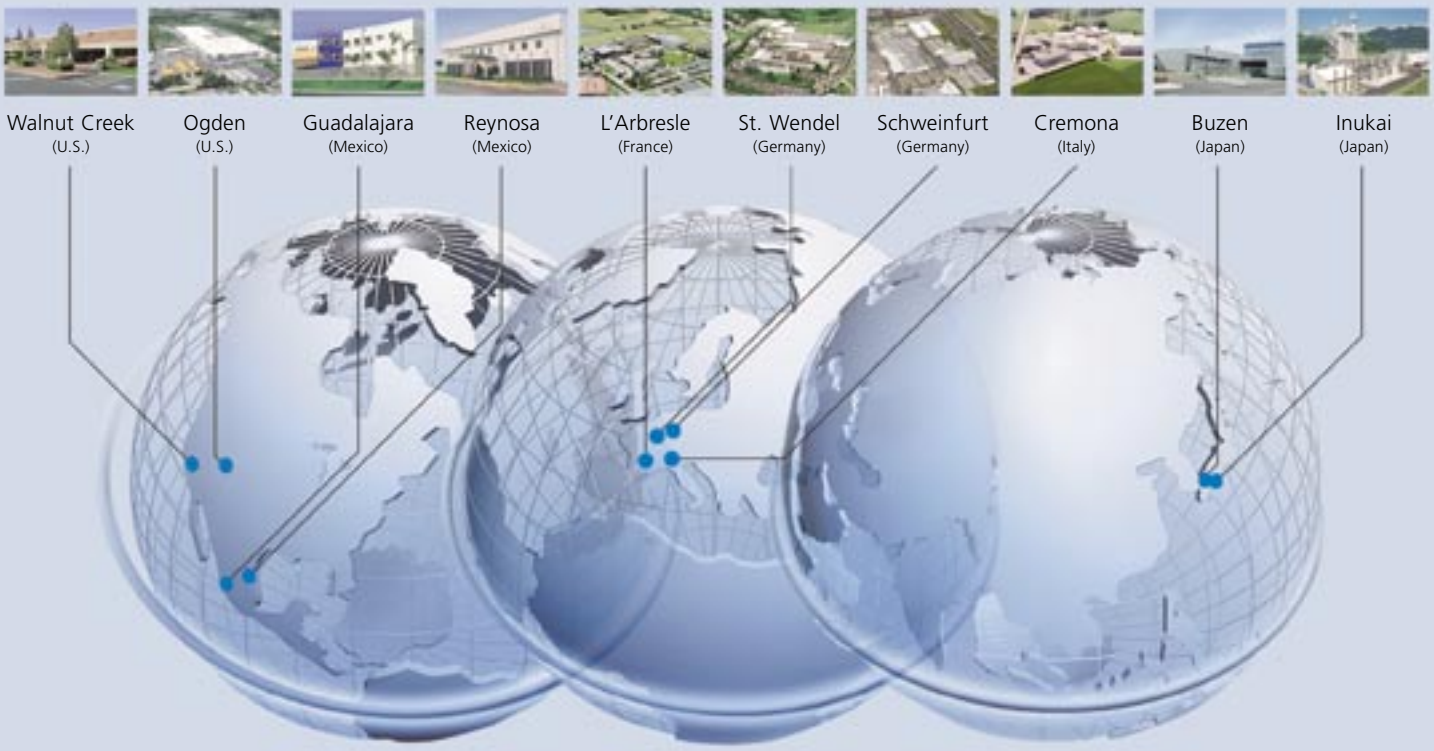
Our market share in dialysis machines was equally high in 2005: more than 40% of all dialysis machines produced worldwide were made by Fresenius Medical Care. We produce twice as many of these complex machines as the second-largest manufacturer.

In 2005, we introduced “Lean Six Sigma” to our plants in North America to further expand our cost advantage. Lean Six Sigma is a management system with two objectives: achieving even better production results, while shortening manufacturing times. This requires an analysis of all production processes and improved coordination of the procedures.

The scope of our production expertise is apparent at our plant in Schweinfurt, Germany: this facility ranked second in the Europe-wide contest “Best Factory 2005”. The prize is awarded by the French management school INSEAD and the Otto Beisheim Graduate School of Management in Koblenz, Germany. It recognizes the exceptional production and innovation management at the site, which is set to ensure a lasting competitive advantage. In January 2006, we won the German Business Innovation Award for the 5008 treatment system, which was developed at the German plant

COST

Major Production Sites



Our global production network — a prerequisite for cost-efficient manufacturing.

(additional information on the 5008 can be found on page 56).

Cost advantages in patient care

Because reimbursement for dialysis treatment is increasing rather slowly at the moment, we continually strive to realize cost advantages not only for dialysis products but also for patient care.
It is the only way towards economic success. For this reason, we place a strong emphasis on cost-controlled dialysis services. Our UltraCare treatment concept in the U.S. is an excellent example: with the introduction of single-use dialyzers — a key component of UltraCare — in the North American market, we are striving to both improve treatment quality and reduce operating costs. With single-use dialyzers, the costs of cleaning re-use dialyzers are eliminated.

Extensive expertise in research, low costs as a result of excellent operating procedures and innovative treatment concepts, as well as the best-possible quality for finished products and services — this is our commitment as the leading company in the dialysis industry.

CONTROL

minimized through the implementation of security procedures such as filters and scanners. Regular backups and external data storage counteract data-loss risks. In case of power outages, we have emergency power supplies. Our hard- and software are adapted to meet current demands and ensure optimal data processing.

Cost- and project-related IT risks such as poor cost control or faulty projects are minimized through the evaluation of IT projects. Internal databases and special software are used to test new IT projects to prevent heterogeneous systems and ensure software compatibility.

Legal risks. Risks associated with litigation are constantly identified, assessed and communicated within our organization. Fresenius Medical Care Group is involved in various lawsuits resulting from business operations. Among them are subpoenas from the U.S. Department of Justice, Eastern District of Missouri in St. Louis, and the U.S. Department of Justice, Eastern District of New York, for business segments of Fresenius Medical Care. Although it is not possible to predict the outcome of these disputes, none are expected to have a significant adverse impact on the financial position or the results of the Group. For details, please refer to page 83 of the Consolidated Financial Statements (Note 18).

Currency hedging lowers the risk presented by fluctuations in currency valuations.

Financial risks. We actively manage foreign currency and interest rate exposures that are part of our normal business activities. Risk management is based on strategies defined in close cooperation with the Management Board. This includes, for example, guidelines covering all steps and levels of the risk management process. They define responsibilities for the determination of risks, the careful use of financial instruments for hedging purposes and for accurate financial reporting. The use of derivative instruments is restricted to hedging exposures arising in the regular course of our business. Transactions for the purpose of trading or speculation are not allowed. All transactions are conducted with highly rated financial institutions as approved by the Management Board.

We use interest rate hedging instruments to reduce the impact of interest rate fluctuations on floating-rate short- and long-term borrowings including accounts receivable securitization programs. Such instruments are also applied to transform fixed-rate liabilities into variable-rate liabilities in order to protect the market value of fixed-rate debt against changes in market interest rates. The aggregate nominal value of the respective hedge contracts was $3.72 billion as of December 31, 2005. The contracts expire on several different dates until March 2010.

Foreign exchange derivatives are entered into for the purpose of limiting the exchange rate exposure from sales and purchases as well as in connection with lendings and borrowings between Group companies located in different countries and reporting in different currencies. Most of the transaction exposures arise from sales of products from Group companies in Europe to other international business units. The aggregate nominal value of foreign exchange derivatives as of December 31, 2005 was $1.30 billion, primarily for hedging euro exposure to the U.S. dollar and various other currencies.

Rating. Subject to the completion of the Renal Care Group acquisition, Standard & Poor's and Moody's will change their corporate credit rating for the company.

Standard & Poor's plans to lower the corporate credit rating from "BB+" to "BB" with a negative outlook. In anticipation of the Renal Care Group acquisition, Moody's lowered the corporate credit rating from "Ba1" to "Ba2". The outlook is stable. This downgrade is connected to the external financing of the Renal Care Group acquisition. Fresenius Medical Care received commitments from Bank of America and Deutsche Bank for a total of $5 billion to finance the Renal Care Group acquisition. The decision to downgrade Fresenius Medical Care by just one notch is based on the company's particularly stable cash flow generation, typical of the dialysis business.

Accounting. Our internal monitoring system ensures compliance with valid accounting standards. This system is based on automated and manual checks, a separation of functions and the use of guidelines and operational mandates. Furthermore, internal audits, in the context of paragraph 404 of the Sarbanes-Oxley Act (see paragraph below), ensure that risks directly related to financial reporting are identified and that checks are in place to manage these risks. Keeping abreast of changes in accounting standards as well as continual training for people and teams responsible for the creation of financial information are an integral part of the system.

Our Company has achieved compliance with the Sarbanes-Oxley Act one year before the official deadline.

Our listing on the New York Stock Exchange requires us to adhere to the requirements of the Sarbanes-Oxley Act. The purpose of this law is to increase the quality of financial information released to the public. Paragraph 404 of the Sarbanes-Oxley Act requires the Management Board to take responsibility for the implementation and maintenance of an appropriate internal control system to guarantee dependable financial reporting. For this reason, the management reviews the monitoring system for each fiscal year and publishes its findings in the Annual Report. As a non-U.S. company or "foreign private issuer", we were required to comply with the directives of the Sarbanes-Oxley Act beginning on December 31, 2006 but our Management Board decided to meet the requirements one year early on December 31, 2005.

In light of the unique demands of paragraph 404 of the Sarbanes-Oxley Act, a special project team was established in April 2003 to document and evaluate our internal controls. The project team consists of staff from our internal auditing and controlling departments. External advisers are consulted as needed. A steering committee led by our Chief Financial Officer meets regularly to learn about the demands of the Sarbanes-Oxley Act, discuss potential weak points in our system and implement further measures. In addition, an audit committee of the Supervisory Board reviews the current state of the activities as well as potential weak points of the control system as part of the panel's regular meetings.

The Committee of Sponsoring Organizations of the Treadway Commission's "Internal Control Integrated Framework (COSO model)" forms the basis for evaluating the effectiveness of our financial reporting control system. Following the COSO model, our internal financial reporting control system is divided into five levels and evaluated accordingly. In addition to the control activities, the controlling environment, information and communication paths, monitoring of the internal control system and risk evaluation

are documented, tested and assessed. Our review of the internal financial reporting control system is based on the standards of the Public Company Accounting Oversight Board in the U.S.

The Management Board assessed the effectiveness of the activities completed by the internal financial reporting control system by December 31, 2005. This assessment was reviewed and confirmed by KPMG as an independent auditor in the course of preparing the annual financial statements.

Overall Risk

Our basis for the evaluation of general risk is Fresenius Medical Care's risk management system, which is subject to its own external reviews and scrutiny from management. The effectiveness of the risk management system is monitored and, when necessary, improved as part of the Group-wide review of the Integrated Management System using the quality norms DIN ISO 9001 and DIN ISO 9002. We will continue to expand our risk management as well as the review of the related management system to identify, examine and evaluate potential risks even more quickly for a timely and appropriate response.

Potential risks include factors partly or wholly out of our control, such as the overall development of national and global economies, which we continuously analyze. Potential risks also include factors within our control – such as operating risks – which can be anticipated and analyzed early by our risk management system. When necessary, counteractive measures can be introduced.

Overall, we see no risks which could have a significant negative impact on our financial situation, earnings or assets.

Based on the general principles for estimating risk factors described from page 70 onwards, we currently assume that none of these risks will lead to a long-term and significant impairment of the financial situation, earnings or assets of the Fresenius Medical Care Group. Also, there are no material changes in risks compared to the year 2004. We have established a structure providing the necessary conditions to quickly identify developing risk situations.

Social Activities

For us, global commitment means acting responsibly on a local basis.

Fresenius Medical Care's belief "thinking globally and acting locally" is not just limited to our business activities, it is also the basis of our social responsibility and contributions. We encourage our employees to get involved in their communities to provide support on a local level. We have highlighted below a few of such activities that we are involved in worldwide.

We donate money and goods to global charities such as "Doctors Without Borders", as well as regional organizations such as an Orphanage in Afghanistan. We are also engaged in a number of social activities to promote general health. For example, we organized the ninth "Health Week" in cooperation with the city of Bad Homburg, which is the location of our corporate headquarters. More than 20,000 visitors came to learn about health risks, prevention and treatment possibilities. In April of 2005, Fresenius Medical Care North America held its first Open House. Patients, their families, doctors, healthcare experts and students visited the events at more than 1,100 dialysis clinics to gain an overview and better understanding regarding the concept of an artificial kidney and the best-possible patient care. In addition to health promotion, we have also strengthened our trainee program while providing information on potential careers and training possibilities at our company.

During natural disasters, we provide emergency aid that makes a difference.

Hurricanes "Katrina" and "Rita" in August and September of 2005 were devastating and directly affected Fresenius Medical Care patients, dialysis centers and employees. To help kidney patients and colleagues in the affected areas, Fresenius Medical Care provided immediate response and aid. Further information on our relief efforts can be found on page 100 in the section "Global Operations".

The earthquake victims in Pakistan also required quick financial and material support. Fresenius Medical Care donated both money and goods which were distributed directly to the needy as well as hospitals and doctors by local charity organizations.

Business since the Beginning of 2006

Economic and Business Environment

As the leading dialysis company in the world, we operate in a relatively stable environment.

Since the beginning of 2006, there have been no fundamental changes in the economic and business environment of our industry. Dialysis is a medically indispensable and life-saving treatment for acute or chronic kidney failure. With the exception of a kidney transplant, no direct treatment alternative exists for dialysis therapy. This means that our company is active in a market which, unlike many other industries, is largely unaffected by economic fluctuations, and this is reflected in the stable development of our revenue and earnings. Our vertical integration with both dialysis products and services coupled with relatively constant growth in patient numbers leads to this stability, even in economically difficult times. As an essential component of patient care, dialysis services are not exposed to economic fluctuations. Dialysis products – which account for 28% of our total revenue – are also relatively immune to economic cycles, since the majority of the dialysis-related supplies are single-use disposables. Our company cannot, however, free itself completely from the effects of long-term global economic downturns.

Share Conversion and Legal Transformation

Since the beginning of 2006, significant changes were made through the voluntary preference share conversion offer and the change of the legal form of Fresenius Medical Care.

At the beginning of 2006, we successfully completed the share conversion and the legal transformation.

During a four-week conversion period from January 6 to February 3, 2006, all preference shareholders were given the opportunity to convert their preference shares into ordinary shares on a 1:1 basis accompanied by payment of a conversion premium of €9.75 per preference share. Holders of American Depositary Shares ("ADS"), which represent preference shares, were also included in the offer. Overall, 26,629,422 shares were tendered, equivalent to about 96% of all outstanding preference shares.

The transformation of the legal form of the Company from a public limited company (Aktiengesellschaft – AG) into a partnership limited by shares (Kommanditgesellschaft auf Aktien – KGaA) became effective upon registration with the Commercial Register of the local court (Amtsgericht), Hof an der Saale (Germany) on February 10, 2006. All shareholders of the former Fresenius Medical Care AG then became shareholders of Fresenius Medical Care AG & Co. KGaA.

In connection with the conversion, preference shareholders had to pay a conversion premium of €9.75 per tendered preference share to the Company. After the successful conversion, Fresenius Medical Care received total gross proceeds of approximately €260 million.

With the registration of the new legal form as a partnership limited by shares and the new ordinary shares, we successfully completed two significant strategic steps that were launched in 2005. A comprehensive description of both of these measures can be found from page 24 onwards.

Capital Structure

The share capital of Fresenius Medical Care was previously divided between 70 million ordinary shares and 27.8 million preference shares. With the registration of the share conversion and legal transformation, the share capital changed: as of February 10, 2006, the share capital of Fresenius Medical Care AG & Co. KGaA amounts to €250,271,178.24 consisting of 96,629,422 ordinary bearer shares and 1,132,757 non-voting preference bearer shares.

Shareholder Structure

The structure of our shareholders has changed, too: Fresenius AG's holding of ordinary shares decreased from 50.76% to 36.77%. This was a result of the increase in ordinary shares within the share capital of Fresenius Medical Care AG & Co. KGaA following the conversion of preference shares into ordinary shares. The remaining approximately 63% of ordinary shares and 100% of the remaining preference shares are in free float.

Renal Care Group

Another significant event in early 2006 was announced on February 15, 2006. Our wholly-owned North American subsidiary Fresenius Medical Care Holdings, Inc. and Renal Care Group, Inc. (RCG) have entered into a definitive agreement to sell approximately 100 dialysis clinics, which serve an average of approximately 60 to 65 patients per clinic, to National Renal Institutes, Inc., a wholly owned subsidiary of DSI Holding Company, Inc. (DSI). The execution of this agreement is an important step toward concluding the review by the U.S. Federal Trade Commission (FTC) of Fresenius Medical Care's acquisition of Renal Care Group. The sale of the clinics is to ensure that Fresenius Medical Care is not market-dominant in certain regions.

The sale price for the divested clinics is approximately $450 million to be paid in cash, subject to post-closing adjustments for working capital and other routine matters. The sale of the clinics is expected to close shortly after the completion of Fresenius Medical Care's acquisition of RCG. We expect the acquisition of RCG, which still requires the approval of the FTC, to close at the latest by March 31, 2006.

The following events have also occurred since the beginning of 2006:

International

We won the German Business Innovation Award for our new 5008 therapy system.

On January 22, 2006, Fresenius Medical Care won the 26th German Business Innovation Award. The award recognized the newly developed 5008 therapy system for patients with chronic kidney failure. The prize awarded by the Rhine-Main Business Club has acknowledged the best innovations and outstanding technical-scientific advancements in Germany since 1980. About 220 companies took part in the 2005 competition. Further information on the 5008 therapy system can be found on page 56.

North America

In January 2006, we announced that Renaissance Health Care, our North American subsidiary for disease management, entered into an agreement with Group Health Inc. (GHI) concerning the treatment of dialysis patients. GHI is a private health insurer operating in New York state. The company provides healthcare for more than 2.6 million people. Further information on our disease management activities in the U.S. can be found on page 102 in the "Global Operations" section.

Our delivery agreements allows us to lessen the effects of price increases for the hormone Erythropoietin.

The recombinant or artificially produced hormone Erythropoietin is one of the most cost-intensive drugs used in dialysis treatment. We are the largest buyer of this drug in the dialysis sector. The pharmaceutical and biotechnology company Amgen holds the exclusive patent and marketing rights for Erythropoietin in the U.S. For 2004 and 2005, we contracted with Amgen favorable terms in order to manage the cost of this medically necessary drug. Although Amgen raised the price for the drug by 4.9% in the second half of 2005, we were able to negotiate new favorable terms under another two-year contractual agreement starting January 2006 and ending December 2007. With this new contract we expect to be able to mitigate most of Amgen's price increase.

No additional significant events took place between the closing date of December 31, 2005 and the annual report's printing date of March 20, 2006.

As this annual report goes to press on March 20, 2006, our expectations basically match the current development of our business. No major changes in structure, administration, legal form or personnel are planned for our Company which could lead to a significant impairment of our assets, earnings or financial situation.

Outlook

Global Economy

Global economic growth of 3% is expected in 2006.

For 2006, we expect the positive development of the global economy to continue at about the same level as last year. In their Fall Report, the leading German economic research institutes forecast global economic growth of 3.1%.

In the United States, economic growth is expected to slow slightly to 3.3%. According to the forecast, consumer spending will expand at a slower rate as savings increase and a rise in interest rates dampens the growth of real estate prices. The new Federal Reserve Chairman Ben Bernanke, who followed Alan Greenspan, is not expected to alter the United State's interest rate policy.

Within the euro zone, the economy is expected to grow by 1.4%, with a significant increase in investments. Prices will not accelerate further if energy prices remain stable and wage agreements include only moderate increases. The negative effects on economic growth due to increasing oil prices should fade while consumer spending and lower unemployment bolster the domestic economy. Export growth due to price advantages from the weakening of the euro should also have a positive effect on the European economy. The Fall Report forecast below-average growth for Germany of 1.2%. This outlook was revised up to 1.7% by various individual economic research institutes at the end of the year and at the beginning of 2006.

China should remain the driving force in Asia with a growth rate of just under 9%. Domestic demand in East Asian countries should again increase slightly. Continued economic growth is also expected in Japan where the gross domestic product should increase by 2.5%. The Latin American economy is anticipated to grow at a slightly slower pace than last year at 3.5%. Monetary measures initiated in the region should also slow the increase in prices.

We expect the economic trends of 2006 to continue in 2007.

We expect the economic development forecast for 2006 to continue in 2007. However, Fresenius Medical Care is only partially exposed to global economic cycles since we are a provider of often life-saving products for ill people. In this respect, we are different from manufacturers of consumer goods, for example, that must contend with cyclical demand for their products.

Dialysis Market

Fresenius Medical Care expects the annual growth in the number of dialysis patients over the coming years to be in the range of 5% to 7%. Significant regional differences in the market remain: a below average increase in patient numbers will probably be experienced in the U.S. and Japan, as well as in Western and Central Europe. In all these regions, the prevalence of terminal kidney failure is already relatively high and patients generally have secured access to treatment, usually dialysis. Annual growth rates in the economically weaker regions are expected to remain above average, with figures of up to 10%. As a global trend, we expect that the increase in high blood pressure and

diabetes in the general population will contribute to a sustained growth of the number of dialysis patients, so that it could reach about two million in 2010.

Annual growth rates and the difference between economically strong regions and developing nations indicate the expected increases in patient numbers. If the current regional differences in economic growth continue, the distribution of patients would shift – we expect a significantly higher number of patients in Asia, Latin America, Eastern Europe, the Middle East and Africa in the future.

Hemodialysis will remain the dominant treatment method for patients with kidney disease.

There should be no significant changes in the types of dialysis treatment in 2006. Hemodialysis should continue to be the treatment of choice, accounting for about 90% of all dialysis therapies. Peritoneal dialysis should be the preferred treatment for about 10% of all dialysis patients in 2006. Home hemodialysis is expected to remain a very small percentage of all dialysis treatments. The infrastructure necessary for this treatment method still needs to be created, before it could become a significant alternative.

As a dialysis company, we operate in many different markets with varying national and occasionally regional regulations for both dialysis products and patient care. Our most important market, where we generate most of our revenue, remains the United States. Here, the public health insurance programs Medicare and Medicaid changed the reimbursement rates for dialysis in 2005 and at the beginning of 2006. More on these changes can be found on page 107 in "Global Operations".

Consolidation in the dialysis industry in the United States and other regions should continue although only smaller takeovers are expected due to a lack of other larger targets.

Economic Development of Fresenius Medical Care in 2006

Fresenius Medical Care expects approval of the acquisition of Renal Care Group (RCG, please see also page 104) by U.S. antitrust authorities in March 2006. RCG has therefore been partially included in revenue and earnings forecasts.

Revenue

Including Renal Care Group, we expect a revenue of more than $8 billion in 2006.

For the full year 2006, Fresenius Medical Care expects revenue growth at constant currencies of approximately 25% on a pro forma basis, giving effect to the RCG merger as compared to 2005 reported revenues. Pro forma amounts assume consolidation of RCG's operations into Fresenius Medical Care for the full twelve months of 2006. Based on a closing of the RCG acquisition in the first quarter of 2006, we expect a revenue of about $8.1 billion for the full year.

Earnings

Net income should increase to more than half a billion U.S. dollar in 2006.

With the pro forma consolidation of RCG for the full twelve months in 2006, we expect our net income to increase 10% to 15% to $520 to $540 million compared to the $472 million of 2005 excluding one-time expenses. Based on a closing of Renal Care Group in the first quarter of 2006, we expect our net income for the full year to range between $515 and $535 million.

The forecast for 2006 does not include one-time items related to the integration of RCG and the write-off of non-amortized prepaid financing fees for the existing credit agreement, the net impact of the sale of dialysis clinics connected to the acquisition of RCG, or the change of the accounting principle for stock options – SFAS 123(R).

The Company expects the after tax impact of the one-time items and SFAS 123(R) to be about $50 million. The net impact of the divesture of clinics related to the acquisition of RCG cannot be determined as this annual report goes to press on March 20, 2006.

Impact of one-time items and SFAS 123(R)

$ in millions	2005	2006
EBIT impact		
Transformation & Settlement	(22)	(1)
RCG integration costs		(50)
Change in stock option compensation expense (SFAS 123R)		(14)
Total	**(22)**	**(64)**
Earnings after tax impact		
Transformation & Settlement	(17)	(1)
RCG integration costs		(30)
Write-off FME prepaid financing fees		(9)
Change in stock option compensation expense (SFAS 123R)		(14)
Total	**(17)**	**(54)**
Potential additional impact		
Net impact of sale of dialysis clinics		To be determined

These forecasts take into account all factors known at the time of the preparation of the financial statements which could affect the development of our business in 2006. Above all, the situation in some Asian markets as well as continued price pressure in selected European countries could have a negative impact on the development of full year net income. Additional information about changes in the reimbursement structure in the U.S. are available from page 107 onwards. Furthermore, detailed information about major risks can be found in the "Risk Management" section on page 70. As in the previous year, we will once again do everything within our power to attain or exceed our goals in 2006.

When we announced our plans to acquire RCG, we expected the purchase (excluding the related one-time items) to have a neutral or slightly positive effect in 2006 and a significantly positive effect on earnings beginning in 2007. We remain committed to this forecast.

Dividend

Fresenius Medical Care has pursued a profit-oriented dividend policy since its foundation in 1996, having been able to increase the dividend nine consecutive times since then. During this period, the dividend per ordinary share has increased from €0.51 to €1.23 for the fiscal year 2005, subject to the approval of the proposed annual dividend increase by the Annual Shareholders' Meeting on May 9, 2006. This represents an average annual growth of 12%. In 2006, we expect to be able to pay our shareholders an appropriate dividend that allows them to benefit from the development of the Company.

Capital Expenditures

On a pro forma basis, we expect our capital expenditures to be about $450 million for 2006 after $297 million in the previous year. This would represent about 5% of the total revenue and is within the targeted range of spending 5% to 6% of the total revenue for capital expenditures. As in the past, most of this amount will be invested in the modernization of existing dialysis clinics and the expansion of our global network of production sites. Additional funds will flow to the opening of new clinics to support the growth of our business. In North America we will invest in the introduction of an integrated treatment and billing system.

For 2006, we plan on spending about $100 million on acquisitions.

Acquisitions

On a pro forma basis acquisition spending for 2006 is expected to be about $100 million. This is less than in 2005. The forecast does not include the net purchase price of RCG of $3.5 billion.

This acquisition budget will support the policy of selected smaller acquisitions that we have been following in previous years, with the notable exception of RCG. In addition to the further expansion of our global dialysis care business, the acquisitions also serve to expand our core competencies of providing comprehensive treatment for dialysis patients including dialysis drugs or the expansion of our treatment activities in the field of extracorporeal blood circulation.

Taxes

For 2006, we expect a stabilization of the tax rate. After an increase in 2005, the tax rate for the current year should again be less than 40%.

Financing

An important long-term goal beyond the year 2005 has been a debt/EBITDA ratio of less than 2.5. This ratio compares the debt of our company to our Earnings Before Interest, Tax, Depreciation and Amortization and other non-cash charges. We have already achieved this goal: at the end of 2005, the debt/EBITDA ratio was 1.82 after 2.26 at the end of the previous year and thus significantly below the long-term goal.

The debt/EBITDA ratio will increase significantly following the acquisition of Renal Care Group. To finance the planned acquisition of RCG, Fresenius Medical Care received a commitment for loans and revolving credits totaling $5 billion. In accordance with the new credit agreement, the senior credit facilities will be available for us, among other uses, to pay the purchase price and related expenses for the acquisition of Renal Care Group, to refinance outstanding indebtedness under our 2003 credit agreement as well as certain indebtedness of Renal Care Group and for general corporate purposes.

The new senior loans include a $1 billion revolving credit facility with a maturity of five years, a loan (Term Loan A) of $2 billion with a maturity of five years as well as a $2 billion loan (Term Loan B) with a maturity of seven years.

On a pro forma basis including RCG for twelve months, the net debt/EBITDA ratio will rise to 3.9 at first. For the full year 2006, this ratio is expected to improve to less than 3.6.

In the long term, we hope to reduce the debt/EBITDA ratio again significantly to 2.5.

Important Key Figures – an Overview

	Goals 2005	Results 2005	Goals 2006* pro forma
Revenue growth (constant currency)	6% to 9%	8%	25%
Net income	More than 10% raised to 12% to 15%	17%*	10% to 15%*
Capital expenditures	$350 to $400 million lowered to $250 to $300 million	$297 million	~ $450 million
Acquisitions	$200 to $250 million lowered to $125 to $175 million	$125 million	~ $100 million
Tax rate	39% to 40%	40.3%	Below 40%
Debt/EBITDA ratio	Below 2.5	1.8	Below 3.6
Employees (Full-time equivalents)	Approximately 48,000	47,521	More than 56,000
Dividends	Continuous increase	Proposal of a dividend increase by 10% per ordinary share	Continuous increase
R&D expenditures	$55 to $60 million	$51 million	~ $60 million
Product introductions	5008 therapy system PD Cycler Liberty	5008 therapy system launched PD Cycler Liberty launched	Further expansion of product and services range

* Excluding one-time costs and one-time items.

Revenue and Earnings Outlook for 2007 and beyond

Our long-term goal: $10 billion in revenue with increasing profitability.

Our long-term growth strategy is discussed in detail from page 16 onwards. GOAL 10 should result in revenue of about $10 billion in 2010. At the same time, we want to grow profitably.

These goals were set prior to the acquisition of Renal Care Group (see page 104). By combining the strengths of both companies, we may be able to achieve our revenue goal for 2010 earlier.

Overall, we expect annual average growth of about 6% to 9% in 2007 and beyond, as well as an increase in net income of more than 10%. On a medium-term basis, the operating margin should be more than 15%.

Employees

At this point, we expect further growth in most of our business regions in 2006. Accordingly, we expect our company to employ about 56,000 people (full-time equivalents) by the end of 2006. This would be an increase of nearly 20% compared to 2005.

The integration of Renal Care Group will increase the number of our employees by about 7,000.

As in previous years, we expect above-average growth in staff numbers in the developing regions of Eastern Europe, Latin America and Asia. At the same time, the planned acquisition of RCG will have a significant effect in North America, increasing the number of employees there by about 7,000.

Because Renal Care Group is active exclusively in the United States, this will result in a slight shift in the distribution of our employees. The percentage of our North American employees will increase from about 63% to 66%.

Once again, we plan on training a large number of young people in 2006, beyond our own demands. This allows us to make a qualitative and quantitative contribution to the difficult training situation in Germany.

We also expect a slight increase in our employee numbers in 2007, although the regional distribution should not change much, since no other acquisitions of the magnitude of Renal Care Group are planned. All other human resources measures such as employee training and career advancement programs will continue in 2007.

Research and Development

Research and development of new technologies, products and treatments are long-term projects. The emphasis in this area will continue to be placed on the development of dialysis membranes as well as additional dialysis products and machines. This will improve biocompatibility, resulting in a better quality of life for our patients. In addition, extracorporeal procedures, such as therapies for liver diseases, and the investigation of alternative methods for preventing local blood coagulation will play a significant role in our research and development activities.

We are planning expenditures for research and development of more than $60 million in 2006, an increase of more than 17% over 2005. The number of research and development employees (full-time equivalents) should remain largely unchanged at approximately 350.

Expenditures and the number of employees in research and development should remain constant in 2007.

Procurement

We will continue to optimize our procurement processes in 2006 and improve the cooperation of individual Fresenius Medical Care locations as well as deepen purchasing alliances between different industries. The pooling of purchasing volumes improves our negotiating position.

An increase in oil prices will lead to higher purchasing prices for plastics.

One of our key goals for 2006 is to ensure a constant and reliable supply of plastics. We will identify two to three potential suppliers per item to guarantee a consistently high quality standard and stable delivery quantities. We expect prices to fluctuate as suppliers adjust their prices quarterly to react to the development of the petroleum-based intermediate products required to manufacture plastics.

The development of energy prices in 2005 will have an effect on procurement costs for 2006. We expect price increases of as much as 30%.

In 2007, we also expect petroleum-based intermediate products and higher energy prices to be the focus of our procurement activities. This development is caused mainly by the continuing high demand for crude oil and natural gas, amplified by the great demand in growth regions such as China.

Quality and Environmental Management

The introduction of environmental and quality standards in Eastern Europe is again the focus in 2006.

The continued introduction of our Integrated Management System in Eastern Europe will once again be the focus in 2006 and 2007. We plan on certifying our Bulgarian subsidiary as well as new dialysis clinics in Europe according to ISO 9001.

In environmental management, we plan on certifying our plant in Nottingham (Great Britain) according to ISO 14001 and prepare our dialysis centers in France, Italy, Great Britain, Turkey and Slovenia for this certification. In addition, we hope to train additional employees to perform internal reviews according to these environmental standards.

The introduction of modern and more eco-friendly technologies in North America was the beginning of a new package of energy-saving measures. We want to use these measures for a further reduction in energy costs in 2006.

Regional Development in 2006

The integration of Renal Care Group is one of the key activities of 2006.

The integration of Renal Care Group will be a key component of our North American activities this year. Part of the integration involves incorporating the approximately 7,000 employees in more than 400 dialysis centers into our existing network of North American dialysis clinics. With a streamlined integration process, we will ensure and improve the quality of dialysis treatments for the total approximately 115,000 dialysis patients who will be treated by Fresenius Medical Care following the integration.

In 2006, we expect strong organic growth in patient care in North America – We want to grow faster than the dialysis market. We also expect the positive development of the North American dialysis product business to continue this year. Because of the extraordinarily strong growth in 2005, we expect lower growth rates in 2006.

In disease management, we will focus on the demonstration project launched in 2005 by the CMS (Center for Medicare and Medicaid Services) for the comprehensive treatment of dialysis patients covered by the public health insurance programs Medicare and Medicaid. This four-year project is detailed from page 103 onwards. In addition, we want to expand our cooperation with private health insurance programs for the comprehensive treatment of their dialysis patients. One good example is the agreement entered with GHI at the beginning of 2006 (see page 84).

A number of other changes in reimbursement for the treatment of patients covered by public insurance in the United States in 2006 are described from page 107 onwards. Overall, these changes should have a neutral to slightly positive effect on the business development of Fresenius Medical Care in North America.

The Renal Research Institute plans on further expanding its research cooperation with the Universities of Michigan and Rochester in 2006. Apart from the research of changes in treatment intervals described on page 106, long-term research projects include the comprehensive analysis of the correlation between high blood pressure and kidney disease as well as the effects of kidney disease on the cardio-pulmonary system. These activities will extend beyond 2006.

A new ordering system will further simplify our laboratory services in the United States.

Our laboratory services subsidiary Spectra Renal Management will further optimize its customer orientation in 2006 with the introduction of an Internet-based ordering system for laboratory tests. This will simplify ordering for our customers, set a new standard in laboratory services and should have a significant effect on revenue growth in this segment. An additional key component of our efforts in 2006 will be the integration of the laboratory services business RenaLab. This laboratory belongs to Renal Care Group and will be integrated into Spectra Renal Management.

We want to further strengthen our European market position in dialysis care and dialysis products in 2006 and expect above-average growth in Eastern Europe. For the first time, we will offer dialysis care in Russia with the construction of three clinics in the Krasnodar region. We hope to treat about 400 hemodialysis and 60 peritoneal dialysis patients there in the long term.

