Annual Report 2002

PEOPLE AND MARKETS

Fresenius
health care worldwide

Contents

Key figures of the business segments

Fresenius is a health care Group with products and services for dialysis, the hospital and the medical care of patients at home. More than 63,000 employees work in around 100 countries of the globe and dedicate all their energy to the service of health.

Since January 1, 2003, the four divisions of the business segment Fresenius HemoCare have been re-allocated within the Fresenius Group: Infusion Technology and Transfusion Technology were integrated into Fresenius Kabi, Immune Therapy into Fresenius AG. The business segment Adsorber Technology is planned to be sold to Fresenius Medical Care. The Fresenius Group now consists of three business segments: Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe.

Fresenius Medical Care

- **Dialysis products**
- **Dialysis care**
- **Extracorporeal therapies**

in million US$	2001	2002	Change
Sales	4,859	**5,084**	**5 %**
EBIT*	644	**695**	**8 %**
Net income*	245	**302****	**23 %**
Operating cash flow	424	**550**	**30 %**
Capital expenditure / acquisitions	736	**327**	**-56 %**
R+D expenditure	35	**47**	**34 %**
Employees (31.12.)	40,258	**41,766**	**4 %**

* 2001 before special charge
** before extraordinary expenses

Fresenius Kabi

- **Nutrition and infusion therapies**
- **Infusion and transfusion technology**
- **Ambulatory care**

in million €	2001	2002	Change	2002 according to new organizational structure
Sales	1,277	**1,262**	**-1 %**	**1,441**
EBIT	53	**91**	**72 %**	**97**
Net income	6	**29**	**383 %**	**30**
Operating cash flow	64	**87**	**36 %**	**104**
Capital expenditure / acquisitions	88	**76**	**-14 %**	**91**
R+D expenditure	47	**47**	**0 %**	**58**
Employees (31.12.)	10,248	**9,389**	**-8 %**	**11,311**

Reporting in the 2002 financial year is in accordance with the old corporate structure (see also segment reporting on pages 148 and 149 of the Notes). For information purposes we have additionally presented the business segment Fresenius Kabi in accordance with the new structure.

fresenius proServe

- **Hospital management**
- **Planning and construction of hospitals and of pharmaceutical and medical-technical production plants**

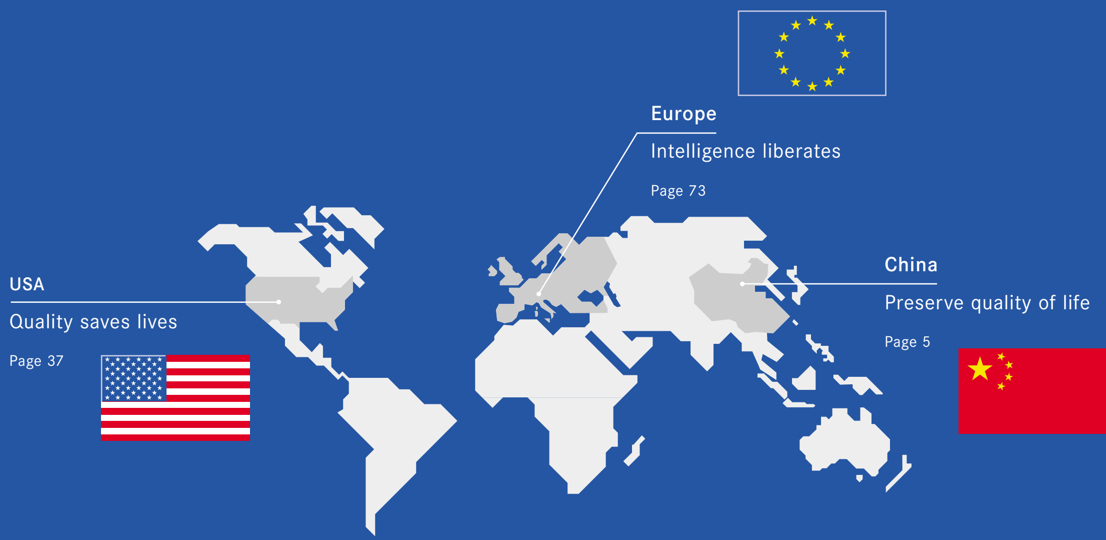
in million €	2001	2002	Change
Sales	451	701	**55 %**
EBIT	6	24	**300 %**
Net income	-4	1	**125 %**
Operating cash flow	0	-26	**–**
Capital expenditure / acquisitions	262	45	**-83 %**
Orders received	266	327	**23 %**
Orders on hand	366	424	**16 %**
Employees (31.12.)	7,620	9,894	**30 %**

Accounting is in accordance with standards of the United States of America; figures for the previous year have been adjusted.

Fresenius Group in Figures

in million €	1998 HGB	1999 HGB	2000 HGB	2001 US GAAP	**2002 US GAAP**
Earnings					
Sales	4,317	4,952	6,099	7,307	**7,507**
EBIT[1]	484	597	756	762	**837**
Net income[2]	146	203	266	93	**134**
Depreciation and amortization	296	341	389	494	**341**
Operating cash flow[2]	284	397	463	509	**697**
Operating cash flow in % of sales	6.6%	8.0%	7.6%	7.0%	**9.3%**
Earnings per share[1][2]	2.13	2.68	3.05	2.29	**3.27**
Balance sheet					
Total assets	4,959	5,714	6,473	9,867	**8,915**
Non-current assets	3,264	3,563	3,999	6,837	**6,172**
Equity[3]	1,867	2,013	2,810	3,689	**3,369**
Equity ratio[3]	38%	35%	43%	37%	**38%**
Capital expenditure[4]	817	444	769	1,233	**507**
Profitability					
EBIT margin[1]	11.2%	12.1%	12.4%	10.4%	**11.1%**
Return on equity after taxes (ROE)	7.8%	10.1%	9.5%	5.3%	**8.3%**
Return on operating assets (ROOA)	10.0%	11.2%	12.7%	9.0%	**9.7%**
Return on invested capital (ROIC)	10.1%	10.5%	10.9%	7.5%	**6.5%**
Dividend per ordinary share (in €)	0.64	0.77	0.93	1.03	**1.14**[5]
Dividend per preference share (in €)	0.67	0.80	0.96	1.06	**1.17**[5]
Employees (31.12.)	39,923	43,783	49,974	60,667	**63,638**

