



Fresenius Medical Care

Investor News

Fresenius Medical Care AG Investor Relations

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Fresenius Medical Care AG reports Second Quarter and Six Months Results 2002; Finalizes Settlement with Aetna Life Insurance

The results in the year 2002 are based on the new accounting standards on Goodwill and Other Intangible Assets (FAS 142) which came into effect January 1, 2002. In order to facilitate a year-over-year comparison, goodwill adjusted key figures for the first half year and the second quarter 2002 are provided in the appendix.

Bad Homburg, Germany -- July 30, 2002 -- Fresenius Medical Care AG ("FMC") (Frankfurt Stock Exchange: FME, FME3) (NYSE: FMS, FMS_p), the world's largest provider of Dialysis Products and Services, today announced the results for the second quarter and the first six months of 2002.

OPERATIONS

Second Quarter 2002:

Fresenius Medical Care AG reports a 17% increase in **earnings after tax (EAT)** after minorities to \$ 74 million for the second quarter 2002.

Total revenue for the second quarter 2002 increased 4.4% (6% at constant currency) to \$ 1,254 million. As in the first quarter of 2002 this growth was mainly driven by organic growth in both business segments. Same store revenue growth at constant exchange rates was 4.5%. Dialysis Care revenues grew by 3.3% to \$ 912 million (+6% at constant currency) in the second quarter of 2002. External Dialysis Product revenues increased by 7.5% to \$ 343 million (+6% at constant currency) in the same period.

North American revenue rose 3% to \$ 928 million, compared to \$ 902 million in the same period last year. Dialysis Care revenue in the US increased by 4% to \$ 814 million. Same store treatment growth and same store revenue growth for the second quarter of 2002 were 4%. North American Dialysis Product revenue, including sales to company-owned clinics, increased 1% to \$190 million. Product sales to the available external market grew by 3%.

International revenue was \$ 326 million, up 15% adjusted for currency. Dialysis Care revenues reached \$ 98 million in the second quarter 2002 (+17% at constant currency). Dialysis Products revenue, including sales to company-owned dialysis clinics, increased 13% to \$ 245 million (12% currency adjusted).

Earnings before interest and taxes (EBIT) increased 1% to \$ 170 million resulting in an operating margin of 13.6%. In the first quarter of 2002, the Company achieved an operating margin, adjusted for non-recurring items, of 14.2%. The reduction by around 60 basis points in the second quarter was mainly due to the move to single-use dialyzers in North America, higher bad debt expenses and currency effects. The operating margin did

benefit slightly from lower staffing costs in the company's North American single-use dialysis clinics.

Earnings per share (EPS) in the second quarter 2002 rose 17% to \$0.77 per ordinary share (\$ 0.26 per ADS), compared to \$0.66 (\$ 0.22 per ADS) in the second quarter of 2001. The weighted average number of shares outstanding during the second quarter of 2002 was approximately 96.2 million, compared to 96 million in the same period of 2001.

In the second quarter of 2002, the Company generated \$173 million in **cash from operations**. This is an all-time record for any single historical quarter and was mainly driven by improved accounts receivable collections in North America. A total of \$39 million (net of disposals) was spent for **capital expenditures**, resulting in a **Free Cash Flow** for the second quarter 2002 of \$134 million. Capital expenditures were \$17 million lower than in Q2 2001. A total of \$31 million in cash was spent for **acquisitions**. **Free Cash Flow after acquisitions** was \$103 million. In the second quarter of 2001 the Free Cash Flow after acquisitions was \$ minus 25 million.

First Half Year 2002:

For a complete overview of the first half year of 2002 please refer to the appendix.

In the first half of 2002, **net income** before extraordinary items was \$149 million, up 27% from the first half year of 2001. Adjusted for currency, net income growth was 28%. **Net revenue** was \$2.44 billion, up 3.4% from the first half of 2001. Currency adjusted, net revenue rose 6% in the first half of 2002. **Earnings before interest and taxes (EBIT)** increased 6% to \$344 million resulting in an operating margin of 14.1%. In the first half of 2002, **earnings per ordinary share** before extraordinary items rose 27% to \$1.55. Earnings per ordinary ADS for the first half of 2002 were \$0.52.