In 2006 we will open our first dialysis clinic in Ireland.

We also plan on making our debut as a provider of dialysis care in Ireland with the opening of our first dialysis clinic in Dublin.

We hope to expand our EuCliD clinical database and connect all of our clinics to the system by 2008.

In Brazil, the largest dialysis market in Latin America, the reimbursement per dialysis treatment was increased by 15% at the beginning of 2006. This should have a positive effect on the development of our business in the most densely populated country of Latin America. Here, as in Argentina, we hope to further strengthen and expand our activities in disease management.

Asia-Pacific proved to be a growth region in 2005; the trend should continue in 2006, due to the positive development in all markets. It is our goal to achieve growth rates exceeding that of the overall market in 2006 and to continue developing our programs throughout the region positioning Fresenius Medical Care as the best partner for any renal care stakeholder.

Goals in Our Regions – an Overview

North America to focus on:
- Above-market patient growth
- Quality outcomes
- Successful integration of RCG
- Integrated care
- Expansion of use of disposable dialyzers and introduction of next generation of HD/PD products

Europe to focus on:
- Expansion of vertical integrated business model
- Acquisitions
- Keeping high profitability
- Innovation – Sales expansion of 5008 machine

Asia-Pacific to focus on:
- Continuation of our leadership position in dialysis services and products
- Management of next round of reimbursement cuts in Japan, April 2006

Latin America to focus on:
- Continuation of our above market-growth
- Maintenance of our leadership position in dialysis services and products

Global Operations

Fresenius Medical Care is active around the globe. More than 47,000 employees in over 100 countries are working to continually improve quality of life for more than 131,000 patients. Our foundation is an international network of production plants and about 1,680 dialysis clinics. In 2005, we significantly strengthened this network through organic growth as well as acquisitions, especially in North America and Eastern Europe. It is our goal for the future to enter new growth markets and further intensify our global commitment.

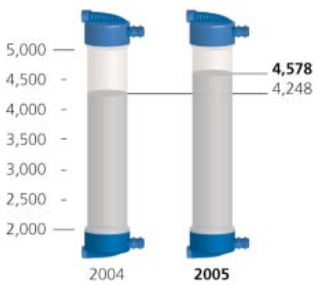
Content

North America

With 68% of total revenue, North America is our most important business region.

North America was and is by far the most important market for Fresenius Medical Care. In 2005, $4.58 billion of revenue was generated in the region – 68% of our overall revenue – compared with $4.25 billion for the full year 2004. Compared with 2004, revenue grew 8%. The operating margin also improved from 13.8% in 2004 to 14.1% in 2005. For further information on the development of revenue and earnings in North America, please refer to "Overview of Fiscal Year 2005" on page 41.

Revenue North America
$ in millions



The inclusion of Mexico in the North American business region was effective on January 1, 2005 and meant an important organizational change for our operating units. This change was taken into account in the growth figures shown above. A number of factors supported aligning Mexico with our North American business, including its geographic proximity to the U.S. and the organization of our Company – our Mexican plants partly manufacture products for the U.S. market.

Dialysis Care

With a revenue contribution of 89%, dialysis care continues to be our predominant business activity in North America, achieving a strong revenue growth of 7% to $4.05 billion. The number of patients we treated grew further – at the end of 2005 we cared for approximately 89,300 patients in North America compared with 86.350 in 2004. Fresenius Medical Care operated 1,155 dialysis centers, or approximately 4% more than in 2004.

We were also able to significantly increase the average revenue per treatment, exceeding the target of more than $290 we had set for 2005. At the end of 2005 the average revenue per treatment in the U.S. was $302, $12 higher than in the previous year. This was primarily due to the fact that we treated more patients covered by private insurers, who have a higher reimbursement rate per treatment compared to public health insurance plans. Furthermore, we were able to increase the reimbursement rate from

private payors. During 2005, we were able to improve our revenue mix and increase the percentage of sales from private insurers from 37% to 40%.

Fresenius Medical Care is the leading provider of dialysis care in North America with a market share of about 27% in the United States at the end of 2005.

The acquisition of Renal Care Group will significantly strengthen our position.

Last year was also marked by the acquisition of Renal Care Group, which we detailed on page 104. Financial results for Renal Care Group were not included in the figures listed above, since the approval of U.S. antitrust authorities is expected for March 2006.

UltraCare continued to be the focus of our dialysis care activities in 2005. This program is based on single-use dialyzers and allowed us to change the marketplace in the U.S. fundamentally. UltraCare links our innovative technologies with our exemplary patient care, striving for the goal of achieving the best possible clinical results and improving the quality of life of our patients. At the same time, we work to secure and expand our market leadership.

North America

	2005	2004
Market data[1]		
Number of patients	~385,000	
Patient growth	~4%	
Company data		
Patients	89,300	86,350
Clinics	1,155	1,135
Treatments (in millions)	13.47	13.00

[1] Company estimates

All of our North American clinics have been switched effectively and provide single-use dialyzer therapy to all our patients. In addition, our clinical staff and caregivers have undergone comprehensive internal training and certification programs.

We welcomed 26,000 visitors during our Open House Week.

As announced last year, an emphasis was placed on raising awareness of our UltraCare therapy in our marketing campaign initiatives throughout 2005. This included our first-ever open house events in April 2005 where more than 1,100 dialysis centers opened their doors during the "UltraCare National Open House Week". Local media, trade publications and personal letters were used to invite the approximately 26,000 visitors who gained first-hand information about the UltraCare program from local clinic managers, patient representatives and doctors. The guests included patients and their families, doctors and healthcare experts as well as 800 potential new patients, some of whom immediately decided to switch clinics.

The quality of our dialysis treatments demonstrate that we are on the right path with UltraCare. To determine quality, we aim to improve certain quality parameters recognized by the dialysis industry such as hemoglobin levels. Hemoglobin in the human body is primarily used to transport oxygen from the lungs to tissue. We aspire to have 80% of our patients at a hemoglobin level of at least 11 grams per deciliter – the hemoglobin level of a healthy person is only slightly higher. Further indicators used in evaluating our treatment quality include, for example, the phosphate level and the so-called Kt/V value, which gives an indication of a treatment's effectiveness by comparing the length of treatment with the filtration rate of specific toxic molecules. In addition, the number of days a patient must spend in the hospital is a key indicator of treatment quality and a cost-intensive factor. Below you will find a table showing the development of the important quality parameters.

Quality Figures (for the final quarter)

	2005	2004	2003
URR > 65	91%	91%	89%
Kt/v > 1.2	94%	94%	92%
Hemoglobin ≥ 11g/dl	82%	82%	78%
Albumin ≥ 3.5 g/dl*	79%	80%	82%
Hospital days per patient per year	11.9	13.1	13.4

*International standard BCR CRM470

The quality of dialysis treatment – and therefore the quality of life of our patients – is affected by the products used and the type of dialysis treatment. Our patients have expressed increased interest in our overnight dialysis treatments. This usually requires patients to spend every other night at our centers, receiving dialysis treatment while asleep. Treatment times are extended accordingly. Last year we expanded our network of clinics offering the service in order to meet demand for the nocturnal dialysis.

Our home dialysis satisfies the growing demand in an increasingly important market segment.

Apart from clinic-based dialysis treatments which require patients to come to a clinic to have their blood filtered – or dialyzed – over several hours, home dialysis is another option. Home dialysis allows patients to perform the treatment under certain conditions in their home environment, regardless of the opening times of dialysis clinics in their region. Although peritoneal dialysis is already the main method of home dialysis, we see growing interest in home hemodialysis, which is usually performed at nighttime. We view nocturnal dialysis therapy in our clinics as a viable alternative and extension of our home hemodialysis services.

More than 1,800 patients chose to undergo hemodialysis at home by the end of the year. In addition to comprehensive training and informative materials, we provide patients with a dialysis machine tailored for home hemodialysis – the 2008@Home.

Due to very specific requirements, home hemodialysis is only an option for a small number of patients – usually younger ones. Older patients – the average age for Fresenius Medical Care patients is 61 – usually suffer from additional illnesses which can complicate dialysis treatment. In addition, sufficient space must be available for treatments. Nocturnal hemodialysis at one of our clinics is an excellent alternative for these patients.

We provide comprehensive training for our patients and employees.

Training is a key aspect of dialysis care, designed not only for doctors and medical personnel but also for people showing a gradual loss of kidney function. We offer them and their families information on relevant topics, treatment options, nutrition and other illness-related subjects. Demand for information is strongest from patients who do not yet require regular dialysis treatment – they, too, receive the attention of Fresenius Medical Care. It is vital that they are transferred from general practitioners to specialists as early as possible. This can mostly prevent early hospitalizations, familial stress and some costs. Through the close cooperation of Fresenius Medical Care with general practitioners, we take care of this specific patient group throughout the U.S.

In the spring of 2005, we introduced a new information system in the U.S. Implementation should be completed in 2008, and the overall investment will total more than $100 million. With the new information system, we will be able to further optimize the recording of individual treatment data and analyze treatment quality. In addition, it is the first step to a paperless system where manual tasks are replaced by electronic processes. The new computer systems will have improved audit functionalities and be able to adapt more quickly to new billing models within the existing workflow. Above all it will allow the implementation of one of the newest data analysis standards. Results from the analysis will optimize individual dialysis treatment information and be a valuable source of information for caregivers and doctors.

The new information system allows us to offer an improved foundation for successful disease management, which we describe in detail from page 102 onwards. In addition, we plan to make Internet-based qualification measures available to all our employees throughout the U.S.

Our employees relied on professionalism and solidarity to make it through "Katrina" and "Rita".

The devastating hurricanes "Katrina" and "Rita" also affected patients, dialysis clinics and employees of Fresenius Medical Care. Overall, more than 100 of our dialysis clinics were hit directly by the hurricanes, but 80 began operating again within 48 hours. Only five clinics in the once-flooded area of New Orleans were so badly damaged that lengthy reconstruction was required.

Many patients and their families were initially transferred from the U.S. gulf coast to other dialysis centers within our clinic network outside the flood region. Dialysis centers in Lafayette, Louisiana, supplied water and medical equipment to damaged clinics in Baton Rouge and New Orleans. The number of patients in the dialysis clinics of Lafayette temporarily rose by 60%. Third treatment shifts were added to provide every patient with the vital blood treatment. During the first weeks, the clinic in Baton Rouge treated approximately 750 additional patients from New Orleans. In Biloxi, Mississippi, our clinic treated more than 30 additional patients and offered shelter to 10 temporarily homeless patients with kidney disease. We even provided a bus transfer to ensure regular transport of patients to their treatments.

Patients and employees received information from toll-free emergency numbers to get help as quickly as possible. Close cooperation with the government and other dialysis companies ensured that all dialysis patients received their vital dialysis treatment whether or not they had previously belonged to our clinic network.

Additional dialysis machines, generators, gas, food, water, clothing and personnel were also sent into the region. More than 300 employees traveled from other parts of the U.S. to the crisis region and neighboring areas to help. Overall, about 1,000 employees offered their support, significantly more than were actually needed. Fresenius Medical Care provided care for about 1,400 dialysis patients in the region affected by "Katrina" and to more than 5,000 patients in about 70 centers in the region hit by "Rita".

We built a "Fresenius Family Village" in Orange Grove, Mississippi to accommodate the additional employees and helpers. This caravan camp provided provisional shelter to our employees and their families. We also arranged temporary refuges for employees and relatives who lost their homes. Donations were collected among employees for colleagues whose homes were damaged by the hurricanes. The whole Group joined the program and solicited donations from employees around the world. Overall, we were able to raise nearly a quarter of a million dollars for those employees who were impacted by the devastating effects of the hurricanes. The motto "Caring for our staff so they can care for our patients" is a key component of Fresenius Medical Care's crisis reaction plan.

To ensure continuous dialysis care needed by all patients with chronic kidney failure in the affected regions, we relied on our crisis reaction team, which began preparing for the hurricanes before they hit. We assembled the crisis reaction team in 2003 to be able to provide appropriate care for dialysis patients during an emergency or evacuation regardless of their location within the U.S. This comprehensive plan defines how local, regional and national managers should communicate and act during a crisis and ensures that emergency supplies and materials such as generators, water and dialysis equipment are strategically stored for quick transport to crisis regions. The plan proved to be very efficient during times of crisis and reconstruction, as in the case of "Katrina" and "Rita".

Dialysis Products

With a 17% increase in revenue from dialysis products, we look back on a very successful year 2005.

Dialysis products exceeded our expectations significantly. Organized in the Products and Hospital Group (PHG), this segment includes all products for hemodialysis and peritoneal dialysis as well as extracorporeal therapies and laboratory services. Revenue from dialysis products rose to $523 million last year, an increase of 17%. This exceptional growth was the result of very high demand for the dialyzers of our Optiflux series and 2008K dialysis machines, which were developed specifically for the U.S. market.

Our market share in these product groups in the net available external market was approximately 70%. We define the net available external market as all dialysis clinics which do not belong to a major dialysis group such as Fresenius Medical Care or DaVita. Fresenius Medical Care has strengthened its position as market leader for key hemodialysis products such as dialysis machines, dialyzers and other disposable medical products.

The sale of about 26 million Optiflux dialyzers represents a North American unit sales record.

Sales of our 2008k dialysis machine grew by 16% in 2005. This dialysis machine is the leading dialysis system in the U.S. – we sold more than 10,000 of the dialysis machines in the North American market. Dialyzers also outpaced average growth – sales achieved a record for the U.S. through the sale of more than 26 million Optiflux dialyzers. At the end of 2005, approximately 60% of all hemodialysis patients in the U.S. were dialyzed using single-use dialyzers from Fresenius Medical Care.

In the section "Dialysis Care" we have already reported our activities in home dialysis. In the spring of 2005, we received regulatory approval for our new home dialysis machine, Liberty Cycler. The Liberty Cycler allows Fresenius Medical Care to offer patients the latest technology in automatic peritoneal dialysis – the fastest-growing home treatment method for patients with chronic kidney failure. The Liberty Cycler automatically controls the continuous exchange of fresh and used dialysis solution. This provides patients with chronic kidney failure with a simple method for self-treatment at home or in the workplace. Based on initial responses from kidney specialists, we expect a strong demand for this innovative and easy-to-use product.

Overall we were able to boost our peritoneal dialysis market share in the U.S. to 31%. At the end of 2004, our market share was 27%. The growth is the result of our increased activity in peritoneal dialysis, which is illustrated by the continuous expansion of our product range.

Therapeutic apheresis is a dialysis-related procedure where blood is also filtered outside the body. This technology allows pathogenic substances to be removed from the blood or blood plasma. Currently, Prosorba is the first product for which we have received regulatory approval for the North American market. Prosorba is used to treat patients for rheumatoid arthritis, a joint disease caused by an immune reaction. Some 2.5 million Americans suffer from the disease and are currently treated with drugs. These often have side effects and are not as well tolerated as Prosorba. Last year, more than 80 rheumatology specialists used our technology. In addition, the American public health insurance system identified Prosorba as a reimbursable treatment, so that coverage of the treatment is more likely. This is a key step towards potential growth in this segment.

Disease Management

For several years, Fresenius Medical Care has been an active partner of two companies specializing in disease management for kidney patients. These companies are Renaissance Health Care, a partnership of renal specialists, and the Kaiser Permanente Group, both of which are certified by the National Committee of Quality Assurance.

We now operate our disease management activities under Renaissance Health Care.

We used Optimal Renal Care and Renaissance Health Care to take the lead in disease management for kidney patients, customizing the programs for their special needs and considering all aspects of dialysis treatment. This includes the diabetes and circulatory illnesses often seen in dialysis patients as well as the care of vascular accesses, which in most cases are located on the patient's forearm. The advantage of this type of disease management is the holistic approach. It includes preventive measures, coordination of treatments and the active care of additional, so-called comorbid, diseases to prevent unnecessary hospital visits for our patients.

In 2005, we acquired the shares of our partners in Optimal Renal Care and Renaissance Health Care and merged both companies into one entity. In the future, all our disease management activities will be marketed under Renaissance Health Care. We took this step to harness the strengths of both organizations while operating and providing treatment as efficiently as possible. The combined company cared for about 4,000 patients by the end of 2005, through national or regional contracts with private health insurers.

We investigate new ways for reimbursement of dialysis care.

In the past, the majority of our disease management contracts were signed with private insurers. Last year, for the first time, we were awarded by the Center for Medicare and Medicaid Services (CMS) to launch a demonstration project with End-Stage Renal Disease (ESRD) patients. The CMS oversees the U.S. public health insurance programs Medicare and Medicaid. This is a very important step for Fresenius Medical Care, since about 85% of all ESRD patients in the U.S. are covered by public health insurance.

The demonstration project is scheduled to run for four years – from January 2006 to December 2009. Fresenius Medical Care will receive a monthly flat fee from Medicare for each patient registered in the project rather than being reimbursed for every individual procedure.

The demonstration project will be managed by our new business segment, Fresenius Medical Care Health Plan (FMCHP). FMCHP will register the patients in this innovative treatment model and develop a healthcare program especially for ESRD patients that combines our high-quality UltraCare treatment with our clinic network. The project will include several thousand patients and begin in the regions Philadelphia and Pittsburgh, Pennsylvania, Dallas, Houston and San Antonio, Texas, as well as Boston and Springfield, Massachusetts.

Further proceedings will be determined by the CMS after the expiration of the project period in 2009. We are convinced that this comprehensive treatment and reimbursement concept will result in improved treatment for our patients by lowering healthcare costs and better use of the value chain of dialysis companies such as Fresenius Medical Care. As a vertically integrated dialysis care provider, we are well positioned to profit from the future development of disease management.

LEADERSHIP BY

Acquisitions are an integral part of our GOAL 10 long-term growth strategy, which is described in detail from page 16 onwards. While the volume of acquisitions in the years 2002 to 2004 ranged between $80 and $104 million, 2005 was marked by a much larger transaction, the acquisition of Renal Care Group (RCG).

Leading position expanded

Renal Care Group is a fast-growing, highly profitable dialysis care provider that is active only in the U.S. The acquisition consolidates our position as the market leader in dialysis services in the U.S. significantly, from about 27% to around 34%. The RCG clinic network complements our activities in the most important dialysis market in the world both strategically and geographically. RCG is particularly strong in the Midwest, where we were rather underrepresented.

The acquisition also combines what we consider to be the most important factors for success in the dialysis industry: our cost leadership (please see page 76) and an attractive share of privately insured patients. Moreover, RCG and Fresenius Medical Care are united by a common goal — to provide the best-possible treatment quality and innovative therapies with high standards of patient care. Another key aspect: With the acquisition of RCG we will expand our dialysis products business.

RCG in figures

In 2005, Renal Care Group achieved revenues of about $1.57 billion and operating income (EBIT) of $286 million. The net income was $130 million. At the end of 2005, RCG operated more than 450 dialysis clinics and provided care for more than 32,000 patients. RCG possesses an attractive payor mix and generates an industry-leading share of 44% from private insurers.

On a combined basis Fresenius Medical Care and RCG both provided treatment for some 117,000 patients in more than 1,560 dialysis clinics in North America as of December 31, 2005.

Approval of RCG shareholders

The shareholders of RCG approved the merger agreement by a wide majority during a special shareholders' meeting on August 24, 2005, allowing Fresenius Medical Care to acquire the company at $48 per share. The net purchase price for the acquisition of all outstanding shares of RCG was $3.5 billion and is all-debt financed. This makes RCG the largest acquisition in the history of our Company.

Required divestitures

On February 15, 2006, we announced that our wholly-owned subsidiary, Fresenius Medical Care Holdings, Inc. and Renal Care Group, Inc. have signed an agreement to sell a total of approximately 100 dialysis clinics serving on average approximately 60 to 65 patients per clinic to National Renal Institutes, Inc., a wholly-owned subsidiary of DSI Holding Company, Inc. This agreement is an important step toward receiving regulatory approval from the U.S. Federal Trade Commission (FTC) of Fresenius Medical Care's acquisition of Renal Care Group.

FTC approval expected

We expect to complete the merger with Renal Care Group in March 2006 and therefore after this annual report goes to press. Because of its significance for the growth and development of Fresenius Medical Care, we decided to report more in detail on this crucial transaction in the 2005 Annual Report.

Following the completion of the acquisition of Renal Care Group, Fresenius Medical Care will own and operate approximately 1,500 dialysis clinics in North America, which will serve approximately 115,000 patients. Globally, we will operate over 2,000 clinics with more than 157,000 dialysis patients. This makes us by far the world's leading provider of dialysis care. The anticipated acquisition of RCG will have a significant effect in North America, increasing the number of employees there by about 7,000. With that, the share of our North American employees on the total workforce will increase from about 63% to 66%.

Growth strategy confirmed

Excluding transaction related expenses, Fresenius Medical Care expects the acquisition to have a neutral or slightly positive effect on earnings in 2006, and a significantly positive effect starting in 2007. Even though the regulatory approval by U.S. antitrust authorities takes longer than originally anticipated and notwithstanding the fact that we will have to divest more clinics — and more patients — we expect overall to achieve the respective synergies. We expect synergies of about

EXPAN

Tennessee is not only the home of the “Titans” but also that of our largest acquisition — Renal Care Group.

$30 to $40 million from the merger with RCG in the fiscal year 2006. From 2007 onwards, synergies are expected to range between $40 and $50 million per year. The synergy sources are primarily lower general administration expenses, a better position purchasing power and growth of our dialysis product business. For 2006, we expect the synergy effects to be at the lower end of the targeted range due to the later approval by the U.S. antitrust authorities. Further information can be found in the Outlook section from page 85 onwards.

As defined in the GOAL 10 growth strategy which we described on page 16, we want to generate a continuous, sustained increase in revenue and profitability. The acquisition of the highly profitable Renal Care Group is a key step towards fulfilling our long-term growth objectives and strengthening our position as the world’s leading dialysis company.

SION

Renal Research Institute

The Renal Research Institute (RRI) is our recognized center for the research of dialysis-relevant subjects in the U.S. The institute was founded in cooperation with the Beth Israel Medical Center and combines academic research with product development for the dialysis industry, using experience from everyday dialysis activities to develop innovative treatments and technologies. New developments discovered by RRI are also examined for their practicality and relevance. With a wide variety of publications and research subjects, RRI has significant influence on the development of dialysis technologies.

The Renal Research Institute tests and develops innovative treatment methods.

Last year, RRI started a new project to study the advantages of daily hemodialysis treatment for patients with chronic renal failure. Patients are dialyzed six days a week rather than every other day and were chosen randomly for the project. The results will be evaluated based on various factors such as the size of the heart and other physical data as well as the patients' perceived quality of life.

RRI has also introduced a new technique for determining the dry weight of dialysis patients. The partial or complete lack of urine elimination in patients with chronic kidney failure leads to a severe disturbance of their fluid balance. As a result, patients often suffer from fluid retention that can be the main cause of high blood pressure and severe complications within the circulatory system. Achieving a patient's physiological ideal weight is one of the biggest challenges of dialysis treatment apart from the elimination of contaminants known as uremic toxins. RRI also looked at hemodiafiltration in another study last year. This type of therapy allows for better control of blood pressure and anemia by removing excessive water and toxins more gently from a patient's blood.

Laboratory Services

Nephrologists use laboratory tests to decide on the appropriate dialysis therapy for every patient. These test results have a significant impact on the treatment quality and our patients' quality of life. In 2005, our Spectra Renal Management business segment provided these laboratory services for about 125,000 dialysis patients.

Spectra Renal Management is also the laboratory of choice for independent treatment centers and therefore the largest clinical laboratory for dialysis-related services in North America. With nearly 42 million tests performed in 2005 – compared with 41 million in 2004 – the business segment has a market share of about 42%.

With the introduction of the management system "Lean Six Sigma" in 2005, we aim at two goals: we want to increase the quality of our laboratory analyses, while completing them faster. A higher level of automation for our laboratory tests improves customer satisfaction and reduces our costs.

Extracorporeal Therapies

Fresenius Medical Care is one of the largest providers of extracorporeal therapies in the U.S.

In addition to dialysis services, we also offer so-called extracorporeal therapies in the U.S. market. These are procedures in which – similar to dialysis – blood is treated outside the body and then reintroduced. This includes not only cardiovascular procedures but also the already-mentioned therapeutic apheresis and autotransfusion. Fresenius Medical Care offers this service via a network of about 440 hospitals, making the Company the biggest provider of extracorporeal therapies in the U.S.

About 14% of the heart clinics in the U.S. take advantage of the cardiovascular services of Fresenius Medical Care. This type of treatment improves blood flow within the heart by using balloon catheters to expand blood vessels in a minimally invasive procedure. By providing this service, external providers such as Fresenius Medical Care are helping heart centers to cope with increasing pressure on costs.

Autotransfusion and Platelet Rich Plasma (PRP) are other services for which we saw a growing demand in 2005. In autotransfusion therapy, blood lost by a patient during an operation is collected, treated and reintroduced to the body. The process is cost-efficient and lowers the risk inherent in the infusion of donor blood. PRP also involves treating a patient's own blood, in this case adding platelets, before it is recirculated. The high platelet concentration speeds the healing of wounds and lowers the risk of infection after surgery.

Medicare Reform

About 85% of American ESRD patients are covered by public health insurance. Therefore, changes to the reimbursement levels or reimbursement method of Medicare and Medicaid can have a significant effect on the business of Fresenius Medical Care in North America. Medicare and Medicaid are the American healthcare programs managing the medical care of the elderly and indigent, who do not have private health insurance.

The latest regulations are the result of the Medicare Modernization Act of 2003 (MMA). The law entrusted the Center for Medicare and Medicaid Services with the administrative implementation of the MMA.

The following changes were the focus in 2005:

– A new reimbursement system was developed for separately billable dialysis drugs. Reimbursement was previously based on the average wholesale price (AWP) of dialysis drugs. Now the average sale price (ASP) plus six percent is the basis for reimbursement.

– In addition, CMS launched a demonstration project using disease management to evaluate the advantages and disadvantages of holistic treatments. For four years two companies – Fresenius Medical Care and DaVita – will receive monthly flat fees per dialysis patient, a switch from the traditional system of billing for each procedure. Additional details may be found in the "Disease Management" section on page 102.

– New guidelines were also established for the treatment of patients with anemia. Anemia is a typical complication kidney disease patients experience because their kidneys can no longer produce the hormone Erythropoietin (EPO). The production of red blood cells is stimulated by the introduction of artificial EPO. Diagnosing anemia usually involves a hematocrit blood test to measure the percentage of blood containing red blood cells. The recommended range of hematocrit levels in dialysis patients, which Fresenius Medical Care is adhering to, used to range between 33% to 36%. Following a review of the treatment of anemia (the Hematocrit Management Audit), the range was extended to 39% for dialysis patients. This makes it easier to keep dialysis patients within the recommended range despite the relatively complex procedure of regulating hematocrit levels. Reimbursement for the use of EPO was also adjusted to fit the extended range.

– At the beginning of 2005, the composite rate was increased by 1.6% over the previous year for each dialysis treatment. At the end of 2005, a bill was introduced to the U.S. House and Senate that will once again raise the composite rate by 1.6% for 2006. This bill became law in early 2006 and retroactively increased the composite rate effective as of beginning of 2006.

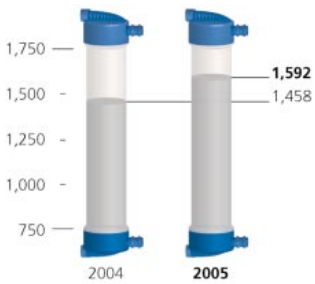
Overall, these changes should have a neutral to slightly positive effect on the business development of Fresenius Medical Care in North America.

Europe

Once again we grew faster than the market in Europe.

For Fresenius Medical Care, 2005 was another year of positive growth in Europe. We were able to expand our position as the biggest provider of dialysis products and dialysis care in the region. At the end of last year, we treated about 22,850 patients in 325 dialysis clinics, 13% more than in the previous twelve-month period.

Revenue Europe / Middle East / Africa
$ in millions



Last year's revenue in the region was $1.59 billion, an increase of 9%. In constant currency, revenue growth also came to 9%. Because Fresenius Medical Care accounts in dollars but conducts much of its business in this region in euros, the effects of currency exchange rates usually have an impact on growth rates. Last year, the exchange rates between the dollar and euro remained relatively stable, resulting in similar growth rates.

In 2005, dialysis care revenue increased by 15% over the previous year to $550 million. In constant currency, revenue also grew 15%. For the first time, dialysis product revenue reached the $1 billion barrier with an increase of 6% to $1.04 billion. In constant currency the increase was also 6%.

Compared with North America, Europe is a more diverse market. We are active in more than 35 individual markets differing widely in payment structures and access requirements. As an example, some countries – including Germany – currently do not allow private companies to operate dialysis clinics. Meanwhile, Eastern Europe exhibits stronger privatization tendencies which create additional growth opportunities for Fresenius Medical Care. Additional information on the development of the dialysis market can be found on page 34.

Europe / Middle East / Africa

	2005	2004
Market data[1]		
Number of patients	~440,000	
Patient growth	~5%	
Company data		
Patients	22,850	20,250
Clinics	325	285
Treatments (in millions)	3.38	3.07

[1] Company estimates

In Central Europe, we are primarily active in the dialysis products business. The fact that the market for dialysis products did not grow despite an increasing number of patients illustrates the level of competition here. We were still able to expand in every country in this region.

The successful introduction of the 5008 dialysis machine demonstrates our leading position as innovators.

The introduction of our new 5008 therapy system was a key factor in the second half of 2005. Our customers show great interest in our new generation of dialysis machines. The demand more than met our expectations and emphasized the market's desire for innovative, high-quality products. We had recognized this demand very early and were quick to accelerate the development of the new dialysis machine. More on the 5008 can be found on page 58 in the Research and Development section and on page 56 in the Leadership by Innovation section of this report.

We saw a sustained positive development of the FX-class dialyzers in 2005 and were able to further expand our market share. For example, we now supply more than 50% of all dialyzers used in Germany.

Acute dialysis has been another advancing business area. With multiFiltrate, a system specially designed for the treatment of acute kidney failure, we expanded our market share. The Genius therapy system is enjoying increasing demand, being supplied to dialysis stations in Belgium, Austria, Switzerland, Italy and Poland, among others.

In peritoneal dialysis, a South Korean study documented the advantages of our biocompatible dialysis solutions – additional information can be found on page 63. The results of the study were met with strong interest in Central Europe and supported sales of our dialysis solutions bicaVera forte und balance. In Belgium, bicaVera has even established itself as the standard solution for peritoneal dialysis.

As reported in previous years, we aim for a long-term expansion into additional business areas, especially those related to dialysis products and care, such as liver therapy. An initial clinical study successfully demonstrated the excellent detoxifying performance of our Prometheus liver-support system. We have started a Europe-wide, multi-center study in 2005 to confirm the therapeutic success of the device.

In contrast to the markets of Central Europe, where we are primarily active in dialysis products, we are able to position ourselves as a provider of dialysis care in many other parts of Europe.

With sales of more than one million dialyzers, we achieved a unit sales record in France.

We can look back on a successful year in France, where we delivered 5% more dialysis treatments than in 2004. At the end of the year, we had treated about 1,400 patients and set a record in our key product group – the dialyzer – with unit sales of more than 1.1 million due to growing demand. We now supply one-fourth of all dialyzers used in France.

In Spain and Portugal we continued as the clear market leader and increased our patient numbers to more than 8,000 in the two countries. We now treat more than one-fourth of all dialysis patients on the Iberian Peninsula. The introduction of the new 5008 generation of dialysis machines went particularly smoothly in Portugal. In 2005 and 2006 we will supply a total of nearly 600 new dialysis machines to the Portuguese market, including deliveries to both external dialysis clinics and centers in our own clinic network.

2005 was a successful year for our activities in Great Britain. Both business areas – dialysis products and patient care – grew significantly. Our chief customer is the government healthcare system National Health Service, which awards contracts for the care of dialysis patients. In 2005, we won nearly all of the tenders and treated a total of approximately 2,100 patients with hemodialysis. It is our goal for 2006 to continue this positive development, and with our plans for opening a dialysis clinic in Dublin we will have our premiere as a dialysis care provider on the Irish market.

In 2005, our highest growth rates in Europe were once again achieved in Eastern and Southeastern Europe. The ongoing trend towards privatization of health services in these countries presents excellent opportunities for private providers such as Fresenius Medical Care.

Growth market Turkey: within a year we have increased the number of our patients by nearly 10%.

Turkey is now one of our most important markets in Europe. Within just twelve months, we achieved nearly 10% growth in patient numbers, providing care to about 4,100 dialysis patients in almost 40 clinics in 2005. An increase in the reimbursement rate for dialysis treatment of approximately 20% had an additional positive effect on our development in Turkey. Peritoneal dialysis, too, developed very positively. We tripled the number of patients receiving our products to more than 1,000 between 2002 and 2004. This trend continued last year and by the end of 2005 we supplied about 1,300 patients with our products for peritoneal dialysis.

With twelve additional dialysis clinics, we strengthened our position on the Polish dialysis market.

We were particularly active in Poland last year. The acquisition and expansion of twelve dialysis clinics bolstered our market position there. At the end of the year, we treated about 1,200 patients in our dialysis clinics, which corresponds to nearly 10% of the Polish dialysis market.

Hungary was one of the first Eastern European countries where Fresenius Medical Care invested. The early entry into the market there provided us with an excellent position, and we now have a market share in dialysis care of approximately 40%. However we – and other private providers – are facing major challenges: the reimbursement rate per treatment has fallen by an average of 4% per year since 2003 and is now significantly lower than in neighboring countries.

We were able to strengthen our position in other countries in Eastern and Southeastern Europe such as Slovenia and the Czech Republic.

Our market entry as a provider of dialysis care in Russia has been delayed. We originally expected to operate our first Russian dialysis clinic in 2005 but now this will not occur until this year. We have entered into a framework agreement with the Krasnodar region for the construction of three dialysis clinics and hope to treat about 400 hemodialysis and 60 peritoneal dialysis patients in the long term.

Our structure as a vertically integrated company proves decisive in the growth regions.

Identifying and seizing opportunities early – this also describes our activities in several other Eastern European countries. Our timely actions secured a leading position as a provider of dialysis products and care in countries such as Romania. Here we have operated two of our own dialysis clinics since 2005, now treating more than 400 patients – an excellent vantage point for long-term success. A significant advantage: as a vertically integrated company, Fresenius Medical Care can offer both dialysis products and dialysis care. This structure is building our reputation as a provider of high-quality dialysis – and not just in Eastern Europe. For our patients and healthcare partners, this is an essential consideration.

In the Middle East and Africa, which are included in our European business region, we are predominantly active in dialysis products. Our business activities in 2005 included a framework agreement in the United Arab Emirates for the sale of more than 120 dialysis machines from the 5008 line. In Morocco, our sales have tripled since 2002, bringing our market share up to more than 60%.

In the summer of 2004, we began the local production of peritoneal dialysis products in South Africa to meet the increasing demand. This trend continued last year. Winning a tender for the treatment of peritoneal dialysis patients was a major factor in this development. Our market share increased to about 12%. We were also able to achieve growth in clinic-based dialysis, treating more than 300 patients at the end of the year, two-thirds more than in the previous year.

Since 1999, EuCliD (European Clinical Database) has proven to be an important instrument in ensuring the quality of dialysis treatment. Having grown by some 3,000 patients and approximately 40 dialysis clinics in the past year, the database now contains information on about 22,000 dialysis patients from nearly 320 dialysis clinics. EuCliD allows us to efficiently compare the treatment quality of individual dialysis centers. Weak points can be more readily identified and, if necessary, a remedy applied instantly. In addition, EuCliD is a significant component of our integrated management system and also assists nephrologists with patient care.