[1] 2001: before special charge for US legal matters of Fresenius Medical Care
[2] Accounting according to Commercial Code (HGB): Net income before minority interests
[3] Accounting according to US GAAP: Equity including minority interests
[4] Investments in intangible and tangible fixed assets, acquisitions
[5] Proposal



PEOPLE AND MARKETS

To be present in the markets, to live and work there, to become part of their culture, to understand and fulfil our customers' needs – to develop national identity – this is our philosophy. Our way of thinking and our actions in the individual countries of the world all come together in the Fresenius Group to create international competence. Exchanging experiences and worldwide dialogue about the important subject health lead to higher quality of life for the patients.

In this Annual Report we should like to present to you some of our initiatives in our important markets: Markets which continue to offer us many opportunities and which are of great significance for the growth and increase in value of Fresenius.

Dear Shareholders,

A difficult but towards the end a nevertheless successful year is behind us! It was especially difficult because we implemented cost-intensive measures that had negative impacts on earnings, both for Fresenius Medical Care and for Fresenius Kabi. Although these measures meant that we were not able to fully realise our own targets and the expectations of the financial markets, we consciously decided to implement them in the interests of the future development of our company. Thus, we have completed a phase full of challenges and burdens. The business development of the last quarter of 2002 has shown that we have achieved the turnaround.

Despite the difficult economic environment, we achieved a sales growth in the 2002 financial year of 9% currency-adjusted and increased consolidated sales to 7.5 billion euros. Net income rose to 134 million euros. This is a 44% increase over 2001, although it must be taken into account that net income in 2001 was affected by the special charge for legal issues in the United States at Fresenius Medical Care and by amortization of goodwill. If the figure is adjusted for these effects, net income of 2002 at constant exchange rates would be 7% lower than the corrected figure for the previous year. For the most part, this is the result of switching from re-use dialysers to single-use dialysers in the American dialysis clinics of Fresenius Medical Care. To implement this measure it was necessary to increase capacities in our American dialyser manufacturing facilities and alter the personnel structure in the clinics. Furthermore, the final measures regarding the transfer and therefore the concentration of research and development of Fresenius Kabi from Sweden to Germany and Austria had a negative impact on earnings.

Above all, the uncertain amount of the claims in connection with the asbestos litigation against Fresenius Medical Care affected the share prices. In the negotiations with the claimants, which we pursued with great tenacity over a period of many months, we succeeded in finally repulsing the claims and reaching an agreement at the end of last November. We, and also the financial markets, consider this to be an extraordinary achievement which was rewarded by a substantial rise in the price of our shares.

People and markets – the title of this Annual Report stands for our aim to offer outstanding products and therapies and to be successful in the markets of the world.

Fresenius Medical Care and Fresenius Kabi have achieved a leading position in their main markets of America and Europe. This excellent market position can only be expanded by offering even higher-quality products and new therapy concepts, combined with highly-qualified services.

For Fresenius Medical Care, the constant improvement of dialysis treatment is absolutely decisive to achieve continued success. The strategically-important decision to introduce single-use dialysers to the American clinics of Fresenius Medical Care, instead of the previous dialysers which were re-used ten times on average, meant that the quality standard which is in force in Europe and many countries of Asia has now also been applied to the American market. Another reason why the use of single-use dialysers and the resulting optimum dialysis treatment is of great strategic importance is because it is anticipated that the reimbursement system in the United States will change from payment per dialysis treatment to new types of fee-for-case reimbursement per dialysis patient. This means that those companies that can offer products and services as a package, as well as providing the best-possible treatment, will have a decisive advantage over the competition in view of this type of reimbursement system. Thus, Fresenius Medical Care is in the best position to gain advantages from these changes.

High-quality products and new therapy approaches are also major success factors for Fresenius Kabi. One of the main focuses of our work are disease and patient-specific feeds which are becoming more and more important for the patient in long-term therapy, since they improve his condition, strengthen his immune system and improve his quality of life, despite his serious illness. We aim at continuing to grow and being successful especially in the field of caring for patients at home, not only in Germany, but also in other European countries.

Growth potential is opening up for Fresenius Medical Care and Fresenius Kabi not only with respect to products; the markets of the region Asia-Pacific are also extremely promising. Here we already have excellent market positions. In these countries, the demand for high-quality health care is steadily growing. The ability of these countries to finance their health systems is also constantly improving so that in the long run, health systems on European lines will be established. We are therefore convinced that in future we shall continue to achieve a double-digit organic sales growth rate with our products and services in this developing region.

Market leadership for the most part is decided by the ability to supply high quality to markets quickly and reliably. Over the past years, we invested considerable amounts in building up a network of production facilities and subsidiaries in the growth regions of the world, and this network means that we are extremely well prepared for the future.

And now to Fresenius ProServe. Whoever is convinced about the privatisation of the health systems is aware of the opportunities that will open up for this company. Likewise, as in the case of other services which used to be provided by the state, there is no reason why health services should be the job of the government. Fresenius ProServe has therefore the potential to become one of the leading companies in the field of hospital management.

The hospital landscape in Germany will change as a result of the ever-increasing pressure on costs. To improve efficiency, new organisational structures will be necessary which will make it possible to bundle resources by the creation of a network of regional health centres. Hospitals which continue to work independently and have autonomous management organisations will scarcely be able to exist side by side with those hospitals that operate in a network. Further cost savings and thus further advantages can be achieved if individual hospitals within a network offer specialized services. This is one of the aims of Fresenius ProServe.

