2006 Fresenius Medical Care Annual Report

IN TOUCH WITH LIFE

Fresenius Medical Care

Our Vision The Global Leader in Dialysis

More than three decades 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 to the years to come 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.

We seize the increasing demand for modern dialysis methods and work constantly and diligently on furthering the growth of our company. With our employees, we are pursuing goal-oriented strategies for continuous technological leadership. As a 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 our reliable performance and in the future of our company.

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

Key Figures 2006

OPERATING DATA

$ in millions	2006	2005	Change
Net revenue	8,499	6,772	26 %
Earnings before interest and taxes, depreciation and amortization (EBITDA)	1,627	1,190	37 %
Earnings before interest and taxes (EBIT)	1,318	939	40 %
Net income	537	455	18 %
Net cash flow from operating activities	908	670	35 %
Free cash flow[1]	458	373	23 %
Capital expenditure (net)	450	297	51 %
Capital expenditure including acquisitions	4,766	432	
Proceeds from divestitures	516	–	

DATA PER SHARE

Earnings per ordinary share ($)	5.47	4.68	17 %
Dividend per ordinary share (€)	1.41	1.23	15 %
Dividend per preference share (€)	1.47	1.29	14 %

KEY RATIOS (IN %)

EBIT margin	15.5	13.9	
EBITDA margin	19.1	17.6	
Equity to assets	37.3	49.8	

OTHER DATA

Employees (full-time equivalents)	56,803	47,521	20 %
Patients	163,517	131,450	24 %
Clinics	2,108	1,680	25 %
Treatments (in millions)	23.7	19.7	20 %

[1] Before acquisitions and dividends

NET REVENUE

$ in millions

NET INCOME

$ in millions

EARNINGS PER SHARE

in $

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 2006. For more details please refer to the 5-year summary at the end of the report.

2006 Corporate Report

IN TOUCH WITH LIFE

NUMBER OF PAGES:	122
NUMBER OF CHAPTERS:	01 – 03
PUBLISHED:	MARCH 2007

Fresenius Medical Care

The products we make and the services we provide are ones that people's lives depend upon. But that is not enough for us. We want to be in touch with life.

In this respect, our innovations Page 4 are crucial. By being in close contact to our patients every day, we provide relief Page 12 for ill people. This objective is of particular importance, especially in new markets Page 8. Here, we take on responsibility in times of fundamental change and we ensure the quality Page 20 of our products and therapies. The best evidence of our success in this field is patients gaining lasting quality of life with our help. We are as much in touch with life Page 16 as anyone can be.

Bad Homburg, March 2007

Dear ladies and gentlemen,

The 2006 business year was surely one of the most eventful years in the history of our young company.

We successfully completed important structural measures: the conversion of preference shares to ordinary shares and the transformation of the legal form of our company into a partnership limited by shares.

Our work last year was influenced significantly by the acquisition of Renal Care Group in the United States. With this strategic step, we have strengthened Fresenius Medical Care's competitive position substantially. We faced the challenge of integrating more than 25,000 dialysis patients and over 7,000 employees into our organization and our operational workflows, without making any concessions regarding the quality of treatment. I believe you will share our view that we indeed achieved this goal. Please look at this Annual Report starting on page 90 were you can find details on how we accomplished our goal.

In addition to all these changes – and it is very important for me to mention this here – we continued to improve our operating business, achieving records in revenue and earnings. We significantly increased our revenue by 26 % to $ 8.5 billion. Excluding one-time costs, our net income for 2006 was up 24 %, totaling $ 584 million. As a result, we far surpassed the goals we had set ourselves at the beginning of 2006.

Clearly, we would like to share this success with you, our shareholders. Therefore, we will propose a dividend increase of about 15 % at the Annual General Meeting, raising the dividend per ordinary share to € 1.41 and € 1.47 per preference share. This would be the tenth consecutive annual dividend increase.

Ladies and gentlemen, in last year's Annual Report I presented our growth program GOAL 10 to you and outlined the strategic initiatives we intend to pursue to further enhance our position in the dialysis market as we look ahead into the future. In the past business year, we made progress with this – among other things, by adding the renal drug PhosLo to our product portfolio. You can find more information about how we have consistently implemented our growth program from page 50 onwards.

We have revised our long-term growth outlook upward not only due to the acquisition of Renal Care Group, but also because of our very successful operative development in 2006. We now expect to generate revenue of $11.5 billion in 2010, raising our forecast from $10 billion. Please see page 50 for details.

For the 2006 Annual Report we selected the motto "In Touch with Life". With the portraits from page 4 onwards, we want to depict and show you what Fresenius Medical Care stands for and what we do every day: treating kidney patients and developing innovative products and therapies to benefit them as best as we know how and so that they can achieve the best quality of life. This is and has always been our calling right, since our company was founded in 1996.

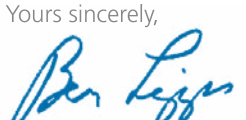
As you can see, 2006 was not just an excellent year for Fresenius Medical Care; we also celebrated our ten year anniversary. Although we are very young for a company of our size, we have a very good track record and it speaks for itself. No other company worldwide treats more dialysis patients than we do; our revenue and employee numbers have more than doubled since 1996; and the number of dialysis clinics we operate has more than tripled. All of this is the result of the great dedication and hard work of our management and employees. Let me invite you to take a trip down memory lane with us as we look back at 10 Years of Fresenius Medical Care on the folded page.

In spite of our great success in the past decade and particularly in 2006, we are not resting on our laurels, but looking ahead. Our goal for the future continues to be that we intend to offer the best therapies for kidney patients and to hold a significant share of the worldwide dialysis market. This market is characterized by continually growing patient numbers and limited personal and financial healthcare resources. At the same time, the quality of treatment is expected to get better and better.

With our ability to innovate, our knowledge, and our experience, we are prepared to take on the challenge, continue to provide high-quality of care, and affordable dialysis treatments for renal patients worldwide. In 2007, we are striving to achieve a revenue of about $9.4 billion, an increase of 11%. The net income is expected to be between $675 million and $695 million in 2007. This represents an increase of between 18% and 21% on an adjusted basis to 2006. On a reported basis, the net income would increase by 26% to 29%. Our detailed outlook can be found from page 103 onwards.

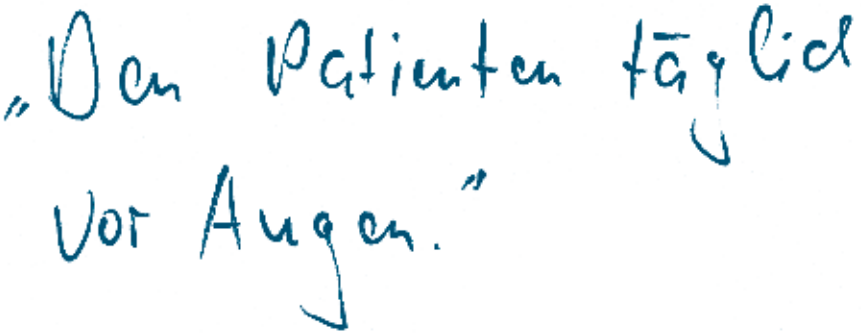
Respectfully, I would like to thank you, the shareholders of Fresenius Medical Care, for your trust and support. I would also like to express my gratitude to the employees around the world, my colleagues on the Management Board and the members of the Supervisory Board. Together, we can continue to grow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

Yours sincerely,



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

SCHWEINFURT, GERMANY / FEBRUARY 2, 2007
RENÉ BAUER ON DEVELOPMENT WORK



Looking back, a lot in life may seem preordained. Take René Bauer's career: having completed an apprenticeship (a serious business in Germany) as a precision mechanic, he then went on to study medical engineering, he says, "because technology and medicine have always fascinated me."

René wrote his diploma thesis while working for Fresenius Medical Care in Schweinfurt, a manufacturing town about 100 miles east of Frankfurt/Main. There probably are few places where René's twin passions could be better united. Today, he is technical project manager for the 5008 series dialysis machine. "This is a completely new platform," he enthuses, "incorporating numerous innovations while still leaving room for new developments over the next few years."

René is especially proud of the intricate new security mechanism, the improved therapeutic efficiency, but most of all of the new user

RENÉ BAUER, TECHNICAL PROJECT MANAGER FOR THE 5008 SERIES DIALYSIS MACHINE IN SCHWEINFURT: **"EYES ON THE PATIENT EVERY DAY."**

interface: "Dialysis machines are normally operated by specialists, that is, specially trained nurses. In times of budget constraints in the healthcare sector, there is a growing pressure on personnel, which means that, in addition to their traditional tasks, they now need to operate more and more machinery. This is something we need to take account of in development." An intuitive concept helps avoid errors and simplifies complex operational routines. "In addition, there are new algorithms at work in the 5008, new computing routines which analyze signals to spot malfunctions. Currently, our team is working on recognizing drops in blood pressure as fast as possible, thus triggering alerts earlier. We've invested a lot of development work in these algorithms, too."

Doesn't sound like an easy task, especially given the fact that the 5008's predecessor, the 4008, had set the benchmark. The 4008 had been market leader in its time, something that, in this specialized field, does not happen by chance. But then, René Bauer knew that when he started, after all, he had worked on the 4008 for several years. If the 5008 pulls even with the 4008, then that might be because the development team paid critical attention to the machine's economics. This is not just about the improved operational concept, says René, "we also raised the 5008 therapeutic efficiency considerably. We did this by improving the so-called HDF, the hemodiafiltration, to a degree where it can now be executed without any additional costs and without raising operational complexity. This process is less onerous for the patient than standard dialysis and leads to a higher long-term survival rate." Another technology leading to clinical improvement is the blood volume monitor (BVM). It allows fluid withdrawal during dialysis with much less discomfort for the patient, thus helping to prevent the dreaded drops in blood pressure.

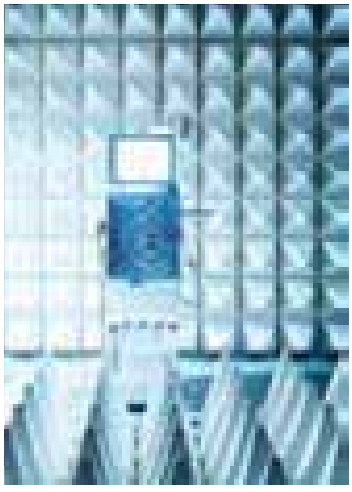
However, René is not just passionate about improving machines. He has a long-term vision: "Our machines help dialysis patients survive. Our ideal is that the patient should be able to live as if he did not have the disease at all. This, of course, is an extremely long-term goal." But every day, a little progress can be made in that direction.

"Our focus in practice is on making the therapy as agreeable and free of discomfort for the patient as possible. That is what we work on every day." And René never loses sight of the patients: "I was often in on the clinical tests of the 5008. That gave me a chance to experience the entire cycle of therapy in clinical practice."

And René's familiarity with the patients' lives is not limited to the lab or the hospital: "Fresenius Medical Care sent me to New Zealand and Australia for six months as part of job rotation. That's where I learned a lot about home dialysis, which is pretty widespread there. You get very close to a patient's life that way, much more so than in a hospital. I won't forget those impressions any time soon. They guide me in my work every single day."

1,800
UNIQUE IDEAS

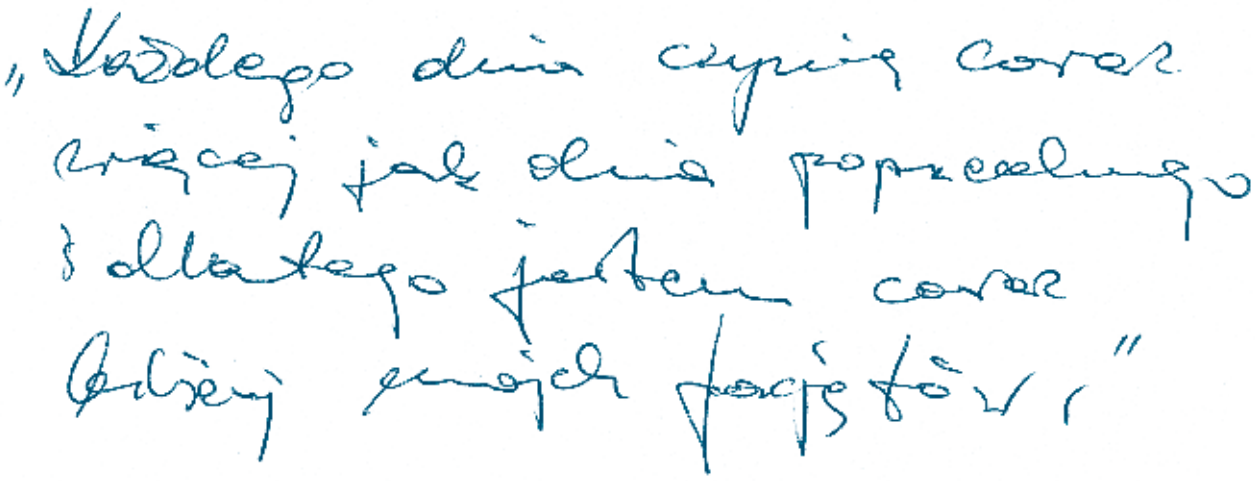
NUMBER OF PATENTS AND PATENT APPLICATIONS



KRZYSZTOF KLOS, MANAGER OF THE RYDYGIER PROVINCIAL SPECIALIST HOSPITAL IN KRAKOW:
"EVERY DAY, I CAN DO MORE THAN THE DAY BEFORE, GETTING CLOSER TO MY PATIENT'S LIFE."

KRAKOW, POLAND / FEBRUARY 9, 2007

KRZYSZTOF KLOS ON NEW OPPORTUNITIES



Krzysztof Klos loves a challenge. In the 1990s, when other highly-educated Poles his age went to find jobs in the country's expanding manufacturing and financial services industries, the 51 year old took on a very special project: the modernization of a large hospital.

"The hospital was stuck in old problems," says Klos, "so I was called in to help." The call was issued by the regional government of Malopolska and so he went to Krakow, the region's capital. Krysztof Klos accepted what he knew was an enormous challenge. After all, it involved transforming an operative organization. As any business consultant will tell you, building a successful organization from scratch is hard enough. But doing it in a legacy environment that also has to rapidly adapt to fundamental social changes in the business framework – well, even experienced restructurers would probably think twice before accepting that kind of a task. All Krzysztof Klos has to say about it is: "Of

course, I didn't know how tough it was going to be, but I have no regrets."

Today, Rydygier Hospital in Krakow is a highly specialized multidisciplinary operation with approximately 650 beds. It accommodates about 28,000 patients a year, 10,000 of them requiring surgery. "Our patients are mostly from Krakow, but some of the services we offer are crucial to the entire region of Malopolska. This includes burn treatments, facial surgery, toxicology, oncology and hematology. Some of these are unique not just in our region, but beyond, too, which is why we will sometimes admit patients from neighboring regions as well." Krzysztof Klos' hospital is something of a beacon of hope for Krakow and the surrounding regions. As everywhere else, patients here in Poland seek the best-possible care, many of them without finding it. Rydygier Hospital, however, goes out of its way to help wherever it can. "We try to strike the balance between providing service to the community and watching our bottom line. A lot can be achieved if you go about it the right way and find a partner in the industry."

One of these partners is Fresenius Medical Care. With their support, Krysztof Klos was able to open a "Centrum Dializ" on the hospital's premises. "The center provides comprehensive dialysis care: hemodialysis and peritoneal dialysis for in-house and outpatient treatment." One important advantage of the center is that it works together with other wards of the hospital: "Providing dialysis services to kidney patients from our intensive care unit and burn treatment ward plays a very important role at our hospital." This is why the center has grown to a considerable size: "Right now we are treating about 190 patients, 155 in hemodialysis and 35 in peritoneal dialysis."

For these patients at least, privatization has been beneficial: "With Fresenius Medical Care as a partner, we have substantially improved the quality of our dialysis services. Patients no longer need to put up with inferior and old equipment." Asked about the development of the Polish healthcare market and the consequences for his hospital, Krzysztof Klos strikes an optimistic note: "We have a head start because we have been working with our industry partners for years, with Fresenius Medical Care since 2004, for example. This was early enough to become one of the most important nonpublic nephrology clinics in the country."

Asked about his motivation, he summarizes: "Every day, I can do more than the day before, getting closer to my patient's life. What more could I ask of my work?"

23
IMPROVED PERSPECTIVES

NUMBER OF DIALYSIS CLINICS OPERATED BY FRESENIUS MEDICAL CARE IN POLAND

TAOYUAN, TAIWAN / FEBRUARY 15, 2007

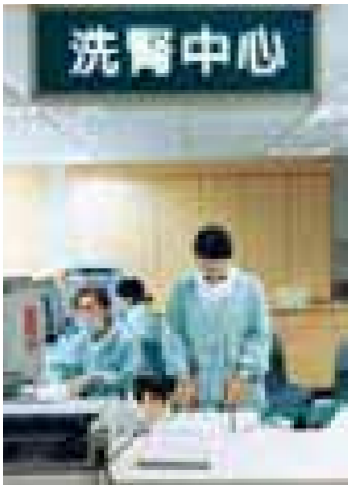
TINA HSU ON BEING IN TOUCH WITH PATIENTS

The building alone is a testament to the hospital's ambition: Min Sheng General Hospital, where Tina Hsu works, stands a massive 20 stories high in downtown Taoyuan in northern Taiwan, a fast-growing manufacturing city of almost 400,000, whose name means "peach garden", though peach trees today are few and far between in Taoyuan.

Tina Hsu works in the dialysis ward which is located halfway up the building, on the 11th floor. She has been at Min Sheng for more than twenty years now and during that time has witnessed the dialysis center grow tremendously in size: "When I started here in 1985, we had four dialysis machines providing around 200 treatments a month. In 2002, that had grown to 2,500, and now it's 4,000 a month – and 80 dialysis machines."

Part of this dynamic development is due to the national health insurance system that was introduced in Taiwan in 1995. The reform essentially gave everyone access to medical care, even to sophisticated treatments such

TINA HSU, NURSE IN MIN SHENG GENERAL HOSPITAL IN TAOYUAN, TAIWAN:
"A HAPPY LIFE IS ONE SPENT HELPING OTHERS."


洗腎中心

as dialysis. Back in 1995, less than 60 % of Taiwan's citizens were health-insured, treatment costs were forbidding and the diagnosis 'end-stage renal disease' was bad news for poor patients. Since the reform, low and middle-income patients, too, have been able to afford dialysis. "When I began working here, dialysis was something for rich people. Now, it's for everyone," says Tina.

In 2002, Fresenius Medical Care took over the dialysis center at Min Sheng hospital, and the number of patients treated increased with every year: "At the end of 2006, we had 297 patients on hemodialysis, and since each of them comes in about three times a week, that translates into about 4,000 treatments a month. In addition, we have 57 patients on peritoneal dialysis." One thing has not changed since the 1990s: "Our mission still is safe, high-quality and humane dialysis care, and Fresenius Medical Care's products are helping us tremendously to achieve that," says Tina, "in fact, many of our patients now recognize the Fresenius Medical Care brand name and have a high degree of loyalty to it."

Over the years, Tina Hsu has also been able to follow the introduction of technological innovations into dialysis treatment. "Today, the online clearance monitor, the blood temperature monitor and online hemodiafiltration are well accepted by the medical team and our patients, and we are looking to upgrade at least half of our machines to include these features," says Tina. The processes in the center have also become much more efficient: "A large part of my work consists of data collection and analysis. Most of that is obviously done automatically and systematically, but we medical technicians need to oversee that process. The information serves to ensure the quality of dialysis treatments, eventually helping us to provide even better care for patients and their individual needs."

Tina Hsu's work, however, is more than merely technical. What she also likes about her job is the feeling that hospital staff and dialysis patients form something of a family: "With people coming in so regularly, and our work so important for them to simply keep on living, a deep bond forms between us and most of our patients. This is what is so gratifying about the work I do."

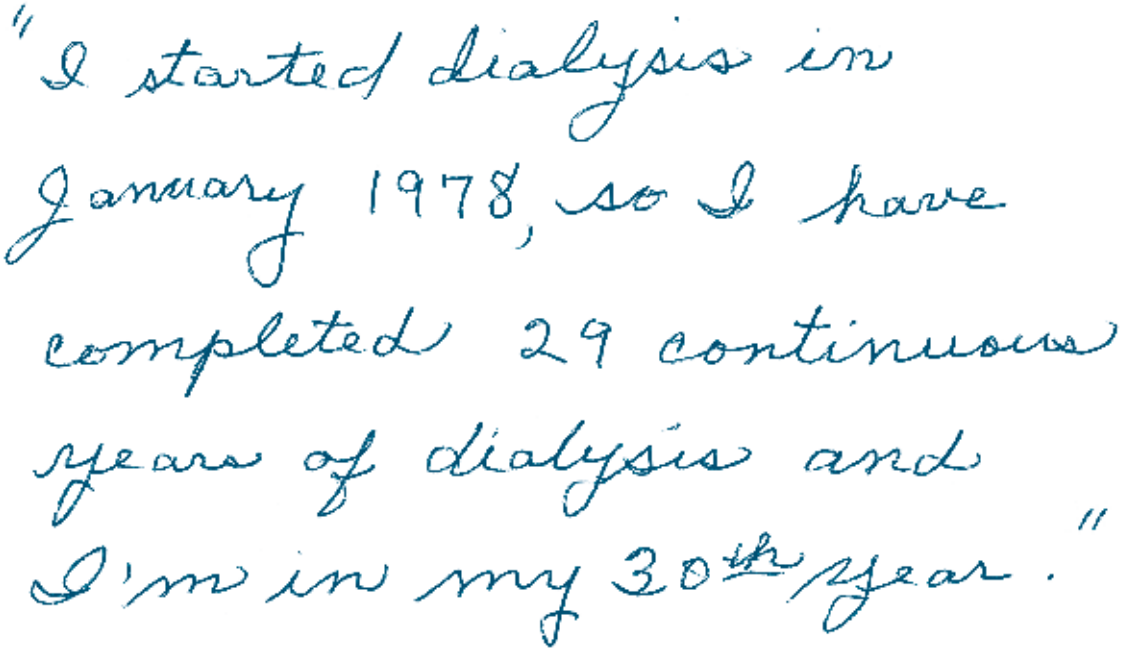
The most important aspect, however, is simply and literally saving lives: "It is the most rewarding thing, but it's also a tremendous responsibility. You know these patients depend on your professionalism to stay alive. You see, any mistake or negligence on your part can be deadly. To me, that is a challenge I relish. It keeps me on my toes every day I work." So is there something she would wish for? "If possible, enable us to serve more patients. A happy life is one spent helping others."

43,094
DEDICATED PEOPLE

NUMBER OF EMPLOYEES IN DIALYSIS CARE OF FRESENIUS MEDICAL CARE

CELIA KANTER, DIALYSIS PATIENT FROM NEWPORT BEACH, CALIFORNIA, U.S.:
"I STARTED DIALYSIS IN JANUARY 1978, SO I HAVE
COMPLETED 29 CONTINIUOUS YEARS OF DIALYSIS AND I'M IN MY 30TH YEAR."

NEWPORT BEACH, CALIFORNIA, U.S. / JANUARY 27, 2007
CELIA KANTER ABOUT A LONG WAY



If there is an expert on dialysis, it must be Celia Kanter. This 67-year old tax accountant has been on dialysis for no less than 29 years. She has thus had the opportunity to experience the progress in the field at first hand.

Unlike many other dialysis patients, Celia Kanter does not know exactly what caused her kidneys to fail. "I was thirty years old and kind of a health nut. Never overweight, never smoked, never took drugs, watched my foods, exercised regularly, was physically active, swam, played basketball, etc. I just went for my annual physical feeling pretty good."

Her blood pressure read high that day, but she put it down to having just played tennis and losing, too, which had made her upset.

"When an x-ray of my kidneys showed that they were the size of walnuts, I thought the doctor and x-ray technicians were crazy." In the end, however, the diagnosis was incontrovertible.

Celia Kanter began her first dialysis treatment in January of 1978 and has done so ever since. In time, she came to terms with the treatment and decided there was no alternative. "I never had a transplant, and I have never wanted a transplant. Just the other day, another dialysis patient was shocked when I told her this. She said: 'Do you like being on dialysis?' Well, of course I do not like being on dialysis. What is there to like?" But when Celia Kanter started her treatment, transplants were not as successful as they are today, unless the donor and the recipient had a perfect, a so-called "A" match: "My sister was tested and we had a 'C' match. That meant the transplant would very likely not have succeeded. Thirty years ago, people died receiving transplants or they had to take massive amounts of anti-rejection pills causing them to gain weight enormously. Also, it was a big operation for the donor."

Celia Kanter says she has never regretted her decision not to have a transplant: "I believe anyone who starts dialysis today and has relatively few other health problems should live well for at least thirty years on dialysis, just as I have done. What is important is to follow the diet, learn about the machine and how the kidneys work, and most important of all: to educate yourself about the medicines. And remember: things were much more difficult when I started my treatment."

As is true so often in medicine, a positive mindset helped Celia Kanter greatly: "When I first started dialysis, I asked my doctor to give me all the information he could, medical books, journals whatever. He was very understanding and provided me with lots of material, which I read through very carefully. I think it is all-important that a dialysis patient becomes familiar with the details of his therapy. Everybody should be able to look at the monthly lab results and know how to adjust diet and medication to bring lab values back to optimum. Being proactive in dealing with your doctor and staff is a must for a long life on dialysis."

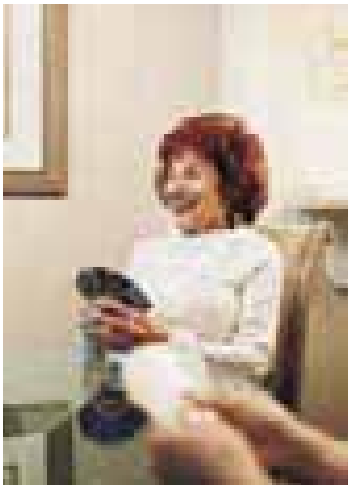
Her positive attitude has enabled Celia Kanter to remain impressively independent: "I have driven myself to the dialysis clinic for the last 29 years or so. Also, I practice yoga, play bridge, eat out with friends and run a small tax practice," she says, but to be sure, she has also been receiving strong emotional support: "My best helper and the reason I am living today is my exceptional daughter Caryn. Even though she is married, she always manages to call me several times a day and go out with me to lunch or to a movie every once in a while. I honestly feel it is Caryn's love that gets me through everything."

However, Celia Kanter also cautions not to rely on emotional support alone: "Emotional support is obviously a comfort for the patient, but it is the patient himself who must make the decision not to drink that glass of water or not to eat that piece of chocolate cake." Even with all the progress made during the last thirty years, dialysis is not a simple therapy. Patients need to visit a clinic three to four times a week and the treatment itself can be unpleasant.

"Way back when I started treatment, I often got sick on dialysis and had horrible migraines. Today, that no longer happens and modern machines do a much better job of cleaning my blood. Understanding the various parameters on the machine means I can control weight loss, drops in blood pressure and muscle cramps. Having

163,517
TIMES IN TOUCH WITH LIFE

NUMBER OF PATIENTS TREATED BY FRESENIUS MEDICAL CARE IN 2006



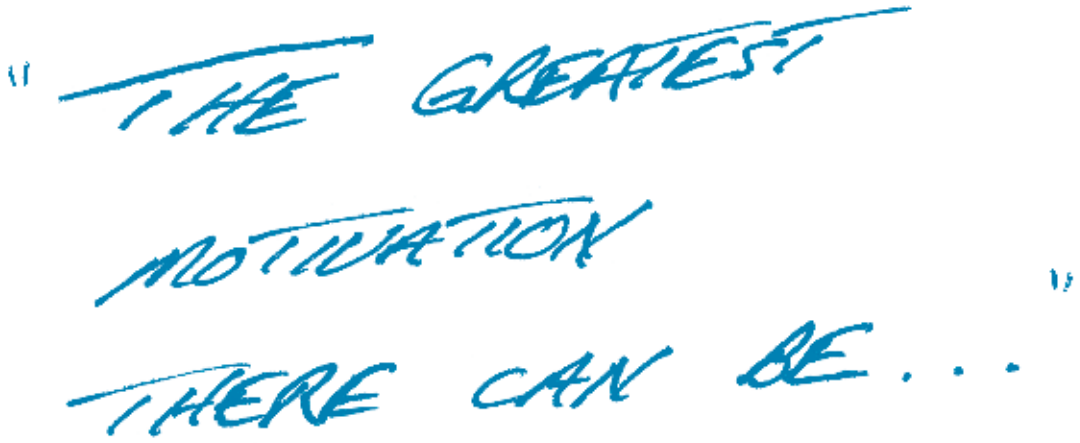
said that, of course, I wish there were a pill you could take instead of having to hook up to a machine or that at least they could do more about those muscle cramps."

Needless to say, that kind of a pill is still decades away, if it is a prospect at all. In the meantime, patients may take comfort in the steady improvements being made to dialysis products.

Still, Celia Kanter has something she is looking forward to: "Caryn and I will soon be taking a two-week cruise to Europe." A cruise? For a dialysis patient? "Fresenius Medical Care have installed dialysis machines on cruise ships, this means people like myself can actually go on holiday on the high seas. I've done it five times already." Talk about being in touch with life!

OGDEN, UTAH, U.S. / JANUARY 31, 2007

TROY MCGHEE ON AN INSPIRATION THAT NEVER WANES

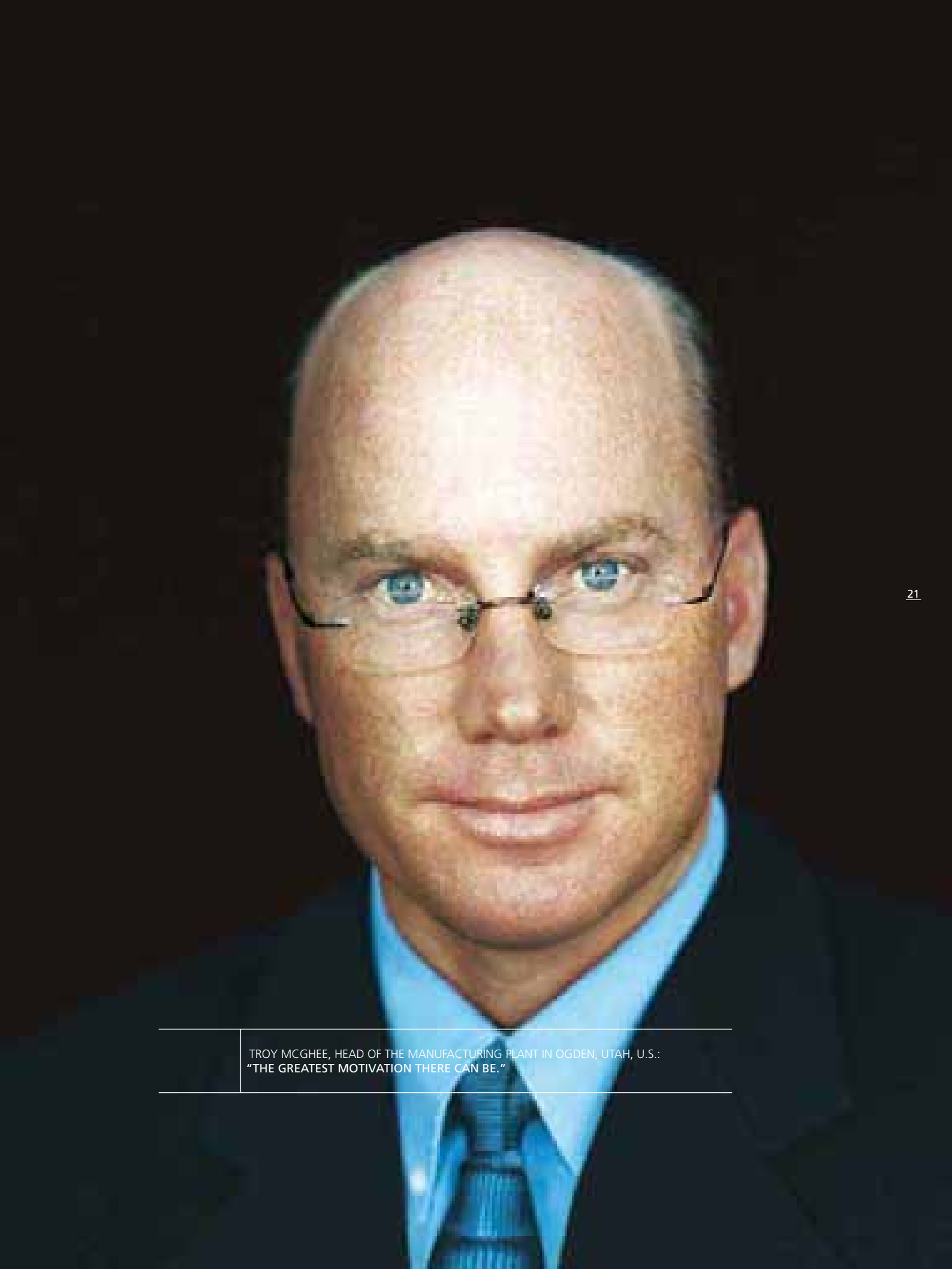


Metrics is something Troy McGhee is familiar with. After all, this 39 year old engineer started his career in 1991 overseeing the conversion from American to metric units at a major U.S. industrial manufacturer.

Four years later, Troy joined Fresenius Medical Care and has never looked back since. Today, he heads up the manufacturing plant in Ogden, Utah.

The Ogden plant is Fresenius Medical Care's main manufacturing facility in North America and produces dialyzers and solution bags as well as fiber bundles and molded components.

Troy has always been fascinated by the intricacies of manufacturing, but he takes the greatest pride in his team's performance, which is indeed impressive: "In the twelve years I've been here, we've further raised



TROY MCGHEE, HEAD OF THE MANUFACTURING PLANT IN OGDEN, UTAH, U.S.:
"THE GREATEST MOTIVATION THERE CAN BE."

quality metrics, but at the same time, we've increased capacity more than sevenfold. The greatest challenge has been keeping up with this continuous growth."

So how does one achieve that? Apparently, it is mostly about choosing the right people: "You have to start with a fixed set of core values for the company. Based on that, you then try to hire the best talent you can possibly find. Happily, that seems to work: our people are the best in the industry that I have ever seen." In the process, Troy often finds his people have a lot more potential than they realize: "I really enjoy being able to see more potential in people than they do themselves, and then contributing to their growth."

Sounds good, but what kind of boss does it take to pull that off? Something of a clairvoyant? Apparently not. The important thing is to recognize one basic relationship: "If each individual grows, then the potential of the team grows exponentially. Most people don't understand this basic relationship. After all, you don't know what you don't know, but once you realize that, all kinds of mind-created roadblocks simply disappear." And Troy is firmly convinced that Fresenius Medical Care is the kind of company that facilitates such growth.

"Fresenius Medical Care is a global, thriving corporation with solid growth that is grounded with a core value system that puts the patient first. At the same time, we take into account the local culture in every country in an unique way." What he enjoys is working in a globally active company. This means that even in fairly out-of-the-way Utah, a steady stream of colleagues from all over the world come calling. "In the last month, we had Fresenius Medical Care people here from Japan, China, Hong Kong, South Korea, Canada, Mexico, France, Germany, Italy and Poland. It's the greatest place to work on the planet."

But of course, Fresenius Medical Care's international nature is not the only motivation for Troy. In fact, it is not even the most important one. Something else ranks well ahead: "I'm working for a company that cares for people. We serve tens of thousands of very sick children to seniors that depend on the products we manufacture every minute of the day and year. We will produce over 57 million renal care products in 2007 here at the Ogden plant and each one is used to keep someone alive within 30 days of release. You just can't say that about most other products, such as cars, computers, electronics, office equipment, etc."

Thus, this factory manager's job has a profound moral component: "The responsibility that comes with it really keeps you on your toes to produce the best possible healthcare products in the world– and not 'just' world class in quality –, each and every second of the day. That is the motivation for all of us here at Ogden – the strongest there is."

65,000,000

TIMES BEST QUALITY

AMOUNT OF DIALYZERS PRODUCED BY FRESENIUS MEDICAL CARE IN 2006

Thank you.

We wouldn't have been able to do it on our own. Fortunately, many of our colleagues and partners contributed their knowledge and dedication to this Annual Report. We, the Investor Relations staff of Fresenius Medical Care, would like to sincerely thank everyone who provided us with assistance and inspiration.

10 YEARS OF FRESENIUS MEDICAL CARE – A SUCCESS STORY

Fresenius Medical Care, the world's leading dialysis company, turned ten years in the autumn of 2006. But we did not celebrate with fireworks or a gala dinner. Rather, we donated a total of €150,000 to non-profit organizations in Europe, North America and Asia working on behalf of dialysis patients. We prefer to concentrate on what we do best: treating patients with kidney disorders and developing the necessary innovative products and therapies.

Flashback: In 1996, Fresenius acquired the world's largest dialysis clinic operator, National Medical Care (NMC), and merged it with its own dialysis technology division, creating a new company, Fresenius Medical Care. The Company was officially founded on September 30, 1996. Fresenius Medical Care's shares were first listed on the New York Stock Exchange on October 1, 1996.

The takeover of NMC afforded us the opportunity to enter the dialysis services market. We were convinced that our competencies in the development and manufacture of innovative dialysis products, coupled with NMC's experience in the treatment of patients with end-stage renal disease, would make a powerful company. And that's exactly what happened. Since 1996, we have continually extended our leading position on the dialysis market. In addition, we have opened new dialysis clinics in existing markets and acquired clinics from other operators – for example, the international dialysis business of Total Renal Care in Argentina, Italy, and Great Britain in 2000, and a year later 70 dialysis clinics from Everest Healthcare Services Corporation in the East and Midwest of the United States. We have gradually tapped new markets worldwide, particularly in Eastern Europe, Asia and Latin America. The Renal Care Group acquisition in 2006 was the biggest one in the Company's history.

We are also the undisputed leader in the area of dialysis products, with a worldwide market share of 30 %. We have a particularly large lead when it comes to the two most important hemodialysis products. One out of every two new dialysis machines sold new and more than 40 % of all dialyzers worldwide come from Fresenius Medical Care. Two major factors contributing to the Company's success are its wealth of ideas and its innovative spirit.

Today, we can look back on ten years of successful development. No other company worldwide treats more dialysis patients. Our revenue and number of employees have more than doubled since 1996, and the number of dialysis clinics has nearly tripled since then, increasing from 772 to 2,108.

Although we have accomplished a great deal, we are not resting on our laurels. We will continue to develop innovative therapies and dialysis products in the future in order to further improve the quality of treatment. With our successful growth program GOAL 10 see page 50, we have paved the way to further strengthen our position as the world's leading company in renal replacement therapy. For this reason, among others, Fresenius Medical Care's next ten years will be at least as eventful as the preceding ten.

EMPLOYEES Full-time equivalents

2006	**56,803**
1996	**25,780**

PATIENTS

2006	**163,517**
1996	**56,350**

REVENUE $ in millions

2006	**8,499**
1996	**2,690**

NET INCOME $ in millions

2006	**537**
1996	**44** [1]

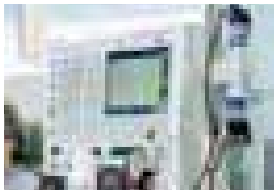
[1] Pro forma

MILESTONES

1996 The worldwide dialysis activities of Fresenius and National Medical Care are merged to form Fresenius Medical Care.

1997 Acquisition of Spectra Laboratories – today the largest provider of laboratory services for dialysis patients in the U.S.

1999 Fresenius Medical Care produces its hundred thousandth dialysis machine in Schweinfurt. The Company's shares become part of the DAX-30 benchmark index.

2000 We develop the new dialyzer generation, the FX-class, with helixone membranes. The new dialyzers (artificial kidneys) are smaller, lighter and more effective than traditional dialyzers. Our factory in France is equipped with a new production line for polysulfone dialyzers.

2001 Fresenius Medical Care manufactures its hundred millionth dialyzer in St. Wendel, Germany. The MultiFiltrate dialysis machine for the treatment of acute kidney failure is introduced on the market. Fresenius Medical Care completes its new plant for peritoneal dialysis products in Buzen, Japan.

2002 Fresenius Medical Care's UltraCare treatment concept is launched in the U.S. Its key feature is the single-use of dialyzers. With the concept, Fresenius Medical Care revolutionizes the U.S. dialysis market.

In Guadalajara, Mexico, a production site is built for bag systems used in peritoneal dialysis.

2003 For the first time, Fresenius Medical Care manufactures more than 50 million dialyzers a year at sites in Europe, Asia and the U.S.

2005 Fresenius Medical Care introduces the 5008 therapy system to the market. The new system permits a more widespread and more simple use of online hemodiafiltration (online-HDF), which is likely the best-possible treatment method.

2006 The Schweinfurt plant delivers the two hundred fifty thousandth dialysis machine since its foundation. Fresenius Medical Care acquires Renal Care Group, the third-largest dialysis clinic operator in the U.S., and produces about 65 million dialyzers.

01.[1–10]

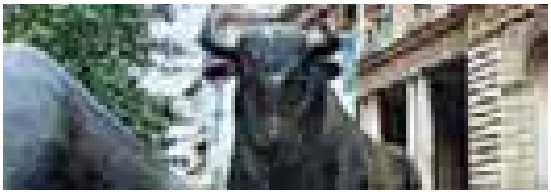
Fresenius Medical Care's shares developed once again positively in 2006. The good operational performance as well as structural changes and the acquisition of Renal Care Group in the U.S. contributed to this. In the year under review, we successfully completed the conversion of preference shares into ordinary shares and the transformation of the legal form of our company to a partnership limited by shares (Kommanditgesellschaft auf Aktien). In addition, we improved our rank as the world's leading dialysis company and we are in an excellent position for future success.

01.[1–10]

01.1 Our Year 2006

JAN. **Innovation Award received.** Fresenius Medical Care receives the German Business Innovation Award for its new 5008 therapy system designed to treat patients with chronic kidney failure. The novel therapy system is very easy to operate and conserves water and energy.

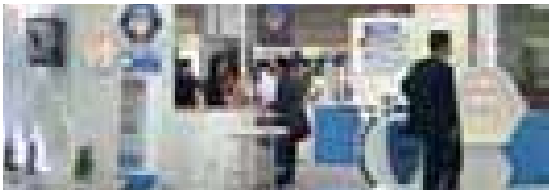
FEB. **Conversion of shares and transformation of legal form completed.** Fresenius Medical Care completes the conversion of preference shares into ordinary shares and its legal transformation to a partnership limited by shares (Kommanditgesellschaft auf Aktien). Both measures became effective upon registration with the commercial register of the local court on February 10, 2006.



MAR. **Acquisition closed.** With the acquisition of Renal Care Group, Fresenius Medical Care extends its position as the market leader in dialysis services in the U.S. The transaction is the Company's biggest acquisition and an important milestone in its history.

APR. **Production capacity expanded.** Fresenius Medical Care increases the production capacity for artificial kidneys (dialyzers) at its plant in Ogden, Utah, U.S. The plant will be able to manufacture more than 34 million dialyzers per year in the future, 20 % more than it produced in previous years. The expansion of the production capacity is slated for completion in 2007.

JUN. **New developments presented in Japan.** Fresenius Medical Care presents itself at the congress of the Japanese Society for Dialysis. In Yokohama, 15,000 visitors collect information about the new treatment method online-hemodiafiltration, among other things.



AUG. **Disaster Response Plan updated.** Fresenius Medical Care North America introduces its 2006 Disaster Planning and Response Plan. It incorporates experiences from the devastating hurricanes "Katrina," "Rita," and "Wilma" of the previous year. The plan specifies communication channels and provides for efficient coordination in the case of a disaster.

SEP. **Anniversary celebrated.** Fresenius Medical Care is ten years old. After its foundation in 1996, the Company became the world's leading dialysis provider. On the occasion of the anniversary, the Company donates € 150,000 to non-profit organizations in the U.S., Europe and Asia which are working on behalf of dialysis patients.

OCT. **Business segment extended.** Fresenius Medical Care acquires the phosphate binder business of Nabi Biopharmaceuticals. With the move, the Company expands its range of clinical treatment options by a safe and tested dialysis drug and enhances its growth opportunities in this important area.

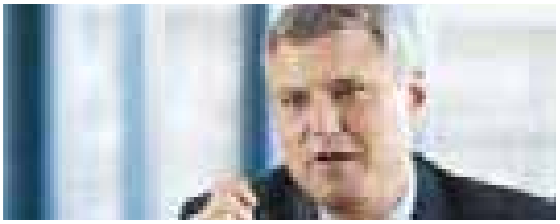
DEC. **Professional training program started.** In Argentina, Fresenius Medical Care launches an innovative continuing education program for nephrologists in cooperation with the University of Tucuman. This precautionary program guards against a potential shortage of kidney specialists in Argentina.

01.² Management Board

DR. BEN J. LIPPS
Chairman

Dr. Ben J. Lipps (66) has been Chief Executive Officer and Chairman of the Management Board of Fresenius Medical Care since 1999. From 1996 to 1999, he was CEO of Fresenius Medical Care North America and from 1985 to 1996, CEO of Fresenius USA. 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.

LAWRENCE A. ROSEN
Finances



Lawrence A. Rosen (49) joined Fresenius Medical Care in November 2003 as Chief Financial Officer. Prior to that, he worked for Aventis S.A., Strasbourg, France, and one of its predecessor companies, 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
Law & Compliance

Dr. Rainer Runte (47) is Member of the Management Board for Law & Compliance of Fresenius Medical Care and has worked for the Fresenius Group for more than 15 years. Previously he served as a 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.

ROBERTO FUSTÉ
Asia-Pacific

Roberto Fusté (55) 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.

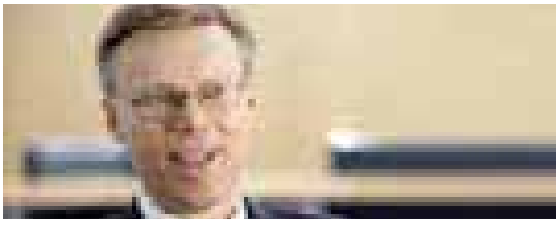
RICE POWELL
Dialysis Products, Extracorporeal Therapies and Laboratory Services North America

Rice Powell (51) 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 as co-CEO and member of the Management Board of the Company in January 2004. Mr. Powell has nearly 30 years of experience in the healthcare industry. From 1978 to 1996, he held various positions within Baxter International Inc., Biogen Inc. and Ergo Sciences Inc.

DR. EMANUELE GATTI
Europe, Latin America, Middle East and Africa

Dr. Emanuele Gatti (51) 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 in Milan. He continues to be involved in comprehensive research and development activities. Presently he is visiting professor and member of the university board at the Danube 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.

MATS WAHLSTROM
Dialysis Services North America



Mats Wahlstrom (52) 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 co-CEO and member of the Management Board for dialysis care in North America in January 2004.

01.3 Report of the Supervisory Board

of Fresenius Medical Care AG & Co. KGaA for the Fiscal Year 2006

In the fiscal year 2006, the company was able to successfully complete both the acquisition of Renal Care Group (RCG), and the transformation of the company from a stock corporation into a partnership limited by shares. At the beginning of the year under report, the company was still in the legal form of a stock corporation. The then members of the Managing Board of the company (as a stock corporation) are, since the entry of the transformation of legal form in the Commercial Register on February 10, 2006, members of the Managing Board of the general partner, i.e. Fresenius Medical Care Management AG. The members of the Supervisory Board of the stock corporation, with the exception of Dr. Ulf M. Schneider, continued in office within the framework of the change in the legal form. All members of the Supervisory Board were re-elected at the ordinary General Meeting on May 9, 2006 for the period until the conclusion of the General Meeting which resolves on the discharge for the fiscal year 2010. At the ordinary General Meeting on May 9, 2006, William P. Johnston, former chairman of the Board of Directors of Renal Care Group, Inc., was also elected to the Supervisory Board of the Fresenius Medical Care AG & CO. KGaA.

In the expired fiscal year, the Supervisory Board again engaged intensively with the position and perspectives of the company and various special issues while performing the tasks assigned to it by statute and the Articles of Association. We regularly advised the Managing Board of the general partner on the management of the company and supervised the management of the company. 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 reviewed, as usual in previous years, the business development of the companies acquired in the previous years – in particular the dialysis clinics – and compared this with the plans and prognoses at the time of each 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 2006 and all members of the Supervisory Board attended these meetings. In addition, between meetings, important or urgent information was provided in writing or in telephone conferences. In addition, the chairman of the Supervisory Board maintained close contact with the Managing Board of the general partner.