For the first time, our EuCliD clinical database is being used outside of Europe.

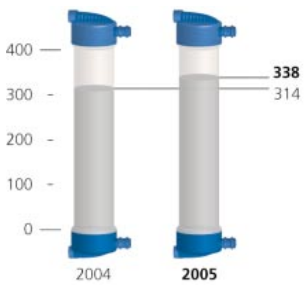
More than 80% of our European dialysis clinics now record their treatment data in EuCliD. In 2005, we connected additional dialysis clinics to the system, for example Romania. Our South African facilities have become the first non-European centers to use this quality control tool. In 2005, we have also started the implementation process for a new version of the EuCliD software in several countries. It allows for an even better documentation and analysis of treatment parameters and administering of dialysis medication.

Asia-Pacific

We increased revenue in the Asia-Pacific region by 8% to $338 million.

In the Asia-Pacific region we are looking back on a positive business development in 2005. The market there is very diverse – developed countries such as Japan stand in contrast to countries such as India or Indonesia where the markets are just beginning to emerge. A focus of our activities in Southeast Asia was reconstruction after the tsunami catastrophe that affected many coastal areas in this region.

Revenue Asia-Pacific
$ in millions



Overall revenue in the Asia-Pacific region grew 8% to about $338 million. In constant currencies, revenue increased by 5%. Both dialysis care and dialysis products contributed to this growth. Last year, dialysis product revenue increased by 9% to $259 million, which represents constant currency growth of 6%. In dialysis care, revenue rose by 3% to nearly $79 million, or 4% in constant currency terms.

Asia-Pacific

	2005	2004
Market data[1]		
Number of patients	~475,000	
Patient growth	~7%	
Company data		
Patients	3,500	3,000
Clinics	40	35
Treatments	510,000	460,000

[1] Company estimates

Japan is the biggest market in the region: about 250,000 dialysis patients live here, or about one-fifth of all dialysis patients worldwide. Fresenius Medical Care is active in two main areas – dialysis products and comprehensive consulting services for dialysis centers through NephroCare Japan.

In 2005, the Japanese dialysis market continued to see strong competition from international and domestic product companies resulting in continuous price pressure, while the growth in the number of patients showed more resiliency. The bi-annual reduction in the reimbursement rate did not occur in 2005, it will again have an influence on prices in 2006.

Fresenius Medical Care entered into a new cooperation and delivery agreement with our Japanese partner, Kawasumi Laboratories. Polysulfone fibers will now be supplied directly to Kawasumi, forgoing future contract manufacturing. This creates a higher efficiency and margin improvements for both companies.

In the Japanese market for dialysis products, we confirmed our position as one of the leading providers. Stable demand for high-quality dialyzers and peritoneal dialysis solutions with good tolerance levels ensured the good utilization of capacity at our plants in Inukai and Buzen.

We were able to post above-average growth rates in most of the other countries in this region in 2005.

With an increase in revenue of more than 24%, we grew significantly faster than the market in China, Taiwan and Hong Kong. The average annual growth rate from 2000 to 2005 was nearly 25%, almost tripling the generated revenue in the region within five years.

With our dialyzers, we enjoy a market share of more than 40% in China.

We were exceptionally successful in Taiwan, where we continued our strategy of single-use dialyzers over re-use dialyzers and increased sales of products for hemodialysis by about 20%. In addition, the number of patients treated in our clinics rose by more than 30% to more than 1,700. We also strengthened our position in China despite the strongly competitive environment, and have a market share of more than 40% in dialyzers and dialysis machines at the end of 2005. In Hong Kong, we significantly increased the number of our peritoneal dialysis patients to about 1,100.

By mid 2005, we had already achieved a new company record in South Korea. For the first time, we supplied more than 2,000 patients with our products for peritoneal dialysis. Our innovative product portfolio also made a contribution to the revenue growth. We equipped one of the leading university hospitals with our new generation of hemodialysis machines – the 5008. In addition, we will begin marketing dialysis concentrates produced with local partners in 2006. The local authorities granted the necessary approval in December 2005.

In Thailand, we have a partnership for the production of peritoneal dialysis solutions since 2001. The plant there operates at full capacity since mid 2005. An increase in local production allows us to better adapt to changes in the local market. We also founded a subsidiary in India and established a platform for offering our entire portfolio of products and services there.

We benefit from our position as a vertically integrated provider of dialysis products and services in the South Asia-Pacific region, which includes markets such as Australia, New

Zealand, Malaysia, Singapore and Indonesia. The markets there reward our unique structure and welcome us as a partner capable of completing the planning, construction and operation of dialysis clinics.

We gave our active support to the reconstruction efforts following the devastating tsunami in the region.

Indonesia is among the countries hit hardest by the tsunami disaster. As in many other countries, Fresenius Medical Care launched a number of relief programs there last year with a total value of about $500,000. The majority of this amount was used in a joint project with the German reconstruction bank Kreditanstalt für Wiederaufbau to construct and equip a new dialysis clinic in Banda Aceh. We also supported orphan care in the region. Our program for national training and education in dialysis (CREED – Cross Regional Education and Exchange in Dialysis) proved very effective during the relief efforts. CREED, which we have operated in cooperation with the Australian and Indonesian nephrology associations since 1999, was a key basis for reconstruction activities: thanks to close contacts made in the course of the program, we were able to take the necessary steps quickly, supporting, for example, Australian specialists working to rebuild dialysis stations and provide vital dialysis treatment. In Pakistan we supported victims of the earthquake in October 2005 by donating dialyzers and products for peritoneal dialysis to emergency shelters and aid organizations, among other activities.

We are increasingly recognized by health care authorities and private providers as a reliable partner in the treatment of kidney failure. Here we are not only building the necessary infrastructure but also positioning ourselves as an integrated dialysis management company. This includes all patients in the region, whether they receive hemo- or peritoneal dialysis at home or in a clinic.

In early 2006, we won the tender for the complete care of home dialysis patients in Western Australia. In the future, home hemodialysis will be emphasized as a treatment option. In addition, we will service 200 peritoneal dialysis patients. In cooperation with local specialists, we are planning the home care capacities for patients. We will also provide all necessary technology and supplies for home hemodialysis patients in the region as part of the contract. The quality of dialysis treatment plays an ever-increasing role in Australia. Due to the high quality of our treatments, we were able to qualify for a higher reimbursement rate per treatment in some cases.

For 2006, we remain confident of our strong growth in Asia-Pacific.

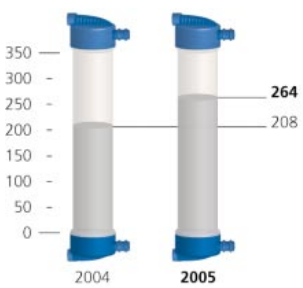
Asia-Pacific proved to be a growth region in 2005; the trend should continue in 2006, due to the positive development in all markets. It is our goal to achieve growth rates exceeding that of the overall market in 2006 and to continue developing our programs throughout the region positioning Fresenius Medical Care as the best partner for any renal care stakeholder.

Latin America

In Latin America sales grew by 27% – a very good result.

In 2005, we were remarkably successful in the Latin American market, experiencing an increasing demand for our products and services. The stable economy in the region helped this development, although we are only affected indirectly by economic conditions. Our position as a vertically integrated provider is also beneficial in Latin America: Fresenius Medical Care increased its market share in various countries of this region and confirmed its position as a leading dialysis company.

Revenue Latin America
$ in millions



Our revenue in Latin America increased by 27% to $264 million last year, corresponding to an increase of 17% in constant currency. These results show that our smallest business region achieved the largest growth rates. Revenue with dialysis care increased by 26% (+16% currency-adjusted) to $184 million, contributing about two-thirds of Latin American revenue. Revenue from dialysis products rose by 30% to $80 million (20% currency-adjusted). At the end of 2005, Fresenius Medical Care treated about 15,800 patients in 160 clinics.

Mexico was the focus of a significant structural change: our activities there were integrated into the North America region as of January 1, 2005. The calculation of the growth figures above took this change into account.

With 7,000 patients, we treated about 5% more patients in Argentina than in 2004.

Argentina is our most important Latin American market and we provided care for nearly 7,000 patients in more than 80 Argentinean dialysis clinics by the end of 2005. This is an increase in patients of about 5%. There is a growing awareness among local decision makers that the quality of dialysis treatments is playing an increasingly important role. This allowed us to raise the number of Disease Management contracts from two to seven. Our Disease Management programs use an integrated approach that includes not only dialysis, but other aspects such as vascular access and appropriate nutrition as well. We also expanded our acute dialysis activities last year.

Fresenius Medical Care is the leading provider of products for hemodialysis in Brazil. We confirmed and expanded this position in 2005; for example more than half of all dialyzer machines sold in the country were made by Fresenius Medical Care. With about 4,100 patients in our partner clinics – international companies are not allowed to run dialysis clinics in Brazil – the number of patients we treated grew at an above-market rate. In addition, we entered our first Disease Management contract in Brazil. We believe that this is the right solution for the challenges of this market: the relatively high number of dialysis patients – nearly 400 patients per one million people – and the limited financial resources. Another welcome development is the 15% increase in the reimbursement rate for dialysis treatment as of 2006. This should have a positive effect on our business in the most heavily populated Latin American country.

Latin America

	2005	2004
Market data[1]		
Number of patients	~145,000	
Patient growth	~6%-7%	
Company data		
Patients	15,800	14,800
Clinics	160	155
Treatments (in millions)	2.37	2.27

[1] Company estimates

With an increase of 14% to more than 3,100 hemodialysis patients, our business in Colombia developed very well, with the trend in dialysis products being similarly positive. In 2005, we expanded our local plant for sterile dialysis solutions by one production line. This will allow us to cover the domestic demand and strengthen exports to neighboring countries.

Venezuela also developed exceptionally well. With more than 700 peritoneal dialysis patients, we treated approximately 150 patients more than in the previous twelve-month period. Our hemodialysis business grew as well, even expanding more strongly than the market. At the end of 2005, we provided about 1,300 patients with hemodialysis treatment and achieved a market share of approximately 20% in this sector.

Home Therapies – More Growth with "Continuum"

Fresenius Medical Care is the global market leader in dialysis products and dialysis services. As the world's largest operator of dialysis clinics and manufacturer of dialyzers, hemodialysis machines and other products, we are already holding a large share of the hemodialysis market.

In 2005, we launched our program called "Continuum", which aims at further expanding our global market share in home therapies, including both peritoneal dialysis and home hemodialysis. In 2005, some 32,000 peritoneal dialysis patients received their dialysis products from Fresenius Medical Care. Although currently much less significant when compared to clinic-based hemodialysis, home hemodialysis treatment has considerable long-term potential. With Continuum, we want to support patients who receive their dialysis treatment at home, thus gaining another significant increase in the number of patients for whom we provide home dialysis treatment. According to our estimates, a total of more than 200,000 patients could undergo peritoneal dialysis or hemodialysis at home by 2010.

A clinical study shows 25% lower mortality with the use of biocompatible dialysis solutions.

Continuum is a fully integrated program. In the future, patients should not only be able to choose between hemodialysis and peritoneal dialysis, but also whether they would like to be dialyzed in a clinic or – with more personal responsibility – at home. We want to convince patients and healthcare officials that home dialysis represents a real alternative for patients with kidney disease. At the same time, we will show them that Fresenius Medical Care possesses the necessary experience and high-quality products for home dialysis. In this area, we were able to take an important step forward last year: the largest clinical study ever proved a lower mortality rate and improved protection of the peritoneum through the use of biocompatible peritoneal dialysis solutions. With our Balance solution, Fresenius Medical Care is a pioneer of this generation of dialysis solutions. According to the study, the use of Balance lowers the risk of death by 25% compared to treatment with high-quality standard solutions.

At the World Congress of Nephrology in summer of 2005 in Singapore, we first presented the Continuum program to the Asian public. In addition, pilot projects to strengthen home hemodialysis have begun in Scandinavia, Oceania and selected Asian countries. The launch of Continuum in Europe and North America is scheduled for 2006.

Holiday Dialysis International

Booking and additional information may be found at: www.hdi-travel.com

The name HDI – Holiday Dialysis International – represents a special service we offer to dialysis patients worldwide. Generally seen as immobile, dialysis patients, and especially those regularly receiving hemodialysis, have little opportunity to travel abroad or take a business trip to another country. So Fresenius Medical Care uses its global presence to offer a free and professional worldwide booking service for hemo and peritoneal dialysis patients, either within our own network or through external providers. The program restores mobility by providing dialysis patients life-saving dialysis treatment in nearly every corner of the globe. Cruises are a special offer from Fresenius Medical Care. To provide patients "on the go" with their customary care, HDI ensures that dialysis machines, dialyzers, water preparation systems and other related equipment used on the ships meet our high quality standards. This allows HDI to offer the reliable treatment patients expect as well as to offer a bit of extraordinary quality of life.

In 2005, more than 1,200 patients used HDI's services worldwide. This is almost double the number of patients who used the service during the previous year. Furthermore, HDI organized nine cruises for dialysis patients in the Mediterranean and in Scandinavia during 2005.

In 2006, we aim to further strengthen our HDI business by promoting its services to national patient associations in countries such as the United Kingdom, the Netherlands and Denmark. In addition, we intend to organize twelve different cruises and enlarge HDI's clinic network to other holiday destinations, including the Canary Islands and North Africa. In the long term we hope to expand HDI's business in the U.S. by cooperating more closely with our North American business units.

Further Information

Content

Fresenius Medical Care AG & Co. KGaA

Supervisory Board

Dr. Gerd Krick
Chairman
Königstein (Germany)

Corporate Offices
Supervisory Board
- Fresenius AG (Chairman)
- Vamed AG (Chairman)
- Fresenius Medical Care Management AG (since December 21, 2005)

Other Mandates
- Allianz Private Krankenversicherungs AG (Supervisory Board)
- HDI Haftpflichtverband der deutschen Industrie V.a.G. (Advisory Board)
- Adelphi Capital Europe Fund, Grand Cayman (Board of Directors)
- Danube University Krems (Board of Trustees)

Dr. Dieter Schenk
Vice Chairman
Attorney and Tax Advisor
Munich (Germany)

Other Mandates
Supervisory Board
- Fresenius AG
- Fresenius Medical Care Management AG (Vice Chairman) (since April 8, 2005)
- Gabor Shoes AG (Chairman)
- Greiffenberger AG (Deputy Chairman)
- TOPTICA Photonics AG (Deputy Chairman)

Prof. Dr. Bernd Fahrholz
Attorney
Frankfurt am Main (Germany)

Other Mandates
Supervisory Board
- Fresenius Medical Care Management AG (since April 8, 2005)

Walter L. Weisman
Former President and Chief Executive Officer of American Medical International, Inc.
Los Angeles (U.S.)

Other Mandates
Supervisory Board
- Fresenius Medical Care Management AG (since December 21, 2005)

Management Board
- Maguire Properties, Inc. (Deputy Chairman)
- Occidental Petroleum Corporation

Board of Trustees
- California Institute of Technology (Deputy Chairman)
- Los Angeles County Museum of Art (Life Trustee)
- Sundance Institute (Chairman)
- Public Broadcasting Service, Inc.
- Samuel H. Kress Foundation

John Gerhard Kringel
Durango, Colorado (U.S.)

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- Natures View, LLC
- Alpenglow Development, LLC
- Justice, LLC
- River Walk, LLC

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Audit Committee
Walter L. Weisman (Chairman)
John Gerhard Kringel
Dr. Gerd Krick

Fresenius Medical Care Management AG
(general partner of Fresenius Medical Care AG & Co. KGaA)

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Chairman (since April 8, 2005)
Frankfurt am Main (Germany)

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Supervisory Board
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- Fresenius Medical Care AG (until February 10, 2006)
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Chairman
Boston, Massachusetts (U.S.)

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Dr. Emanuele Gatti
Chief Executive Officer for Europe, Latin America, Middle East and Africa
Bad Homburg v.d.H. (Germany)

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- Centre Néphrologique d'Occitanie S.A.S
- NephroCare France S.A.S (until end of 2005)
- Fresenius Medical Care Magyarország Kft.
- Fresenius Medical Care Dializis Center Kft.

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Dr. Rainer Runte
General Counsel and Chief Compliance Officer
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- Fresenius Medical Care SGPS, S.A.
- Fresenius Medical Care Japan, K.K.
- Fresenius-Kawasumi Co., Ltd.

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Chief Financial Officer
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Rice Powell
Co-Chief Executive Officer Fresenius Medical Care North America and President of "Products and Hospital Group (PHG)"
Boston, Massachusetts (U.S.)

Mats Wahlstrom
Co-Chief Executive Officer Fresenius Medical Care North America and President of "Medical Services"
Boston, Massachusetts (U.S.)

Products and Services of Fresenius Medical Care

5008
This new therapy system offers advantages for both patients and caregivers. The innovative, user-friendly interface simplifies quick set-up and dismantling of disposables, makes the preparation of the dialysis treatment more efficient and guarantees simple and safe data processing.

A.N.D.Y.·disc
A peritoneal dialysis double-bag system (fluid and drainage bags) with lactate-buffered peritoneal dialysis fluid. The technology can be used safely and easily by the patient.

Balance
Lactate-buffered peritoneal dialysis solution in a two-compartment bag with stay·safe technology. After mixing the contents of the two compartments, the ready-to-use solution has a physiological pH and a considerably reduced amount of glucose degradation products.

Bibag
Dry bicarbonate concentrate – a powder for the production of liquid bicarbonate concentrate used in bicarbonate hemodialysis.

BicaVera
Physiological peritoneal dialysis solution in a two-compartment bag with stay·safe technology. The PD solution, buffered with pure bicarbonate, provides optimum biocompatibility. After mixing the contents of the two compartments, the ready-to-use solution has a physiological pH and a considerably reduced amount of glucose degradation products.

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

Biofine
PVC-free, biocompatible material for producing foils, tubing and other components for peritoneal dialysis.

Blood Pressure Monitor (BPM)
Module for hemodialysis for fully automated blood pressure monitoring.

Blood Temperature Monitor (BTM)
Module for hemodialysis machines to measure the blood temperature and control, for example, the body temperature of a dialysis patient.

Blood Volume Monitor (BVM)
Module for hemodialysis machines to measure relative blood volume and control fluid removal from the patient to avoid complications during dialysis treatment.

Cardioprotective Hemodialysis
An integrated hemodialysis therapy developed by Fresenius Medical Care, addressing cardiovascular disease in dialysis patients.

Continuum
Comprehensive program of Fresenius Medical Care to emphasize home dialysis – including home hemodialysis and peritoneal dialysis – for patients and health care professionals.

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

DISC
Controls all procedures during Continuous Ambulatory Peritoneal Dialysis (CAPD) with a simple turn. The system does not require clamps and breaking cones, thus virtually eliminating operating errors.

Fresenius Polysulfone dialyzer
Dialyzer with capillaries made from Fresenius Polysulfone.

FX-class Dialyzer
A new class of dialyzers with increased performance and outstanding biocompatibility. The improved performance of FX dialyzers was realized with an innovative dialyzer concept, comprising improvements of individual components, including the Helixone membrane.

GENIUS
Innovative hemodialysis therapy system based on a single-pass batch system. The dialysate is prepared as one batch before the treatment and adjusted to the needs of the individual patient.

Helixone
An advanced high-flux dialyzer membrane for the FX-class dialyzers based on the Fresenius Polysulfone membrane. The size and distribution of pores in Helixone have been optimized to enable the removal of larger uremic toxins such as ß2-microglobulin.

ICare Monitoring System
Web-based system for monitoring nocturnal dialysis treatment from a central location and comparing actual with prescribed data as the patient sleeps. The system reacts to any deviations from the prescribed treatment by contacting the patient immediately. It can provide emergency information if needed.

IQcard
Used with the Fresenius Freedom Cycler PD+ to monitor every minute of automated peritoneal dialysis therapy and provide integrated data for patient evaluation and research models.

Liberty Cycler
Innovative device for automated peritoneal dialysis marketed exclusively in the U.S. The Liberty Cycler automatically regulates the exchange of used and fresh dialysis fluid.

MultiBic
A bicarbonate-buffered solution for hemofiltration.

MultiFiltrate
Multifunctional acute dialysis machine used for therapy in an intensive care environment as well as in intermittent, short-term dialysis (hemofiltration).

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

ONLINEplus System
A system for our 4008 and 5008 series hemodialysis machines to perform online hemodiafiltration and online hemofiltration. Infusion fluid is prepared conveniently and cost-efficiently by filtering dialysate.

Optiflux
A dialyzer generation for the U.S. market featuring improved clearance rates and outstanding biocompatibility.

PatientOnLine
The PD Therapy Manager. A software tool to administer patient data and evaluate treatment results to find the best therapy for peritoneal dialysis patients.

PIN
Automatic, inline-closing procedure in Continuous Ambulatory Peritoneal Dialysis (CAPD) that minimizes the risk of contamination during bag disconnection.

PlasmaFlux
Capillary membrane filter used to separate plasma from other blood components.

Prometheus
Novel extracorporeal blood purification system for patients with hepatic failure.

PROSORBA
Medical device for the extracorporeal treatment of the plasma of adult patients with severe rheumatoid arthritis who do not respond or are intolerant to anti-rheumatic drugs.

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 nursing staff.

stay·safe
Biocompatible, safe and environmentally-friendly peritoneal dialysis system using Biofine as well as PIN and DISC technology, i.e. without breaking cones and clamps.

UltraCare
Innovative and integrated treatment concept in Fresenius Medical Care's North American dialysis clinics combining, for example, the On-line Clearance Monitor, ultrapure dialysis fluid and the use of disposable High-Flux Polysulfone dialyzers.

Ultraflux
Dialyzers or filters for acute dialysis treatment.

Healthcare and Dialysis related Terms

Adequacy
The term refers to the efficiency of dialysis treatment. To measure adequacy, tests are performed to see if enough fluid and substances are being removed from the patient's blood.

Albumin
A protein that can be used to monitor a patient's nutritional condition.

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

Apheresis
Process of obtaining blood from a donor or a patient to separate or remove certain components (thrombocytes, plasma) before re-infusing the remainder.

Arteriovenous (AV) fistula
Direct surgically created connection between an artery and a vein of a patient. This connection forms a large blood vessel to continuously provide an increased blood flow for hemodialysis.

Artery
A blood vessel that carries blood away from the heart to the body.

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

Biocompatibility
Ability of a material, device or system to perform without an undesired, clinically significant host response.

Bioimpedance
Procedure for measuring the water content of the body. Alternating voltage electrodes measure the relationship between the alternating current and the alternating voltage flowing through the body.

Blood cells, red (Erythrocytes)
Cells which are responsible for the transport of oxygen from the lungs into the body. They are produced with the help of Erythropoietin, a hormone produced in the kidneys.

Blood cells, white (Leukocytes)
Cells which defend the human body against infection. They are involved in allergic reactions and destroy damaged, old and dead cells in the body.

Blood coagulation
The coagulation of blood is a complex process during which blood forms solid clots. It is an important part of hemostasis whereby a damaged blood vessel wall is covered by a fibrin clot to stop hemorrhage and aid repair of the damaged vessel. Disorders in coagulation can lead to increased hemorrhage and/or thrombosis and embolism. During a dialysis treatment, blood coagulation is inhibited with anticoagulants such as heparin.

Blood platelets (Thrombocytes)
The component of blood responsible for healing wounds. Blood platelets form clots and release substances into the blood to generate the body's healing response.

Bloodlines
System of tubes connecting a patient's blood circulation with a device (e.g. a dialyzer) during extracorporeal dialysis treatment.

Buffer
Substance that reduces pH-changes that would otherwise occur in a system during the introduction of an acid or a base.

Catheter
A flexible tube through which fluids enter or leave the body. For peritoneal dialysis, a catheter is implanted in the abdomen.

CE certification
Proof of compliance with European Union directives for medical devices.

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

Composite rate
Medicare (see Glossary page 127) reimbursement rate for dialysis treatment.

Continuous Ambulatory Peritoneal Dialysis (CAPD)
A type of peritoneal dialysis treatment where the dialysis solution is exchanged manually, generally four times a day.

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 to selectively filter solute from the blood of a patient into the dialysate.

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

Dialyzer membrane
The semi-permeable barrier between the two compartments (blood and dialysate) of a dialyzer.

Diffusion
An exchange in the chemical concentration of two fluids that are divided by a semi-permeable membrane. The transfer of metabolic toxins through the membrane into the dialysate is based on this physical transport law.

Disease Management
Integrated concept of patient care that takes into account all medical aspects of an illness.

Dry weight
Targeted optimal body weight of the patient, achieved through the removal of excess water during dialysis.

Dwell time
In peritoneal dialysis, this is the amount of time a bag of dialysis solution remains in the patient's abdominal cavity during an exchange.

End-Stage Renal Disease (ESRD)
Terminal kidney failure accompanied by long-term complications such as renal anemia, hypertension and other cardiovascular problems, bone disease, loss of appetite and malnutrition (see also Kidney failure, chronic).

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

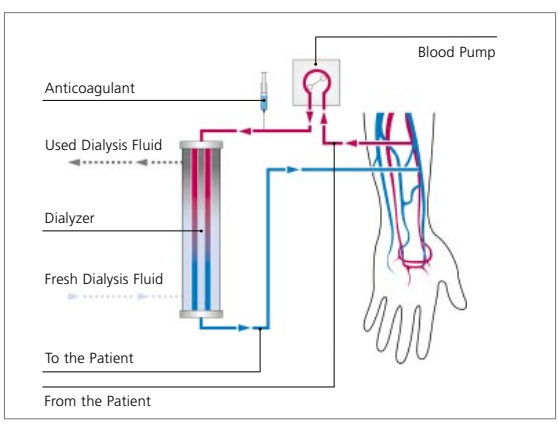
Extracorporeal
Situated or occurring outside (extra) the body (corporeal).

FDA
The U.S. Food and Drug Administration.

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

Hemodiafiltration (HDF)
Special type of ESRD treatment combining the advantages of hemodialysis and hemofiltration, i.e. high elimination rates for small and large molecular weight substances via diffusive and convective mechanisms, respectively.

Hemodialysis (HD)
ESRD treatment method 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 that pumps blood, adds anticoagulants, 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)
A type of ESRD treatment that uses no dialysate. The solutes are removed by using convective forces to filter plasma water through a semi-permeable membrane. Substitution fluid is used to replace the volume removed by filtration.

High-flux dialyzers
Dialyzers containing highly permeable membranes that allow the effective removal of water and large uremic toxins such as ß2-microglobulin.

Hypervolaemia
Increased blood volume.

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

ISO
International Organization for Standardization.

Kidney
Two kidneys are located at the backside of the abdominal cavity, one each on the right and left side of the spinal column. These vital organs are approximately 11 cm long and weigh only 160 grams each. The kidneys ensure a regulated acid-base balance through the filtration of excreta and the production of urine.

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

Kidney failure, chronic
Chronic loss of renal function, also referred to as end-stage renal disease (ESRD). Renal function cannot be recovered, thus the patient has to be treated with renal replacement therapy, i.e. kidney transplantation or dialysis.

Kidney transplantation
The surgical procedure to implant a kidney from a donor.

Low-flux dialyzers
Dialyzers with a lower water permeability.

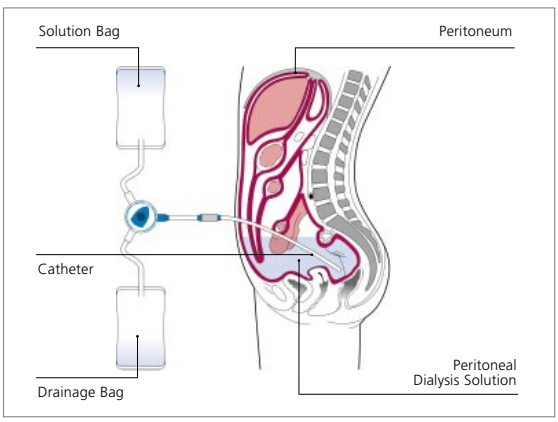
Medicare / Medicaid
A program under the federal U.S. Social Security Administration that reimburses health plans and providers for medical care given to qualifying individuals over 65, those with ESRD, and the disabled or indigent.

Medicare Modernization Act (MMA)
Reform of Medicare, the public health insurance system for the elderly as well as dialysis patients without private insurance. The reform influences the composite payment rates for the treatment of end-stage renal disease patients and became effective in 2005.

Membrane permeability
An indication of the "openness" of a dialyzer membrane for blood or dialysis fluid constituents.

Osmosis
Passage of water from the blood through a semi-permeable membrane. In osmosis, as opposed to diffusion, molecules move only in one direction.

Peritoneal dialysis (PD)
Dialysis treatment method using the patient's peritoneum, or the tissue that covers the inner surface of the abdominal cavity and the abdominal organs, as the dialyzing membrane for blood purification. A sterile dialysis solution is introduced and removed through a catheter that has been surgically implanted into the abdominal cavity of the patient. The solution absorbs toxins and excess water. Most treatments are supported by a machine, the cycler, and are administered by the patients in their home or workplace several times a day or during the night.



Plasma
Liquid part of the blood containing water, proteins and other substances such as electrolytes and hormones. Blood cells are not part of the plasma.

Polysulfone
A polymer used to produce dialyzer membranes. It is characterized by extreme thermal stability, chemical resistance and blood compatibility.

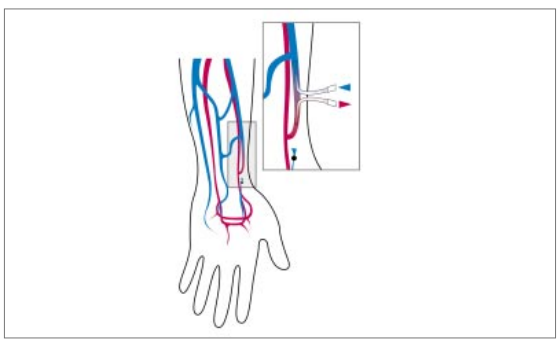
Prevalence
The prevalence is the number of all patients who suffer from a specific disease during a certain period of time.

Transplantation
Taking an organ or tissue from the body for grafting into another area of the same body or into another individual.

Ultrafiltration
The convective transport of solutes through a dialyzer or hemofilter membrane due to a decrease in hydrostatic pressure.

Ultrafiltration rate
Rate of fluid removal from the patient's blood circulation. This rate has to be chosen carefully. If the rate is too high, the cardiovascular stability of the patient is put at risk; if it is too low, the patient's excess water cannot be removed.

Vascular access (Shunt)
Method of connecting a patient's blood circulation to the dialyzer. The vascular access must allow sufficient blood flow and access as often as necessary, normally three times a week. An adequate vascular access is a prerequisite for hemodialysis. Compromised vascular access flow has been recognized as the single most sensitive indicator of pending access failure. The main cause of compromised access flow is blockage or stenosis at the venous anastomosis.



Vein
A blood vessel that carries blood to the heart.

Xenotransplantation
Transplantation of tissues or organs between two different species.

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Calendar 2006

Report on First Quarter 2006	May 03, 2006
Annual General Meeting	
Frankfurt am Main, Germany	May 09, 2006
Payment of Dividend	May 10, 2006
Report on First Half 2006	August 03, 2006
Report on Nine Months 2006	November 02, 2006

Important fairs 2006

43rd ERA-EDTA Congress
(European Renal Association – European Dialysis and Transplant Association)
Glasgow, United Kingdom — July 15 – 18, 2006

11th ISPD Congress
(International Society of Peritoneal Dialysis)
Hongkong, China — August 25 – 28, 2006

39th Annual Meeting of the ASN
(American Society of Nephrology)
San Diego, U.S. — November 14 – 19, 2006

Please notice that these dates may be subject to change.

This annual report is also available in German and may be obtained from the Company upon request.

Dieser Geschäftsbericht liegt auch in deutscher Sprache vor.

Annual reports, interim reports and further information on the Company are also available on the Internet. Fresenius Medical Care AG & Co. KGaA online: **http://www.fmc-ag.com**

For printed material please contact Investor Relations.

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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 & Co. KGaA'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.

FACTS AND FIGURES

Financial Report

Content

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: JPMorgan Chase Bank / P.O. Box 43013 / Providence, RI 02940-3013 / USA / Tel. (800) 990 1135 (toll-free number in the U.S.).

The audited financial statements of the Group's holding company, Fresenius Medical Care AG & Co. KGaA, will be published in the German Federal Gazette (Bundesanzeiger) and deposited at the local district court Hof a.d. Saale. These financial statements can be obtained from the Company.

The audited consolidated financial statements in accordance with §292a Commercial Code (HGB) in conjunction with Article 58(5) of the Introductory Act to the German Commercial Code (EGHGB) will be published in the German Federal Gazette (Bundesanzeiger) and deposited at the local district court Hof a.d. Saale. These financial statements can be obtained from the Company.

Operating and Financial Review and Prospects

You should read the following discussion and analysis of the results of operations of Fresenius Medical Care AG & Co. KGaA and its subsidiaries ("FMC-AG & Co. KGaA" or "the Company") in conjunction with our historical consolidated financial statements and related notes contained elsewhere in this report. Some of the statements contained below, including those concerning future revenue, costs and capital expenditures and possible changes in our industry and competitive and financial conditions include forward-looking statements. We made these forward-looking statements based on our management's expectations and beliefs concerning future events which may affect us, but we cannot assure that such events will occur or that the results will be as anticipated. Because such statements involve risks and uncertainties, actual results may differ materially from the results which the forward-looking statements express or imply. Such statements include the matters that we described in the discussion under fiscal year in this report entitled "Outlook 2006".

Our business is also subject to other risks and uncertainties that we describe from time to time in our public filings. Developments in any of these areas could cause our results to differ materially from the results that we or others have projected or may project.

Critical Accounting Policies

The Company's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that are the basis for our financial statements. The critical accounting policies, the judgments made in the creation and application of these policies, and the sensitivities of reported results to changes in accounting policies, assumptions and estimates are factors to be considered along with the Company's financial statements, and the discussion in "Results of Operations".

Recoverability of Goodwill and Intangible Assets

The growth of our business through acquisitions has created a significant amount of intangible assets, including goodwill, trade names and management contracts. At December 31, 2005, the carrying amount of goodwill amounted to $3,457 million and non-amortizable intangible assets amounted to $439 million representing in total approximately 49% of our total assets.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 Goodwill and Other Intangible Assets, we perform an impairment test of goodwill and non-amortizable intangible assets at least once a year for each reporting unit, or if we become aware of events that occur or if circumstances change that would indicate the carrying value might be impaired (See also Note 1g) in our consolidated financial statements.

To comply with the provisions of SFAS No. 142, the fair value of the reporting unit is compared to the reporting unit's carrying amount. We estimate the fair value of each reporting unit using estimated future cash flows for the unit discounted by a weighted

average cost of capital specific to that unit. Estimated cash flows are based on our budgets for the next three years, and projections for the following years based on an expected growth rate. The growth rate is based on industry and internal projections. The discount rates reflect any inflation in local cash flows and risks inherent to each reporting unit.

If the fair value of the reporting unit is less than its carrying value, a second step is performed which compares the fair value of the reporting unit's goodwill to the carrying value of its goodwill. If the fair value of the goodwill is less than its carrying value, the difference is recorded as an impairment.

A prolonged downturn in the healthcare industry with lower than expected increases in reimbursement rates and/or higher than expected costs for providing healthcare services and for procuring and selling products could adversely affect our estimated future cash flows. Future adverse changes in a reporting unit's economic environment could affect the discount rate. A decrease in our estimated future cash flows and/or a decline in the reporting units economic environment could result in impairment charges to goodwill and other intangible assets which could materially and adversely affect our future financial position and operating results.