Fresenius Medical Care generated \$ 244 million **cash from operations** during the first six months of 2002 (\$ 146 million in H1 2001). Net cash used for acquisitions was \$ 40 million and **capital expenditures** (net of disposals) were \$ 90 million. **Free Cash Flow** for the first half of 2002 was \$ 154 million compared to \$ 28 million in the first half of 2001.

As of June 30, 2002, the Company operated a total of 1,430 **clinics** worldwide (1,050 clinics/+4% in North America and 380 clinics/+7% International). Fresenius Medical Care AG performed approximately 7.9 million **treatments**, which represents an increase of 7% year over year. North America accounted for 5.7 million treatments (+4%) and the International segment for 2.3 million (+18%). At the end of the second quarter 2002 Fresenius Medical Care AG provided treatment to around 108,600 **patients** worldwide which represents an increase of 6%. North America accounted for ~78,000 patients (+3%) and the International segment for ~30,600 patients (+16%).

LEGAL UPDATE

Commercial Disputes (1996 Merger related)

Fresenius Medical Care AG finalized a settlement resolving the pending litigation with Aetna Life Insurance Company and its affiliates (Aetna), one of the leading US commercial insurance companies. Separately, Fresenius Medical Care has entered into a multi-year agreement with Aetna to offer provide disease state management (DSM) services for Aetna healthplan members served in FMC facilities.

All other 1996 merger-related legal issues are developing within the company's expectation and the company considers the charge taken in the fourth quarter 2001 to be adequate.

OUTLOOK 2002 / 2003

While the margin development is impacted temporarily by the North American single-use dialyzer initiatives and by currency issues in the International segment, the fundamentals of the Company remain strong. In North America additional revenue and profit opportunities are expected in the future following the implementation of the company's single-use and Disease State Management programs. Cash collection and cash flow were extremely strong in the second quarter in North America and the Company will continue to focus on cash generation going forward. The International business continues to grow significantly above the market, achieving 13.5% revenue growth (constant currency) in the first half year of 2002.

Despite the strong fundamentals, the Company feels that it is prudent to **revise its guidance**. For the full year 2002 the company now expects a revenue growth of 6% at constant currency exchange rates.

The target for the earnings after tax is revised to around \$ 300 million after previously \$ 350 million. All other targets (e.g. Capital Expenditure ~\$ 220 million and Free Cash Flow >\$ 200 million) remain unchanged. The **three main reasons** for this adjustment are a delay in the targeted single-use cost reduction, a temporary reduction in the projected revenue growth in North America while the single-use program is implemented and the currency devaluation and economic downturn in Latin America.

For the Year 2003, the Company expects revenue growth before acquisitions in the mid single digits (constant currency) and earnings after tax growth in the high single digit to low double digits range.

Ben Lipps, Chief Executive Officer of Fresenius Medical Care, commented: “We are pleased to have finalized the settlement and developed a good working relationship with Aetna. Europe and Japan continue their strong financial performance. We are pleased with the record Free Cash Flow for the second quarter and we will continue to focus on accounts receivable collection and strong Free Cash Flow. However, I am personally disappointed with the recent operating margin developments and the projected delay in achieving our single use financial targets in North America. Therefore we must revise our guidance to ensure a conservative approach to financial planning. The Company has identified all necessary steps that have to be taken to finalize the successful implementation of the North American single-use dialyzer strategy.”

Fresenius Medical Care AG is the world’s largest, integrated provider of products and services for individuals with chronic kidney failure, a condition that affects more than 1,000,000 individuals worldwide. Through its network of approximately 1,430 dialysis clinics in North America, Europe, Latin America and Asia-Pacific, Fresenius Medical Care provides Dialysis Treatment to approximately 108,600 patients around the globe. Fresenius Medical Care is also the world’s leading provider of Dialysis Products such as hemodialysis machines, dialyzers and related disposable products. For more information about Fresenius Medical Care, visit the Company’s website at <http://www.fmc-ag.com>.