In the Asian-Pacific region, a demand for competent management services in connection with the hospital is developing due to the increasing number of private health facilities. This is one of the focuses of Fresenius ProServe. Altogether, Fresenius ProServe represents an extraordinary opportunity to achieve global growth. However, it will be a special entrepreneurial challenge to implement this while achieving profits.

A relatively new field of activity for Fresenius is the immunotherapeutical treatment of oncological diseases. Our biotechnology product for immunosuppression, ATG, forms the basis for the expansion of this ambitious area. Phase I/II clinical trials are in progress for the indications ovarian and lung cancer; trials will soon start for breast cancer, cancer of the pancreas and for tumours of the head and neck. Initial results of compassionate trials lead us to hope that we shall achieve advances in this field.

I should like to thank all our employees for their dedicated work, their perseverance and their motivation, which helped us to make progress in this difficult year. I should also like to thank the employees' bodies who helped us to prepare decisions and also gave their constructive support.

I also thank you, our shareholders, for keeping your investment in Fresenius shares despite the strong drop in the share prices. Your trust will continue to spur us on in the future. This year we have returned to the growth path of the previous years and we are convinced that the Fresenius shares will also follow this growth.

In the past years, Fresenius has become stronger – technologically, innovatively and with respect to market orientation. These strengths will sustain our growth in the future. We will concentrate our work in 2003 on achieving our aim of ensuring that the name Fresenius will be intuitively linked with outstanding therapies and services for the sick, all over the globe.

Yours faithfully

Gerd Krick

Dr. Gerd Krick
Chairman of the Managing Board

PRESERVE QUALITY OF LIFE

The human being gains energy from nourishment. If a person cannot eat for any length of time as a result of sickness, then artificial feeding is essential for him to survive. It gives the patient a future with perspectives which he otherwise would not have.

“MEN WHO DO NOT CARE ABOUT THE FUTURE, WILL SOON HAVE TROUBLE.”

Confucius (551-479 BC), Chinese philosopher

The region Asia-Pacific offers Fresenius considerable growth potential. The health care systems are developing briskly and the markets are growing at a dynamic pace. In the past years, we have worked hard and invested a lot in this region, and achieved appreciable market positions. China is an example of how to be successful in these markets.

China

Area: 9.597 million km^2

Population (2001): 1.292 billion

GDP per capita (2000): I$ 3,852

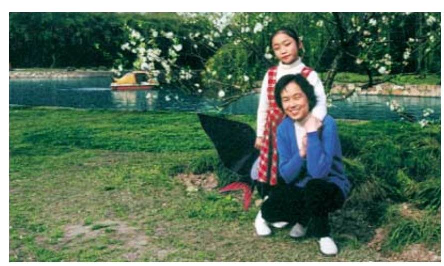
Health care spending per capita (2000): I$ 205

Health care spending in % of GDP (2000): 5.3%

Life expectancy (2001): women: 72.7 years; men: 69.8 years

Source: Eurostat, World Health Organization

MARKET LEADER WITH PARENTERAL NUTRITION IN THE MIDDLE KINGDOM



There is a tradition in China: If somebody feels unwell, he eats food which is said to have a good effect on health. Eating in China is more than just taking in food. For centuries, nutrition has been part of traditional Chinese medicine and is of extreme importance for people's health, the most valuable possession in the Eastern civilisation.

The same goes for today. Per-capita health care spending has been increasing annually since 1995 by 13% to 20%. The strong economic growth drives the demand for advanced health care systems and at the same time strengthens the purchasing power for medical products. The rise in the number of elderly people is also leading to an increasing demand for medical care. 1.3 billion people live in China, of whom around 10% were over 60 years old in 2001. The older people become, the greater is the demand for products which help them when they are ill, either just for a short time or when they need long-term therapy.

The main proportion of medical care of the population is provided by hospitals – about 66,500 are registered in China. Unlike Europe, the hospitals sell drugs directly to the patients. There are scarcely any doctors in general practice; instead, "laymen with medical training", so-called "bare-foot doctors", provide part of the basic medical care in country areas, as well as small in-patient clinics.

Opportunities grasped

China is an important market for Fresenius: It is the strongest country of the Group's Asian companies apart from Japan. In particular, the business with infusion and nutrition therapy has been generating double-digit growth rates over many years.

Our decision to enter the Chinese market was made less then ten years ago. At the time, Western companies were only allowed to establish local companies within the scope of joint ventures, since China did not belong to the World Trade Organization WTO. In 1994, Fresenius founded Beijing Fresenius Kabi Pharmaceutical Company Ltd. (BFP) in Beijing together with a Chinese company. Five years later we acquired a majority interest in Sino-Swed Pharmaceutical Company Ltd. (SSPC) which is located in Wuxi near Shanghai. Today, about 1,000 people work for the two companies. Our own production facilities in Beijing and Wuxi ensure that the hospitals are supplied directly.

Successful in the market

The Chinese market for parenteral nutrition (nutrition via the vein) has achieved double-digit growth figures over the past years. The Chinese market, with a market volume of around € 200 million in 2001, has already reached a substantial size compared to the European market with a volume of about € 350 million. Fresenius Kabi is the market leader in parenteral nutrition in China and the only company which supplies both parenteral and enteral nutrition (nutrition via the gastro-intestinal tract) for severely-ill people. In the field of infusion therapy, Fresenius Kabi is one of the leading providers of blood volume replacement products and anaesthetic drugs.

Teaching the specialist hospital staff about the medical benefits of parenteral nutrition was, and still is, one of the main aspects of our training and education work, in which we benefit from our many years of experience in caring for seriously-ill patients with our nutrition therapy products. The success of nutrition therapy also became known in China through an entry in the Guinness Book of Records: A woman from the Shanghai area suffers from a severe intestinal disease, which means that she has no intestines and needs to be intravenously fed for the rest of her life. She is fed with Fresenius Kabi products and is the first woman living solely on intravenous nutrition to give birth to a child.
(see photo: mother and daughter)

The enteral nutrition market, with a volume of around € 9 million, is considerably smaller than that for parenteral nutrition products, but the growth of approx. 30% in 2001 was remarkable. In 2002, Fresenius Kabi successfully launched the first enteral nutrition products onto the Chinese market. The acceptance of disease-specific nutrition is very high in the medical community so that caring for patients with enteral nutrition is also increasing in China.