Legal Contingencies

We are party to litigation and subject to investigations relating to a number of matters as described in Note 18 "Legal Proceedings" in our consolidated financial statements. The outcome of these matters may have a material effect on our financial position, results of operations or cash flows.

We regularly analyze current information including, as applicable, our defenses and we provide accruals for probable contingent losses including the estimated legal expenses to resolve the matters. We use the resources of our internal legal department as well as external lawyers for the assessment. In making the decision regarding the need for loss accrual, we consider the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of loss.

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

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are a significant asset of ours and the allowance for doubtful accounts is a significant estimate made by management. Trade accounts receivable were $1,470 million and $1,463 million at December 31, 2005 and 2004, respectively, net of allowances. The allowance for doubtful accounts was $177 million and $180 million at December 31, 2005 and 2004, respectively. The majority of our receivables relates to our dialysis service business in North America.

Dialysis care revenues are recognized and billed at amounts estimated to be receivable under reimbursement arrangements with third party payors. Medicare and Medicaid programs are billed at pre-determined net realizable rates per treatment that are established by statute or regulation. Revenues for non-governmental payors where we have contracts or letters of agreement in place are recognized at the prevailing contract rates. The remaining non-governmental payors are billed at our standard rates for services and, in our North America segment, a contractual adjustment is recorded to recognize revenues based on historic reimbursement experience with those payors for which contracted rates are not predetermined. The contractual adjustment and the allowance for doubtful accounts are reviewed quarterly for their adequacy. No material changes in estimates were recorded for the contractual allowance in the periods presented.

The allowance for doubtful accounts is based on local payment and collection experience. We sell dialysis products directly or through distributors in over 100 countries and dialysis services in 27 countries through owned or managed clinics. Most payors are government institutions or government-sponsored programs with significant variations between the countries and even between payors within one country in local payment and collection practices. Specifically, public health institutions in a number of countries outside the U.S. require a significant amount of time until payment is made. Payment differences are mainly due to the timing of the funding by the local, state or federal government to the agency that is sponsoring the program that purchases our services or products. The collection of accounts receivable from product sales to third party distributors or dialysis clinics is affected by the same underlying causes, since these buyers of the products are reimbursed as well by government institutions or government sponsored programs.

In our U.S. operations, the collection process is usually initiated 30 days after service is provided or upon the expiration of the time provided by contract. For Medicare and Medicaid, once the services are approved for payment, the collection process begins upon the expiration of a period of time based upon experience with Medicare and Medicaid. In all cases where co-payment is required the collection process usually begins within 30 days after service has been provided. In those cases where claims are approved for amounts less than anticipated or if claims are denied, the collection process usually begins upon notice of approval of the lesser amounts or upon denial of the claim. The collection process can be confined to internal efforts, including the

accounting and sales staffs and, where appropriate, local management staff. If appropriate, external collection agencies may be engaged.

For our international operations, a significant number of payors are government entities whose payments are often determined by local laws and regulations. Depending on local facts and circumstances, the period of time to collect can be quite lengthy. In those instances where there are non-public payors, the same type of collection process is initiated as in the U.S.

Due to the number of subsidiaries and different countries that we operate in, our policy of determining when a valuation allowance is required considers the appropriate local facts and circumstances that apply to an account. While payment and collection practices vary significantly between countries and even agencies within one country, government payors usually represent low credit risks. Accordingly, the length of time to collect does not, in and of itself, indicate an increased credit risk and it is our policy to determine when receivables should be classified as bad debt on a local basis taking into account local practices. In all instances, local review of accounts receivable is performed on a regular basis, generally monthly. When all efforts to collect a receivable, including the use of outside sources where required and allowed, have been exhausted, and after appropriate management review, a receivable deemed to be uncollectible is considered a bad debt and written off.

Estimates for the allowances for doubtful accounts receivable from the dialysis service business are mainly based on local payment and past collection history. Specifically, the allowances for the North American operations are based on an analysis of collection experience, recognizing the differences between payors and aging of accounts receivable. From time to time, accounts receivable are reviewed for changes from the historic collection experience to ensure the appropriateness of the allowances. The allowances in the International segment and the products business are also based on estimates and consider various factors, including aging, creditor and past collection history. Write offs are taken on a claim by claim basis when the collection efforts are exhausted. A significant change in our collection experience, a deterioration in the aging of receivables and collection difficulties could require that we increase our estimate of the allowance for doubtful accounts. Any such additional bad debt charges could materially and adversely affect our future operating results.

If, in addition to our existing allowances, 1% of the gross amount of our trade accounts receivable as of December 31, 2005 were uncollectible through either a change in our estimated contractual adjustment or as bad debt, our operating income for 2005 would have been reduced by approximately 2%.

The following table shows the portion of major debtors or debtor groups of trade accounts receivable as at December 31, 2005. No single debtor other than U.S. Medicaid and Medicare accounted for more than 5% of total trade accounts receivable. Trade accounts receivable in the International segment are for a large part due from government or government-sponsored organizations that are established in the various countries within which we operate.

Composition of Trade Accounts Receivables

in %, December 31	2005	2004
U.S. Medicare and Medicaid Programs	22%	22%
U.S. Commercial Payors	24%	21%
U.S. Hospitals	3%	7%
Self-Pay of U.S. patients	1%	1%
Other U.S.	4%	1%
International product customers and dialysis payors	46%	48%
Total	**100%**	**100%**

Self-Insurance Programs

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

Financial Condition and Results of Operations

Overview

We are engaged primarily in providing dialysis services and manufacturing and distributing products and equipment for the treatment of endstage renal disease (ESRD). In the U.S., we also perform clinical laboratory testing. We estimate that providing dialysis services and distributing dialysis products and equipment represents an over $40 billion worldwide market with expected annual patient growth of 6%. Patient growth results from factors such as the aging population; increasing incidence of diabetes and hypertension, which frequently precedes the onset of ESRD; improvements in treatment quality, which prolong patient life; and improving standards of living in developing countries, which make life saving dialysis treatment available. Key to continued growth in revenue is our ability to attract new patients in order to increase the number of treatments performed each year. For that reason, we believe the number of treatments performed each year is a strong indicator of continued revenue growth and success. In addition, the reimbursement and ancillary services utilization environment significantly influences our business. In the past we experienced and also expect in the future generally stable reimbursements for dialysis services. This includes the balancing of unfavorable reimbursement changes in certain countries with favorable changes in other countries. The majority of treatments are paid for by governmental institutions such as Medicare in the United States. As a consequence of the pressure to decrease health care costs, reimbursement rate increases have been limited. Our ability to influence the pricing of our services is limited. Profitability depends on our ability to manage rising labor, drug and supply costs.

On December 8, 2003, the Medicare Prescription Drug, Modernization and Improvement Act of 2003 was enacted (the "Medicare Modernization Act"). This law makes several significant changes to U.S. government payment for dialysis services and pharmaceuticals. First, it increased the composite rate for renal dialysis facilities by 1.6% on January 1, 2005. Second, effective January 1, 2005, payments for ten separately billable dialysis-related medications are based on average acquisition cost (as determined by the Office of the Inspector General ("OIG") and updated by Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services ("CMS")) and payments for the remaining separately billable dialysis-related medications are based on average sales price ("ASP") plus 6% (ASP is defined in the law as a manufacturer's ASP to all purchasers in a calendar quarter per unit of each drug and biological sold in that same calendar quarter, excluding sales exempt from best price and nominal price sales and including all discounts, chargebacks and rebates). Third, the difference between the determined acquisition cost-based reimbursement and what would have been received under the prior average wholesale price-based ("AWP-based") reimbursement methodology was added to the composite rate. Fourth, effective April 1, 2005, providers received higher composite rate payments for certain patients based on their age, body mass index and body surface area. Fifth, beginning in 2006, the Secretary of the Department of Health and Human Services (the "Secretary") was authorized to set payment for all separately billed drugs and biologicals at either

acquisition cost or average sales price. Lastly, the Secretary was required to establish a three-year demonstration project to test the use of a fully case-mix adjusted payment system for ESRD services, beginning January 1, 2006. Under this project, separately billable drugs and biologicals and related clinical laboratory tests would be bundled into the facility composite rate. Participating facilities would receive an additional 1.6% composite rate increase.

On November 2, 2005, CMS released the final physician fee schedule for calendar year ("CY") 2006. The key provisions affecting ESRD facilities include revisions to the pricing methodology for separately billable drugs, revisions to the drug add-on payment methodology and calculation of the drug add-on for CY 2006, and revisions to the geographic adjustment to the composite rate. In addition, CMS has decided to maintain the case-mix adjustments finalized in last year's rule, as well as the base composite rate. For CY 2006, CMS has decided to pay for separately billable drugs and biologicals provided by both hospital-based and independent dialysis facilities using the average sales price plus six percent methodology ("ASP+6%"). According to CMS, the drug add-on adjustment for 2006 will be 14.7%. CMS is also implementing several changes to the ESRD wage index. First, over a four-year transition period, CMS will apply the Office of Management and Budget's revised core-based statistical area (CBSA) -based definitions as the basis for revising the urban/rural locales and corresponding wage index values reflected in the composite rate. Since the Medicare Modernization Act requires that any revisions to the ESRD composite rate payment system be budget neutral, CMS will apply the budget neutrality adjustment factor directly to the revised ESRD wage index values (rather than the base composite payment rates). CMS estimates the overall impact of the changes to be a 1.9% increase for independent facilities. The Company's estimates of the impact of such changes on its business are consistent with the CMS calculations.

The Deficit Reduction Act ("DRA") of February 1, 2006, further increased the composite rate by an additional 1.6% effective January 1, 2006. To account for this increase to the composite rate and to preserve the originally intended economic impact of the Medicare Modernization Act, the drug add on percentage was reduced to 14.5%.

On November 9, 2005, CMS announced a new national monitoring policy for claims for Epogen and Aranesp for ESRD patients treated in renal dialysis facilities. Previously, claims for Epogen reimbursement were subject to focused CMS review when the ESRD patient's hematocrit level reached 37.5 or more. In the new monitoring policy, CMS recognized that there is considerable natural variability in individual patient hematocrit levels which makes it difficult to maintain a hematocrit level within an narrow range. Consequently, CMS will not initiate monitoring of claims until the patient's hematocrit level reaches 39.0 (hemoglobin of 13.0). Under the new monitoring policy, for services furnished on or after April 1, 2006, CMS will expect a 25 percent reduction in the dosage of Epogen or Aranesp administered to ESRD patients whose hematocrit exceeds 39.0 (or hemoglobin exceeds 13.0). If the dosage is not reduced by 25 percent, payment will be made by CMS as if the dosage reduction had occurred. This payment reduction may be appealed

under the normal appeal process. In addition, effective April 1, 2006, CMS will limit Epogen and Aranesp reimbursement to a maximum per patient per month aggregate dose of 500,000 IU for Epogen and 1500 mcg for Aranesp. We are in the process of analyzing CMS's new Epogen and Aranesp monitoring policy which is expected to have a slightly negative impact on our operating results.

The recent proposal included in the Bush administration budget to extend the Medicare coordination of benefits period to five years would generally be favorable to us and other dialysis providers since it would extend the period during which providers would receive the generally higher payments by employer group health plans prior to the commencement of primary Medicare coverage for dialysis treatment. However, the proposal in the same budget to eliminate Medicare bad-debt recoveries, if adopted as proposed, would have a material adverse impact on our operating results. There can be no assurance, however, that either proposal will be adopted as proposed, or at all.

Our operations are geographically organized and accordingly we have identified three operating segments, North America, International, and Asia Pacific. For management purposes, the Company reclassified its Mexico operations from its International segment to its North American segment beginning January 1, 2005 and reclassified the operations and assets for the comparative years 2003 and 2004. For reporting purposes, we have aggregated the International and Asia Pacific segments as "International." We aggregated these segments due to their similar economic characteristics. These characteristics include same services provided and same products sold, same type patient population, similar methods of distribution of products and services and similar economic environments. Our Management Board member responsible for the profitability and cash flow of each segment's various businesses supervises the management of each operating segment. The accounting policies of the operating segments are the same as those we apply in preparing our consolidated financial statements under accounting principles generally accepted in the United States ("U.S. GAAP"). Our management evaluates each segment using a measure that reflects all of the segment's controllable revenues and expenses.

With respect to the performance of our business operations, our management believes the most appropriate measure in this regard is operating income which measures our source of earnings. Financing is a corporate function which segments do not control. Therefore, we do not include interest expense relating to financing as a segment measurement. We also regard income taxes to be outside the segments' control. Accordingly, these items are not included in our analysis of segment results but are discussed separately below under the heading "Corporate".

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. We prepared the information using a management approach, consistent with the basis and manner in which our management internally disaggregates financial information to assist in making internal operating decisions and evaluating management performance.

Segment Data

$ in millions	2005	2004
Total revenue		
North America	4,578	4,250
International	2,250	2,019
Totals	**6,828**	**6,269**
Inter-segment revenue		
North America	1	2
International	55	39
Totals	**56**	**41**
Total net revenue		
North America	4,577	4,248
International	2,195	1,980
Totals	**6,772**	**6,228**
Amortization and depreciation		
North America	140	129
International	109	102
Corporate	2	2
Totals	**251**	**233**
Operating income		
North America	644	587
International	362	300
Corporate	(67)	(35)
Totals	**939**	**852**
Interest income	18	14
Interest expense	(191)	(197)
Income tax expense	(309)	(266)
Minority interest	(2)	(1)
Net income	**455**	**402**

Highlights

Earnings margins increased in both segments in 2005 resulting in a 0.5% increase in operating income margin which was partially offset by the one time effect of the $22 million of costs associated with the transformation of our legal form and the settlement and related legal fees of the shareholder suit.

Cash flow provided from operations in 2005 decreased by approximately $158 million as compared to 2004 primarily as a result of income tax payments for prior periods of approximately $119 million made in Germany and the U.S. in 2005 and the effects of the difference in the reduction of days sales outstanding ("DSO"). There was a reduction of 2 DSO in 2005 versus 2004 as compared to 5 DSO reduction in 2004 versus 2003.

The tax payments were the result of a $78 million payment in Germany on a disputed tax assessment relating to deductions of write-downs taken in prior years and a $41 million payment in the US resulting from a tax assessment relating to the deductibility of payments made pursuant to the 2000 OIG settlement.

Consolidated Financials

Key Indicators for Consolidated Financials

	2005	2004	Change in % as reported	Change in % at constant exchange rates
Number of treatments	19,732,753	18,794,109	5%	
Same store treatment growth in %	4.6%	3.6%		
Revenue in $ million	6,772	6,228	9%	8%
Gross profit in % of revenue	34.4%	33.5%		
Selling, general and administrative costs in % of revenue	19.8%	19.0%		
Net income in $ million	455	402	13%	

Net Revenue. Net revenue increased by 9% for the year ended December 31, 2005 over the comparable period in 2004 due to growth in revenue in both dialysis care and dialysis products. The 9% increase represents 7% organic growth combined with 1% of growth from acquisitions and 1% increase attributable to exchange rate effects due to the continued strengthening of various local currencies against the dollar.

Dialysis care revenue grew by 8% to $4,867 million (8% at constant exchange rates) mainly due to organic revenue growth resulting principally from 5% growth in same store treatments, 2% increase in revenue per treatment and 1% due to Acquisitions. Dialysis products revenue increased by 10% to $1,905 million (9% at constant exchange rates) driven by a volume increase and higher priced products.

Gross profit margin improved to 34.4% in 2005 from 33.5% for 2004. The increase is primarily a result of higher revenue rates, production efficiencies, and the effects in 2004 of a one time discount provided to a distributor in Japan, partially offset by higher personnel expenses, higher facility costs and one less treatment day in North America. Depreciation and amortization expense for 2005 was $251 million compared to $233 million for 2004.

Approximately 36% of the Company's 2005 worldwide revenues, as compared to 38% in 2004, were paid by and subject to regulations under governmental health care programs, primarily Medicare and Medicaid, administered by the United States government.

Selling, general and administrative costs increased from $1,182 million in 2004 to $1,343 million in 2005. Selling, general and administrative costs as a percentage of sales increased from 19.0% in 2004 to 19.8% in 2005. The increase is mainly due to one time costs of $22 million for the transformation of our legal form and the settlement and related legal fees of the shareholder suit, increased delivery costs due to higher fuel prices for Company-owned vehicles and higher transport and other third party commercial delivery, higher insurance costs, restructuring costs in Japan, and the favorable effects in 2004 of an indemnification payment received in 2004 related to a clinic in Asia Pacific. These effects were partially offset by foreign currency gains and a patent litigation settlement in the International segment as well as the one time impact of compensation for cancellation of a distribution contract in Japan.

In 2005, 19.73 million treatments were provided. This represents an increase of 5.0% over 2004. Same store treatment growth was 4.6% with additional growth of 1.5% from acquisitions offset by the effects of sold and closed clinics (1.1%).

At December 31, 2005 we owned, operated or managed approximately 1,680 clinics compared to 1,610 clinics at the end of 2004. During 2005, we acquired 37 clinics, opened 65 clinics and consolidated 32 clinics. The number of patients treated in clinics that we own, operate or manage increased to approximately 131,450 at December 31, 2005 from approximately 124,400 at December 31, 2004. Average revenue per treatment for worldwide dialysis services increased to $247 from $240 mainly due to worldwide improved reimbursement.

The following discussions pertain to our business segments and the measures we use to manage these segments.

North America Segment

Key Indicators for North America Segment

	2005	2004	Change in %
Number of treatments	13,471,158	12,998,661	4%
Same store treatment growth in %	3.3%	3.2%	
Revenue in $ million	4,577	4,248	8%
Depreciation and amortization in $ million	140	129	9%
Operating income in $ million	644	587	10%
Operating income margin in %	14.1%	13.8%	

Revenue. Net revenue for the North America segment for 2005 increased 8% as dialysis care revenue increased by 7% from $3,802 million to $4,054 million while dialysis products sales increased by 17%.

The 7% increase in dialysis care revenue in 2005 was driven by approximately 4% increase in treatments, a revenue rate per treatment increase of approximately 2% and approximately 1% resulting from Fin46(R). The 4% increase in treatments was the result of same store treatment growth of 3% and 1% increase resulting from acquisitions. For 2005, the administration of EPO represented approximately 21% of North America total revenue as compared to 23% in the prior year.

At the end of 2005, approximately 89,300 patients were being treated in the 1,155 clinics that we own, operate or manage in the North America segment, compared to approximately 86,350 patients treated in 1,135 clinics at the end of 2004. The average revenue per treatment increased from $288 in 2004 to $294 during 2005. In the U.S., average revenue per treatment increased from $289 in 2004 to $297 in 2005.

Dialysis products revenues increased by 17% due to continued strong demand for our dialysis machines and dialyzers.

DaVita. On October 5, 2005, DaVita Inc. ("DaVita"), the second largest provider of dialysis services in the U. S. and an important customer of ours, completed its acquisition of Gambro Healthcare, Inc. ("Gambro Healthcare"), the third largest provider of dialysis services in the U. S., and agreed to purchase a substantial portion of its dialysis product supply requirements from Gambro Renal Products, Inc. during the next ten years. This product supply contract between our customer and our competitor could result in the future in substantial reductions of DaVita's purchases of our dialysis products. Any such reduction in DaVita's purchases will decrease our product revenues and could result in a material adverse effect on our business, financial condition and results of operations. The continuing consolidation of dialysis providers and

combinations of dialysis providers with dialysis product manufacturers, could affect future growth of our product sales.

Operating income. Operating income margin increased from 13.8% in 2004 to 14.1% in 2005. The primary drivers of this margin improvement during 2005 are higher revenues per treatment partially offset by higher personnel expenses, increased delivery costs due to higher fuel prices, higher bad debt expense, higher insurance costs and other increased costs. Accordingly, cost per treatment increased from $250 in 2004 to $254 in 2005.

International Segment

Key Indicators for International Segment

	2005	2004	Change in % as reported	Change in % at constant exchange rates
Number of treatments	6,261,595	5,795,448	8%	
Same store treatment growth in %	7.6%	4.1%		
Revenue in $ million	2,195	1,980	11%	9%
Depreciation and amortization in $ million	109	102	8%	
Operating income in $ million	362	300	21%	
Operating income margin in %	16.5%	15.2%		

Revenue. The 11% increase in net revenues for the International segment resulted from increases in both dialysis care and dialysis product revenues. Organic growth during the period was 8% at constant exchange rates and acquisitions contributed approximately 1%. This increase was also attributable to a 2% exchange rate effect due to the continued strengthening of various local currencies against the dollar.

Total dialysis care revenue increased during 2005 by 16% (14% at constant exchange rates) to $813 million in 2005 from $699 million for 2004. This increase is a result of organic growth of 13%, a 2% increase in contributions from acquisitions and was partially offset by the 1% effects of sold or closed clinics and increased by approximately 2% due to exchange rate fluctuations. The 13% organic growth was driven by same store treatment growth of 8% and pricing mix resulting from increased average revenue per treatment and growth in countries that have higher reimbursement rates.

As of December 31, 2005, approximately 42,150 patients were being treated at clinics that we own, operate or manage in the International segment compared to 38,050 patients treated at 475 clinics at December 31, 2004. In 2005, the average revenue per treatment increased from $121 to $130 ($127 at constant exchange rates) due to the strengthening of local currencies against the U.S. dollar and increased reimbursement rates partially offset by higher growth in countries with reimbursement rates below the average.

Total dialysis products revenue for 2005 increased by 8% (7% at constant exchange rates) to $1,382 million mainly driven by organic growth.

Including the effects of acquisitions, European region revenue increased 9% (9% at constant exchange rates), Latin America region revenue increased 27% (17% at constant exchange rates), and Asia Pacific region revenue increased 8% (5% at constant exchange rates).

Operating income. Our operating income increased from $300 million in 2004 to $362 million in 2005. The operating margin increased from 15.2% in 2004 to 16.5% in 2005. The increase in margin resulted mainly from production efficiencies in Europe, a reimbursement increase in Turkey, foreign exchange gains, lower bad debt expense, the one time effects of income associated with the cancellation of a distribution agreement in Japan, and settlement of a patent litigation,as well as the now favorable impact of a discount provided to a distributor in Japan in 2004. These effects were partially offset by restructuring costs in Japan and by the then favorable effects of an indemnification payment received in 2004 related to a clinic in Asia Pacific.

Corporate

We do not allocate "corporate costs" to our segments in calculating segment operating income as we believe that these costs are not within the control of the individual segments. These corporate costs primarily relate to certain headquarters overhead charges including accounting and finance, professional services, etc.

Total corporate operating loss was $67 million in 2005 compared to $35 million in the same period of 2004. The increase in operating loss was mainly due to the one-time costs of $22 million related to the transformation of our legal form and the settlement and related legal fees of the shareholder suit that sought to set aside the resolutions approving the transformation. Legal fees related to the Baxter patent litigation also contributed to this increase.

The following discussions pertain to our total Company costs.

Interest. Interest expense for 2005 decreased 3% compared to the same period in 2004 due to a lower debt level resulting from the use of positive cash flows, and lower interest rates.

Income Taxes. The effective tax rate for 2005 was 40.3% compared to 39.7% in 2004.

Liquidity and Capital Resources

Liquidity

Our primary sources of liquidity have historically been cash from operations, cash from short-term borrowings as well as from long-term debt from third parties and from related parties and cash from issuance of equity securities and trust preferred securities. Cash from operations is impacted by the profitability of our business and the development of our working capital, principally receivables. The profitability of our business depends significantly on reimbursement rates. Approximately 72% of our revenues are generated by providing dialysis treatment; a major portion of which is reimbursed by either public health care organizations or private insurers. For the year ended December 31, 2005, approximately 36% of our consolidated revenues resulted from U.S. federal health care benefit programs, such as Medicare and Medicaid reimbursement. Legislative changes could affect all Medicare reimbursement rates for the services we provide, as well as the scope of Medicare coverage. A decrease in reimbursement rates could have a material adverse effect on our business, financial condition and results of operations and thus on our capacity to generate cash flow. See "Overview", above, for a discussion of recent Medicare reimbursement rate changes. Furthermore cash from operations depends on the collection of accounts receivable. We could face difficulties in enforcing and collecting accounts receivable under some countries' legal systems. Some customers and governments may have longer payment cycles. Should this payment cycle lengthen, then this could have a material adverse effect on our capacity to generate cash flow. See "Critical Accounting Policies, Accounts Receivable and Allowance for Doubtful Accounts," above.

The accounts receivable balance at December 31, 2005 and 2004, net of valuation allowances, represented approximately 82 and 84 days of net revenue, respectively. This favorable development is mainly a result of our management effort to improve collection of receivables. The development of days sales outstanding by operating segment is shown in the table below.

Development of Days Sales Outstanding

December 31,	2005	2004
North America	63	67
International	120	119
Total	**82**	**84**

On February 21, 2003, we entered into an amended and restated bank agreement, (the "2003 Senior Credit Agreement"), with Bank of America N.A., Credit Suisse First Boston, Dresdner Bank AG New York, JPMorgan Chase Bank, The Bank of Nova Scotia and certain other lenders (collectively, the "Lenders"), pursuant to which the Lenders made available to the Company and certain subsidiaries and affiliates an aggregate amount of up to $1.5 billion through three credit facilities.

Through a series of amendments in 2003 and 2004, we voluntarily reduced the aggregate amount available to $1.2 billion while increasing the available amounts under the revolving credit portion and reducing the amounts available under the term loan portion. In addition, the amendments reduced the term loan interest rates by 25 basis points in 2003 and an additional 75 basis points in 2004 and the revolving credit interest rates by 62.5 basis points in 2004. The termination date was extended until February 28, 2010. Under the 2004 amendments, we can increase the amount of revolving credit by up to $200 million during the life of the 2003 Senior Credit Agreement.

Cash from short-term borrowings is generated by selling interests in our accounts receivable (accounts receivable facility) and by borrowing from our parent Fresenius AG. Long-term financing is provided by the revolving portion and the term loan under our 2003 Senior Credit Agreement, our borrowings under the European Investment Bank ("EIB") Agreement and has been provided through the issuance of our euro notes and trust preferred securities. We believe that our existing credit facilities, our new $5 billion credit facility described below, cash generated from operations and other current sources of financing are sufficient to meet our foreseeable needs (See "Outlook – Proposed Acquisition", page 26ff).

We entered into a credit agreement with the European Investment Bank ("EIB") on July 13, 2005 in the total amount of $155 million consisting of a $106 million (€90 million) revolving credit line and a $49 million term loan. The facility has an 8-year term with the revolving line terminating on July 12, 2013 and the term loan maturing on September 13, 2013. Both loans bear variable interest rates that change quarterly and include options to convert into fixed rates. The EIB is a not-for-profit long-term, lending institution of the European Union that lends funds at favorable rates for the purpose of capital investment projects, normally for up to half of the funds required for such projects. The Company will use these funds to refinance certain R&D projects and investments in expansion and optimization of existing production facilities in Germany. The loans are secured by bank guarantees and have customary covenants. The term loan was drawn down on September 15, 2005. Average interest for the period ending December 31, 2005 was 3.89%. There were no drawdowns on the revolving credit facility as of December 31, 2005.

On July 27, 2005, the Company issued new euro denominated notes ("Euro Notes") totalling $236 million (€200 million) with a €126 million tranche at a fixed interest rate of 4.57% and a €74 million tranche with a floating rate at EURIBOR plus applicable margin, resulting in an average interest rate of 4.10% for the period ending December 31, 2005. The proceeds were used to liquidate $155 million (€128.5 million) of Euro Notes issued in 2001 that were due in July 2005 and for working capital. The Euro Notes mature on July 27, 2009.

We had approximately $80 million in letters of credit outstanding at both December 31, 2005 and 2004, and approximately $624 million and $635 million,

respectively, of unused borrowing capacity available under the revolving portion of our 2003 Senior Credit Agreement.

In connection with the Renal Care Group ("RCG") acquisition, we entered into a commitment letter pursuant to which Bank of America, N.A. ("BofA") and Deutsche Bank AG ("DB") have agreed, subject to certain conditions, to underwrite an aggregate $5 billion in principal amount of term and revolving loans to be syndicated to other financial institutions. The loans will consist of a 5-year $1 billion revolving credit facility, a 5-year $2 billion term loan A facility and a 7-year $2 billion term loan B facility. The syndication of the revolving credit facility and the term loan A facility have already been completed. Funding is subject to customary closing conditions and BofA's and DB's acquiescence to any material modification to the merger agreement and any waiver of any material conditions precedent under that agreement. Interest on the new senior credit facilities will be at our option at a rate equal to either (i) LIBOR plus an applicable margin, or (ii) the higher of BofA's prime rate or the Federal Funds rate plus 0.5% plus an applicable margin. The applicable margin is variable and depends on our consolidated leverage ratio (the "Margin"). The financing will be available to us, among other uses, to pay the purchase price and related expenses for the proposed acquisition of RCG, to refinance outstanding indebtedness under our existing 2003 Senior Credit Agreement and certain indebtedness of RCG, and for general corporate purposes. In conjunction with the forecasted utilization of the new senior credit facilities and the related variable rate based interest payments, we entered into forward starting interest rate swaps in the notional amount of $2.5 billion. These instruments, designated as cash flow hedges, effectively convert forecasted Libor based interest payments into fixed rate based interest payments which fix the interest rate on $2.5 billion of the forecasted financing under the new senior credit facility at 4.32% plus the Margin. These swaps are denominated in U.S. dollars and expire at various dates between 2008 and 2012.

Our amended 2003 Senior Credit Agreement, EIB agreement, Euro Notes and the indentures relating to our trust preferred securities include covenants that require us to maintain certain financial ratios or meet other financial tests. Under our 2003 Senior Credit Agreement, we are obligated to maintain a minimum consolidated net worth, a minimum consolidated interest coverage ratio (ratio of consolidated EBITDA to consolidated net interest expense as defined in the 2003 Senior Credit Agreement) and a maximum consolidated leverage ratio (ratio of consolidated funded debt to consolidated EBITDA as defined in the 2003 Senior Credit Agreement). Other covenants in one or more of each of these agreements restrict or have the effect of restricting our ability to dispose of assets, incur debt, pay dividends (limited to $200 million in 2006, dividends paid in 2005 were $137 million) and make other restricted payments, create liens or make capital expenditures, investments or acquisitions.

The breach of any of the covenants could result in a default under the 2003 Senior Credit Agreement, the European Investment Bank Agreement, the Euro Notes or the notes underlying our trust preferred securities, which could, in turn, create additional defaults under the agreements relating to our other long-term indebtedness. In default,

the outstanding balance under the amended 2003 Senior Credit Agreement becomes due at the option of the lenders. As of December 31, 2005, we are in compliance with all financial covenants under the 2003 Senior Credit Agreement and our other financing agreements.

We have an accounts receivable facility whereby certain receivables are sold to NMC Funding, a special purpose entity and a wholly-owned subsidiary. NMC Funding then assigns undivided ownership interests in the accounts receivable to certain bank investors. As we have the right to withdraw the then outstanding interests at any time, the receivables remain on our Consolidated Balance Sheet and the proceeds from the sale of undivided interests are recorded as short-term borrowings. The withdrawal of all transferred interests in the accounts receivable would result in the termination of the accounts receivable facility under the terms of the facility agreement. On October 20, 2005 the Company amended the accounts receivable facility to extend the maturity date to October 19, 2006.

Our capacity to generate cash from the accounts receivable facility depends on the availability of sufficient accounts receivable that meet certain criteria defined in the agreement with the third party funding corporation. A lack of availability of such accounts receivable could have a material impact on our capacity to utilize the facility for our financial needs.

The settlement agreement with the asbestos creditors committees on behalf of the W.R. Grace & Co. bankruptcy estate provides for payment by the Company of $115 million upon approval of the settlement agreement by the U.S. District Court, which has occurred, and confirmation of a W.R. Grace & Co. bankruptcy reorganization plan that includes the settlement. The $115 million obligation is included in the special charge we recorded in 2001 to address 1996 merger-related legal matters.

We are subject to ongoing tax audits in the U.S., Germany and other jurisdictions. We have received notices of unfavorable adjustments and disallowances in connection with certain of the audits. We are contesting, including appealing certain of these unfavorable determinations. In conjunction with a disputed tax assessment in Germany, we made a $78 million payment to discontinue the accrual of additional non-tax deductible interest until the final resolution of the disputed assessment. We may be subject to additional unfavorable adjustments and disallowances in connection with ongoing audits. If our objections and any final audit appeals are unsuccessful, we could be required to make additional tax payments. With respect to adjustments and disallowances currently on appeal, we do not anticipate that an unfavorable ruling would have a material impact on our results of operations. We are not currently able to determine the timing of these potential additional tax payments. If all potential additional tax payments and the Grace Chapter 11 Proceedings settlement payment were to occur contemporaneously, there could be a material adverse impact on our operating cash flow in the relevant reporting period. Nonetheless, we anticipate that cash from operations and, if required, our available liquidity will be sufficient to satisfy all such obligations if and when they come due.

Dividends. Consistent with prior years, we will continue to follow an earnings-driven dividend policy. Our general partner's Management Board will propose to the shareholders at the Annual General Meeting a dividend, with respect to 2005 and payable in 2006, of €1.23 per ordinary share (2004: €1.12) and €1.29 per preference share (2004: €1.18) for shareholder approval at the annual general meeting on May 9, 2006. The total expected dividend payment is approximately €120 million and we paid approximately $137 (€109) million in 2005 for dividends with respect to 2004. Our 2003 Senior Credit Agreement limits disbursements for dividends and certain other transactions relating to our own equity type instruments during 2006 to $200 million in total.

Analysis of Cash Flow

Operations. We generated cash from operating activities of $670 million in the year ended December 31, 2005 and $828 million in the comparable period in 2004, a decrease of about 19% over the prior year. Cash flows were primarily generated by increase in net income and working capital improvements. Cash flows were impacted principally by a $78 million payment in Germany made to halt the accrual of non-deductible interest on a disputed tax assessment relating to deductions of write-downs taken in prior years and a $41 million payment in the US resulting from a tax assessment relating to the deductibility of payments made pursuant to the 2000 OIG settlement. In addition, less cash was generated in 2005 due to the effects of reducing days sales outstanding by two days as compared to the cash generated in 2004 by a five day reduction in days sales outstanding. Cash flows were used mainly for investing (capital expenditures and acquisitions), for payment of dividends and to pay down debt.

Investing. Cash used in investing activities increased from $365 million to $422 million mainly because of increased capital expenditures. In 2005, we paid approximately $125 million ($77 million for the North American segment and $48 million for the International segment) cash for acquisitions consisting primarily of dialysis clinics, the remaining 55% of shares outstanding of CardioVascular Resources ("CVR") and direct costs relating to the Renal Care Group acquisition. In the same period in 2004, we paid approximately $104 million ($65 million for the North American segment and $39 million for the International segment) cash for acquisitions consisting primarily of dialysis clinics.

In addition, capital expenditures for property, plant and equipment net of disposals were $297 million in 2005 and $261 million in 2004. In 2005, capital expenditures were $168 million in the North America segment and $129 million for the International segment. In 2004, capital expenditures were $160 million in the North America segment and $101 million for the International segment. The majority of our capital expenditures was used for the replacement of assets in our existing clinics, equipping new clinics, the modernization and expansion of production facilities in North America, Germany, France and Italy and for the capitalization of machines provided to customers primarily in Europe. Capital expenditures were approximately 4% of total revenue.