Principal Topics discussed in the Supervisory Board

The acquisition of the Renal Care Group, Inc. (RCG) and the integration of the management of that company with Fresenius Medical Care AG & Co. KGaA was most prominent in the deliberations of the Supervisory Board in 2006 also. The operative, financial and personnel effects of this merger were each discussed in detail. The same applies to the divesting of single clinics to achieve anti-trust approval. The financing of the acquisition of RCG and its effects on the development of the company was also a subject which received intensive attention in the year under report. The Supervisory Board also discussed the acquisition of the phosphate binder business ("PhosLo") from Nabi Biopharmaceuticals Inc. with the Managing Board.

The Supervisory Board again held a one and a half day strategy meeting in autumn together with the Managing Board of Fresenius Medical Care Management AG on the growth perspectives of the company.

With regard to the explanations as to Section 289 ss. 4, Section 315 ss. 4 German Commercial Code and as to the capital classes of the company, voting rights and interests, we refer to Section B of the group management report or Section 2.5 of the management report of the Fresenius Medical Care AG & Co. KGaA.

The Audit and Corporate Governance Committee

The company in the ordinary Annual General Meeting for 2006 expanded the tasks of the Audit Committee by amending the Articles of Association and in that context changed the name of the committee to "The Audit and Corporate Governance Committee". The Audit and Corporate Governance Committee of the company is at present composed of five members who are all independent members who – apart from their membership of the Supervisory Board of Fresenius Medical Care Management AG or of the Supervisory Board of Fresenius AG – have no substantial business, professional or personal relations with the company or with any of its affiliated companies.

The Audit and Corporate Governance Committee held a total of five meetings and also held several telephone or video conferences in the reporting year. It dealt with the annual and group financial statements, the proposed application of profits and the Report 20-F for the American Securities and Exchange Commission (SEC). The Audit and Corporate Governance Committee also discussed

each of the quarterly reports with the Managing Board of Fresenius Medical Care Management AG. The Audit and Corporate Governance Committee issued the instructions to the auditor of the company's and the group's annual financial statements and discussed and determined the main issues in the audit with him. Risk management was again several times the subject of discussion. The Managing Board of the general partner reported several times on the compliance situation of the company.

Representatives of the auditor participated in all meetings of the Audit and Corporate Governance Committee and reported in each case on the audit work and the review of the quarterly financial statements.

In 2006, the Audit and Corporate Governance Committee was again concerned, in particular, with the checking of the company's internal controlling system according to the Sarbanes-Oxley Act ("SOX 404") and above all including in connection with the integration of the business of the company with that of RCG in the USA. On February 16, 2007, the company received the unqualified audit certificate of KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, for the implementation of the provisions of SOX 404 in 2006.

The Audit and Corporate Governance Committee also checked the legal relations of the company with Fresenius AG and its affiliates.

The general partner informed the Audit and Corporate Governance Committee that the German Financial Reporting Enforcement Panel carried out spot-checks on the group financial statements to December 31, 2005 and the group report of our company according to Section 342b ss. 2 sentence 3 No. 3 German Commercial Code (HGB) and raised no issues thereon.

Joint Committee

By an amendment to the Articles of Association passed at the ordinary General Meeting on May 9, 2006, the company established a further body, the Joint Committee, which consists of two members each of the Supervisory Board of the company (Fresenius Medical Care AG & Co. KGaA) and of its general partner (Fresenius Medical Care Management AG). The ordinary General Meeting 2006 elected Dr. Walter L. Weisman and John Gerhard Kringel as the members of the Joint Committee to be delegated by the company (Fresenius Medical Care AG & Co. KGaA). Certain significant transactions and certain legal transactions between the company and Fresenius AG or its affiliates require the approval of the Joint Committee, which meets only when such resolutions are required to be passed. In 2006, no such resolutions arose.

DR. GERD KRICK
Chairman of the Supervisory Board

Corporate Governance

At its first meeting in the fiscal year 2007, the Supervisory Board again reviewed its efficiency and the flow of information between the Managing Board of the general partner and the Supervisory Board and between the latter and the Audit and Corporate Governance Committee.

The Audit and Corporate Governance Committee met regularly after its own meetings including only with representatives of the auditors in the absence of members of the Managing Board of the general partner.

The declaration of conformity of the company pursuant to Section 161 German Stock Corporation Act (AktG) to the German Corporate Governance Code applies in the version of December 2006 permanently accessible on the company's Internet site. The exceptions are only the age limit for members of the Managing Board and the Supervisory Board and the remuneration of the Supervisory Board.

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 2006. The bookkeeping, the annual financial statements and the management report of Fresenius Medical Care AG & Co. KGaA for

the fiscal year 2006 and the group financial statements and the group management report of Fresenius Medical Care AG & Co. KGaA were audited by KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, auditors appointed by General Meeting resolution of May 9, 2006 and instructed by the Audit and Corporate Governance Committee of the Supervisory Board; they carry the unqualified audit certificate. The auditor's reports were presented to the Audit and Corporate Governance 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 and management report of the company or against the group annual financial statements and group management report following the results of the review undertaken by the Supervisory Board itself.

On February 20, 2007, the Supervisory Board approved the annual financial statements of Fresenius Medical Care AG & Co. KGaA for 2006, 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 approved the general partner's proposal for the appropriation of profit, which provides for a dividend of €1.41 for common shares and €1.47 for preference shares. On March 20, 2007, the Supervisory Board approved the group annual financial statements according to US GAAP for 2006. 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 general partner, Fresenius Medical Care Management AG has, in accordance with Section 312 German Stock Corporation Act (AktG), prepared a report for the fiscal year 2006 on relations with affiliated companies. The report contains the final declaration of the general partner that the company received reasonable consideration in the legal transactions and measures listed in the report in accordance with the circumstances which were known to the general partner at the time when the legal transactions or measures were undertaken or refrained from and has not been disadvantaged by the fact that measures in the meaning of Section 312 Stock Corporation Act were taken or refrained from. The Supervisory Board and the Audit and Corporate Governance Committee have reviewed the report. They share the opinion of the auditors who have added the following certificate to this report:

> "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, (3) the measures listed in the report are not the occasion for an assessment substantially different from that of the general partner".

Personal Information

On June 27, 2006, the death occurred of the former chairman of the Managing Board of Fresenius AG, Dr. h. c. Hans Kröner, who crucially contributed to the development of the dialysis division at Fresenius – which became Fresenius Medical Care AG – and which continued to be characterised by his influence for decades. We remember him with gratitude and respect.

The Supervisory Board thanks the members of the Managing Board of the general partner and all employees for their commitment and work contributed in 2006.

Bad Homburg v.d.H., March 20, 2007
The Supervisory Board

Dr. Gerd Krick

01.4 Stock Market

Most of the stock markets around the world developed positively in 2006. The German DAX index increased from about 5,400 points at the beginning of the year to nearly 6,200 points in May. After the initial upward trend, however, there were growing fears that the U.S. economy would cool down. These worries, coupled with fears of higher inflation and interest rate hikes, led to large-scale profit taking and, in some cases, significant price declines. During this period, which lasted about four weeks, the DAX fell about 1,000 points, reaching its year-low in June with 5,262 points.

In the early summer of 2006, the tides turned in the stock markets as the world economy showed robust development in spite of some forecasts. The strong Chinese and Indian economies partially compensated for the somewhat less strong development in the U.S. The significant upward momentum was particularly driven by surprisingly high company profits and by the relatively moderate crude oil price development. In addition, investors saw the possibility of takeovers in some sectors, for example in the electric utility industry, which in turn paved the way for considerable price increases. Since shares were evaluated as being relatively inexpensive and since there were few other attractive investment possibilities, investors returned to the stock markets.

The DAX index closed the year at about 6,630 points, an increase of 22 % over 2005. It was the fourth consecutive year of increases. The stock exchange in Madrid was the only one in Europe to outpace the DAX. The other European stock markets also developed positively. The Euro STOXX index climbed by 15 %, ending the year at 4,120 points. The French benchmark index, the CAC 40, rose by 18 % and the FTSE 100 in London was up by 7 %.

As in previous years, shares in different sectors developed quite differently. In phases in which investors foresee economic recovery, they primarily invest in shares which tend to profit disproportionately from such periods. The demand for shares of companies in defensive or non-cyclical sectors is lower during such a phase, as these companies normally benefit less from an economic upturn. This includes companies in the healthcare sector, such as Fresenius Medical Care. As a result of this development, share prices in the healthcare/pharmaceutical industry only rose by 3 % in 2006.

The initial fears that the Dow Jones index would experience a downswing proved unfounded due to the economic situation discussed above. On the contrary, the Dow Jones surpassed the 12,000-point mark for the first time in its 110 years of history, closing the year at 12,463 points, 16 % higher than the 2005 year-end level. The Japanese Nikkei index increased by only 7 %, lagging behind expectations, after having rallied considerably in previous years.

01.5 Share Development

Fresenius Medical Care shares developed positively again in 2006. The ordinary shares rose by about 14 % to around €101, outperforming the healthcare/pharmaceutical sector, which was up by only 3 %. While the price of the ordinary shares did not increase as strongly as the DAX 30, as a defensive share we performed well in a market environment in which most investors favored cyclical shares. Fresenius Medical Care ordinary shares increased in value for the fourth year in a row. They reached their all-time high in the history of the Company and consequently their year-high on October 25, 2006, at €108.87. The ordinary shares reached their low for the year on June 13, with a value of € 82.48.

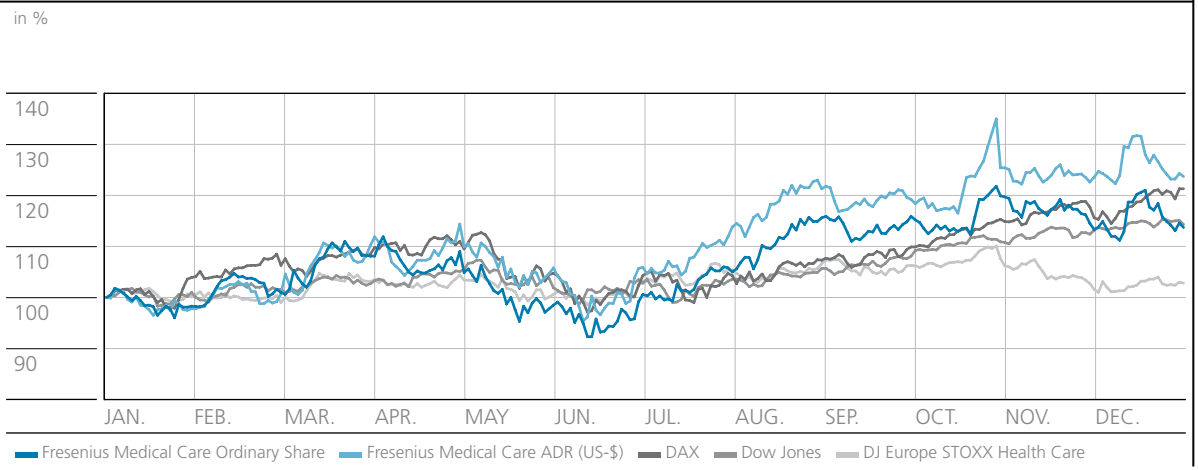
The price of preference shares normally develops parallel to that of the ordinary shares. However, our preference shares are very illiquid following the completion of the conversion into ordinary shares in February 2006. As a result, further statements on the price development would have a rather speculative character.

In addition to the market environment, our good operating performance, the focus on our growth strategy and structural measures contributed to the positive price development of Fresenius Medical Care shares. The structural measures included the conversion of preferences shares into ordinary shares and the transformation of the legal form of our Company into a partnership limited by shares (Kommanditgesellschaft auf Aktien). A detailed report on our growth strategy can be found starting on page 50.

The share conversion and change of legal form strengthened the liquidity and attractiveness of our ordinary shares as well as our financial flexibility, allowing us take advantage of future growth opportunities. Moreover, the conversion bolstered and improved our position in the DAX index, because when calculating the weighting of the index, only the market capitalization of the free float of ordinary shares is considered.

Generally, there are many reasons for the share price development. At the end of 2006, the price of Fresenius Medical Care shares was influenced by, among other things, conjecture regarding planned changes in the reimbursement schemes for dialysis treatment in the U.S. Some investors assumed that the costs for dialysis treatments of private patients in the U.S. would be reimbursed by the private health insurance companies for a longer period of time before the public health insurances Medicare and Medicaid cover those costs. Since the reimbursements from private health insurers are normally higher, this could have had a positive

RELATIVE SHARE PRICE PERFORMANCE 2006



effect on the development of Fresenius Medical Care's revenue and earnings. But when it became evident toward the end of the year that this would not be the case in 2006, there were corrective price adjustments. Some market participants had based their investment decisions on the assumption that the reimbursement structure would change and now had to revise their thinking. As a result, during the above-mentioned year-end rally the development of the price of our shares was below average.

The stronger euro against the U.S. dollar in the course of the year was another important reason for the share price development. A strong euro is an operational advantage for Fresenius Medical Care, since we maintain our financial accounting in U.S. dollars. But a strong euro is disadvantageous for the valuation of our share. If our operational results are converted from U.S. dollars into euros, they are naturally lower with a stronger euro. Thus, the shares appear to be more expensive, but this is only due to currency effects; the operating performance is relatively independent of exchange rates.

Our shares are traded on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADS) and quoted in U.S. dollars. 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 higher increase than the shares listed in Europe, because in the U.S. exchange-rate influences do not play a role. The ADS for the ordinary shares ended the year with a growth of 23 % at over $ 44. This demonstrates the even better development of our share price – based on the U.S. dollar – in 2006. On the other hand, it shows that the exchange-rate effects discussed above influence the share price development.

SHARE PRICE DEVELOPMENT 2006

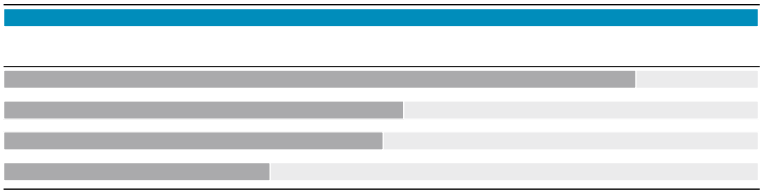
The market capitalization of our Company increased considerably again last year, standing at € 9.93 billion on December 31, 2006, up by €1.61 billion or 19 % compared to 2005. Our market capitalization has developed very positively in the past five years, nearly tripling.

The average trading volume of our ordinary shares was about 437,000 per trading day in the year under review, significantly higher than the level of around 335,000 shares in 2005. The increase was due to the completion of the conversion of preference shares to ordinary shares in February 2006, as a result of which the liquidity of the ordinary shares increased substantially, while the liquidity of the preference shares decreased strongly.

MARKET CAPITALIZATION

at Dec. 31, € in millions

2006	**9,928**
2005	8,307
2004	5,263
2003	4,994
2002	3,512



BASIC DATA

	Ordinary share	Preference share
TICKER SYMBOLS		
Frankfurt Stock Exchange	FME	FME3
New York Stock Exchange	FMS	FMS/P
SECURITY IDENTIFICATION NUMBERS		
WKN	578 580	578 583
ISIN	DE 0005785802	DE 0005785836
CUSIP No. (NYSE)	358029106	358029205
STOCK MARKETS		
Germany	Frankfurt (Prime Standard)	
United States	New York Stock Exchange (NYSE)	

01.6 Dividend

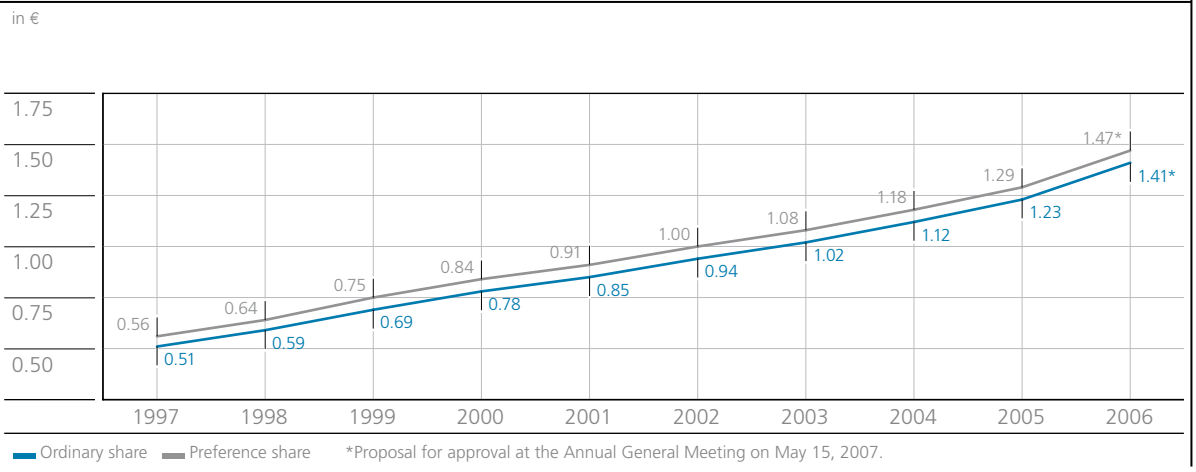
The tenth consecutive dividend increase will be proposed during the Annual General Meeting on May 15, 2007. Because of the good operating development in the previous year, the dividend is set to increase to €1.41 from €1.23 per ordinary share and to €1.47 from €1.29 per preference share. The dividend increase is in keeping with our profit-oriented dividend policy of recent years. Based on the proposed dividend increases and the closing share prices of our shares at the end of 2006, this would be equivalent to a dividend yield of 1.4 % for our ordinary shares, the same as the previous year's level.

If the Annual General Meeting accepts the proposal of our Company, total dividends of some €139 million will be distributed for 2006. At an exchange rate of $1.3170 at the end of the year under review, this represents total dividends of approximately $183 million. Based on our net income before one-time items of $ 584 million, this is a payment rate of just under a third, almost unchanged compared to the previous year.

01.7 Capital Structure

Our capital structure changed as a result of the conversion of preference shares into ordinary shares. Although Fresenius AG's stake in the authorized capital remained at 36.6 %, the stake in the ordinary shares fell from 50.8 % to about 36.6 %. It held about 35.5 million of the 97.1 million ordinary shares outstanding, leaving approximately 61.6 million shares as free float. The authorized capital of Fresenius Medical Care amounted to € 251.87 million on December 31, 2006. In the course of the business year 2006, some 772,280 options were granted to management as part of the stock option plan. More information on the employee profit-sharing program can be found from page 81 onwards, and remarks on Standard & Poor's and Moody's ratings can be found beginning on page 75 of the financial section.

DIVIDEND DEVELOPMENT SINCE 1997



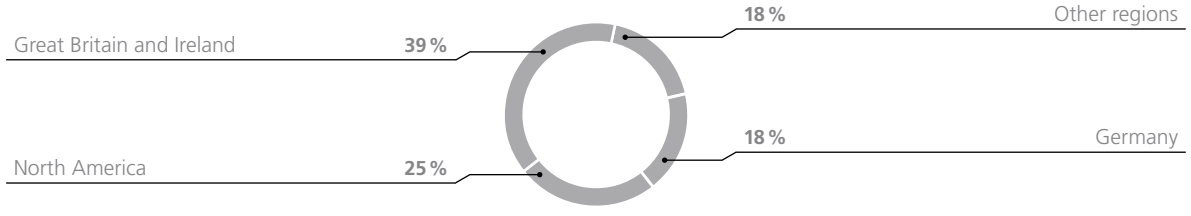
01.8 Shareholder Structure

As in previous years, we conducted a survey of our shareholder structure in the year under review, this time focusing on ordinary shares. In February 2007, we identified just under 400 institutional investors. Together with Fresenius AG, these investors held about 86.2 million of our Company's ordinary shares. In our study, we were able to attribute about 85 % or 53.2 million of the ordinary shares in free float to their owners. The top ten investors held about 17 % of our ordinary shares in 2006, the top 50 some 37 %.

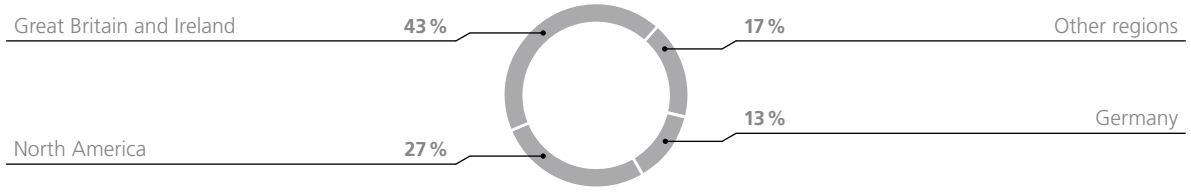
Most of our free float ordinary shares are held in the UK and the U.S.; 39 % are held by investors in Great Britain and Ireland, while 25 % are held by North American investors. Some 18 % of our shareholders are located in Germany.

Compared to the previous study, the regional distribution of the shareholder structure shifted slightly toward Germany and other non-Angloamerican regions. In 2005, about 43 % of the ordinary shares were held by investors in the UK and Ireland, some 27 % by investors in North America, and only 13 % by German investors.

REGIONAL DISTRIBUTION OF ORDINARY SHARES (FREE FLOAT) 2006



REGIONAL DISTRIBUTION OF ORDINARY SHARES (FREE FLOAT) 2005



01.9 Investor Relations

The year 2006 was marked by a number of capital market-related developments at Fresenius Medical Care. In addition to the publication of quarterly figures and the ordinary Annual General Meeting, the conversion of preference shares into ordinary shares and the change of our Company's legal form to a partnership limited by shares (Kommanditgesellschaft auf Aktien) were the focus of our investor relations activities. The fact that 96 % of the preference shares outstanding were submitted for conversion to ordinary shares both confirms and provides incentive for our investor relations work. More information can be found on page 64 onwards in the section "Events Significant for the Business Development" section.

Our investor relations activities were also characterized by comprehensive, transparent and timely communication in the year under review. We continually extended and improved the information we provided to allow for a fair assessment of the Company's situation by the capital market.

Our detailed quarterly and annual reports boast comprehensive segment reporting and extensive notes. We publish our reports within the timeframes stipulated in the various guidelines we are held to observe in both the U.S. and Germany. These include the German Corporate Governance Code as well as the requirements of the Sarbanes-Oxley Act, Deutsche Börse and the New York Stock Exchange. More information on corporate governance can be found starting on page 43.

We broadcast our analyst conferences live on the Internet and offer Web casts of these meetings for replay online. With this service, we offer our shareholders the opportunity to participate in the publication of quarterly results. In addition, investors can send questions directly to our Web site. Our shareholders can also watch live the speech given by the Chairman of the Management Board at the Annual General Meeting.

The Investor Relations department continued active discussions with financial analysts as well as with institutional and private investors in the year under review. As 2006 was an eventful business year, the need for information remained very high. We held more than 700 one-on-one meetings with analysts and investors, an increase of 40 % over the previous year, during which we had had 500 one-on-ones. We presented our Company at 25 roadshows and 13 investment conferences in Europe, North America and Asia, again more than in 2005. Private investors are also very important to us. Therefore, we presented our Company several times at events staged by German association for private investors, the Deutsche Schutzvereinigung für Wertpapierbesitz (DSW) and the Schutzgemeinschaft der Kapital-anleger (SdK). Thus, we not only maintained the high level of communication of previous years, we even surpassed it.

We also set a record in online communications, increasing the number of page impressions by one-third to more than 28 million; in 2005, we had just 21 million page impressions. This continuous positive development illustrates the growing interest in our electronic communications offering and shows how important a comprehensive and comprehensible Web site is. In order to provide even more extensive information to online visitors in the future, we will restructure our Web site and redesign the layout. Users can look forward to added functions, even more service, and a compact and appealing Internet offer. We plan to redo our Web pages in 2007. We are very interested in hearing your opinion and receiving any suggestions on how we can further improve our Web site to meet your information needs.

If you would like to contact Fresenius Medical Care Investor Relations, find out about key dates in our financial calendar 2007 have a look on page 122 of the corporate report or visit us at www.fmc-ag.com.

KEY FIGURES OF FRESENIUS MEDICAL CARE SHARES

		2006		2005	
		Ordinary	Preference	Ordinary	Preference
Authorized capital	$ in thousands	302,615	3,373	229,494	74,476
Number of shares	millions	97.15	1.24	70.00	27.76
CLOSING PRICE (XETRA TRADING)					
High	€	108.87	101.50	89.45	79.31
Low	€	82.48	75.05	57.37	41.60
Year-end	€	100.97	95.98	89.00	78.85
Average daily trading volume	Share	437,042	11,650	335,056	96,038
CLOSING PRICE (ADS – NYSE)					
High	$	47.60	40.00	35.22	31.20
Low	$	34.49	31.00	25.09	18.16
Year-end	$	44.43	40.00	35.03	31.20
MARKET CAPITALIZATION					
Year-end	€ in billions	9.81	0.12	6.23	2.19
Total	€ in billions	9.93		8.41	
DIVIDEND					
Per share[1]	€	1.41	1.47	1.23	1.29
Dividend yield	%	1.4	1.6	1.4	1.6
Distribution amount	€ in millions	139		120	
EARNINGS PER SHARE (EPS)					
Shares	$	5.47	5.55	4.68	4.75
ADS (NYSE – Level III-Program)	$	1.82	1.85	1.56	1.58
INDEX WEIGHT					
DAX	%	0.90		0.53	

[1] 2006: Proposal for approval at the Annual General Meeting on May 15, 2007.
For a more detailed version please refer to the 5-year summary on page 118 in the financial report.

01.[10] Corporate Governance

Group Management and Monitoring Structure

Fresenius Medical Care is listed on the stock market in the U.S. and in Germany. Therefore, we are subject to a number of regulations and recommendations regarding the management, administration and monitoring of the Company. In addition to mandatory requirements according to stock corporation or commercial law, we are subject to the regulations of Deutsche Börse 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. The extension 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.

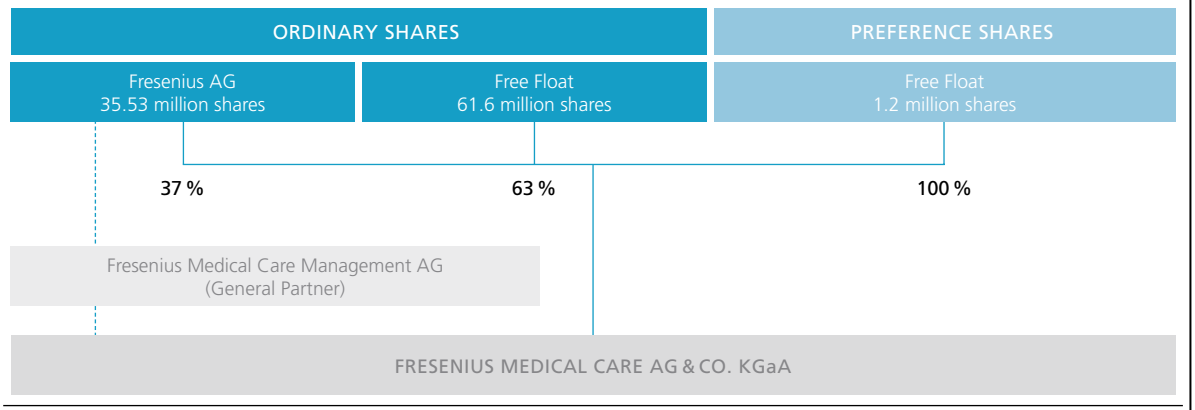
As a non-U.S. company (a so-called "foreign private issuer"), we had to comply with the provisions within the Sarbanes-Oxley Act which required special risk and risk control assessment activities under SOX section 404 as per December 31, 2006. However, we had already voluntarily implemented these provisions early, by 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.

We already comprehensively described the change of the legal form from an Aktiengesellschaft or stock corporation to a partnership limited by shares (Kommanditgesellschaft auf Aktien – KGaA) in the 2005 annual report. This change of the legal form became effective upon registration with the commercial register of the local court (Amtsgericht) on February 10, 2006. In its new legal form the most important elements are the General Meeting, the Supervisory Board and the general partner Fresenius Medical Care Management AG. Therefore, there have been significant changes to the Group management and monitoring structure in 2006. In its former legal form of a stock corporation

STRUCTURE



(Aktiengesellschaft) these organs were the Annual General Meeting, the Supervisory Board and the Management Board.

Fresenius Medical Care has essentially maintained the corporate governance standards of the old legal form. We will continue to provide the highest transparency possible. As part of the legal change, an affiliate of Fresenius AG – Fresenius Medical Care Management AG – became the general partner of Fresenius Medical Care AG & Co. KGaA (see chart on page 43). The Management Board of the general partner now manages the business of the Company. The Supervisory Board of the Company will continue to exist. In addition, the Fresenius Medical Care Management AG also has a Supervisory Board that, as already practized in the former Fresenius Medical Care AG, includes at least two independent members. Furthermore, Fresenius Medical Care Management AG will continue to guarantee the required independence of its Supervisory Board via a so-called "pooling agreement", which Fresenius AG has also joined.

Shareholders

Shareholders exercise their rights by voting at the General Meeting. Each ordinary share of Fresenius Medical Care AG & Co. KGaA entitles the holder thereof to one vote at these General Meetings. Our preference shares do not have any voting rights. To compensate for this, preference shareholders receive a higher dividend and have a preference in earnings distribution. Shares with multiple or preference voting rights do not exist. As a matter of principle, the general partner or its owner Fresenius AG can exercise the voting rights connected with the shares held at the Annual General Meeting. The general partner or its ultimate parent Fresenius AG are, however, subject to various legal bans on voting on certain resolutions. The voting restrictions concern, among others, the election of the Supervisory Board members, ratification of the actions of the general partner and members of the Supervisory Board, and the selection of the auditors of the annual financial statements. This is to guarantee that the shareholders in the partnership limited by shares (KGaA) can solely decide on these matters, particularly the ones concerning control of the Management Board.

General Meeting

According to the basic principles of the German Corporate Governance Code, shareholders can provide proxies before and during the Annual General Meeting until the end of the open discussion period.

All documents and information about the meeting can be found on our Web site.

In the year under review, the ordinary general meeting of Fresenius Medical Care AG & Co. KGaA took place on May 9, 2006 in Frankfurt/Main (Germany). More than 60 % of the ordinary share capital and more than 6 % of the preference share capital were represented. We broadcast the speech of the Chairman of the Management Board live over the Internet for those shareholders unable to attend the Annual General Meeting. The speech is available on our Web site at www.fmc-ag.com.

Supervisory Board

The supervisory board consists of six members. All six members are elected by the General Meeting according to the provisions of the German Stock Corporation Act (Aktiengesetz, AktG). This resolution of the General Meeting requires a majority of at least 75 % of the votes cast. As described above, Fresenius AG is barred from voting on this issue.

The Supervisory Board appoints the members of the Management Board and advises and supervises them. Following clause 5.1.3 of the German Corporate Governance Code, the Supervisory Board has established rules of procedure. The co-ordination of and the direction of the Supervisory Board is the task of the Chairman of the Supervisory Board. Further information on the tasks and activities of Supervisory Board Committees and efficiency evaluations is included in the Report of the Supervisory Board from page 32 onwards.

General Partner

The general partner – Fresenius Medical Care Management AG – represented by the Management Board is responsible for managing the Company and conducting the Company's business. Its actions and decisions are focused on the interests of the Company. The seven members of the Management Board of the general partner are introduced on page 30 of this Annual Report.

Cooperation of General Partner and Supervisory Board

The general partner and the Supervisory Board of the Company work closely together for the benefit of the Company with a joint goal of creating a sustainable increase in company value. The general partner regularly informs the Supervisory Board of the Company about all relevant issues regarding corporate planning and corporate strategy and as well as the course of business and the Company's position including an assessment of the current risks.

Compensation of Management Board and Supervisory Board

Compensation for Management Board members is comprised of fixed and performance-related components. Since 2006, Fresenius Medical Care has disclosed the compensation of its Management Board members on an individual basis. Compensation for the Supervisory Board is governed by article 13 of the Articles of Association. Our Supervisory Board members receive a fixed compensation.

Further details on the compensation of the Management and Supervisory Boards as well as detailed information on the stock option programs can be found in the financial report of this annual report from page 37 onwards.

Transparency of Our Reporting

We attach special importance to informing our shareholders simultaneously and uniformly regarding regular financial reporting events. Ad hoc releases and our Web site play an essential role in these efforts. Institutional investors and private shareholders have equal and timely access to the information we release. All ad hoc releases 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 that is published in the Annual Report, in quarterly reports and on the Web site of Fresenius Medical Care.

According to article 15 of the German Securities Trading Act (WpHG), 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 2006, disclosures were provided to us according to article 15 of the German Securities Trading Act, which we published on our Web site in keeping with the regulations as well as in the "Annual Document".

Risk Management

To us, good corporate governance means managing the risks of our business responsibly. Therefore a comprehensive management system takes care of identifying risks early, optimizing the risk profile and minimizing 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 94 and 82.

Financial Accounting and Reporting

Fresenius Medical Care prepares its Group financial statements in accordance with the United States Generally Accepted Accounting Principles (U.S. GAAP) and publishes them within 90 days after the end of the fiscal year.

German Corporate Governance Code and Declaration of Compliance for the Fiscal Year 2006

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 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.

Fresenius Medical Care published the Declaration of Compliance for the fiscal year 2006 required by article 161 of the German Stock Corporation Act. Fresenius Medical Care AG & Co. KGaA complies with the recommendations of the German Corporate Governance Code as of June 12, 2006. The following recommendations are the only ones which have not been or are not being applied:

Code clause 4.2.4
"Individual Compensation"
Disclosure of individual compensation for each member of the Management Board in our view limits the structuring of compensation so that it is differentiated by individual performance and responsibility. Therefore, this was not carried out in the past. Nonetheless, as from 2006, Fresenius Medical Care will follow the legal requirements and the Code's recommendation and disclose the individual compensation for each member of the Management Board.

Code clause 5.1.2 and 5.4.1
"Age Limit Management and Supervisory Board"
According to clause 5.4.1 an age limit shall be specified for the members of the Supervisory Board. According to clause 5.1.2, the same shall apply for members of the Management Board. As in the past, Fresenius Medical Care will refrain from introducing an age limit for members of the Management and Supervisory Boards since this would limit the selection of qualified candidates.

Code clause 5.4.7
"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. Currently, Fresenius Medical Care pays an annual fixed compensation to the members of the Supervisory Board only. In addition, we regularly consider the introduction of a performance-related compensation linked to the success of the company for the members of the Supervisory Board.

This and all former declarations of compliance according to clause 3.10 of the Code are available on our corporate Web site at www.fmc-ag.com in the Investor Relations – Corporate Governance section.

02.[1–6]

With more than 56,000 employees, we set revenue and earnings records in 2006. Over 163,000 patients in more than 2,100 clinics put their trust in Fresenius Medical Care, making us clearly the number one company on the dialysis market. To strengthen our position as a vertically integrated provider, we consistently adhere to our growth strategy and work on innovative products and therapies to further improve the quality of life of dialysis patients.

02.1–6

02.1 Operations and Business Environment

Group Structure and Business

Fresenius Medical Care is the world's leading, vertically integrated provider of products and services for individuals with chronic kidney failure. About 1.5 million individuals worldwide regularly undergo dialysis treatment. In a network of 2,108 dialysis clinics in North America, Europe, Asia, Latin America and Africa, Fresenius Medical Care provided dialysis treatment to 163,517 patients at the end of 2006.

Fresenius Medical Care markets its wide range of products and services in more than 100 countries and runs a network of production facilities on all continents. The Company's major important production facilities are in the U.S., Germany and Japan. In addition, we operate plants in other European countries, in Asia and in Latin America.

Fresenius Medical Care's activities are organized 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 two operating segments. The similarity relates, among other things, to the products sold, patient structures, methods of distributing products and services, as well as the economic environment.

Management and Control

As reported in detail in the previous Annual Report, the transformation of the legal form of the Company from an Aktiengesellschaft into a partnership limited by shares (Kommanditgesellschaft auf Aktien – KGaA) became effective upon registration with the commercial register of the local court (Amtsgericht) in Hof an der Saale (Germany) on February 10, 2006. As a result, all shareholders of the former Fresenius Medical Care AG are now shareholders of Fresenius Medical Care AG & Co. KGaA.

The corporate organs of Fresenius Medical Care in its legal form as AG & Co. KGaA as well as the Group management and supervisory structure are discussed in the Corporate Governance Report starting on page 43.

Key Products, Services and Business Processes

Fresenius Medical Care provides dialysis services in its own dialysis clinics in more than 25 countries. In addition, we offer an extensive range of hemodialysis and peritoneal dialysis products in more than 100 countries, within our own network of dialysis clinics and outside of it. Consequently, Fresenius Medical Care is truly a global company.

Major Markets and Competitive Position

Fresenius Medical Care's most important markets are North America and Europe, where we generate approximately 71% and 21% of our sales, respectively.

Fresenius Medical Care is the world's largest provider of dialysis services and dialysis products. Further information on the dialysis market and the position of Fresenius Medical Care can be found in "Sector-Specific Conditions – Dialysis Market" on page 58.

Legal and Economic Factors

Fresenius Medical Care provides life-saving products and therapies for ill people and is therefore only partially exposed to economic cycles. In this regard, we are different from manufacturers of consumer goods, for example, that must contend with cyclical demand for their products.

The dialysis markets are continuing to grow on account of demographic factors, including the aging population and the increasing incidence of diabetes and hypertension, two illnesses which frequently precede the onset of end-stage renal disease (ESRD). The life expectancy of dialysis patients is increasing thanks to continual improvement of treatment quality and higher standards of living, also in developing countries.

Dialysis reimbursement structures differ from country to country, and often even vary within one country. In the U.S., costs for the majority of dialysis treatments are reimbursed by public healthcare programs such as Medicare. As a result, Fresenius Medical Care's business is partially influenced by reimbursement rates and methods specified by the government. Further information on this issue can be found in the "Reimbursement Structure" section beginning on page 92.

In the fiscal year 2006, Fresenius Medical Care was not subject to any legal conditions which had a significant influence on the Company's operating business. The transformation of the Company's legal form addressed previously did not have an impact on Fresenius Medical Care's operating activities.

Accounting

Fresenius Medical Care reports on the basis of US GAAP (United States Generally Accepted Accounting Principles) and in U.S. dollars.

Corporate Performance Measures, Objectives and Strategy

Control Criteria

Fresenius Medical Care is controlled based on various financial ratios in line with a long-term growth strategy.

Long-term growth presupposes stable profitability. In our view, a useful yardstick for measuring the profitability of the Company is EBIT (earnings before interest and taxes). Consequently, we control the activities of our business segments based on their EBIT.

Financing is a central function over which the business segments have no control. Therefore, neither interest expenses resulting from financing activities nor tax expenses are included in the financial targets for the business segments. We believe that, in addition to operating profit, EBITDA (earnings before interest, taxes, depreciation and amortization) is a good indicator of Fresenius Medical Care's ability to achieve positive financial results.

Fresenius Medical Care controls its operating cash flow by managing its days sales outstanding. A high operating cash flow, for example, indicates that our customers are paying our invoices in a short period of time.

The debt/EBITDA ratio is another important criterion for assessing corporate performance. This ratio compares the debt of our Company to our earnings before interest, tax, depreciation and amortization (EBITDA) and other non-cash charges. A low or decreasing debt/EBITDA ratio indicates that Fresenius Medical Care is in a position to service debt and increase the EBITDA.

Details on the development of these financial ratios can be found in the section "Results of Operations, Financial Situation, Assets and Liabilities" starting on page 68.

Growth Objectives

GOAL 10 is our long-term strategy for sustained growth until 2010. The strategy was implemented in the spring of 2005. Our GOAL 10 objectives are shown on page 51.

Fresenius Medical Care raised its long-term revenue goals in the year under review. Our aim now is to generate revenue of $11.5 billion by 2010 – $1.5 billion more than originally planned. Fresenius Medical Care should hold an 18 % share of the worldwide dialysis market in 2010; we had previously assumed it would be approximately 15 %.

Growth Paths

GOAL 10 defines four paths that Fresenius Medical Care intends to take in order to perform successfully in a broader spectrum of the global dialysis market and to achieve our own growth objectives:

Path 1: Organic Growth. In the coming years, we intend to achieve an annual organic revenue growth in dialysis care of 5 % to 6 %. To meet this goal, we are further expanding our offer of integrated, innovative treatment concepts such as UltraCare and Cardioprotective Hemodialysis and combining them, for example, with dialysis drugs. With these measures, we want our portfolio to stand out from our competitors'. In addition, we plan to open new dialysis clinics and further increase the number of patients whose treatments are covered by private health insurance.

We intend to prove our ability to innovate with dialysis products. New high-quality products such as the 5008 therapy system and cost-effective manufacture are intended to contribute significantly to the further growth of our dialysis products sector. Detailed information on our worldwide network of production sites can be found on page 83 in the "Production" section.

Path 2: Acquisitions. We intend to increase our future profitability and optimize our global and regional presence through attractive, targeted acquisitions, with which we will broaden our network of dialysis clinics. In North America we want to expand our clinic network in particularly attractive regions. The acquisition of Renal Care Group is an excellent example, although future acquisitions in North America will have a smaller financial scope.

Outside North America, too, we intend to participate in the privatization process of healthcare systems and, for example, continue to achieve above-average growth in Eastern Europe and Asia; acquisitions will support these activities. When expanding our clinic network outside North America, we continue to focus on improving our strategic position in selected markets.

Path 3: Horizontal Expansion. We plan on opening up new growth opportunities in the dialysis market by expanding our product portfolio beyond dialysis services and dialysis products. To this end, we increased our activities in some areas of dialysis medication in 2006 and will continue to do so in the future. Initially, we will focus on drugs regulating the patients' mineral and blood levels, including phosphate binders, iron and Vitamin D supplements. 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. In 2006, we acquired the phosphate binder business of Nabi Biopharmaceuticals. More information on this acquisition and on our dialysis drug activities can be found on page 88 in the "Renal Drug Initiative" section.

Path 4: Home Therapies. Around 10 % of all dialysis patients perform dialysis at home. Most dialysis patients – some 90 % – are treated in clinics. Still, we aim to achieve a long-term leading global position in the relatively small field of home therapies, including peritoneal dialysis and home hemodialysis. To achieve this goal, we can combine our comprehensive and innovative product portfolio with our expertise in patient care. More information can be found on page 89 under "Continuum".

We expect these strategic steps, expansion of our product portfolio horizontally through an increase of our dialysis drug activities, further development of our home therapies and an organic growth in dialysis services, to average an annual revenue growth of about 6 % to 9 %, reaching approximately $11.5 billion in 2010. Our net income should increase by more than 10 % a year.

In addition, the expected strong cash flow development in North America should enable us to service our debt and to make investments which support our growth strategy. Financial prudence will guide us along all four paths of Goal 10 and thus strengthen our position as the world's leading dialysis company.

GOAL 10 OBJECTIVES

	2004	2005	2006	GOAL 10
Revenue ($ in millions)	6,228	6,772	8,499	~11,500
Annual revenue growth at constant currency	10 %	8 %	25 %	~6–9 %
Share of dialysis market[1]	~12 %	12.9 %	15.5 %	~18 %
Market volume[1] ($ in billions)	~50	~52.5	~55	~67
Annual net income growth[2]	21 %	17 %	24 %	>10 %

[1] Company estimates [2] 2005 excluding one-time effects and 2006 excluding one-time effects and FAS 123(R)

Research and Development

The continuous development and refinement of dialysis therapies and products is an integral component of Fresenius Medical Care's strategy. We continually strive to strengthen our innovation power, improve the quality of life of our patients, and thus ensure the future of our Company.

Expenditures for research and development totaled $ 51 million in 2006, the same as in 2005. Like last year, we invested about 2.4 % of our total dialysis product sales in this area. These expenditures are within the range typically observed in the dialysis industry, although they appear relatively low compared with other companies in the health care sector. However, the continuous development of new dialysis products documents that such expenditures are sufficient when employed efficiently.

We employed about 350 people (full-time equivalents) in research and development in 2006, and thus, as planned, about as many as in 2005.

Fresenius Medical Care's research and development activities benefit from its position as a vertically integrated dialysis company. The fact that we offer both dialysis care and dialysis products is particularly advantageous in the development of new products. We are in a position to benefit from the daily practical experience gathered while providing life-saving treatment to more than 160,000 dialysis patients worldwide – through close contact with doctors, nurses and patients, we know exactly what is expected from our products.

Intensive cooperation with our staff in the dialysis clinics not only facilitates our development work but also helps foster more holistic solutions. We do not develop our products in isolation, i.e. individual technical machines or disposables; but we rather embrace and incorporate the whole daily practice of dialysis in our development process for the benefit of patients. An important example is the development of the 5008 hemodialysis machine which we introduced in the market in 2005.

In our research and development work, we rely on a global network of competence centers, the majority of which are located in Europe and North America. In addition to conducting basic research, dialysis products are adapted here to meet corresponding local market requirements.

5008 Hemodialysis Machine

This new machine was also the main focus of work in our development department in 2006. As can be expected with such a complex product introduction, extensive feedback led to various market-specific adjustments, which were at the center of our activities in the year under review. Early and comprehensive testing during the development and trial phases helped us reduce the necessary adjustments – that are the norm for new products following their market introduction – to a minimum and thus concentrate on special market requirements.

We received a very positive response from our customers for the 5008 dialysis machine. This provides us with an excellent basis and motivation for enhanced distribution and future development of the 5008. The 5008 is a superb platform from which we can further develop therapy offerings. At the same time, we intend to further improve the reliability and safety of the 5008, two characteristics that are already main features of its predecessors. The challenge we face is to maintain the high quality of the machine while increasing production numbers. To this extend, our developers worked together with various production and customer service areas in 2006.

RESEARCH AND DEVELOPMENT EXPENDITURES

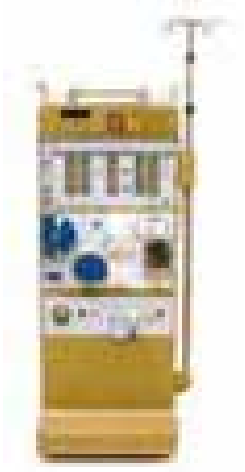
$ in millions	2006	2005	2004	2003	2002
	51	51	51	50	47

In addition, our development department dealt in depth with the main therapeutic element of the 5008 – hemodiafiltration (HDF) with online preparation of the required substitution fluid (online-HDF).

Hemodiafiltration

HDF, a process for treating chronic and acute kidney failure, was described for the first time in the mid 1980ies. Yet today, some 20 years later, HDF is still not an established therapy method. It is only in the last five or ten years that HDF has become more widespread.

A2008C



5008 Therapy System

Hemodiafiltration has a long tradition at Fresenius Medical Care, and the Company has developed and marketed groundbreaking HDF systems. This technology drew attention early on, particularly in connection with the Fresenius Polysulfone membrane, which was able to address the advantages of HDF for patients better than any other membrane at the time.

Fresenius Medical Care developed and refined the world's first dialysis machine for conventional HDF treatments in the mid 1980s: the ABG-I. It was an optional addition to the A2008C, the standard dialysis machine of that time.

But use of this technology in clinical practice lagged behind expectations because large, cost-intensive quantities of sterile infusion solution had to be used for treatment. Therefore Fresenius Medical Care developed a sterilization method with which large amounts of sterile, pyrogene-free infusion solution could be produced "online", that is, by the dialysis machine itself and at significantly lower costs.

These years-long development activities culminated in the 5008, with which so-called online-HDF became standard practice. Up until that point, online-HDF was considered an exclusive treatment method, but we were always convinced of this technology because we believed it would improve patients' quality of life. Usage of online-HDF has steadily increased in the last two years, and many scientific studies have been published which show that there is a high probability that the mortality rate of patients treated with online-HDF is lower than that of patients treated using standard dialysis. We regard this development as confirmation of our convictions and forecasts.

These new findings have heightened interest in online-HDF and have had an impact on our development activities. At present, we are working diligently to fine-tune online-HDF so that this treatment method will become even more widespread in the future.

Peritoneal Dialysis (PD)

While hemodialysis and peritoneal dialysis used to be considered disparate treatment methods, today they are increasingly viewed as being complementary. Fresenius Medical Care welcomes this development, which we anticipated for years with our balanced product policy. We are the only provider that has achieved very high market shares in both product segments (see also page 58 in the section "Dialysis Market").

Encompassing individually adapted and biocompatible peritoneal dialysis solutions, our product portfolio covers the full traditional range of applications and is well positioned. Furthermore, Fresenius Medical Care

offers various types of high-quality, high-performance machines for automated peritoneal dialysis (APD) – so-called cyclers.

As a result, another focus of our worldwide development activities in 2006 was the "Global Cycler" project. The aim is to offer high-quality APD at optimized costs. The use of a common technological platform for this project is an important step in this direction.