Important market position

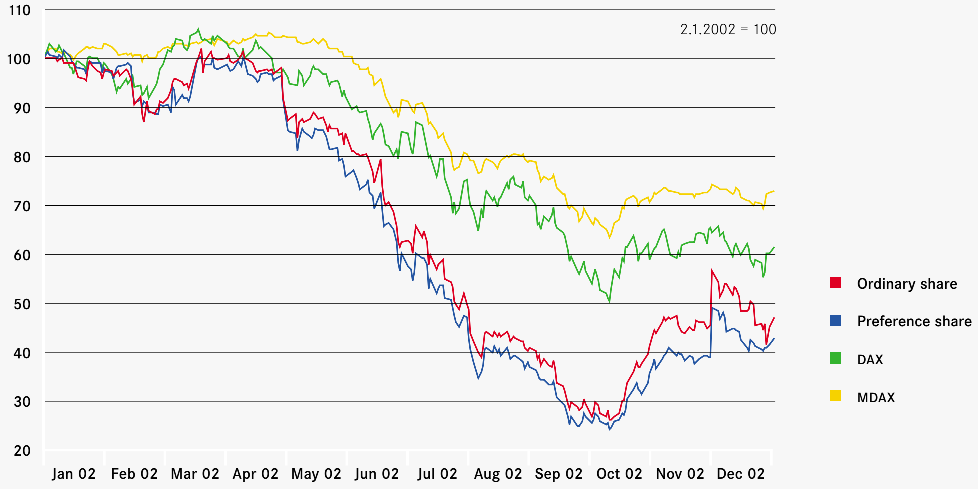
Fresenius Kabi has achieved a lot in China: The companies BFP and SSPC are two of the leading Chinese health care companies due to their many years' presence in the market and their high-quality products and scientific competence.

Due to our intensive international expansion of the last few years, China and the whole Asia-Pacific region will increase in importance in the Fresenius Group. In the year under report we achieved sales of € 563 million in the Asia-Pacific region, corresponding to a sales growth of 18% (currency-adjusted: 23%) compared to the previous year. Thus, Asia-Pacific is the fastest-growing region in the Group. The demand for even better services and products and for Western treatment methods will continue to increase in the whole region. Our strong market presence enables us to continue to make a significant contribution to the medical care of people in future.

The Fresenius Shares and Corporate Governance

- Fresenius is one of the 50 largest publicly-quoted companies in Germany.
- Buy recommendations of the analysts predominate in the assessment of the Fresenius shares.
- The Fresenius shares showed initial signs of recovery in the fourth quarter.

Relative development of Fresenius ordinary and preference shares



The sustained slump on the stock markets, restructuring at Fresenius Kabi and drops in earnings due to the introduction of single-use dialysers in the United States and legal matters at Fresenius Medical Care put pressure on the Fresenius shares in 2002. In the fourth quarter of the year, the share prices began to recover.

Sustained slump on the stock markets

The international stock markets were marked by an extremely negative development in 2002. The main causes were fears about the economy, balance sheet scandals and the risk of war in Iraq. Irregular economic impulses and unsolved structural problems, especially in Germany, mean that investors have not yet regained confidence in the stock markets and in a sustained recovery in share prices.

Within this general negative overall trend, there are significant differences between the various industrial fields. The technology, media and telecommunications sectors, and during the course of the year also the banking and insurance sectors, registered the strongest decline in share prices. More defensive sectors such as energy and pharmaceuticals also had to cope with significant losses, even though they were smaller in comparison. Overall, the stock markets were highly volatile, with some shares fluctuating strongly on certain days.

The DAX and MDAX indices registered a sustained sideways movement in the first half of 2002. In the second half of the year a significant downhill slide set in that reached a six-year low of 2,598 points for the DAX and 2,736 points for the MDAX on October 9. Subsequently, the DAX gained around 30% and the MDAX 17% and reached 3,380 and 3,190 points respectively. Despite these short-term increases, the indices registered losses of 44% (DAX) and 30% (MDAX) over the year as a whole. The DAX closed at 2,893 and the MDAX at 3,025 points at the end of the year.

Development of the Fresenius shares

While the Fresenius shares drifted sideways in the first four months of 2002, a significant downward trend started at the beginning of May. The publication of the figures for the first quarter, which were lower than anticipated, as well as restructuring at Fresenius Kabi, earnings reductions due to the introduction of single-use dialysers in the United States and legal matters at Fresenius Medical Care, together resulted in the shares registering their lowest prices for the year of € 20.45 (ordinary share) and € 21.48 (preference share) on 9 October, as did the DAX and MDAX indices as well. Not until the figures for the first nine months were published, which met general expectations, did the shares recover from this rock bottom. When the agreement with Fresenius Medical Care regarding the settlement of all the fraudulent conveyance claims was published on 29 November, the Fresenius shares shot up by more than 20% during one day. These gains were not able to be maintained for long. In the end, the shares were again caught up in the general negative trend on the markets and closed the year at € 36.05 (ordinary share) and € 36.45 (preference share).

Number of shares slightly increased

In the year under report, a small number of options on ordinary and preference shares from the stock option plan for managerial staff introduced in 1998 was exercised. Altogether the number of ordinary and preference shares both increased by 68. Thus, the subscribed capital of Fresenius AG amounted to € 104,882,391.04 on 31.12.2002, made up of 20,484,842 bearer ordinary shares and 20,484,842 bearer preference shares. You will find further information on the status of the stock option plan in Note 19 in the Notes to the Consolidated Financial Statements.