Financing. Net cash used in financing was $220 million in 2005 compared to cash used in financing of $452 million in 2004. Reductions to our total external financing were less than the prior year due to lower cash from operating activities, higher capital expenditures and higher dividend payments partially offset by proceeds from exercises of stock options. Cash on hand was $85 million at December 31, 2005 compared to $59 million at December 31, 2004.

At December 31, 2005, aggregate loans outstanding from Fresenius AG amounted to approximately $18.8 million and bore interest at market rates at year-end. We had approximately $6 million in financing outstanding at December 31, 2004, from Fresenius AG including $3 million in loans and approximately $3 million due May 2005 representing the balance due on the Company's purchase of the Fresenius AG's adsorber business in 2003. These loans were paid in 2005.

Obligations

The following table summarizes, as of December 31, 2005, our obligations and commitments to make future payments under our long-term debt, trust preferred securities and other long-term obligations, and our commitments and obligations under lines of credit and letters of credit.

Contractual Cash Obligations

$ in millions	Total	Payments due by period of		
		1 Year	2 – 5 Years	> 5 Years
Trust Preferred Securities	1,188	–	613	575
Long Term Debt	829	125	646	58
Capital Lease Obligations	5	–	2	1
Operating Leases	1,195	252	602	341
Unconditional Purchase Obligations	274	149	86	39
Other Long-term Obligations	14	14	–	–
Letters of Credit	80	80	–	–
	3,585	**622**	**1,949**	**1,014**

Available Sources of Liquidity

$ in millions	Total	Expiration due by period of		
		1 Year	2 – 5 Years	> 5 Years
Accounts receivable facility [a]	366	366	–	–
Unused Senior Credit Lines	624	–	624	–
Other Unused Lines of Credit	66	66	–	–
	1,056	**432**	**624**	–

[a] Subject to availability of sufficient accounts receivable meeting funding criteria.
The amount of guarantees and other commercial commitments at December 31, 2005 is not significant.

Borrowings

Short-term borrowings of $57 million and $83 million at December 31, 2005, and 2004, respectively, represent amounts borrowed by certain of our subsidiaries under lines of credit with commercial banks. The average interest rates on these borrowings at December 31, 2005, and 2004 was 3.91% and 4.69%, respectively. For information regarding short-term borrowings from affiliates see Note 4b in our consolidated financial statements.

Excluding amounts available under the 2003 Senior Credit Agreement (as described under "Liquidity" above), at December 31, 2005, we had $66 million available under such commercial bank agreements. In some instances lines of credit are secured by assets of the Company's subsidiary that is party to the agreement and may contain various covenants including, but not limited to, requirements for maintaining defined levels of working capital, net worth, capital expenditures and certain financial ratios.

We have an asset securitization facility (the "accounts receivable facility"), which provides borrowings up to a maximum of $460 million. Under the facility, certain receivables are sold to NMC Funding Corporation ("NMC Funding"), a wholly-owned subsidiary. NMC Funding then assigns undivided ownership interests in the accounts receivable to certain bank investors. Under the terms of the accounts receivable facility, NMC Funding retains the right to recall all transferred interests in the accounts receivable assigned to the banks under the facility. As the Company has the right at any time to recall the then outstanding interests, the receivables remain on the Consolidated Balance Sheet and the proceeds from the transfer of undivided interests are recorded as short-term borrowings. At December 31, 2005, we had outstanding short-term borrowings under the facility of $94 million. The effective interest rate during the twelve months ended December 31, 2005 ranged from 2.49%-4.63%. At December 31, 2004, $336 million had been received and were reflected as reductions to accounts receivables. On October 20, 2005, we amended the facility to extend the maturity date to October 19, 2006.

We entered into a credit agreement with the European Investment Bank ("EIB") on July 13, 2005 in the total amount of $155 million consisting of a $106 million (€90 million) revolving credit line and a $49 million term loan and on July 27, 2005, we issued two tranches of senior notes ("Euro Notes") totaling $236 million (€200 million). See "Liquidity and Capital Resources – Liquidity," above. The first tranche was for €126 million with a fixed interest rate of 4.57% and the second tranche for €74 million with variable interest rates at EURIBOR plus applicable margin resulting in an average interest rate of 4.10% for the period ending December 31, 2005. The proceeds were used to liquidate $155 million (€128.5 million) of Euro Notes issued in 2001 that were due in July 2005 and for working capital. The Euro Notes mature on July 27, 2009.

Debt covenant disclosure – EBITDA. EBITDA (earnings before interest, taxes, depreciation and amortization) was approximately $1,190 million, 17.6% of sales, for 2005, $1,085 million, 17.4% of sales, for 2004 and $974 million, 17.6% of sales, for 2003. EBITDA is the basis for determining compliance with certain covenants contained in our 2003 Senior Credit Agreement, our Euro Notes and the indentures relating to our outstanding trust preferred securities. You should not consider EBITDA to be an alternative to net earnings determined in accordance with U.S. GAAP or to cash flow from operations, investing activities or financing activities. In addition, not all funds depicted by EBITDA are available for management's discretionary use. For example, a substantial portion of such funds are subject to contractual restrictions and functional requirements for debt service, to fund necessary capital expenditures and to meet other commitments from time to time as described in more detail elsewhere in this annual report on Form 20-F. EBITDA, as calculated, may not be comparable to similarly titled measures reported by other companies. A reconciliation of cash flow provided by operating activities to EBITDA is calculated as follows:

Reconciliation of Measures for Consolidated Totals

$ in thousands	2005	2004
Total EBITDA	1,190,370	1,084,931
Settlement of shareholder proceedings	7,335	–
Interest expense (net of interest income)	(173,192)	(183,746)
Income tax expense	(308,748)	(265,415)
Change in deferred taxes, net	(3,675)	34,281
Changes in operating assets and liabilities	(45,088)	141,979
Cash inflow from Hedging	–	14,514
Other items, net	3,302	1,299
Net cash provided by operating activities	**670,304**	**827,843**

Outlook

Proposed Acquisition

On May 3, 2005, we entered into a definitive merger agreement for the acquisition (the "Acquisition") of Renal Care Group, Inc. ("RCG"), a Delaware corporation with principle offices in Nashville, Tennessee, for an all cash purchase price of approximately $3,500,000. At December 31, 2005, RCG provided dialysis and ancillary services to over 32,360 patients through more than 450 owned outpatient dialysis centers in 34 states within the United States, in addition to providing acute dialysis services to more than 200 hospitals. Completion of the Acquisition, approved by RCG's stockholders in a vote held on August 24, 2005, is subject to governmental approvals (including termination or expiration of the waiting period under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, the "Act") and other third-party consents.

On February 15, 2006, we announced that we and RCG had entered into a definitive agreement to sell approximately 100 dialysis centers serving on average approximately 60-65 patients per center to National Renal Institutes, Inc., a wholly owned subsidiary of DSI Holding Company, Inc. The divestiture of these centers is an important step toward concluding the review by the United States Federal Trade Commission (FTC) of our acquisition of Renal Care Group. The purchase price for the divested centers is approximately $450 million to be paid in cash, subject to post-closing adjustments for working capital and other routine matters. The sale of the centers is expected to close shortly after the completion of our acquisition of RCG. Both the divestiture and the acquisition of RCG remain subject to FTC approval.

In connection with the Acquisition, we entered into a commitment letter pursuant to which Bank of America, N.A. ("BofA") and Deutsche Bank AG ("DB") have agreed, subject to certain conditions, to underwrite an aggregate $5 billion in principal amount of term and revolving loans to be syndicated to other financial institutions. The loans will consist of a 5-year $1 billion revolving credit facility, a 5-year $2 billion term loan A facility and a 7-year $2 billion term loan B facility. The syndication of the revolving credit facility and the term loan A facility have already been completed. Funding is subject to customary closing conditions and BofA's and DB's acquiescence to any material

modification to the merger agreement and any waiver of any material conditions precedent under that agreement. Interest on the new senior credit facilities will be at our option at a rate equal to either LIBOR plus an applicable margin, or the higher of BofA's prime rate or the Federal Funds rate plus 0.5% plus an applicable margin. The applicable margin is variable and depends on our consolidated leverage ratio (the "Margin"). The financing will be available to us, among other uses, to pay the purchase price and related expenses for the proposed acquisition of RCG, to refinance outstanding indebtedness under our existing 2003 Senior Credit Agreement and certain indebtedness of RCG, and for general corporate purposes. In conjunction with the forecasted utilization of the new senior credit facilities and the related variable rate based interest payments, we entered into forward starting interest rate swaps in the notional amount of $2.5 billion. These instruments, designated as cash flow hedges, effectively convert forecasted Libor based interest payments into fixed rate based interest payments which fix the interest rate on $2.5 billion of the forecasted financing under the new senior credit facility at 4.32% plus the Margin. These swaps are denominated in U.S. dollars and expire at various dates between 2008 and 2012.

On November 30, 2005, we announced we had commenced a cash tender offer (the "Tender Offer"), contingent upon satistisfaction of the conditions to the closing of the Acquisition, for all the $160 million of RCG's 9% Senior Subordinated Notes (the "Notes"). Under the terms of the Tender Offer, the total consideration to be paid for validly tendered and accepted Notes will be the present value of the future cash flows up to and including November 1, 2007, based on an assumption that the Notes will be redeemed at a price of $1.045 per $1 principal amount of Notes on such date, discounted at a rate equal to 50 basis points over the yield to maturity on the 4.25% U.S. Treasury Note due October 31, 2007. The terms of the offer also require certain consents, (the "Consents"), to certain proposed amendments to the Indenture governing the Notes that would eliminate substantially all restrictive covenants and certain other provisions of Indenture. Upon consummation of the Tender Offer, holders of Notes tendered together with Consents before the end of business on December 13, 2005 will receive a consent payment of $0.03 per $1 principal amount of Notes tendered which will be included in our costs of the Acquisition. Notes and Consents tendered after this date cannot be withdrawn and are not entitled to receive the consent payment. Holders of Notes tendered and not withdrawn will receive accrued and unpaid interest from the last interest date up to, but not including, the date payment is made for the Notes. As most recently extended, the offer expires February 27, 2006, unless further extended by the Company. The Tender Offer is contingent upon receipt of consents from the holders of a majority in aggregate outstanding principal amount of the Notes and satisfaction of the conditions to the Acquisition. As of 5:00 p.m., New York City time, on January 27, 2006, 99.87% of the outstanding aggregate principal amount of the Notes had been tendered. Tendered notes may no longer be withdrawn.

On October 25, 2004, RCG received a subpoena from the office of the United States Attorney for the Eastern District of New York. The subpoena requires the production of

documents related to numerous aspects of their business and operations, including those of RenaLab, Inc., their laboratory. The subpoena includes specific requests for documents related to testing for parathyroid hormone (PTH) levels and vitamin D therapies. RCG has announced that it intends to cooperate with the government's investigation.

On August 9, 2005, RCG received a subpoena from the office of the United States Attorney for the Eastern District of Missouri in connection with a joint civil and criminal investigation. The subpoena requires the production of documents related to numerous aspects of RCG's business and operations. The areas covered by the subpoena include RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, RCG's relationships with physicians, medical director compensation and joint ventures with physicians and its purchase of dialysis equipment from us. RCG has announced that it intends to cooperate with the government's investigation.

We believe the proposed acquisition will be consummated late in the first quarter of 2006 and it will be earnings neutral to slightly accretive in 2006 after excluding the transaction related expenses and accretive from 2007 onward.

Accounting Treatment for the Conversion of our Preference Shares into Ordinary Shares

The market value of the Company's shares on the close of business, May 3, 2005, the day before the conversion was announced, was €62.45 for the ordinary shares and €44.65 for the preference shares, a difference of €17.80. All preference shareholders were offered the opportunity, as approved by the EGM, to convert their preference share holdings by submitting their preference shares and paying a premium, initially set at €12.25 and subsequently reduced to €9.75 with each preference share submitted, in exchange for a like number of ordinary shares. Based on these market values the converting preference shareholders received a benefit of €8.05. The conversion is expected to have an impact on the earnings (or loss) per share available to the holders of our ordinary shares upon conversion of our preference shares into ordinary shares, under U.S. GAAP. As a result, the earnings per share calculation in the first quarter of 2006 may need to reflect the difference between (i) the market value of the ordinary share less the conversion premium of €9.75 per preference share and (ii) the carrying amount of the preference shares at the conversion date, February 3, 2006, as a reduction of income available to ordinary shareholders and as a corresponding benefit to preference shareholders. The carrying amount of the preference shares consists of their historic investment and undistributed retained earnings allocated to the preference shares under the two-class method. The Company is continuing to analyze the need to reflect this reduction or benefit in our financial statements, but based on the market value of our ordinary shares on the close of business on February 3, 2006, the impact is approximately $0.9 billion or a reduction of $13.06 per ordinary share and a benefit of 34.32 per preference share. As this calculation compares the carrying amount of the preference shares which consists of the original investment by the preference shareholders plus any undistributed retained earnings the preference shares are entitled

to with the market value of the ordinary shares at the date of closing, less the cash amount of €9.75 that the preference shareholders paid, it ignores the appreciation in value of our preference shares that had already occurred beyond the proportionate amount of undistributed retained earnings allocated to the preference shares. In addition, the measurement date of the exchange is February 3, 2006 and the charge would include all increases in the fair value of the ordinary shares received by the preference shareholders as consideration subsequent to the announcement date which significantly exceed the earnings allocated to the preference shares during the period from the announcement of the offer to the conversion date.

Recently Issued Accounting Standards

In November, 2004, the Financial Accounting Standards Board issued SFAS No. 151, Inventory Costs – an amendment of ARB No. 43, Chapter 4 (FAS 151), which is the result of its efforts to converge U.S. accounting standards for inventories with International Financial Reporting Standards. This statement requires abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We will adopt FAS 151, which is not expected to have a material impact on our consolidated financial statements, as of January 1, 2006.

In December, 2004, the Financial Accounting Standards Board issued its final standard on accounting for share-based payments (SBP), SFAS No. 123(R) (revised 2004), Share-Based Payment (FAS 123(R)), which requires companies to expense the cost of employee stock options and similar awards. FAS 123(R) requires determining the cost that will be measured at fair value on the date of the SBP awards based upon an estimate of the number of awards expected to vest. There will be no right of reversal of cost if the awards expire without being exercised. Fair value of the SBP awards will be estimated using an option-pricing model that appropriately reflects the specific circumstances and economics of the awards. Compensation cost for the SBP awards will be recognized as they vest. Under U.S tax law, this cost generates a tax credit, however, such cost is not deductible under German tax law. The Company will have two alternative transition methods, each having a different reporting implication. The effective date is for interim and annual periods beginning after June 15, 2005. On April 14, 2005, the SEC delayed the implementation of FAS 123(R) to the beginning of the next Fiscal Year that begins after June 15, 2005. We have not yet adopted FAS 123(R) and is in the process of determining the transition method it is going to adopt and the potential impact on our consolidated financial statements.

In June 2005 the FASB ratified EITF 05-5, "Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)." EITF 05-5 provides guidance on the accounting for the German early retirement program providing an incentive for employees, within a certain age group, to transition from full-time or part-time

employment into retirement before their legal retirement age. The program provides the employee with a bonus which is reimbursed by subsidies from the German government if certain conditions are met. According to EITF 05-5, the bonuses provided by the employer should be accounted for as postemployment benefits under SFAS 112, "Employer's Accounting for Postretirement Benefits," with compensation cost recognized over the remaining service period beginning when the individual agreement is signed by the employee and ending when the active service period ends. The government subsidy should be recognized when the employer meets the necessary criteria and is entitled to the subsidy. The effect of applying EITF 05-5 should be recognized prospectively as a change in accounting estimate in fiscal years beginning after December 15, 2005. We are in compliance with EITF 05-5.

Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Our businesses operate in highly competitive markets and are subject to changes in business, economic and competitive conditions. Our business is subject to:

– changes in reimbursement rates;
– intense competition;
– foreign exchange rate fluctuations;
– varying degrees of acceptance of new product introductions;
– technological developments in our industry;
– uncertainties in litigation or investigative proceedings and regulatory developments in the health care sector; and
– the availability of financing.

Our business is also subject to other risks and uncertainties that we describe from time to time in our public filings. Developments in any of these areas could cause our results to differ materially from the results that we or others have projected or may project.

Reimbursement Rates

We obtained approximately 36% of our worldwide revenue for 2005 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.

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 revenues from dialysis care are subject to reimbursement rates regulated by governmental authorities, and a significant portion of other revenues, especially revenues from the U.S., is received from customers whose revenues are subject to these 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.

Management of Foreign Exchange and Interest Rate Risks
We are primarily exposed to market risk from changes in foreign exchange rates and changes in interest rates. In order to manage the risks from these foreign exchange rate and interest rate fluctuations, we enter into various hedging transactions with highly rated financial institutions as authorized by the Management Board. We do not contract for financial instruments for trading or other speculative purposes.

We conduct our financial instrument activity 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 Exchange Risk. We conduct our business on a global basis in several major currencies, although our operations are located principally in the United States and Germany. 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 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. We have significant amounts of sales of products invoiced in euro from our European manufacturing facilities to our other international operations. This exposes our subsidiaries 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, financial derivatives to hedge our currency exposures. Our policy, which has been consistently followed, is that financial derivatives be used only for purposes of hedging foreign currency exposures. We have not used such instruments for purposes other than hedging.

In connection with intercompany loans in foreign currency, we normally use foreign exchange swaps thus assuring that no foreign exchange risks arise from those loans.

Our foreign exchange contracts contain credit risk, in that our bank counterparties may be unable to meet the terms of the agreements. We monitor the potential risk of loss with any one party from this type of risk. Our management does not expect any material losses as a result of default by the other parties.

The table below provides information about our foreign exchange forward contracts at December 31, 2005. The information is provided in U.S. dollar equivalent amounts. The table presents the notional amounts by year of maturity, the fair values of the contracts, which show the unrealized net gain (loss) on existing contracts as of December 31, 2005, and the credit risk inherent to those contracts with positive market values as of December 31, 2005. All contracts expire within 24 months after the reporting date.

Foreign Currency Risk Management

December 31, 2005 $ in thousands	Nominal Amount 2006	 2007	 Total	Fair Value	Credit Risk
Purchase of EUR against USD	580,217	11,207	591,424	(3,056)	1,978
Sale of EUR against USD	347,213	–	347,213	8,554	8,554
Purchase of EUR against others	232,790	22,098	254,888	(7,072)	481
Sale of EUR against others	31,548	–	31,548	134	143
Others	55,170	16,982	72,152	(1,500)	2,452
Total	**1,246,938**	**50,287**	**1,297,225**	**(2,940)**	**13,608**

A summary of the high and low exchange rates for the euro to U.S. dollars and the average exchange rates for the last five years is set forth below.

December 31,	Year's High	Year's Low	Year's Average	Year's Close
2001 $ per €	0.9545	0.8384	0.8956	0.8813
2002 $ per €	1.0487	0.8578	0.9454	1.0487
2003 $ per €	1.2630	1.0377	1.1312	1.2630
2004 $ per €	1.3633	1.1802	1.2439	1.3621
2005 $ per €	1.3507	1.1667	1.2442	1.1797

Interest Rate Risk. We are exposed to changes in interest rates that affect our variable-rate based borrowings and the fair value of parts of our fixed rate borrowings. We enter into debt obligations and into accounts receivable financings to support our general corporate purposes including capital expenditures and working capital needs. Consequently, we enter into derivatives, particularly interest rate swaps, to (a) protect interest rate exposures arising from borrowings and our accounts receivable securitization programs at floating rates by effectively swapping them into fixed rates and (b) hedge the fair value of parts of our fixed interest rate borrowing. Under interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

Our subsidiary, National Medical Care, Inc., ("NMC") has entered into dollar interest rate swaps with various commercial banks for notional amounts totaling $800 million as of December 31, 2005. NMC entered into all of these agreements for purposes other than trading.

The dollar interest rate swaps effectively fix NMC's interest rate exposure on the majority of its variable interest rate exposure of its mainly U.S. dollar-denominated revolving loans and outstanding obligations under the accounts receivable securitization program at an average interest rate of 5.26%.

These dollar interest rate swaps expire at various dates between December 2008 sand December 2009. At December 31, 2005, the fair value of these agreements is $(9.4) million.

In conjunction with the Renal Care Group ("RCG") acquisition and forecasted utilization of the facilities under a new credit agreement that would be consummated at the time of the RCG acquisition closing and its related variable rate based interest payments, we entered into forward starting U.S. dollar denominated interest rate swaps with a notional amount of $2.5 billion. These instruments, designated as cash flow hedges, effectively convert forecasted LIBOR based interest payments into fixed rate based interest payments which fix the interest rate on the $2.5 billion of the forecasted financing under the new cedit agreement at 4.32% plus an applicable margin. These swaps are denominated in U.S. dollars and expire at various dates between 2008 and 2012.

Our subsidiary, Fresenius Medical Care Trust Finance has entered into interest rate swaps to hedge the risk of changes in the fair value of fixed interest rate borrowings effectively converting the fixed interest payments on Fresenius Medical Care Capital Trust II preferred securities denominated in U.S. dollars into variable interest rate payments. The reported amount of the hedged portion of fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. These interest rate swaps expire in February 2008 and their fair value at December 31, 2005, is $(18.2) million.

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

Dollar Interest Rate Exposure

$ in millions	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value Dec. 31, 2005
Principal payments on Senior Credit Agreement								
Variable interest rate = 5.32%	100	100	100	100	71	–	471	471
Accounts receivable securitization programs								
Variable interest rate = 4.30%	94	–	–	–	–	–	94	94
Interest rate swaps								
Notional amount	250	200	615	450	250	1,500	3,265	40
Average fixed pay rate = 4.55%	4.60%	6.61%	4.69%	4.84%	4.28%	4.17%	4.55%	
Receive rate = 3-month $-LIBOR								
Company obligated mandatorily redeemable preferred securities of Fresenius Medical Care Capital Trusts								
Fixed interest rate = 7.875% / issued in 1998			432				432	479
Fixed interest rate = 7.375% / issued in 1998 (denominated in DEM)			181				181	192
Fixed interest rate = 7.875% / issued in 2001						223	223	239
Fixed interest rate = 7.375% / issued in 2001 (denominated in euro)						352	352	393
Interest rate swaps								
Notional amount			450				450	(18)
Average fixed receive rate = 3.50 %			3.50%				3.50%	
Pay rate = 6-month $-LIBOR								

Compenstion of Our Management Board and Our Supervisory Board

For the year ended December 31, 2005, we paid aggregate compensation to all members of the Management Board of approximately $11.0 million, $4.4 million in fixed compensation and $6.6 million in variable compensation.

The aggregate compensation fees to all members of the Supervisory Board was $0.6 million including compensation to Dr. Krick for his duties as Chairman of the Supervisory Board. We pay an annual retainer fee to each member of the Supervisory Board, with the Chairman paid twice that amount and the Deputy Chairman paid 150% of that amount. We reimburse Supervisory Board members 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.

During 2005 there were no options awarded to members of the Management Board to purchase our preference shares under the Fresenius Medical Care AG 2001 International Plan. As of December 31, 2005 but after giving effect to the adjustment of options so that they are exercisable to acquire ordinary shares, Management Board members held no options to acquire preference share and options to acquire 39,566 Ordinary shares, all of which were exercisable at a weighted average exercise price of €51.48 under Fresenius Medical Care AG 98 Plan 2 and 88,463 options, all of which are exercisable at a weighted average exercise price of €51.21 under Fresenius Medical Care AG 98 Plan 1 and options to acquire 347,701 Ordinary shares, of which 273,773 were exercisable at a weighted average exercise price of €61.19 under the FMC 2001 stock incentive plan. During 2005, Board members exercised 62,628 options.

In connection with the settlement of the shareholder proceedings contesting the resolutions of the Extraordinary General Meeting ("EGM") held August 30, 2005 that approved the transformation, the conversion of our preference shares into ordinary shares and related matters we agreed that commencing with remuneration paid for fiscal year 2006, we would provide data on the individual remuneration of our management board members. We will include such information in our Annual Report to be filed in 2007 for our 2006 fiscal year.

Consolidated Statements of Income

$ in thousands, except share data	Note	2005	2004
Net revenue			
Dialysis Care	1j	4,866,833	4,501,197
Dialysis Products		1,904,986	1,726,805
	21	**6,771,819**	**6,228,002**
Costs of revenue			
Dialysis Care		3,459,254	3,232,185
Dialysis Products		979,900	909,932
		4,439,154	**4,142,117**
Gross profit		2,332,665	2,085,885
Operating expenses			
Selling, general and administrative		1,342,792	1,182,176
Research and development	1k	50,955	51,364
Operating income		**938,918**	**852,345**
Other (income) expense			
Interest income		(18,187)	(13,418)
Interest expense		191,379	197,164
Income before income taxes and minority interest		765,726	668,599
Income tax expense	1l, 16	308,748	265,415
Minority interest		2,026	1,186
Net income		**454,952**	**401,998**
Basic earnings per Ordinary share		**4.68**	**4.16**
Fully diluted earnings per Ordinary share		**4.64**	**4.14**
Basic earnings per Preference share		**4.75**	**4.23**
Fully diluted earnings per Preference share		**4.72**	**4.21**

See accompanying notes to Consolidated Financial Statements.

Consolidated Balance Sheets

$ in thousands, except share data at December 31	Note	2005	2004
Assets			
Current assets			
Cash and cash equivalents	1c	85,077	58,966
Trade accounts receivable, less allowance for doubtful accounts of $176,568 in 2005 and $179,917 in 2004	9	1,469,933	1,462,847
Accounts receivable from related parties	4	33,884	51,760
Inventories	5	430,893	442,919
Prepaid expenses and other current assets		261,590	244,093
Deferred taxes	1l, 16	179,561	185,385
Total current assets		**2,460,938**	**2,445,970**
Property, plant and equipment, net	1f, 6	1,215,758	1,181,927
Intangible assets	1g, 7	585,689	602,048
Goodwill	1g, 7	3,456,877	3,445,152
Deferred taxes	1l, 16	35,649	58,123
Other assets		228,189	228,321
Total assets		**7,983,100**	**7,961,541**

See accompanying notes to Consolidated Financial Statements.

Consolidated Balance Sheets

$ in thousands, except share data at December 31	Note	2005	2004
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		201,317	192,552
Accounts payable to related parties	4	107,938	113,444
Accrued expenses and other current liabilities	8	838,768	741,075
Short-term borrowings	9	151,113	419,148
Short-term borrowings from related parties	4b	18,757	5,766
Current portion of long-term debt and capital lease obligations	9	126,269	230,179
Income tax payable	1l, 16	120,138	230,530
Deferred taxes	1l, 16	13,940	5,159
Total current liabilities		**1,578,240**	**1,937,853**
Long-term debt and capital lease obligations, less current portion	9	707,100	545,570
Other liabilities		112,418	156,122
Pension liabilities	10	108,702	108,125
Deferred taxes	1l, 16	300,665	282,261
Company-obligated mandatorily redeemable preferred securities of subsidiary Fresenius Medical Care Capital Trusts holding solely Company-guaranteed debentures of subsidiaries	11	1,187,864	1,278,760
Minority interest	12	14,405	18,034
Total liabilities		**4,009,394**	**4,326,725**
Shareholders' equity			
Preference shares, no par value, €2.56 nominal value, 53,597,700 shares authorized, 27,762,179 issued and outstanding		74,476	69,878
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		2,837,144	2,746,473
Retained earnings		975,371	657,906
Accumulated other comprehensive loss	20	(142,779)	(68,935)
Total shareholders' equity	13	**3,973,706**	**3,634,816**
Total liabilities and shareholders' equity		**7,983,100**	**7,961,541**

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

$ in thousands	Note	2005	2004
Operating Activities			
Net income		454,952	401,998
Adjustments to reconcile net income to cash and cash equivalents provided by (used in) operating activities:			
Settlement of shareholder proceedings	2	7,335	–
Depreciation and amortization	21	251,452	232,585
Change in deferred taxes, net		(3,675)	34,281
Loss on sale of fixed assets		3,965	735
Compensation expense related to stock options	1s, 15	1,363	1,751
Cash inflow from Hedging		–	14,514
Changes in assets and liabilities, net of amounts from businesses acquired:			
Trade accounts receivable, net	9	(63,574)	(7,886)
Inventories	5	(9,811)	27,245
Prepaid expenses, other current and non-current assets		(41,036)	70,033
Accounts receivable from/ payable to related parties		9,596	(22,686)
Accounts payable, accrued expenses and other current and non-current liabilities		148,735	36,157
Income tax payable	1l, 16	(88,998)	39,116
Net cash provided by operating activities		**670,304**	**827,843**

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

$ in thousands	Note	2005	2004
Investing Activities			
Purchases of property, plant and equipment	1f, 6, 21	(314,769)	(278,732)
Proceeds from sale of property, plant and equipment	1f, 6, 21	17,427	18,358
Acquisitions and investments, net of cash acquired	21, 22	(125,153)	(104,493)
Net cash used in investing activities		**(422,495)**	**(364,867)**
Financing Activities			
Proceeds from short-term borrowings	9	44,655	70,484
Repayments of short-term borrowings	9	(75,493)	(86,850)
Proceeds from short-term borrowings from related parties	4b	56,381	55,539
Repayments of short-term borrowings from related parties	4b	(42,632)	(80,000)
Proceeds from long-term debt	9	426,531	369,369
Principal payments of long-term debt and capital lease obligations	9	(331,407)	(840,131)
(Decrease) increase of accounts receivable securitization program		(241,765)	177,767
Proceeds from exercise of stock options	15	79,944	3,622
Dividends paid	13	(137,487)	(122,106)
Change in minority interest		1,506	389
Net cash used in financing activities		**(219,767)**	**(451,917)**
Effect of exchange rate changes on cash and cash equivalents		**(1,931)**	**(520)**
Cash and Cash Equivalents			
Net increase in cash and cash equivalents		26,111	10,539
Cash and cash equivalents at beginning of period		58,966	48,427
Cash and cash equivalents at end of period		**85,077**	**58,966**

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders´ Equity

$ in thousands, except share data	Note	Preference Shares		Ordinary Shares	
		Number of shares	No par value	Number of shares	No par value
Balance at December 31, 2003		**26,213,979**	**69,616**	**70,000,000**	**229,494**
Proceeds from exercise of options and related tax effects	15	82,107	262		
Compensation expense related to stock options	15				
Dividends paid	13				
Comprehensive income (loss)					
Net income					
Other comprehensive income (loss) related to:					
Cash flow hedges, net of related tax effects	20				
Foreign currency translation adjustment	20				
Minimum pension liability, net of related tax effects	10, 20				
Comprehensive income					
Balance at December 31, 2004		**26,296,086**	**69,878**	**70,000,000**	**229,494**
Proceeds from exercise of options and related tax effects	15	1,466,093	4,598		
Compensation expense related to stock options	15				
Dividends paid	13				
Settlement of shareholder proceedings	2				
Comprehensive income (loss)					
Net income					
Other comprehensive income (loss) related to:					
Cash flow hedges, net of related tax effects	20				
Foreign currency translation adjustment	20				
Minimum pension liability, net of related tax effects	10, 20				
Comprehensive income					
Balance at December 31, 2005		**27,762,179**	**74,476**	**70,000,000**	**229,494**

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders´ Equity

$ in thousands, except share data	Note			Accumulated other comprehensive income (loss)			
		Additional paid in capital	Retained earnings (deficit)	Foreign currency translation	Cash flow hedges	Minimum pension liability	Total
Balance at December 31, 2003		**2,741,362**	**378,014**	**(146,246)**	**4,847**	**(33,407)**	**3,243,680**
Proceeds from exercise of options and related tax effects	15	3,360					3,622
Compensation expense related to stock options	15	1,751					1,751
Dividends paid	13		(122,106)				(122,106)
Comprehensive income (loss)							
Net income			401,998				401,998
Other comprehensive income (loss) related to:							
Cash flow hedges, net of related tax effects	20				(29,011)		(29,011)
Foreign currency translation adjustment	20			144,784			144,784
Minimum pension liability, net of related tax effects	10, 20					(9,902)	(9,902)
Comprehensive income							507,869
Balance at December 31, 2004		**2,746,473**	**657,906**	**(1,462)**	**(24,164)**	**(43,309)**	**3,634,816**
Proceeds from exercise of options and related tax effects	15	81,973					86,571
Compensation expense related to stock options	15	1,363					1,363
Dividends paid	13		(137,487)				(137,487)
Settlement of shareholder proceedings	2	7,335					7,335
Comprehensive income (loss)							
Net income			454,952				454,952
Other comprehensive income (loss) related to:							
Cash flow hedges, net of related tax effects	20				43,128		43,128
Foreign currency translation adjustment	20			(104,723)			(104,723)
Minimum pension liability, net of related tax effects	10, 20					(12,249)	(12,249)
Comprehensive income							381,108
Balance at December 31, 2005		**2,837,144**	**975,371**	**(106,185)**	**18,964**	**(55,558)**	**3,973,706**

See accompanying notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements
(in thousands, except share data)

1 The Company and Summary of Significant Accounting Policies

The Company
Fresenius Medical Care AG & Co. KGaA ("FMC-AG & Co. KGaA" or the "Company"), a German partnership limited by shares (Kommanditgesellschaft auf Aktien), formerly Fresenius Medical Care AG ("FMC-AG"), a German stock corporation (Aktiengesellschaft), is the world's largest kidney dialysis company, operating in both the field of dialysis products and the field of dialysis services. The Company's dialysis business is vertically integrated, providing dialysis treatment at its own dialysis clinics and supplying these clinics with a broad range of products. In addition, the Company sells dialysis products to other dialysis service providers. In the United States, the Company also performs clinical laboratory testing and provides perfusion, therapeutic apheresis and autotransfusion services.

For information regarding the transformation of the Company's legal form from a stock corporation into a partnership limited by shares and the related conversion of preference shares into ordinary shares, see Note 2.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("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. In addition, the Company consolidates variable interest entities ("VIEs") for which it is deemed the primary beneficiary. The equity method of accounting is used for investments in associated companies (20% to 50% owned). All significant intercompany transactions and balances have been eliminated.

The Company enters into various arrangements with certain dialysis clinics to provide management services, financing and product supply. Some of these clinics are variable interest entities. Under FIN 46R these clinics are consolidated if the Company is determined to be the primary beneficiary. These variable interest entities in which the Company is the primary beneficiary, generate approximately $59,361 in annual revenue.

In accordance with FIN 46R, the Company fully consolidates the VIEs. The interest held by the other shareholders in these consolidated VIEs is reported as minority interest in the consolidated balance sheet at December 31, 2005.

b) Classifications
Certain items in prior years' consolidated financial statements may have been reclassified to conform with the current year's presentation. Net operating results have not been affected by the reclassifications.

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

d) Allowance for Doubtful Accounts
Estimates for the allowances for accounts receivable from the dialysis service business are mainly based on past collection history. Specifically, the allowances for the North American services division are based on an analysis of collection experience, recognizing the differences between payors and aging of accounts receivable. From time to time, accounts receivable are reviewed for changes from the historic collection experience to ensure the appropriateness of the allowances. The allowances in the international segment and the products business are based on estimates and consider various factors, including aging, debtor and past collection history.

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

f) Property, Plant and Equipment
Property, plant, and equipment are stated at cost less accumulated depreciation. 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, less accumulated depreciation. 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 13 years and 3 to 15 years for machinery and equipment with a weighted average life of 10 years. Equipment held under capital leases and leasehold improvements are amortized using the straight-line method 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 2005 and 2004 was $1,828 and $1,611 respectively.

g) Other Intangible Assets and Goodwill
Intangible assets such as tradenames, management contracts, patient relationships, patents, distribution rights, software, and licenses acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141.