Membrane Technology

Whether hemodialysis is successful depends not only on the dialysis machine, but also on the dialyzers and membrane types used. With its different variants of the Fresenius Polysulfone membrane, Fresenius Medical Care has been the market leader in membrane technology for many years. Today's hollow fiber dialyzers are highly effective and technologically sound. Still, we are constantly working to further improve the efficacy of membranes and dialyzers.

Conventional dialyzers and filters are characterized by their non-specific removal of substances dissolved in the patients' blood – all substances up to a defined molecular weight pass through the membrane. In 2006, we intensified our research on dialysis membranes that work more selectively. For example, we are conducting research on membranes with specific properties which can remove targeted substances from patients' blood. In addition, we are working on membranes which can release pharmaceutical agents into the blood of patients – the so called "pharma tech" approach. Moreover, special membrane properties can be achieved by attaching appropriate ligands – special molecules – to the membrane surface. All of these activities are still in early development stages; the general medical approach has to be tested first. But we are convinced that future membranes will have functional qualities of this type. In the search for promising possibilities, we benefit from our experience as a leading membrane developer and membrane manufacturer.

Acute Dialysis and Support Systems for Liver Functions

Another focal point of our R&D activities is the development of machines and methods for the treatment for acute kidney failure and addressing multi-organ failure. In 2006, we intensified our activities in this area, concentrating on classical acute dialysis. The high incidence of this life-threatening illness in hospitals and the inadequate treatment possibilities justify the concerted efforts being made. As is the case with chronic renal replacement therapy, treatment of acute renal failure is limited by an incomplete pathophysiological understanding of the processes involved. Where understood, these processes have proved difficult to influence successfully.

We are currently researching therapy concepts which differ from the above-mentioned classical methods in that the aim is targeted intervention in the disease process, for example, in cases of multiorgan failure. The procedures being investigated include apheresis techniques and the use of certain adsorbers.

Acute liver failure has a special status among acute illnesses due to the highly complex function of the liver as the main detoxification organ. While "artificial kidneys" can sustain life for many years even in cases of complete kidney failure, there is no such therapy available for liver failure. At the same time, there are more and more cases of acute liver failure on account of the increasing incidence of chronic viral liver diseases (Hepatitis B and C), as well as due to poisoning from drug and alcohol abuse.

Due to the complexity of the liver functions, extracorporeal treatments are currently limited to a small part of the organ's detoxification spectrum. At present, such therapies are only effective in cases where the liver has not suffered irreversible damage, providing relief while the liver regenerates itself, or serving as a stopgap until a liver transplantation can be performed. Fresenius Medical Care has an excellent track record in this area for several years thanks to the Prometheus system we developed. The system is constantly being improved

on the basis of growing clinical experience and new medical knowledge.

The methods used so far exclusively aim to remove toxins, a function that a healthy liver would usually carry out. But a natural liver performs many other tasks as well. In addition to detoxification, it synthesizes (produces) numerous compounds that are important for the organism and releases various substances into the bloodstream, including different blood coagulation factors and proteins such as albumin. The liver replacement therapies used today cannot cover most of the functions of the liver and are therefore unsatisfactory.

In the past years, progress has been made in the cultivation of cells on different substrates contributing to the development of a "bioartificial liver". In a bioartificial liver, living hepatocytes (liver cells), which are arranged in an appropriate device and around which the patient's blood flows, take over all the functions of a natural liver. One problem with this system is the limited availability of suitable hepatocytes. Preparation of natural donor organs and the use of rapidly growing liver carcinoma cells have not been successful thus far. Obtaining hepatocytes with the help of adult stem cell techniques is the current focus of our research activities in this area.

Technological Trends

General medical technology trends can also be observed in dialysis. Thanks to new technological processes and materials, the size, weight and energy consumption of individual components and hence entire machines can be reduced and new functions can be integrated into medical equipment. We carefully consider these possibilities when developing and fine-tuning its products. One product that could potentially result from these advancements would be a portable artificial kidney. Only prototypes have been developed thus far.

It will become standard practice to link medical equipment with clinic-based data entry systems. Today, we are continually taking advantage of the opportunities afforded by information technology. Such database connections would enable patients to be treated better, more safely and less expensively in the future. With its various IT products from the fields of peritoneal and hemodialysis, Fresenius Medical Care benefits from close ties with its clinics. Further information can be found from page 87 onwards in the section "Clinical Databases".

Research Cooperation

The clinic-related research activities discussed above require close cooperation, not only between our worldwide development departments, but also with qualified clinical partners. In hemodialysis, our clinics are the first contact for our developers in research activities with strong practical objectives. We carry out these projects together with selected competence centers, depending on the focus of the individual clinics and their experience in specialized areas.

When it comes to research activities that focus at least partially on basic dialysis treatment issues, we work together successfully with the Renal Research Institute (RRI) in the U.S., which in turn cooperates with top-notch academic medical institutions in the United States. We founded the RRI together with the Beth Israel Medical Center. A project launched at the RRI in 2005 investigating the advantages of daily hemodialysis treatment of patients with ESRD continued in 2006. For the study, patients are dialyzed six days a week rather than every other day. The quality of the treatment and the financial implications arising from daily dialysis are being examined. The project is scheduled to be continued into 2008.

We have developed a technology together with the RRI which makes it possible to establish the hydration level of patients with chronic kidney failure. The partial or complete lack of urine elimination in patients leads to a severe disturbance of their fluid balance. As a result, patients often suffer from chronic fluid retention, which is a major mortality cause. Thanks to the new technology, over-hydration can be easily detected and remedied at an early stage.

Cardiovascular disease is another main reason for the high mortality rate of people with kidney disease. A 30 to 40 year old dialysis patient has the same cardiovascular mortality risk as an 80 to 85 year old with healthy kidneys. Fresenius Medical Care is conducting research to determine the cause for cardiovascular dysfunction and disease in dialysis patients. The result so far: the "cardioprotective dialysis" treatment concept. In cardioprotective dialysis, patients are treated using procedures and disposables known to have a favorable influence on the course or development of cardiovascular disease. Extensive interdisciplinary cooperation with various fields of medicine, for example via the cooperation with the RRI, is needed to tackle these issues and evaluate the results so far.

Our research and development projects are generally carried out by our own staff and research departments. Only rarely do we engage external parties to do research and development work for us.

Economic Environment

General Economic Development

The global economy was generally marked by a positive development in 2006, although the dynamics weakened slightly in the second half of the year, particularly in the U.S. and Japan. Raw materials prices remained high in the year under review. Buoyed by political tension, crude oil prices rose in the summer to new record levels before falling again as the year progressed to $ 60 a barrel, roughly their level at the beginning of the year.

The growth rates varied in the industrial countries, as the economies found themselves in different phases of the business cycle. While inflation accelerated in the U.S., it persisted at a low level in Europe. Accordingly, the year was characterized by an increasingly restrictive financial policy in the U.S. and a moderate financial policy in Europe to counter inflationary tendencies at an early stage. Wage increases in the industrialized countries were generally moderate.

In their Fall Report, economists from the leading German research institutes expected a global economic growth of 3.7 % in 2006, a slightly higher rate than in the previous year.

United States

Economic growth in the U.S. slowed slightly in the course of 2006. The main reasons were lower private spending due to rising consumer prices and high energy prices, as well as the cooling of the real estate market and tighter monetary policy. The key interest rate was raised from 4.25 % to 5.25 % to counter inflationary tendencies, and therefore acting only cyclically neutral at best. The gross domestic product (GDP) climbed by 3.5 %.

Europe

Europe showed robust economic growth in 2006. The GDP in the euro countries grew by 2.6 %, a substantially higher rate than in the previous year. Growth was primarily driven by domestic demand. The high utilization of production capacity, low interest rates and high company profits strengthened companies' willingness to make investments. In addition, private spending increased as rising energy prices did not lead to significantly higher interest rates. Wage increases remained moderate.

In their Fall Report, the leading German research institutes expected Germany to achieve strong economic growth of 2.3 % on account of exports as well as rising domestic demand. Companies' investments were boosted thanks to good utilization of capacities. The number of unemployed fell substantially by around 600,000 to about four million at the end of 2006.

Great Britain recovered from its weak economic phase in 2005, and its gross domestic product rose by 2.9 %. The gross domestic product of the young members of the European Union was above the average, at 5.6 %. Russia continued to achieve robust growth, driven by strong domestic demand and increasing private spending. Russia's GDP climbed by 6.5 %.

Asia

While Japan's gross domestic product grew by 2.7 %, its economic growth slowed in the course of the year. This development was due in part to the fact that the export growth rate did not remain as strong, but primarily to sinking public investments in conjunction with the reduction of the state deficit. This was partially offset by increasing private consumption and company investments.

China remained the most important growth region in 2006. Its gross domestic product increased by 10 %; investments and exports continued to grow strongly. Private spending increased, among other things, because the yuan appreciated only slightly against the U.S. dollar. The other East Asian countries grew by a total of 5.2 %.

Latin America

The GDP growth in Latin America was 4.3 %, somewhat higher than in the previous year. The reason for this positive trend: as a raw materials producer and energy provider, the region benefited from the high raw materials prices and stable domestic demand. Monetary conditions were positive, particularly in Mexico, which provided economic momentum. Brazil, by contrast, pursued a rigid consolidation policy and thus a rather restrictive monetary policy – with negative effects on the willingness to invest.

Further information can be found from page 65 onwards in the "Comparison of the Actual Business Results with Forecasts" section.

GROSS DOMESTIC PRODUCT

Expected change compared to previous year in %

	2005	2006	2007
United States	3.2	3.5	2.7
Germany	0.9	2.3	1.4
Euro region	1.4	2.6	2.1
Great Britain	1.9	2.7	2.5
New EU member states	4.6	5.6	4.7
EU 27	1.7	2.8	2.3
Russia	6.4	6.5	6.0
Japan	2.6	2.7	2.0
East Asia	4.6	5.2	4.7
China and Hong Kong	9.7	10.5	10.0
Latin America	4.0	4.3	3.8
WORLDWIDE	**3.1**	**3.7**	**3.1**

Source: Association of German Economic Research Institutes e.V. "The State of the World Economy and the German Economy"; Munich; Oct. 17, 2006

Sector-Specific Conditions – Dialysis Market

If not indicated otherwise, data are based on internal estimates.

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 140 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 considerably 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

By the end of 2006, the number of ESRD patients undergoing dialysis treatment had reached 1.53 million worldwide. Of these patients, around 22 % were treated in the U.S., 18 % in Japan and 18 % in the European Union. The remaining 42 % of all dialysis patients were distributed among more than 100 countries in different geographical regions. The number of dialysis patients increased by approximately 6 % in 2006.

Significant regional differences remained: a below-average increase in patient numbers was 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, however, were 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.

Patients – Treatment Mode Development

By the end of 2006, the total number of patients treated for terminal kidney failure had reached approximately two million. Of the about 1.53 million that undergo dialysis treatment, 1.37 million are treated with hemo-

DIALYSIS PATIENTS BY REGION

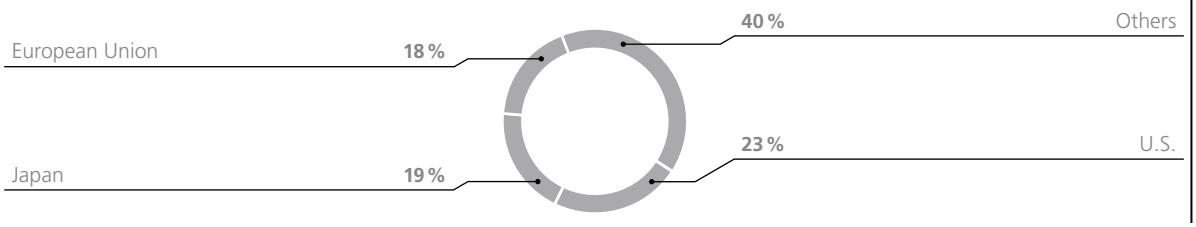
	2006	Change
North America	400,000	~4 %
Europe/Middle East/Africa	465,000	~5 %
Asia-Pacific	510,000	~7 %
Latin America	155,000	~8 %
WORLDWIDE	**1,530,000**	**~6 %**

dialysis and about 165,000 receive peritoneal dialysis. Approximately 475,000 kidney patients live with a transplanted kidney. Thus, in a global comparison of treatment methods, hemodialysis clearly dominates. More than 89 % of all dialysis patients were treated with this method in 2006. Within the group of the 15 largest dialysis countries accounting for more than three quarters 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.

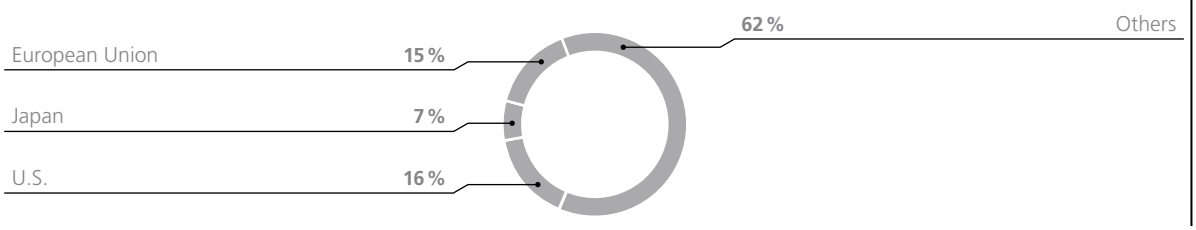
In addition to these two dialysis therapies, a third option in treating patients with terminal kidney failure is kidney transplantation. However, the number of donated organs worldwide has continued to be significantly lower than the number of patients on transplant waiting lists. Consequently, less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

Xenotransplantation – the use of animal to replace human organs – is not likely, in our opinion, to affect this development in the near future. Due to a variety of remaining unsolved problems, 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. Apart from 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 for more than 1.53 million patients yearly.

HEMODIALYSIS PATIENTS 2006



PERITONEAL DIALYSIS PATIENTS 2006



Dialysis Provider Business

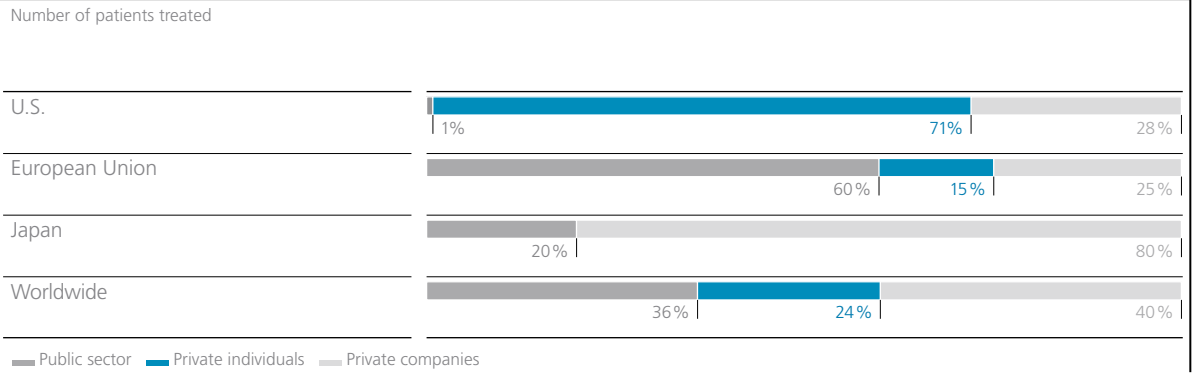
In the last year, the majority of all hemodialysis patients were treated in around 25,000 dialysis centers worldwide, yielding an average of some 55 patients per center. Clear differences exist in the organizational structures of dialysis center operations, depending on whether a country's health system is predominantly private or public. There are about 5,000 dialysis centers in both the U.S. and in the European Union. Whereas less than 1% of these dialysis centers are publicly operated in the U.S., the share in the EU is about 60 %.

In Japan, however, private nephrologists play a key role, running about 80 % of all facilities. However, 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.

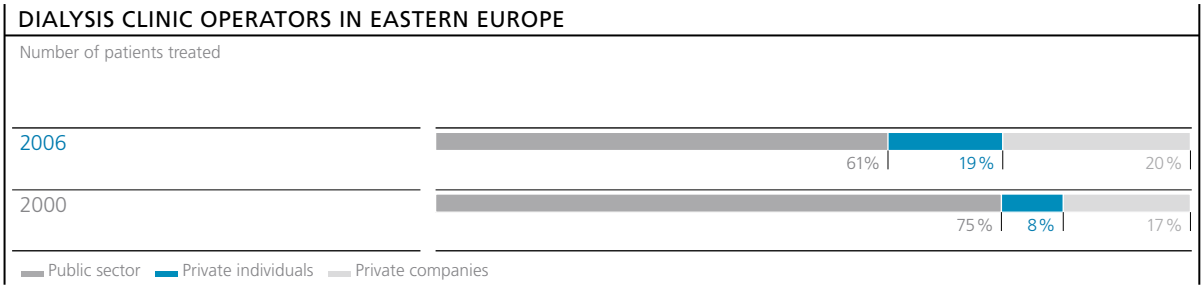
The acquisition of Renal Care Group further strengthened Fresenius Medical Care's position as the market leader in dialysis care in the U.S. Fresenius Medical Care now commands a U.S. market share of about 34 % and treats significantly more patients there than its closest competitor DaVita. Fresenius Medical Care and DaVita together provide dialysis care to approximately two-thirds of all dialysis patients in the U.S.

The dialysis market outside the U.S. is much more fragmented. Here Fresenius Medical Care is also the largest dialysis provider and market leader, with 46,000 patients in over 25 countries, thus ranking as the third-largest global dialysis company, even if the North American dialysis business is not included in the calculation.

DIALYSIS CLINIC OPERATORS 2006



DIALYSIS CLINIC OPERATORS IN EASTERN EUROPE

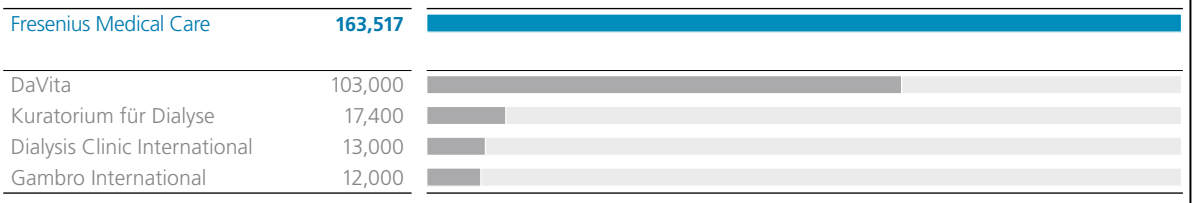


As in previous years, many healthcare systems continued to face increasing cost pressure in order to reduce welfare system expenditure while simultaneously striving to improve treatment standards for patients. Under these conditions, reliable product supply, patient education, quality and innovative 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 excellent opportunities to continually expand its position in the current and future dialysis market. In 2006, Fresenius Medical Care continued to uphold its clear leadership as the largest private provider of dialysis care worldwide, treating more than 163,500 dialysis patients in more than 2,100 clinics.

Dialysis reimbursement schemes differ from country to country, and also vary within the countries. Among the factors determining reimbursement are the type of treatment provided, the type of the care provider and regulatory issues. The establishment of reimbursement structures based on treatment quality 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 numerous countries with differing healthcare systems and reimbursement schemes for many years now. Our international experience puts us in a position to offer support to national health systems in their endeavors to customize structures, adapt our business according to local needs and regulations, and to act profitable in different healthcare environments.

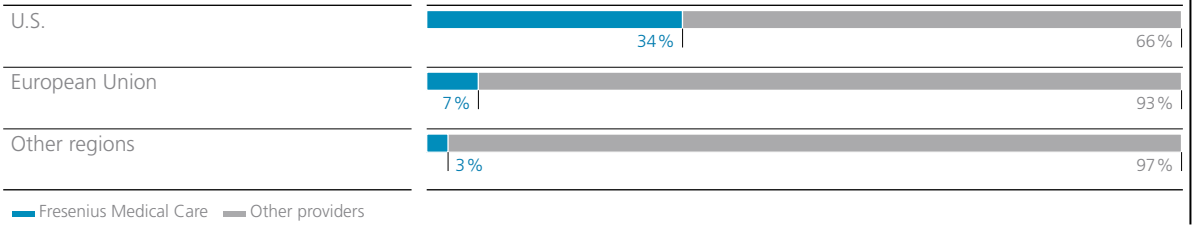
TOP 5 DIALYSIS PROVIDERS WORLDWIDE 2006

Number of patients treated



FRESENIUS MEDICAL CARE 2006

Number of patients treated by region



Dialysis Product Business

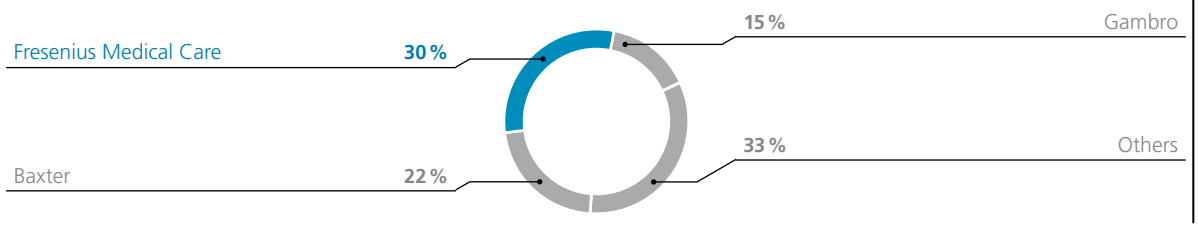
The global dialysis market grew by approximately 5 % to about $ 55 billion in 2006. According to our estimates, the dialysis product market reached a value of some $ 9 billion. The key products offered in this market include dialyzers, hemodialysis machines, concentrates and solutions, as well as special peritoneal dialysis products. The three largest suppliers of dialysis products together hold a worldwide market share of nearly 70 % in 2006. With a market share of approximately 30 %, Fresenius Medical Care was the market leader.

The largest single product group in this market is dialyzers, of which about 160 million were needed by dialysis patients worldwide in 2006. The fact that about 65 million of these dialyzers were produced by Fresenius Medical Care underlines our leadership in this market.

Dialyzers can be categorized as cellulose-based 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 2006. At the end of the year, the share of synthetic-membrane dialyzers in the dialyzer market was more than 70 %. Cutbacks in the production capacity for cellulose-based dialyzers suggest that sales of synthetic dialyzers will further increase in the years to come. The pioneering work of Fresenius Medical Care in the development and production of synthetic dialyzers laid the foundations and defined the course that is now being followed by other major competitors.

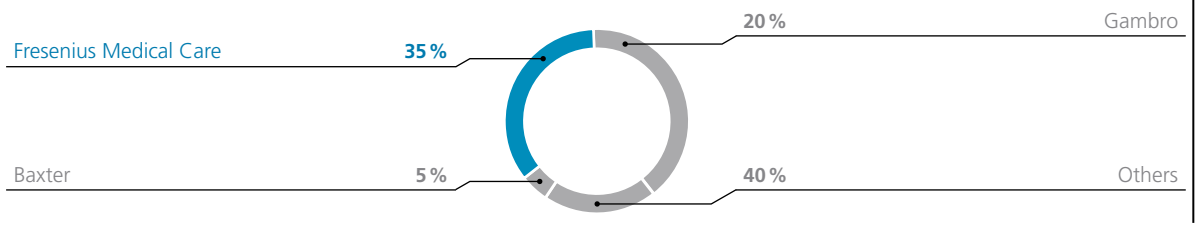
DIALYSIS PRODUCTS 2006

Market shares



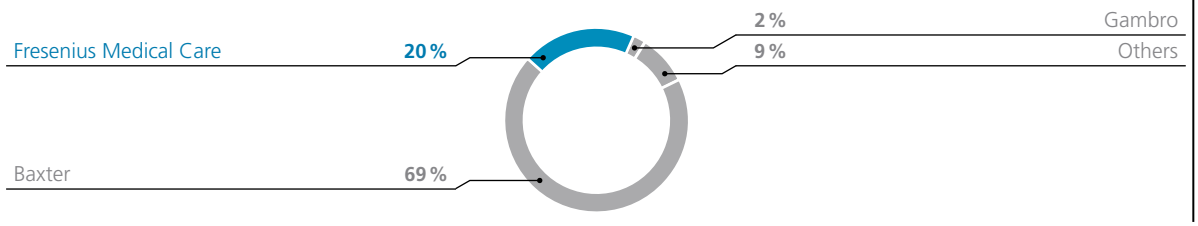
HEMODIALYSIS PRODUCTS 2006

Market shares



PERITONEAL DIALYSIS PRODUCTS 2006

Market shares



Dialysis machines constitute another key segment of our product business, in which Fresenius Medical Care also holds a leading position. Of the more than 50,000 new dialysis machines sold in 2006, over 50 % were produced by Fresenius Medical Care. The introduction of the new generation of hemodialysis machines in 2005, the 5008 series, contributed to that development. Thanks to its innovative user interface and technologies that set new standards in dialysis, the 5008 found a high level of acceptance the first year it was on the market. The new machine not only reinforces our strong market position, but also provides excellent prospects for future market share growth.

In the U.S., our most important market, our market share in these two product groups – dialyzers and dialysis machines – exceeded 70 % of the net available external market. We define the net available external market as all dialysis clinics that do not belong to a major dialysis group, such as Fresenius Medical Care or DaVita.

Sales of our 2008K dialysis machine grew by 26 % in 2006. This dialysis machine is the leading dialysis system in the U.S.; we have sold more than 13,000 of these dialysis machines there. Dialyzers also outpaced average growth in the U.S. – record sales of approximately 27 million Optiflux dialyzers were achieved. At the end of 2006, more than three quarters of all hemodialysis patients in the U.S. on single-use have been provided with single-use dialyzers from Fresenius Medical Care.

Our sales of peritoneal dialysis products also increased. Worldwide, we hold a 20 % share of that market, which has traditionally been dominated by Baxter. Our market share in the U.S. was 31 %. Further information on our position in the home therapies market, which comprises peritoneal dialysis and home hemodialysis, can be found in the "Continuum" section beginning on page 89.

Events Significant for the Business Development

Acquisition of the Renal Care Group

In addition to the very good operating performance, the acquisition and integration of Renal Care Group (RCG) was a major event for Fresenius Medical Care in the fiscal year 2006. We discussed the acquisition of RCG in depth in the 2005 Annual Report.

The purchase of RCG was a milestone in the history of our company. RCG is a rapidly growing, highly profitable dialysis service company which is active exclusively in the U.S. With the acquisition, we significantly expanded our position as market leader in the U.S., increasing our market share from around 27 % to about 34 %. RCG's network of dialysis clinics supplements our activities in the world's largest dialysis market both strategically and geographically. RCG is particularly strong in the Midwest of the U.S., where we had been underrepresented previously.

RCG has an attractive share of privately insured patients. Another positive aspect of the acquisition is the fact that it has enabled us to further expand our dialysis product business.

In February 2006, Fresenius Medical Care had announced it was selling 96 dialysis clinics to a subsidiary of DSI holding company followed by additional nine dialysis clinics in June in the U.S. state Illinois. The sale was an essential prerequisite for the approval of the Federal Trade Commission (FTC) of the RCG acquisition. Following a review of the acquisition, the FTC issued a consent order approving the deal, enabling Fresenius Medical Care to take over RCG on March 31, 2006. The results of RCG's operations have been included in Fresenius Medical Care's Consolidated Financial Statements since April 1, 2006.

To finance the acquisition, Fresenius Medical Care entered into and drew upon a $ 4.6 billion senior credit facility.

The acquisition of RCG and the further improved operating performance had a very positive impact on Fresenius Medical Care, and hence we could raise our forecast for 2006. More information can be found in the "Comparison of the Actual Business Results with Forecasts" section starting on page 65.

Share Conversion and Change of Legal Form

The voluntary conversion of Fresenius Medical Care preference shares and the change in the legal form resulted in significant structural changes.

During a four-week conversion period from January 6 to February 3, 2006, all preference shareholders had the opportunity to convert their shares into ordinary shares at a ratio of 1:1 including a conversion premium of €9.75 per preference share. This also applied to holders of American Depositary Shares (ADS) that represent preference shares. A total of 26,629,422 preference shares were submitted for conversion, around 96 % of all outstanding preference shares.

The conversion of the shares and the transformation of the legal form of the Company from a public limited company (Aktiengesellschaft) into a partnership limited by shares (Kommanditgesellschaft auf Aktien – KGaA) became effective upon registration with the commercial register of the local court Hof an der Saale 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 conversion, preference shareholders had to pay a conversion premium of €9.75 per tendered preference share to the Company. After the successful conversion went into effect, Fresenius Medical Care received total gross proceeds of approximately €260 million from this. 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.

Economic and Business Environment

Last year, there were no fundamental changes in the general economic and business environment of our industry. Dialysis is a medically indispensable and life-saving treatment for acute or chronic kidney failure. At present, there is no direct treatment alternative to dialysis therapy with the exception of a kidney transplant. This means our company is active in a market which, unlike many other industries, is largely unaffected by market fluctuations, and this is reflected in the stable development of our revenue and earnings.

This stability – even in economically difficult times – is the result of our vertical integration with a balanced offer of dialysis products and services coupled with relatively constant growth in patient numbers. As an essential component of patient care, dialysis services are not susceptible to economic fluctuations. The same applies to dialysis products, since the majority of the dialysis-related supplies are single-use disposables. They account for 25 % of our total revenue. However, even our company could not free itself completely from the effects of long-term global economic downturns.

Summary

Apart from the acquisition of RCG, the share conversion and the change of legal form, there were no major events which had a significant influence on the operating business or the legal structure of Fresenius Medical Care in 2006. Both our dialysis services and our dialysis products contributed to the positive business performance, in North America as well as in other regions in which our company is active.

Comparison of the Actual Business Results with Forecasts

In the fiscal year 2006, Fresenius Medical Care underwent a particularly positive development. We either reached or partially significantly exceeded our targets set at the beginning of 2006. We achieved record sales and earnings.

Our forecasts for the fiscal year were based on the closing of the acquisition of Renal Care Group (RCG) in the first quarter of 2006. We kept this deadline – see "Events Significant for the Business Development" starting on page 63.

At the beginning of 2006, we had expected to achieve revenue of $8.1 billion for the full year. Due to our positive operating performance in the first nine months, with revenue increases in dialysis services and products, as well as the successful integration of RCG, we upgraded our guidance for the full year, raising our revenue forecast to approximately $8.4 billion. At the end of 2006, our revenue amounted to $8.5 billion, which was slightly above our target.

Originally, we expected our net income for 2006 to be $515 to $535 million. We also raised this forecast after the first nine months of the year, expecting a growth in net income of at least 18 % to some $557 million. With a net income of $584 million at the end of 2006, we exceeded our target in this respect as well.

In the outlook for 2006, one-time expenses in connection with the acquisition of RCG as well as the change of the accounting principle for stock options SFAS 123(R) were not taken into account in order to illustrate the company's operative development. Fresenius Medical Care initially expected these two effects to reduce the Company's after-tax earnings by around $50 million; after nine months, this figure was adjusted to some $44 million. At the end of 2006, the one-time costs amounted to $47 million and were thus within the range forecast. Including these expenses, we increased our net income for 2006 by 18 % to $537 million.

Possible additional influences resulting from the sale of dialysis clinics in conjunction with the RCG acquisition could not be assessed when the Annual Report 2005 was printed. The actual net proceeds from the sale of clinics in 2006 amounted to $40 million and were included in the operating income. According to the tax balance sheet, the carrying value of the clinics was less than the fair value, and so the sale of the clinics result-

OBJECTIVES AND RESULTS FOR 2006

	Objectives 2006	Results 2006	Objective reached
Revenue (constant currency)	$8.4 billion	$8.5 billion	✓
Net income[1]	≥$557 million	$584 million	✓
Capital expenditures and acquisitions (excl. RCG)	~$550 million	$609 million	✓
Debt/EBITDA ratio	Below 3.5	3.23	✓
Employees (full-time equivalents)	More than 56,000	56,803	✓
Dividend	Continuous increase	Proposal of a dividend increase by 15 % per ordinary share	✓
Research and Development expenditures	~$60 million	$51 million	
Product innovations	Further expansion of products and services range	New PD solutions introduced and online-HDF further expanded	✓

[1] Excluding one-time effects and FAS 123(R)

ed in a tax expense of $ 44 million and therefore in a loss of $ 4 million. Further information can be found in the financial report starting on page 60.

Capital expenditure and acquisition expenses totaled $ 609 million, within the range forecast.

The effective tax rate was 42.8 % in the year under review. The tax rate was impacted by tax payments in connection with the gain on divestiture of dialysis clinics in the U.S. and by a tax audit in Germany. Excluding these effects, the tax rate amounted to 38.5 %, corresponding to our targeted tax rate of less than 40 %.

Due to the entirely debt-financed acquisition of RCG, the debt/EBITDA ratio climbed from 1.8 to 3.8. It was expected to fall below 3.5 at the end of 2006. Due to the good earnings development, we were able to reduce it to 3.23, thus clearly surpassing our objective.

As projected, the number of employees increased to 56,803, primarily due to the acquisition of RCG and its some 7,000 staff members as well as our growth in Eastern and Southern Europe.

Our expectations regarding the dividend development have also been fulfilled. For more information, see the "Dividend" section starting on page 39.

The field of dialysis products is mainly characterized by constant development of existing product groups and less by break-through innovations. Accordingly, Fresenius Medical Care introduced further improved solutions for peritoneal dialysis as well as software updates for hemodialysis and peritoneal dialysis machines. In addition, we continued research to further improve treatment quality. The actual expenditures on research and development were $ 51 million, slightly lower than originally planned.

General economic conditions developed better than had originally been forecast. The economic situation in the U.S. and Europe, our core markets, as well as in Asia and Latin America, was better than had been expected. However, as mentioned earlier, the dialysis business of Fresenius Medical Care is less vulnerable to economic developments than other industries.

The dialysis market developed in line with our expectations. The market volume was up by approximately 5 %; the number of patients grew by around 6 %; hemodialysis remained by far the most important method used to treat chronic kidney failure. In terms of the distribution of dialysis patients according to treatment method, there were no significant changes compared to the previous year.

IMPACT OF ONE-TIME ITEMS

$ in millions	Objectives 2006	Results 2006	Objective reached
EBIT IMPACT			
Transformation and others	(1)	(2)	✓
Restructuring costs and in-process R&D	(50)	(35)	✓
Proceeds from the sale of dialysis clinics		40	
Switch to the accounting of stock options according to SFAS 123(R)	(14)	(14)	✓
TOTAL	**(64)**	**(11)**	✓
EARNINGS AFTER TAX IMPACT			
Transformation and others	(1)	(1)	✓
Restructuring costs and in-process R&D	(30)	(23)	✓
Write-off FME prepaid financing fees	(9)	(9)	✓
Loss from the sale of dialysis clinics		(4)	
Switch to the accounting of stock options according to SFAS 123(R)	(14)	(10)	✓
TOTAL	**(54)**	**(47)**	✓

The Management's General Assessment of Business Performance

In the opinion of the Management Board, Fresenius Medical Care developed in an exceptionally positive way in 2006. The Company's revenue and earnings climbed to record levels. We achieved or exceeded all of the main goals we had set ourselves at the beginning of 2006. All regions and business areas contributed to this development.

Our company grew more strongly than the dialysis market as a whole and further expanded its share of the market. With the acquisition of Renal Care Group, we bolstered our position in the segment with the highest revenue, the North American region. Our business outside North America, in the "International" segment, also grew significantly more strongly than the market.

Fresenius Medical Care significantly increased its operating margin (EBIT margin) in North America and "International". We also significantly increased the net income. These are clear indicators that we were able to further strengthen our profitability.

With the acquisition of Nabi Biopharmaceuticals' phosphate binder business in North America, we expanded our therapy offer for patients with chronic kidney failure and thus have made the next step towards becoming a provider of integrated therapies. As such, we can further improve the quality of treatment and take advantage of new growth opportunities worldwide.

02.2 Results of Operations, Financial Situation, Assets and Liabilities

On March 31, 2006, Fresenius Medical Care completed the acquisition of Renal Care Group (RCG). Since April 1, 2006, RCG's business activities have been included in our consolidated financial statements and consolidated statements of cash flows. Additional analyses of this transaction and information on other acquisitions can be found in the financial report from page 60 onwards (note 3).

Results of Operations

Revenue

In 2006, our revenue rose substantially by 26 % to $ 8.50 billion. Currency-adjusted growth was 25 %. This increase is primarily due to the acquisition of RCG. Acquisitions contributed 15 percentage points to the revenue increase. Organic growth was 10 %.

As a vertically integrated dialysis company, Fresenius Medical Care offers a full range of dialysis products as well as dialysis services in the form of high-quality treatments in dialysis centers around the world. While dialysis services continued to be the largest revenue generator in the North American region, dialysis products dominated in the International region, accounting for 63 % of revenue.

The dialysis services business in all regions achieved revenue growth of 31 % to $ 6.38 billion, or 75 % of total revenue, a higher share than in the previous year (2005: 72 %). At constant currency, dialysis services revenue also grew by 31 %. Organic growth accounted for 10 percentage points while acquisitions accounted for 21 percentage points. A same-market increase of 4 % in the number of treatments performed as well as a 6 % increase in the revenue per treatment accounted for the organic revenue growth.

Providing high-quality treatments in our dialysis clinics is the core of our dialysis services. To raise our revenue from dialysis services, it is essential that we increase the number of dialysis treatments performed.

At the end of 2006, our company operated more than 2,100 dialysis centers, an increase of 25 % compared with a year earlier. As at December 31, 2006, we treated a total of about 163,500 patients in these clinics, 24 % more than in the previous year. The number of treatments rose by 20 % to about 23.74 million. Thus, the number of dialysis patients we treated grew significantly. The acquisition of RCG was a primary reason. As a result of the increase in the number of patients treated, the number of treatments carried out by Fresenius Medical Care also rose.

REVENUE DEVELOPMENT

$ in millions	2006	2005	Change	Organic Growth	Currency Translation Effects	Acquisitions/ Divestments	Share in Total Revenue
North America	6,025	4,577	32 %	9 %		23 %	71 %
International	2,474	2,195	13 %	12 %	1 %		29 %
TOTAL	**8,499**	**6,772**	**26 %**	**10 %**	**1 %**	**15 %**	**100 %**

In terms of dialysis products, we were able to raise our revenue by 11% to $2.12 billion. Currency-adjusted, the increase was 11%. Including revenue with our own dialysis clinics, the revenue with dialysis products rose by 13% to $2.77 billion. The increase in constant currency was 12%. Dialysis products accounted for 25% of Fresenius Medical Care's overall revenue, following a contribution of 28% in 2005.

Both segments – North America and International – contributed to the revenue growth. Growth in North American revenue was above average – due to the acquisition of the Renal Care Group – expanding by 32% to about $6.03 billion (2005: $4.58 billion).

International revenue rose by 13% reaching about $2.47 billion. Currency-adjusted growth in the International region was 12%.

North America was and is by far the most important market for Fresenius Medical Care. In 2006, we achieved about 71% of our total revenue there, compared to 68% in 2005. The share increased due to RCG's revenue contribution.

PATIENTS

	2006	2005	Change
North America	117,855	89,300	32%
Europe/Middle East/Africa	25,078	22,850	10%
Latin America	16,924	15,800	7%
Asia-Pacific	3,660	3,500	4%
TOTAL	**163,517**	**131,450**	**24%**

TREATMENTS

in millions	2006	2005	Change
North America	16.88	13.47	25%
Europe/Middle East/Africa	3.76	3.38	11%
Latin America	2.55	2.37	7%
Asia-Pacific	0.55	0.51	8%
TOTAL	**23.74**	**19.73**	**20%**

CLINICS

	2006	2005	Change
North America	1,560	1,157	35%
Europe/Middle East/Africa	342	323	6%
Latin America	166	159	4%
Asia-Pacific	40	41	-2%
TOTAL	**2,108**	**1,680**	**25%**

In North America, dialysis care services accounted for about 91% of our total revenue in the region. Our revenue in this area grew by 35 % to $5.46 billion.

The revenue per treatment also increased significantly in the year under review. The average revenue per treatment in the U.S. was $321, $24 higher than in 2005. The main reason was a higher percentage of patients covered by private insurers. We receive a higher reimbursement rate per dialysis treatment from private insurers than from public health insurance plans. Furthermore, we were able to increase the reimbursement rate from private payers. Partially due to the RCG acquisition, we improved our revenue mix and again increased the percentage of revenue from private payors in 2006 – from 40 % to 42 %. At the end of 2006, we cared for nearly 118,000 patients compared with about 89,300 in 2005.

As regards dialysis products, too, we can look back on an extremely successful business performance in North America. 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 in North America.

Revenue from dialysis products rose to $561 million last year, up 7 % on 2005. This exceptional growth was achieved again due to the continued very high demand for our Optiflux series and 2008K dialysis machines, the latter having been designed specifically for the U.S. market. Excluding RCG and the clinics sold in connection with the acquisition, the revenue from dialysis products was 13 % higher than in the previous year.

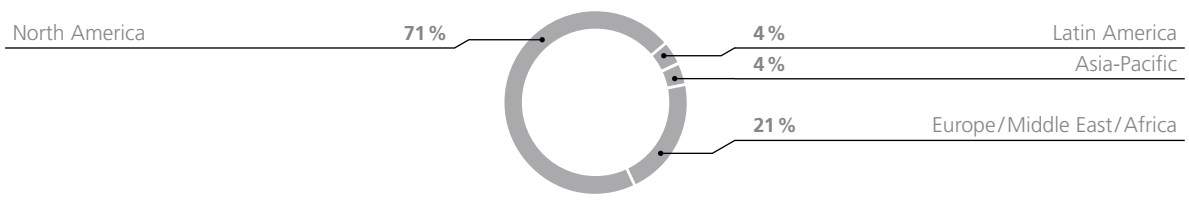
Revenue in the International segment contributes 29 % of Fresenius Medical Care's total revenue, an increase of 13 % (currency-adjusted 12 %) to $2.47 billion. The segment International includes all business regions outside North America. The contribution of the individual regions in the International segment to overall revenue changed only marginally in 2006.

Revenue from dialysis care services increased in the International segment by 12 % (currency-adjusted 12 %) to $913 million. Dialysis product revenue rose by 13 % (currency-adjusted 12 %) to $1.56 billion, mainly as a result of higher sales of 4008 and 5008 series dialysis machines as well as dialyzers.

REVENUE BY REGION

$ in millions	2006	2005	Change
North America	6,025	4,577	32 %
Europe/Middle East/Africa	1,770	1,592	11 %
Latin America	327	264	24 %
Asia-Pacific	377	339	11 %
TOTAL	**8,499**	**6,772**	**26 %**

REVENUE BY REGION



Europe, including the Middle East and Africa, is the largest region within the International segment and saw a revenue increase of 11% to $1.77 billion. Currency-adjusted growth was also 11%. As Fresenius Medical Care prepares financial statements in dollars but conducts much of its business in this region in euros, the effects of the currency exchange rates usually have an impact on growth rates. Last year, the exchange rates between the dollar and euro changed only slightly in favor of the euro, resulting in correspondingly similar growth rates. The region accounted for 21% of total revenue.

For Fresenius Medical Care, 2006 was another year of positive growth in Europe. We were able to expand our position as the largest provider of dialysis products and dialysis care in the region. At the end of last year, we treated about 25,000 patients in 342 dialysis clinics, 10 % more than in the previous twelve-month period.

In 2006, dialysis services revenue increased by 12 % over the previous year to $ 616 million. In constant currency, revenue also grew by 12 %. Revenue generated from dialysis products rose by 11% (10 % in constant currency), amounting to $1.15 billion.

We grew above-average in Latin America. Revenue in our smallest business region grew by 24 % to $ 327 million and by 21% in constant currency. Our revenue in Latin America accounted for 4 % of our total revenue. Revenue with dialysis services increased by 18 % (currency-adjusted 17 %) to $ 217 million, contributing about two-thirds of the total Latin American revenue. Revenue from dialysis products rose by 37 % to $110 million (currency-adjusted 29 %). At the end of 2006, Fresenius Medical Care treated about 17,000 patients in 166 clinics.

We also increased our revenue in the Asia-Pacific region. Overall revenue grew by 11% totaling $ 377 million. Constant currency growth was also 11%. This region accounted for 4 % of our total revenue.

In 2006, dialysis product revenue rose by 14 % to $ 297 million, a 13 % increase when adjusted for currency effects. In dialysis care, revenue grew by 1% to about $ 80 million, or 5 % in constant currency terms.

REVENUE BY SEGMENT

$ in millions	2006	2005	Change
NORTH AMERICA			
Dialysis products	561	523	7 %
Dialysis services	5,464	4,054	35 %
TOTAL	**6,025**	**4,577**	**32 %**
INTERNATIONAL			
Dialysis products	1,561	1,382	13 %
Dialysis services	913	813	12 %
TOTAL	**2,474**	**2,195**	**13 %**
WORLDWIDE			
Dialysis products	2,122	1,905	11 %
Dialysis services	6,377	4,867	31 %
TOTAL	**8,499**	**6,772**	**26 %**

Earnings

EBITDA. Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) were $1.63 billion in 2006, an increase of 37 % over the $1.19 billion of the previous year. The EBITDA includes the effects of the costs of an accounting change for stock options, one-time effects, restructuring costs and in-process R&D, and the costs of the transformation of the legal form and preference share conversion, as well as the gain from the divestiture of clinics in connection with the acquisition of Renal Care Group amounting to $11 million. Excluding these one-time effects and the accounting change, our EBITDA increased by 35 % to $1.64 billion.

Operating Income (EBIT). Operating income (Earnings before Interest and Taxes – EBIT) also increased in 2006, rising by 40 % to $1.32 billion. The aforementioned one-time effects and the change of accounting principles accounted for $11 million. Excluding one-time items and the accounting change, operating income rose by 38 % to $1.33 billion in 2006. This represents an EBIT margin of 15.6 % compared with 14.2 % in 2005. The significantly better operating margin is the result of a considerably higher gross profit margin as well as stable selling and administrative costs as a percentage of sales.

Excluding one-time effects, operating income in North America rose by 49 % to $958 million last year after EBIT of $644 million in 2005. The operating margin also improved, excluding one-time costs, from 14. in 2005 to 15.9 % in 2006. The primary reasons for this increase are the result of the improvement in revenue rates, increased treatment volume, effects of the RCG acquisition net of divestitures and increased product sales, partially offset by higher personnel expenses.

In the International region, comprising all areas outside North America, we also recorded significant earnings growth in 2006. Operating income in this region increased by 22 %, rising from $362 million in 2005 to $440 million in the year under review. We were able to improve the operating margin from 16.5 % to 17.8 %. This was primarily due to accelerated purchases of product by German customers as a result of an increase by 3 % of the German value added tax (VAT) in 2007, improvements in our operations in Latin America and Asia Pacific, collections on previously written off receivables, lower bad debt expense and the impact of restructuring costs in Japan in 2005. These effects were partially offset by income received in 2005 associated with the cancellation of a distribution agreement and with a patent litigation settlement.

Corporate costs for our central administration rose considerably in 2006. These are not included in the calculations for EBITDA and EBIT (operating income of the operating segments). Fresenius Medical Care believes these costs are not within the control of the individual segments. These corporate costs relate mainly to certain headquarters overhead charges such as accounting and finance as well as other staff functions. The total corporate operating cost was $87 million in 2006 compared to $67 million in 2005. The primary reasons for this increase are related to the accounting change

ABBREVIATED STATEMENT OF EARNINGS

$ in millions	2006	2005	Change
Net revenue	8,499	6,772	26 %
Cost of revenue	(5,621)	(4,564)	23 %
GROSS PROFIT	**2,878**	**2,208**	**30 %**
in % of revenue	33.9	32.6	
OPERATING INCOME (EBIT)	**1,318**	**939**	**40 %**
Interest expense	(351)	(173)	103 %
EARNINGS BEFORE INCOME TAXES	**967**	**766**	**26 %**
NET INCOME	**537**	**455**	**18 %**

A detailed representation can be found in the consolidated financial statements in the financial report from page 45 onwards.

regarding stock options and the increased costs for patent litigation, partially offset by lower costs for the transformation of the Company's legal form and for the conversion of the preferences shares.

Earnings before tax rose by 26 % to $ 967 million, compared to $ 766 million in 2005. Excluding one-time items and the accounting change, earnings before tax amounted to $ 993 million, also 26 % higher than in the previous year (2005: $ 788 million).

Net Income. Net income increased by 24 % to $ 584 million excluding the after tax loss from the divestiture, the costs of the accounting change, restructuring costs, in-process R&D, and the transformation costs. Including such items, net income increased by 18 % to $ 537 million.