Dividend increase proposed

For the tenth consecutive time, we want to propose to our shareholders that the dividend be increased. We consider this increase of our dividend, despite the earnings impacts, to be reasonable and thus also express our confidence in the future earnings development of the Group. The dividend is to be increased from € 1.03 to € 1.14 per ordinary share and from € 1.06 to € 1.17 per preference share. As a result, the dividend will increase by 11% and 10% respectively over the previous year. The total amount distributed will be € 47.3 million. On the basis of the proposed dividends and the Fresenius share prices at the end of 2002, the dividend yield amounts to approx. 3.2%.

Higher-than-average yield on the Fresenius shares

The long-term performance of the Fresenius shares again beat the comparative index: An investor who spent € 10,000 on Fresenius preference shares when they were first issued in 1986 had a securities account of € 55,741.27 at the end of 2002. This calculation assumes that the dividends paid and subscription rights were re-invested in Fresenius shares. The annual yield thus amounts to 11.34%. In comparison, if the MDAX is calculated retrospectively, it achieved an annual yield of around 7.62%.

Earnings per share

In the 2002 financial year, the Fresenius Group generated an earnings per ordinary share of € 3.25 and an earnings per preference share of € 3.28 (2001: ordinary share € 2.27 and preference share € 2.30; for comparability, the figures for the previous year have been adjusted for the special charge in connection with the legal matters of Fresenius Medical Care in the United States). The 43% growth was positively influenced by goodwill no longer being amortized due to changes in US GAAP accounting standards.

The calculation of the earnings per share is as follows:

in million €	2001	2001 before special charge for legal matters in the United States	**2002**
Net income	18	93	**134**
Earnings per ordinary share (in €)	0.42	2.27	**3.25**
Earnings per preference share (in €)	0.45	2.30	**3.28**
Average number of shares	40,591,554	40,591,554	**40,969,684**

Please see page 125 of the Notes to the Consolidated Financial Statements for further information.

Mainly buy recommendations

The recommendations of the financial analysts are important factors for both private and institutional investors when they are making a decision on purchasing shares. According to information from I/B/E/S and our own surveys, the clear majority of assessments of Fresenius shares are recommendations to buy. Up to 31.12.2002 we received 13 recommendations to buy, 3 to hold and 1 to sell our shares. The high proportion of buy recommendations reflects the positive expectations in the long-term earnings power of the Fresenius Group and in the potential of our shares.

The following banks reported on Fresenius, and their latest assessments of the shares were as follows:

Morgan Stanley Dean Witter	December 2002	Overweight
WestLB Panmure	December 2002	Buy
Credit Suisse First Boston	November 2002	Outperform
Deutsche Bank AG	November 2002	Buy
DZ Bank	November 2002	Accumulate
Merrill Lynch	November 2002	Buy
M.M. Warburg	November 2002	Buy
Sal. Oppenheim	November 2002	Buy
SG Cowen	November 2002	Buy
Credit Agricole Indosuez Cheuvreux	October 2002	Outperform
Schroder Salomon Smith Barney	September 2002	Outperform
Goldman Sachs	August 2002	Market perform
Bankgesellschaft Berlin	July 2002	Hold
HSBC Trinkaus & Burkhardt	July 2002	Reduce
HypoVereinsbank	June 2002	Neutral
Berenberg Bank	May 2002	Accumulate
Handelsbanken	February 2002	Buy

Shareholder structure

The largest holders of voting shares of Fresenius are:

- Vermögensverwaltungsgesellschaft Nachlass Else Kröner mbH, Frankfurt am Main: 67.35 % (as of 19.11.2002)
- Allianz Lebensversicherungs-AG, Stuttgart: 9.74 % (as of 23.12.2002)
- AW-Beteiligungs GmbH, Ochsenfurt, 8.79 % (as of 1.4.2002)

In dialogue with our shareholders

The turbulence on the stock markets and the accounting scandals of the past year put the information policies of companies more into the limelight. For Fresenius, dialogue with its shareholders has always been of major importance. At all times we give our shareholders appropriate information about the situation of the company, the market environment and other relevant developments. An important part of our investor relations activities is to give comprehensive information to private shareholders, institutional investors and financial analysts comprehensively, openly and punctually. Our aim is to provide the highest possible transparency regarding our company.

Our up-to-date financial reports and regular publications give information on the latest developments in the Fresenius Group. In addition, we started reporting according to US GAAP at the beginning of 2002. This is one of the most widely used and recognized accounting standards in the world.

In the course of 2002, we further extended our Internet web site (www.fresenius-ag.com). In this web site we also report on the subject of Corporate Governance. All information and documents in connection with the Annual General Meetings are now available to our shareholders on-line. The speech of our Chairman of the Managing Board at the Annual General Meeting as well as the press conferences on the occasion of the publication of the figures for the whole year and the first nine months were able to be followed live on Internet. Our Internet Info Service, which offers interested investors the opportunity to subscribe to corporate news, was used even more in 2002. Many people sent queries to us via Internet or requested written information. We wish to further expand and intensify this dialogue. We are grateful for suggestions as to how we can even better accommodate your requirements for information about our company.

In 2002, financial analysts once again had the opportunity to obtain detailed information on the current development of the Fresenius Group at the conferences which take place three times a year. When our quarterly results are published we make it possible for our investors to listen to telephone conferences on-line. Another important part of our investor relations work is to maintain contacts to financial analysts and institutional investors outside these conferences. In the year under report, we informed analysts and investors regularly in numerous individual meetings and corporate presentations about the situation and strategy of the Group. Apart from Germany, we also gave presentations in Great Britain, France, Sweden and Denmark.

Our web site was once again awarded a prize in 2002. Fresenius was rated second for “best public area” in the survey “Pharma 2002” made by the distinguished Prof-Net Institute for Internet Marketing.

The testers had investigated more than 200 web sites of German medical-technology and pharmaceutical companies and assessed them according to 130 criteria in the fields content, user guidance, interactivity and layout.

Fresenius was rated the third best German company in the survey “European Webranking 2002” which was carried out in co-operation with the Financial Times. The investigators examined the web sites of all the companies in the FT500 index on the basis of 101 criteria. Fresenius came 23rd out of all the European companies assessed.