Goodwill and identifiable intangibles with indefinite lives are not amortized but tested for impairment annually or when an event becomes known that could trigger an impairment. The Company identified trade names and certain qualified management contracts as intangible assets with indefinite useful lives. Intangible assets with finite

useful lives are amortized over their respective estimated useful lives to their estimated residual values.

To evaluate the recoverability of goodwill, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. At least once a year the Company compares the fair value of each reporting unit to the reporting unit's carrying amount. Fair value is determined using a discounted cash flow approach. In the case that the fair value of the reporting unit is less than its book value, a second step is performed which compares the fair value of the reporting unit's goodwill to the carrying value of its goodwill. If the fair value of the goodwill is less than the book value, the difference is recorded as an impairment.

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

h) Derivative Financial Instruments

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, derivative financial instruments which primarily include foreign currency forward contracts and interest rate swaps are recognized as assets or liabilities at fair value in the balance sheet. Changes in fair value of derivative financial instruments are recognized periodically either in earnings or, in the case of cash flow hedges, the effective portion as other comprehensive income (loss) in shareholders' equity. The non-effective portion of cash flow hedges is recognized in earnings immediately.

i) Foreign Currency Translation

For purposes of these consolidated financial statements, the U.S. dollar is the reporting currency. The Company follows the provisions of SFAS No. 52, Foreign Currency Translation. Substantially all assets and liabilities of the parent 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 reported in accumulated other comprehensive income (loss). In addition, the translation adjustments of certain intercompany borrowings, which are considered foreign equity investments, are reported in accumulated other comprehensive income (loss).

j) Revenue Recognition Policy

Dialysis care revenues are recognized on the date services and related products are provided and the payor is obligated to pay at amounts estimated to be received under reimbursement arrangements with third party payors. Medicare and Medicaid in North America and programs involving other government payors in the international segment are billed at pre-determined rates per treatment that are established by statute or regulation. Most non-governmental payors are billed at our standard rates for services net of contractual allowances to reflect the estimated amounts to be received under reimbursement arrangements with these payors.

Dialysis product revenues are recognized when title to the product passes to the customers either at the time of shipment, upon receipt by the customer or upon any other terms that clearly define passage of title. As product returns are not typical, no return allowances are established. In the event a return is required, the appropriate reductions to sales, accounts receivables and cost of sales are made.

A minor portion of International product revenues are generated from arrangements which give the customer, typically a health care provider, the right to use dialysis machines. In the same contract the customer agrees to purchase the related treatment disposables at a price marked up from the standard price list. FMC-AG & Co. KGaA does not recognize revenue upon delivery of the dialysis machine but recognizes revenue, including the mark-up, on the sale of disposables.

k) Research and Development expenses
Research and development expenses are expensed as incurred.

l) 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 temporary 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. A valuation allowance is recorded to reduce the carrying amount of the deferred tax assets unless it is more likely than not that such assets will be realized (see Note 16).

m) Impairment
The Company reviews the carrying value of its long-lived assets or asset groups with definite useful lives to be held and used for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Recoverability of these assets is measured by a comparison of the carrying value of an asset to the future net cash flow directly associated with the asset. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value exceeds the fair value of the asset. The Company uses the present value techniques to assess fair value.

In accordance with SFAS No. 144, long-lived assets to be disposed of by sale are reported at the lower of carrying value or fair value less cost to sell and depreciation is ceased. Long-lived assets to be disposed of other than by sale are considered to be held and used until disposal.

n) Debt Issuance Costs
Costs related to the issuance of debt are amortized over the term of the related obligation.

o) Self-Insurance Programs
The Company's largest subsidiary is partially self-insured for professional, product and general liability, auto liability and worker's compensation claims under which the Company assumes responsibility for incurred claims up to predetermined amounts above

which third party insurance applies. Reported balances for the year include estimates of the anticipated expense for claims incurred (both reported and incurred but not reported) based on historical experience and existing claim activity. This experience includes both the rate of claims incidence (number) and claim severity (cost) and is combined with individual claim expectations to estimate the reported amounts.

p) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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.

q) Concentration of Risk

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

Approximately 36% and 38% of the Company's worldwide revenues were paid by and subject to regulations under governmental health care programs, primarily Medicare and Medicaid, administered by the United States government in 2005 and 2004 respectively.

See Note 5 for concentration of supplier risks.

r) Earnings per Ordinary share and Preference share

Basic earnings per ordinary share and basic earnings 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 by the weighted average number of ordinary shares and preference shares outstanding during the year. Diluted earnings per share include the effect of all potentially dilutive instruments on ordinary shares and preference shares that would have been outstanding during the year.

The awards granted under the Company's stock incentive plans (see Note 15), are potentially dilutive equity instruments.

For a discussion of the impact of the conversion of the Company's preference shares on the earnings (or loss) per share available to holders of ordinary shares and preference shares, see Note 2.

s) Stock Option Plans

The Company accounts for its stock option plans using the intrinsic value method 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 only if the current market price of the underlying stock exceeds the exercise price on the measurement date.

Fair Value of Stock Options

In electing to continue to follow APB Opinion No. 25 for expense recognition purposes, the Company is obliged to provide the expanded disclosures required under SFAS No. 123 for stock-based compensation granted, including, if materially different from reported results, disclosure of proforma net earnings and earnings per share had compensation expense relating to grants been measured under the fair value recognition provisions of SFAS No. 123.

The per share weighted-average fair value of stock options granted during 2005 and 2004 was $22.32 and $15.76 respectively, on the date of the grant using the Black-Scholes option-pricing model with the weighted-average assumptions presented below.

Weighted-average Assumptions

	2005	2004
Expected divident yield	2.88%	2.87%
Risk-free interest rate	2.76%	3.50%
Expected volatility	40.00%	40.00%
Expected life of options	5.3 years	5.3 years

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock based employee compensation.

Stock Option Plans

$ in thousands, except share data	2005	2004
Net income		
As reported:	454,952	401,998
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1,090	1,751
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(8,302)	(7,559)
Pro forma	**447,740**	**396,190**
Basic earnings per:		
Ordinary share		
As reported	4.68	4.16
Pro forma	4.61	4.10
Preference share		
As reported	4.75	4.23
Pro forma	4.68	4.17
Fully diluted earnings per:		
Ordinary share		
As reported	4.64	4.14
Pro forma	4.57	4.08
Preference share		
As reported	4.72	4.21
Pro forma	4.64	4.15

t) Recent Pronouncements and Accounting Changes

In November, 2004, the Financial Accounting Standards Board issued SFAS No. 151, Inventory Costs – an amendment of ARB No. 43, Chapter 4 (FAS 151), which is the result of its efforts to converge U.S. accounting standards for inventories with International Financial Reporting Standards. This statement requires abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company will adopt FAS 151 as of January 1, 2006, and it is not expected to have a material impact on the Company's consolidated financial statements.

In December, 2004, the Financial Accounting Standards Board issued its final standard on accounting for share-based payments (SBP), SFAS No. 123R (revised 2004), Share-Based Payment (FAS 123R), which requires companies to expense the cost of employee stock options and similar awards. SFAS 123R requires determining the cost that will be measured at fair value on the date of the SBP awards based upon an estimate of the number of awards expected to vest. There will be no right of reversal of cost if the awards expire without being exercised. Fair value of the SBP awards will be estimated using an option-pricing model that appropriately reflects the specific circumstances and economics of the awards. Compensation cost for the SBP awards will be recognized as they vest. Under U.S tax law, this cost generates a tax credit, however, such cost is not deductible under German tax law. The Company will have two alternative transition methods, each having a different reporting implication. The effective date is for interim and annual periods beginning after June 15, 2005. On April 14, 2005, the SEC delayed the implementation of FAS 123(R) to the beginning of the next Fiscal Year that begins after June 15, 2005. The Company has not yet adopted FAS 123(R) and is in the process of determining the transition method it is going to adopt and the potential impact on the Company's consolidated financial statements.

In June 2005 the FASB ratified EITF 05-5, "Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)." EITF 05-5 provides guidance on the accounting for the German early retirement program providing an incentive for employees, within a certain age group, to transition from full-time or part-time employment into retirement before their legal retirement age. The program provides the employee with a bonus which is reimbursed by subsidies from the German government if certain conditions are met. According to EITF 05-5, the bonuses provided by the employer should be accounted for as postemployment benefits under SFAS 112, "Employer's Accounting for Postretirement Benefits," with compensation cost recognized over the remaining service period beginning when the individual agreement is signed by the employee and ending when the active service period ends. The government subsidy should be recognized when the employer meets the necessary criteria and is entitled to the subsidy. The effect of applying EITF 05-5 should be recognized prospectively as a change in accounting estimate in fiscal years beginning after December 15, 2005. The Company is in compliance with EITF 05-5.

2 Transformation of Legal Form and Conversion of Preference Shares

On February 10, 2006, the Company completed a transformation of its legal form under German law as approved by its shareholders during an Extraordinary General Meeting held on August 30, 2005 ("EGM"). Upon registration of the transformation of legal form in the commercial register of the local court in Hof an der Saale, on February 10, 2006, Fresenius Medical Care AG's legal form was changed from a stock corporation *(Aktiengesellschaft)* to a partnership limited by shares *(Kommandit-gesellschaft auf Aktien)* with the name Fresenius Medical Care AG & Co. KGaA ("FMC-AG & Co. KGaA"). The Company as a KGaA is the same legal entity under German law, rather than a successor to the AG. Fresenius Medical Care Management AG ("Management AG"), a subsidiary of Fresenius AG, the majority voting shareholder of FMC-AG prior to the transformation, is the general partner of FMC-AG & Co. KGaA. Upon effectiveness of the transformation of legal form, the share capital of FMC-AG became the share capital of FMC-AG & Co. KGaA, and persons who were shareholders of FMC-AG became shareholders of the Company in its new legal form. As used in the notes to these financial statements, the "Company" refers to both FMC-AG prior to the transformation of legal form and FMC-AG & Co. KGaA after the transformation.

In conjunction with the transformation of legal form, the Company offered holders of its non-voting preference shares (including preference shares represented by American Depositary Shares (ADSs)) the opportunity to convert their shares into ordinary shares at a conversion ratio of one preference share plus a conversion premium of €9.75 per ordinary share. Holders of a total of 26,629,422 preference shares accepted the offer, resulting in an increase of 26,629,422 ordinary shares of FMC-AG & Co. KGaA (including 2,099,847 ADSs representing 699,949 ordinary shares of FMC-AG & Co. KGaA) outstanding. Immediately after the conversion and transformation of legal form, there were 96,629,422 ordinary shares outstanding. Former holders of preference shares who elected to convert their shares now hold a number of ordinary shares of FMC-AG & Co. KGaA equal to the number of preference shares they elected to convert. The 1,132,757 preference shares that were not converted remained outstanding and became preference shares of FMC-AG & Co. KGaA in the transformation. As a result, preference shareholders who elected not to convert their shares into ordinary shares hold the same number of non-voting preference shares in FMC-AG & Co. KGaA as they held in FMC-AG prior to the transformation. Shareholders who held ordinary shares in FMC-AG prior to the transformation hold the same number of voting ordinary shares in FMC-AG & Co. KGaA.

The conversion of the Company's preference shares is expected to have an impact on the earnings (or loss) per share available to the holders of the Company's ordinary shares upon conversion of the preference shares into ordinary shares, under U.S. GAAP. As a result, the earnings per share calculation in the first quarter of 2006 needs to reflect the difference between (i) the market value of the ordinary share less the conversion premium of €9.75 per preference share and (ii) the carrying amount of the preference shares at the conversion date, February 3, 2006, as a reduction of income available to ordinary shareholders and as a corresponding benefit to preference shareholders. The carrying amount of the preference shares consists of their historic investment and undistributed retained earnings allocated to the preference shares under the two-class method. The Company is continuing to analyze the need to reflect this

reduction or benefit in the Company's financial statements, but based on the market value of the Company's ordinary shares on the close of business, February 3, 2006, the impact is approximately $914,000 or a reduction of $13.06 per ordinary share and a benefit of $34.32 per preference share.

Several ordinary shareholders challenged the resolutions adopted at the EGM approving the conversion of the preference shares into ordinary shares, the adjustment of the employee participation programs, the creation of authorized capital and the transformation of the legal form of the Company, with the objective of having the resolutions declared null and void. On December 19, 2005 the Company and the claimants agreed to a settlement with the participation of Fresenius AG and Management AG, and all proceedings were terminated.

Pursuant to the settlement, Management AG undertook to (i) make an ex gratia payment to the ordinary shareholders of the Company (other than Fresenius AG), of €0.12 for every share issued as an ordinary share up to August 30, 2005 and (ii) to pay to ordinary shareholders who, at the EGM of August 30, 2005, voted against the conversion proposal, an additional €0.69 per ordinary share. Ordinary shareholders who were shareholders at the close of business on the day of registration of the conversion and transformation with the commercial register were entitled to a payment under (i) above. Ordinary shareholders who voted against the conversion resolution in the extraordinary general meeting on August 30, 2005, as evidenced by the voting cards held by the Company, were entitled to a payment under (ii) above, but only in respect of shares voted against the conversion resolution. The right to receive payment under (ii) has lapsed as to any shareholder who did not make a written claim for payment with the Company by February 28, 2006.

The Company also agreed to bear court fees and shareholder legal expenses in connection with the settlement.

The total costs of the settlement are estimated to be approximately $7,335. A further part of the settlement agreement and German law require that these costs be borne by Fresenius AG and the general partner, Management AG. Under U.S. GAAP, however, these costs must be reflected by the entity benefiting from the actions of its controlling shareholder. As a result, the Company has recorded the settlement amount as an expense in Selling, General and Administrative expense and a contribution in Additional Paid in Capital in Shareholders' Equity.

As part of the settlement, the Company, with the participation of Fresenius AG and the general partner, Management AG, also agreed to establish, at the first ordinary general meeting after registration of the transformation of legal form, a joint committee (the "Joint Committee") *(gemeinsamer Ausschuss)* of the supervisory boards of Management AG and FMC-AG & Co. KGaA with authority to advise and decide on certain significant transactions between the Company and Fresenius AG and to approve certain significant acquisitions, dispositions, spin-offs and similar matters. The Company also agreed to establish an Audit and Corporate Governance Committee of the FMC-AG & Co. KGaA Supervisory Board to review the report of the general partner on relations with related parties and report to the overall supervisory board thereon.

Additionally, Management AG undertook to provide in the settlement to provide data on the individual remuneration of its management board members in accordance with the German Commercial Code.

3 Proposed Acquisition

On May 3, 2005, the Company entered into a definitive merger agreement for the acquisition (the "Acquisition") of Renal Care Group, Inc. ("RCG"), a Delaware corporation with principle offices in Nashville, Tennessee, for an all cash purchase price of approximately $3,500,000. At December 31, 2005, RCG provided dialysis and ancillary services to over 32,360 patients through more than 450 owned outpatient dialysis centers in 34 states within the United States, in addition to providing acute dialysis services to more than 200 hospitals. Completion of the Acquisition, approved by RCG's stockholders in a vote held on August 24, 2005, is subject to governmental approvals (including termination or expiration of the waiting period under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, the "Act") and other regulatory approvals.

On February 15, 2006, the Company announced that the Company and RCG had entered into a definitive agreement to sell approximately 100 dialysis centers serving on average approximately 60-65 patients per center to National Renal Institutes, Inc., a wholly owned subsidiary of DSI Holding Company, Inc. The divestiture of these centers is an important step toward concluding the review by the United States Federal Trade Commission (FTC) of our acquisition of Renal Care Group. The purchase price for the divested centers is approximately $450 million to be paid in cash, subject to post-closing adjustments for working capital and other routine matters. The sale of the centers is expected to close shortly after the completion of the Company's acquisition of RCG. Both the divestiture and the acquisition of RCG remain subject to FTC approval.

In connection with the Acquisition, the Company has entered into a commitment letter pursuant to which Bank of America, N.A. ("BofA") and Deutsche Bank AG ("DB") have agreed, subject to certain conditions, to underwrite an aggregate $5,000,000 in principal amount of term and revolving loans to be syndicated to other financial institutions. The loans will consist of a 5-year $1,000,000 revolving credit facility, a 5-year $2,000,000 term loan A facility and a 7-year $2,000,000 term loan B facility. The syndication of the revolving credit facility and the term loan A facility have already been completed. Funding is subject to customary closing conditions and BofA's and DB's acquiescence to any material modification to the merger agreement and any waiver of any material conditions precedent under that agreement. Interest on the new senior credit facilities will be at the option of the Company at a rate equal to either (i) LIBOR plus an applicable margin, or (ii) the higher of BofA's prime rate or the Federal Funds rate plus 0.5% plus an applicable margin. The applicable margin is variable and depends on the consolidated leverage ratio of the Company (the "Margin"). The financing will be available to the Company, among other uses, to pay the purchase price and related expenses for the proposed acquisition of RCG, to refinance outstanding indebtedness under the Company's existing 2003 Senior Credit Agreement (see Note 9) and certain indebtedness of RCG, and for general corporate purposes. In conjunction with the forecasted utilization of the new senior credit facilities and the related variable rate based interest payments, the Company entered into forward starting interest rate swaps

in the notional amount of $2,465,000. These instruments, designated as cash flow hedges, effectively convert forecasted LIBOR based interest payments into fixed rate based interest payments which fix the interest rate on $2,465,000 of the forecasted financing under the new senior credit facility at 4.32% plus Margin. These swaps are denominated in U.S. dollars and expire at various dates between 2008 and 2012.

On November 30, 2005, the Company announced it had commenced a cash tender offer (the "Tender Offer"), contingent upon satisfaction of the conditions to the closing of the Acquisition, for all the $159,685 of RCG's 9% Senior Subordinated Notes (the "Notes"). Under the terms of the Tender Offer, the total consideration to be paid for validly tendered and accepted Notes will be the present value of the future cash flows up to and including November 1, 2007, based on an assumption that the Notes will be redeemed at a price of $1.045 per $1 principal amount of Notes on such date, discounted at a rate equal to 50 basis points over the yield to maturity on the 4.25% U.S. Treasury Note due October 31, 2007. The terms of the offer also require certain consents, (the "Consents"), to certain proposed amendments to the Indenture governing the Notes that would eliminate substantially all restrictive covenants and certain other provisions of Indenture. Upon consummation of the Tender Offer, holders of Notes tendered together with Consents before the end of business on December 13, 2005 will receive a consent payment of $0.030 per $1 principal amount of Notes tendered which will be included in the Company's costs of the Acquisition. Notes and Consents tendered after this date cannot be withdrawn and are not entitled to receive the consent payment. Holders of Notes tendered and not withdrawn will receive accrued and unpaid interest from the last interest date up to, but not including, the date payment is made for the Notes. As most recently extended, the offer expires February 27, 2006, unless further extended by the Company. The Tender Offer is contingent upon receipt of consents from the holders of a majority in aggregate outstanding principal amount of the Notes and satisfaction of the conditions to the Acquisition. As of 5:00 p.m., New York City time, on January 27, 2006, 99.87% of the outstanding aggregate principal amount of the Notes had been tendered. Tendered notes may no longer be withdrawn.

On October 25, 2004, RCG received a subpoena from the office of the United States Attorney for the Eastern District of New York. The subpoena requires the production of documents related to numerous aspects of their business and operations, including those of RenaLab, Inc., their laboratory. The subpoena includes specific requests for documents related to testing for parathyroid hormone (PTH) levels and vitamin D therapies. RCG has announced that it intends to cooperate with the government's investigation.

On August 9, 2005, RCG received a subpoena from the office of the United States Attorney for the Eastern District of Missouri in connection with a joint civil and criminal investigation. The subpoena requires the production of documents related to numerous aspects of RCG's business and operations. The areas covered by the subpoena include RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, RCG's relationships with physicians, medical director compensation, joint ventures with physicians and purchase of dialysis equipment from the Company. RCG has announced that it intends to cooperate with the government's investigation.

Upon the closing of the proposed acquisition, the Company will assume RCG's obligations to comply with these subpoenas.

4 Related Party Transactions

a) Service Agreements

The Company is party to service agreements with Fresenius AG, prior to the transformation its majority shareholder and currently its largest shareholder and sole shareholder of the general partner, and certain affiliates of Fresenius AG to receive services, including, but not limited to: administrative services, management information services, employee benefit administration, insurance, IT services, tax services and treasury services. For the years 2005 and 2004, amounts charged by Fresenius AG to the Company under the terms of the agreements are $36,190 and $30,779 respectively. The Company also provides certain services to Fresenius AG and certain affiliates of Fresenius AG, including research and development, central purchasing, patent administration and warehousing. The Company charged $7,460 and $10,766 for services rendered to Fresenius AG in 2005 and 2004, respectively.

Under operating lease agreements for real estate entered into with Fresenius AG, the Company paid Fresenius AG $15,655 and $14,835, during 2005 and 2004, respectively. The majority of the leases expire in 2006 with options for renewal.

b) Financing Provided by Fresenius AG

The Company has $18,757 in financing outstanding at December 31, 2005, from Fresenius AG. In 2005, the Company retired short-term loans with an outstanding balance of $3,000 at December 31, 2004 and approximately $3,000 representing the balance due of the Company's purchase of the adsorber business from Fresenius AG in 2003. Interest expense on these borrowings was $501 and $129 for the years 2005 and 2004 respectively. The average interest rates for these borrowings were 2.85% and 3.36% for 2005 and 2004 respectively.

c) Products

During the years ended December 31, 2005 and 2004 the Company recognized sales of $31,708 and $35,085 respectively, to Fresenius AG and affiliates. During 2005 and 2004 the Company made purchases from Fresenius AG and affiliates in the amount of $43,007 and $36,122 respectively.

d) Other

The Chairman of the Company's Supervisory Board is also the Chairman of the Supervisory Board of Fresenius AG, the largest holder of the Company's ordinary shares and sole shareholder of the Company's general partner. He is also a member of the Supervisory Board of the Company's general partner.

The Vice Chairman of the Company's Supervisory Board is a member of the Supervisory Board of Fresenius AG and Vice Chairman of the Supervisory Board of the Company's general partner. He is also a partner in a law firm which provided services to the Company. The Company paid the law firm approximately $1,710 and $1,383 in 2005 and 2004 respectively.

In May of 2003, Dr. Ulf M. Schneider, the Chief Financial Officer of the Company, resigned to assume the position of Chairman of the Management Board and CEO of Fresenius AG. In May 2004, he was elected as a member of the Company's Supervisory Board. Under German law, after a transformation of legal form the members of a company's supervisory board remain in office for the remainder of their terms as members of its supervisory board if the supervisory board of the company in its new legal form is formed in the same way and with the same composition. Dr. Schneider, chairman of the management board of Fresenius AG, resigned from the Company's supervisory board effective upon entry of the transformation in the commercial register, but continues to serve as Chairman of the supervisory board of the Company's general partner. Management AG will apply for a court appointment of a sixth member of the supervisory board to replace Dr. Schneider in accordance with German law.

5 Inventories

As of December 31, 2005 and 2004, inventories consisted of the following:

Inventories

$ in thousands	2005	2004
Raw materials and purchased components	93,889	90,268
Work in process	33,073	36,586
Finished goods	223,356	240,296
Health care supplies	80,575	75,769
	430,893	**442,919**

Under the terms of certain unconditional purchase agreements, the Company is obligated to purchase approximately $273,757 of materials, of which $148,904 is committed at December 31, 2005 for 2006. The terms of these agreements run 1 to 3 years. Inventories as of December 31, 2005 include $26,754 of Erythropoietin ("EPO"), which is supplied by a single source supplier in the United States. Delays, stoppages, or interruptions in the supply of EPO could adversely affect the operating results of the Company. Revenues from EPO accounted for approximately 21% and 23% of total revenue in the North America segment for 2005 and 2004, respectively.

6 Property, Plant and Equipment

As of December 31, 2005 and 2004, property, plant and equipment consisted of the following:

Acquisition or Manufacturing Cost

$ in thousands	January 1, 2005	Currency change	Changes in consolidation group	Additions	Reclassifications	Disposals	December 31, 2005
Land	29,258	(1,714)	–	983	49	(2,012)	26,564
Buildings	770,103	(25,397)	2,308	67,210	23,800	(25,183)	812,841
Machinery	1,349,373	(90,449)	12,207	142,042	23,537	(97,879)	1,338,831
Capital Lease	59,183	(6,004)	333	13,992	(1,860)	(9,580)	56,064
Construction in progress	91,227	(9,902)	–	83,741	(45,972)	(1,763)	117,331
Total	**2,299,144**	**(133,466)**	**14,848**	**307,968**	**(446)**	**(136,417)**	**2,351,631**

Depreciation/Amortization

$ in thousands	January 1, 2005	Currency change	Changes in consolidation group	Additions	Reclassifications	Disposals	December 31, 2005
Land	133	1	–	–	–	(49)	85
Buildings	305,739	(9,031)	885	62,102	2,143	(20,594)	341,243
Machinery	776,539	(65,464)	5,201	139,939	(2,424)	(91,324)	762,467
Capital Lease	34,806	(4,068)	142	9,062	(126)	(7,738)	32,078
Construction in progress	–	–	–	–	–	–	–
Total	**1,117,217**	**(78,563)**	**6,229**	**211,103**	**(407)**	**(119,705)**	**1,135,873**

Net Book Value

$ in thousands	December 31, 2005	December 31, 2004
Land	26,479	29,125
Buildings	471,598	464,364
Machinery	576,364	572,834
Capital Lease	23,986	24,377
Construction in progress	117,331	91,227
Total	**1,215,758**	**1,181,927**

Depreciation expense for property, plant and equipment amounted to $211,103 and $199,732 for the years ended December 31, 2005 and 2004 respectively.

Included in property, plant and equipment as of December 31, 2005 and 2004 were $131,195, and $126,021, 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. Accumulated depreciation related to machinery, equipment and rental equipment under capital leases was $32,078 and $34,806 at December 31, 2005 and 2004, respectively.

7 Other Intangible Assets and Goodwill

As of December 31, 2005 and 2004, the carrying value and accumulated amortization of intangible assets other than goodwill consisted of the following:

Acquisition or Manufacturing Costs

$ in thousands	January 01, 2005	Currency change	Changes in consolidation group	Additions	Reclassifications	Disposals	December 31, 2005	Average Useful Life
Patient relationships	276,673	(2,844)	14,719	2	3,624	(127,986)	164,188	7
Patents	28,508	(2,656)	–	1,905	1,325	(547)	28,535	13
Distribution rights	25,306	(3,362)	1,478	1,187	622	–	25,231	17
Other	183,076	(8,458)	969	6,502	729	(31,178)	151,640	12
Amortizable intangible assets	**513,563**	**(17,320)**	**17,166**	**9,596**	**6,300**	**(159,711)**	**369,594**	**12**
Tradename	255,605	(1,563)	–	–	–	–	254,042	
Management contracts	240,407	–	–	–	(630)	–	239,777	
Non-amortizable intangible assets	**496,012**	**(1,563)**	**–**	**–**	**(630)**	**–**	**493,819**	
Total intangible assets	**1,009,575**	**(18,883)**	**17,166**	**9,596**	**5,670**	**(159,711)**	**863,413**	
Goodwill	**3,959,118**	**(55,960)**	**71,592**	**530**	**(8,222)**	**(66,655)**	**3,900,402**	

Depreciation/Amortization

$ in thousands	January 01, 2005	Currency change	Changes in consolidation group	Additions	Reclassifications	Disposals	December 31, 2005
Patient relationships	225,545	(1,090)	–	18,143	–	(128,406)	114,192
Patents	16,239	(1,599)	–	2,148	–	(189)	16,599
Distribution rights	10,390	(1,651)	–	5,652	–	–	14,391
Other	100,129	(5,626)	713	14,406	(1,529)	(30,566)	77,527
Amortizable intangible assets	**352,303**	**(9,966)**	**713**	**40,349**	**(1,529)**	**(159,161)**	**222,709**
Tradename	33,316	(209)	–	–	–	–	33,107
Management contracts	21,908	–	–	–	–	–	21,908
Non-amortizable intangible assets	**55,224**	**(209)**	**–**	**–**	**–**	**–**	**55,015**
Total intangible assets	**407,527**	**(10,175)**	**713**	**40,349**	**(1,529)**	**(159,161)**	**277,724**
Goodwill	**513,966**	**(4,832)**	**(4)**	**–**	**–**	**(65,605)**	**443,525**

Net Book Value

$ in thousands	December 31, 2005	December 31, 2004
Patient relationships	49,996	51,128
Patents	11,936	12,269
Distribution rights	10,840	14,916
Other	74,113	82,947
Amortizable intangible assets	**146,885**	**161,260**
Tradename	220,935	222,289
Management contracts	217,869	218,499
Non-amortizable intangible assets	**438,804**	**440,788**
Total intangible assets	**585,689**	**602,048**
Goodwill	**3,456,877**	**3,445,152**

The related amortization expenses are as follows:

Estimated Amortization Expenses

$ in thousands

2006	2007	2008	2009	2010
33,405	26,643	18,912	14,529	12,246

Goodwill

Changes in the carrying amount of goodwill are mainly a result of acquisitions and the impact of foreign currency translations. During the year ended December 31, 2005, the Company's acquisitions principally involved the acquisition of dialysis clinics providing dialysis therapy. The segment detail is as follows:

Goodwill

$ in thousands	North America	International	Total
Balance as of January 1, 2004	2,966,024	322,324	3,288,348
Goodwill acquired	69,172	53,782	122,954
Reclassifications	501	2,879	3,380
Currency Translation	–	30,470	30,470
Balance as of December 31, 2004	**3,035,697**	**409,455**	**3,445,152**
Goodwill acquired	49,410	22,715	72,125
Reclassifications	(8,882)	(390)	(9,272)
Currency Translation	108	(51,236)	(51,128)
Balance as of December 31, 2005	**3,076,333**	**380,544**	**3,456,877**

The reduction in Goodwill in 2005 results mainly from resolution of tax exposures established on acquisitions.

8 Accrued Expenses and Other Current Liabilities

At December 31, 2005, there is a balance of $117,541, including $115,000 for a settlement payment relating to the accrual for the special charge for legal matters as described below. The Company believes that these provisions are adequate for the settlement of those matters. During 2005, $4,544 were applied against the accrual for the special charge for legal matters.

In 2001, the Company recorded a $258,159 special charge to address 1996 merger-related legal matters, estimated liabilities and legal expenses arising in connection with the W.R. Grace & Co. Chapter 11 proceedings (the "Grace Chapter 11 Proceedings") and the cost of resolving pending litigation and other disputes with certain commercial insurers (see Note 18).

The Company accrued $172,034 principally representing a provision for income taxes payable for the years prior to the 1996 merger for which W.R. Grace & Co. had agreed to indemnify the Company, but which the Company may ultimately be obligated to pay as a result of Grace's Chapter 11 Proceedings. In addition, that amount included the costs of defending the Company in litigation arising out of the Grace Chapter 11 Proceedings (see Note 18).

The Company included $55,489 in the special charge to provide for settlement obligations, legal expenses and the resolution of disputed accounts receivable relating to various insurance companies.

The remaining amount of the special charge of $30,636 was accrued mainly for (i) assets and receivables that are impaired in connection with other legal matters and (ii) anticipated expenses associated with the continued defense and resolution of the legal matters.

During the second quarter of 2003, the court supervising the Grace Chapter 11 Proceedings approved the definitive settlement agreement entered into among the Company, the committee representing the asbestos creditors and W.R. Grace & Co (See Note 18). Under the settlement agreement, the Company will pay $115,000 upon plan confirmation. Based on these developments, the Company reduced its estimate in 2003 for the settlement and related costs of the Grace Chapter 11 Proceedings by $39,000. This reduction of the provision for the W.R. Grace & Co. matter has been applied to the other components of the special charge (i.e. reserves for settlement obligations and disputed accounts receivable from commercial insurers and other merger-related legal matters described in this note).

As at December 31, 2005 and 2004 accrued expenses and other current liabilities consisted of the following:

Accrued Expenses and other Current Liabilities

$ in thousands	2005	2004
Accrued salaries and wages	214,873	193,469
Special charge for legal matters	117,541	122,085
Accrued insurance	75,545	56,584
Unapplied cash and receivable credits	73,897	66,591
Other	356,912	302,346
Total accrued expenses and other current liabilities	**838,768**	**741,075**

The other item includes accruals for other operating expenses including interest, withholding tax, value added tax ("VAT"), legal and compliance costs, physician compensation, commissions, bonuses and rebates, and lease liabilities.

9 Short-term Borrowings, Long-term Debt and Capital Lease Obligations

Short-term borrowings

For information regarding short-term borrowings from affiliates see Note 4b.

Lines of Credit. Short-term borrowings of $57,113 and $83,383 at December 31, 2005, and 2004, 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 during 2005 and 2004 were 3.91% and 4.69%, respectively.

Excluding amounts available under the 2003 Senior Credit Agreement (as described below), at December 31, 2005, the Company had $66,179 available under such commercial bank agreements. In some instances, lines of credit are secured by assets of the Company's subsidiary that is party to the agreement and may contain various covenants including, but not limited to, requirements for maintaining defined levels of working capital, net worth, capital expenditures and certain financial ratios.

Accounts Receivable Facility. The Company has an asset securitization facility (the "accounts receivable facility"), which provides borrowings up to a maximum of $460,000. Under the facility, certain receivables are sold to NMC Funding Corporation ("NMC Funding"), a wholly-owned subsidiary. NMC Funding then assigns undivided ownership interests in the accounts receivable to certain bank investors. Under the terms of the accounts receivable facility, NMC Funding retains the right to recall all transferred interests in the accounts receivable assigned to the banks under the facility. As the Company has the right at any time to recall the then outstanding interests, the receivables remain on the Consolidated Balance Sheet and the proceeds from the transfer of undivided interests are recorded as short-term borrowings.

At December 31, 2005 there are outstanding short-term borrowings under the facility of $94,000. NMC Funding pays interest to the bank investors, calculated based on the commercial paper rates for the particular tranches selected. The effective interest rate during the twelve months ended December 31, 2005 ranged from 2.49%-4.63%. The costs are expensed as incurred and recorded as interest expense and related financing costs. On October 20, 2005 the Company amended the accounts receivable facility to extend the maturity date to October 19, 2006.

As of December 31, 2005 and 2004, short-term borrowings consisted of the following:

Short-term Borrowings

$ in thousands	2005	2004
Borrowings under lines of credit	57,113	83,383
Accounts receivable facility	94,000	335,765
	151,113	**419,148**

Long-term debt

As of December 31, 2005 and 2004, long-term debt and capital lease obligations consisted of the following:

Long-term Debt and Capital Lease Obligations

$ in thousands	2005	2004
Senior Credit Agreement	470,700	484,500
Capital lease obligations	4,596	6,987
EIB Agreement	48,806	–
Euro Notes	235,940	175,030
Other	73,327	109,232
	833,369	**775,749**
Less current maturities	(126,269)	(230,179)
	707,100	**545,570**

European Investment Bank Agreement. The Company entered into a credit agreement with the European Investment Bank ("EIB") on July 13, 2005 in the total amount of $154,979 consisting of a $106,173 (€90,000) revolving credit line and a $48,806 term loan. The facility has an 8-year term with the revolving line terminating on July 12, 2013 and the term loan terminating on September 13, 2013. Both loans bear variable interest rates that change quarterly with FMC-AG & Co. KGaA having options to convert into fixed rates. The EIB is a not-for-profit long-term, lending institution of the European Union that loans funds at favorable rates for the purpose of capital investment projects, normally for up to half of the funds required for such projects. The Company will use these funds to refinance certain R&D projects and investments in expansion and optimization of existing production facilities in Germany. The loans are secured by bank guarantees and have customary covenants. The term loan was drawn down on September 15, 2005 with average interest for the period ending December 31, 2005 at 3.89%. There have been no drawdowns on the revolving credit facility as of December 31, 2005.