Development of Other Major Items of the Income Statement

Gross Profit. Gross profit came to $ 2.878 billion, compared to 30 % in the previous year. As a result, the gross profit margin was 33.9 % (2005: 32.6 %). The reasons for this positive development include the effects of the acquisition of RCG (net of the divestitures) which has higher margins, higher treatment rates in North America, sales growth in Europe and favorable operational performance in Latin America. These effects were partially offset by higher personnel costs in North America and growth in regions with lower gross profit margins.

Depreciation and amortization expense for 2006 totaled $ 309 million after $ 251 million the year before.

Net Interest Expense. Net interest expense rose from by 103 %, from $173 million in 2005 to $ 351 million in 2006. The increase was due to the increased debt due to the RCG acquisition and the write off of unamortized fees approximating $15 million related to our 2003 Credit Agreement which was replaced by the 2006 Credit Agreement in conjunction with the RCG acquisition. More information on this can be found in note 10 on page 72 in the financial report.

Tax Rate. In 2006, income taxes amounted to $ 413 million compared to $ 309 million in the previous year. The increase was primarily a result of increased earnings and the tax on the gain of the divested legacy clinics as well as a tax audit by the German tax authorities. Excluding these two effects, this represents an effective tax rate of 38.5 %, after 40.3 % in 2005.

Earnings per Share. Earnings per share (EPS) are 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 accordance with our Articles of Association, preference shares receive a premium dividend of € 0.06 per share. Based on the average exchange rate of the euro and the U.S. dollar during 2006, this equals $ 0.08, resulting in a total preference dividend payment of $ 0.1 million. This must be subtracted from net income to determine earnings per ordinary share. In 2006, an average of 98.1 million shares was outstanding, comprised of 96.9 ordinary shares and approximately 1.2 million preference shares.

Based on our 2006 net income of $537 million, earnings per ordinary share rose to $5.47, an increase of 17% compared to $4.68 in the previous year. Considering the preference dividend of $0.08, we were able to increase earnings per preference share to $5.55 from $4.75 in 2005, an increase of 17%.

Value Added Statement

The value added statement shows Fresenius Medical Care's total output in 2006. All goods and services purchased as well as depreciation and amortization are subtracted. The value added of Fresenius Medical Care amounted to $4.105 billion in 2006 (2005: $3.131 billion). This is an increase of 31% over the previous year. The distribution statement shows that, at $2.77 billion or 67%, the largest portion of our value added went to our employees. Governments came next with 10%, followed by lenders, at $372 million or 9%. Shareholders and minority interests received $191 million. The company retained $362 million for reinvestments.

Financial Situation

Financial Management Policies and Goals

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

In addition, sufficient financial cushion is assured by only partly drawn revolving syndicated credit lines. Market capacity, financing costs, investor diversification, flexibility, qualification requirements and maturities are all taken into consideration when selecting financial instruments. At the same time, we seek to optimize our financing costs.

VALUE ADDED STATEMENT

$ in millions	2006		2005	
CREATION				
Company output	8,522	100%	6,790	100%
Materials and services purchased	(4,108)	-48%	(3,407)	-50%
Gross value added	4,414	52%	3,383	50%
Depreciation and amortization	(309)	-4%	(252)	-4%
NET VALUE ADDED	**4,105**	**48%**	**3,131**	**46%**
DISTRIBUTION[1]				
Employees	2,767	67%	2,174	69%
Government	413	10%	309	10%
Lenders	372	9%	191	6%
Shareholders & minority interest holders	191	5%	154	5%
Company	362	9%	303	10%
NET VALUE ADDED	**4,105**	**100%**	**3,131**	**100%**

[1] Assuming that the proposal for the allocation of profits for 2006 is accepted.

Financing

Detailed information on financing can be found in the financial report from page 22 onwards, in the "Liquidity and Capital Resources" section and in notes 9 and 10 starting on page 70.

Rating

In connection with the acquisition of the Renal Care Group, Standard & Poor's and Moody's have changed their corporate credit rating for the company. Standard & Poor's lowered the corporate credit rating from "BB+" to "BB" and attached a negative outlook. Moody's lowered the corporate credit rating from "Ba1" to "Ba2" with a stable outlook. These downgrades are related to the debt financing of the Renal Care Group acquisition resulting in a highly leveraged capital structure of the Company. The decisions to downgrade Fresenius Medical Care by just one notch are based on the Company's relatively predictable and recurring revenue streams and the ability to a stable cash flow generation.

Effect of Off-Balance-Sheet Financing Instruments on the Financial Position and Assets and Liabilities

Fresenius Medical Care is not involved in any off-balance-sheet transactions that could have or will have a significant effect on its financial position, expenses or earnings, profitability, liquidity, investments, assets or capitalization.

Liquidity Analysis

Comprehensive information on liquidity can be found in the "Liquidity and Capital Resources" section from page 22 onwards.

Dividends

Fresenius Medical Care will propose to the Annual General Meeting the tenth dividend increase in a row. For 2006, a dividend of €1.41 per ordinary share (2005: €1.23) and €1.47 per preference share (2005: €1.29) is proposed. This is an average increase of 15 %. The total distribution will be €139 million (2005: €120 million). Further information on the dividends can be found in the "To Our Shareholders" section starting on page 39.

Cash Flow Analysis

Fresenius Medical Care's cash flow statement shows a sustained development. Operating cash flow in 2006 was $ 908 million, an increase of 35 %, or $ 238 million, following $ 670 million in 2005. The increase is primarily due to increased earnings, improvements in working capital efficiency and a reduction of days sales outstanding (DSO).

A detailed description of further contributing factors can be found in the financial report in the "Liquidity and Capital Resources" section beginning on page 22.

We reduced the DSO in North America to 59 days by the end of 2006, from 63 days in 2005. Outside North America, the DSO remained almost unchanged at 119 days at the end of 2006. The mix effect due to North America's increased weight following the RCG acquisition coupled with North America's lower DSO is a further driver for the decrease of our DSO. Due to this effect, we reduced the total DSO by six days to 76 days.

As in 2005, we were able to fully finance the capital expenditures and acquisitions without RCG last year, as well as the dividends distributed to our shareholders from operating cash flow.

Capital expenditures were $ 450 million in 2006. This resulted in free cash flow before acquisitions and dividends of $ 458 million, an increase of 23 % over 2005. Excluding RCG, we spent $159 million on acquisitions and paid $154 million in dividends in 2006, resulting in

RATING

	Rating	Outlook
Standard & Poor's	BB	Negative
Moody's	Ba2	Stable

a free cash flow after acquisitions and dividend payments of $145 million, also higher than in 2005 with $110 million. This was predominantly due to the strong cash flow from operating activities. The majority of our capital expenditures was used for the expansion of our clinic business, for the introduction of a new billing system and for new production facilities in the U.S. and Japan. (See the following section "Investments and Acquisitions").

Excluding the acquisition of RCG, 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. Including the sale of 105 clinics required by the antitrust authorities in connection with the acquisition of RCG, the net payment was $3,632 million, which was financed by a new credit agreement (see the financial report on page 72 onward.)

Investments and Acquisitions

In 2006, Fresenius Medical Care invested a net amount of $4.76 billion. A total of $4.15 billion was invested in the acquisition of Renal Care Group. Excluding the capital expenditures for RCG, investments amounted to $609 million in 2006, after $422 million in 2005.

Expenditures for upgrading and expanding existing dialysis clinics and equipping new clinics accounted for more than half of our capital expenditures. This includes the installation of a new IT-supported billing system, for which $261 million was invested. We invested about $137 million in the expansion and modernization

ABBREVIATED STATEMENT OF CASH FLOW

$ in millions	2006	2005	Change
Cash at the beginning of the year	85	59	44 %
Cash from operating activities	908	670	35 %
Cash from investing activities	(4,241)	(422)	
Cash from financing activities	3,383	(220)	
Effect of exchange rate changes on cash	24	(2)	13 %
Cash at the end of the year	159	85	87 %
Free Cash Flow	458	373	23 %

A detailed representation can be found in the consolidated financial statements in the financial report from page 48 onwards.

DAYS SALES OUTSTANDING

in days	2006	2005
North America	59	63
International	119	120
TOTAL	**76**	**82**

OPERATING CASH FLOW

$ in millions

of existing production facilities in North America, Germany, France and Japan. A further $69 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 % of the net capital expenditures were invested in our dialysis services activities and 44 % in our dialysis products business. About 63 % of the net capital expenditures were used for expanding existing facilities, and 37 % were used for the maintenance of existing production sites and dialysis clinics.

About 67 % of all capital expenditures in 2006 were spent in North America, compared to 57 % a year earlier. Europe received 25 % while the Asia-Pacific and Latin America regions each received 4 %.

Our acquisition spending increased to $4.307 billion in 2006, compared with $125 million in the previous year. The significant increase is primarily due to the $4.148 billion spent on the acquisition of RCG. Fresenius Medical Care received $516 million from the sale of 105 clinics and laboratories. Additional spending for acquisitions in 2006 amounted to $159 million, with $145 million going to the North American segment and $14 million to the International segment. Of the total sum, $73 million were spent on the acquisition of the phosphate binder product business from Nabi Biopharmaceuticals and the remaining $86 million primarily on the acquisition of clinics.

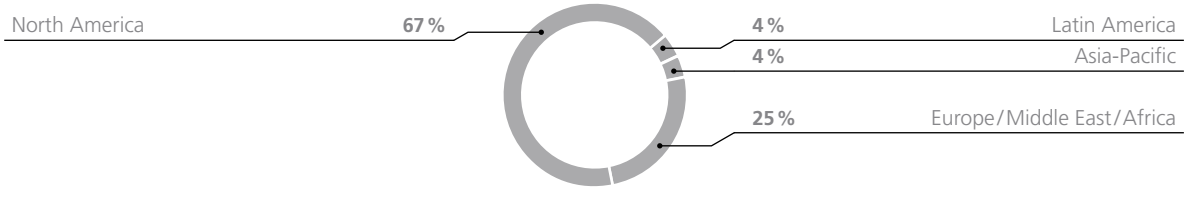
Overall, $4.241 billion were spent for capital expenditures and acquisitions in 2006. This was $3.819 billion more than in the previous year when we spent $422 million.

INVESTMENTS AND ACQUISITIONS BY SEGMENT

$ in millions	2006	2005	Thereof Property, Plant and Equipments and Intangible Assets	Thereof Acquisitions	Thereof Divestitures	Change	% of Total
North America	4,079	245	302	4,293	516	3,834	96 %
International	162	177	148	14	–	(15)	4 %
TOTAL	**4,241**	**422**	**450**	**4,307**	**516**	**3,819**	**100 %**

NET CAPITAL EXPENDITURES BY REGIONS

Total: $450 million



Assets and Liabilities

Balance Sheet and Asset Situation

The Company's total assets increased significantly in 2006. At $13.05 billion, they were substantially higher than in the previous year (2005: $7.98 billion). In constant currency, the total assets increased by $4.82 billion or 60 %, primarily due to the RCG acquisition.

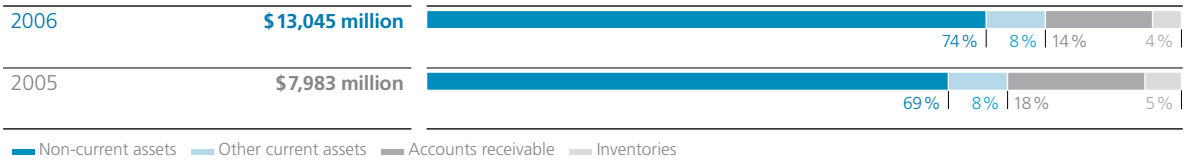
Non-current assets rose to $9.63 billion, representing 74 % of total assets, compared to 69 % in 2005. Non-current assets include goodwill of $6.89 billion. Thereof goodwill of $3.38 billion is related to the acquisition of RCG, and goodwill of $2.11 billion is related to the founding of Fresenius Medical Care in 1996. Property, plant and equipment rose by 42 % to $1.72 billion in 2006, primarily as a result of investments of $422 million minus depreciation of $265 million and acquisitions amounting to $341 million. More information on this can be found in the preceding section "Investments and Acquisitions".

Current assets also changed significantly due to the acquisition of RCG, increasing by 39 % to $3.41 billion or 33 % in constant currency. Trade accounts receivable climbed to $1.85 billion, following $1.47 billion in 2005 – an increase of 22 % in constant currency.

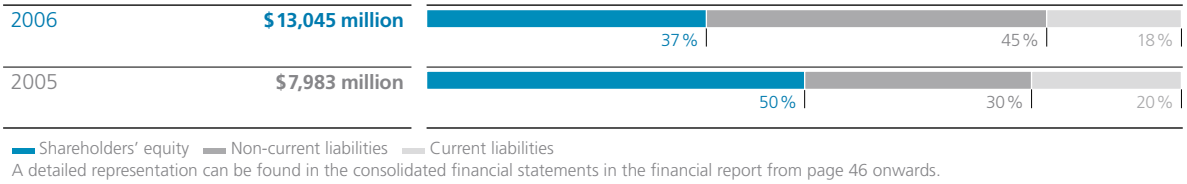
Shareholders' equity increased significantly by 23 % to $4.87 billion compared to $3.97 billion in 2005. This increase was mainly due to the net income of $537 million, the proceeds from share conversions amounting to $307 million, exchange rate effects of $114 million and proceeds from the exercise of stock options totaling $54 million. The dividend distribution for 2005 of $154 million partially offset this increase. The equity ratio decreased considerably by 13 percentage points to 37 % in 2006.

Of the financial liabilities, 82 % are in U.S. dollars. Short-term financial liabilities amounted to $496 million after $296 million at the end of 2005. The medium- to long-term financial liabilities amounted to $5.08 billion compared to $1.89 billion in 2005. This increase is due to the debt-financed acquisition of Renal Care Group.

ASSETS



EQUITY AND LIABILITIES



A detailed representation can be found in the consolidated financial statements in the financial report from page 46 onwards.

The Group has no significant accruals. The largest single accrual is for the settlement of fraudulent conveyance claims and all other legal matters in connection with the National Medical Care transaction in 1996 resulting from the bankruptcy of W.R. Grace. This accrual amounts to $115 million. Please see page 69 of the finance report for details.

The net debt to equity ratio including minorities (gearing) increased from 0.5 in 2005 to 1.1 in the year under review. The return on equity after taxes rose to 11.8 % (2005: 11.4 %).

Debt/EBITDA Ratio

The ratio of debt to Earnings Before Interest, Taxes and Amortization (EBITDA) was 3.23 at the end of 2006 after 1.82 in the previous year. The increase resulted from the completely debt-financed acquisition of RCG. As a result of the strong cash flow from operating activities and the good earnings situation, this ratio was clearly below the 3.6 debt/EBITDA ratio forecast for the end of the year.

Currency and Interest Risk Management

On December 31, 2006, the nominal value of all foreign currency hedging contracts was $1.083 billion. The nominal value of interest rate hedging contracts amounted to $ 3.615 billion. Further information can be found in the risk report starting on page 94 and in note 19 on the financing instruments in the financial report from page 101 onwards.

02.3 Non-Financial Performance Indicators

Employees

Development of Employee Numbers

At the end of 2006, Fresenius Medical Care employed 56,803 people (full-time equivalents), which represents an increase of 20 % or 9,282 employees compared with the previous year. The increase was primarily due to the acquisition of Renal Care Group (RCG). The number of employees has grown by an average of 8 % per year since the Company was founded in 1996.

As RCG is active exclusively in the U.S., the number of employees in North America grew substantially, by 25 %, after the acquisition. In Europe, staff numbers rose due to the expansion of our dialysis clinic network, particularly in Eastern Europe and Southwest Europe, and due to the acquisition of a small production site in Serbia.

At the end of 2006, we employed about 3,000 people in Germany, accounting for about 5 % of our total workforce. This illustrates the high degree of internationalization of Fresenius Medical Care. In the year under review, no significant changes were made to wage or operating agreements in Germany.

Fresenius Medical Care's personnel costs amounted to $ 2.72 billion in 2006, 30 % up on the previous year. The average costs per employee were about $ 47.9 thousand.

The number of employees increased by 20 % in 2006, while currency-adjusted revenue rose by 25 % and net income climbed by 17 %. These figures show that work efficiency continued to improve and Fresenius Medical Care grew profitably in 2006.

Integration of Renal Care Group

The integration of over 7,000 RCG employees was at the center of our personnel activities in 2006. To facilitate the integration, orientational events and integration seminars were organized for the employees of the clinics run by RCG and for RCG's management. Integration seminars were held at the local, regional, and national level.

Human Resources Marketing and Development

In an environment characterized by dynamic growth, recruitment of highly qualified expert staff and management is a challenge of human resources work. Therefore, continual and sustained personnel development

EMPLOYEES

Full-time equivalents

2006	**56,803**
2005	**47,521**
2004	**44,526**
2003	**41,097**
2002	**39,264**

EMPLOYEES BY REGION

Full-time equivalents

	2006	2005	Change
North America	37,541	30,129	25 %
Europe/Middle East/Africa	12,443	11,208	11 %
Latin America	5,206	4,799	8 %
Asia-Pacific	1,613	1,385	16 %
TOTAL	**56,803**	**47,521**	**20 %**

is among our most important goals. Promoting careers in specialized fields and project management, in addition to classical management vocations remain an important part of our activities. In 2006, we improved and expanded our offer for furthering expertise and personal skills in these fields.

In addition, we continued our long-standing successful cooperation with the international business academy INSEAD (in Fontainebleau and Singapore) as well as with other international business schools.

As in previous years, Fresenius Medical Care worked against the general shortage of highly qualified experts and managers by taking comprehensive human resources marketing measures. Fresenius Medical Care presents itself at graduate conventions, maintains extensive relationship programs with selected academic institutions, offers student internships and provides research support for degree theses. In doing so, we are able to recruit potential junior managers for our company at an early stage. Our human resources marketing activities are supported by our Internet presence; in 2006, more than 2,500 applications were sent to us in response to job ads posted on the Internet.

In North America, we give nurses the opportunity to continually receive further education and training, which is necessary for them to maintain their licenses. This is yet another way in which we promote the appeal of Fresenius Medical Care' as an employer of choice.

Education and Training

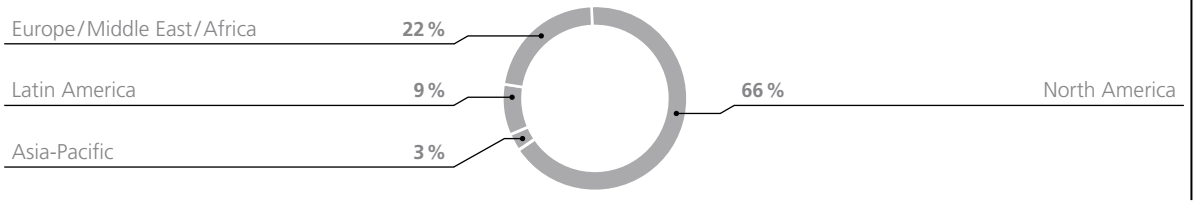
The Fresenius Group trains young people to prepare for the future competition for qualified applicants. At the end of 2006, we employed some 1,200 trainees Germany-wide in 32 different professional areas as well as more than 20 students from vocational academies. We train people far beyond our own needs, thus fulfilling our sociopolitical responsibility.

To heighten our appeal as a company that trains young people, we developed a marketing concept aimed at getting more young people interested in receiving training in our company. Among other things, we developed a new training brochure and got involved in a training campaign. The campaign was supported by the Economics Ministry of the German state of Hesse, employee associations in Hesse, chambers of commerce and industry, trade chambers, as well as the Federal Employment Agency. The Fresenius Group contributed its own posters to the training campaign. With the slogan "Biete Ausbildung – Suche Begeisterung" (we offer training – we look for enthusiasm), we demonstrated that we are serious about our social responsibility toward people entering the working world yet at the same time expect young people to show dedication.

Profit Sharing

One key element of our economic success is our employees' high level of identification with the Company. The employees share in the success of Fresenius Medical Care, which is a major factor for this identification. The amount of profit-sharing bonuses is linked to the operating result (EBIT) of the Fresenius Group, offering a value-oriented incentive. In 2006, each qualified employee received €1,000 as part of the program. Two-thirds of the bonus amount is paid in shares; employees could then opt to take the final third in either cash or shares. Those opting for shares were awarded bonus shares to acknowledge their trust in the Company.

EMPLOYEES BY REGION



Stock Option Plan

Via stock option plans, management also participates in the Company's economic success. At the General Meeting on May 9, 2006, shareholders approved a new stock option program which is directly linked to the Company's success. Managerial staff members will receive up to five million options for ordinary bearer shares over the next five years, which are exercisable after a period of three years, if the adjusted earnings per share (EPS) hurdle of 8 % is reached in each year of the waiting period. If this hurdle is achieved in only one or two years, the options are reduced accordingly. If the hurdle is not achieved at all, the options are cancelled. The new stock option program 2006 enables managers to participate in the financial risks and opportunities of the Company and offers them an internationally competitive remuneration system in the future.

In 2006, about 550 managerial staff of Fresenius Medical Care participated in the Company's success through this program. Further information on the stock option plan can be found in the financial report from page 86 onwards (note 15).

Compliance

For us, compliance means adhering to defined ethical and legal guidelines as part of our business activities. Following our compliance guidelines voluntarily is an integral part of our corporate culture. Fresenius Medical Care's Compliance Program is one of the most demanding in our industry. It is implemented in all of our business regions. Thus, our guidelines apply in every country where we have subsidiaries.

The local compliance officers took center stage in our work in 2006. During a meeting at the Company's headquarters, they had the opportunity to exchange their experiences, subsequently using them in their daily working routine. Compliance officers play an important role. They ensure that the Company adheres to the same high ethical and legal standards around the world and that each employee is fully informed about our code of conduct and its goals. At the same time, they are responsible for related training and ensure compliance with the guidelines. Compliance officers act as contacts for our employees and can be reached via special telephone numbers, by e-mail or in person.

Procurement and Logistics

The procurement of raw materials and semi-finished products as well as the transport of products to patients, dialysis clinics and hospitals are important factors for the economic success of Fresenius Medical Care.

The main task of procurement is to purchase safe, high-quality materials and semi-finished products at favorable conditions. To this end, we continually analyze the international procurement markets and pool the needs of Fresenius Medical Care worldwide as far as possible. We achieve additional advantages by means of purchasing alliances arising from similar needs. Both our customers and our suppliers take advantage of these alliances. While our customers benefit from the stable quality of the products and the fact that their supply needs are met reliably, our suppliers profit from centralized administration, the high degree of standardization and the bundling of bulk orders.

Teams consisting of staff members who perform different functions, work for different companies and come from different countries define appropriate purchasing strategies for the individual products. The procurement

PROFIT SHARING

Year[1]	2006	2005	2004	2003	2002
Bonus in €	1,000	1,000	1,000	1,050	956
Number of eligible employees	2,436	2,298	2,101	1,768	1,624

[1] Profit sharing is paid retroactively and reflects the Fresenius Group EBIT for the previous year.

departments enter into outline contracts with suppliers and coordinate queries from internal departments and external partners.

In 2006, we concluded delivery agreements for electricity and gas at a favorable point in time and were therefore able to keep the purchasing prices stable. Despite higher purchasing quantities and the pooling of needs, due to the development of oil prices no savings could be made on petroleum-based products and semi-finished goods such as plastics and different types of foils for product packaging.

In the U.S., we reduced the average inventory level by 6 % over the previous year, to 86 days, by optimizing our distribution logistics. Overall, we have been able to significantly improve the efficiency of our warehousing in the last five years. Although piece numbers increased by about 40 % during this period, we reduced the stock on hand by a quarter. In addition, the integration of Renal Care Group was a primary focus of our activities. We ensured a smooth transition phase for supplying more than 400 RCG clinics.

A steady supply is particularly important for our peritoneal dialysis (PD) patients. They can carry out the vital treatment only if we provide them with the necessary PD solutions and disposables in time and in sufficient quantity. In the U.S., we rely on 13 regional distribution centers. They are located in areas where a high percentage of patients live. We can reach more than half of them within two hours and three-fourths within four hours. The products needed for treatment are supplied to 95 % of our PD patients within six hours.

Production

Fresenius Medical Care has a global network of production sites on all continents. The selection of production sites is primarily determined by the respective product. For the production of highly complex dialysis machines, for example, we rely on decades of experience at a central facility. Our analyses show 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 directly in the regions where the demand is particularly strong. As the global leader in dialysis, we possess 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 the 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, as the costs and the revenue generated are in the same currency.

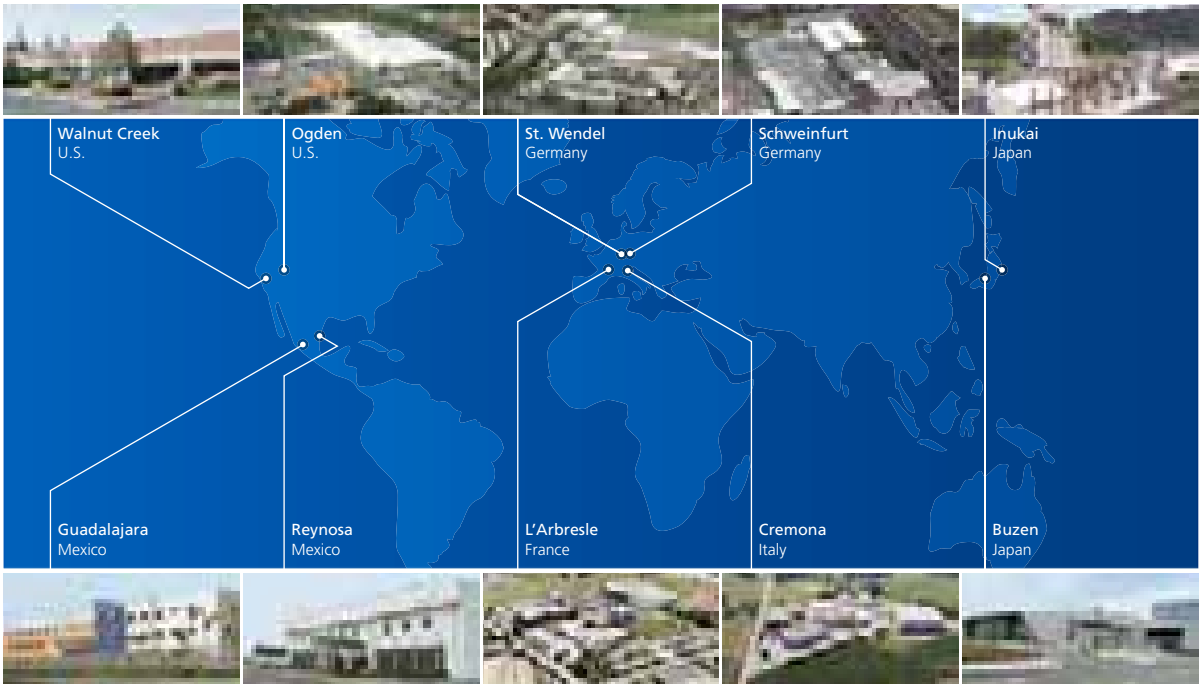
We have implemented a particularly consistent global production network for dialyzers: our sites in Ogden (Utah, U.S.), St. Wendel (Germany) and Inukai (Japan) allow us to not only operate as a provider but also as a producer of dialysis products in these three major dialysis markets. In addition, we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

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 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 also includes peritoneal dialysis machines, bloodlines and water preparation equipment, which are manufactured in our factories in North America, Europe, Latin America, Asia and Australia.

We produced about 65 million dialyzers and fiber bundles in 2006, some five million more than in the previous year. Considering the total volume of approximately 160 million dialyzers produced globally in 2006, Fresenius Medical Care supplied about 40 % of them. Due to the ever-growing demand for dialyzers from Fresenius Medical Care, our production sites in all regions have reached their capacity limits. As a conse-

MAJOR PRODUCTION SITES



quence, we took the first steps to expand our production capacities for FX-class dialyzers in Germany and Japan. We intend to increase the production capacity at the St. Wendel facility alone by around ten million dialyzers a year by 2008.

In addition to expanding production capacity, we continually strive to improve production processes. In St. Wendel, for instance, we now use a fully automated, computerized camera system for visual control. It recognizes possible production flaws very quickly and effectively and thus enhances the quality of the dialyzers.

We also intend to significantly expand our dialyzer production capacities in the U.S. in the next two years, adding two production lines in our factory in Ogden, Utah. The annual production capacity there is expected to increase from 27 to 34 million dialyzers.

The market share of our dialysis machines was even higher than that of our dialyzers in 2006. More than 50 % of all dialysis machines produced worldwide were made by Fresenius Medical Care. We produce three times more of these complex machines than the second-largest manufacturer.

On account of the strong demand for our dialysis machines, we have increased production of components for these machines for the U.S. market by more than 20 %. We have also boosted our output outside of North America. In 2006, production of the dialysis machine series 4008 and 5008 climbed by more than 20 % in these regions as well.

After introducing the "Lean Six Sigma" management system in the U.S. in 2005, we launched it in Schweinfurt in 2006. Lean Six Sigma is used to analyze and coordinate all production processes. With this system, we are pursuing two goals simultaneously: achieving even better production results while shortening manufacturing times.

Quality and Environmental Management

To ensure constantly high quality standards, we developed the Integrated Management System (IMS). It works with the legal and normative guidelines for our products and services and focuses on established operational workflows. The IMS fulfills the ISO 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.

The IMS has already been implemented in all of our European production sites and will now gradually be introduced in our dialysis clinics as well. In parallel, we are constantly refining the system. In 2006, we introduced the quality control norm ISO 9001:2000 in about 50 additional European dialysis clinics, including facilities in Slovakia. As a result, approximately 65 % of our clinics in Europe are certified, compared to about 55 % in the previous year. Certification according to environmental control norm 14001:2004 has also made headway, and now more than 50 dialysis clinics work in accordance with this norm, including, since 2006, dialysis centers in Poland, Slovenia, Turkey and Italy. As planned, we trained a total of 50 employees, so-called corporate auditors, to perform internal audits based on the IMS.

Another focus of our work is to prepare drugs for approval and submit the necessary applications. The approval of drugs is subject to national and international regulations, and quality management is in charge of controlling their internal realization. The aim is to speed up approval of products to shorten the time between development, clinical testing and marketing of products.

To meet this goal, the Mutual Recognition Procedure is particularly important. 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. In 2006, a total of 28 peritoneal dialysis products were approved, including products for PD solutions from the balance series (see the glossary beginning on page 114), as well as for dialysis drugs in Europe and Asia.

As previously mentioned in the "Strategy" section on page 50, we intend to become more involved in the area of dialysis drugs in the future. Preparing these drugs for approval will be a focus of our quality management. We took the first steps in 2006, adapting, for example, internal structures and processes accordingly.

Apart from introducing the environmental control system in our clinics, our work focused on the implementation of the RoHS and WEEE EU guidelines. RoHS stands for "Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment". Since mid 2006, this guideline has limited the usage of certain hazardous substances in electrical and electronic devices and completely forbids the usage of lead, cadmium and quicksilver in these devices. WEEE stands for "Waste of Electrical and Electronic Equipment". The guideline regulates collection, disposal and treatment of electronic waste. In 2006, Fresenius Medical Care updated the labeling of products in accordance with WEEE at its Schweinfurt factory, among others.

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. For example, by using heat recovery systems at our St. Wendel plant we considerably reduced the amount of steam used and thus cut the amount of natural gas we needed as an energy source by 4 %.

We were able to reduce the energy consumption at our factory in Cremona, Italy, by 15 %, simply through optimizing the use of lighting systems and air conditioning. In addition, logistics costs for truck transports were cut by 10 % thanks to improved coordination of transport routes between individual suppliers.

Waste separation has considerably reduced the amount of residual trash at Fresenius Medical Care's dialysis clinics in North America. Waste is now separated in more than 900 clinics. As a result, we recycled 3,500 tons of cardboard and paper packaging in 2006.

Saving water is also an important contribution to resource conservation. In 2006, we installed more than 80 water preparation systems to produce ultrapure

water. They are able to purify about three-fourths of the processed water. This saves nearly 100 liters of freshwater per dialysis treatment. Usage of ultrapure water is a key quality criterion in the production of 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.

In North America, we employ modern, environmentally friendly technologies to continually save energy. In the year under review, we increased our usage of heat exchangers, which enable us to obtain residual heat from water used for industrial purposes and which we use to heat up freshwater for dialysis treatment. As a result, we recover about three-fourths of the heat, which was previously unused, and thus reduce the energy consumption in our clinics substantially and cut costs.

Moreover, we expanded our eco-controlling system so that now data such as water and energy consumption are recorded. When these data are analyzed, weak points can be identified more easily and resource conservation improvements can be initiated. Since 2006, we have also recorded this data in our clinics in South Africa and a few Latin American countries.

To evaluate the quality of our dialysis treatments, we make use of quality parameters that are recognized by the dialysis industry, such as hemoglobin values. Hemoglobin in the human body is primarily used to transport oxygen from the lungs to the tissue that needs to be supplied with it. We aspire to have a large percentage of our patients at a hemoglobin level of at least 11 grams per deciliter blood – the hemoglobin level of a healthy person being 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 establishing the ratio of the length of treatment and the filtration rate of certain toxic molecules. Albumin is a protein that can be used to monitor a patient's general nutritional condition. The relative urea reduction ratio (URR) is another indicator measuring the effectiveness of a dialysis treatment. The higher the URR, the less urea there is in the patient's blood. The number of days the patient has to spend in hospital is also an important indicator of the treatment quality, as hospital days are an especially cost-intensive factor and reduce the quality of life of dialysis patients.

Below you will find a table showing the development of important quality parameters in our North American and European clinics.

QUALITY DATA

for the final quarter	U.S.[1] 2006	U.S.[1] 2005	Europe 2006	Europe 2005
URR > 65	91%	91%	91 %	92 %
Kt/V > 1.2	95 %	94 %	93 %	93 %
Hemoglobin ≥ 11 g/dl	83 %	82 %	71 %	66 %
Albumin ≥ 3.5 g/dl[2]	80 %	79 %	86 %	86 %
Hospital days per patient per year	11.7	11.9	8.2	8.3

[1] Excluding clinics of the former Renal Care Group [2] International standard BCR CRM470

Clinical Databases

Clinical databases such as EuCliD (European Clinical Database) are an important instrument for ensuring the quality of dialysis treatment. Firstly, we can record treatment data of dialysis patients, and secondly, EuCliD allows us to efficiently compare the treatment quality of individual dialysis clinics. Potential weak points can be more readily identified and, if necessary, counteractive measures can be applied instantly. EuCliD is therefore a significant component of our integrated quality management system and also assists nephrologists in providing comprehensive patient care.

In 2006, more than 280 dialysis clinics added their information to this system. The database now contains information on about 24,000 dialysis patients. This represents about 85 % of our European dialysis clinics compared to about 80 % the year before. Furthermore, we implemented a new version of the EuCliD software for the documentation and analysis of treatment parameters, as well as improved monitoring of administration of dialysis drugs.

We are also in the process of introducing a significantly upgraded clinical and billing system in the U.S. This is a Web-enabled system that uses workflow technologies for process control and embedded analytics to provide advanced reporting capabilities. The system provides point-of-care capabilities to our physicians and clinical staff, reduces our dependency on paperand uses workflow technologies to monitor and instruct the execution of billing and clinical processes, escalating variances to supervisors.

This electronic system is expected to increase clinical and billing productivity, enhance clinical outcomes, reduce hospitalizations and make clinical workflows more adaptable to changes in regulatory requirements. From a data perspective, it improves our capability to analyze treatment quality and provides easier access to information for our caregivers and physicians.

In the year under review, infrastructural aspects of the system such as networking (including wireless capabilities for qualifying clinics) have been phased in to over one thousand clinics. A touch-screen-based point-of-care system has been successfully piloted and rolled out to over seventy clinics. Also owing to the acquisition of the Renal Care Group we successfully integrated these clinics into our information systems architecture. Following the integration of the additional RCG, the full system roll-out within the consolidated company is expected to be completed in 2009.

Renal Drug Initiative – Growth Through Dialysis Drugs

As mentioned in the "Growth Paths" section from page 50 onwards, we plan to expand our portfolio beyond patient care and dialysis products to open up new growth possibilities. In our view, the area of dialysis drugs (or renal drugs) has a particularly high growth potential for Fresenius Medical Care. We estimate the market volume for dialysis drugs at nearly $1.5 billion. Therefore, under the slogan "renal drug initiative" we have become more involved in some areas of dialysis medication and will continue to do so in the future.

In 2006, we concentrated on drugs which regulate patients' mineral and blood levels and improve the control of bone mineralization. These include iron and vitamin D supplements as well as phosphate binders.

Excess phosphate consumed with food is normally removed by the kidneys in a process that can only partially be replaced by dialysis in patients with chronic kidney failure. Too much phosphate in the blood can result in a number of adverse effects including bone disease, thyroid problems and vascular calcification. The risk of such damage in end-stage renal disease patients can be lowered by administering phosphate binders regularly.

Iron and vitamin D supplements are also important for dialysis patients. The human body needs vitamin D, which is further processed in the kidneys, to be able to absorb sufficient calcium from food. When the kidneys are diseased, not enough vitamin D can be created to enable adequate calcium absorption. The consequence is that the body does not absorb enough calcium from food. In order to compensate, the body obtains the lacking vital mineral from its largest calcium depot, the bones. This results in bone decalcification, i.e. bone mineralization is critically disrupted. Administering vitamin D can counteract this effect. Iron preparations support blood formation in people with kidney disease, a task normally performed by the kidneys.

With the acquisition of Nabi Biopharmaceutical's phosphate binder business (PhosLo), we were able to add a safe and proven drug to our range of clinical therapy offerings. PhosLo is a calcium acetate phosphate binder for oral application in end-stage renal disease patients that has total product line revenues in the U.S. of approximately $40 million in 2006. The total consideration paid in the transaction will be $65 million cash at closing, plus royalties on a new product formulation plus milestone payments. The milestone payments consist of $10 million expected to be paid in 2007 and $10 million to be paid over the next two to three years, contingent upon the achievement of certain performance milestones.

We investigated the efficacy of PhosLo in the CARE-2 (Calcium Acetate Renagel Evaluation) study. The CARE-2 study was a randomized, controlled head-to-head comparison between PhosLo and the rival product Renagel (sevelamer hydrochloride). In the study, one patient group was treated with PhosLo and the other with Renagel; lipid levels were kept constant in the two groups. The patients in both groups additionally received, depending on their lab results, the cholesterol-lowering drug Lipitor (atorvastatin calcium) to control LDL (low-density cholesterol levels). The study found no statistically significant difference in the progression in cardiovascular calcification (CAC) between the two treatment groups after twelve months of treatment. Patients treated with PhosLo and Renagel achieved comparable reductions in serum-phosphorus and calcium-phosphorus product. The data refute the hypothesis that the calcium in Phoslo contributes to cardiovascular calcification. What is even more important, however, is that K/DOQI (Kidney Disease Outcomes Quality Initiative) target levels were reached faster with PhosLo.

The findings were presented by Dr. Wajeh Qunibi, of the University of Texas Health Science Center, San Antonio, at the American Society of Nephrology's Renal Week 2006 Conference in San Diego, California.

In addition, we received regulatory approval in Germany for a phosphate binding agent marketed under the brand name "OsvaRen". The new compound combines two substances known to support bone health, calcium acetate and magnesium carbonate, while optimizing the calcium level. We aim at quickly receiving accelerated approval for OsvaRen in other countries within the European Union using the mutual recognition process and plan to introduce the new phosphate binder in all EU countries in 2007 and 2008.

Another dialysis medication, in addition to drugs that control the body's iron, vitamin D and phosphate levels, is erythropoietin. The pharmaceutical and biotech group Amgen holds the exclusive patent and marketing rights to the artificially produced hormone. You can find more information beginning on page 93 in the "Erythropoietin" section.

In addition to our sourcing and supply agreement for erythropoietin in the U.S., we agreed with Amgen in 2006 to enhance our collaboration if possible to help ESRD patients even more. We are using the outstanding, globally leading position of the two companies to develop and introduce new dialysis therapies.

At the beginning of 2007, we also stepped up our cooperation with Amgen in Europe, reaching an agreement on a joint research project. In the scope of the agreement, Fresenius Medical Care and Amgen will facilitate a working group of European scientific experts in the renal field. The working group will analyze practices in the treatment of chronic kidney disease and will publish their findings for improved therapeutic options. The focus of the first research efforts will be on anemia and bone mineral disease affecting patients with kidney failure.

We also reached an agreement with Amgen concerning the marketing of the drug Aranesp (Darbepoetin alfa) in Europe. Aranesp is administered to patients with chronic kidney disease for the treatment of anemia. According to the agreement, Fresenius Medical Care will support Amgen in providing nephrologists and other dialysis experts with scientific information on the treatment of anemia. Amgen remains solely responsible for the product. The new agreement runs for three years.

The overall aim of the renal drug initiative is to further improve our integrated treatment offer. Within this framework, we are working on integrated "pharmatech" therapy approaches, combining the use of dialysis drugs with our existing range of product technology and services. As a result, we can cover the entire therapy and value chain in dialysis even better, without significantly changing our business model and the risks connected with it. For the future, we are planning integrated therapy systems encompassing drugs and dialysis systems, as well as special product formulations which are better suited to dialysis patients and their special needs and are easier to administer. They will help us to achieve greater therapeutic success on a medium-term basis.

Home Therapies – More Growth with "Continuum"

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

In 2005, we launched a program under the slogan "Continuum", which aims at further expanding our global market share in home therapies, including both peritoneal dialysis and home hemodialysis. By the end of 2006, some 33,000 peritoneal dialysis patients and more than 3,000 home hemodialysis patients received their products from Fresenius Medical Care. Thus, making us the largest provider in the field of home hemodialysis, supplying more than 50 % of all home hemodialysis patients with dialysis machines and dialyzers. Although home dialysis is currently underrepresented compared to clinic-based dialysis, home dialysis treat-

ment has considerable long-term potential. With Continuum, we aim to support patients with excellent products and comprehensive training programs in order to make home dialysis easier and safer. We expect the need for home dialysis to increase substantially; growing patient numbers and rising cost pressure will likely contribute to this. We estimate that a total of more than 200,000 patients worldwide could undergo a home hemodialysis or peritoneal dialysis by 2010.

Continuum is a fully integrated program. In the future, patients should not only be able to choose between hemodialysis and peritoneal dialysis, but first of all whether they would like to be dialyzed in a clinic or at home. While home dialysis requires more responsibility on the part of the patient, it gives patients more say in how to budget their time. We plan to provide information to doctors, care personnel and healthcare decision-makers, but primarily to patients, and convince them that home dialysis is a safe, flexible, cost-effective option for the treatment of patients with end-stage renal disease who do not have co-morbid diseases. Fresenius Medical Care has many years of experience as well as safe, high-quality products for dialysis at home.

After launching the program in Asia in 2005, we introduced it in Europe and North America in 2006, and pilot projects continued in Scandinavia, the Netherlands, Hong Kong and Australia. We aim to continue expanding home dialysis in general and home hemodialysis in particular and establish it as a relevant treatment alternative in the long term.

Holiday Dialysis International

The name HDI – Holiday Dialysis International – represents a special service we offer to dialysis patients worldwide. Generally regarded 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 hemodialysis and peritoneal dialysis patients a free and professional worldwide booking service for receiving dialysis treatment away from home, either within our own network or from external providers. The program restores mobility by providing dialysis patients with life-saving dialysis treatment in nearly every corner of the globe.

Patients who wish to go on cruises are not just provided with their accustomed high standard of dialysis treatment, but with a little extra quality of life HDI ensures that the dialysis machines, dialyzers, water preparation systems and other related equipment used on ships meet our high quality standards to ensure that patients on cruises receive the customary excellent treatment.

In the past year, more than 1,800 patients took advantage of HDI's services, almost 50 % more than in 2005. Furthermore, HDI promoted twelve cruises in the Mediterranean and Scandinavian region in the course of 2006.

In 2007 we intend to strengthen HDI's business in the U.S. by cooperating more closely with our North American colleagues.

USA

Integration of Renal Care Group

Fresenius Medical Care's fiscal year 2006 in North America was marked by the acquisition of Renal Care Group (RCG). After the completion of the takeover at the end of the first quarter, we immediately began with the company's integration. We had already made the necessary preparations in the preceding months, efficiently using the time until the U.S. Federal Trade Commission closed its review of the acquisition.

The integration combines key factors of success of the two companies. In addition, we have created a basis for using valuable synergies, pursuing our joint corporate goal: to offer the best-possible quality of treatment. Fresenius Medical Care's profitability and growth perspectives were bolstered by the takeover, which

combines RCG's industry-leading share of revenue from private payors with Fresenius Medical Care's cost leadership. While Fresenius Medical Care is a fully integrated provider of products and services for the entire value chain in dialysis, RCG is active exclusively in dialysis services. Therefore, the acquisition of RCG opens up further growth potential for us in the field of dialysis products such as dialysis machines and dialyzers.

In 2006, the synergies already amounted to about $ 30 million. They were primarily achieved in administration and procurement, as well as from growing product business, as we provided products to RCG clinics. We expect synergies for the fiscal year 2007 and the years to follow to range between $ 40 million and $ 50 million.

Further information on the acquisition of RCG can be found in the section "Events Significant for the Business Development" from page 63 onwards.

In order to ensure a streamlined transition to the new organization, we integrated more than 7,000 former Renal Care Group employees into our company (more information is available in the Employees section starting on page 80). In addition, we provided well over 25,000 RCG dialysis patients with information about the acquisition and distributed welcoming and orientation materials. We assured the former RCG patients that they would constantly receive the best-possible dialysis treatment in our clinics. Moreover, we reworked and updated the patient handbooks. Under the slogan "Becoming one", we staged integration events for patients and employees at which we answered questions about the takeover.

In addition, we advertised Fresenius Medical Care's acquisition of RCG in U.S. specialist magazines to inform healthcare decision-makers as well as general practitioners and nephrologists about the takeover. We also rebrushed the website of our North American subsidiary. Among other things, we installed a facility locator, making it easier to find Fresenius Medical Care's dialysis clinics.

Laboratory Services

Nephrologists use laboratory tests to decide on the appropriate dialysis therapy for every patient. The quality of these test results has a significant impact on the treatment quality and our patients' quality of life. In 2006, our subsidiary Spectra Laboratories provided these laboratory services for about 146,000 dialysis patients, an increase of 17 % over the previous year when we provided laboratory services to about 125,000 patients.

Spectra Laboratories is also the laboratory of choice for independent clinics and therefore the largest clinical laboratory for dialysis-related services in North America. With more than 45 million tests performed in 2006 – compared with 42 million in 2005 – our subsidiary had a market share of about 47 % in the year under review.

As planned, we introduced an Internet-based ordering system for laboratory tests in 2006. With the new system, we intend to make its operation even easier for our customers and set a new standard for laboratory services. Our customers' first reactions were very positive.

As we have enough capacity ourselves, the laboratory services provider RenaLab, a subsidiary of Renal Care Group, was not integrated into our subsidiary Spectra Laboratories, as originally planned, but sold to Renal Advantage Inc., an U.S. services provider.

Disease Management

Disease management (DM) goes beyond usual dialysis treatment, dealing with many additional aspects of dialysis. These include 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 DM is the holistic approach. It includes preventive measures, coordination of treatments and the active care of additional, co-morbid diseases to avoid unnecessary hospital visits for our patients and to cut costs.

For a few years now, Fresenius Medical Care has been involved in disease management under the name Renaissance Health Care. We operate the largest DM program for privately insured kidney patients in the U.S. and develop solutions tailored to individuals' needs. We cared for about 4,000 patients by the end of 2006, through national or regional contracts with private health insurers. In addition, Renaissance Health Care is certified by the National Committee of Quality Assurance.

In the year under review, we acquired Health Management Corporation as a new customer. Health Management Corporation is the DM subsidiary of Wellpoint, one of the largest private U.S. health insurers with 34 million members. In the future, we will take over the treatment of patients with end-stage renal disease (ESRD) from this insurer in the framework of DM.

Since January 2006, we have carried out a demonstration project with ESRD patients on behalf of the Center for Medicare and Medicaid Services (CMS) via our subsidiary Fresenius Medical Care Health Plan (FMCHP). The CMS oversees the U.S. public health insurance programs Medicare and Medicaid. The project 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, until December 2009. Fresenius Medical Care receives a monthly flat fee from Medicare for each patient registered in the project rather than being reimbursed for every individual procedure (more information can be found in the Reimbursement section to follow).

FMCHP registers the patients in this innovative treatment model and develops a healthcare program especially geared to ESRD patients that combines the comprehensive DM services with our high-quality UltraCare treatment in our clinic network. The demonstration project included about 850 patients by the end of 2006 and began in the regions of Philadelphia and Pittsburgh, Pennsylvania; Dallas, Houston and San Antonio, Texas; as well as Boston and Springfield, Massachusetts. For 2007, we are planning to extend the demonstration project to San Diego, California; Huntsville, Alabama; Nashville, Tennessee and the state of Connecticut.