Key data of the Fresenius shares

	1998	1999	2000	2001	**2002**
Number of shares	20,000,000	20,000,000	20,015,048	40,969,548	**40,969,684**
Ordinary shares	10,000,000	10,000,000	10,007,524	20,484,774	**20,484,842**
Preference shares	10,000,000	10,000,000	10,007,524	20,484,774	**20,484,842**
Stock exchange quotation of ordinary share[1)] (€)					
High	102.00	83.50	125.50	113.75	**80.50**
Low	53.69	64.50	67.00	76.98	**20.45**
Year-end quotation	76.69	72.50	109.50	81.00	**36.05**
Stock exchange quotation of preference share[1)] (€)					
High	111.72	95.75	160.00	143.00	**91.25**
Low	56.24	73.50	88.50	86.70	**21.48**
Year-end quotation	89.48	94.00	141.50	91.30	**36.45**
Market capitalization[2)] (million €)	3,323	3,330	5,024	3,530	**1,485**
Total amount distributed (million €)	26.1	31.4	43.8[3)]	42.8	**47.3[4)]**
Per share in €					
Dividend ordinary share	0.64	0.77	0.93	1.03	**1.14[4)]**
Dividend preference share	0.67	0.80	0.96	1.06	**1.17[4)]**
Earnings per ordinary share[5)]	2.11	2.66	3.03	2.27	**3.25**
Earnings per preference share[5)]	2.14	2.69	3.06	2.30	**3.28**

[1)] Final Xetra quotations on the Frankfurt Stock Exchange
[2)] Total number of ordinary and preference shares multiplied by the respective Xetra year-end quotations on the Frankfurt Stock Exchange
[3)] Including special dividend of € 0.15 per ordinary and preference share
[4)] Proposal
[5)] Figures according to HGB (German Commercial Code) up to and including 2000

Corporate Governance

In February 2002 the Government commission established by the Federal Ministry of Justice adopted the German Corporate Governance Code. This Code is aimed at making the regulations in force in Germany for managing and monitoring companies more transparent for German and international investors. The majority of the guidelines, recommendations and proposals regarding responsible company management has been a firm part of routine at Fresenius for many years.

On November 26, 2002 the Managing Board and Supervisory Board of Fresenius AG issued its first declaration of compliance in accordance with § 161 German Stock Corporation Law. The declaration corresponds to the recommendations of the governmental commission German Corporate Governance Code with the following exceptions:

- The comparative parameters of the existing stock option plan are based on an increase in EBIT (clause 4.2.3.). It is intended to propose to the next Annual General Meeting that when the stock option plan expires, it be replaced with a plan that complies with the recommendations of the Code.

- At present, the company does not pay separate compensation for chair and membership in Supervisory Board committees (clause No. 5.4.5. paragraph 1, sentence 3). At the next Annual General Meeting, the Managing Board and Supervisory Board will propose that Article 13 paragraph 2 of the Memorandum and Articles of Association of Fresenius AG be amended to include a provision regarding compensation for the chair and membership in Supervisory Board committees.

We view the changing demands of the international equity markets openly and pro-actively. Our subsidiary Fresenius Medical Care which is listed on a US stock exchange was one of the first companies to declare that it will implement the Sarbanes-Oxley Act. This act contains clauses regarding the improvement of the financial reporting of domestic and foreign companies listed in the United States, and it requires companies to publish their financial figures as early as possible.

Basic information

	Ordinary share	Preference share
Securities identification no.	578 560	578 563
Stock exchange abbreviation	FRE	FRE3
ISIN	DE0005785604	DE0005785638
Bloomberg symbol	FRE GR	FRE3 GR
Reuters symbol	FREG.de	FREG_p.de
Main trading location	Frankfurt / Xetra	Frankfurt / Xetra

BUSINESS SUMMARY OF THE FINANCIAL YEAR

The development of the Fresenius Group was positive on the whole in the 2002 financial year in view of the overall weakness of the global economy. The growth in sales amounting to 9% at constant exchange rates shows that our products and services are well accepted all over the world. The company achieved sales of € 7.5 billion.

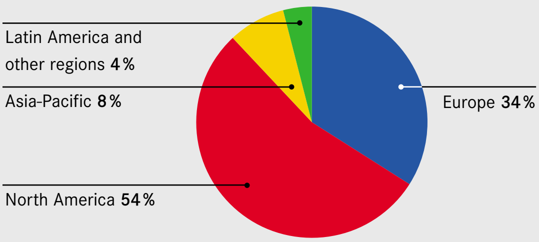
Earnings were affected by expenses in connection with switching to dialysis treatment with single-use dialysers in the United States and by restructuring measures of Fresenius Kabi. An increase in earnings was achieved due to goodwill no longer being amortized as a result of changes in the US GAAP accounting rules.

In 2002 we were able to reduce the extremely high investment volume of the previous years. The substantial investments which we made in the past in order to build up our markets are expected to further strengthen our earnings development in the future.

Sales

- Consolidated sales rose by 3% to € 7.5 billion.
- Mainly the weakening of the US dollar and the Argentinian peso over the euro had a major negative impact on the currency translation. This affected sales by –6 percentage points.

Sales by region



2002: € 7.5 billion

- Our business developed in our main markets North America and Europe by 4% currency-adjusted and 13% respectively.
- Our growth rates in our future markets Asia-Pacific and Latin America are strong: currency-adjusted 23% and 11% respectively.