Euro Notes. On July 27, 2005, the Company issued new euro denominated notes ("Euro Notes") (Schuldscheindarlehen) totaling $235,940 (€200,000) with a €126,000 tranche at a fixed interest rate of 4.57% and a €74,000 tranche with a floating rate at EURIBOR plus applicable margin resulting in an average interest rate of 4.10% for the period ending December 31, 2005. The proceeds were used to liquidate $155,000 (€128,500) of Euro Notes issued in 2001 that were due in July 2005 and for working capital. The Euro Notes mature on July 27, 2009.

2003 Senior Credit Agreement. On February 21, 2003, the Company entered into an amended and restated bank agreement (hereafter, the "2003 Senior Credit Agreement") with Bank of America N.A, Credit Suisse First Boston, Dresdner Bank AG New York, JPMorgan Chase Bank, The Bank of Nova Scotia and certain other lenders (collectively, the "Lenders"), replacing the 1996 Senior Credit Agreement that was scheduled to expire at September 30, 2003. Under the terms of the 2003 Senior Credit Agreement, the Lenders made available to the Company and certain subsidiaries and affiliates an aggregate amount of up to $1,500,000. Under the 2003 Credit Agreement, all principal payments made on term loans permanently reduce the total amounts available.

Through a series of amendments in 2003 and 2004, the Company voluntarily reduced the aggregate amount available to $1,200,000 and achieved a reduction of the applicable interest rates. The 2003 amendment voluntarily reduced the aggregate amount available to $1,400,000 while reducing interest rates for certain tranches of the term loan portion by 25 basis points. The 2004 amendments further reduced the aggregate amount available to $1,200,000 while increasing the available amounts under the revolving loan portion and reducing the amounts available under the term loan portion. In the 2004 amendments, the Company also reduced the interest rates on the Revolving Credit by 62.5 basis points and the interest rates on certain of the term loan tranches by 62.5 and 75 basis points while extending the termination date of the facility until February 28, 2010. In addition, under the 2004 amendments, the Company can increase the amount of the revolving credit facility by up to $200,000 during the extended life of the 2003 Senior Credit Agreement.

The following table shows the available and outstanding credit under the 2003 Senior Credit Agreement:

2003 Senior Credit Agreement – Available and Outstanding Credit

$ in thousands as of December 31,	2005	2004
Maximum amount available		
Revolving Credit	750,000	750,000
Term Loan A-1	425,000	450,000
	1,175,000	**1,200,000**
Balance outstanding		
Revolving Credit	45,700	34,500
Term Loan A-1	425,000	450,000
	470,700	**484,500**

As of December 31, 2005, $80,486 is committed to outstanding letters of credit which are not included as part of the Balance Outstanding as of December 31, 2005.

The terms of the credit facilities available at December 31, 2005 are:

– a **revolving credit** facility of up to $750,000 (of which up to $250,000 is available for letters of credit, up to $300,000 is available for borrowings in certain non-U.S. currencies, up to $75,000 is available as swing line in U.S. dollars, up to $250,000 is available as a competitive loan facility and up to $50,000 is available as swing line in certain non-U.S. currencies, the total of which cannot exceed $750,000) which will be due and payable on February 28, 2010.

– a **term loan facility ("Loan A-1")** of $450,000, also maturing on February 28, 2010. The terms of the 2003 Senior Credit Agreement require payments that permanently reduce the term loan facility. The repayment began in the fourth quarter of 2005 and amounts to $25,000 per quarter. The remaining amount outstanding is due on February 28, 2010.

The revolving credit facility and Loan A-1 interest rates are equal to LIBOR plus an applicable margin, or base rate, defined as the higher of the Bank of America prime rate or the Federal Funds rate plus 0.5% plus the applicable margin. The applicable margin is variable and depends on the ratio of the Company's funded debt to EBITDA as defined in the 2003 Senior Credit Agreement. In addition to scheduled principal payments, indebtedness outstanding under the 2003 Senior Credit Agreement will be reduced by portions of the net cash proceeds from certain sales of assets, securitization transactions other than the Company's existing accounts receivable financing facility and the issuance of subordinated debt.

The 2003 Senior Credit Agreement contains affirmative and negative covenants with respect to the Company and its subsidiaries and other payment restrictions. Some of the covenants limit indebtedness of the Company and investments by the Company, and require the Company to maintain certain ratios defined in the agreement. Additionally, the 2003 Senior Credit Agreement provides for a dividend restriction, which is $200,000 for dividends paid in 2006, and increases in subsequent years. The Company paid dividends of $137,487 in 2005. In default, the outstanding balance under the 2003 Senior Credit Agreement becomes immediately due and payable at the option of the Lenders. As of December 31, 2005, the Company is in compliance with all financial covenants under the 2003 Senior Credit Agreement.

In connection with the acquisition of Renal Care Group, Inc, the Company has entered into a commitment letter pursuant to which Bank of America, N.A. ("BofA") and Deutsche Bank AG ("DB") have agreed, subject to certain conditions, to underwrite an aggregate $ 5,000,000 in principal amount of term and revolving loans for syndication to other financial institutions that would replace the 2003 Credit Agreement (See Note 3).

Annual Payments. Aggregate annual payments applicable to the 2003 Senior Credit Agreement, Euro Notes, capital leases and other borrowings (excluding the Company's trust preferred securities) for the five years subsequent to December 31, 2005 are:

Annual Payments

$ in thousands

2006	2007	2008	2009	2010	Thereafter	**Total**
126,269	116,843	112,720	343,083	74,977	59,477	**833,369**

10 Employee Benefit Plans

Defined Benefit Pension Plans

The Company currently has two principal pension plans, one for German employees, and the other covering employees in the United States. Plan benefits are generally based on years of service and final salary. Consistent with predominant practice in Germany, the Company's pension obligations in Germany are unfunded. During the first quarter of 2002, the Company's subsidiary, Fresenius Medical Care Holdings, Inc. ("FMCH") curtailed its defined benefit and supplemental executive retirement plans. Under the curtailment amendment, no additional defined benefits for future services will be earned by substantially all employees eligible to participate in the plan. The Company has retained all employee pension obligations as of the curtailment date for the fully-vested and frozen benefits for all employees. Each year FMCH contributes at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended. There was no minimum funding requirement for FMCH for the defined benefit plan in 2005. FMCH voluntarily contributed $25,627 during 2005.

The following tables provide 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.

Employee Benefit Plans

$ in thousands	2005	2004
Change in benefit obligation		
Benefit obligation at beginning of year	288,862	241,240
Translation (gain) loss	(11,233)	4,939
Service cost	5,103	4,269
Interest cost	15,927	14,816
Transfer of plan participants	(36)	(261)
Actuarial loss	27,170	28,165
Benefits paid	(4,818)	(4,306)
Benefit obligation at end of year	**320,975**	**288,862**
Change on plan assets		
Fair value of plan assets at beginning of year	166,952	135,247
Actual return on plan assets	7,481	9,642
Employer contributions	25,627	25,633
Benefits paid	(4,047)	(3,570)
Fair value of plan assets at end of year	**196,013**	**166,952**
Funded status:	124,962	121,910
Unrecognized net loss	(108,440)	(85,945)
Unrecognized prior service cost	(795)	–
Net amount recognized	**15,727**	**35,965**
Amounts recognized in statement of financial position consist of:		
Accrued benefit costs	108,702	108,125
Accumulated other comprehensive income	(92,180)	(72,160)
Intangible assets	(795)	
Net amount recognized	**15,727**	**35,965**
Calculation of additional minimum liability*		
Fair value of plan assets	196,013	166,952
Accumulated benefit obligation (ABO)	304,715	213,995
Minimum liability	**108,702**	**47,043**
Accrued/(prepaid) benefit costs	15,727	(25,117)
Additional minimum liability	**92,975**	**72,160**
Thereof intangible assets	795	–
Thereof accumulated other comprehensive income	92,180	72,160
Total pension liability (at December 31)	**108,702**	**108,125**

* This calculation refers only to companies with ABO in excess of plan assets.

Employee Benefit Plans

$ in thousands	2005	2004
Weighted – average assumptions for benefit obligation as of December 31,		
Discount rate	5.22%	5.62%
Rate of compensation increase	4.22%	4.25%
Components of net periodic benefit cost		
Service cost	5,103	4,269
Interest cost	15,927	14,816
Expected return on plan assets	(13,163)	(10,219)
Amortization of transition obligation	–	–
Amortization unrealized losses	6,753	4,712
Amortization of prior service cost	210	–
Net periodic benefit costs	**14,830**	**13,578**
Weighted – average assumptions for net periodic benefit cost for the year ended December 31,		
Discount rate	5.61%	6.00%
Expected return of plan assets	7.50%	7.50%
Rate of compensation increase	4.22%	4.25%

Plan Investment Policy and Strategy

The investment strategy for the pension plan of FMCH, our U.S. subsidiary, is to earn a long-term rate of return on assets of at least 7.5% compounded annually while utilizing a target investment allocation of 36% equity and 64% long-term U.S. bonds.

The investment policy considers that there will be a time horizon for invested funds of more than 5 years. The total portfolio will be measured against a policy index that reflects the asset class benchmarks and the target asset allocation. The Plan policy does not allow investments in securities of the Company or other related party stock. The performance benchmarks for the separate asset classes include: S&P 500 Index, Russell 2000 Growth Index, MSCI EAFE Index, Lehman U.S. Long Government/Credit bond Index and the HFRI Fund of Funds Index.

The following schedule describes FMCH's allocation for its plans:

Categories of Plan Assets

in %	Allocation 2005	Allocation 2004	Target allocation
Equity securities	44%	52%	36%
Debt securities	56%	48%	64%
Total	**100%**	**100%**	**100%**

The overall expected long-term rate of return is 7.5%. The expected total contribution to plan assets for 2006 is $20,750.

Expected benefit payments for the next five years and in the aggregate for the five years thereafter are as follows:

Expected Benefit Payments

$ in thousands

2006	2007	2008	2009	2010	2011 through 2015
5,767	6,371	7,416	8,757	9,200	62,712

The measurement date used to determine pension benefit measurements is December 31 for the plans in the United States and September 30 for the non-U.S. plans.

Defined Contribution Plans

FMCH's employees are eligible to join a 401(k) savings plan. The Company's total expense under this defined contribution plan for the years ended December 31, 2005 and 2004 was $15,242 and $15,528 respectively.

11 Mandatorily Redeemable Trust Preferred Securities

The Company issued Trust Preferred Securities through Fresenius Medical Care Capital Trusts, statutory business trusts organized under the laws of the State of Delaware. FMC-AG & Co. KGaA owns all of the common securities of these trusts. The sole asset of each trust is a senior subordinated note of FMC-AG & Co. KGaA or a wholly-owned subsidiary of FMC-AG & Co. KGaA. FMC-AG & Co. KGaA, Fresenius Medical Care Deutschland GmbH ("D-GmbH") and FMCH (D-GmbH and FMCH being the "Guarantor Subsidiaries") have guaranteed payment and performance of the senior subordinated notes to the respective Fresenius Medical Care Capital Trusts. The Trust Preferred Securities are guaranteed by FMC-AG & Co. KGaA through a series of undertakings by the Company and the Guarantor Subsidiaries.

The Trust Preferred Securities agreements give the Company the right to substitute borrowers within each of the agreements. On December 23, 2004, the Company exercised that right for two of the Trusts, Fresenius Medical Care Capital Trust III and Fresenius Medical Care Capital Trust V, assuming the obligations of its wholly owned subsidiaries as issuer of senior subordinated notes denominated in euro and Deutschmark held by each Trust. D-GmbH and FMCH remained guarantors on these borrowings.

The Trust Preferred Securities entitle the holders to distributions at a fixed annual rate of the stated amount and are mandatorily redeemable after 10 years. Earlier redemption at the option of the holders may also occur upon a change of control followed by a rating decline or defined events of default including a failure to pay interest. Upon liquidation of the trusts, the holders of Trust Preferred Securities are entitled to a distribution equal to the stated amount. The Trust Preferred Securities do not hold voting rights in the trust except under limited circumstances.

The Trust Preferred Securities Agreements contain affirmative and negative covenants with respect to the Company and its subsidiaries and other payment restrictions. Some of the covenants limit the Company's indebtedness and its investments, and require the Company to maintain certain ratios defined in the agreement. Some of these covenants are subordinated to the 2003 Senior Credit Agreement covenants. As of December 31, 2005, the Company is in compliance with all financial covenants under all Trust Preferred Securities Agreements.

The Trust Preferred Securities outstanding as of December 31, 2005 and 2004 are as follows:

Trust Preferred Securities

$ in thousands, except stated amounts	Year issued	Stated amount	Interest rate	Mandatory redemption date	2005	2004
Fresenius Medical Care Capital Trust II	1998	$450,000	7 7/8%	Feb. 1, 2008	431,762	440,965
Fresenius Medical Care Capital Trust III	1998	DM 300,000	7 3/8%	Feb. 1, 2008	180,951	208,929
Fresenius Medical Care Capital Trust IV	2001	$225,000	7 7/8%	June 15, 2011	222,917	222,533
Fresenius Medical Care Capital Trust V	2001	€300,000	7 3/8%	June 15, 2011	352,234	406,333
					1,187,864	**1,278,760**

12 Minority Interest

At December 31, 2005 and 2004, minority interest was as follows:

Minority Interests

$ in thousands, except share data	2005	2004
FMCH Preferred Stock:		
Preferred Stock, $100 par value		
- 6% Cumulative;		
40,000 shares authorized; 36,460 issued and outstanding	3,646	3,646
- 8% Cumulative Class A;		
50,000 shares authorized; 16,176 issued and outstanding	1,618	1,618
- 8% Noncumulative Class B;		
40,000 shares authorized; 21,483 issued and outstanding	2,148	2,148
Sub-total FMCH minority interest	**7,412**	**7,412**
Other minority interest	**6,993**	**10,622**
Total minority interest	**14,405**	**18,034**

The decrease for 2005 was mostly a result of the acquisition in 2005 of the remaining 55% interest in a joint-venture which is engaged in the perfusion industry.

13 Shareholders' Equity

Capital Stock

As of December 31, 2005, the Company's capital stock *(Grundkapital)* consisted of 27,762,179 preference shares without par value and with a nominal amount of €2.56 per share totaling $74,476 and of 70,000,000 ordinary shares without par value with a nominal amount of €2.56 per share totaling $229,494.

As of February 10, 2006, the Company's capital stock consisted of 1,132,757 preference shares without par value and with a nominal amount of €2.56 per share totaling $3,471 and of 96,629,422 ordinary shares without par value with a nominal amount of €2.56 per share totaling $296,103 The conversion of the Company's preference shares into ordinary shares is expected to result in a charge to retained earnings in 2006 in the amount of approximately $914,000, presenting an increase of income available to preference shareholders and a reduction of income available to ordinary shareholders. For a discussion of this charge, see Note 2, Transformation of Legal Form and Conversion of preference shares.

As of December 31, 2004 the Company's capital stock consisted of 26,296,086 preference shares, respectively, totaling $69,878 respectively, and of 70,000,000 ordinary shares without par value with a nominal amount of €2.56 per share totaling $229,494.

Under the German Stock Corporation Act *(Aktiengesetz)*, the capital of a stock corporation or of a partnership limited by shares may be increased by a resolution of the general meeting, passed with a majority of three quarters of the capital represented at the vote, unless the Articles of Association of the stock corporation or the partnership limited by shares provide for a different majority.

In addition, the general meeting of a stock corporation or a partnership limited by shares may approve Authorized Capital *(genehmigtes Kapital)*. The resolution creating authorized capital requires the affirmative vote of a majority of three quarters of the capital represented at the vote and may authorize the management board to issue shares up to a stated amount for a period of up to five years. The nominal value of the authorized capital may not exceed half of the capital stock at the time of the authorization.

In addition, the general meeting of a stock corporation or of a partnership limited by shares may create conditional capital *(bedingtes Kapital)* for the purpose of issuing (i) shares to holders of convertible bonds or other securities which grant a right to shares, (ii) shares in the preparation of a merger with another company, or (iii) shares offered to management or employees. In each case, the authorizing resolution requires the affirmative vote of a majority of three quarters of the capital represented at the vote. The nominal value of the conditional capital may not exceed half or, in the case of conditional capital created for the purpose of issuing shares to management and employees 10%, of the company's capital at the time of the resolution.

In a partnership limited by shares all resolutions increasing the capital of the partnership limited by shares also require the consent of the general partner for their effectiveness.

Authorized Capital
By resolution of the Company's general meeting of shareholders on May 23, 2001 and May 24, 2005, the Company's management board was authorized, with the approval of the supervisory board, to increase under certain conditions the Company's share capital through the issue of preference shares. Such authorizations are effective until May 22, 2006 and May 23, 2010, respectively. Such authorizations were revoked at an extraordinary general meeting on August 30, 2005, as they were no longer appropriate due to the proposed conversion of the Company's preference shares into ordinary shares, such revocation becoming effective upon registration of the Approved Capital referred to below.

Furthermore, by resolution of the extraordinary general meeting of shareholders on August 30, 2005, the general partner was authorized, with the approval of the supervisory board, to increase, on one or more occasions, the share capital until August 29, 2010 by a maximum amount of €35,000 through issue of new ordinary shares against cash contributions, Authorized Capital I. The general partner is entitled, subject to the approval of the supervisory board, to decide on the exclusion of statutory pre-emption rights of the shareholders. However, such an exclusion of pre-emption rights will be permissible for fractional amounts. Additionally, the newly issued shares may be taken up by certain credit institutions determined by the general partner if such credit institutions are obliged to offer the shares to the shareholders (indirect pre-emption rights).

In addition, by resolution of the extraordinary general meeting of shareholders on August 30, 2005, the general partner, was authorized, with the approval of the supervisory board, to increase, on one or more occasions, the share capital of the Company until August 29, 2010 by a maximum amount of €25,000 through the issue of new ordinary shares against cash contributions or contributions in kind, Authorized Capital II. The general partner is entitled, subject to the approval of the supervisory board, to decide on an exclusion of statutory pre-emption rights of the shareholders. However, such exclusion of pre-emption rights will be permissible only if, (i) in case of a capital increase against cash contributions, the nominal value of the issued shares does not exceed 10% of the nominal share value of the Company's share capital and the issue price for the new shares is at the time of the determination by the general partner not significantly lower than the stock exchange price of the existing listed shares of the same type and with the same rights or, (ii) in case of a capital increase against contributions in kind, the purpose of such increase is to acquire an enterprise, parts of an enterprise or an interest in an enterprise.

The Company's authorized capital became effective upon registration with the commercial register of the local court in Hof an der Saale on February 10, 2006.

Conditional Capital
Through the Company's employee participation programs, consisting of employee stock option programs and an international employee participation scheme, the Company has issued convertible bonds and stock option/subscription rights *(Bezugsrechte)* to employees and the members of the management board of Fresenius Medical Care AG and employees and members of management of affiliated companies that entitle these persons to receive

preference shares. Conditional capital available for such purposes is €14,939 at December 31, 2005. For the year ending December 31, 2005, 1,466,093 options had been exercised under these employee participation plans and €65,516 ($80,146) remitted to the Company. At December 31, 2005 options representing 4,102,539 non-voting preference shares are outstanding from all plans.

With the implementation of the conversion, these programs have been adjusted to the effect that the conversion rights and subscription rights of plan participants who elected to adjust their rights refer to ordinary shares. The electing participants in those programs have been put in the same economic position in which they would have been without the implementation of the conversion of preference shares into ordinary shares. Participants who did not elect to adjust their rights are still entitled to receive preference shares under the employee participation programs.

As a result, conditional capital in the amount of €14,939 divided into conditional capital for the issue of up to 2,849,318 ordinary shares and up to 2,986,203 preference shares, became effective upon registration with the commercial register of the local court in Hof an der Saale on February 10, 2006. However, as a result of the adjustment of the employee participation programs, preference shares can be issued for 234,311 convertible bonds or options and ordinary shares can be issued for 2,849,318 convertible bonds and options with a remaining average term of 7.16 years.

Dividends

Under German law, the amount of dividends available for distribution to shareholders is based upon the unconsolidated retained earnings of Fresenius Medical Care AG & Co. KGaA as reported in its balance sheet determined in accordance with the German Commercial Code *(Handelsgesetzbuch)*. The right to dividends on preference shares converted into ordinary shares is the same as that for ordinary shares, effective as of January 1, 2005.

If no dividends are declared for two consecutive years after the year for which the preference shares are entitled to dividends, then the holders of such preference shares would 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-AG & Co. KGaA is subject to limitations under the 2003 Senior Credit Agreement (see Note 9).

Cash dividends of $137,487 for 2004 in the amount of €1.18 per preference share and €1.12 per ordinary share were paid on May 25, 2005.

Cash dividends of $122,106 for 2003 in the amount of €1.08 per preference share and €1.02 per ordinary share were paid on May 28, 2004.

14 Earnings Per Share

The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations.

Reconciliation of Basic and Diluted Earnings per Share

$ in thousands, except share data	2005	2004
Numerators		
Net income	454,952	401,998
less:		
Preference on Preference shares	2,000	1,959
Income available to all class of shares	452,952	400,039
Denominators		
Weighted average number of:		
Ordinary shares outstanding	70,000,000	70,000,000
Preference shares outstanding	26,789,816	26,243,059
Total weighted average shares outstanding	96,789,816	96,243,059
Potentially dilutive Preference shares	779,330	421,908
Total weighted average shares outstanding assuming dilution	97,569,146	96,664,967
Total weighted average Preference shares outstanding assuming dilution	27,569,146	26,664,967
Basic earnings per Ordinary share	4.68	4.16
Plus preference per Preference share	0.07	0.07
Basic earnings per Preference Share	4.75	4.23
Fully diluted earnings per Ordinary share	4.64	4.14
Plus preference per Preference share assuming dilution	0.08	0.07
Fully diluted earnings per Preference share	4.72	4.21

15 Stock Options

At December 31, 2005, the Company has awards outstanding under the terms of various stock-based compensation plans, including the 2001 plan, which is the only plan with stock option awards currently available for grant. Under the 2001 plan, convertible bonds with a principal of up to €10,240 may be issued to the members of the Management Board and other employees of the Company representing grants for up to 4 million non-voting preference shares. The convertible bonds have a par value of €2.56 and bear interest at a rate of 5.5%. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of and secured by the bond. The Company has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by the Company and are not reflected in the consolidated financial statements. The options expire in ten years and can be exercised beginning after two, three or four years. Bonds issued to Management Board members who did not issue a note to the Company are recognized as a liability on the Company's balance sheet.

Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target becomes the stock exchange quoted price of the preference shares upon the first time the stock exchange quoted price exceeds the Initial Value by at least 25%. The Initial Value is the average price of the preference shares during the last 30 trading days prior to the date of grant. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15% less than if the employee elected options subject to the stock price target. The conversion price of the options without a stock price target is the Initial Value. Each option entitles the holder thereof, upon payment the respective conversion price, to acquire one preference share.

Up to 20% of the total amount available for the issuance of awards under the 2001 plan may be issued each year through May 22, 2006. At December 31, 2005, options for up to 172,224 preference shares are still available for grant through May 22, 2006 under the 2001 Plan.

During 1998, the Company adopted two stock incentive plans ("FMC98 Plan 1" and "FMC98 Plan 2") for the Company's key management and executive employees. These stock incentive plans were replaced by the 2001 plan and no options have been granted since 2001. Under these plans eligible employees had the right to acquire preference shares of the Company. Options granted under these plans have a ten-year term, and one third of them vest on each of the second, third and fourth anniversaries of the award date. Each Option can be exercised for one preference share.

Stock option transactions are summarized as follows (average exercise price in euro and USD):

Stock Option Transactions

	Options (in thousands)	Weighted average exercise price in €	Weighted average exercise price in $	Options exercisable (in thousands)
Balance at December 31, 2003	3,989	43.34	54.74	2,147
Granted	1,021	44.81	61.03	
Exercised	83	33.92	46.20	
Forfeited	266	46.74	63.66	
Balance at December 31, 2004	4,661	43.60	59.39	2,393
Granted	1,044	62.36	73.57	
Exercised	1,466	44.51	52.50	
Forfeited	136	44.94	53.02	
Balance at December 31, 2005	**4,103**	**47.88**	**56.48**	**1,537**

The following tables provide information with respect to stock options outstanding and exercisable at December 31, 2005:

Outstanding Options

Range of exercise prices in €	Range of exercise prices in $	Number of options	Weighted average remaining contractual life	Weighted average exercise price in €	Weighted average exercise price in $
25.01 – 35.00	29.50 – 41.29	1,154,792	6.42	31.16	36.76
35.01 – 45.00	41.30 – 53.09	1,035,044	7.75	43.40	51.20
45.01 – 55.00	53.10 – 64.88	162,365	4.79	49.60	58.52
55.01 – 65.00	64.90 – 76.68	1,176,695	7.19	56.97	67.20
65.01 – 90.00	76.69 – 106.17	573,643	8.98	70.76	83.48
		4,102,538	**7.27**	**47.92**	**56.53**

Exercisable Options

Range of exercise prices in €	Range of exercise prices in $	Number of options	Weighted average remaining contractual life	Weighted average exercise price in €	Weighted average exercise price in $
25.01 – 35.00	29.50 – 41.29	572,967	6.42	31.23	36.85
35.01 – 45.00	41.30 – 53.09	186,221	7.75	42.51	50.14
45.01 – 55.00	53.10 – 64.88	162,365	4.79	49.60	58.52
55.01 – 65.00	64.90 – 76.68	501,859	7.19	57.81	68.20
65.01 – 90.00	76.69 – 106.17	113,505	8.98	73.38	86.56
		1,536,917	**7.27**	**46.33**	**54.66**

The Company applies APB Opinion No. 25 in accounting for stock compensation and, accordingly, recognized compensation expense of $1,363 ($1,090 net of tax) and $1,751 in 2005 and 2004. The tax effect of differences between compensation expense for financial statement and income tax purposes is recorded in income. Additional tax credits available upon exercise of non-qualified stock options are recognized as a credit to additional paid-in capital ($6,205 in 2005).

In connection with the conversion of the Company's preference shares into ordinary shares, holders of options to acquire preference shares had the opportunity to convert their options so that they would be exercisable to acquire ordinary shares. Holders of 234,311 options elected not to convert. Holders of 3,863,470 options converted resulting in 2,849,318 options for ordinary shares. The table below reconciles the options outstanding at December 31, 2005 to the options outstanding after the conversion. See Note 2, Transformation of Legal Form and Conversion of Preference Shares.

Stock Option Conversion Reconciliation

$ in thousands

Balance at December 31, 2005	4,102,539
Forfieted prior to conversion	4,758
Eligible for conversion	4,097,781
Options not converted and still available to exercise for preference shares	234,311
Options converted	3,863,470
Reduction due to impact of conversion ratios	1,014,152
Options outstanding for ordinary shares after conversion	2,849,318

16 Income Taxes

Income before income taxes and minority interest is attributable to the following geographic locations:

Income before Income Taxes

$ in thousands	2005	2004
Germany	109,407	86,702
United States	512,697	447,197
Other	143,622	134,700
	765,726	**668,599**

Income tax expense (benefit) for the years ended December 31, 2005 and 2004, consisted of the following:

Expense (Benefit) for Income Taxes

$ in thousands	2005	2004
Current		
Germany	40,386	55,034
United States	206,551	129,445
Other	48,133	40,316
	295,070	**224,796**
Deferred		
Germany	(12,990)	5,147
United States	27,391	34,958
Other	(723)	513
	13,678	**40,619**
Total	**308,748**	**265,415**

In 2005 and 2004, the Company is subject to German federal corporation income tax at a base rate of 25% plus a solidarity surcharge of 5.5% on federal corporation taxes payable.

A reconciliation between the expected and actual income tax expense is shown below. The expected corporate income tax expense is computed by applying the German corporation tax rate (including the solidarity surcharge) and the effective trade tax rate on income before income taxes and minority interest. The respective combined tax rates are 38.44% and 38.18% for the fiscal years ended December 31, 2005 and 2004.

Reconciliation of Income Taxes

$ in thousands	2005	2004
Expected corporate income tax expense	294,345	255,271
Tax free income	(18,442)	(15,570)
Foreign tax rate differential	(8,431)	15,734
Non-deductible expenses	27,757	9,426
Taxes for prior years	20,509	10,267
Other	(6,990)	(9,713)
Actual income tax expense	308,748	265,415
Effective tax rate	**40.3%**	**39.7%**

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

Deferred Income Tax Assets and Liabilities

$ in thousands	2005	2004
Deferred tax assets		
Accounts receivable, primarily due to allowance for doubtful accounts	26,018	26,289
Inventory, primarily due to additional costs capitalized for tax purposes, and inventory reserve accounts	29,628	30,547
Accrued expenses and other liabilities for financial accounting purposes, not currently tax deductible	197,244	181,080
Net operating loss carryforwards	44,249	48,170
Derivatives	3,735	53,521
Other	5,266	1,378
Total deferred tax assets	**306,140**	**340,985**
Less: valuation allowance	(46,146)	(44,564)
Net deferred tax assets	**259,994**	**296,421**
Deferred tax liabilities		
Accounts receivable, primarily due to allowance for doubtful accounts	9,266	10,872
Inventory, primarily due to inventory reserve accounts for tax purposes	6,040	8,148
Accrued expenses and other liabilities deductible for tax prior to financial accounting recognition	15,945	38,009
Plant and equipment, principally due to differences in depreciation	256,663	250,035
Derivatives	21,582	18,696
Other	49,893	14,574
Total deferred tax liabilities	**359,389**	**340,334**
Net deferred tax liabilities	**99,395**	**43,913**

The valuation allowance was $23,229 as of January 1, 2003. The valuation allowance increased by $4,855 and $16,480 during the years ending December 31, 2005 and 2004.

The expiration of net operating losses is as follows:

Net Operating Loss Carryforwards

$ in thousands

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Thereafter	Total
6,334	14,415	10,276	18,618	12,355	4,885	4,296	–	2,323	7,232	47,551	**128,285**

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 in 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, 2005.

The Company provides for income taxes on the cumulative earnings of foreign subsidiaries that will not be reinvested. During the year ended December 31, 2005, the Company provided for $800 of deferred tax liabilities associated with earnings that are likely to be distributed in 2006. Provision has not been made for additional taxes on $734,182 undistributed earnings of foreign subsidiaries as these earnings are considered permanently reinvested.

Effective January 1, 2004, dividends from German subsidiaries are 95% tax-exempt, i.e. 5% of dividend income is taxable for corporate tax purposes and 5% of capital gains from the disposal of foreign and domestic shareholdings is subject to the combined corporate income and trade tax rate (tax is therefore about 2% on the capital gain). This includes any gains resulting from the reversal of previous write-downs. Capital losses on the disposal of such shareholding and write-down on the cost of investment are not tax deductible whereas, by contrast, 5% of the income from reversing write-downs is subject to taxation. Management does not anticipate that these rules will result in significant additional income tax expense in future fiscal years.

17 Operating Leases

The Company leases buildings and machinery and equipment under various lease agreements expiring on dates through 2017. Rental expense recorded for operating leases for the years ended December 31, 2005 and 2004 was $334,947 and $322,939 respectively.

At December 31, 2004, the Company acquired dialysis machines that were previously sold in sale-lease back transactions. The machines were acquired for approximately $29,000 and are included in capital expenditures in the accompanying consolidated statement of cash flows.

Future minimum rental payments under noncancelable operating leases for the five years succeeding December 31, 2005 and thereafter are:

Future Minimum Rental Payments

$ in thousands

2006	2007	2008	2009	2010	Thereafter	**Total**
251,627	199,121	164,067	134,455	103,972	341,520	**1,194,762**

18 Legal Proceedings

Commercial Litigation

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

Pre-Merger tax claims or tax claims that would arise if events were to violate the tax-free nature of the Merger, could ultimately be the Company's obligation. In particular, W.R. Grace & Co. has disclosed in its filings with the Securities and Exchange Commission that: its tax returns for the 1993 to 1996 tax years are under audit by the Internal Revenue Service (the "Service"); W.R. Grace & Co. has received the Service's examination report on tax periods 1993 to 1996; that during those years W.R. Grace & Co. deducted approximately $122,100 in interest attributable to corporate owned life insurance ("COLI") policy loans; and that a U.S. District Court ruling has denied interest deductions of a taxpayer in a similar situation. W.R. Grace & Co. has paid $21,200 of tax and interest related to COLI deductions taken in tax years prior to 1993.

In October 2004, W.R. Grace & Co. obtained bankruptcy court approval to settle its COLI claims with the Service. In January 2005, W.R. Grace & Co., FMCH and Sealed Air Corporation executed a settlement agreement with respect to the Service's COLI-related claims and other tax claims. On April 14, 2005, W.R. Grace & Co. paid the Service approximately $90 million in connection with taxes owed for the tax periods 1993 to 1996 pursuant to a bankruptcy court order directing W.R. Grace & Co. to make such payment. Subject to certain representations made by W.R. Grace & Co., the Company and Fresenius AG, W.R. Grace & Co. and certain of its affiliates had agreed to indemnify the Company against this and other pre-Merger and Merger-related tax liabilities.

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

In 2003, the Company reached agreement with the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate and W.R. Grace & Co. in the matters

pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to the Company that arise out of the bankruptcy of W.R. Grace & Co. Under the terms of the settlement agreement as amended (the "Settlement Agreement"), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and the Company will receive protection against existing and potential future W.R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W.R. Grace & Co. consolidated tax group upon confirmation of a W.R. Grace & Co. final bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, the Company will pay a total of $115,000 to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation. No admission of liability has been or will be made. The Settlement Agreement has been approved by the U.S. District Court. Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation ("Sealed Air," formerly known as Grace Holding, Inc.). The Company is engaged in litigation with Sealed Air to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by the Company relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of the Company's payment obligation, this litigation will be dismissed with prejudice.

On April 4, 2003, FMCH filed a suit in the U.S. District Court for the Northern District of California, Fresenius USA, Inc., et al., v. Baxter International Inc., et al., Case No. C 03-1431, seeking a declaratory judgment that FMCH does not infringe on patents held by Baxter International Inc. and its subsidiaries and affiliates ("Baxter"), that the patents are invalid, and that Baxter is without right or authority to threaten or maintain suit against FMCH for alleged infringement of Baxter's patents. In general, the alleged patents concern touch screens, conductivity alarms, power failure data storage, and balance chambers for hemodialysis machines. Baxter has filed counterclaims against FMCH seeking monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. Both parties have filed multiple dispositive motions, some of which have been decided by the court. Trial is currently scheduled for June 2006. FMCH believes its claims are meritorious, although the ultimate outcome of any such proceedings cannot be predicted at this time and an adverse result could have a material adverse effect on the Company's business, financial condition, and results of operations.

For information regarding the settlement of shareholder litigation that challenged the resolutions approving the Company's transformation of legal form and the conversion of preference shares to ordinary shares, see Note 2.

Other Litigation and Potential Exposures

In April 2005, FMCH received a subpoena from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. The subpoena requires production of a broad range of documents relating to the FMCH's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relations, joint ventures and anemia management programs. The Company is cooperating with the government's requests for information. An adverse determination in this investigation could have a material adverse effect on the Company's business, financial condition and results of operations.