Further proceedings will be determined by the CMS after the four-year project period ends in 2009. We are convinced that this comprehensive treatment and reimbursement concept will result in improved treatment for our patients. It will lower healthcare costs and enable dialysis companies such as Fresenius Medical Care to create even more value. As a vertically integrated dialysis care provider, we are well positioned to profit from the future development of DM programs.

Reimbursement Structure

As mentioned, 85 % of American ESRD patients are covered by public health insurance. Therefore, changes to the reimbursement levels or reimbursement methods 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 people with low incomes who do not have private health insurance.

The following changes were the focus in 2006:

– A new reimbursement system was developed for separately billable dialysis drugs. While previously reimbursement had been based on the average wholesale price (AWP), since January 2006 the average sales price (ASP) plus 6 % has been the basis for reimbursement.

– CMS launched a demonstration project to evaluate the advantages and disadvantages of the holistic treatment concept DM. 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 can be found in the preceding Disease Management section).

– In April 2006, new guidelines were introduced for the treatment of patients with anemia. 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 % and 36 %. Following a review of the treatment of anemia (the Hematocrit Management Audit), the range was extended to 39 %. 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 2006, the composite rate was increased by 1.6 % over the previous year for each dialysis treatment. This was the second increase in a row; the composite rate had also been raised by 1.6 % at the beginning of 2005.

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

In the fall of 2006, the U.S. Congress introduced a bill proposing a further 1.6 % composite rate increase. The bill became law at the end of 2006.

Erythropoietin

The hormone erythropoietin (EPO) stimulates red blood cell production. Since dialysis patients can no longer produce this hormone themselves, EPO is introduced during dialysis treatment to prevent patients from contracting anemia. The recombinant or artificially produced hormone EPO is one of the most important 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.

In 2006, we entered into a long-term sourcing and supply agreement with Amgen running from October 1, 2006 to December 31, 2011. The protein EPOGEN produced by Amgen has proved safe in more than ten years and has led to significant improvements in the treatment of dialysis patients with anemia. We believe that the number of patients under the care of Fresenius Medical Care and the resulting scale effects are sufficiently accounted for in the agreement. In addition, the companies will explore other forms of collaboration to develop new product formulations to further enhance the quality of treatment.

02.4 Risk Report

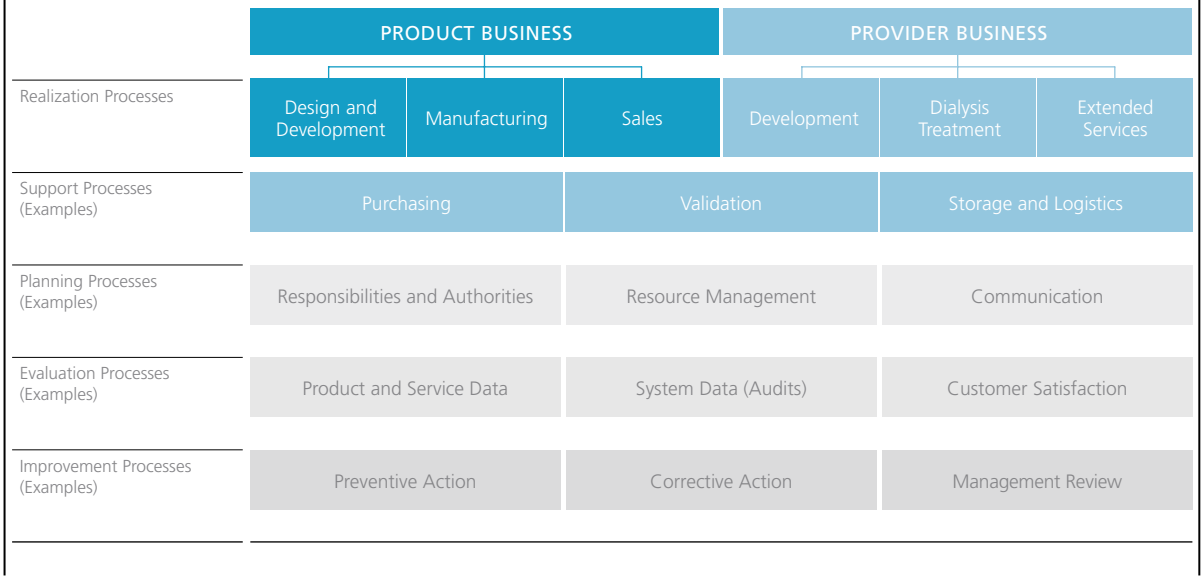
Risk Management

With its worldwide activities, Fresenius Medical Care 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 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 our broad market knowledge provide a reliable basis for detecting risks as early as possible.

Fresenius Medical Care sees risk management as the ongoing task of determining, analyzing and managing the range of potential and actual developments, and, if possible, taking correcting measures. Our broad risk management system, which is set by internal guidelines, is an important component of company management. 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 is part of our integrated management information system, based on group-wide controlling as well as an internal monitoring system, which both serve to identify risks as early as possible. Regional monitoring systems form the backbone of our 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 quan-

RISK MANAGEMENT SYSTEM



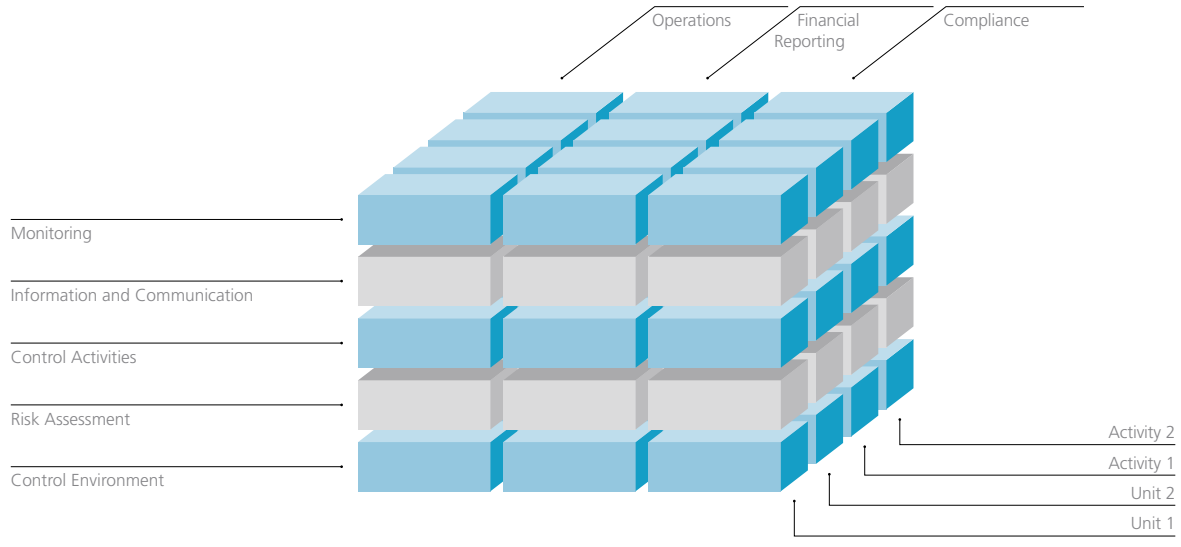
titative appraisals of the likelihood of risks that have been identified as potentially harmful to the Company as well as the extent of the possible damage. In addition, the Board is immediately and directly informed of any newly identified risks.

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

Internal Controls over Financial Reporting

Our listing on the New York Stock Exchange requires us to adhere to the requirements of the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires the Management Board of companies listed in the U.S. to take responsibility for the implementation and adherence to an appropriate internal control system to guarantee eliable financial reporting. As a non-U.S. company or "foreign private issuer," we were required to comply with Section 404 of the Sarbanes-Oxley Act beginning on December 31, 2006. Fresenius Medical Care met the requirements one year earlier on December 31, 2005.

COSO FRAMEWORK



Our internal controls over financial reporting ensure compliance with applicable accounting standards. This system is based on automated and manual controls, a segregation of duties, and the use of guidelines and operational mandates. Furthermore, our internal audit as well as assessments ensure that risks directly related to financial reporting are identified and that controls are in place to manage these risks. To stay abreast of changes in accounting standards and to continuously train people responsible for the preparation of financial information.

The Committee of Sponsoring Organizations of the Treadway Commission's "Internal Control Integrated Framework (COSO framework)" forms the basis for evaluating the effectiveness of our internal control system for financial reporting. Following the COSO framework, our internal financial reporting control system is divided into five levels and evaluated accordingly. In addition to the control activities, the control environment, information and communication paths, monitoring of the internal control system and risk evaluation are documented, tested and assessed. Our review of the internal control system of financial reporting follows the standards of the Public Company Accounting Oversight Board (PCAOB) in the U.S.

The Management Board's assessments are based on the work done by regional project teams. The management assesses the effectiveness of the internal control system for each fiscal year and publishes its findings in the Annual Report. External advisers are consulted as needed. A steering committee led by our Chief Financial Officer meets regularly to discuss changes and new requirements of the Sarbanes-Oxley Act, as well as potential weak points in our system, and implement further measures. In addition, the Audit Committee of the Supervisory Board reviews the results of the Management Board's assessment on a regular basis.

As of December 31, 2006, management conducted an assessment of the effectiveness of the Company's internal control system for financial reporting. With this assessment, management determined that the Company's internal control system for financia reporting was effective as of December 31, 2006. Management's assessment of the effectiveness of the Company's internal control system for financial reporting, as well as the effectiveness of the internal control system for financial reporting as of December 31, 2006, have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, an independent registered public accounting firm. For further details see page 106 of the financial report.

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 2007, we expect positive economic development at the level of 2006.

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, if necessary, adjust our corporate strategy. Consequently, we continuously analyze and evaluate 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.

Since 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's economic success. This is especially true in the United States, where about 91% of our sales are generated with dialysis care, the majority of which are financed by the public health insurance programs Medicare and Medicaid. 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. Details on the reimbursement system in the public Medicare/Medicaid program in the U.S. can be found in "USA" section on page 92.

Risks Associated with Operating Activities

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

Procurement. 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 reevaluated using a supplier assessment system.

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. As a manufacturer of dialysis products, Fresenius Medical Care is also specifically exposed to general price changes in raw materials. Continuous market analyses are conducted in an effort to anticipate such price movements and quickly counteract any potential negative impact. Further information on procurement can be found on page 82.

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" (GMP) 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. In 2006, our production site for dialyzers in St. Wendel successfully passed an FDA (Food and Drug Administration) GMP Audit conducted by TÜV-Süd Product Service Munich under the mutual recognition agreement between the European Union and the U.S.

Major Customers. DaVita, the world's second-largest provider in the dialysis care sector and one of our largest customers in dialysis product business, has entered into a product supply agreement with Gambro. This 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 and Gambro currently faces import restrictions by the U.S. FDA for certain products for the U.S.

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 85. The ISO 9001 certificate attests to "Good Dialysis Practice." In the U.S., we achieve the standards outlined in the Kidney Disease Outcome Quality Initiative (KDOQI) and the Center for Medicare and Medicaid Services (CMS) clinical performance measures using our internal Quality Enhancement Program. In addition to internal assessments of treatment data, annual internal audits of our processes are a solid foundation for continuous improvement. Our clinic quality management system is also audited each year by external certification institutes such as the German TÜV or Medicare (CMS) and CMS Networks throughout the U.S. As a consequence, quality flaws and risks can be identified quickly and remedied in a timely manner.

The IMS also covers environmental management, taking into account that the manufacture of dialysis products requires the use of environmental resources and that the operation of dialysis services produces clinical waste. An environmental management system, certified under the ISO 14001 standards, has been introduced for production sites and dialysis clinics to help protect the environment and resources while identifying potential savings for raw materials. Please see page 85 for further details.

The merger of a large number of facilities from Renal Care Group (RCG) into our North America segment could affect the quality of care provided in the facilities and the number of patient referrals to all North American facilities in the future. However, our management in the U.S. has developed a very effective integration plan that calls for the diligent incorporation of the large number of new patients and facilities into our organization. We have in place operating structures to maintain the current high quality of care provided in the whole organization.

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

possibility of default. Please see page 11 in the financial report for further details on accounts receivable and allowances for doubtful accounts.

Other Operative Risks. 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.

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.

Other Risks

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

Strategy. Fresenius Medical Care has developed a long-term growth strategy, GOAL 10, which is explained in detail on page 50. The Management Board and Supervisory Board as well as the Senior Management of Fresenius Medical Care meet regularly to discuss, monitor, review and – if necessary – redefine the growth strategy of the Company.

The acquisition of Renal Care Group in 2006 has been discussed intensely in connection with the growth strategy of Fresenius Medical Care. Due to our underlying growth performance and the general scope of the revenue contribution of Renal Care Group, the long-term revenue target of Fresenius Medical Care had to be adapted accordingly. Therefore, we decided to upgrade our guidance on revenue for 2010. Please see page 50 for more details.

GOAL 10 also includes the horizontal expansion of Fresenius Medical Care in the field of dialysis-related drugs. Although renal drugs such as PhosLo have a proven track record in the treatment of patients with end-stage renal disease, they may also have an impact on the risk exposure of Fresenius Medical Care.

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. Fresenius Medical Care counteracts risks from research and development projects by regularly analyzing and assessing development trends and examining the progress of research projects. Fresenius Medical Care strictly complies with legal regulations governing clinical and chemical-pharmaceutical research and development. Our dialysis products research team develops new products and technologies in close cooperation with representatives of the medical and scientific community. In case a marketable product emerges or is nearing completion, commercial relationships are evaluated.

For further details on the risk on xenotransplantation please see the "Dialysis Market" section starting on page 58.

Personnel Risks. Fresenius Medical Care has developed guidelines and codes of conduct for its employees worldwide to establish authoritative standards for our internal and 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 our Compliance Program can be found on page 82.

Employees who are trusted with confidential or so-called insider information are under obligation to comply with relevant guidelines and will handle the information responsibly.

Our success depends significantly on the dedication, motivation and abilities of our employees. The risk of a shortage of qualified personnel is counteracted by pre-emptive measures, such as employee development programs and comprehensive recruiting. We offer our employees performance-related pay and attractive social benefits. Further details on the Fresenius Medical Care stock option plans can be found on page 81.

In addition, we launched several initiatives to further increase job satisfaction of clinical staff in order to improve motivation and retention of qualified staff in our clinics. The initiatives will implement improvement measures, where appropriate, based on a thorough satisfaction analysis. We work against a general shortage of trained clinical personnel using targeted marketing programs to locate qualified and motivated personnel for our clinics and thus ensure a high standard of treatment quality. Risks presented by employee recruiting are seen as insignificant due to risk management strategies.

Acquisitions. 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.

IT Risks. Fresenius Medical Care uses the current hardware and software to reduce potential risks from information technology (IT). Our IT infrastructure is running on a high level of reliability and uptime. Potential IT risks are controlled by detailed disaster recovery plans, which are tested and improved on a regular basis. Fresenius Medical Care operates three geographically separate data centers with associated disaster recovery sites, thus further reducing the potential impact of a disaster at any one site. We use mirrored infrastructure for critical systems, including clinical systems and communication servers. To avoid manipulation or unauthorized access to sensitive data and programs, we use access protection and internal guidelines to govern authorization. Procedures are monitored for adherence/compliance in the context of paragraph 404 of the Sarbanes-Oxley Act. Operational and security audits are renewed annually.

Legal Risks. Risks associated with litigation are constantly identified, assessed and communicated within our organization. Fresenius Medical Care is involved in various legal proceedings 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 activities 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 asset, financial and earnings position of the Group. For details, please refer

to page 95 of the Consolidated Financial Statements (note 18).

Financial Risks. We actively manage foreign currency and interest rate exposures that result from our 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 $3.615 billion as of December 31, 2006. The contracts expire on several different dates until 2012.

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, 2006 was $1.083 billion, primarily for hedging euro exposure to the U.S. dollar and various other currencies. Please see page 22 of the financial report ("Liquidity and Capital Resources") for further details.

Overall Risk

The Management Board's 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. The Management Board 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.

The Management Board continuously analyzes potential risks, which include factors partly or wholly out of our control, such as the overall development of national and global economies. 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.

Based on the general principles for estimating risk factors described from page 94 onwards, we currently assume that none of these risks will lead to a long-term and significant impairment of the asset, financial and earnings position of Fresenius Medical Care Group. Also, there are no material changes in risks compared to the year 2005. We have established a structure providing the necessary conditions to quickly identify developing risk situations.

02.5 Subsequent Events

Economic and Business Environment

No significant events took place between the closing date of December 31, 2006 and the annual report's printing date of March 20, 2007. 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 no direct treatment alternative with the exception of a kidney transplant.

No major changes in structure, administration, legal form or personnel are planned for Fresenius Medical Care which could lead to a significant impairment of the asset, financial and earnings position of our company.

The following significant events have occurred since the beginning of 2007:

Acquisition of Excelsior in Asia

On January 9, 2007, Fresenius Medical Care announced the acquisition of a 51% equity interest in Jiate Excelsior Co. Ltd. ("Excelsior"). With a market share of approximately 14%, Excelsior is the largest dialysis services provider in Taiwan, treating over 6,500 hemodialysis patients in 90 dialysis clinics. We expect the transaction to add about $80 million to our consolidated revenues and to be accretive to our earnings for 2007. The purchase price for the 51% equity interest in Excelsior was $38 million. The acquisition was subject to the approval of the Taiwan government Investment Committee, which was granted in the first quarter.

After the closing of the transaction, Fresenius Medical Care's share in the number of patients treated in Taiwan increased from 4% to approximately 18%. As a result of the acquisition, Fresenius Medical Care will become the leading dialysis provider in the Asia-Pacific region.

Overall Assessment of Our Business Situation

Fresenius Medical Care's business fully met our expectations in the first weeks of 2007. There is a continued high demand for our dialysis products and services worldwide. Overall, the Management Board continued to assess the business development of our company as positive when this annual report was compiled. As this report goes to press on March 20, 2007, the current development of our business basically meets our expectations.

02.6 Outlook

Business Policy

Fresenius Medical Care is the world's leading dialysis company and intends to expand its position in the years to come. At present, the Company does not plan any major changes to its business policy.

Markets

As a global company, we offer a wide range of dialysis products and services in over 100 countries.

Consolidation in the dialysis industry is expected to continue in the future. However, Fresenius Medical Care and DaVita already hold a market share of about two thirds in the U.S. Therefore, and in the light of potential restriction due to anti-trust reasons, we would expect acquisitions in the U.S. to be on a smaller scale than in the past. Consolidation in the international market is at an early stage, but such future acquisitions are also expected to be minor due to the lack of larger providers.

Therapies, Products and Services

Research and development of new dialysis technologies, products and treatment methods are long-term projects. In the future we will continue to focus on the further development of dialysis membranes as well as other dialysis products and machines. With these technologies, we intend to continually improve the treatment quality and thus the quality of life for our patients. Additional research areas are extracorporeal procedures, such as the therapy of liver diseases, and the research on alternative methods for local blood coagulation, as well as online hemodiafiltration. This dialysis therapy is discussed in detail in the Research and Development section starting on page 52.

We are planning expenditures for research and development of about $ 60 million in 2007, an increase of more than 20 % over 2006. The number of employees in the research and development departments should slightly increase from approximately 350 full-time equivalents. Expenditures and the number of employees working in research and development should remain at roughly the same level in 2008.

Global Economy

General Economic Development in 2007

In their Fall Report, the leading German economic research institutes forecast a global economic growth of 3.1% for 2007. This expectation is based on the assumption that raw material prices and particularly energy prices will not keep on climbing. Please see page 57 for the growth forecast of selected countries and regions.

United States. The United States' gross domestic product is expected to increase by 2.7 %, a lower growth rate than in the reporting year. Private spending should not increase as much as in the previous year due to higher interest rates on mortgage loans resulting in increased individual saving rates. Real estate prices are expected to stagnate. Weaker consumer demand should dampen companies' revenue and profit expectations. If the underlying price pressure slowed noticeably in 2007, then key interest rates should fall slightly.

Europe. In the euro zone, an economic growth of 2.1% is expected. More restrictive financial policies in Germany and Italy could slow down the economy in the euro area. At the same time, continued tightening of the monetary policy in 2007 should result in a lower inflation rate of slightly over 2 %. In addition, the unemployment rate should continue to decrease.

The German economy is expected to grow by 1.4 %, less of an increase than in the previous year. However, there are different opinions about the effects that might derive from the 3 % increase in value-added tax in Germany. No clear consensus has been reached among the economic institutes in this respect. Generally, the institutes assume private spending to decrease in the first half of 2007 so that an economic upswing will have to be largely driven by foreign trade.

In Great Britain, private and government spending is expected to increase at a lower rate than in the previous year, while companies' investments should continue to be at a high level as earnings prospects remain good. A growth of 2.5 % is expected. With an increase of 4.7 %, the new European Union member states should continue to show a positive economic development, although the growth should be less dynamic than in the previous year. In addition to higher inflation rates and a more restrictive financial policy, the weaker economy of the euro zone should also curtail growth.

Asia. China is expected to remain one of the most important growth drivers in 2007, with a growth rate of 10 %. Its export growth rate should be slightly lower than in the year under review due to a somewhat less strong global economic development. Private spending, however, is expected to increase. Economic growth in Japan is anticipated to lower to around 2.0 %. Due to the emphasis on budget control, public spending is rather expected to decline.

Latin America. Latin America is forecasted to grow at 3.8 % – a slightly lower rate than in 2006 because raw material prices are not expected to keep rising and momentum from the world economy – particularly from the U.S. – should diminish.

General Economic Development in 2008

We expect the forecasted economic development of 2007 to continue in 2008. As a manufacturer of life-saving products and therapies for ill people, Fresenius Medical Care is only partially exposed to global economic cycles. In this respect, we are different from manufacturers of consumer goods, for example, that must contend with cyclical demand for their products.

Sector-Specific Conditions – Dialysis Market

Fresenius Medical Care expects the worldwide annual growth in the number of dialysis patients in the year 2007 to be in the range of 5 % to 7 %. Significant regional differences will 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, mainly dialysis. Annual growth rates in the economically weaker regions are expected to remain above average, with values 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 in the number of dialysis patients, so that numbers may reach about 1.9 million in 2010.

The average worldwide growth rate in the number of patients should also continue to be between 5 % and 7 % in 2008.

Differences in annual growth rates between economically strong regions and developing nations indicate a shift in regional patient distributions in the future. If the current regional growth patterns persist, a significantly higher proportion of patients will undergo dialysis treatment in Asia, Latin America, Eastern Europe, the Middle East and Africa. The potential regarding the entire spectrum of dialysis services and products is obvious here, as more than 80 % of the world population lives in these regions.

We do not expect significant changes in the preferred dialysis treatment modalities in 2007 or 2008. Hemo-

EXPECTED GROWTH IN PATIENT NUMBERS IN 2007[1]

North America	3–4 %
Europe/Middle East/Afrika	4–6 %
Asia-Pacific	6–8 %
Latin America	7–9 %
WORLDWIDE	**5–7 %**

[1] Internal estimates

dialysis will remain 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.

The market volume should amount to nearly $ 58 billion in 2007 (2008: nearly $ 61 billion) and increase by about 5 %. The dialysis care market is expected to grow stronger than the dialysis product market with its traditionally more significant price pressure.

As a dialysis company, we operate in a very heterogeneous market with varying national and in some cases regional regulations for both dialysis products and patient care. Our key market in terms of revenue will remain the United States. Details of the reimbursement structure for dialysis care by the public health insurance programs Medicare and Medicaid can be found in the "Reimbursement" chapter from page 92 onwards.

Business Performance of Fresenius Medical Care in 2007 and 2008

Exchange Rates

Fresenius Medical Care's outlook for the 2007 and 2008 fiscal years is based on an exchange rate of $1.25 to the euro. This exchange rate, in turn, is based on the average annual exchange rates in 2005 and 2006, which were approximately $1.25. In our forecast we also take other exchange rates into account such as yen to U.S. dollar and yen to euro.

Revenue

For the full year 2007, Fresenius Medical Care expects a revenue growth at constant currencies of approximately 11% over 2006, totaling $ 9.4 billion. While the revenue increase in established markets in North America and Europe should be in the high single-digit range, we expect particularly strong revenue growth of more than 30 % in the Asia-Pacific region due to the acquisition of Excelsior at the beginning of 2007.

For 2008, we anticipate an organic revenue growth of 6 % to 9 % at constant currencies which should be once again above the expected average market growth of 5 %.

Earnings

The net income is expected to be between $ 675 million and $ 695 million in 2007. This represents an increase of between 18 % and 21% on an adjusted basis to 2006. On a reported basis, the net income would increase by 26 % to 29 %. In the future, costs related to SFAS 123(R) will not be adjusted when comparing with 2007 figures. We do not expect any further one-time items in the 2007 fiscal year.

In accordance with the aims of our GOAL 10 growth strategy – which is discussed in detail from page 50 onwards – the net income should increase by more than 10 % p. a. in the long term and thus in 2008 as well.

Dividend

Fresenius Medical Care has pursued a long-term profit-oriented dividend policy since its foundation in 1996. The dividend will increase for the tenth consecutive time, pending approval of the proposed annual dividend increase by the General Shareholders' Meeting on May 15, 2007. During this period, the dividend per ordinary share rose from €0.51 to €1.41 for the fiscal year 2006. This represents an average annual growth of 12 %. We intend to continue this development in 2007 and 2008.

Capital Expenditures and Acquisitions

We expect our capital expenditures and acquisition spending to total approximately 650 million in 2007 and 2008. Our capital expenditures would thus be within the targeted range of spending about 6 % of the total revenue. Most of this amount will be invested in North America and Europe. We intend to make investments to expand our production capacities for dialyzers in Ogden (Utah, USA), St. Wendel (Germany) and Buzen (Japan) to respond to the high market demand for our blood filters. In addition, we will expand our manufacturing facilities for blood lines and peritoneal dialysis solutions. In the dialysis services, we plan to invest in the modernization of existing dialysis clinics and the opening of new clinics.

Our acquisitions will serve to extend our core competences and expand our worldwide dialysis business. For instance, we intend to offer therapies for dialysis patients that include the administration of dialysis drugs.

Taxes

For 2007, we expect the tax rate to be about 39 %. The discussed corporate tax reform in Germany should have only marginal effects on the tax rate of Fresenius Medical Care. We also expect a tax rate of about 39 % for 2008.

Financing

Driven by earnings performance and ongoing good accounts receivables, the operating cash flow is expected to be within the target range of 9 % to 11 % of total revenue in the next fiscal year. It should be within a comparable percentage range of revenue in 2008.

In its long-term financial planning, Fresenius Medical Care takes the debt/EBITDA ratio as a guideline. This ratio compares the debt of our company to our Earnings Before Interest, Tax, Depreciation and Amortization and other non-cash charges. The debt/EBITDA ratio was 3.23 at the end of 2006 due to the acquisition of Renal Care Group.

Our company seeks to reduce the debt/EBITDA ratio to below 3.0 by the end of 2007, and we expect a further reduction in 2008. In the long term, we strive for a debt/EBITDA ratio of approximately 2.5.

We maintain a sufficient financial cushion which consists of only partly utilized bilateral and syndicated credit facilities and the accounts receivable facility. We will refinance the debt maturing in 2007 and 2008 with similar instruments. This covers the accounts receivable facility and the trust-preferred securities issued by Fresenius Medical Care Capital Trust II and III. Additional information can be found in Note 12 on page 81 of the financial report.

Generally, we expect to have the appropriate financing to achieve our goals in the future and to continue to promote the growth of the Company.

IMPORTANT KEY FIGURES – AN OVERVIEW

	Results 2006	Goals 2007	Goals 2008
Revenue growth	$8.5 billion	11% to $9.4 billion	6 %–9 %
Net income growth[1]	$574 million	18 %–21%	More than 10 %
Capital expenditures and acquisitions (excl. RCG)	$609 million	~ $650 million	~ $650 million
Debt/EBITDA ratio	3.23	Below 3.0	Below 3.0
Employees[2]	56,803	More than 60,000	More than 62,000
Dividend	Proposal of a dividend increase by 15 % per ordinary share	Continuous increase	Continuous increase
Research and Development expenditures	$51 million	~ $60 million	~ $60 million
Product innovations	New PD solutions introduced and online-HDF further expanded	Further expansion of products and services range	Further expansion of products and services range

[1] 2006 excluding one-time effects and FAS 123(R) [2] Full-time equivalents

Employees

At this point, Fresenius Medical Care expects to further expand in most regions in the years to come. We expect to employ more than 60,000 people (full-time equivalents) by the end of 2007. This would be an increase of approximately 5 % compared to the end of 2006. For 2008, we anticipate our workforce to grow by 4 % to more than 62,000 employees. These growth rates would be lower than in previous years and would lag behind revenue growth.

We expect above-average growth in staff numbers in the developing regions of Eastern Europe, Latin America and Asia. The distribution of employees in the regions should remain nearly unchanged, though. About two thirds of our workforce is employed in North America.

We continue to view training of young people in Germany as an important contribution to society. In the years to come, the Fresenius Group intends to train young people beyond its own demand.

Legal Structure and Organization

In 2006, Fresenius Medical Care completed its transformation into a "Kommanditgesellschaft auf Aktien" (KGaA). The Company is not planning any further changes to its legal form in the foreseeable future.

Fresenius Medical Care's activities are organized 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. The similarity relates, among other things, to the products sold, patient structures, methods of distributing products and services, as well as the economic environment. At present, we expect to retain this organizational structure in 2007 and 2008.

Moreover, Fresenius Medical Care has a decentralized organization to be able to react to market requirements with the greatest possible flexibility. This principle of "entrepreneur in the enterprise" with clearly defined responsibilities has had a good track record for many years and will be continued.

Procurement and Logistics

In the current business year, we will continue to intensify cooperation between the different procurement departments within Fresenius Medical Care and at the same time cooperate even more closely with external partners. Our aim is to further enhance our position in price negotiations with suppliers.

In addition, we intend to optimize purchasing of chemicals and, starting in 2007, to procure products directly from manufacturers pooled company-wide.

We do not expect the price for energy and petroleum-based products to ease significantly in 2007 and 2008, and as a result they will remain the focus of our procurement activities. The main reason for the price development will probably continue to be the high demand for crude oil and natural gas, amplified by the great demand in growth regions such as China.

Standardizing products, packaging and packaging materials is very cost-efficient. Uniform products in uniform packaging simplify logistics, for example, as transports can be coordinated better and loading capacities can be used more efficiently. In addition, standardized packaging materials are less expensive.

Quality and Environmental Management

We are planning to introduce the Integrated Management System in additional dialysis clinics. In 2007, more than 60 dialysis clinics in Europe should be certified according to ISO 14001:2004 and more than 50 according to ISO 9001:2000. To achieve this goal, we will train further employees to conduct internal audits in line with IMS requirements. Most of these audits will be conducted in Eastern Europe.

In the field of environmental management, we will deal with the new EU chemicals regulation REACH (Registration, Evaluation and Authorisation of Chemicals). According to this, some 30,000 chemical substances – with a minimum production volume of one ton per year – will have to be tested for their impact on human health and the environment before being registered in the EU. Particularly risky substances, which, for example, are carcinogenic or can impair fertility, will have to go through an approval procedure.

Opportunities

New markets could emerge from changes in the legal frameworks of individual countries. For example, significant new market opportunities could arise should the legal framework for operating dialysis clinics in Japan change such that private companies could run dialysis clinics. Japan is the biggest market in Asia with about 270,000 dialysis patients, which represents half of all dialysis patients in Asia. Furthermore, populous countries such as China and India should provide further growth opportunities in the long-term.

Germany is the fifth-largest market worldwide based on the number of dialysis patients treated. Here privately run companies have been allowed to participate in the operation of dialysis clinics in medical care centers since the end of 2006. Medical care centers are facilities managed by doctors with different areas of expertise. The people working there are either salaried or contractual physicians. We will use this opportunity to further strengthen our business in the long term.

In the scope of GOAL 10, Fresenius Medical Care has decided to become more involved in the area of dialysis medication. The acquisition of the phosphate binder (PhosLo) business from Nabi Biopharmaceuticals in October 2006 was a first major step in this direction. Other dialysis medications besides phosphate binders include Vitamin D and iron preparations. We estimate that the dialysis-related market size for these three product groups totals nearly $1.5 billion and see opportunities to further develop our business in this area.

Furthermore, Fresenius Medical Care has a number of economic opportunities resulting from its operating business. Among them are an optimized procurement process and cost-efficient production.

Long-Term Revenue and Earnings Outlook until 2010

With GOAL 10, Fresenius Medical Care is pursuing a long-term growth strategy which is explained in detail beginning on page 50. GOAL 10 should result in revenue of about 11.5 billion in 2010. Profitability should grow stronger than revenue. Our aim is to attain a market share of 18 %.

General Statement on the Expected Development

Fresenius Medical Care's prospects for the coming years are positive. We expect an organic growth in revenue of 6 to 9 % p.a. Net income should increase by at least 10 % p. a. At present, all regions are expected to contribute to the revenue and earnings growth.

In 2007, we plan to complete the integration of Renal Care Group into our North American business region and to remain very active in Eastern Europe and other growth markets. In addition, we intend to further reduce Fresenius Medical Care's debt/EBITDA ratio significantly.

This outlook takes into account all factors known at the time of the preparation of the financial statements which could affect our business in 2007 and beyond. Major risks are discussed in the risk report starting on page 94. As in the past, Fresenius Medical Care will do everything in its power to attain or exceed its goals.

03.[1–3]

Further Information.

03.[1–3]

03.1 Boards

Fresenius Medical Care AG & Co. KGaA

Supervisory Board

Dr. Gerd Krick
Chairman
Königstein, Germany

DIRECTORSHIPS
Supervisory Board
- Fresenius AG
- Fresenius Medical Care Management AG
- VAMED AG, Austria (Chairman)
- Allianz Private Krankenversicherungs-AG

Advisory Board
- HDI Haftpflichtverband der deutschen Industrie V.a.G.

Board of Directors
- Adelphi Capital Europe Fund, Cayman Islands

Board of Trustees
- Danube University Krems, Austria (until April 30, 2006)

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

DIRECTORSHIPS
Supervisory Board
- Fresenius AG
- Fresenius Medical Care Management AG (Vice Chairman)
- Gabor Shoes AG (Chairman)
- Greiffenberger AG (Vice Chairman)
- TOPTICA Photonics AG (Vice Chairman)

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

DIRECTORSHIPS
Supervisory Board
- Fresenius Medical Care Management AG

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)
- Samuel H. Kress Foundation (Deputy Chairman)

John Gerhard Kringel
Former Senior Vice President of Abbott Laboratories, Inc.
Durango, Colorado, USA

DIRECTORSHIPS
Supervisory Board
- Fresenius Medical Care Management AG

Others
- Natures View, LLC
- Alpenglow Development, LLC
- Justice, LLC
- River Walk, LLC
- Visionary Medical Device Fund (Advisory Board member)

William P. Johnston

(since May 9, 2006)
Former Chairman of the
Board of Directors of Renal Care Group, Inc.
Nashville, Tennessee, U.S.

DIRECTORSHIPS
Supervisory Board
- Fresenius Medical Care Management AG (since August 30, 2006)

Other
- The Carlyle Group (Senior Advisor)
- The Hartford Mutual Funds, Inc. (Member of Board of Directors)
- Multiplan, Inc. (Member of Board of Directors)
- Georgia O'Keeffe Museum (Member of Board and Investment Committee)

Prof. Dr. Bernd Fahrholz

Attorney
Frankfurt am Main, Germany

DIRECTORSHIPS
Supervisory Board
- Fresenius Medical Care Management AG (until August 30, 2006)
- SMARTRAC N.V. (Chairman)
- Finanzhaus Rothmann AG

Dr. Ulf M. Schneider

(until the change of the legal form of Fresenius Medical Care AG into Fresenius Medical Care AG & Co. KGaA on February 10, 2006)
Frankfurt am Main, Germany

Supervisory Board Committee

AUDIT COMMITTEE
- Dr. Walter L. Weisman (Chairman)
- John Gerhard Kringel
- Dr. Gerd Krick
- William P. Johnston
- Prof. Dr. Bernd Fahrholz

Fresenius Medical Care Management AG

General partner of Fresenius Medical Care AG & Co. KGaA

Supervisory Board

Dr. Ulf M. Schneider
Chairman
Frankfurt am Main, Germany

DIRECTORSHIPS
Management Board
– Fresenius AG (Chairman)

Supervisory Board
– Fresenius Kabi AG (Chairman)
– HELIOS Kliniken GmbH (Chairman)
– Eufets AG (Chairman)
– Fresenius Kabi Austria GmbH, Austria
– Fresenius Kabi Espana S.A., Spain
– Fresenius Medical Care Groupe France S.A.S. France (Chairman)
– Fresenius HemoCare Nederlands B.V., the Netherlands

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

Dr. Dieter Schenk
Vice Chairman
Munich, Germany

Dr. Gerd Krick
Königstein, Germany

Dr. Walter L. Weisman
Los Angeles, California, U.S.

John Gerhard Kringel
Durango, Colorado, U.S.

William P. Johnston
Nashville, Tennessee, U.S.
(since August 30, 2006)

Prof. Dr. Bernd Fahrholz
Frankfurt am Main, Germany
(until August 30, 2006)

Management Board

Dr. Ben Lipps
Chairman
Boston, Massachusetts, U.S.

DIRECTORSHIPS
Management Board
– Fresenius AG

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

DIRECTORSHIPS
Supervisory Board
– Centre d'Hémodialyse du Languedoc Méditerranéen S.A.S.
– Centre Néphrologique d'Occitanie S.A.S
– Fresenius Medical Care Magyarország Kft.
– Fresenius Medical Care Dializis Center Kft.

Board of Trustees
– Danube University Krems, Austria (since May 16, 2006)

Roberto Fusté
Chief Executive Officer for Asia-Pacific
Hongkong, China

Dr. Rainer Runte
General Counsel and Chief Compliance Officer
Bad Homburg v.d.H., Germany

DIRECTORSHIPS
Supervisory Board
– Fresenius Medical Care Groupe France S.A.S.
– Fresenius Medical Care SGPS, S.A.
– Fresenius Medical Care Japan, K.K.
– Fresenius-Kawasumi Co., Ltd.

Lawrence A. Rosen
Chief Financial Officer
Bad Homburg v.d.H., Germany

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.

03.² Glossary

Products and Services of Fresenius Medical Care

Unless otherwise indicated, all trademarks mentioned in Fresenius Medical Care's 2006 Annual Report have been registered in the respective countries, are subject to the trademark rights of Fresenius Medical Care and are either owned or used under license by Fresenius Medical Care and its affiliates.

5008 Therapy System
This new therapy system offers advantages for both patients and caregivers. The innovative, user-friendly interface simplifies quick setup 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. The two-compartment bag combined with stay·safe technology offer optimum safety and easy handling. 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 machines 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.

Ci-Ca System
Combines the regional active citrate-anticoagulation with continuous kidney replacement therapy and reduces the risk of bleeding in patients needing intensive care.

Continuum – Dialysis without Boundaries
Comprehensive program of Fresenius Medical Care to emphasize home dialysis – including home hemodialysis and peritoneal dialysis – for patients and healthcare 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 β2-microglobulin.

ICare Monitoring System
Web-based system for monitoring nocturnal dialysis treatment from a central location and comparing actual with pre-defined data as the patient sleeps. The system reacts to any deviations from the defined data by contacting the patient immediately, using the emergency information provided.

IQcard
Used with the Fresenius Freedom Cycler PD+ to monitor every minute of automated peritoneal dialysis therapy. The data stored by the IQcard can be used to optimize the patient's therapy as well as for research purposes.

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.

PhosLo
A calcium acetate phosphate binder for oral application in end-stage renal disease 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.

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 quality of dialysis treatment. To measure adequacy, tests are performed to see if enough fluid and substances have been 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
Surgically created direct connection between an artery and a vein of a patient. This connection forms a large blood vessel with an increased blood flow, providing access 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, system or solution 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
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.

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

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.

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 118 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 semipermeable 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
Semipermeable barrier between the blood and the dialysate, that flow through a dialyzer.

Diffusion
An exchange in the chemical concentration of two fluids that are divided by a semipermeable membrane. The molecules move from one fluid to the other, with metabolic toxins being transferred through the membrane into the dialysate.

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 the 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)
Hormone that stimulates red blood cell production. Recombinant (i.e. artificially produced) human EPO is commonly prescribed to patients on dialysis who suffer from anemia.

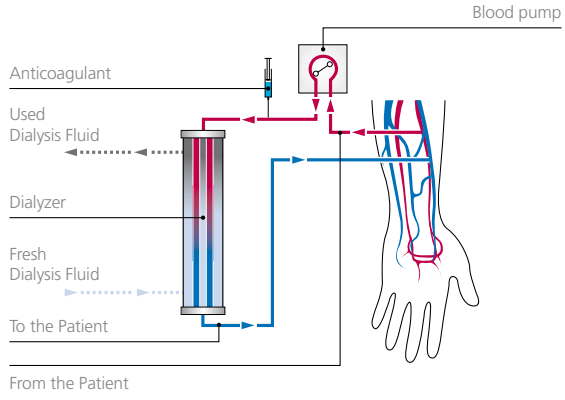
Extracorporeal
Situated or occurring outside the body.

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 are achieved 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. The 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 does not use dialysate. The solutes are removed by using convective forces to filter plasma water through a semipermeable membrane. Substitution fluid is used to replace the volume removed by filtration.

Heparin
Universal anticoagulant substance, that is administered during hemodialysis to constrain blood coagulation during the dialysis treatment.

High-Flux dialyzers
Dialyzers containing highly permeable membranes that allow for the effective removal of water and large uremic toxins such as β2-microglobulin.

Hypervolaemia
Increased blood volume.

Incidence
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 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 low permeability, e.g. for water.

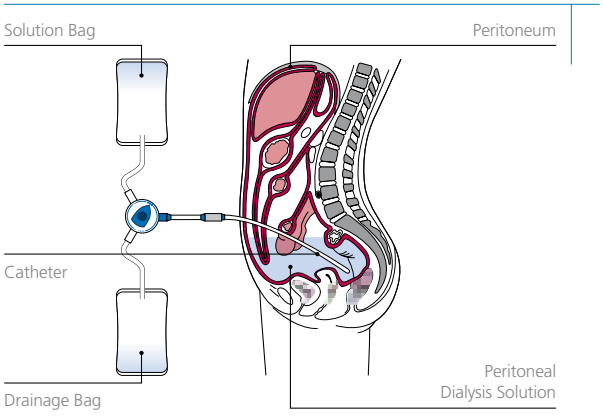
Medicare/Medicaid
A program under the federal U.S. Social Security Administration that reimburses health insurance plans and providers of medical services for care given to qualifying individuals over 65, those with ESRD, and the disabled or indigent.

Medicare Modernization Act (MMA)
Reform of Medicare, the public health insurance system providing medical care 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 semipermeable membrane. In osmosis, as opposed to diffusion, molecules move only in one direction.

Peritoneal dialysis (PD)
Dialysis treatment method using the patient's peritoneum, i.e. 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.

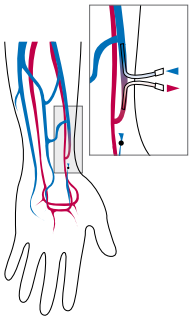
Prevalence
Number of all patients who suffer from a specific disease during a certain period of time.

Transplantation
Taking an organ or tissue from the body for grafting it 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. The early recognition of problems within the vascular access is essential for the blood flow.



Vein
A blood vessel that carries blood to the heart.

Xenotransplantation
Transplantation of tissues or organs between two different species.

03.3 Contacts and Calendar

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Calendar 2007

Report on First Quarter 2007	May 02, 2007
Annual General Meeting	May 15, 2007
Payment of Dividend	May 16, 2007
Report on First Half 2007	August 02, 2007
Report on Nine Months 2007	October 31, 2007

Important fairs 2007

44th ERA-EDTA Congress — June 13–16, 2007
(European Renal Association – European Dialysis and Transplant Association)
Barcelona, Spain

8th EuroPD Meeting — July 07–10, 2007
(European Society of Peritoneal Dialysis)
Helsinki, Finland

40th Annual Meeting of the ASN — November 01–05, 2007
(American Society of Nephrology)
San Francisco, U.S.

Imprint

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 our website: http://www.fmc-ag.com.

Printed reports can be ordered online, by phone or written to Investor Relations.

Published by	Fresenius Medical Care AG & Co. KGaA
Editors	Investor Relations
Editorial deadline	March 20, 2007
Concept and design by	häfelinger + wagner design, Munich
Photographer	Matthias Ziegler, Pages 4–23
Produced by	colours ec gmbh, Osnabruck

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.

2006 Financial Report

IN TOUCH WITH LIFE

NUMBER OF PAGES:	122
NUMBER OF CHAPTERS:	04 – 06
PUBLISHED:	MARCH 2007

Fresenius Medical Care

Key Figures 2006

OPERATING DATA

$ in millions	2006	2005	Change
Net revenue	**8,499**	6,772	26 %
Earnings before interest and taxes, depreciation and amortization (EBITDA)	**1,627**	1,190	37 %
Earnings before interest and taxes (EBIT)	**1,318**	939	40 %
Net income	**537**	455	18 %
Net cash flow from operating activities	**908**	670	35 %
Free cash flow[1]	**458**	373	23 %
Capital expenditure (net)	**450**	297	51 %
Capital expenditure including acquisitions	**4,766**	432	
Proceeds from divestitures	**516**	–	

DATA PER SHARE

Earnings per ordinary share ($)	**5.47**	4.68	17 %
Dividend per ordinary share (€)	**1.41**	1.23	15 %
Dividend per preference share (€)	**1.47**	1.29	14 %

KEY RATIOS (IN %)

EBIT margin	**15.5**	13.9	
EBITDA margin	**19.1**	17.6	
Equity to assets	**37.3**	49.8	

OTHER DATA

Employees (full-time equivalents)	**56,803**	47,521	20 %
Patients	**163,517**	131,450	24 %
Clinics	**2,108**	1,680	25 %
Treatments (in millions)	**23.7**	19.7	20 %

[1] Before acquisitions and dividends

NET REVENUE

$ in millions

NET INCOME

$ in millions

EARNINGS PER SHARE

in $

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 2006. For more details please refer to the 5-year summary at the end of the report.

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: The Bank of New York / P.O. Box 11258 / Church Street Station / New York, NY 10286-1258 / USA / Tel. (888) 269 2377 (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.

The publications can be also accessed on www.fmc-ag.com.

04.1–7

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 ("FMC-AG & Co. KGaA") and its subsidiaries 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 the expectations and beliefs of the management of the Company's General Partner 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 and are subject to the uncertainties that we described in the discussion in this report entitled "Outlook 2007 and prospects of Future Development", "Future Development and Associated Risks" and in Note 18 "Legal Proceedings" of the Notes to the consolidated financial statements.

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.

7

04.1 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, 2006, the carrying amount of goodwill amounted to $6,892 million (increased from $3,457 million at December 31, 2005 primarily due to the Renal Care Group ("RCG") acquisition) and non-amortizable intangible assets amounted to $440 million representing in total approximately 56 % 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 of the Notes to the 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 ("WACC") specific to that unit. Estimating the discounted future cash flows involves significant assumptions, especially regarding future reimbursement rates and sales prices, treatments and sales volumes and costs. In determining discounted cash flows, the Company utilizes its three-year budget, projections for years 4 to 10 and a range of growth rates of 0 % to 4 % for all remaining years. The Company's weighted average cost of capital consists of a basic rate of 6.83 % for 2006. This basic rate is then adjusted by a percentage ranging from 0 % to 9 % for specific country risks within each reporting unit for determining the reporting unit's fair value.

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 unit's 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" of the notes to the 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 $1,849 million and $1,470 million at December 31, 2006 and 2005, respectively, net of allowances for doubtful accounts of $207 million and $177 million at December 31, 2006 and 2005, 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 over 25 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 our 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 our 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, 2006 were uncollectible through either a change in our estimated contractual adjustment or as bad debt, our operating income for 2006 would have been reduced by approximately 1%.

The following table shows the portion of major debtors or debtor groups of trade accounts receivable as at December 31, 2006. 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

Dec. 31	2006	2005
U.S. Medicare and Medicaid programs	22 %	22 %
U.S. commercial payors	26 %	24 %
U.S. hospitals	4 %	3 %
Self-Pay of U.S. patients	1 %	1 %
Other U.S.	3 %	4 %
International product customers and dialysis payors	44 %	46 %
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.

04.2 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 end stage renal disease. 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 $ 55 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 precede 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.