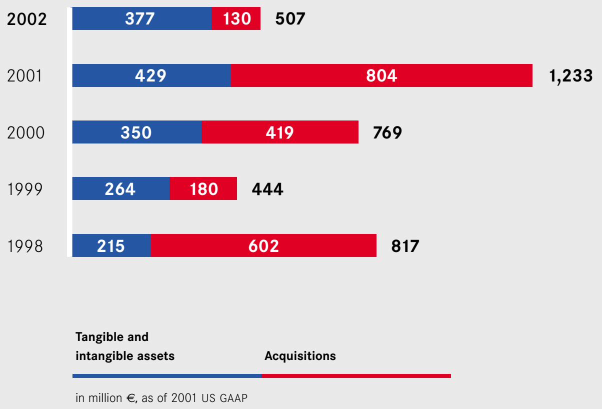
Earnings

In order to be able to better compare the development of the Group, we also show the previous year's figures adjusted for the special charge of Fresenius Medical Care for legal matters in the United States:

in million €	2001	2001 before special charge for legal matters in the United States	**2002**	**Change** 2002 vs. 2001 before special charge
EBIT	466	762	**837**	**10%**
Balance of interest	-286	-286	**-270**	**6%**
Income taxes	-109	-203	**-210**	**-3%**
Minority interests	-53	-180	**-218**	**-21%**
Net income before extraordinary expenses	18	93	**139**	**49%**
Extraordinary expenses set off by minority interests	0	0	**-5**	
Net income	18	93	**134**	**44%**

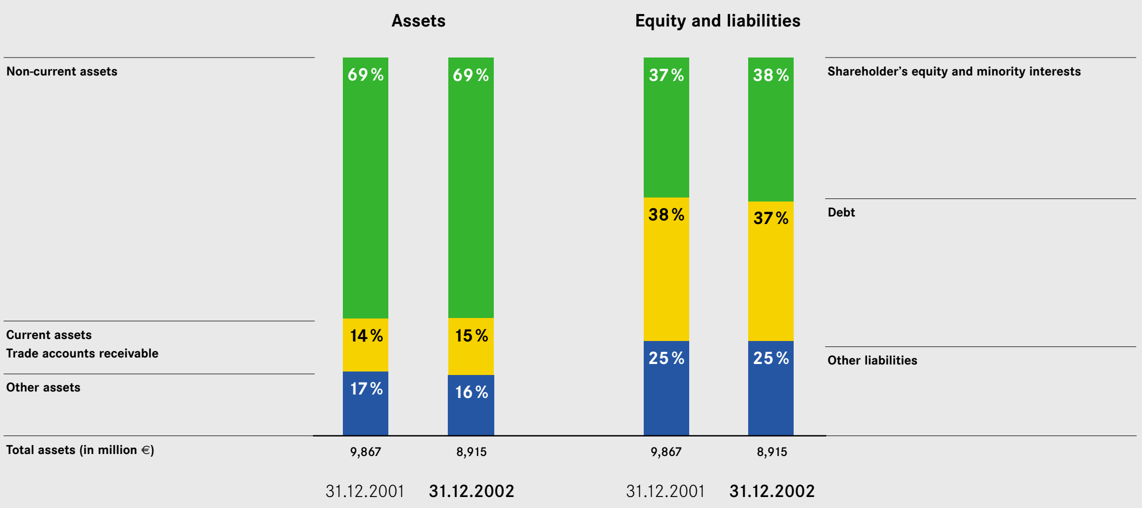
- The growth of the operating profit amounted to 10%.
- Net income reached € 134 million, a plus of 44%.
- The increase in earnings was achieved due to goodwill not being amortized in 2002. In the 2001 financial year, amortization of goodwill amounted to € 152 million before taxes. If EBIT and net income of the year 2001 before the special charge do not include goodwill amortization, EBIT of 2002 would have been 8% (currency-adjusted: 4%) and net income 12% (currency-adjusted: 7%) below the previous year.
- The extraordinary expenses in the 2002 financial year concern one-time costs resulting from the early repayment of trust preferred securities by Fresenius Medical Care.

Capital expenditure on tangible and intangible assets and acquisitions



- The Fresenius Group invested € 507 million in 2002. Compared to 2001 with its high investment volume of € 1.2 billion mainly due to acquisitions, the amount invested dropped by € 706 million.
- 74% of investments were made in tangible and intangible assets, especially in the establishing and equipping of dialysis clinics.

Balance sheet structure

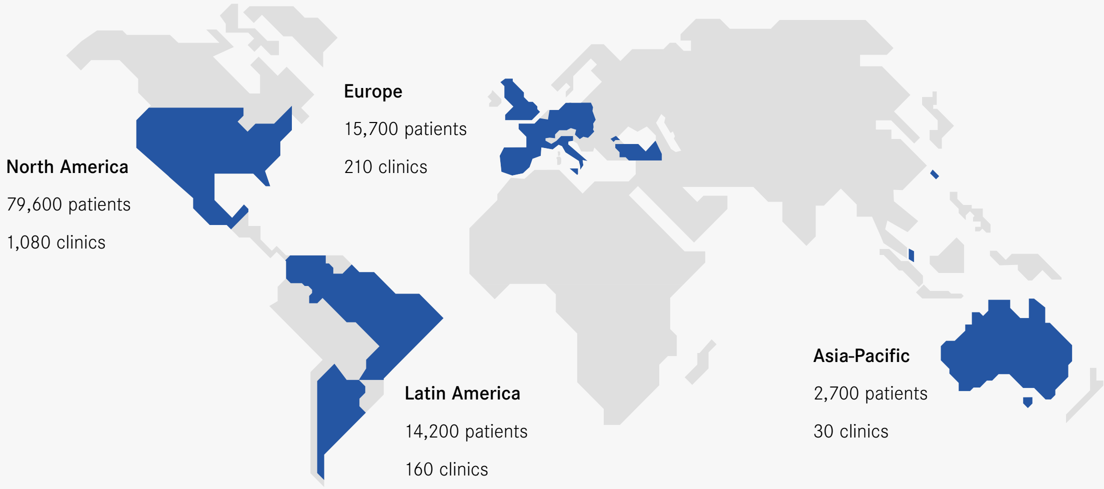


- Total assets dropped by € 952 million to € 8,915 million. This is solely due to the changes in exchange rates. Currency-adjusted the total assets grew by 1%.
- The balance sheet structure is solid: The equity ratio including minority interests amounts to 38%. Shareholders' equity including minority interests covers non-current assets by 55%.