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

From time to time, the Company is a party to or may be threatened with other litigation, claims or assessments arising in the ordinary course of its business. Management regularly analyzes current information including, as applicable, the Company's defenses and insurance coverage and, as necessary, provides accruals for probable liabilities for the eventual disposition of these matters.

The Company, like other health care providers, conducts its operations under intense government regulation and scrutiny. It must comply with regulations which relate to or govern the safety and efficacy of medical products and supplies, the operation of manufacturing facilities, laboratories and dialysis clinics, and environmental and occupational health and safety. The Company must also comply with the Anti-Kickback Statute, the False Claims Act, the Stark Statute, and other federal and state fraud and abuse laws. Applicable laws or regulations may be amended, or enforcement agencies or courts may make interpretations that differ from the Company's or the manner in which it conducts its business. Enforcement has become a high priority for the federal government and some states. In addition, the provisions of the False Claims Act authorizing payment of a portion of any recovery to the party bringing the suit encourage private plaintiffs to commence "whistle blower" actions. By virtue of this regulatory environment, as well as the Company's corporate integrity agreement with the U.S. federal government, the Company's business activities and practices are subject to extensive review by regulatory authorities and private parties, and continuing audits, investigative demands, subpoenas, other inquiries, claims and litigation relating to the Company's compliance with applicable laws and regulations. The Company may not always be aware that an inquiry or action has begun, particularly in the case of "whistle blower" actions, which are initially filed under court seal.

The Company operates many facilities throughout the United States. 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 its management structure, regulatory and legal resources, and the effective operation of its compliance program to direct, manage and monitor the activities of these employees. On occasion, the Company may identify instances where employees, deliberately or inadvertently, have submitted inadequate or false billings. The actions of such persons may subject the Company and its subsidiaries to liability under the Anti-Kickback Statute, the Stark Statute and the False Claims Act, among other laws.

Physicians, hospitals and other participants in the health care industry are also subject to a large 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 and is currently subject to these suits due to the nature of its business and expects that those types of lawsuits may continue. Although the Company maintains insurance at a level which it believes to be prudent, it cannot assure that the coverage limits will be adequate or that insurance will cover all asserted claims. A successful claim against the Company or any of its subsidiaries in excess of insurance coverage could have a material adverse effect upon it and the results of its operations. Any claims, regardless of their merit or eventual outcome, could have a material adverse effect on the Company's reputation and business.

The Company has also had claims asserted against it and has had lawsuits filed against it relating to alleged patent infringements or businesses that it has acquired or divested. These claims and suits relate both to operation of the businesses and to the acquisition and divestiture transactions. The Company has, when appropriate, asserted its own claims, and claims for indemnification. A successful claim against the Company or any of its subsidiaries could have a material adverse effect upon it and the results of its operations. Any claims, regardless of their merit or eventual outcome, could have a material adverse effect on the Company's reputation and business.

Accrued Special Charge for Legal Matters

At December 31, 2001, the Company recorded a pre-tax special charge to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. While the Company believes that its remaining accruals reasonably estimate its currently anticipated costs related to the continued defense and resolution of the remaining matters, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual (See Note 8).

19 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 highly rated financial institutions as authorized by the Company's Management Board. The Company does not use financial instruments for trading purposes.

The Company 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 Exchange Risk Management

The Company conducts business on a global basis in various currencies, though its operations are mainly in Germany and the United States. For financial reporting purposes, the Company has chosen the U.S. dollar as its 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 the Company's international operations are maintained, affect its results of operations and financial position as reported in its consolidated financial statements.

The Company's exposure to market risk for changes in foreign exchange rates relates to transactions such as sales and purchases, and lending and borrowings, including intercompany borrowings. The Company has significant amounts of sales of products invoiced in euro from its European manufacturing facilities to its other international operations. This exposes the subsidiaries to fluctuations in the rate of exchange between the euro and the currency in which their local operations are conducted. The Company employs, to a limited extent, financial deriviaives to hedge its currency exposure. The Company's policy, which has been consistently followed, is that financial derivatives be used only for the purpose of hedging foreign currency exposure.

Changes in the fair value of foreign exchange forward contracts designated and qualifying as cash flow hedges of forecasted product purchases are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of cost of revenues, in the same period in which the hedged transaction affects earnings. After tax losses of $4,307 ($6,164 pretax) for the year ended December 31, 2005 are deferred in accumulated other comprehensive income and will mainly be reclassified into earnings during 2006. During 2005, the Company reclassified after tax gains of $230 ($361 pretax) from accumulated other comprehensive income (loss) into the statement of operations. As of December 31, 2005, the Company had purchased foreign exchange derivatives with a maximum maturity of 16 months to hedge its exposure to the variability in future cash flows associated with forecasted product purchases.

Changes in the fair value of foreign currency forward contracts designated and qualifying as cash flow hedges associated with foreign currency denominated intercompany financing transactions are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of selling, general and administrative expenses and interest expense in the same period in which the hedged transactions affect earnings.

The Company also entered into foreign exchange swaps with a fair value of approximately $4,720 as of December 31, 2005 to hedge its exposure from foreign currency denominated intercompany loans. No hedge accounting is applied to these foreign exchange swaps. Accordingly, the foreign exchange swaps are recognized as assets and liabilities and changes in fair values are charged to earnings.

The Company is exposed to potential 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 foreign exchange derivatives is represented by the fair value of those contracts with a positive fair value at the reporting date.

Interest Rate Risk Management

The Company enters into derivatives, particularly interest rate swaps, to (a) protect interest rate exposures arising from long-term debt and short-term borrowings and accounts receivable securitization programs at floating rates by effectively swapping them into fixed rates or (b) hedge the fair value of parts of its fixed interest rate borrowings. 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 notional amount.

Cash Flow Hedges of Variable Rate Debt. The Company enters into interest rate swap agreements that are designated as cash flow hedges effectively converting certain variable interest rate payments mainly denominated in U.S. dollars into fixed interest rate payments. Those swap agreements, which expire at various dates between 2006 and 2009, effectively fix the Company's variable interest rate exposure on the majority of its U.S. dollar-denominated revolving loans and outstanding obligations under the accounts receivable securitization program at an average interest rate of 5.26%. After taxes losses of $7,073 ($11,732 pretax) for the year ended December 31, 2005, were deferred in accumulated other comprehensive loss. Interest payable and interest receivable under the swap agreements are accrued and recorded as an adjustment to interest expense at each reporting date. There are losses of $1,597 ($2,605 pretax) due to hedge ineffectiveness. At December 31, 2005, the notional amount of these swaps was $800,000.

In conjunction with the proposed acquisition of RCG and the forecasted variable rate based interest payments for its financing, the Company has entered into forward starting interest rate swaps in the notional amount of $2,465,000. These instruments, designated as cash flow hedges, effectively convert forecasted variable rate based interest payments into fixed rate based interest payments with an average fixed rate of 4.32% plus an applicable margin. These swaps are denominated in U.S. dollars and expire at various dates between 2008 and 2012. After tax gains of $30,465 ($49,488 pretax) for the year ended December 31, 2005 are deferred in accumulated other comprehensive income. There is no significant impact on earnings due to hedge ineffectiveness.

Fair Value Hedges of Fixed Rate Debt. The Company enters into interest rate swap agreements that are designated as fair value hedges to hedge the risk of changes in the fair value of fixed interest rate borrowings effectively converting the fixed interest payments on Fresenius Medical Care Capital Trust II trust preferred securities (see Note 11) denominated in U.S. dollars into variable interest rate payments. Since the critical terms of the interest rate swap agreements are identical to the terms of Fresenius Medical Capital Trust II trust preferred securities, the hedging relationship is highly effective and no ineffectiveness is recognized in earnings. The interest rate swap agreements are reported at fair value in the balance sheet. The reported amount of the hedged portion of fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts and trust preferred securities offset each other in the income statement. At December 31, 2005, the notional volume of these swaps was $450,000.

The Company is exposed to potential 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 interest rate derivatives is represented by the fair value of those contracts with a positive fair value at the reporting date.

Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Company's financial instruments at December 31, 2005 and 2004.

Carrying Amount and Fair Value of Financial Instruments

$ in thousands	2005 Carrying amount	2005 Fair value	2004 Carrying amount	2004 Fair value
Non-derivatives assets				
Cash and cash equivalents	85,077	85,077	58,966	58,966
Receivables	1,469,933	1,469,933	1,462,847	1,462,847
Liabilities				
Accounts payable	309,255	309,255	305,996	305,996
Long term debt, excluding Euro-notes	597,429	597,429	600,719	600,719
Trust Preferred Securities	1,187,864	1,285,319	1,278,760	1,436,306
Euro Notes	235,940	236,326	175,030	176,090
Derivatives				
Foreign exchange contracts	(2,939)	(2,939)	16,980	16,980
Dollar interest rate hedges	21,830	21,830	(48,093)	(48,093)
Yen interest rate hedges	(201)	(201)	(381)	(381)

The carrying amounts in the table are included in the consolidated balance sheet under the indicated captions, except for derivatives, which are included in other assets or other liabilities.

Estimation of Fair Values

The significant methods and assumptions used in estimating the fair values of financial instruments are as follows:

Short-term financial instruments are valued at their carrying amounts included in the consolidated balance sheet, 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, accounts payable and income taxes payable and short-term borrowings.

The long-term bank debt is valued at its carrying amount because the actual drawings under the facility carry interest at a variable rate which reflects 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 2003 Senior Credit Agreement.

The fair values of the Trust Preferred Securities and the Euro Notes are based upon market quotes.

Trader quotes are available for all of the Company's derivatives.

20 Other Comprehensive Income (Loss)

The changes in the components of other comprehensive income (loss) for the years ended December 31, 2005 and 2004 are as follows:

Other Comprehensive Income (Loss)

$ in thousands	2005 Pretax	2005 Tax effect	2005 Net	2004 Pretax	2004 Tax effect	2004 Net
Other comprehensive (loss) income relating to cash flow hedges:						
Changes in fair value of cash flow hedges during the period	72,440	(28,653)	43,787	(36,192)	13,638	(22,554)
Reclassification adjustments	(1,243)	584	(659)	(9,906)	3,449	(6,457)
Total other comprehensive (loss) income relating to cash flow hedges:	**71,197**	**(28,069)**	**43,128**	**(46,098)**	**17,087**	**(29,011)**
Foreign-currency translation adjustment	(104,723)		(104,723)	144,784	–	144,784
Minimum pension liability	(19,996)	7,747	(12,249)	(16,507)	6,605	(9,902)
Other comprehensive income (loss)	**(53,522)**	**(20,322)**	**(73,844)**	**82,179**	**23,692**	**105,871**

21 Business Segment Information

The Company has identified three business segments, North America, International, and Asia Pacific, which were determined based upon how the Company manages its businesses. All segments are primarily engaged in providing dialysis services and manufacturing and distributing products and equipment for the treatment of end-stage renal disease. Additionally, the North America segment engages in performing clinical laboratory testing and providing perfusion, therapeutic apheresis and autotransfusion services. 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. For management reporting purposes, the Company transferred its Mexico operations from its International segment to its North American segment beginning January 1, 2005 and reclassified the Mexico operations and assets for the comparative period of 2004.

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 operating income which measures the Company's source of earnings. Financing is a corporate function, which the Company's segments do not control. Therefore, the Company does not include interest expense relating to financing as a segment measure. The Company also regards income taxes to be outside the segment's control.

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

Business Segment Information 2005

$ in thousands	2005				
	North America	International	Segment Total	Corporate	Total
Net revenue external customers	4,577.379	2,194,440	6,771,819	–	6,771,819
Inter-segment revenue	1,327	54,449	55,776	(55,776)	–
Total net revenue	**4,578,706**	**2,248,889**	**6,827,595**	**(55,776)**	**6,771,819**
Depreciation and amortization	(139,747)	(109,812)	(249,559)	(1,893)	(251,452)
Operating income	**643,917**	**362,134**	**1,006,051**	**(67,133)**	**938,918**
Segment assets	5,634,985	2,216,630	7,851,615	131,485	7,983,100
Capital expenditures and acquisitions[1]	252,822	187,030	439,852	70	439,922

$ in thousands	2004				
	North America	International	Segment Total	Corporate	Total
Net revenue external customers	4,248,216	1,979,786	6,228,002	–	6,228,002
Inter-segment revenue	1,602	39,004	40,606	(40,606)	–
Total net revenue	**4,249,818**	**2,018,790**	**6,268,608**	**(40,606)**	**6,228,002**
Depreciation and amortization	(128,532)	(102,137)	(230,669)	(1,917)	(232,586)
Operating income	**587,400**	**300,290**	**887,691**	**(35,345)**	**852,345**
Segment assets	5,539,631	2,366,277	7,905,908	55,633	7,961,541
Capital expenditures and acquisitions[2]	230,150	152,820	382,970	255	383,225

[1] North America and International acquisitions exclude $260 and $9,031, respectively, of non-cash acquisitions for 2005.
[2] International acquisitions exclude $15,479 of non-cash acquisitions for 2004.

Reconciliation of Measures to Consolidated Totals

$ in thousands	2005	2004
Total operating income of reporting segments	1,006,051	887,691
Corporate expenses	(67,133)	(35,346)
Interest income	18,187	13,418
Interest expense	(191,379)	(197,164)
Total income before income taxes and minority interest	**765,726**	**668,599**

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:

Geographic Segments

$ in thousands	2005 Net revenue external customers	2005 Long-lived assets	2004 Net revenue external customers	2004 Long-lived assets
Germany	288,923	157,362	288,526	169,981
United States	4,577,379	4,372,453	4,248,216	4,277,319
Rest of the World	1,905,517	906,220	1,691,260	956,860
Total	**6,771,819**	**5,436,035**	**6,228,002**	**5,404,160**

22 Supplementary Cash Flow Information

The following additional information is provided with respect to the consolidated statements of cash flows:

Supplementary Cash Flow Information

$ in thousands	2005	2004
Supplementary cash flow information		
Cash paid for interest	180,853	201,380
Cash paid for income taxes	380,764	198,983
Supplemental disclosures of cash flow information		
Details for acquisitions:		
Assets acquired	149,189	148,324
Liabilities assumed	18,161	12,957
Minorities	(5,017)	–
Notes assumed in connection with acquisition	9,291	15,479
Cash paid	126,754	119,888
Less cash acquired	1,601	15,395
Net cash paid for acquisitions	**125,153**	**104,493**

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act rules 13a-15(f). The Company's internal control over financial reporting is a process designed by or under the supervision of the Company's chief executive officer and chief financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2005, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2005 is effective.

The Company's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that accurately and fairly reflect transactions and dispositions of assets in reasonable detail; (2) provide reasonable assurances that the Company's transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of management; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Because of its inherent limitation, internal control over financial reporting, no matter how well designed, cannot provide absolute assurance of achieving financial reporting objectives and may not prevent or detect misstatements. Therefore, even if the internal control over financial reporting is determined to be effective it can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's assessment of the effectiveness of the Company's internal control over financial reporting, as well as the effectiveness of internal control over financial reporting as of December 31, 2005, have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, an independent registered public accounting firm, as stated in their report (see page 97f. of Financial Report).

February 21, 2006

Fresenius Medical Care AG & Co. KGaA,
a partnership limited by shares, represented by:
Fresenius Medical Care Management AG, its general partner

Dr. Ben Lipps
Chief Executive Officer and
Chairman of the Management Board

Lawrence Rosen
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Supervisory Board
Fresenius Medical Care AG & Co. KGaA

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that Fresenius Medical Care AG & Co. KGaA (formerly Fresenius Medical Care AG; "Fresenius Medical Care" or the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Fresenius Medical Care's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Fresenius Medical Care maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Fresenius Medical Care maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Fresenius Medical Care as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated February 22, 2006 expressed an unqualified opinion on those consolidated financial statements.

Frankfurt am Main, Germany
February 22, 2006

KPMG
Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Report of Independent Registered Public Accounting Firm

To the Supervisory Board
Fresenius Medical Care AG & Co. KGaA

We have audited the accompanying consolidated balance sheets of Fresenius Medical Care AG & Co. KGaA and subsidiaries (formerly Fresenius Medical Care AG; "Fresenius Medical Care" or the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2005. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Fresenius Medical Care as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Fresenius Medical Care's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

Frankfurt am Main, Germany
February 22, 2006

KPMG
Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Financial Glossary

American Depository Receipt (ADR)
Physical certificate proving ownership in one or several American Depositary Shares (ADS). The terms ADS and ADR are often used interchangeably. Fresenius Medical Care's ordinary and preference shares are listed on the New York Stock Exchange (NYSE) in the form of ADRs.

American Depository Shares (ADS)
Share certificate traded at the New York Stock Exchange, representing (parts of) shares of a foreign company.

Days Sales Outstanding (DSO)
Indicates the average number of days it takes for a receivable to be paid. A shorter DSO results in less interest for the creditor and a lower risk of default.

Dividend
Portion of a company's profits paid to shareholders, usually once a year. The distributed profit divided by the number of outstanding shares shows the amount of the dividend per share, which can be paid in the form of cash, stock or property.

EBIT (Earnings Before Interest and Taxes)
The earnings before interest and taxes are used to assess the company's earnings position. In more precise terms it is the operating result before the financial and thus investment result.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
The earnings before interest, taxes, depreciation and amortization, corresponding to cash flow before taxes.

Free Cash Flow
Net cash provided by operating activities less net capital expenditures (purchases of property, plant and equipment, less proceeds from sale of property, plant and equipment).

Gross Domestic Product (GDP)
Total 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 market share price.

Net Operating Profit Adjusted for Taxes (NOPAT)
Earnings before interest and taxes (EBIT) plus goodwill amortization less taxes. It shows the profit a company would achieve in the event of pure equity financing. In contrast to EBIT, NOPAT does not take into account the tax savings which a company generates as a result of high debt.

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 consists of ordinary and preference shares. Both are bearer shares. Preference shares are non-voting, but are entitled to a dividend exceeding that of ordinary shares. The distribution of the minimum dividend on preference shares takes precedence over the distribution of a dividend on ordinary shares.

Return on Invested Capital (ROIC)
The return on the company's adjusted invested capital and respectively the 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.

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).

Revenue
The amount of money a company actually receives from its activities, mostly from sales of products and/or services to customers.

Sarbanes-Oxley Act (SOX)
A law aimed at improving accounting standards for corporations and their auditors. The intention of SOX is to strengthen shareholder confidence by broadening financial reporting and internal monitoring systems. Furthermore, the management's liability for the accuracy and completeness of reported information has been increased.

Securities and Exchange Commission (SEC)
A federal agency that regulates the U.S. financial markets.

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

Working Capital
Working Capital is defined as current assets less current liabilities (excluding current debt). It indicates the proportion of current liabilities covered by current assets with long-term financing. The higher the working capital, the more secure a company's liquidity position.

For further explanations of financial terms please visit our website www.fmc-ag.com, where a stock market dictionary can be found in the Investor Relations section.

Regional Organization

Europe/Africa

Germany
100% FMC Deutschland GmbH Bad Homburg v.d.H.

France
100% FMC France S.A.S. Fresnes

Great Britain
100% FMC (UK) Ltd. Nottinghamshire

Italy
100% FMC Italia S.p.A. Palazzo Pignano/Cremona

Spain
100% NMC of Spain S.A. Madrid

South Africa
100% FMC South Africa (Pty.) Ltd., Johannesburg

Turkey
100% Fresenius Medikal Hizmetler A.S., Istanbul

Belgium
100% FMC Belgium N.V. Antwerp

Morocco
98% FMC Maroc S.A. Casablanca

Poland
100% FMC Polska S.A. Poznan

Portugal
100% NMC Centro Médico Nacional S.A., Lisbon

Romania
100% FMC Romania S.r.l. Bucharest

Slovakia
100% FMC Slovensko spol. s.r.o. Piešťany

Slovenia
100% FMC Slovenija d.o.o. Zrece

Czech Republic
100% FMC Česká Republica spol. s.r.o., Prag

Hungary
100% FMC Dializis Center Egészs. Kft., Budapest

Denmark
100% FMC Danmark A.S. Albertslund

Estonia
100% Renculus OÜ Tartu

Finland
100% FMC Suomi OY Helsinki

Lebanon
90% Fresenius HAT Middle East S.a.r.l., Beirut

The Netherlands
100% FMC Nederland B.V. Nieuwkuijk

Austria
100% FMC Austria GmbH Vienna

Russia
100% ZAO Fresenius S.P. Moscow

Sweden
100% FMC Sverige AB Sollentuna

Switzerland
100% FMC (Schweiz) AG Stans

North America

USA
100% Fresenius Medical Care Holdings Inc., New York

100% National Medical Care Inc. Lexington/Massachusetts

100% Fresenius USA Inc. Walnut Creek/California

Mexico
100% FMC Mexico S.A. de C.V. Zapopan Jalisco

Latin America

Argentina
100% FMC Argentina S.A. Buenos Aires

Colombia
100% FMC Colombia S.A. Santa Fé de Bogotà

Brazil
100% FMC Ltda. São Paulo

Venezuela
100% FMC de Venezuela, C.A. Valencia

Chile
100% Pentafarma S.A. Santiago de Chile

Peru
100% FMC del Peru S.A. Lima

Asia-Pacific

Australia
100% FMC Australia Pty. Ltd. Sydney

China
100% FMC Shanghai Co. Ltd. Shanghai

Hong Kong
100% FMC Hong Kong Ltd. Hongkong

Japan
70% Fresenius-Kawasumi Co. Ltd., Tokio

Singapore
100% FMC Singapore Pte. Ltd. Singapore

Taiwan
100% FMC Taiwan Co., Ltd. Taipei

Indonesia
100% P.T. FMC Indonesia Jakarta

Malaysia
100% FMC Malaysia Sdn. Bhd. Kuala Lumpur

Philippines
100% FMC Philippines, Inc. Manila

South Korea
100% FMC Korea Ltd. Seoul

Thailand
100% FMC (Thailand) Ltd. Bangkok

Simplified chart of Fresenius Medical Care's regional organization.

Line of business in 2005 in respective country.

- Production
- Selling
- Dialysis Care

Some percentage of subsidiaries represent direct and indirect shareholdings of Fresenius Medical Care.

Major Subsidiaries

$ in millions except employees		Ownership[1]	Revenue[2]	Net income/ (-loss)[2]	Equity[2]	Employees[3]
Name and location		in %	2005	2005	31.12.2005	31.12.2005
Europe/Africa						
Germany	FMC Deutschland GmbH, Bad Homburg v. d. H.	100	1,064.2	0.0	941.6	2,634
France	FMC France S.A.S., Fresnes	100	81.3	2.8	17.5	122
	SMAD S.A., L´Arbresle	100	81.7	5.5	29.1	328
Great Britain	FMC (UK) Ltd., Huthwaite - Nottinghamshire	100	91.2	2.3	27.3	201
Italy	FMC Italia S.p.A., Palazzo Pignano/Cremona	100	97.1	1.0	35.3	161
	SIS-TER S.p.A., Palazzo Pignano/Cremona	100	52.1	1.3	10.4	241
Spain	FMC Espana S.A., La Roca del Vallès	100	72.6	2.8	19.7	78
	NMC of Spain S.A., Madrid	100	14.1	-2.2	30.9	1,185
South Africa	FMC South Africa (Pty.) Ltd., Johannesburg	100	12.4	0.3	3.9	115
Turkey	Fresenius Medikal Hitzmetler A.S., Istanbul	100	67.0	5.2	19.4	172
Belgium	FMC Belgium N.V., Antwerp	100	29.1	2.0	8.2	66
Marocco	FMC Maroc S.A., Casablanca	98	11.7	0.3	1.4	38
Poland	FMC Polska S.A., Poznan	100	22.7	0.6	4.6	71
Portugal	FMC Portugal S.A., Moreira	100	40.5	1.3	7.3	32
	NMC Centro Medico Nacional S.A., Lisbon	100	53.9	0.9	27.3	577
	FMC SGPS S.A., Porto	100	0.0	0.0	29.6	0
Romania	FMC Romania S.r.l., Bucharest	100	27.9	3.9	8.2	50
Slovakia	FMC Slovensko spol. s.r.o., Piešťany	100	11.0	1.5	4.2	18
Slovenia	FMC Slovenija d.o.o., Zrece	100	5.7	0.5	2.3	12
	Nefrodial d.o.o., Zrece	100	8.6	0.0	0.5	80
Czech Republic	FMC Česká Republika spol. s.r.o., Prag	100	23.4	4.0	13.7	42
Hungary	FMC Hungary Ltd., Budapest	100	23.2	0.0	24.8	69
	FMC Dializis Center Egészs. Kft., Budapest	100	36.3	-2.2	-2.0	619
Denmark	FMC Danmark A.S., Albertslund	100	9.0	0.8	2.3	15
Estonia	Renculus OÜ, Tartu	100	1.0	0.0	0.3	23
Finland	FMC Suomi OY, Helsinki	100	11.8	0.6	2.5	16
Lebanon	Fresenius HAT Middle East S.a.r.l., Beirut	90	2.1	0.3	0.3	9
The Netherlands	FMC Nederland B.V., Nieuwkuijk	100	19.9	0.3	3.0	32
Austria	FMC Austria GmbH, Vienna	100	18.0	0.6	1.6	19
Russia	ZAO Fresenius S.P., Moscow	100	29.3	0.4	5.5	114
Sweden	FMC Sverige AB, Sollentuna	100	15.4	0.4	4.2	21
Switzerland	FMC (Schweiz) AG, Stans	100	26.0	1.4	7.0	39

$ in millions except employees		Ownership[1]	Revenue[2]	Net income/ (-loss)[2]	Equity[2]	Employees[3]
Name and location		in %	2005	2005	31.12.2005	31.12.2005
North America						
USA	FMC Holdings Inc., New York	100	4,578.6	266.5	3,313.9	30,126
Mexico	FMC de Mexico S.A. de C.V., Zapopan, Julisco[4]	100	47.3	2.9	28.4	686
Latin America						
Argentina	FMC Argentina S.A., Buenos Aires	100	76.9	1.9	46.6	2,046
Colombia	FMC Colombia S.A., Santa Fé de Bogotà	100	68.9	6.2	56.4	842
Brazil	FMC Ltda., São Paulo	100	50.7	14.6	46.1	406
Venezuela	FMC de Venezuela C.A., Valencia	100	18.1	2.2	8.2	423
Chile	Pentafarma S.A., Santiago de Chile	100	8.0	-0.6	-0.1	65
Peru	FMC del Peru S.A., Lima	100	3.2	0.7	0.6	13
Asia-Pacific						
Australia	FMC Australia Pty. Ltd., Sydney	100	51.0	3.0	14.7	160
China	FMC Shanghai Co. Ltd., Shanghai	100	12.4	1.0	1.3	35
Hong Kong	FMC Hong Kong Ltd., Hongkong	100	27.7	2.8	10.7	38
Japan	FMC Japan K.K., Tokio	100	46.8	-2.0	-0.5	554
	Fresenius-Kawasumi Co. Ltd., Tokio	70	19.4	2.1	14.2	52
Singapore	FMC Singapore Pte. Ltd., Singapur	100	6.1	0.0	2.2	47
Taiwan	FMC Taiwan Co., Ltd., Taipei	100	37.0	1.6	8.9	78
Indonesia	P.T. FMC Indonesia, Jarkata	100	2.3	-0.5	0.4	14
Malaysia	FMC Malaysia Sdn. Bhd., Kuala Lumpur	100	7.2	0.6	3.8	26
Philippines	FMC Philippines Inc., Makati City - Metro Manila	100	4.0	0.4	1.5	19
South Korea	FMC Korea Ltd., Seoul	100	63.7	5.5	31.8	109
Thailand	FMC (Thailand) Ltd., Bangkok	100	5.3	0.0	3.3	45

[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] Full-time equivalents

[4] Included in U.S. GAAP-closing of FMC Holdings Inc.

5-Year Summary

$ in thousands, except share data	2005	2004	2003	2002	2001
Statements of Earnings [1]					
Net revenue	6,771,819	6,228,002	5,527,509	5,084,097	4,859,318
Cost of revenue	4,439,154	4,142,117	3,698,606	3,428,077	3,220,198
Gross profit	2,332,665	2,085,885	1,828,903	1,656,020	1,639,120
Selling, general and administrative expenses	1,342,792	1,182,176	1,021,781	913,620	966,044
Research and development expenses	50,955	51,364	49,687	47,433	35,700
Special charge [2]	–	–	–	–	258,159
Operating income (EBIT)	938,918	852,345	757,435	694,967	379,217
Interest expenses, net	173,192	183,746	211,759	226,517	222,929
Income before income taxes and minority interests	765,726	668,599	545,676	468,450	156,288
Income tax expense, net	308,748	265,415	212,714	175,074	91,202
Net income	454,952	401,998	331,180	289,790	63,354
Income per ordinary share	4.68	4.16	3.42	3.00	0.65
Income per preference share	4.75	4.23	3.49	3.06	0.70
Earnings before interest and taxes, depreciation and amortization (EBITDA)	1,190,370	1,084,931	973,813	905,522	702,720
Personnel expenses	2,174,719	2,011,890	1,755,981	1,551,874	1,451,116
Depreciation	211,103	199,732	180,952	158,126	147,945
Amortization [3]	40,349	32,853	35,425	52,429	175,558
thereof amortization of goodwill	–	–	–	–	94,732
Before one-time costs and before special charge and related expenses [4]					
EBITDA	1,212,764	1,084,931	973,813	905,522	967,564
EBIT	961,312	852,345	757,435	694,967	644,061
Income	471,556	401,998	331,180	289,790	244,524
Earnings per share	4.85	4.16	3.42	3.00	2.53
Balance Sheet					
Current assets	2,460,938	2,445,970	2,206,128	1,821,700	1,779,129
Non-current assets	5,522,162	5,515,571	5,297,192	4,958,249	4,736,881
Total assets	7,983,100	7,961,541	7,503,320	6,779,949	6,516,010
Short-term debt	296,139	655,093	209,782	153,358	273,375
Other current liabilities	1,282,101	1,282,760	1,202,699	1,142,016	1,103,848
Current liabilities	1,578,240	1,937,853	1,412,481	1,295,374	1,377,223
Long-term debt	1,894,964	1,824,330	2,353,941	2,234,491	2,164,537
Other non-current liabilities	536,190	564,542	493,218	442,905	357,506
Non-current liabilities	2,431,154	2,388,872	2,847,159	2,677,396	2,522,043
Total liabilities	4,009,394	4,326,725	4,259,640	3,972,770	3,899,266
Shareholders' equity	3,973,706	3,634,816	3,243,680	2,807,179	2,616,744
Total liabilities and shareholders' equity	7,983,100	7,961,541	7,503,320	6,779,949	6,516,010
Total debt incl. accounts receivable securitization program	2,191,103	2,479,423	2,721,721	2,833,098	2,883,609
Working capital [5]	1,296,378	1,285,295	1,141,583	870,814	897,093
Credit Rating					
Standard & Poor's [6]					
Corporate credit rating	BB+	BB+	BB+	BB+	BB
Subordinated debt	BB-	BB-	BB-	BB-	B+
Moody's					
Corporate credit rating	Ba2	Ba1	Ba1	Ba1	Ba1
Subordinated debt	B1	Ba2	Ba2	Ba2	Ba2

$ in thousands, except share data	2005	2004	2003	2002	2001
Cash Flow					
Net cash provided by operating activities	670,304	827,843	754,019	549,918	424,248
Capital expenditure, net	(297,342)	(260,374)	(276,434)	(201,377)	(251,030)
Free Cash Flow	372,962	567,469	477,585	348,541	173,218
Acquisitions and investments, net of cash acquired	(125,153)	(104,493)	(92,190)	(79,835)	(216,711)
Share data					
Year-end share price Frankfurt, XETRA (€)					
Ordinary shares	89.00	59.21	56.40	39.46	69.50
Preference shares	78.85	42.65	39.95	28.65	51.80
Year-end ADS share price New York ($)					
Ordinary shares	35.03	26.80	23.35	13.70	20.10
Preference shares	31.20	19.15	16.00	9.80	14.60
Average number of ordinary shares	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000
Average number of preference shares	26,789,816	26,243,059	26,191,011	26,185,178	26,035,330
Total dividend amount (€ in thousands)	120,497	109,429	99,585	91,989	83,321
Dividend per ordinary share (€) [7]	1.23	1.12	1.02	0.94	0.85
Dividend per preference share (€) [7]	1.29	1.18	1.08	1.00	0.91
Employees					
Full-time equivalents, December 31	47,521	44,526	41,097	39,264	37,331
Operational ratios (in%) before special charge and related expenses [2]					
EBITDA margin [8]	17.6	17.4	17.6	17.8	19.9
EBIT margin [8]	13.9	13.7	13.7	13.7	13.3
EPS growth [1]	12.6	21.4	14.0	18.6	6.8
Organic revenue growth (currency-adjusted)	7.4	6.3	3.4	5.1	8.8
Return on invested capital (ROIC)	8.0	7.5	7.2	7.3	7.8
Return on operating assets (ROOA)	12.6	11.8	11.4	11.4	11.2
Return on equity before taxes [1]	19.3	18.4	16.8	16.7	16.1
Return on equity after taxes [1]	11.4	11.1	10.2	10.3	9.3
Cash flow return on invested capital (CFROIC)	14.5	13.5	13.2	13.3	15.4
Leverage ratio (total debt/EBITDA) [9]	1.8	2.3	2.8	3.1	3.0
Gearing [(total debt - cash)/equity]	0.5	0.7	0.8	1.0	1.1
EBITDA/Interest expenses [1]	6.9	5.9	4.6	4.0	4.3
Cash from operating activities in percent of sales	9.9	13.3	13.6	10.8	8.7
Equity ratio (equity/total assets)	49.8	45.7	43.2	41.4	40.2
Dialysis Care Data					
Treatments (millions)	19.7	18.8	17.8	16.4	15.2
Patients treated (December 31)	131,450	124,400	119,250	112,200	105,830
Number of clinics (December 31)	1,680	1,610	1,560	1,480	1,400

[1] 2002: Loss from early redemption of trust preferred securities reclassified from extraordinary loss into interest expense and income tax expense as a result of adoption of SFAS No. 145. (Extraordinary loss of $20 million $12 million net of taxes).

[2] Special charge includes in 2001 special charge for 1996 merger-related legal matters of $258 million ($177 million, net of taxes) and related prior quarter expenses of $7 million ($4 million, net of taxes).

[3] In 2001 the amortization includes amortization of goodwill, tradename and management contracts.

[4] In 2005 before one-time costs for the transformation of legal form and the settlement and related legal fees of the shareholders suit of $22 million ($17 million, net of taxes); in 2001 before special charge for 1996 merger-related legal matters of $258 million ($177 million, net of taxes) and related prior quarter expenses of $7 million ($4 million, net of taxes).

[5] Standard & Poor's plans to lower the corporate credit rating to 'BB' and the subordinated debt rating to 'B+' on completion of the Renal Care Group acquisition.

[6] Current assets less current liabilities (excluding current debt and accruals for special charge included in acrrued expenses and other current liabilities starting in 2003).

[7] 2005: Proposal for approval at the Annual General Meeting on May 9, 2006.

[8] In 2005 EBITDA margin of 17.9% and EBIT margin of 14.2% before one-time costs for the transformation of legal form and the settlement and the related legal fees of the shareholder suit.

[9] Correction of non-cash charges of $14.0 million in 2005, $12.7 million in 2004, $12.5 million in 2003 and $10 million for each year ending in or before 2002.

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