The Medicare Modernization Act ("MMA"), enacted on December 8, 2003, made several significant changes to U.S. government payment for dialysis services and pharmaceuticals. These changes are reflected in a CMS regulation amending the final physician fee schedule for calendar year 2007 released by CMS on December 1, 2006.

In the final rule, CMS stated that biologicals furnished in connection with renal dialysis services and separately billed by hospital-based and independent dialysis facilities will continue to be paid using the average sales price plus six percent methodology ("ASP+6 %") adopted in 2006. Second, CMS has increased to 15.1 % the drug add-on adjustment to the composite payment rate. The 2006 rate was 14.5 %. The drug add-on adjustment was created to account for changes in the drug payment methodology enacted by the MMA. Third, as part of a MMA-mandated transition in how the wage index for dialysis facilities is calculated, the wage index adjustment has been updated to a 50/50 blend between an ESRD facility's MSA-based composite rate and its calendar year 2007 Office of Management and Budget revised core-based statistical area (CBSA) rate.

CMS has estimated that these changes will increase Medicare payments to all ESRD facilities by 0.5 percent in 2007 but that there will be some variance depending on the size and location of the facilities. In addition, CMS estimates that for-profit facilities will see an overall increase of 0.4 percent and non-profit facilities will receive 0.8 percent more in 2007. The Company's estimates of these changes on its business are consistent with the CMS calculations. For the third year in a row, Congress has enacted legislation to update the ESRD composite rate. Unlike many other programs in Medicare, the ESRD composite rate is not automatically updated each year by law. As a result, an Act of Congress is required to make the annual change. As discussed in prior year reports, the Medicare Modernization Act increased the 2005 composite rate by 1.6 %. The Deficit Reduction Act ("DRA") of February 1, 2006, further increased the composite rate by an additional 1.6 % effective January 1, 2006.

In 2005, CMS announced a new national monitoring policy for claims for Epogen and Aranesp for ESRD patients treated in renal dialysis facilities. The new policy, as discussed in prior year reports, took effect on April 1, 2006. As a result of this new policy, CMS expects 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 limited Epogen and Aranesp reimbursement to a maximum per patient per month aggregate dose of 500,000 IU for Epogen and 1500 mcg for Aranesp. In addition in November 2006, the FDA issued an alert regarding a newly published clinical study showing that patients treated with an erythropoiesis-stimulating agent (ESA) such as EPO and dosed to a target hemoglobin concentration of 13.5 g/dl are at a significantly increased risk for serious and life threatening cardiovascular complications, as compared to use of the ESA to target a hemoglobin concentration of 11.3 g/dl. The alert recommended, among other things, that physicians and other healthcare professionals should consider adhering to dosing to maintain the recommended target hemoglobin range of 10 to12 g/dl. We normally maintain levels in the FDA recommend target hemoglobin range.

Our operations are geographically organized and accordingly we have identified three operating segments, North America, International, and Asia Pacific. 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. Similarly, we do not allocate "corporate costs", which relate primarily to certain headquarters overhead charges, including accounting and finance, professional services, etc. because we believe that these costs are also not within the control of the individual segments. Accordingly, all of these items are excluded from our analysis of segment results but are discussed separately below in the discussion of consolidated results of operations.

04.[3] 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	2006	2005
TOTAL REVENUE		
North America	6,026	4,578
International	2,534	2,250
TOTAL	**8,560**	**6,828**
INTER-SEGMENT REVENUE		
North America	1	1
International	60	55
TOTAL	**61**	**56**
TOTAL NET REVENUE		
North America	6,025	4,577
International	2,474	2,195
TOTAL	**8,499**	**6,772**
AMORTIZATION AND DEPRECIATION		
North America	187	140
International	120	109
Corporate	2	2
TOTAL	**309**	**251**
OPERATING INCOME		
North America	965	644
International	440	362
Corporate	(87)	(67)
TOTAL	**1,318**	**939**
Interest income	21	18
Interest expense	(372)	(191)
Income tax expense	(413)	(309)
Minority interest	(17)	(2)
NET INCOME	**537**	**455**

Highlights

We successfully completed the acquisition of RCG in the first quarter of 2006 for a purchase price of $4,158 million for all of the outstanding common stock and the retirement of RCG stock options. The purchase price included the concurrent repayment of approximately $658 million indebtedness of RCG. During 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.

We were required to divest a total of 105 renal dialysis centers, consisting of both former Company clinics (the "legacy clinics") and former RCG clinics, in order to complete the RCG Acquisition in accordance with a consent order issued by the United States Federal Trade Commission ("FTC") on March 30, 2006. The Company sold 96 of such centers on April 7, 2006 to a wholly-owned subsidiary of DSI Holding Company, Inc. ("DSI") and sold DSI the remaining 9 centers effective as of June 30, 2006. In addition, we sold the laboratory business acquired in the RCG transaction. The Company received cash consideration of $516 million, net of related expenses, for the divested centers and the laboratory business.

To finance the RCG acquisition, we entered into a new $4,600 million syndicated credit agreement (the "2006 Senior Credit Agreement") with Bank of America, N.A. ("BofA"); Deutsche Bank AG New York Branch; The Bank of Nova Scotia, Credit Suisse, Cayman Islands Branch; JPMorgan Chase Bank, National Association; and certain other lenders (collectively, the "Lenders") on March 31, 2006 which replaced the existing credit agreement (the "2003 Senior Credit Agreement"), see "Liquidity".

On February 10, 2006, we completed and registered in the commercial register of the local court in Hof an der Saale the transformation of our legal form under German law from a stock corporation (Aktiengesellschaft) to a partnership limited by shares (Kommanditgesellschaft auf Aktien) with the name Fresenius Medical Care AG & Co. KGaA ("FMC-AG & Co. KGaA"). The transformation was approved by our shareholders during an Extraordinary General Meeting held on August 30, 2005 ("EGM"). 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" or "General Partner"), a wholly-owned subsidiary of Fresenius AG, the majority voting shareholder of FMC-AG prior to the transformation, is the General Partner of FMC-AG & Co. KGaA, see Note 2.

Revenues increased by 26 % to $8,499 million (25 % at constant rates) with organic growth at 10 % and the RCG Acquisition, net of the Divestitures, contributing 15 %. Operating income (EBIT) increased 38 % excluding the gain from the divestiture of the clinics, the effects of the costs of an accounting change for stock options, the restructuring costs and in-process R&D, and the costs of the transformation of legal form and preference share conversion. The following table provides a reconciliation to operating income.

OPERATING INCOME EXCLUDING ONE-TIME EFFECTS

$ in millions	2006	2005	Change
Operating income	1,318	939	40 %
Transformation & Settlement	2	22	
Restructuring costs and in-process R&D	35	–	
Gain from FTC-related clinic divestment	(40)	–	
Stock option compensation expense (FAS 123(R))	14	–	
OPERATING INCOME EXCLUDING ONE TIME EFFECTS AND FAS 123(R)	**1,329**	**961**	**38 %**

Net Income increased by 24 % excluding the after tax loss from the divestiture, the costs of the accounting change, restructuring costs, in-process R&D, and the transformation costs. Including such items, net income increased by 18 %. The following table provides a reconciliation to net income.

NET INCOME EXCLUDING ONE-TIME EFFECTS

$ in millions	2006	2005	Change
Net income	537	455	18 %
Transformation & Settlement	1	17	
Restructuring costs and in-process R&D	23	–	
Write-off FME prepaid financing fees	9	–	
Loss from FTC-related clinic divestment	4	–	
Stock option compensation expense (FAS 123(R))	10	–	
NET INCOME EXCLUDING ONE TIME EFFECTS AND FAS 123(R)	**584**	**472**	**24 %**

Consolidated Financials

KEY INDICATORS FOR CONSOLIDATED FINANCIALS

	2006	2005	Change as reported	Change at constant exchange rates
Number of treatments	23,739,733	19,732,753	20 %	
Same market treatment growth in %	4.2 %	4.6 %		
Revenue in $ million	8,499	6,772	26 %	25 %
Gross profit in % of revenue	33.9 %	32.6 %		
Selling, general and administrative costs in % of revenue	18.2 %	18.0 %		
Net income in $ million	537	455	18 %	

Treatments increased by 20 % mainly due to the RCG acquisition, net of the Divestitures, contributing 16 %, same market treatment growth 4 %, with additional growth of 1 % from other acquisitions, reduced by approximately 1 % due to closed or sold clinics. At December 31, 2006, we owned, operated, or managed 2,108 clinics as compared to 1,680 at December 31, 2005. In 2006, we acquired 378 clinics including the clinics acquired from RCG net of the Divestitures, opened 83 clinics and closed or sold 33 clinics, not including the Divestitures. The number of patients treated in clinics that we own, operate or manage increased by 24 % to 163,517 at December 31, 2006 from 131,485 at December 31, 2005. Average revenue per treatment for world-wide dialysis services increased from $247 to $269 mainly due to worldwide improved reimbursement rates and the RCG Acquisition.

Net revenue increased by 26 % (25 % at constant rates) for the year ended December 31, 2006 over the comparable period in 2005 due to growth in revenue in both dialysis care and dialysis products and the effects of the acquisition of RCG net of the Divestitures.

Dialysis care revenue grew by 31 % to $6,377 million (31 % at constant exchange rates) in 2006 mainly due to the RCG acquisition net of the Divestitures (20 %), growth in same market treatments (4 %), higher revenue rates (6 %), and other acquisitions (1 %). Dialysis product revenue increased by 11 % to $2,122 million (11 % at constant exchange rates) in the same period.

Gross profit margin improved to 33.9 % in 2006 from 32.6 % for 2005. The increase is primarily a result of the effects of the acquisition of RCG (net of the Divestitures) which has higher margins, higher treatment rates in North America, sales growth in Europe and favorable operational performance in Latin America, partially offset by higher personnel expenses in North America and growth in regions with low gross profit margins. Depreciation and amortization expense for the period ended December 31, 2006 was $309 million compared to $251 million for the same period in 2005.

Selling, general and administrative costs increased from $1,218 million in 2005 to $1,548 million in the same period of 2006. Selling, general and administrative costs as a percentage of sales ("SG&A margin") increased from 18.0 % in the year ended December 31, 2005 to 18.2 % in the same period of 2006. The percentage increase is mainly due to restructuring costs, the consolidation of RCG whose SG&A margin was higher, expenses for patent litigation, additional compensation expense incurred as a result of the adoption of the change for accounting for stock options, and higher personnel expenses in North America partially offset by economies of scale associated with growth in revenues and growth in regions with lower SG&A margins. In 2005, SG&A costs were impacted by higher one-time transformation costs for the change in the legal form of our Company.

Bad debt expense for 2006 was $ 177 million compared to $ 141 million in 2005, remaining at 2.1 % of revenue, the same level as 2005.

Operating income increased from $ 939 million in 2005 to $ 1,318 million in 2006. Operating income as a percent of revenue ("operating income margin") increased from 13.9 % for the period ending December 31, 2005 to 15.5 % for the same period in 2006 mainly as a result of the improvements in the segments operating margins (see discussion on segments below). The gain on sale of legacy clinics contributed $ 40 million (0.5 %), which was more than offset by restructuring costs, in-process R&D, cost of transformation of the Company's legal form, and additional compensation costs incurred as a result of adopting FAS123(R) in 2006. Included in operating income are corporate operating losses of $ 87 million in the year ended December 31, 2006 compared to $ 67 million for the same period of 2005. This increase in corporate operating losses includes approximately $ 14 million due to the adoption of FAS123(R) in 2006 for stock compensation and increased costs for patent litigation, partially offset by lower transformation costs.

Interest expense increased (95 %) from $ 191 million for the twelve-month period ending December 31, 2005 to $ 372 million for the same period in 2006 mainly as a result of increased debt due to the RCG Acquisition and the write off of unamortized fees approximating $ 15 million related to our 2003 Credit Agreement which was replaced by the 2006 Credit Agreement in conjunction with the RCG Acquisition.

Income taxes increased to $ 413 million for 2006 from $ 309 million for the same period in 2005 mainly as a result of increased earnings and the tax on the gain of the divested legacy clinics. As a result of the differences of book and tax basis for the divested legacy clinics, we recorded a book gain of approximately $ 40 million while recording a tax expense of approximately $ 44 million on the transaction. This resulted in an increase of the effective tax rate of approximately 3 % for the twelve-month period ending December 31, 2006. In addition, during 2006, the German tax authorities substantially finalized their tax audit for tax years 1998-2001. Some expenses reported during those years were disallowed resulting in the Company incurring additional tax expense during 2006. This resulted in a 1 % impact on the effective tax rate for the twelve-month period ending December 31, 2006. Without the effects of these two items, the effective tax rate would have been 38.5 % for 2006.

Net income for the period was $ 537 million compared to $ 455 million in 2005 despite the after tax effects of the $ 23 million restructuring costs and in-process R&D, the $ 10 million costs relating to the accounting change for stock options, the $ 9 million write off of fees related to our 2003 Senior Credit Agreement, the $ 4 million net loss on the sale of the legacy clinics, and the $ 1 million costs related to the transformation.

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

	2006	2005	Change
Number of treatments	16,877,911	13,471,158	25 %
Same market treatment growth in %	2.1 %	3.3 %	
Revenue in $ million	6,025	4,577	32 %
Depreciation and amortization in $ million	187	140	34 %
Operating income in $ million	965	644	50 %
Operating income margin in %	16.0 %	14.1 %	

Revenue

Treatments increased by 25 % for the year ended December 31, 2006 as compared to the same period in 2005 mainly due to the RCG acquisition (23 %), same market growth (2 %), and other acquisitions (1 %) partially offset by sold or closed clinics (1 %). At December 31, 2006, 117,855 patients (a 32 % increase over the same period in the prior year) were being treated in the 1,560 clinics that we own or operate in the North America segment, compared to 89,313 patients treated in 1,157 clinics at December 31, 2005. The North America segment's average revenue per treatment increased from $ 294 in 2005 to $ 317 in 2006. In the U.S., average revenue per treatment increased from $ 297 for 2005 to $ 321 in 2006. The improvement in the revenue rate per treatment is primarily due to increases in improved commercial payor contracts, increases in the dialysis treatment reimbursement rates including the legislated 1.6 % increase from Medicare, the transfer of Medicare drug profits for separately billable items into the composite rate and the effects of the RCG Acquisition.

Net revenue for the North America segment for 2006 increased by 32 % because dialysis care revenue increased by 35 % from $ 4,054 million to $ 5,464 million and products sales increased by 7 % to $ 561 million in 2006 from $ 523 million in 2005.

Dialysis care revenue in year ended December 31, 2006 increased by 35 %, driven by 25 % as a result of the effects of the RCG acquisition combined with favorable treatment volume and dialysis treatment rates that resulted in organic revenue growth of 9 % and the impact of other acquisitions of 1 %. For 2006, the administration of EPO represented approximately 23 % of total North America Dialysis Care revenue as compared to 24 % in the prior year.

The Product revenue increase was driven mostly by increased sales volume of machines and dialyzers.

Operating Income

Operating income increased by 50 % from $ 644 million for 2005 to $ 965 million for the same period in 2006 due to increased treatments and a higher volume of products sold. Operating income margin increased from 14.1 % for 2005 to 16.0 % for the same period in 2006 mostly as a result of the improvement in revenue rates, increased treatment volume, effects of the RCG Acquisition net of Divestitures and increased product sales partially offset by higher personnel expenses. Cost per treatment increased from $ 254 in 2005 to $ 266 in 2006.

International Segment

KEY INDICATORS FOR INTERNATIONAL SEGMENT

	2006	2005	Change as reported	Change at constant exchange rates
Number of treatments	6,861,822	6,261,595	10 %	
Same market treatment growth in %	8.6 %	7.6 %		
Revenue in $ million	2,474	2,195	13 %	12 %
Depreciation and amortization in $ million	120	109	9 %	
Operating income in $ million	440	362	22 %	
Operating income margin in %	17.8 %	16.5 %		

Revenue

Treatments increased by 10 % for year ended December 31, 2006 over the same period in 2005 mainly due to same market growth (9 %) and acquisitions (3 %), partially offset by sold or closed clinics (1 %) and the effects of one less dialysis day (1 %). As of December 31, 2006, 45,662 patients (an 8 % increase over the same period in the prior year) were being treated at 548 clinics that we own, operate or manage in the International segment compared to 42,172 patients treated at 523 clinics at December 31, 2005. In 2006, the average revenue per treatment increased to $ 133 from $ 130 (increased to $ 133 at constant exchange rates) for 2005 primarily due increased reimbursement rates.

The 13 % increase in net revenues for the International segment resulted from increases in both dialysis care and dialysis product revenues. The increase was due to organic growth during the period of 12 % at constant exchange rates with a 1 % increase due to acquisitions and 1 % due to currency fluctuations, offset by 1 % due to closed or sold clinics.

Total dialysis care revenue increased during 2006 by 12 % (12 % at constant exchange rates) to $ 913 million in 2006 from $ 813 million in the same period of 2005. This increase is primarily a result of organic growth of 11 % and a 2 % increase in contributions from acquisitions, partially offset by 1 % due to closed or sold clinics.

Total dialysis product revenue for 2006 increased by 13 % (12 % at constant exchange rates) to $ 1,561 million from $ 1,382 million in 2005.

Including the effects of acquisitions, European region revenue increased 11 % (11 % at constant exchange rates), Latin America region revenue increased 24 % (21 % at constant exchange rates), and Asia Pacific region revenue increased 11 % (11 % at constant exchange rates).

Operating Income

Operating income in the International Segment increased from $ 362 million in 2005 to $ 440 million for the same period in 2006 primarily as a result of an increase in treatment volume and in volume of products sold. Operating income margin increased from 16.5 % in 2005 to 17.8 % for the same period in 2006. The main causes for the margin increase were production efficiencies in Europe, accelerated purchases of product by German customers as a result of an increase by 3 % of the German value added tax (VAT) in 2007, improvements in our operations in Latin America and Asia Pacific, collections on previously written off receivables, lower bad debt expense and the impact of restructuring costs in Japan in 2005. These effects were partially offset by income received in 2005 associated with the cancellation of a distribution agreement and with a patent litigation settlement.

04.4 Liquidity and Capital Resources

Liquidity

We require capital primarily to acquire and develop free standing renal dialysis centers, to purchase property for new renal dialysis centers and production sites, equipment for existing or new renal dialysis centers and production centers and to finance working capital needs. At December 31, 2006, our working capital was $ 1,036 million; cash and cash equivalents $ 159 million; and our ratio of current assets to current liabilities was 1.4.

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 75 % 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, 2006, approximately 38 % of our consolidated revenues resulted from U.S. federal health care benefit programs, such as Medicare and Medicaid reimbursement. Legislative and budgetary 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 “Financial Condition and Results of Operations – 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.

Accounts receivable balances at December 31, 2006 and December 31 2005, net of valuation allowances, represented approximately 76 and 82 days of net revenue, respectively. This favorable development is mainly a result of extension of an electronic billing program and more favorable payment terms in payor contracts in the U.S. and our management effort to improve collection of receivables. The mix effect due to North America's increased weight following the RCG Acquisition coupled with North America's lower DSO is a further driver for the decrease of our DSO. The development of days sales outstanding by operating segment is shown in the table below.

DEVELOPMENT OF DAYS SALES OUTSTANDING

Dec. 31	2006	2005
North America	59	63
International	119	120
TOTAL	**76**	**82**

2006 Senior Credit Agreement

For information concerning the 2006 Credit Agreement refer to Note 10 of the Notes to the consolidated financial statements.

Other

We are also party to, through various direct and indirect subsidiaries, an Amended and Restated Subordinated Loan Note (the "Note") entered into on March 31, 2006, with Fresenius AG which amended the Subordinated Loan Note dated May 18, 1999. Under the Note, we or our subsidiaries may request and receive one or more advances (each an "Advance") up to an aggregate amount of $400 million during the period ending March 31, 2011. The Advances may be repaid and reborrowed during the period but Fresenius AG is under no obligation to make an advance. Each advance is repayable in full one, two or three months after the date of the Advance or any other date as agreed to by the parties to the Advance or, if no maturity date is so agreed, the Advance will have a one month term. All Advances will bear interest at a variable rate per annum equal to LIBOR plus an applicable margin that is based upon the Consolidated Leverage Ratio, as defined in the 2006 Credit Agreement. Advances are subordinated to outstanding loans under the 2006 Credit Agreement and all of our other indebtedness. On December 31, 2006, the Company received an Advance of $3 million (€2 million) at 4.37 % interest which matured on and was repaid on January 31, 2007.

Liquidity is also provided from short-term borrowings of up to $650 million ($460 million through October 18, 2006) generated by selling interests in our accounts receivable ("A/R Facility"), which is available to us through October 18, 2007. The A/R Facility is typically renewed annually and was most recently renewed and increased in October 2006. Renewal is subject to the availability of sufficient accounts receivable that meet certain criteria defined in the A/R Facility agreement with the third party funding corporation. A lack of availability of such accounts receivable could preclude us from utilizing the A/R Facility for our financial needs.

Additional long-term financing has been provided through our borrowings under various credit agreements with the European Investment Bank ("EIB") in July 2005 and December 2006. The EIB is a not-for-profit long-term lending institution of the European Union and lends funds at favorable rates for the purpose of capital investment and R&D projects, normally for up to half of the funds required for such projects.

The July 2005 agreements consist of a term loan of €41 million and a revolving facility of €90 million which were granted to the Company to refinance certain R&D projects and to make investments in expansion and optimization of existing production facilities in Germany. Both have 8-year terms. The December 2006 term loan was granted to the Company for financing and refinancing of certain clinic refurbishing and improvement projects and allows distribution of proceeds in up to 6 separate tranches until June 2008. Each tranche will mature 6 years after the disbursement of proceeds for the respective tranche.

Currently all agreements with the EIB have variable interest rates that change quarterly with FMC-AG & Co. KGaA having options to convert the variable rates into fixed rates. All advances under all agreements can be denominated in certain foreign currencies including U.S. dollars. All loans under these agreements are secured by bank guarantees and have customary covenants.

We also issued euro denominated notes ("Euro Notes") (Schuldscheindarlehen) on July 27, 2005 that provide long-term working capital through their maturity on July 27, 2009. The notes total €200 million with a €126 million tranche at a fixed interest rate of 4.57 % and a €74 million tranche with a floating rate at EURIBOR plus applicable margin resulting in an interest rate of 5.49 % at December 31, 2006. The proceeds were used to liquidate $155 million (€129 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 are also party to letters of credit which have been issued under our 2006 Credit Agreement and by banks utilized by our subsidiaries.

From time to time, we have also issued long-term securities ("Trust Preferred Securities") which require the payment of fixed annual distributions to the holders of the securities. The current outstanding Trust Preferred Securities are mandatorily redeemable in 2008 and 2011.

The obligations under the 2006 Senior Credit Agreement are secured by pledges of capital stock of certain material subsidiaries in favor of the lenders. Our 2006 Senior Credit Agreement, EIB agreements, Euro Notes and the indentures relating to our trust preferred securities also include other covenants that require us to maintain certain financial ratios or meet other financial tests. Under our 2006 Senior Credit Agreement, we are obligated to maintain a minimum consolidated fixed charge ratio (ratio of consolidated EBITDAR (sum of EBITDA plus Rent expense under operation leases) to Consolidated Fixed Charges as these terms are defined in the 2006 Senior Credit Agreement) and a maximum consolidated leverage ratio (as described above). 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 $ 240 million in 2007, dividends paid in May 2006 were $ 154 million which was in compliance with the restrictions set forth in the 2006 Senior Credit Agreement) and make other restricted payments or create liens. In addition, we are limited as to the annual amounts of Consolidated Capital Expenditures we can incur ($ 600 million in 2006, exclusive of the RCG acquisition).

The breach of any of the covenants could result in a default under the 2006 Senior Credit Agreement, the European Investment Bank Agreements, 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 2006 Senior Credit Agreement becomes due at the option of the Lenders. As of December 31, 2006, we are in compliance with all financial covenants under the 2006 Senior Credit Agreement and our other financing agreements.

The settlement agreement with the asbestos creditors committees on behalf of the W.R. Grace & Co. bankruptcy estate (see Note 18 "Legal Proceedings" of the notes to the consolidated financial statements) 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 was included in the special charge we recorded in 2001 to address 1996 merger-related legal matters. The payment obligation is not interest-bearing.

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, in the fourth quarter 2005 we made a $ 78 million payment related to the tax audit for 1996 and 1997 to discontinue the accrual of additional non-tax deductible interest until the final resolution of the disputed assessment. Separately, during the third quarter, 2006, the German tax authorities substantially finalized their tax audit for tax years 1998-2001. This resulted in the Company incurring additional tax expense during the third quarter 2006 but had a minimal impact on the effective tax rate for the year ended December 31, 2006. The U.S. Internal Revenue Service (IRS) has completed its examination of FMCH's tax returns for the calendar years 1997 through 2001 and FMCH has executed a Consent to Assessment of Tax. As a result of the disallowance by the IRS of tax deductions taken by FMCH with respect to certain civil settlement payments made in connection with the 2000 resolution of the Office of the Inspector General and U.S. Attorney's Office investigation and certain other deductions, we paid an IRS tax and accrued interest assessment of approximately $ 99 million in the third quarter of 2006. We have filed claims for refunds with the IRS contesting the IRS's disallowance of FMCH's civil settlement payment deductions and plan to pursue recovery through IRS appeals and if necessary in the U.S. Federal courts of the tax and interest payment associated with such disallowance. An adverse determination in this litigation could have a material adverse effect on our financial condition and results of operations.

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 Federal and state tax payments, including payments to state tax authorities reflecting the adjustments made in our Federal tax returns. With respect to other potential adjustments and disallowances of tax matters currently under review or where tentative agreement has been reached, 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 2006 and payable in 2007, of €1.41 per ordinary share (2005: €1.23) and €1.47 per preference share (2005: €1.29) for shareholder approval at the annual general meeting on May 15, 2007. The total expected dividend payment is approximately €139 million and we paid approximately $154 (€120) million in 2006 for dividends with respect to 2005. Our 2006 Senior Credit Agreement limits disbursements for dividends and certain other transactions relating to our own equity type instruments during 2007 to $240 million in total.

Analysis of Cash Flow

Operations

We generated cash from operating activities of $908 million in the year ended December 31, 2006 and $670 million in the comparable period in 2005, an increase of approximately 35 % from the prior year. Cash flows were primarily generated by increased earnings and improvements in working capital efficiency. Cash flows were positively impacted principally by a reduction of days sales outstanding and the utilization of the $67 million tax receivable related to the RCG stock option program when making 2006 tax payments. In addition, the percentage increase was favorably impacted by tax payments in 2005 of $78 million in Germany and $41 million in the U.S. These effects were mostly offset by tax payments in 2006 of $99 million for tax audit adjustments related to the Company's 2000 and 2001 U.S. tax filings, $131 million related to the divestiture of clinics, as well as payments of $35 million related to the RCG Acquisition and payments for increased interest costs for the increased debt related to the RCG Acquisition. Cash flows were used mainly for investing (capital expenditures and acquisitions).

Investing

Cash used in investing activities increased from $422 million in 2005 to $4,241 million in the year ended December 31, 2006 mainly because of the payments for the acquisition of RCG of $4,148 million, partially offset by the cash receipts of $516 million related to the divestiture of the 105 clinics and divested laboratory business. Additionally, in the year ended December 31, 2006, we paid approximately $159 million cash ($145 million in the North America segment and $14 million in the International segment) for the PhosLo product business acquisition ($73 million) and other acquisitions consisting primarily of dialysis clinics. In the same period 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.

Capital expenditures for property, plant and equipment net of disposals were $450 million in the year ended December 31, 2006 and $297 million in same period in 2005. In 2006, capital expenditures were $302 million in the North America segment and $148 million for the International segment. In 2005, capital expenditures were $168 million in the North America segment and $129 million for the International segment. The majority of our capital expenditures was used for the maintenance of existing clinics, equipping new clinics, and the maintenance and expansion of production facilities primarily in North America, Germany and France. Capital expenditures were approximately 5 % of total revenue.

Financing

Net cash provided by financing was $ 3,382 million for 2006 compared to cash used in financing of $ 220 million 2005 mainly due to the $ 4,148 million required for the RCG acquisition less the $ 516 million proceeds from the divestiture of the 105 clinics and the laboratory business. Dividends in the amount of $ 154 million relating to 2005 were paid in the second quarter of 2006 compared to a similar payment of $ 137 million made in the second quarter of 2005 for 2004. Our external financing needs increased mainly due to the RCG acquisition and were partially offset by cash generated from operations. In addition, the conversion premium paid in connection with the conversion of preference shares to ordinary shares generated approximately $ 307 million cash. Cash on hand was $ 159 million at December 31, 2006 compared to $ 85 million at December 31, 2005.

Obligations

The following table summarizes, as of December 31, 2006, 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.

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CONTRACTUAL CASH OBLIGATIONS

$ in millions	Total	Payments due by period of		
		1 Year	2–5 Years	over 5 Years
Trusted Preferred Securities	1,254	–	1,254	–
Long Term Debt	3,981	158	2,076	1,747
Capital Lease Obligations	8	2	4	2
Operating Leases	1,698	308	882	508
Unconditional Purchase Obligations	235	131	95	9
Other Long-term Obligations	16	10	6	–
Letters of Credit	85	85	–	–
TOTAL	**7,277**	**694**	**4,317**	**2,266**

AVAILABLE SOURCES OF LIQUIDITY

$ in millions	Total	Expiration per period of		
		1 Year	2–5 Years	over 5 Years
Accounts receivable facility[1]	384	384	–	–
Unused Senior Credit Lines	932	–	932	–
Other Unused Lines of Credit	87	87	–	–
TOTAL	**1,403**	**471**	**932**	**–**

[1] Subject to availability of sufficient accounts receivable meeting funding criteria.
The amount of guarantees and other commercial commitments at December 31, 2006 is not significant.

Borrowings

Short-term borrowings of $65 million and $57 million at December 31, 2006, and 2005, 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, 2006, and 2005 was 3.69 % and 3.91 %, respectively.

Excluding amounts available under the 2006 Senior Credit Agreement (see Note 10 of the notes to the consolidated financial statements), at December 31, 2006, we had $87 million available under such commercial bank agreements. In some instances lines of credit are secured by assets of our subsidiary that is party to the agreement and may require our Guarantee. In certain circumstances, the subsidiary may be required to meet certain covenants.

We had short-term borrowings under our A/R Facility at December 31, 2006, of $266 million and $94 million at December 2005. We pay interest to the bank investors, calculated based on the commercial paper rates for the particular tranches selected. The average interest rate at December 31, 2006 was 5.31 %. Annual refinancing fees, which include legal costs and bank fees (if any), are amortized over the term of the facility.

On December 31, 2006, we received a short-term Advance of $3 million (€2 million) at 4.37 % interest under our agreement with Fresenius AG. The loan matured on and was repaid on January 31, 2007.

We had a total of $3.6 billion outstanding from our 2006 Senior Credit Facility at December 31, 2006, with $0.168 billion under the revolving credit facility, $1.8 billion under Term Loan A and $1.7 billion under Term Loan B. At December 31, 2005, we had a total outstanding of $470 million on the 2003 Senior Credit Facility with $46 million from the revolving credit facility and the balance under a term loan facility. The 2003 Credit Agreement was repaid in full upon consummation of the 2006 Senior Credit Facility. We also have $85 million in letters of credit outstanding which is not included in the $3.6 billion outstanding at December 31, 2006.

Under our EIB agreements, we had U.S. dollar borrowings under the July 2005 agreements of $49 million and $36 million under the term loan and the revolving facility, respectively, with both having an interest rate of 5.29 % at December 31, 2006. There were no drawdowns on the December 2006 term loan at December 31, 2006.

At December 31, 2006 we had long-term borrowings outstanding related to Euro Notes issued in 2005 totaling $263 million (€200 million) with at €126 million tranche with a fixed interest rate of 4.57 % and a tranche for €74 million with variable interest rates at EURIBOR plus applicable margin resulting in an interest rate of 5.49 % at December 31, 2006.

Debt Covenant Disclosure – EBITDA

EBITDA (earnings before interest, taxes, depreciation and amortization) was approximately $ 1,627 million, 19.1 % of sales for 2006, and $ 1,190 million, 17.6 % of sales for 2005. EBITDA is the basis for determining compliance with certain covenants contained in our 2006 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 additions, 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 report. 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	2006	2005
Total EBITDA	1,626,825	1,190,370
Settlement of shareholder proceedings	(888)	7,335
Interest expense (net of interest income)	(351,246)	(173,192)
Income tax expense, net	(413,489)	(308,748)
Change in deferred taxes, net	10,904	(3,675)
Change in operating assets and liabilities	58,294	(45,088)
Tax payments related to divestitures and acquisitions	(63,517)	–
Compensation expense	16,610	1,363
Cash inflow from Hedging	10,908	–
Other items, net	13,429	1,939
NET CASH PROVIDED BY OPERATING ACTIVITIES	**907,830**	**670,304**

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04.[5] Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"), which establishes a framework for reporting fair value and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact of this standard on our Consolidated Financial Statements.

In June, 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 Accounting for Income Taxes* ("FAS 109"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold of more-likely-than-not and a measurement attribute for the financial statement recognition and measurement of all tax positions taken or expected to be taken in a tax return. The enterprise must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. If the threshold is met, the tax position is then measured to determine the amount of benefit to recognize in the financial statements.

The recognition threshold of more-likely-than-not must continue to be met in each subsequent reporting period to support continued recognition of the tax benefit. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 is effective for all fiscal years beginning after December 15, 2006. The Company is in the process of determining the potential impact of FIN 48, if any, on the Company's consolidated financial statements.

04.6 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 38 % of our worldwide revenue for 2006 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 of the General Partner. We do not use 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 various 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, purchases, lendings and borrowings, including intercompany borrowings. 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. For the purpose of hedging existing and foreseeable foreign exchange transaction exposures we enter into foreign exchange forward contracts and, on a small scale, foreign exchange options. 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.

The Company is exposed to potential losses in the event of non-performance by counterparties to financial instruments. We do not expect any counterparty to fail to meet its obligations as the counterparties are highly rated financial institutions. 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. The table below provides information about our foreign exchange forward contracts at December 31, 2006. 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, 2006, and the credit risk inherent to those contracts with positive market values as of December 31, 2006. All contracts expire within 16 months after the reporting date.

FOREIGN CURRENCY RISK MANAGEMENT

$ in thousands, Dec. 31, 2006	Nominal amount 2007	Nominal amount 2008	Nominal amount Total	Fair value	Credit risk
Purchase of EUR against USD	611,607	16,858	628,465	1,256	2,590
Sale of EUR against USD	8,258	–	8,258	(99)	6
Purchase of EUR against others	306,845	30,775	337,620	1,718	4,675
Sale of EUR against others	32,014	–	32,014	(192)	10
Others	58,650	17,185	75,835	(70)	1,719
TOTAL	**1,017,374**	**64,818**	**1,082,192**	**2,613**	**9,000**

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.

31. Dec.	Year's High	Year's Low	Year's Average	Year's Close
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
2006 $ per €	1.3331	1.1826	1.2558	1.3170

Interest Risk Rate. 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.

We entered into interest rate swap agreements with various commercial banks in the notional amount of $ 3.165 billion as of December 31, 2006. These dollar interest rate swaps, which expire at various dates between 2007 and 2012, effectively fix our variable interest rate exposure on the majority of our U.S. dollar-denominated borrowings at an average interest rate of 4.50 % plus applicable margin. At December 31, 2006, the fair value of these agreements is $ 60.275 million.

We also entered into interest rate swap agreements 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 denominated in U.S. dollars into variable interest rate payments. The interest rate swap agreements are reported at fair value in the balance sheet. The reported amount of the hedged portion of the fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts and trust preferred securities offset each other in the income statement. At December 31, 2006, the notional volume of these swaps was $ 450 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	2007	2008	2009	2010	2011	Thereafter	Total	Fair value 31. Dec., 2006
PRINCIPAL PAYMENTS ON SENIOR CREDIT AGREEMENT								
Variable interest rate = 6.52 %	137	137	137	137	1,367	1,650	3,565	3,565
ACCOUNTS RECEIVABLE SECURITIZATION PROGRAMS								
Variable interest rate = 5.36 %	266						266	266
INTEREST RATE SWAPS								
Notional amount	350	615	450	250	1,000	500	3,165	60
Average fixed pay rate = 4.50 %	5.29 %	4.69 %	4.84 %	4.28 %	4.10 %	4.31 %	4.50 %	
Receive rate = 3-month $ LIBOR								
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARIES FRESENIUS MEDICAL CARE CAPITAL TRUSTS								
Fixed interest rate = 7.875 % issued in 1998		435					435	472
Fixed interest rate = 7.375 % issued in 1998 (den. in DM)		202					202	207
Fixed interest rate = 7.875 % issued in 2001					223		223	233
Fixed interest rate = 7.375 % issued in 2001 (den. in EUR)					394		394	435
INTEREST RATE SWAPS								
Notional amount		450					450	(15)
Average fixed receive rate = 3.50 %		3.50 %					3.50 %	
Pay rate = 6-month $ LIBOR								

04.[7] Compensation Report

$ in thousands, except per stock option data

The following compensation report of Fresenius Medical Care AG & Co. KGaA summarizes the principles applied to the determination of the compensation of the management board members of Fresenius Medical Care Management AG as general partner of Fresenius Medical Care AG & Co. KGaA and explains the amount and structure of the management board compensation.

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

Management Board

I. Compensation of the Management Board

The basis for the Compensation of the management board was, in its structure and amount, determined by the supervisory board of Fresenius Medical Care Management AG.

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

The compensation of the management board is, as a whole, performance oriented and consists in the fiscal year 2006 of three elements:
– non-performance-related compensation (basic salary)
– performance-related compensation (variable bonus)
– long-term incentive elements (stock options, convertible bonds)

Furthermore, in the period under report, there are valid pension commitments applicable to two members of the management board.

The composition of the individual elements is as follows:

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

The performance-related compensation will be granted for the fiscal year 2006 as a variable bonus. The amount of the bonus in each case depends on the achievement of the individual and collective targets. For the total performance-related compensation, the maximum achievable bonus is fixed. The targets are measured on consolidated net income

and operating income (EBIT) and cash flow, but are partially subject to a comparison with the previous year's figures and can for another part be derived from a comparison of budgeted and actually achieved figures. Furthermore, the targets are divided into group level targets and those to be achieved in individual regions. The regional targets also include in some cases special components which are for a three-year-period and therefore only for the fiscal years 2006, 2007 and 2008 and link a special bonus component to the achievement of extraordinary financial targets in connection with special integration measures such as e.g. in connection with the acquisition of Renal Care Group, Inc. in the USA. These special components require an extraordinary increase in earnings. The special bonus component thereby consists in equal parts of cash payments and a share price related compensation based on the company's ordinary shares. Once the annual targets are achieved, the cash is paid after the end of the respective fiscal year; the share price-related compensation to be granted yearly in these cases is subject to a three-year-vesting-period. The payment of this share price-related compensation corresponds to the share price of Fresenius Medical Care AG & Co. KGaA's ordinary shares on exercise, and is, for that reason, included in the long-term incentive compensation elements.

For the fiscal year 2006, the amount of the cash compensation of the management board of Fresenius Medical Care Management AG consists of the following:

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COMPENSATION OF MANAGEMENT BOARD

$ in thousands	Non-Performance Related Compensation		Performance Related Compensation	Cash Compensation (without long-term incentive components)
	Salary[1, 2]	Other[3]	Bonus[1, 2]	
Dr. Ben Lipps	1,050	189	2,043	3,282
Roberto Fusté	370	221	421	1,012
Dr. Emanuele Gatti	584	48	1,177	1,809
Rice Powell	700	20	1,267	1,987
Lawrence A. Rosen	424	105	935	1,464
Dr. Rainer Runte	414	39	760	1,213
Mats Wahlstrom	800	17	1,448	2,265
TOTAL	**4,342**	**639**	**8,051**	**13,032**

[1] Up to February 9, 2006 payment by Fresenius Medical Care AG.
[2] From February 9, 2006 payment by Fresenius Medical Care Management Care AG as general partner of Fresenius Medical Care AG & Co. KGaA.
[3] Includes insurance premiums, private use of company cars, contributions to pension and health insurance and other benefits.

As elements of long-term incentives in the fiscal year 2006, stock options on the basis of the Stock Option Plan 2006 were granted. The principles of the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 implemented newly determined in the year under report, are described in more detail in Note 15 of the notes to the consolidated financial statements under the heading "Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006".

As per 1 January 2006, there were three employee participation plans secured by conditional capital in the company then still named Fresenius Medical Care AG, which entitled their participants to convertible bonds or stock options. In 2006, no further options could be issued under these plans.

In the course of the transformation of legal form of Fresenius Medical Care AG into Fresenius Medical Care AG & Co. KGaA, all management board members and each to the full extent exercised their right to convert their convertible bonds and stock options up to that time convertible into non-voting bearer preference shares into those convertible into bearer ordinary shares. A comparable absolute option value was thereby ensured by a conversion formula applied equally for all participants. Hereinto, the convertible bonds and stock options were reduced in number in the same proportion for all participants while, on the other hand, the exercise price for the convertible bonds and stock options converted was increased. Financially, this placed the beneficiaries into the same position as they were without the conversion of the non-voting bearer preference shares into bearer ordinary shares. Because this did not concern the conversion of bearer preference shares into bearer ordinary shares, no conversion premium was payable.

In connection with the successful employee participation programs of the past fiscal years, Fresenius Medical Care AG & Co. KGaA implemented the above-mentioned stock option plan 2006 in accordance with the approval resolution by the general meeting of May 9, 2006. Under this stock option plan 2006, a total of 762,730 stock options were issued in the year under report with effect as of July 31, 2006, 132,800 of which were granted to the members of the management board. As per December 4, 2006, the second possible issue date, no stock options were allotted to members of the management board.

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

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COMPONENTS WITH LONG-TERM INCENTIVE EFFECTS

$ in thousands	Stock Options		Share-Price Related Compensation
	Number	Value	Value
Dr. Ben Lipps	33,200	1,237	993
Roberto Fusté	16,600	619	–
Dr. Emanuele Gatti	16,600	619	360
Rice Powell	16,600	619	568
Lawrence A. Rosen	16,600	619	401
Dr. Rainer Runte	16,600	619	392
Mats Wahlstrom	16,600	619	648
TOTAL	**132,800**	**4,951**	**3,362**

The values of the stock options granted to members of the management board in the financial year 2006 stated above correspond to their fair value at the time of their having been granted, namely a value of $ 39.08 (€29.67) per stock option. The exercise price for the stock options granted is $ 120.48 (€91.48).

At the end of the fiscal year 2006, the members of the management board held a total of 548,197 stock options.

On the basis of the financial targets achieved in the fiscal year 2006, rights to share price-related compensation at a value of a total of $ 3,362 were earned. The number of shares will be determined by the supervisory board on the basis of the current share price.

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

$ in thousands	Cash Compensation (without long-term incentive components)	Expenses 2006 (for long-term incentive components)	Compensation (including long-term incentive copmponents) Total
Dr. Ben Lipps	3,282	483	3,765
Roberto Fusté	1,012	265	1,277
Dr. Emanuele Gatti	1,809	265	2,074
Rice Powell	1,987	224	2,211
Lawrence A. Rosen	1,464	246	1,710
Dr. Rainer Runte	1,213	264	1,477
Mats Wahlstrom	2,265	278	2,543
TOTAL	**13,032**	**2,025**	**15,057**

The non-performance-related compensation elements and the basic structures of the performance-related compensation elements are agreed in the service agreements with the individual management board members. The stock options are granted by the supervisory board on a yearly basis.

II. Commitments to Members of the Management Board for the Event of the Ending of their Appointment

There are individual contractual pension commitments for the management board members Dr. Emanuele Gatti and Lawrence A. Rosen. With regard to these pension commitments, Fresenius Medical Care as of December 31, 2006 had pension obligations of $ 1,699. The additions related to the service costs portion of the pension reserves in the year under report amount to $ 569. The pension commitments provide a pension and survivor benefits, depending on the amount of the most recent basic salary, from the 65th year of life, or, in the case of leaving because of professional or occupational incapacity, from the time of leaving active work. The starting percentage of 30% increases with every year of service by 1.5 percentage points, whereby the maximum attainable amount is 45%. 30% of the gross amount of any later income from an occupation of the management board member is credited against the pension. With the management board member Dr. Ben Lipps an individual agreement exists instead of a pension provision, to the effect that, taking account of a competitive restriction after the ending of the service agreement between him and

Fresenius Medical Care Management AG, he can, for a period of ten years, act in a consultative capacity for the company. The consideration to be granted by Fresenius Medical Care Management AG in return would amount per annum in value to approximately 46% of the non-performance related compensation elements paid to him in the fiscal year 2006.

The management board members Dr. Emanuele Gatti, Rice Powell and Mats Wahlstrom have been granted benefits (severance payments, calculated on the basis of guaranteed simple annual income, based on the relevant basic salary) by individual agreements for the event that their employment with Fresenius Medical Care Management AG should end. One half of any additional compensation payments which the said management board members would be entitled to in connection with existing post-contractual non-competition agreements would be set-off against these compensation payments. The service agreements of management board members contain no express provisions for the case of a change of control.

III. Miscellaneous

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

Fresenius Medical Care Management AG undertook, to the extent legally admissible, to indemnify the members of the management board against claims against them arising out of their work for the company and its affiliates, if such claims exceed their responsibilities under German law.

To secure such obligations, the company concluded a Directors' & Officers' insurance with an appropriate excess. The indemnity applies for the time in which each member of the management board is in office and for claims in this connection after the ending of the membership of the management board in each case.

Supervisory Board

The compensation of the Supervisory Board of Fresenius Medical Care AG & Co. KGaA is regulated in § 13 of its statute.

Corresponding to this regulation the Company reimburses the Supervisory Board members for expenses incurred from their duties as Supervisory Board members, including value added tax.

Each member of the supervisory board shall receive a fixed fee of $80 per annum for each full fiscal year, payable in four equal instalments at the end of each calendar quarter. In the event that the general meeting, taking into consideration the annual results, resolves a higher remuneration by a three fourths majority of the votes cast, such higher remuneration shall be payable.

The chairman of the supervisory board shall receive additional remuneration in the amount of $80 and his deputy additional remuneration in the amount of $40. As a member of a committee, a supervisory board member shall receive, in addition, $30 per year, or as chairman of a committee, $50 per year, payable in each case in four equal installments at the end of each calendar quarter.

To the extent that a member of the supervisory board is at the same time member of the supervisory board of the General Partner Fresenius Medical Care Management AG and receives remuneration for his services as member of the supervisory board of the Fresenius Medical Care Management AG, the remuneration will be reduced to half of it. The same shall apply in relation to additional remuneration of the Chairman and his deputy if such person is, at the same time, the chairman or his deputy, respectively, of the supervisory board of the Fresenius Medical Care Management AG. If the deputy of the chairman of the supervisory board of the Company is at the same time chairman of the supervisory board of the Fresenius Medical Care Management AG he shall not receive additional remuneration for his services as deputy of the chairman of the Company.

In 2006 the aggregate compensation fees to all members of the Supervisory Board of Fresenius Medical Care AG & Co. KGaA was $421 and the aggregate compensation fees to all members of the Audit Committee was $137.

As regulated in § 7 of the Company's statute the aggregate compensation fees to the members of the Supervisory Board of the General Partner Fresenius Medical Care Management AG of $382 were charged to Fresenius Medical Care AG AG & Co. KGaA.

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05.1 Consolidated Statements of Income

CONSOLIDATED STATEMENTS OF INCOME

$ in thousands, except share data	Note	2006	2005
NET REVENUE			
Dialysis Care	1j	6,377,390	4,866,833
Dialysis Products		2,121,648	1,904,986
	21	**8,499,038**	**6,771,819**
COSTS OF REVENUE			
Dialysis Care		4,538,234	3,583,781
Dialysis Products		1,083,248	979,900
		5,621,482	**4,563,681**
Gross profit		2,877,556	2,208,138
OPERATING EXPENSES			
Selling, general and administrative		1,548,369	1,218,265
Gain on sale of dialysis clinics		(40,233)	–
Research and development	1k	51,293	50,955
OPERATING INCOME		**1,318,127**	**938,918**
OTHER (INCOME) EXPENSE			
Interest income		(20,432)	(18,187)
Interest expense		371,678	191,379
Income before income taxes and minority interest		966,881	765,726
Income tax expense	1l, 16	413,489	308,748
Minority interest		16,646	2,026
NET INCOME		**536,746**	**454,952**
BASIC INCOME PER ORDINARY SHARE		**5.47**	**4.68**
FULLY DILUTED INCOME PER ORDINARY SHARE		**5.44**	**4.64**

See accompanying notes to consolidated financial statements.