This release 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, including changes in business, economic and competitive conditions, regulatory reforms, foreign exchange rate fluctuations, uncertainties in litigation or investigative proceedings, and the availability of financing. These and other risks and uncertainties are detailed in Fresenius Medical Care AG’s reports filed with the U.S. Securities and Exchange Commission. Fresenius Medical Care AG does not undertake any responsibility to update the forward-looking statements in this release.

Fresenius Medical Care AG

Statement of Earnings at current exchange rate

(in US-\$ thousands, except share and per share data)
(unaudited)

	Three Months Ended June 30, 2002 as reported	Three Months Ended June 30, 2001 as reported ²⁾	% Change	Six Months Ended June 30, 2002 as reported	Six Months Ended June 30, 2001 as reported ²⁾	% Change
Net revenue						
Dialysis Care	911,765	882,559	3.3%	1,792,941	1,732,543	3.5%
Dialysis Products	342,515	318,721	7.5%	647,843	628,227	3.1%
	1,254,280	1,201,280	4.4%	2,440,784	2,360,770	3.4%
Cost of revenue	846,844	791,179	7.0%	1,656,026	1,560,889	6.1%
Gross profit	407,436	410,101	-0.6%	784,758	799,881	-1.9%
Selling, general and administrative	226,433	233,011	-2.8%	420,551	457,509	-8.1%
Research and development	10,584	8,369	26.5%	19,893	16,336	21.8%
Operating income (EBIT)	170,419	168,721	1.0%	344,314	326,036	5.6%
Interest (income) expense, net	51,313	56,728	-9.5%	104,551	109,517	-4.5%
Earnings before income taxes and minority interest	119,106	111,993	6.4%	239,763	216,519	10.7%
Income tax expense	44,093	48,048	-8.2%	88,681	97,740	-9.3%
Minority interest	761	471	61.6%	1,621	798	103.1%
Income before extraordinary item	\$74,252	\$63,474	17.0%	\$149,461	\$117,981	26.7%
Extraordinary loss, net of taxes	0	0		11,777	0	
Net income after extraordinary item	\$74,252	\$63,474	17.0%	\$137,684	\$117,981	16.7%
Earnings per ordinary share ¹⁾	\$0.77	\$0.66	16.8%	\$1.55	\$1.22	26.5%
Earnings per ordinary ADS ¹⁾	\$0.26	\$0.22	16.8%	\$0.52	\$0.41	26.5%
Earnings per preference share ¹⁾	\$0.78	\$0.67	16.6%	\$1.57	\$1.25	26.0%
Earnings per preference ADS ¹⁾	\$0.26	\$0.22	16.6%	\$0.52	\$0.42	26.0%
¹⁾ before extraordinary item						
²⁾ 2001 excluding special charge related expenses of \$ 3 million (\$2 million net of taxes)						
Average weighted number of shares						
Ordinary shares	70,000,000	70,000,000		70,000,000	70,000,000	
Preference shares	26,187,173	26,029,878		26,181,918	25,962,598	
Percentages of revenue						
Cost of revenue	67.5%	65.9%		67.8%	66.1%	
Gross profit	32.5%	34.1%		32.2%	33.9%	
Selling, general and administrative	18.1%	19.4%		17.2%	19.4%	
Research and development	0.8%	0.7%		0.8%	0.7%	
Operating income (EBIT)	13.6%	14.0%		14.1%	13.8%	
Interest (income) expense, net	4.1%	4.7%		4.3%	4.6%	
Earnings before income taxes and minority interest	9.5%	9.3%		9.8%	9.2%	
Income tax expense	3.5%	4.0%		3.6%	4.1%	
Minority interest	0.1%	0.0%		0.1%	0.0%	
Income before extraordinary item	5.9%	5.3%		6.1%	5.0%	
EBITDA	17.9%	20.9%		18.4%	20.6%	