05.2 Consolidated Balance Sheets

CONSOLIDATED BALANCE SHEETS

$ in thousands, except share data at Dec. 31	Note	2006	2005
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	1c	159,010	85,077
Trade accounts receivable, less allowance for doubtful accounts of $207,293 in 2006 and $176,568 in 2005		1,848,695	1,469,933
Accounts receivable from related parties		143,349	33,884
Inventories	5	523,929	430,893
Prepaid expenses and other current assets		443,854	261,590
Deferred taxes	1l, 16	293,079	179,561
TOTAL CURRENT ASSETS		**3,411,916**	**2,460,938**
Property, plant and equipment, net	1f, 6	1,722,392	1,215,758
Intangible assets	1g, 7	661,365	585,689
Goodwill	1g, 7	6,892,161	3,456,877
Deferred taxes	1l, 16	62,722	35,649
Other assets		294,125	228,189
TOTAL ASSETS		**13,044,681**	**7,983,100**

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

$ in thousands, except share data at Dec. 31	Note	2006	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		316,188	201,317
Accounts payable to related parties		236,619	107,938
Accrued expenses and other current liabilities	8	1,194,939	838,768
Short-term borrowings	9	331,231	151,113
Short-term borrowings from related parties	9	4,575	18,757
Current portion of long-term debt and capital lease obligations	10	160,135	126,269
Income tax payable	1l, 16	116,059	120,138
Deferred taxes	1l, 16	15,959	13,940
TOTAL CURRENT LIABILITIES		**2,375,705**	**1,578,240**
Long-term debt and capital lease obligations, less current portion	10	3,829,341	707,100
Other liabilities		149,684	112,418
Pension liabilities	11	112,316	108,702
Deferred taxes	1l, 16	378,487	300,665
Company-obligated mandatorily redeemable preferred securities of subsidiary Fresenius Medical Care Capital Trusts holding solely Company-guaranteed debentures of subsidiaries	12	1,253,828	1,187,864
Minority interest		75,158	14,405
TOTAL LIABILITIES		**8,174,519**	**4,009,394**
SHAREHOLDERS' EQUITY			
Preference shares, no par value, €2.56 nominal value, 4,118,960 shares authorized, 1,237,145 issued and outstanding		3,373	74,476
Ordinary shares, no par value, €2.56 nominal value, 127,916,240 shares authorized, 97,149,891 issued and outstanding		302,615	229,494
Additional paid-in capital		3,211,193	2,837,144
Retained earnings		1,358,397	975,371
Accumulated other comprehensive loss	20	(5,416)	(142,779)
TOTAL SHAREHOLDERS' EQUITY	13	**4,870,162**	**3,973,706**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**13,044,681**	**7,983,100**

See accompanying notes to consolidated financial statements.

05.3 Consolidated Statements of Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS

$ in thousands	Note	2006	2005
OPERATING ACTIVITIES			
Net income		536,746	454,952
Adjustments to reconcile net income to cash and cash equivalents provided by (used in) operating activities:			
Settlement of shareholder proceedings	2	(888)	7,335
Depreciation and amortization	21	308,698	251,452
Change in minority interest		24,333	–
Change in deferred taxes, net		10,904	(3,675)
Loss on sale of fixed assets and investments		5,742	3,965
Compensation expense related to stock options	1u, 15	16,610	1,363
Cash inflow from Hedging		10,908	–
Changes in assets and liabilities, net of amounts from businesses acquired:			
Trade accounts receivable, net		(31,276)	(63,574)
Inventories	5	(42,553)	(9,811)
Prepaid expenses, other current and non-current assets		(21,629)	(41,036)
Accounts receivable from/payable to related parties		(4,875)	9,596
Accounts payable, accrued expenses and other current and non-current liabilities		182,877	148,735
Income tax payable	1l, 16	(24,250)	(88,998)
Tax payments related to divestitures and acquisitions		(63,517)	–
NET CASH PROVIDED BY OPERATING ACTIVITIES		**907,830**	**670,304**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

$ in thousands	Note	2006	2005
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	1f, 6, 21	(467,193)	(314,769)
Proceeds from sale of property, plant and equipment	1f, 6, 21	17,658	17,427
Acquisitions and investments, net of cash acquired	21, 22	(4,307,282)	(125,153)
Proceeds from divestitures		515,705	–
NET CASH USED IN INVESTING ACTIVITIES		**(4,241,112)**	**(422,495)**
FINANCING ACTIVITIES			
Proceeds from short-term borrowings	9	56,562	44,655
Repayments of short-term borrowings	9	(55,789)	(75,493)
Proceeds from short-term borrowings from related parties	9	269,920	56,381
Repayments of short-term borrowings from related parties	9	(285,430)	(42,632)
Proceeds from long-term debt and capital lease obligations (net of debt issuance costs of $ 85,828 in 2006)	10	4,007,450	426,531
Repayments of long-term debt and capital lease obligations		(973,885)	(331,407)
Increase (decrease) of accounts receivable securitization program		172,000	(241,765)
Proceeds from exercise of stock options	15	53,952	79,944
Proceeds from conversion of preference shares into ordinary shares		306,759	–
Dividends paid	13	(153,720)	(137,487)
Change in minority interest		(15,130)	1,506
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**3,382,689**	**(219,767)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**24,526**	**(1,931)**
CASH AND CASH EQUIVALENTS			
Net increase in cash and cash equivalents		73,933	26,111
Cash and cash equivalents at beginning of period		85,077	58,966
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**159,010**	**85,077**

See accompanying notes to consolidated financial statements.

05.4 Consolidated Statements of Shareholders' Equity

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 DEC. 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					
Comprehensive income (loss)					
Net income					
Other comprehensive income (loss) related to:					
Cash flow hedges, net of related tax effects	20				
Foreign currency translation	20				
Minimum pension liability, net of related tax effects	11, 20				
Comprehensive income					
BALANCE AT DEC. 31, 2005		**27,762,179**	**74,476**	**70,000,000**	**229,494**
Proceeds from exercise of options and related tax effects	15	104,388	334	520,469	1,684
Proceeds from conversion of preference shares into ordinary shares	2	(26,629,422)	(71,437)	26,629,422	71,437
Compensation expense related to stock options	15				
Dividends paid	13				
Settlement of shareholder proceedings					
Comprehensive income (loss)					
Net income					
Other comprehensive income (loss) related to:					
Cash flow hedges, net of related tax effects	20				
Foreign currency translation	20				
Adjustments relating to pension obligations	11, 20				
Comprehensive income					
BALANCE AT DEC. 31, 2006		**1,237,145**	**3,373**	**97,149,891**	**302,615**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

$ in thousands, except share data	Note	Additional paid in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)			Total
				Foreign currency	Cash Flow Hedges	Pensions	
BALANCE AT DEC. 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		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	20			(104,723)			(104,723)
Minimum pension liability, net of related tax effects	11, 20					(12,249)	(12,249)
Comprehensive income							381,108
BALANCE AT DEC. 31, 2005		**2,837,144**	**975,371**	**(106,185)**	**18,964**	**(55,558)**	**3,973,706**
Proceeds from exercise of options and related tax effects	15	51,568					53,586
Proceeds from conversion of preference shares into ordinary shares	2	306,759					306,759
Compensation expense related to stock options	15	16,610					16,610
Dividends paid	13		(153,720)				(153,720)
Settlement of shareholder proceedings		(888)					(888)
Comprehensive income (loss)							
Net income			536,746				536,746
Other comprehensive income (loss) related to:							
Cash flow hedges, net of related tax effects	20				18,223		18,223
Foreign currency translation	20			114,494			114,494
Adjustments relating to pension obligations	11, 20					4,646	4,646
Comprehensive income							674,109
BALANCE AT DEC. 31, 2006		**3,211,193**	**1,358,397**	**8,309**	**37,187**	**(50,912)**	**4,870,162**

See accompanying notes to consolidated financial statements.

05.5 Notes to Consolidated Financial Statements

In thousands, except share data

1. The Company and Summary of Significant Accounting Policies

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 services and the field of dialysis products for the treatment of end-stage renal disease. The Company's dialysis business is vertically integrated, providing dialysis treatment at dialysis clinics it owns or operates 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 inpatient dialysis services and other services under contract to hospitals. 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 Transformation of Legal Form and Conversion of Preference Shares.

On March 31, 2006, the Company completed its acquisition of Renal Care Group, Inc. ("RCG") for an all cash purchase price approximating $4,157,619. For a discussion of this transaction see Note 3 Acquisitions and Divestitures.

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 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). Minority interest represents the proportionate equity interests of owners in the Company's consolidated entities that are not wholly 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 VIEs. Under FIN 46R these clinics are consolidated if the Company is determined to be the primary beneficiary. These VIEs in which the Company is the primary beneficiary, generated approximately $76,616 and $59,361 in revenue in 2006 and 2005, respectively. The interest held by the other shareholders in these consolidated VIEs is reported as minority interest in the consolidated balance sheet at December 31, 2006 and 2005.

b) Classifications. Certain items in the prior year's consolidated financial statements have been reclassified to conform with the current period's presentation. The reclassifications include $ 124,527 for 2005 relating to rents for clinics which were removed from selling, general and administrative expenses for the International Segment and included in its cost of revenue for Dialysis Care for consistency with the Company's other operating segment.

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

d) Allowance for Doubtful Accounts. Estimates for the allowances for accounts receivable from the dialysis service business are based mainly 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 see Note 5. Costs included in inventories are based on invoiced costs and/or production costs as applicable. Included in production costs are material, direct labor and production overhead, including depreciation charges.

f) Property, Plant and Equipment. Property, plant, and equipment are stated at cost less accumulated depreciation see Note 6. 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 17 years and 3 to 15 years for machinery and equipment with a weighted average life of 13 years. Equipment held under capital leases and leasehold improvements is 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 2006 and 2005 was $ 5,651 and $ 1,828, respectively.

g) Other Intangible Assets and Goodwill. Intangible assets such as non-compete agreements, technology, distribution rights, patents, licenses to treat, tradenames, management contracts, software, acute care agreements, lease agreements, and licenses acquired in a purchase method business combination are recognized and reported apart from goodwill see Note 7.

Goodwill and identifiable intangibles with indefinite useful 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 useful lives to their residual values. The Company amortizes non-compete agreements over their useful lives ranging from 7 to 25 years with an average useful life of 8 years. Technology is amortized over its useful life of 15 years. All other intangible assets are amortized over their individual estimated useful lives between 3 and 40 years. Intangible assets with finite useful lives are evaluated for impairment when events have occurred that may give rise to an impairment.

To perform the annual impairment test of goodwill, the Company identified its reporting units and determined their carrying value by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. In a first step, 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 based upon the cash flow expected to be generated by the reporting unit.

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. 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 see Note 19. Changes in the fair value of derivative financial instruments classified as fair value hedges and in the corresponding underlyings are recognized periodically in earnings. The effective portion of changes in fair value of cash flow hedges is recognized in accumulated other comprehensive income (loss) in shareholders' equity. 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. 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 average exchange rates. 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. 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. 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.

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 see Note 10.

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, and other medical ancillary services. The Company performs ongoing evaluations of its customers' financial condition and, generally, requires no collateral.

Approximately 38 % and 36 % of the Company's worldwide revenues were earned and subject to regulations under governmental health care programs, Medicare and Medicaid, administered by the United States government in 2006 and 2005, respectively.

For concentration of supplier risks see Note 5.

r) Legal Contingencies. From time to time, during the ordinary course of the Company's operations, the Company is party to litigation and arbitration and is subject to investigations relating to various aspects of its business see Note 18. The Company regularly analyzes current information about such claims for probable losses and provides accruals for such matters, including the estimated legal expenses, as appropriate. The Company utilizes its internal legal department as well as external resources for these assessments. In making the decision regarding the need for loss accrual, the Company considers the degree of probability of an unfavorable outcome and its 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 necessarily indicate that accrual of a loss is appropriate.

s) 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 is computed by dividing net income less preference amounts by the weighted average number of ordinary shares and preference shares outstanding during the year. Basic earnings per preference share is derived by adding the preference per preference share to the basic earnings per share. Diluted earnings per share include the effect of all potentially dilutive instruments on ordinary shares and preference shares that would have been outstanding during the year.

The awards granted under the Company's stock incentive plans see Note 15, are potentially dilutive equity instruments.

The conversion of the Company's preference shares into ordinary shares had no impact on the earnings (or loss) per share available to holders of ordinary shares and preference shares see Note 2.

t) Employee Benefit Plans. As of December 31, 2006, the Company adopted the recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("FAS 158"). The Company recognized the underfunded status of its defined benefit plans, measured as the difference between plan assets at fair value and the benefit obligation, as a liability as of December 31, 2006. Changes in the funded status of a plan, net of tax, resulting from actuarial gains or losses and prior service costs or credits that are not recognized as components of the net periodic benefit cost will be recognized through accumulated other comprehensive income in the year in which they occur. In addition, FAS 158 requires measurement of the funded status of all plans as of year-end balance sheet date no later than 2008. The Company already uses December 31 as the measurement date when measuring the funded status of all plans.

u) Stock Option Plans. Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standard No. 123R (revised 2004), *Share-Based Payment* ("FAS 123(R)") using the modified prospective transition method see Note 15. Under this transition method, compensation cost recognized in 2006 includes applicable amounts of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of FAS No. 123 and previously presented in the Company's pro forma footnote disclosures), and (b) compensation cost for all stock-based payments subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of FAS 123(R)). Compensation costs for prior periods have been recognized using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*.

v) Recent Pronouncements. In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), which establishes a framework for reporting fair value and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of this standard on its Consolidated Financial Statements.

In June, 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109 Accounting for Income Taxes ("FAS 109"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold of more-likely-than-not and a measurement attribute for the financial statement recognition and measurement of all tax positions taken or expected to be taken in a tax return. The enterprise must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. If the threshold is met, the tax position is then measured to determine the amount of benefit to recognize in the financial statements.

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The recognition threshold of more-likely-than-not must continue to be met in each subsequent reporting period to support continued recognition of the tax benefit. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 is effective for all fiscal years beginning after December 15, 2006. The Company is in the process of determining the potential impact of FIN 48, if any, on the Company's consolidated financial statements.

2. Transformation of Legal Form and Conversion of Preference Shares

On February 10, 2006, the Company completed and registered in the commercial register of the local court in Hof an der Saale, the transformation of its legal form under German law from a stock corporation (Aktiengesellschaft) to a partnership limited by shares (Kommandit-gesellschaft auf Aktien) with the name Fresenius Medical Care AG & Co. KGaA ("FMC-AG & Co. KGaA"). The transformation was approved by its shareholders during an Extraordinary General Meeting held on August 30, 2005 ("EGM"). 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" or "General Partner"), a wholly-owned subsidiary of Fresenius AG, the majority voting shareholder of FMC-AG prior to the transformation, is the General Partner of FMC-AG & Co. KGaA. Management AG assumed the management of the Company through its position as General Partner. Management AG was formed for the sole purpose of serving as the General Partner of FMC-AG & Co. KGaA and managing the business of FMC-AG & Co. KGaA. Management AG has the same duty to FMC-AG & Co. KGaA as the management board of a stock corporation has to the corporation. The management board of Management AG must carefully conduct the business of FMC-AG

& Co KGaA and is liable for any breaches of its obligations. The supervisory board of Management AG, elected by Fresenius AG, must carefully supervise the management board of Management AG in the conduct of the business of FMC-AG & Co. KGaA. The supervisory board of FMC-AG & Co. KGaA, which is elected by the Company's shareholders (other than Fresenius AG), oversees the management of the business of the Company, but has less power and scope for influence than the supervisory board of a stock corporation. The FMC-AG & Co. KGaA supervisory board does not appoint the Company's General Partner, and the General Partner's management measures are not subject to its consent.

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.

Prior to registration of 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. The Company received a total of $306,759 in premiums from the holders upon the conversion of their preference shares, net of costs of $1,897. 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 Company determined that the conversion of the Company's preference shares had no impact on earnings for either the holders of ordinary or preference shares, therefore, no reductions or benefits in the Company's financial statements were recorded. 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 on 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 were estimated to be $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 recorded the estimated settlement costs as an expense in Selling, General and Administrative expense and a contribution in Additional Paid in Capital in Shareholders' Equity in the fourth quarter of 2005. The actual total costs of all ex gratia payments and all payments to shareholders who voted against the conversion proposal and who filed written claims in a timely fashion incurred in the settlement were $6,447. The difference of $888 was recorded as a reduction of "Selling, general and administrative expense" and "Additional paid in capital" within Shareholders' Equity in 2006.

3. Acquisitions and Divestitures

Acquisition of Renal Care Group, Inc.

On March 31, 2006, the Company completed the acquisition of Renal Care Group, Inc. ("RCG" and the "RCG Acquisition"), a Delaware corporation with principal offices in Nashville, Tennessee, for an all cash purchase price, net of cash acquired, of $4,157,619 for all of the outstanding common stock and the retirement of RCG stock options. The purchase price included the concurrent repayment of $657,769 indebtedness of RCG. During 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. The operations of RCG are included in the Company's consolidated statements of income and cash flows from April 1, 2006.

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

The preliminary purchase price allocation is as follows:

PURCHASE PRICE ALLOCATION

$ in thousands

Assets held for sale	330,092
Other current assets	413,937
Property, plant and equipment	301,498
Intangible assets and other assets	149,485
Goodwill	3,381,901
Accounts payable, accrued expenses and other current liabilities	(276,184)
Income tax payable and deferred taxes	(63,939)
Long-term debt and capital lease obligations	(3,882)
Other liabilities	(75,289)
TOTAL ALLOCATION OF ACQUISITION COST	**4,157,619**

Divestitures

The Company was required to divest a total of 105 renal dialysis centers, consisting of both former Company clinics (the "legacy clinics") and former RCG clinics, in order to complete the RCG Acquisition in accordance with a consent order issued by the United States Federal Trade Commission ("FTC") on March 31, 2006. The Company sold 96 of such centers on April 7, 2006 to a wholly-owned subsidiary of DSI Holding Company, Inc. ("DSI") and sold DSI the remaining 9 centers effective as of June 30, 2006. Separately, in December 2006, the Company also sold the former laboratory business acquired in the RCG Acquisition receiving cash consideration of $9,012. The Company received cash consideration of $515,705, net of related expenses, for all centers divested and for the divested laboratory, subject to customary post-closing adjustments. Pre-tax income of $40,233 on the sale of the legacy clinics was recorded in income from operations. Due to basis differences, tax expense of $44,605 was recorded, resulting in a net loss on sale of $4,372.

The Company will continue to treat patients in the same markets and will sell products to DSI under the terms of a supply agreement that continues through March 2009.

Pro Forma Financial Information

The following unaudited financial information, on a pro forma basis, reflects the consolidated results of operations as if the RCG Acquisition and the divestitures described above had been consummated at the beginning of 2006 and 2005. The pro forma information includes adjustments primarily for eliminations, amortization of intangible assets, interest expense on acquisition debt, and income taxes. The pro forma financial information is not necessarily indicative of the results of operations as it would have been had the transactions been consummated at the beginning of the respective periods. The proforma earnings are lower than the Company's reported earnings for the respective periods as the proforma earnings reflect the full debt financing of the RCG Acquisition and the related interest expense but do not include the cost savings and economies of scale that are expected to be achieved in conjunction with the acquisition.

PRO FORMA DATA

$ in thousands, except per share data, unaudited	2006	2005
Pro forma net revenue	8,809,573	7,983,941
Pro forma net income	536,223	449,481
Pro forma net income per ordinary share		
Basic	5.47	4.62
Fully Diluted	5.43	4.59

Other Acquisitions

The Company made other acquisitions for dialysis centers in the normal course of its operations in 2006 totaling $92,013 of which $85,805 was paid in cash, and in 2005 totaling $134,444 of which $125,153 was paid in cash. In addition, on November 14, 2006, the Company acquired the worldwide rights to the PhosLo phosphate binder product business and its related assets of Nabi Biopharmaceuticals. PhosLo is an oral application calcium acetate phosphate binder for treatment of hyperphosphatemia primarily in end-stage renal disease patients. The Company paid cash of $65,277 including related direct costs of $277 plus a $8,000 milestone payment in December 2006 and a $2,500 milestone payment in 2007. An additional milestone payment of $10,500 is expected to be paid over the next two to three years, contingent upon the achievement of certain performance criteria. The purchase price was allocated to technology with estimated useful lives of 15 years ($64,800), and in-process research and development project ($2,750) which is immediately expensed, goodwill ($7,327) and other net assets ($900).

In connection with the transaction, the Company also acquired worldwide rights to a new product formulation currently under development, which the Company expects will be submitted for approval in the U.S. during 2007. Following the successful launch of this new product formulation, the Company will pay Nabi Biopharmaceuticals royalties on sales of the new product formulation commencing upon the first commercialization of the new product and continuing until November 13, 2016. Total consideration, consisting of initial payment, milestone payments and royalties will not exceed $150,000.

The assets and liabilities of all acquisitions were recorded at their estimated fair values at the dates of the acquisitions and are included in the Company's financial statements and operating results from the effective date of acquisition.

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 sole stockholder of its General Partner and its largest shareholder with 36.6 % ownership of the Company's voting shares, 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 2006 and 2005, amounts charged by Fresenius AG to the Company under the terms of the agreements are $37,104 and $36,190, 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 $9,001 and $7,460, for services rendered to Fresenius AG in 2006 and 2005, respectively.

Under operating lease agreements for real estate entered into with Fresenius AG, the Company paid Fresenius AG $16,593 and $15,655, during 2006 and 2005, respectively. The majority of the leases expire in 2016 and contain renewal options.

The Company's Articles of Association provide that the General Partner shall be reimbursed for any and all expenses in connection with management of the Company's business, including remuneration of the members of the General Partner's supervisory board and the General Partner's management board. The aggregate amount reimbursed to Management AG for 2006 was $7,480 for its management services during 2006 including $75 as compensation for their exposure to risk as General Partner. The Company's Articles of Association set the compensation for assuming unlimited liability at 4 % of the amount of the General Partner's invested capital (€1,500).

b) Products

During the years ended December 31, 2006 and 2005, the Company sold products for $36,039 and $31,708, respectively, to Fresenius AG and affiliates. During 2006 and 2005, the Company made purchases from Fresenius AG and affiliates in the amount of $52,507 and $43,007, respectively.

c) Financing Provided by Fresenius AG

The Company is provided short-term financing by its parent Fresenius AG. The balance outstanding at December 31, 2006 and 2005 was $2,897and $18,757, respectively see Note 9.

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 $1,620 and $1,710, in 2006 and 2005, respectively.

In May 2004, Dr. Ulf M. Schneider, the former Chief Financial Officer of the Company, President and CEO of Fresenius AG and the Chairman of its Management Board 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 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.

5. Inventories

As of December 31, 2006 and 2005, inventories consisted of the following:

INVENTORIES

$ in thousands	2006	2005
Raw materials and purchased components	108,584	93,889
Work in process	41,272	33,073
Finished goods	269,496	223,356
Health care supplies	104,577	80,575
TOTAL	**523,929**	**430,893**

Under the terms of certain unconditional purchase agreements, the Company is obligated to purchase approximately $235,098 of materials, of which $130,878 is committed at December 31, 2006 for 2007. The terms of these agreements run 1 to 6 years.

Inventories as of December 31, 2006 and 2005 include $46,131 and $26,754, respectively, of Erythropoietin („EPO"), which is supplied by a single source supplier in the United States. In October 2006, the Company entered into a five-year exclusive sourcing and supply agreement with its EPO supplier. Revenues from EPO accounted for approximately 21 % of total revenue in the North America segment for 2006 and 2005, respectively. Delays, stoppages, or interruptions in the supply of EPO could adversely affect the operating results of the Company.

6. Property, Plant and Equipment

As of December 31, 2006 and 2005, property, plant and equipment consisted of the following:

ACQUISITION AND MANUFACTURING COST

$ in thousands	Balance at Jan. 1, 2006	Currency Change	Changes in Consolidation Group	Additions	Reclassifications	Disposals	Balance at Dec. 31, 2006
Land	26,564	789	4,435	4,184	–	(3,480)	32,492
Buildings	812,841	23,204	229,473	104,139	21,397	(67,363)	1,123,691
Machinery	1,381,427	78,163	347,491	153,811	24,112	(140,705)	1,844,299
Capital lease	13,468	987	9,606	1,094	(2,819)	(5,292)	17,044
Construction in progress	117,331	3,397	18,333	158,773	(37,984)	(3,856)	255,994
TOTAL	**2,351,631**	**106,540**	**609,338**	**422,001**	**4,706**	**(220,696)**	**3,273,520**

DEPRECIATION/AMORTIZATION

$ in thousands	Balance at Jan. 1, 2006	Currency Change	Changes in Consolidation Group	Additions	Reclassifications	Disposals	Balance Dec. 31, 2006
Land	85	–	–	–	–	(54)	31
Buildings	341,243	8,858	77,430	81,464	3,410	(41,167)	471,238
Machinery	787,430	53,198	186,454	181,600	1,312	(138,019)	1,071,975
Capital lease	7,115	586	4,012	2,424	(999)	(5,254)	7,884
Construction in progress	–	–	–	–	–	–	–
TOTAL	**1,135,873**	**62,642**	**267,896**	**265,488**	**3,723**	**(184,494)**	**1,551,128**

NET BOOK VALUE

$ in thousands	Dec. 31, 2006	Dec. 31, 2005
Land	32,461	26,479
Buildings	652,453	471,598
Machinery	772,324	593,997
Capital lease	9,160	6,353
Construction in progress	255,994	117,331
TOTAL	**1,722,392**	**1,215,758**

Depreciation expense for property, plant and equipment amounted to $ 265,488 and $ 211,103 for the years ended December 31, 2006 and 2005, respectively.

Included in property, plant and equipment as of December 31, 2006 and 2005 were $ 187,504 and $ 131,195, 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 $ 7,884 and $ 7,115 at December 31, 2006 and 2005, respectively.

7. Other Intangible Assets and Goodwill

In connection with the Company's RCG Acquisition see Note 3, the Company performed a detailed review of the identification of intangible assets related to its dialysis clinic operations in the United States. As part of this review, the Company considered the conditions for recognition as an intangible asset apart from goodwill and practices in the dialysis care industry. The amortizable intangible assets acquired included $ 64,000 for non-compete agreements, $ 3,500 for acute care agreements and $ 2,010 for lease agreements.

As a result of the detailed review of the identification of intangible assets related to the RCG acquisition, the Company concluded that its past practice to identify certain intangible assets separate from goodwill should be revisited and adjusted certain amounts, primarily with respect to patient relationships that had been identified as separate intangible assets in prior business combinations. Additionally, the Company identified non-compete agreements as separate intangible assets. In connection with the adjustments, the carrying amount of goodwill increased by $ 35,240, other intangible assets and deferred tax liabilities decreased by $ 37,319 and $ 2,079 respectively, as of the beginning of the current year.

This accounting treatment did not result in a material understatement of the Company's results of operations or shareholders' equity in prior periods.

As of December 31, 2006 and 2005, the carrying value and accumulated amortization of intangible assets other than goodwill consisted of the following:

ACQUISITION COSTS

$ in thousands	Balance at Jan. 1, 2006	Currency Change Group	Changes in Consolidation	Additions	Reclassifications	Disposals	Balance at Dec. 31, 2006
AMORTIZABLE INTANGIBLE ASSETS							
Non-compete agreements	–	213	71,930	–	134,337	(3,357)	203,123
Technology	–	–	64,800	–	–	–	64,800
Patient relationship	164,188	–	–	–	(164,188)	–	–
Other	205,406	10,854	15,462	12,305	98,805	(37,323)	305,509
TOTAL	**369,594**	**11,067**	**152,192**	**12,305**	**68,954**	**(40,680)**	**573,432**
NON-AMORTIZABLE INTANGIBLE ASSETS							
Tradename	254,042	1,390	–	–	–	–	255,432
Management contracts	239,777	–	–	–	–	–	239,777
TOTAL	**493,819**	**1,390**	**–**	**–**	**–**	**–**	**495,209**
TOTAL INTANGIBLE ASSETS	**863,413**	**12,457**	**152,192**	**12,305**	**68,954**	**(40,680)**	**1,068,641**
GOODWILL	**3,900,402**	**40,349**	**3,486,850**	**–**	**26,607**	**(121,985)**	**7,332,223**

DEPRECIATION / AMORTIZATION

$ in thousands	Balance at Jan. 1, 2006	Currency Change	Changes in Consolidation Group	Additions	Reclassifications	Disposals	Balance at Dec. 31, 2006
AMORTIZABLE INTANGIBLE ASSETS							
Non-compete agreements	–	135	–	15,928	106,745	(4,255)	118,553
Technology	–	–	–	406	–	–	406
Patient Relationship	114,192	–	–	–	(114,192)	–	–
Other	108,517	6,718	(328)	26,876	110,663	(19,347)	233,099
TOTAL	**222,709**	**6,853**	**(328)**	**43,210**	**103,216**	**(23,602)**	**352,058**
NON-AMORTIZABLE INTANGIBLE ASSETS							
Tradename	33,107	191	–	–	12	–	33,310
Management contracts	21,908	–	–	–	–	–	21,908
TOTAL	**55,015**	**191**	**–**	**–**	**12**	**–**	**55,218**
TOTAL INTANGIBLE ASSETS	**277,724**	**7,044**	**(328)**	**43,210**	**103,228**	**(23,602)**	**407,276**
GOODWILL	**443,525**	**3,186**	**–**	**–**	**(4,606)**	**(2,043)**	**440,062**

NET BOOK VALUE

$ in thousands	Dec. 31, 2006	Dec. 31, 2005
AMORTIZABLE INTANGIBLE ASSETS		
Non-compete agreements	84,570	–
Technology	64,394	–
Patient relationship	–	49,996
Other	72,410	96,889
TOTAL	**221,374**	**146,885**
NON-AMORTIZABLE INTANGIBLE ASSETS		
Trade name	222,122	220,935
Management contracts	217,869	217,869
TOTAL	**439,991**	**438,804**
TOTAL INTANGIBLE ASSETS	**661,365**	**585,689**
GOODWILL	**6,892,161**	**3,456,877**

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The related amortization expenses in 2006 and 2005 were $ 43,210 and $ 40,349, respectively.

ESTIMATED AMORTIZATION EXPENSES

$ in thousands	2007	2008	2009	2010	2011
	40,577	38,438	35,927	34,138	33,765

Goodwill

Changes in the carrying amount of goodwill are mainly a result of acquisitions and the impact of foreign currency translations. During the year 2006, the Company's acquisitions consisted primarily of the RCG and PhosLo acquisitions see Note 3. The reduction in Goodwill in 2005 results mainly from resolution of tax exposures established on acquisitions. The segment detail is as follows:

GOODWILL

$ in thousands	North America	International	Total
BALANCE AS OF JAN. 1, 2005	**3,035,697**	**409,455**	**3,445,152**
Goodwill acquired	49,410	22,715	72,125
Reclassifications	(8,882)	(390)	(9,272)
Foreign currency translation adjustment	108	(51,236)	(51,128)
BALANCE AS OF DEC. 31, 2005	**3,076,333**	**380,544**	**3,456,877**
Goodwill acquired RCG (excl. divestitures)	3,381,901	–	3,381,901
Goodwill acquired other	68,106	36,843	104,949
Goodwill disposed of	(119,942)	–	(119,942)
Reclassification from patient relationships	35,240	–	35,240
Other reclassifications	(3,603)	(424)	(4,027)
Foreign currency translation adjustment	(40)	37,203	37,163
BALANCE AS OF DEC. 31, 2006	**6,437,995**	**454,166**	**6,892,161**

8. Accrued Expenses and Other Current Liabilities

As at December 31, 2006 and 2005 accrued expenses and other current liabilities consisted of the following:

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

$ in thousands	2006	2005
Accrued salaries and wages	283,859	214,873
Unapplied cash and receivable credits	148,985	73,897
Accrued insurance	124,422	75,545
Special charge for legal matters	115,000	117,541
Other	522,672	356,912
TOTAL	**1,194,938**	**838,768**

In 2001, the Company recorded a $ 258,159 special charge to address legal matters relating to transactions pursuant to the Agreement and Plan of Reorganization dated as of February 4, 1996 by and between W.R. Grace & Co. and Fresenius AG (the "Merger"), 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. During the second quarter of 2003, the court supervising the Grace Chapter 11 Proceedings approved a definitive settlement agreement entered into among the Company, the committee representing the asbestos creditors and W.R. Grace & Co. Under the settlement agreement, the Company will pay $ 115,000 upon plan confirmation see Note 18. With the exception of the proposed $ 115,000 payment under the Settlement Agreement, all other matters included in the special charge have been resolved.

The other item in the table above includes accruals for interest, withholding tax, value added tax, legal and compliance costs, physician compensation, commissions, short-term portion of pension liabilities, bonuses and rebates, and lease liabilities.

9. Short-Term Borrowings and Short-Term Borrowings from Related Parties

As of December 31, 2006 and 2005, short-term borrowings and short-term borrowings from related parties consisted of the following:

SHORT-TERM BORROWINGS

$ in thousands	2006	2005
Borrowings under lines of credit	65,231	57,113
Accounts receivable facility	266,000	94,000
SHORT-TERM BORROWINGS	**331,231**	**151,113**
Short-term borrowings from related parties	4,575	18,757
SHORT-TERM BORROWINGS INCLUDING RELATED PARTIES	**335,806**	**169,870**

Short-Term Borrowings

Lines of Credit. Short-term borrowings of $65,231 and $57,113 at December 31, 2006 and 2005, respectively, represent amounts borrowed by certain of the Company's subsidiaries under lines of credit with commercial banks. The average interest rates on these borrowings at December 31, 2006 and 2005 were 3.69 % and 3.91 %, respectively.

Excluding amounts available under the 2006 Senior Credit Agreement see Note 10 below, at December 31, 2006, the Company had $87,337 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 or may require the Company's guarantee. In certain circumstances, the subsidiary may be required to meet certain covenants.

Accounts Receivable Facility. The Company has an asset securitization facility (the "AR Facility") which is typically renewed in October of each year and was most recently renewed and increased in October 2006. The AR Facility currently provides borrowings up to a maximum of $650,000 ($460,000 through October 18, 2006). Under the AR 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 AR 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, 2006 there are outstanding short-term borrowings under the AR Facility of $266,000. NMC Funding pays interest to the bank investors, calculated based on the

commercial paper rates for the particular tranches selected. The average interest rate at December 31, 2006 was 5.31 %. Annual refinancing fees, which include legal costs and bank fees (if any), are amortized over the term of the facility.

Short-Term Borrowings from Related Parties

In conjunction with the RCG Acquisition see Note 3, on March 31, 2006, the Company, through various direct and indirect subsidiaries, entered into an Amended and Restated Subordinated Loan Note (the "Note") with Fresenius AG which amended the Subordinated Loan Note dated May 18, 1999. Under the Note, the Company or its subsidiaries may request and receive one or more advances (each an "Advance") up to an aggregate amount of $ 400,000 during the period ending March 31, 2011. The Advances may be repaid and re-borrowed during the period but Fresenius AG is under no obligation to make an Advance. Each Advance is repayable in full one, two or three months after the date of the Advance or any other date as agreed to by the parties to the Advance or, if no maturity date is so agreed, the Advance will have a one-month term.

All Advances bear interest at a variable rate per annum equal to LIBOR plus an applicable margin that is based upon the Company's consolidated leverage ratio, as defined in the Company's 2006 Senior Credit Agreement see Note 10. Advances are subordinated to outstanding loans under the 2006 Senior Credit Agreement and all other indebtedness of the Company.

Advances were made on March 31, 2006 in the amount of $ 240,000 with an interest rate of 5.7072 % in conjunction with the RCG Acquisition see Note 3 and were fully repaid in April and May 2006.

On September 29, 2006, the Company received an Advance of $ 10,000 at 5.3 % interest which was repaid on October 4, 2006. On September 30, 2006, the Company received an Advance of $ 18,357 (€ 14,500) at 4.242 % interest which was repaid on October 31, 2006. On December 31, 2006, the Company received an Advance of $ 2,897 (€ 2,200) at 4.37 % interest which matured on and was repaid on January 31, 2007.

In 2006, the Company retired short-term loans from Fresenius AG with an outstanding balance of $ 18,757 at December 31, 2005 and in 2005, approximately $ 3,000 which was outstanding at December 31, 2004. Interest expense on these borrowings was $ 191 and $ 501, for the years 2006 and 2005, respectively. The average interest rates for these borrowings were 3.00 % and 2.85 % at December 31, 2006 and 2005, respectively.

10. Long-Term Debt and Capital Lease Obligations

At December 31, 2006 and 2005, long-term debt and capital lease obligations consisted of the following:

LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

$ in thousands	2006	2005
Senior Credit Agreement	3,564,702	470,700
Euro Notes	263,400	235,940
EIB agreements	84,618	48,806
Capital lease obligations	8,286	4,596
Other	68,470	73,327
	3,989,476	**833,369**
Less current maturities	(160,135)	(126,269)
	3,829,341	**707,100**

2006 Senior Credit Agreement

The Company entered into a new $4,600,000 syndicated credit agreement (the "2006 Senior Credit Agreement") with Bank of America, N.A. ("BofA"); Deutsche Bank AG New York Branch; The Bank of Nova Scotia, Credit Suisse, Cayman Islands Branch; JPMorgan Chase Bank, National Association; and certain other lenders (collectively, the "Lenders") on March 31, 2006 which replaced the existing credit agreement (the "2003 Senior Credit Agreement").

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

AVAILABLE AND OUTSTANDING CREDITS

$ in thousands Dec. 31	2006	2005
MAXIMUM AMOUNT AVAILABLE		
Revolving Credit	1,000,000	750,000
Term Loan A/A-1	1,760,000	425,000
Term Loan B	1,736,875	–
TOTAL	**4,496,875**	**1,175,000**
BALANCE OUTSTANDING		
Revolving Credit	67,827	45,700
Term Loan A/A-1	1,760,000	425,000
Term Loan B	1,736,875	–
TOTAL	**3,564,702**	**470,700**

In addition, at December 31, 2006, $ 84,733 and at December 31, 2005, $ 80,486 were utilized as letters of credit which are not included as part of the balances outstanding at those dates.

The 2006 Senior Credit Agreement consists of:

– a 5-year $ 1,000,000 revolving credit facility (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 $ 150,000 is available as swing line loans 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 loans in certain non-U.S. currencies, the total of which cannot exceed $ 1,000,000) which will be due and payable on March 31, 2011.

– a 5-year term loan facility („Loan A") of $ 1,850,000, also scheduled to mature on March 31, 2011. The 2006 Senior Credit Agreement requires 19 quarterly payments on Loan A of $ 30,000 each that permanently reduce the term loan facility which began June 30, 2006 and continue through December 31, 2010. The remaining amount outstanding is due on March 31, 2011.

– a 7-year term loan facility („Loan B") of $ 1,750,000 scheduled to mature on March 31, 2013. The terms of the 2006 Senior Credit Agreement require 28 quarterly payments on Loan B that permanently reduce the term loan facility. The repayment began June 30, 2006. The first 24 quarterly payments will be equal to one quarter of one percent (0.25 %) of the original principal balance outstanding, payments 25 through 28 will be equal to twenty-three and one half percent (23.5 %) of the original principal balance outstanding with the final payment due on March 31, 2013, subject to an early repayment requirement on March 1, 2011 if the Trust Preferred Securities due June 15, 2011 are not repaid or refinanced or their maturity is not extended prior to that date.

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

The applicable margin is variable and depends on the Company's Consolidated Leverage Ratio which is a ratio of its Consolidated Funded Debt less up to $ 30,000 cash and cash equivalents to Consolidated EBITDA (as these terms are defined in the 2006 Senior Credit Agreement).

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

The obligations under the 2006 Senior Credit Agreement are secured by pledges of capital stock of certain material subsidiaries in favour of the lenders. The 2006 Senior Credit Agreement contains other affirmative and negative covenants with respect to the Company and its subsidiaries and other payment restrictions. Certain of the covenants limit indebtedness of the Company and investments by the Company, and require the Company to maintain certain financial ratios defined in the agreement. Additionally, the 2006 Senior Credit Agreement provides for a limitation on dividends and other restricted payments which is $ 240,000 for dividends paid in 2007, and increases in subsequent years. The Company paid dividends of $ 153,720 in May of 2006 which was in compliance with the restrictions set forth in the 2006 Senior Credit Agreement. In default, the outstanding balance under the 2006 Senior Credit Agreement becomes immediately due and payable at the option of the Lenders. As of December 31, 2006, the Company is in compliance with all financial covenants under the 2006 Senior Credit Agreement.

The Company incurred fees of approximately $ 85,828 in conjunction with the 2006 Senior Credit Agreement which will be amortized over the life of this agreement and wrote off approximately $ 14,735 in unamortized fees related to its prior 2003 Senior Credit Agreement in 2006.

Euro Notes

On July 27, 2005, the Company issued new euro denominated notes ("Euro Notes") (Schuldscheindarlehen) totaling $ 263,400 (€ 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 interest rate of 5.49 % at December 31, 2006. 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.

European Investment Bank Agreements

The Company entered into various credit agreements with the European Investment Bank ("EIB") in July 2005 and December 2006 amounting to €131,000 and €90,000. The EIB is a not-for-profit long-term lending institution of the European Union and lends funds at favorable rates for the purpose of capital investment and R&D projects, normally for up to half of the funds required for such projects.

The July 2005 agreements consist of a term loan of €41,000 and a revolving facility of €90,000 which were granted to the Company to refinance certain R&D projects and to make investments in expansion and optimization of existing production facilities in Germany. Both have 8-year terms. The December 2006 term loan was granted to the Company for financing and refinancing of certain clinic refurbishing and improvement projects and allows distribution of proceeds in up to 6 separate tranches until June 2008. Each tranche will mature 6 years after the disbursement of proceeds for the respective tranche.

The Company had U.S. dollar borrowings under the July 2005 agreements of $48,806 and $35,812 under the term loan and the revolving facility, respectively, with both having an interest rate of 5.29 % at December 31, 2006. There were no drawdowns on the December 2006 term loan at December 31, 2006.

Currently all agreements with the EIB have variable interest rates that change quarterly with FMC-AG & Co. KGaA having options to convert the variable rates into fixed rates. All advances under all agreements can be denominated in certain foreign currencies including U.S. dollars. All loans under these agreements are secured by bank guarantees and have customary covenants.

Annual Payments

Aggregate annual payments applicable to the 2006 Senior Credit Agreement, Euro Notes, capital leases and other borrowings (excluding the Company's trust preferred securities, see Note 12) for the five years subsequent to December 31, 2006 are:

ANNUAL PAYMENTS

$ in thousands	2007	2008	2009	2010	2011	Thereafter	Total
	160,135	151,808	412,150	145,198	1,370,789	1,749,396	**3,989,476**

11. Employee Benefit Plans

General

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

Upon retirement under defined benefit plans, the Company is required to pay defined benefits to former employees when the defined benefits become due. Defined benefit plans may be funded or unfunded. The Company has two major defined benefit plans, one funded plan in North America and an unfunded plan in Germany.

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

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

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

Defined Benefit Pension Plans

During the first quarter of 2002, the Company's North America subsidiary, Fresenius Medical Care Holdings, Inc. ("FMCH") curtailed its defined benefit and supplemental executive retirement plans. Under the curtailment amendment for substantially all employees eligible to participate in the plan, benefits have been frozen as of the curtailment date and no additional defined benefits for future services will be earned. The Company has retained all employee benefit obligations as of the curtailment date. Each year FMCH contributes at least the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. There was no minimum funding requirement for FMCH for the defined benefit plan in 2006. FMCH voluntarily contributed $ 10,982 during 2006.

The benefit obligation for all defined benefit plans at December 31, 2006, is $ 334,375 which consists of the benefit obligation of $ 226,458 for the North America funded plan and the benefit obligation of $ 107,917 for the German unfunded plan. The funded status at December 31, 2006, is determined by reducing the benefit obligation for the North American plan by the fair value of its plan's assets of $ 220,367 and adding the benefit obligation of the German plan, which is unfunded. At December 31, 2006, the benefit obligation and the accumulated benefit obligation exceed the fair value of the plan assets for all pension plans of the Company.

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

FUNDED STATUS OF EMPLOYEE BENEFIT PLANS

$ in thousands	2006	2005
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	320,975	288,862
Foreign currency translation	10,843	(11,233)
Service cost	8,113	5,103
Interest cost	16,945	15,927
Transfer of plan participants	(728)	(36)
Actuarial (gain) loss	(16,194)	27,170
Benefits paid	(5,579)	(4,818)
BENEFIT OBLIGATION AT END OF YEAR	**334,375**	**320,975**
CHANGE OF PLAN ASSETS		
Fair value of plan assets at beginning of year	196,013	166,952
Actual return on plan assets	18,128	7,481
Employer contributions	10,982	25,627
Benefits paid	(4,756)	(4,047)
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	**220,367**	**196,013**
FUNDED STATUS AT YEAR END	**114,008**	**124,962**

The pension liability recognized under FAS 158 as of December 31, 2006, is equal to the amount shown as 2006 funded status at end of year in the table above and includes a current portion of $ 1,692 which is recognized as a current liability in the line item "accrued expenses and other current liabilities" in the balance sheet. The non-current portion of $ 112,316 is recorded as non-current pension liability in the balance sheet. Total pension liability includes $ 6,091 relating to the North America plan and $ 107,917 for the German plan. Approximately 87 % of the beneficiaries are located in North America with 13 % located in Germany.

The pension liability recognized as of December 31, 2006 and 2005, was calculated as follows:

PENSION LIABILITY

$ in thousands	2006	2005
Funded status at end of year	114,008	124,962
Unrecognized net loss	(84,104)	(108,440)
Unrecognized prior service cost	–	(795)
Additional minimum liability	65,664	92,975
Effect of adoption of FAS 158	18,440	–
TOTAL PENSION LIABILITY AT DEC. 31	**114,008**	**108,702**

The following table shows the calculation of the Additional Minimum Liability:

ADDITIONAL MINIMUM LIABILITY

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$ in thousands	2006	2005
Fair value of plan assets	220,367	196,013
Accumulated benefit obligation	315,935	304,715
MINIMUM LIABILITY	**95,568**	**108,702**
Accrued benefit costs	29,904	15,727
ADDITIONAL MINIMUM LIABILITY	**65,664**	**92,975**
Thereof intangible assets	–	795
Thereof accumulated other comprehensive income	–	92,180

The pre-tax changes of other comprehensive income relating to pension liabilities during the year 2006 are provided in the following table:

OTHER COMPREHENSIVE INCOME (LOSS) RELATED TO PENSION LIABILITIES

$ in thousands	Jan. 1, 2006	Additions/ Releases	Adjustment FAS 158	Foreign currency translation adjustment	Dec. 31, 2006
Additional minimum liability	92,180	(28,189)	(65,664)	1,673	–
Actuarial losses	–	–	84,104	–	84,104
ADJUSTMENTS RELATED TO PENSION LIABILITIES[1]	**92,180**	**(28,189)**	**18,440**	**1,673**	**84,104**

[1] See Note 20 for the tax effects on other comprehensive income recognized during 2006.

The actuarial loss expected to be amortized from other comprehensive income into net periodic pension cost over the next year is $ 5,109.

The adoption of the recognition provisions of FAS 158 as of December 31, 2006, results in the following adjustments of the related amounts in the consolidated balance sheet line items.

ADJUSTMENTS RESULTING FROM FAS 158

$ in thousands	Before Adoption of Statement 158	Adjustments	After Adoption of Statement 158
Deferred tax assets	26,058	7,134	33,192
Accrued expenses and other current liabilities	–	1,692	1,692
Pension liabilities	95,568	16,748	112,316
Accumulated other comprehensive loss	(39,606)	(11,306)	(50,912)

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

WEIGHTED AVERAGE ASSUMPTIONS FOR BENEFIT OBLIGATIONS

	2006	2005
Discount rate	5.52 %	5.22 %
Rate of compensation increase	4.18 %	4.22 %

Defined benefit pension plans gave rise to net periodic benefit cost of $ 19,201 comprising the following components:

COMPONENTS OF NET PERIODIC BENEFIT COST

$ in thousands	2006	2005
Service cost	8,113	5,103
Interest cost	16,945	15,927
Expected return on plan assets	(15,361)	(13,163)
Amortization unrealized losses	8,420	6,753
Amortization of prior service cost	846	210
Settlement loss	238	–
NET PERIODIC BENEFIT COSTS	**19,201**	**14,830**

The discount rates for all plans are derived from an analysis and comparison of yields of portfolios of highly rated equity and debt instruments with maturities that mirror the plan's benefit obligation. The Company discount rate is the weighted average of these plans based upon their benefit obligations at December 31, 2006. The following weighted-average assumptions were used in determining net periodic benefit cost for the year ended December 31:

WEIGHTED AVERAGE ASSUMPTIONS FOR NET PERIODIC BENEFIT COST

	2006	2005
Discount rate	5.16 %	5.61 %
Expected return of plan assets	7.50 %	7.50 %
Rate of compensation increase	4.18 %	4.22 %

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	2007	2008	2009	2010	2011	2012 through 2016
	6,568	7,619	8,476	9,701	10,488	73,048

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

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

The investment policy, utilizing a target investment allocation of 36 % equity and 64 % long-term U.S. bonds, 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 securities. The performance benchmarks for the separate asset classes include: S&P 500 Index, Russell 2000 Growth Index, MSCI EAFE

Index, Lehman U.S. Long Government/Credit bond Index and the HFRI Fund of Funds Index. The Company expects to contribute $ 1,016 to Plan Assets during 2007. The following schedule describes FMCH's allocation for its plans:

CATEGORIES OF PLAN ASSETS

	Allocation 2006	Allocation 2005	Target Allocation
Equity securities	38 %	44 %	36 %
Debt securities	62 %	56 %	64 %
TOTAL	**100 %**	**100 %**	**100 %**

Defined Contribution Plans

Most FMCH employees are eligible to join a 401(k) savings plan. Employees can deposit up to 75 % of their pay up to a maximum of $ 15.5 if under 50 years old ($ 20.5 if 50 or over) under this savings plan. The Company will match 50 % of the employee deposit up to a maximum Company contribution of 3 % of the employee's pay. The Company's total expense under this defined contribution plan for the years ended December 31, 2006 and 2005 was $ 19,900 and $ 15,242, respectively.

12. Mandatorily Redeemable Trust Preferred Securities

The Company issued Trust Preferred Securities through Fresenius Medical Care Capital Trusts, statutory 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 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 FMCH and D-GmbH.

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 indentures governing the notes held by the Fresenius Medical Care Capital Trusts 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. As of December 31, 2006, the Company is in compliance with all financial covenants under all Trust Preferred Securities agreements.

The Trust Preferred Securities outstanding as of December 31, 2006 and 2005 are as follows:

TRUSTED PREFERRED SECURITIES

in thousands and except stated amounts in $	Year issued	Stated amount	Interest rate	Mandatory Redemption Date	2006	2005
Fresenius Medical Care Capital Trust II	1998	$450,000	7 7/8 %	Feb. 1, 2008	434,942	431,762
Fresenius Medical Care Capital Trust III	1998	DM300,000	7 3/8 %	Feb. 1, 2008	202,011	180,951
Fresenius Medical Care Capital Trust IV	2001	$225,000	7 7/8 %	Jun. 15, 2011	223,300	222,917
Fresenius Medical Care Capital Trust V	2001	€300,000	7 3/8 %	Jun. 15, 2011	393,575	352,234
TOTAL					**1,253,828**	**1,187,864**

13. Shareholders' Equity

Capital Stock

As of December 31, 2006, the Company's capital stock (Grundkapital) consisted of 1,237,145 preference shares without par value and with a nominal amount of €2.56 per share totaling $3,373 and 97,149,891 ordinary shares without par value with a nominal amount of €2.56 per share totaling $302,615. The General Partner has no equity interest in the Company and, therefore, does not participate in either the assets or the profits and losses of the Company. However, the General Partner is compensated for all outlays in connection with conducting the Company's business, including the remuneration of members of the management board and the supervisory board see Note 4.

As of December 31, 2005, the Company's capital stock consisted of 27,762,179 preference shares without par value 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 in 2005.

The general meeting of 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 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.

All resolutions increasing the capital of a 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 were effective until May 22, 2006 and May 23, 2010, respectively, but were revoked at the EGM 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.

In connection with revocation of the prior resolutions providing for authorized capital, by resolution of the EGM of shareholders on August 30, 2005, Management AG was authorized, with the approval of the supervisory board, to increase, on one or more occasions, the Company's 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 EGM 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 in Germany 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 I and Authorized Capital II became effective upon registration with the commercial register of the local court in Hof an der Saale on February 10, 2006.

Conditional Capital

By resolution of the Company's general meeting of shareholders on May 9, 2006, the Company's share capital was conditionally increased by up to €12,800 corresponding to 5 million ordinary shares with no par value and a nominal value of €2.56. This Conditional Capital increase can only be effected by the exercise of stock options under the Company's Stock Option Plan 2006 with each stock option awarded exercisable for one ordinary share (see Note 15). The Company has the right to deliver ordinary shares that it owns or purchases in the market in place of increasing capital by issuing new shares.

Through the Company's other 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 the General Partner and employees and members of management of affiliated companies that entitle these persons to receive preference shares. Conditional capital available for such purposes was €14,939 at December 31, 2005. At December 31, 2005 options representing 4,102,539 non-voting preference shares were outstanding from all plans.

With the implementation of the conversion of preference shares into ordinary shares, these other programs have been adjusted to the effect that the conversion rights and subscription rights of plan participants who elected to adjust their rights apply 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 and options and ordinary shares can be issued for 2,849,318 convertible bonds and options. At December 31, 2006, 122,697 convertible bonds or options for preference shares remained outstanding with a remaining average term of 5.52 years and 3,073,856 convertible bonds or options for ordinary shares remained outstanding with a remaining average term of 6.73 years under these programs. For the year ending December 31, 2006, 104,388 options for preference shares and 520,469 options for ordinary shares had been exercised under these employee participation plans and €36,952 ($46,524) remitted to the Company.

Conditional Capital available for all programs at December 31, 2006 is €26,139 ($34,426) which includes €12,800 ($16,858) for the 2006 Plan and €13,339 ($17,568) for all other plans.

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).

If no dividends on the Company's preference shares 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 2006 Senior Credit Agreement (see Note 10).

Cash dividends of $153,720 for 2005 in the amount of €1.29 per preference share and €1.23 per ordinary share were paid on May 10, 2006.

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.

14. Earnings per Share

The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations and shows the basic and fully diluted income per ordinary and preference share for the years ending December 31:

RECONCILIATION OF BASIC AND DILUTED EARNINGS PER SHARE

$ in thousands, except per share data	2006	2005
NUMERATORS		
Net income	536,746	454,952
less		
Dividend preference on preference shares	90	2,000
INCOME AVAILABLE TO ALL CLASS OF SHARES	**536,656**	**452,952**
DENOMINATORS		
Weighted average number of		
Ordinary shares outstanding	96,873,968	70,000,000
Preference shares outstanding	1,191,792	26,789,816
Total weighted average shares outstanding	98,065,760	96,789,816
Potentially dilutive ordinary shares	557,883	
Potentially dilutive preference shares	46,992	779,330
Total weighted average ordinary shares outstanding assuming dilution	97,431,851	70,000,000
Total weighted average preference shares outstanding assuming dilution	1,238,784	27,569,146
Basic income per ordinary share	5.47	4.68
Plus preference per preference share	0.08	0.07
Basic income per Preference share	5.55	4.75
Fully diluted income per ordinary share	5.44	4.64
Plus preference per preference share	0.08	0.08
Fully diluted income per Preference share	5.52	4.72

15. Stock Options

Effective January 1, 2006, the Company adopted the provisions of FAS 123(R) using the modified prospective transition method see Note 1u. As a result of the adoption of this standard, the Company incurred compensation costs of $14,258 which would not have been recognized under its previous accounting policy in accordance with APB Opinion No. 25 and is included in its total compensation expense of $16,610 for the period ending December 31, 2006. Compensation expense for 2005 was $1,363. There were no capitalized compensation costs in any of the two years presented. The Company also recorded a related deferred income tax of $4,599 and $273 for the years ending December 31, 2006 and 2005, respectively.

The following table illustrates the effect on net income and earnings per share for the year ending December 31, 2005 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 per share data	2005
NET INCOME	
As reported	454,952
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1,090
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(8,302)
PRO FORMA	**447,740**
Basic net income per ordinary share	
As reported	4.68
Pro forma	4.61
Basic net income per preference share	
As reported	4.75
Pro forma	4.68
Fully diluted net income per ordinary share	
As reported	4.64
Pro forma	4.57
Fully diluted net income per preference share	
As reported	4.72
Pro forma	4.64

Stock Options and Other Share Based Plans

At December 31, 2006, the Company has awards outstanding under the various stock-based compensation plans.

Incentive Plan

During the fiscal year 2006, Fresenius Medical Care Management AG granted performance related compensation to the members of its management board in the form of a variable bonus. A special bonus component (award) for some of the management board members

consists in equal parts of cash payments and a share price related compensation based on Fresenius Medical Care AG & Co. KGaA's ordinary shares. The amount of the award in each case depends on the achievement of certain performance targets. The targets are measured on operating income and cash flow. These performance targets relate to a three-year-period comprising the fiscal years 2006, 2007 and 2008 only. Once the annual targets are achieved, the cash portion of the award is paid after the end of the respective fiscal year and the share price-related compensation part is granted but subject to a three-year-vesting-period. The payment of the share price-related compensation part corresponds to the share price of Fresenius Medical Care AG & Co. KGaA's ordinary shares on exercise, i.e. at the end of the vesting period, and is also made in cash. The expense incurred under this plan for 2006 was $ 3,362.

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

On May 9, 2006, the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 (the "2006 Plan") was established by resolution of the Company's annual general meeting with a conditional capital increase up to € 12,800 subject to the issue of up to five million no par value bearer ordinary shares with a nominal value of € 2.56 each. Under the 2006 Plan, up to five million options can be issued, each of which can be exercised to obtain one ordinary share, with up to one million options designated for members of the Management Board of the General Partner, up to one million options designated for members of management boards of direct or indirect subsidiaries of the Company and up to three million options designated for managerial staff members of the Company and such affiliates. With respect to participants who are members of the General Partner's Management Board, its Supervisory Board has sole authority to grant stock options and exercise other decision making powers under the 2006 Plan (including decisions regarding certain adjustments and forfeitures). The General Partner has such authority with respect to all other participants in the 2006 Plan.

Options under the 2006 Plan can be granted the last Monday in July and/or the first Monday in December. The exercise price of options granted under the 2006 Plan shall be the average closing price on the Frankfurt Stock Exchange of Company's ordinary shares during the 30 calendar days immediately prior to each grant date. Options granted under the 2006 Plan have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is subject to satisfaction of success targets measured over a three-year period from the grant date. For each such year, the success target is achieved if the Company's adjusted basic income per ordinary share ("EPS"), as calculated in accordance with the 2006 Plan, increases by at least 8 % year over year during the vesting period, beginning with EPS for the year of grant as compared to EPS for the year preceding such grant. Calculation of EPS under the 2006 Plan excludes, among other items, the costs of the transformation of the Company's legal form and the conversion of preference shares into ordinary shares. For each grant, one-third of the options granted are forfeited for each year in which EPS does not meet or exceed the 8 % target. The success target for 2006 was met. Vesting of the portion or portions of a grant for a year or years in which the success target is met does not occur until completion of the entire three-year vesting period. Upon exercise of vested options, the Company has the right to issue ordinary shares it owns or that it purchases in the market in place of increasing capital by the issuance of new shares.

During 2006, the Company awarded 772,280 options, including 132,800 to members of the Management Board of the General Partner, at a weighted average exercise price of $ 120.68 (€ 91.63), a weighted average fair value of $ 39.05 (€ 29.65) each and a total fair value of $ 30,158, which will be amortized on a straight line basis over the three year vesting period.

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

Fresenius Medical Care 2001 International Stock Option Plan

Under the Fresenius Medical Care 2001 International Stock Incentive Plan (the "2001 Plan"), options in the form of convertible bonds with a principal of up to €10,240 were 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 ten years from issuance and can be exercised beginning two, three or four years after issuance. Compensation costs related to awards granted under this plan are amortized on a straight-line basis over the vesting period for each separately vesting portion of the awards. Bonds issued to Management Board members who did not issue a note to the Company are recognized as a liability on the Company's balance sheet. Options granted in 2005 had a weighted average exercise price of $82.13 (€62.36), a weighted average fair value of $22.32 (€18.70) and a total fair value of $23,312 (€19,535).

Upon issuance of the option, the employees had the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target corresponds to the stock exchange quoted price of the preference shares upon the first time the stock exchange quoted price exceeds the initial value by at least 25 %. The initial value ("Initial Value") is the average price of the preference shares during the last 30 trading days prior to the date of grant. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15 % less than if the employee elected options subject to the stock price target. The conversion price of the options without a stock price target is the Initial Value. Each option entitles the holder thereof, upon payment of the respective conversion price, to acquire one preference share. Effective May 2006, no further grants can be issued under the 2001 Plan and no options were granted under the 2001 Plan during 2006.

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 3,863,470 options converted resulting in 2,849,318 options for ordinary shares see Note 2. Holders of 234,311 options elected not to convert.

At December 31, 2006, the Management Board members of the General Partner, held 548,197 stock options for ordinary shares and employees of the Company held 2,525,659 stock options for ordinary shares and 122,697 stock options for preference shares. The Table below provides reconciliations for options outstanding at December 31, 2006, as compared to December 31, 2005 taking in consideration the conversion, options exercised and forfeited.

CONVERSION OF OPTIONS FOR PREFERENCE SHARES TO OPTIONS FOR ORDINARY SHARES AND RECONCILIATION OF OPTIONS FOR ORDINARY SHARES AND PREFERENCE SHARES

	Options (in thousands)	Weighted Average Exercise Price in €	in $
RECONCILIATION OF OPTIONS FOR PREFERENCE SHARES CONVERTED TO OPTIONS FOR ORDINARY SHARES			
BALANCE AT DEC. 31, 2005	**4,103**	**47.88**	**63.06**
Forfeited prior to conversion	5	41.00	54.00
Eligable for conversion	4,098	47.94	63.13
Options not converted	235	49.18	64.77
Options converted	3,863	–	–
Reduction due to impact of conversion ratios	1,014	–	–
BALANCE OF OPTIONS OUTSTANDING AFTER CONVERSION INTO ORDINARY SHARES AS OF FEB. 10, 2006	**2,849**	**64.22**	**84.59**
Granted	772	91.63	120.68
Excercised	520	61.39	80.85
Forfeited	27	68.94	90.79
BALANCE AT DEC. 31, 2006 OPTIONS FOR ORDINARY SHARES	**3,074**	**61.18**	**80.57**
RECONCILIATION OF OPTIONS FOR PREFERENCE SHARES			
BALANCE OF OPTIONS NOT CONVERTED AS OF FEB. 10, 2006	**235**	**49.18**	**64.77**
Exercised	104	49.82	65.61
Forfeited	8	50.61	66.66
BALANCE AT DEC. 31, 2006 OPTIONS FOR PREFERENCE SHARES	**123**	**48.56**	**63.96**

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

FULLY VESTED OUTSTANDING AND EXERCISABLE OPTIONS

	Number of Options (in thousands)	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price in €	Weighted Average Exercise Price in $	Aggregate Intrinsic Value in €	Aggregate Intrinsic Value in $
OPTIONS						
for preference shares	71	3.63	43.37	57.12	3,734	4,918
for ordinary shares	959	4.86	59.10	77.84	40,167	52,900

At December 31, 2006, there was $ 36,397 of total unrecognized compensation costs related to non-vested options granted under all plans. These costs are expected to be recognized over a weighted-average period of 1.7 years.

During the years ended December 31, 2006 and 2005, the company received $ 46,524 and $ 79,944, respectively, from the exercise of stock options. The intrinsic value of options exercised for the twelve-month periods ending December 31, 2006 and 2005, were $ 27,270 and $ 25,338, respectively. A related tax benefit to the Company of $ 7,428 for the year ending December 31, 2006 was recorded as cash provided from financing activities; prior to the adoption of FAS 123(R) such tax benefits related to the exercise of options were included in cash flows provided by operating activities. For 2005, this amounted to $ 6,471.

Fair Value Information

The Company used the binomial option-pricing model in determining the fair value of the awards under the 2006 Plan. Option valuation models require the input of highly subjective assumptions including expected stock price volatility. The Company's assumptions are based upon its past experiences, market trends and the experiences of other entities of the same size and in similar industries. The Company's stock options have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option. The assumptions used to determine the fair value of the 2006 grants are as follows:

WEIGHTED-AVERAGE ASSUMPTIONS

	2006
Expected dividend yield	1.64 %
Risk-free interest rate	3.78 %
Expected volatility	30.03 %
Expected life of options	7 years
Exercise price in €	91.63
Exercise price in $	120.68

Prior to the adoption of the 2006 Plan, the Black-Scholes option-pricing model was utilized in estimating the fair values of options that have no vesting restrictions. The assumptions used to determine the fair value are as follows:

WEIGHTED-AVERAGE ASSUMPTIONS

	2005
Expected dividend yield	2.88 %
Risk-free interest rate	2.76 %
Expected volatility	40.00 %
Expected life of options	5.3 years

16. Income Taxes

Income before income taxes and minority interest is attributable to the following geographic locations:

INCOME BEFORE INCOME TAXES

$ in thousands	2006	2005
Germany	167,258	109,407
United States	645,360	512,697
Other	154,263	143,622
TOTAL	**966,881**	**765,726**

Income tax expense (benefit) for the years ended December 31, 2006 and 2005, consisted of the following:

EXPENSE (BENEFIT) FOR INCOME TAXES

$ in thousands	2006	2005
CURRENT		
Germany	107,609	40,386
United States	150,550	206,551
Other	57,462	48,133
	315,621	**295,070**
DEFERRED		
Germany	(15,219)	(12,990)
United States	118,800	27,391
Other	(5,713)	(723)
	97,868	**13,678**
TOTAL	**413,489**	**308,748**

In 2006 and 2005, 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.

Certain provisions of the German Tax Law were reviewed during 2006. These revisions did not have a material impact on the Company's results for 2006 and are not expected to have a material impact on future earnings.

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 38.47 % and 38.44 %, for the fiscal years ended December 31, 2006 and 2005.

RECONCILIATION OF INCOME TAXES

$ in thousands	2006	2005
Expected corporate income tax expense	371,959	294,345
Tax free income	(33,912)	(18,442)
Foreign tax rate differential	(3,013)	(8,431)
Non-deductable expenses	17,055	27,757
Taxes for prior years	41,332	20,509
Tax on divestitures	29,128	–
Other	(9,060)	(6,990)
Actual income tax expense	413,489	308,748
EFFECTIVE TAX RATE	**42.8 %**	**40.3 %**

The tax effects of the temporary differences that give rise to deferred tax assets and liabilities at December 31, 2006 and 2005, are presented below:

DEFERRED INCOME TAX ASSETS AND LIABILITIES

$ in thousands	2006	2005
DEFERRED TAX ASSETS		
Accounts receivable, primarily due to allowance for doubtful accounts	42,753	26,018
Inventory, primarily due to additional costs capitalized for tax purposes, and inventory reserve accounts	32,512	29,628
Plant, equipment, intangible assets and other non current assets, principally due to differences in depreciation and amortization	45,949	37,905
Accrued expenses and other liabilities for financial accounting purposes, not currently tax deductible	253,730	159,339
Net operating loss carryforwards	37,965	44,249
Derivatives	8,313	3,735
Other	10,978	5,266
TOTAL DEFERRED TAX ASSETS	**432,200**	**306,140**
Less: valuation allowance	(41,231)	(46,146)
NET DEFERRED TAX ASSETS	**390,969**	**259,994**
DEFERRED TAX LIABILITIES		
Accounts receivable, primarily due to allowance for doubtful accounts	10,398	9,266
Inventory, primarily due to inventory reserve accounts for tax purposes	6,994	6,040
Accrued expenses and other liabilities deductable for tax prior to financial accounting recognition	30,714	15,945
Plant, equipment and intangible assets, principally due to differences in depreciation and amortization	302,187	256,663
Derivatives	33,831	21,582
Other	45,491	49,893
TOTAL DEFERRED TAX LIABILITIES	**429,615**	**359,389**
NET DEFERRED TAX LIABILITIES	**38,646**	**99,395**

The valuation allowance decreased by $4,915 in 2006 and increased by $1,582 in 2005.

The expiration of net operating losses is as follows:

NET OPERATING LOSS CARRYFORWARDS

$ in thousands	2007	2008	2009	2010	2011	2012	2013	2014 and thereafter	Without expiration date	Total
	12,551	5,524	5,755	9,724	11,113	6,537	2,123	1,305	61,822	**116,454**

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, 2006.

The Company provides for income taxes on the cumulative earnings of foreign subsidiaries that will not be reinvested. During the year 2006, the Company provided for $ 1,350 of deferred tax liabilities associated with earnings that are likely to be distributed in 2007. Provision has not been made for additional taxes on $ 1,114,643 undistributed earnings of foreign subsidiaries as these earnings are considered permanently reinvested.

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 2050. Rental expense recorded for operating leases for the years ended December 31, 2006 and 2005 was $ 414,137 and $ 334,947, respectively.

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

FUTURE MINIMUM RENTAL PAYMENTS

$ in thousands	2007	2008	2009	2010	2011	Thereafter	Total
	308,084	272,995	237,973	202,458	168,712	507,516	**1,697,738**

18. Legal Proceedings

Commercial Litigation

The Company was originally formed as a result of a series of transactions it completed pursuant to the Merger. At the time of the Merger, a W.R. Grace & Co. subsidiary known as W.R. Grace & Co.-Conn. had, and continues to have, significant liabilities arising out of product-liability related litigation (including asbestos-related actions), pre-Merger tax claims and other claims unrelated to National Medical Care ("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.

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 filed counterclaims against FMCH seeking monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. On July 17, 2006, the court entered judgement in favor of FMCH finding that all the asserted claims of the Baxter patents are invalid as obvious and/or anticipated in light of prior art. On February 13, 2007, the court granted Baxter's motion to set aside the jury's verdict in favor of FMCH and retry certain aspects of the case. We will appeal the court's rulings. An adverse judgment in any new trial could have a material adverse impact on our business, financial condition and results of operations.

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

Other Litigation and Potential Exposures

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

FMCH and its subsidiaries, including RCG (prior to the RCG Acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. FMCH received its subpoena in April 2005. RCG received its subpoena in August 2005. The subpoenas require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relationships, joint ventures, anemia management programs, RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, and RCG's purchase of dialysis equipment from FMCH. 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 subsidiaries, including RCG (prior to the RCG Acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of New York in connection with a civil and criminal investigation, which requires production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents relating to laboratory testing for parathyroid hormone ("PTH") levels and vitamin D therapies. 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.

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

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 of $ 258,159 to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. With the exception of the proposed $ 115,000 payment under the Settlement Agreement, all other matters included in the special charge have been resolved. While the Company believes that its remaining accrual reasonably estimates its currently anticipated costs related to the continued defense and resolution of this matter, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual see Note 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 General Partner. 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 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. For the purpose of hedging existing and foreseeable foreign exchange transaction exposures the Company enters into foreign exchange forward contracts and, on a small scale, foreign exchange options. The Company's policy, which has been consistently followed, is that financial derivatives be used only for the purpose of hedging foreign currency exposure. As of December 31, 2006 the Company had no foreign exchange options.

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

Changes in the fair value of foreign exchange forward contracts designated and qualifying as cash flow hedges of forecasted product purchases and sales 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 gains of $ 1,210 ($ 2,527 pretax) for the year ended December 31, 2006 are deferred in accumulated other comprehensive income and will mainly be reclassified into earnings during 2007. During 2006, the Company reclassified after tax gains of $ 72 ($ 99 pretax) from accumulated other comprehensive income (loss) into the statement of operations.

The notional amounts of foreign exchange forward contracts in place to hedge exposures from operational business totaled $ 351,729 with a fair value of $ 2,195 as of December 31, 2006.

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.

In connection with foreign currency denominated intercompany loans, the Company also entered into foreign exchange swaps with a notional amount of $730,855 having a fair value of approximately $418 as of December 31, 2006. No hedge accounting is applied to these foreign exchange contracts. Accordingly, the respective foreign exchange swaps are recognized as assets or liabilities and changes in their fair values are recognized against earnings thus offsetting the changes in fair values of the underlying intercompany loans denominated in foreign currency.

As of December 31, 2006, the Company had foreign exchange derivatives with maturities of up to 16 months.

The Company is exposed to potential losses in the event of nonperformance by counterparties to financial instruments but does not expect any counterparty to fail to meet its obligations as the counterparties are highly rated financial institutions. 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.

Cash Flow Hedges of Variable Rate Debt. The Company enters into interest rate swap agreements that are designated as cash flow hedges effectively converting the major part of variable interest rate payments due on the Company's 2006 Senior Credit Agreement denominated in U.S. dollars into fixed interest rate payments. Those swap agreements in the notional amount of $ 3,165,000, which expire at various dates between 2007 and 2012, effectively fix the Company's variable interest rate exposure on the majority of its U.S. dollar-denominated revolving loans at an average interest rate of 4.50 % plus applicable margin. After tax gains of $ 36,050 ($ 57,732 pretax) for the year ended December 31, 2006, 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 $ 1,342 ($ 2,182 pretax) 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 12 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 the fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts and trust preferred securities offset each other in the income statement. At December 31, 2006, the notional volume of these swaps 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 counterparty to fail to meet its obligations as the counterparties are highly rated financial institutions. 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, 2006 and 2005.

CARRYING AMOUNT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

$ in thousands	2006 Carrying Amount	2006 Fair Value	2005 Carrying Amount	2005 Fair Value
NON-DERIVATIVES				
ASSETS				
Cash and cash-equivalents	159,010	159,010	85,077	85,077
Receivables	1,848,695	1,848,695	1,469,933	1,469,933
LIABILITIES				
Accounts payable	552,807	552,807	309,255	309,255
Long-term debt, excluding Euro Notes	3,726,076	3,726,076	597,429	597,429
Trust Preferred Securities	1,253,828	1,331,802	1,187,864	1,285,319
Euro Notes	263,400	266,480	235,940	236,326
DERIVATIVES				
Foreign exchange contracts	2,613	2,613	(2,939)	(2,939)
Dollar interest rate hedges	45,217	45,217	21,830	21,830
Yen interest rate hedges	(75)	(75)	(201)	(201)

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.

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 2006 Senior Credit Agreement.

The fair values of the Trust Preferred Securities and the Euro Notes are based upon market quotes.

20. Other Comprehensive Income (Loss)

The changes in the components of other comprehensive income (loss) for the years ended December 31, 2006 and 2005 are as follows:

OTHER COMPREHENSIVE INCOME (LOSS)

$ in thousands	2006 Pretax	2006 Tax Effect	2006 Net	2005 Pretax	2005 Tax Effect	2005 Net
OTHER COMPREHENSIVE INCOME (LOSS) RELATING TO CASH FLOW HEDGES						
Changes in fair value of cash flow hedges during the period	25,513	(9,300)	16,213	72,440	(28,653)	43,787
Reclassification adjustments	3,280	(1,270)	2,010	(1,243)	584	(659)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS) RELATING TO CASH FLOW HEDGES	**28,793**	**(10,570)**	**18,223**	**71,197**	**(28,069)**	**43,128**
Foreign-currency translation adjustment	114,494	–	114,494	(104,723)	–	(104,723)
Adjustments related to pension obligations	8,074	(3,428)	4,646	(19,996)	7,747	(12,249)
OTHER COMPREHENSIVE INCOME (LOSS)	**151,361**	**(13,998)**	**137,363**	**(53,522)**	**(20,322)**	**(73,844)**

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. In the U.S., the Company also engages in performing clinical laboratory testing and providing inpatient dialysis services, and other services under contract to hospitals. 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 services provided and the same products sold, the same type patient population, similar methods of distribution of products and services and similar economic environments.

Management evaluates each segment using a measure that reflects all of the segment's controllable revenues and expenses. Management believes that the most appropriate measure in this regard is 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. Similarly, the Company does not allocate "corporate costs" which relate primarily to certain headquarters overhead charges, including accounting and finance, professional services, etc., because the Company believes that these costs are also not within the control of the individual segments. The Company also regards income taxes to be outside the segment's control.

BUSINESS SEGMENT INFORMATION

$ in thousands	North America	International	Segment Total	Corporate	Total
2006					
Net revenue external customers	6,025,314	2,473,724	8,499,038	–	8,499,038
Inter-segment revenue	1,281	60,043	61,324	(61,324)	–
TOTAL NET REVENUE	**6,026,595**	**2,533,767**	**8,560,362**	**(61,324)**	**8,499,038**
Depreciation and amortization	(186,826)	(119,938)	(306,764)	(1,934)	(308,698)
OPERATING INCOME	**964,609**	**440,552**	**1,405,161**	**(87,034)**	**1,318,127**
Segment assets[1]	10,196,844	2,744,833	12,941,677	103,004	13,044,681
Capital expenditures and acquisitions[2]	4,599,276	175,062	4,774,338	137	4,774,475
2005					
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[3]	252,822	187,030	439,852	70	439,922

[1] Segment assets of North America include the goodwill of RCG $3,381,901 as of Dec. 31, 2006.
[2] North America and International acquisitions exclude $2,500 and $6,208 of non-cash acquisitions for 2006.
North America acquisitions include $4,148,200 at Dec. 31, 2006 of the total $4,157,619 purchase price of RCG.
[3] North America and International acquisitions exclude $260 and $9,031, respectively, of non-cash acquisitions for 2005.

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	2006 Net revenue ext. customers	2006 Long-lived assets	2005 Net revenue ext. customers	2005 Long-lived assets
Germany	288,047	144,877	288,923	157,362
United States and Canada	6,025,314	8,274,104	4,577,379	4,372,453
Rest of the world	2,185,677	1,080,301	1,905,517	906,220
TOTAL	**8,499,038**	**9,499,282**	**6,771,819**	**5,436,035**

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	2006	2005
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid for interest	378,233	180,853
Cash paid for income taxes	423,514	380,764
Cash inflow for income taxes from stock option exercises	7,428	–
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Details for acquisitions		
Assets acquired	4,784,713	149,189
Liabilities assumed	348,898	18,161
Minorities	56,300	(5,017)
Notes assumed in connection with acquisition	8,708	9,291
Cash paid	4,370,807	126,754
Less cash acquired	63,525	1,601
NET CASH PAID FOR ACQUISITIONS	**4,307,282**	**125,153**

05.6 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, 2006, 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 is effective as of December 31, 2006.

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, 2006, have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, an independent registered public accounting firm, as stated in their report see page 110 of Financial Report.

February 16, 2007
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

05.7 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 and subsidiaries ("Fresenius Medical Care" or the "Company") maintained effective internal control over financial reporting as of December 31, 2006, 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 U.S. 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 U.S. 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, 2006, 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, 2006, based on criteria establis-

hed 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, 2006 and 2005, 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, 2006, and our report dated February 16, 2007 expressed an unqualified opinion on those consolidated financial statements.

Frankfurt am Main, Germany
February 16, 2007

KPMG
Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

05.8 Auditors' Report
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 ("Fresenius Medical Care" or the "Company") as of December 31, 2006 and 2005, 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, 2006. 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, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the consolidated financial statements, Fresenius Medical Care adopted FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" and FASB Statement No. 123 (revised), "Share-Based Payment" in 2006.

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, 2006, 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 16, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

Frankfurt am Main, Germany
February 16, 2007

KPMG
Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprufungsgesellschaft

06.[1–5]

06.1 Financial Glossary

American Depositary 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 Depositary Share (ADS)
Share certificate traded at U.S. exchanges, 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.

Debt/EBITDA ratio
Important indicator in corporate management. This ratio compares the debt of a company to earnings before interest, tax, depreciation and amortization and other non-cash charges.

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 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 correspond to cash flow before taxes.

Free Cash Flow
Net cash provided by operating activities less net capital expenditures (purchases of property, plant and equipment as well as intangible assets, less acquisitions and dividends).

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 without a nominal value.

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

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Ordinary and Preference Shares
The capital stock of the Company consists of ordinary and preference shares, both being 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 other liabilities, as well as 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 corporations and their auditors designed to improve financial accounting. The intention of SOX is to strengthen the confidence of shareholders and other stakeholders by extending regulations which relate to financial reporting and internal monitoring systems. SOX requirements include strict obligations for a company's management regarding the provision of complete and correct information.

Securities and Exchange Commission (SEC)
A federal agency that regulates and monitors the U.S. financial markets.

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

Working Capital
Current assets less current liabilities. 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; a stock market dictionary can be found in the Investor Relations section.

06.[2] Regional Organization

EUROPE / MIDDLE EAST / 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.
Antwerpen

MAROCCO
98 % FMC Maroc S.A.
Casablanca

SERBIA
100 % FMC Srbija d.o.o.
Vrsac

POLAND
100 % FMC Polska S.A.
Poznan

PORTUGAL
100 % NMC Centro Médical Nacional S.A.
Lissabon

ROMANIA
100 % FMC Romania S.r.l.
Bukarest

SLOVAKIA
100 % FMC Slovensko spol. s ro.
Pieštany

SLOVENIA
100 % FMC Slovenija d.o.o.
Zrece

CZECH REPUBLIC
100 % FMC Ceská Republika spol. s ro.
Prague

HUNGARY
100 % FMC Dializis Center Egészs. Kft.
Budapest

DENMARK
100 % FMC Danmark A.S.
Albertslund

FINLAND
100 % FMC Suomi OY
Helsinki

LEBANON
90 % FMC Lebanon 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

ESTONIA
100 % Renculus OÜ
Talinn

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

100 % Renal Care Group, Inc.
Delaware

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.
Rio de Janeiro

CHILE
100 % Pentafarma S.A.
Santiago de Chile

VENEZUELA
100 % FMC de Venezuela, C.A.
Valencia

PERU
100 % FMC del Peru S.A.
Lima

ASIA-PACIFIC

AUSTRALIA
100 % FMC Australia Pty. Ltd.
Sydney

JAPAN
70 % Fresenius-Kawasumi Co. Ltd.
Tokyo

CHINA
100 % FMC (Shanghai) Co. Ltd.
Shanghai

HONG KONG
100 % FMC Hong Kong Ltd.
Hong Kong

SINGAPORE
100 % FMC Singapore Pte. Ltd.
Singapore

TAIWAN
100 % FMC Taiwan Co., Ltd.
Taipei

INDIA
100 % FMC India Pvt. Ltd.
New Delhi

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 2006 in respective country.
■ Production ■ Selling ■ Dialysis Care
Some percentage of subsidiaries represent direct and indirect shareholdings.

06.3 Major Subsidiaries

MAJOR SUBSIDIARIES

$ in millions, except employees		Ownership[1] in %	Revenue[2] 2006	Net Income (-loss) 2006 [2]	Equity 31. Dec. 06[2]	Employees 31. Dec. 06[4]
Name and Location						
EUROPE / MIDDLE EAST / AFRICA						
Germany	FMC Deutschland GmbH, Bad Homburg v. d. H.	100	1,211.0	0.0	1,051.2	2,773
France	FMC France S.A.S., Fresnes	100	86.3	1.7	18.7	138
	SMAD S.A., L'Arbresle	100	99.4	7.1	36.6	359
Great Britain	FMC (UK) Ltd., Huthwaite – Nottinghamshire	100	103.6	4.0	35.6	220
Italy	FMC Italia S.p.A., Palazzo Pignano/Cremona	100	101.9	3.3	42.4	163
	SIS-TER S.p.A., Palazzo Pignano/Cremona	100	58.4	2.0	10.4	256
Spain	FMC Espana S.A., La Roca del Vallès	100	80.4	5.0	27.0	86
	NMC of Spain S.A., Madrid	100	14.3	(3.1)	54.1	1,286
South Africa	FMC South Africa (Pty.) Ltd., Johannesburg	100	15.4	0.5	4.0	136
Turkey	Fresenius Medikal Hizmetler A.S., Istanbul	100	86.1	9.1	29.1	194
Belgium	FMC Belgium N.V., Antwerpen	100	29.6	2.5	9.1	65
Marocco	FMC Maroc S.A., Casablanca	98	12.2	0.3	2.6	41
Serbia	FMC Srbija d.o.o., Vrsac	100	75.2	7.2	42.2	238
Poland	FMC Polska S.A., Poznan	100	27.7	2.7	7.8	59
Portugal	FMC Portugal S.A., Moreira	100	37.2	2.0	10.1	33
	NMC Centro Médico Nacional S.A., Lisbon	100	58.1	0.7	30.8	607
Romania	FMC Romania S.r.l., Bucharest	100	30.9	5.5	15.6	54
Slovakia	FMC Slovensko spol s ro., Piestany	100	12.1	1.7	6.4	20
Slovenia	FMC Slovenija d.o.o., Zrece	100	5.5	0.5	2.3	12
	Nefrodial d.o.o., Zrece	100	10.3	0.5	0.8	84
Czech Republic	FMC Ceská Republika spol. s ro., Prague	100	26.4	4.1	20.1	45
Hungary	FMC Hungary Ltd., Budapest	100	21.9	0.5	28.3	73
	FMC Dializis Center Eges. Kft., Budapest	100	33.7	0.0	(2.2)	617
Denmark	FMC Danmark A.S., Albertslund	100	9.1	0.3	2.3	17
Finland	FMC Suomi OY, Helsinki	100	12.5	0.4	2.7	18
Lebanon	Fresenius Medical Care Lebanon S.a.r.l., Beirut	90	3.0	0.0	0.1	10
The Netherlands	FMC Nederland B.V., Nieuwkuijk	100	21.0	0.8	3.8	31
Austria	FMC Austria GmbH, Vienna	100	18.5	0.7	2.2	20
Russia	ZAO Fresenius S.P., Moscow	100	33.5	2.8	8.7	119
Sweden	FMC Sverige AB, Sollentuna	100	16.8	0.9	5.3	22
Switzerland	FMC (Schweiz) AG, Stans	100	27.5	1.5	7.4	39
Estonia	Renculus OÜ, Tartu	100	1.1	(0.1)	0.4	28

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MAJOR SUBSIDIARIES

$ in millions, except employees		Ownership[1] in %	Revenue[2] 2006	Net Income (-loss) 2006 [2]	Equity 31. Dec. 06[2]	Employees 31. Dec. 06[4]
Name and Location						
NORTH AMERICA						
USA	FMC Holdings Inc., New York	100	6,025.2	329,7	3,383.1	37,531
Mexico	FMC de Mexico S.A. de C.V., Zapopan Jalisco[3]	100	66.1	1.2	29.7	861
LATIN AMERICA						
Argentina	FMC Argentina S.A., Buenos Aires	100	102.3	4.3	49.7	2,203
Colombia	FMC Colombia S.A., Santa Fé de Bogota	100	72.8	4.9	61.0	891
Brazil	FMC Ltda., São Paulo	100	73.0	10.4	60.8	455
Chile	Pentafarma S.A., Santiago de Chile	100	10.0	(2.9)	(0.1)	59
Venezuela	FMC de Venezuela C.A., Valencia	100	24.6	2.1	10.3	492
Peru	FMC del Peru S.A., Lima	100	4.0	0.2	0.8	14
ASIEN-PACIFIC						
Australia	FMC Australia Pty. Ltd., Sydney	100	57.9	0.6	12.4	208
Japan	FMC Japan K.K., Tokyo	100	46.8	1.9	12.1	588
	Fresenius-Kawasumi Co. Ltd., Tokyo	70	25.3	3.6	16.2	69
China	FMC Shanghai Co. Ltd., Shanghai	100	32.7	2.0	4.7	100
Hong kong	FMC Hong Kong Ltd., Hong Kong	100	13.6	0.7	11.3	40
Singapore	FMC Singapore Pte. Ltd., Singapur	100	6.6	0.1	2.6	46
Taiwan	FMC Taiwan Co., Ltd., Taipei	100	36.6	1.1	8.4	82
India	FMC India Pvt. Ltd., New Dehli	100	0.6	0.0	0.3	13
Indonesia	P.T. FMC Indonesia, Jarkata	100	2.7	(0.2)	(0.5)	24
Malaysia	FMC Malaysia Sdn. Bhd., Kuala Lumpur	100	8.9	1.2	5.1	28
Philippines	FMC Philippines Inc., Makati City – Metro Manila	100	5.2	0.6	2.2	26
South Korea	FMC Korea Ltd., Seoul	100	72.9	4.7	40.8	116
Thailand	FMC (Thailand) Ltd., Bangkok	100	6.4	0.6	4.4	51

[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] Included in US-GAAP-closing of FMC Holdings Inc.
[4] Full-time equivlents

06.4 5-Year Summary

5-YEAR SUMMARY

$ in thousands, except share data	2006	2005	2004	2003	2002
STATEMENT OF EARNINGS[1]					
Net revenue	8,499,038	6,771,819	6,228,002	5,527,509	5,084,097
Cost of revenue[2]	5,621,482	4,563,681	4,266,203	3,792,534	3,493,967
Gross profit[2]	2,877,556	2,208,138	1,961,799	1,734,975	1,590,130
Selling, general and administrative expenses[2]	1,548,369	1,218,265	1,058,090	927,853	847,730
Gain on sale of legacy clinics	(40,233)	–	–	–	–
Research and development expenses	51,293	50,955	51,364	49,687	47,433
Operating income (EBIT)	1,318,127	938,918	852,345	757,435	694,967
Interest expenses, net	351,246	173,192	183,746	211,759	226,517
Income before income taxes and minority interests	966,881	765,726	668,599	545,676	468,450
Income tax expense, net	413,489	308,748	265,415	212,714	175,074
Minority interest	16,646	2,026	1,186	1,782	3,586
NET INCOME	**536,746**	**454,952**	**401,998**	**331,180**	**289,790**
Income per ordinary share	5.47	4.68	4.16	3.42	3.00
Income per preference share	5.55	4.75	4.23	3.49	3.06
Earnings before interest and taxes, depreciation and amortization (EBITDA)	1,626,825	1,190,370	1,084,931	973,813	905,522
Personnel expenses	2,766,599	2,174,719	2,011,890	1,755,981	1,551,874
Depreciation	265,488	211,103	199,732	180,952	158,126
Amortization	43,210	40,439	32,853	35,425	52,429
BEFORE ONE-TIME COSTS AND FAS 123(R)[3]					
EBITDA	1,637,761	1,212,764	1,084,931	973,813	905,522
EBIT	1,329,063	961,312	852,345	757,435	694,967
Net income	584,045	471,556	401,998	331,180	289,790
Earnings per share	5.95	4.85	4.16	3.42	3.00

BALANCE SHEET					
Current assets	3,411,916	2,460,938	2,445,970	2,206,128	1,821,700
Non-current assets	9,632,765	5,522,162	5,515,571	5,297,192	4,958,249
TOTAL ASSETS	**13,044,681**	**7,983,100**	**7,961,541**	**7,503,320**	**6,779,949**
Short-term debt	495,941	296,139	655,093	209,782	153,358
Other current liabilities	1,879,764	1,282,101	1,282,760	1,202,699	1,142,016
Current liabilities	2,375,705	1,578,240	1,937,853	1,412,481	1,295,374
Long-term debt	5,083,169	1,894,964	1,824,330	2,353,941	2,234,491
Other non-current liabilities	715,645	536,190	564,542	493,218	442,905
Non-current liabilities	5,798,814	2,431,154	2,388,872	2,847,159	2,677,396
Total liabilities	8,174,519	4,009,394	4,326,725	4,259,640	3,972,770
Shareholders' equity	4,870,162	3,973,706	3,634,816	3,243,680	2,807,179
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**13,044,681**	**7,983,100**	**7,961,541**	**7,503,320**	**6,779,949**
Total debt incl. accounts receivable securitization program	5,579,110	2,191,103	2,479,423	2,721,721	2,833,098
Working capital[4]	1,649,603	1,296,378	1,285,295	1,141,583	870,814

CREDIT RATING					
Standard & Poor's[5]					
Corporate credit rating	BB	BB+	BB+	BB+	BB+
Subordinated debt	B+	BB-	BB-	BB-	BB-
Moody's					
Corporate credit rating	Ba2	Ba2	Ba1	Ba1	Ba1
Subordinated debt	B1	B1	Ba2	Ba2	Ba2

[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 FAS No. 145. (Extraordinary loss of $20 million, $12 million net of taxes).
[2] Certain items in prior years have been reclassified to conform with the current periods presentation. The reclassifications include $124.5 million for 2005, $124.1 million for 2004, $93.9 million for 2003 and $65.9 million for 2002 relating to rents for clinics which were removed from selling, general and administrative expenses for the International segment and included in cost of revenue for dialysis care.
[3] In 2006 excluding costs related to the change of accounting principles for stock options (FAS 123 R), the gain from the sale of dialysis clinics, one-time costs associated with the transformation of legal form, restructuring costs and in-process R&D and excluding the write-off of deferred financing costs related to the 2003 senior credit facility; in 2005 before one-time costs for the transformation of legal form and the settlement and related legal fees of the shareholders suit.

5-YEAR SUMMARY

$ in thousands, except share data	2006	2005	2004	2003	2002
CASH-FLOW					
Net cash provided by operating activities	907,830	670,304	827,843	754,019	549,918
Capital expenditure, net	(449,535)	(297,342)	(260,374)	(276,434)	(201,377)
Free Cash Flow	458,295	372,962	567,469	477,585	348,541
Acquisitions and investments, net of cash acquired	(4,307,282)	(125,153)	(104,493)	(92,190)	(79,835)
Proceeds from divestitures	515,705	–	–	–	–
SHARE DATA					
Year-end share price Frankfurt, Xetra (€)					
Ordinary shares	100.97	89.00	59.21	56.40	39.46
Preference shares	95.98	78.85	42.65	39.95	28.65
Year-end ADS share price New-York ($)					
Ordinary shares	44.43	35.03	26.80	23.35	13.70
Preference shares	40.00	31.20	19.15	16.00	9.80
Average number of ordinary shares	96,873,968	70,000,000	70,000,000	70,000,000	70,000,000
Average number of prefrence shares	1,191,792	26,789,816	26,243,059	26,191,011	26,185,178
Total dividend amount (€ in thousands)	138,800	120,497	109,429	99,585	91,989
Dividend per ordinary share (€)[6]	1.41	1.23	1.12	1.02	0.94
Dividend per preference share (€)[6]	1.47	1.29	1.18	1.08	1.00
EMPLOYEES					
Full-time equivalents	56,803	47,521	44,526	41,097	39,264
OPERATIONAL RATIOS (IN %)					
EBITDA margin[7]	19.1	17.6	17.4	17.6	17.8
EBIT margin[7]	15.5	13.9	13.7	13.7	13.7
EPS growth[1]	17.0	12.6	21.4	14.0	18.6
Organic revenue growth (currency-adjusted)	10.2	7.4	6.3	3.4	5.1
Return on invested capital (ROIC)[8]	7.4	8.0	7.5	7.2	7.3
Return on operating assets (ROOA)[8]	11.3	12.6	11.8	11.4	11.4
Return on equity before taxes[1, 8]	20.0	19.3	18.4	16.8	16.7
Return on equity after taxes[1, 8]	11.8	11.4	11.1	10.2	10.3
Cash flow return on invested capital (CFROIC)[8]	16.0	14.5	13.5	13.2	13.3
Leverage ratio (total debt/EBITDA)[9]	3.2	1.8	2.3	2.8	3.1
Gearing ((total debt – cash)/equity)	1.1	0.5	0.7	0.8	1.0
EBITDA/Interest expenses[1]	4.6	6.9	5.9	4.6	4.0
Cash from operating activities in percent of revenue	10.7	9.9	13.3	13.6	10.8
Equity ratio (equity/total assets)	37.3	49.8	45.7	43.2	41.4
DIALYSIS CARE DATA					
Treatments (millions)	23.7	19.7	18.8	17.8	16.4
Patients	163,517	131,450	124,400	119,250	112,200
Number of clinics	2,108	1,680	1,610	1,560	1,480

[4] Current assets less current liabilities (excluding current debt and accruals for special charge included in acrrued expenses and other current liabilities starting in 2003).
[5] Standard & Poor's lowered the corporate credit rating to ‚BB' and the subordinated debt rating to ‚B+' relates to completion of the Renal Care Group acquisition in 2006.
[6] 2006: Proposal for approval at the Annual General Meeting on May 15, 2007.
[7] 2006: EBITDA margin of 19.3% and EBIT margin of 15.6% before one-time costs related to the change of accounting principles for stock options (FAS 123 R), the gain from the sale of dialysis clinics, before one-time costs associated with the transformation of legal form and restructuring costs and in-process R&D. 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 related legal fees of the shareholders suit.
[8] Pro forma incl. RCG, after FTC mandated divestitures, excluding restructuring costs and in process R&D and excl. gain from divested clinics and excluding the write-off of deferred financing costs related to the 2003 senior credit facility in 2006.
[9] Correction of non-cash charges of $35.0 million, pro forma incl. RCG, after FTC mandated divestitures, excluding restructuring costs and in-process R&D and excl. gain from divested clinics in 2006; correction of non-cash charges of $14.0 million in 2005, $12.7 million in 2004, $12.5 million in 2003 and $10 million in 2002.

06.5 Index