Segment and other Information(in US-\$ million)
(unaudited)**Net revenue**

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	% Change	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001	% Change
North America	928	902	2.9%	1,821	1,769	2.9%
International	326	299	9.0%	620	592	4.7%
Total revenue	1,254	1,201	4.4%	2,441	2,361	3.4%

EBIT

North America	122	124	-1.6%	248	233	6.5%
International	54	50	8.5%	105	101	4.0%
Corporate	(6)	(5)	12.2%	(9)	(8)	11.1%
EBIT before special charge related expenses	170	169	1.0%	344	326	5.6%
Special charge related expenses ³⁾	0	3		0	3	
EBIT after special charge related expenses	170	166	2.9%	344	323	6.6%

³⁾ 2001 Special charge related expenses of \$ 3 million

Depreciation / Amortization	54	82		105	161	
Bad debt expenses	29	21		52	40	

Employees (June, 30 compared to Dec., 31)

Full-time equivalents				37,584	37,331	
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Key figures Goodwill adjusted

(in US-\$ millions, except per share data)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	% Change	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001	% Change
Net revenues	1,254	1,201	4.4%	2,441	2,361	3.4%
EBITDA ²⁾	224	251	-10.5%	449	487	-7.8%
EBIT - Operating income ²⁾	170	198	-13.9%	344	388	-11.4%
Income before extraordinary item ²⁾	74	88	-16.1%	149	170	-12.3%
Earnings per ordinary share ^{1) 2)}	\$0.77	\$0.92	-16.3%	\$1.55	\$1.77	-12.5%
Earnings per ordinary ADS ^{1) 2)}	\$0.26	\$0.31	-16.3%	\$0.52	\$0.59	-12.5%

¹⁾ before extraordinary item²⁾ 2001 excluding special charge related expenses of \$ 3 million (\$2 million net of taxes)**Percentages of revenue**

EBITDA ²⁾	17.9%	20.9%		18.4%	20.6%	
EBIT - Operating income ²⁾	13.6%	16.5%		14.1%	16.5%	
Income before extraordinary item ²⁾	5.9%	7.4%		6.1%	7.2%	

Cash Flow Statement

in US-\$ Mio. (unaudited)

	6/30/2002	6/30/2001	12/31/2001
Net income	138	116	63
Depreciation / amortization	105	161	324
Change in working capital and other non cash items	1	-132	37
Cash from operating activities	244	146	424
Capital expenditures, net	-89	-118	-251
Free Cash flow	154	28	173
Acquisitions, net of cash acquired	-40	-154	-217
Free Cash flow after investing activities	115	-127	-44
Proceeds from issuance of stock			6
Proceeds from issuance of Trust Preferred Securities		471	471
Redemption of trust preferred securities	-376		
Change in other debt	336	-256	-368
Dividends paid	-77	-66	-66
Cash flow from financing activities	-117	149	43
Effects of exchange rates on cash	1	-10	-3
Net increase (change) in cash	-2	13	-3
Cash at beginning of period	62	65	65
Cash at end of period	60	77	62

Balance Sheet

in US-\$ Mio. (unaudited)

	6/30/2002	6/30/2001	12/31/2001
Assets			
Current assets	1,835	1,778	1,779
Intangible assets	3,708	3,720	3,682
Other non-current assets	1,147	963	1,055
Total assets	6,690	6,461	6,516
Shareholders` equity and liabilities			
Current liabilities	1,440	1,244	1,377
Long-term liabilities	2,586	2,478	2,522
Shareholders` equity	2,664	2,739	2,617
Total Shareholders` equity and liabilities	6,690	6,461	6,516
Debt	2,961	2,975	2,884
Equity/assets ratio:	40%	42%	40%

Fresenius Medical Care - Quarterly Performance Scorecard

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Revenue		
(in US-\$ thousands, except per-treatment revenue)		
<u>North America</u>		
Net revenue	928,474	902,307
Growth year-over-year	2.9%	18.9%
Dialysis Care	814,186	779,559
Growth year-over-year	4.4%	21.0%
Per treatment	284	281
Sequential growth	0.4%	0.5%
Growth year-over-year	1.1%	2.6%
Dialysis Products incl. internal sales	189,683	188,348
Growth year-over-year	0.7%	6.6%
Dialysis Products to available external market	92,230	89,364
Growth year-over-year	3.2%	6.3%
<u>International</u>		
Net revenue	325,806	298,972
Growth year-over-year	9.0% / 15.3% cc	7.4% / 15.3% cc
Dialysis Care	97,579	103,000
Growth year-over-year	-5.3% / 17.1% cc	23.3% / 29.6% cc
Per treatment	84 / 104 cc	101
Sequential growth	-5.4%	-4.0%
Growth year-over-year	-17.3% / 2.2% cc	-0.6% / 4.5% cc
Dialysis Products incl. internal sales	244,938	217,387
Growth year-over-year	12.7% / 12.1% cc	2.6% / 11.2% cc

Dialysis Care Volume

North America

Number of treatments	2,881,652	2,770,280
Treatments per day	36,943	35,422
Per day sequential growth	0.8%	1.4%
Per day year-over-year growth	4.3%	18.2%
of which		
- acquisitions	0.5%	12.3%
Same store growth		
year-over -year	3.8%	5.9%

International

Number of treatments	1,164,105	1,015,692
Same store growth		
year-over -year	8.0%	13.0%

cc at constant exchange rates

Expenses	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
(in US-\$)		
<u>North America</u>		
Operating expenses ²⁾		
Percent of revenues	86.9%	83.4%
Selling, general and administrative ²⁾		
Percent of revenues	13.8%	12.4%
Bad debt expenses		
Percent of revenues	2.8%	2.1%
Cost of Health Care Services/Treatment	242	235
Sequential growth	-0.6%	-0.4%
Growth year-over-year	2.8%	5.9%
<u>Total Group</u>		
Operating expenses ²⁾		
Percent of revenues	86.4%	83.5%
Selling, general and administrative ²⁾		
Percent of revenues	18.1%	17.0%
Effective tax rate ²⁾	37.0%	37.0%

2) Excluding goodwill amortization & special charge related expenses of 3 million \$ in 2001

Cash Flow/Investing Activities

<u>Total Group</u>		
Operating Cash Flow	173,399	68,458
Percent of revenues	13.8%	5.7%
Free Cash Flow, before acquisitions	134,302	12,175
Percent of revenues	10.7%	1.0%
Acquisitions, net	30,809	37,060
Capital expenditures, net	39,097	56,283
Percent of revenues	3.1%	4.7%
Maintenance	13,719	32,325
Percent of revenues	1.1%	2.7%
Growth	25,378	23,958
Percent of revenues	2.0%	2.0%
Number of de novos	26	10
North America	25	9
International	1	1

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Balance Sheet		
<u>Total Group</u>		
Debt (in US-\$ millions)	2,961	2,975
Debt/EBITDA	3.15	3.1
<u>North America</u>		
Days sales outstanding	85	91
Sequential development	-3.4%	1.1%
Year-over -year development	-6.6%	8.3%
<u>International</u>		
Days sales outstanding	141	151
Sequential development	-1.4%	7.1%
Year-over -year development	-6.6%	7.1%

Clinical Performance

North America

Urea Reduction Ratio \geq 65%	86%	82%
Single Pool Kt/v \geq 1.2	92%	90%
Hemoglobin \geq 11g/dl	76%	71%
Albumin \geq 3.5 g/dl	83%	82%
Mortality rate (Q2 2001-Q1 2002)	17.65	17.91
Hospitalization days (Q2 2001-Q1 2002)	9.1	9.4

Demographics

North America

Average age (yr)	61	61
Average time on dialysis (yr)	3.4	3.1
Average body weight (kg)	75	75
Prevalence of diabetes (%)	49%	48%