Fresenius Medical Care

- Fresenius Medical Care is the leading provider of dialysis products and dialysis care in the world. In 2002 we treated approx. 112,200 patients in 1,480 dialysis clinics.
- The introduction of single-use dialysers in North America was an important strategic step.
- Fresenius Medical Care has signed a definitive agreement to settle fraudulent conveyance claims in the United States.

Fresenius Medical Care dialysis clinics and number of patients treated



As of 31.12.2002

In 2002, Fresenius Medical Care further expanded its market position in dialysis. We registered growth rates in Europe, Latin America and the region Asia-Pacific that were significantly higher than those of the market. However, due to the introduction of single-use dialysers, the growth rates in North America were lower than anticipated. Conversion to single-use dialysers is certainly a significant strategic step and the basis for future growth.

In 2002, Fresenius Medical Care increased sales by 5 % (currency-adjusted: 6 %) to US$ 5,084 million (2001: US$ 4,859 million). 74 % of sales were achieved in the United States, 18 % in Europe and 8 % in the other regions of the world. The decisive growth driver was the segment Dialysis Care which grew by 4 % to US$ 3,709 million (2001: US$ 3,557 million). The main reason for this growth was the increased number of dialysis treatments: All in all, Fresenius Medical Care performed 16.4 million treatments in the year under report, 7 % more than in the comparative period. Sales of dialysis products amounted to 27 % of total sales of Fresenius Medical Care and increased by 6 % to US$ 1,375 million (2001: US$ 1,302 million). If sales of products to company-owned dialysis clinics are included, sales amounted to US$ 1,776 million, which likewise corresponds to a growth of 6 %. Fresenius Medical Care increased EBIT by 8 % from US$ 644 million (before special charges) in the previous year to US$ 695 million. If goodwill amortization is not included in the figure for the previous year, EBIT would have been 9 % lower than the previous year. These earnings were affected by costs in connection with the switch from re-use dialysers to single-use dialysers in the United States.

North America

In the last financial year, the main focus of our activities was further improving the quality of treatment for our patients. To this end, we concentrated on the introduction of innovative products and services and the conversion from re-use to single-use dialysers in our clinics. We were able to close a difficult chapter in the history of Fresenius Medical Care when we signed a definitive agreement to settle fraudulent conveyance and all other W.R. Grace bankruptcy related issues in the United States.

Dialysis services were still the main focus of our business activities. During the course of 2002 we performed a total of 11.6 million dialysis treatments in 1,080 clinics, a plus of 4 % compared to 2001. Thus we are the number one in dialysis care in North America with a market share of 27 %, and treat almost twice as many patients as the second largest provider.

The single-use dialyser is the heart of a novel treatment concept with the name *Ultra*Care™. *Ultra*Care™ combines technologically-advanced products and methods. These include the Optiflux™ single-use dialyser, dialysis machines of the 2008 generation, the On-line Clearance Monitor and the hollow-fibre filter DiaSafe™. You can read more about *Ultra*Care™ on page 40 of our Annual Report.

We anticipate that Disease State Management (DSM) will continue to gain in importance in the health systems of the United States. Within the scope of Disease State Management, the medical services provided in connection with a specific disease of the patient are no longer reimbursed per treatment but at a pre-determined fee per patient for a certain treatment period. Special emphasis is placed on prevention and on the quality of the treatment, because these two factors make a decisive contribution towards improving medical outcomes and reducing costs.

Fresenius Medical Care has been developing treatment concepts and services for patients for many years; services such as pre-ESRD care, i.e. the care of patients in the stage before their kidneys fail completely, and monitoring patients with vascular access problems. Our joint ventures Optimal Renal Care and Renaissance Health Care are mainly responsible for the care of around 4,500 privately-insured patients whom we treat within the framework of a DSM concept.

Our subsidiary Spectra Renal Management specialises in laboratory services, and in 2002 it performed over 36 million laboratory tests for more than 115,000 patients. Spectra Renal Management is the leading provider of laboratory services for dialysis patients in the United States and has a market share of 40%.

Fresenius Medical Care also provides extracorporeal treatment services for hospitals in North America – and holds a leading position in this field. The Extracorporeal Alliance division strategically enhances the haemodialysis services of Fresenius Medical Care which are of a similar technological nature. The portfolio of Extracorporeal Alliance comprises cardiovascular perfusion, autotransfusion, apheresis and blood cell separation for hospitals that outsource these specialised functions. In 2002 the employees of Fresenius Medical Care in North America carried out more than 200,000 treatments in over 500 hospitals.

The haemodialysis product business also developed positively in 2002. Nowadays, almost 50% of all dialysers sold by Fresenius Medical Care in North America are Optiflux™ dialysers, introduced in 2000, thanks to their unique blood cleansing performance and comfort for the patient. Just one year after its market launch, the 2008K haemodialysis machine is the most frequently sold system in North America due to its versatility, its simple handling and the patient-specific treatment. The *iCare* monitoring system for haemodialysis will be introduced onto the North American market in 2003. This innovative product enables the nocturnal treatment of patients at home to be monitored centrally.

Products from the peritoneal dialysis range, such as the Premier™ Plus Double Bag and the Premier™ Plus System with the unique Safe•Lock® and Snap™ connecting properties achieved good growth rates in the year under report. Strong demand was registered on the American market in 2002 for the new Newton IQ™ automated peritoneal dialysis device for treatment during the night.

Europe

In Europe we performed a total of 2.3 million dialysis treatments in 2002, 19% more than in the comparative period. Also the product business developed positively on the whole.

In Central Europe, the focus of Fresenius Medical Care's activities is on products. In this area we were confronted with considerable price pressure, as well as with delayed investments and cost containment on the part of the hospitals. Nevertheless, we succeeded in consolidating our market position thanks to our high-quality products, and even managed to expand it in some segments. This resulted largely from the high demand for the 4008 dialysis machine, especially in combination with the On-line Clearance Monitor, and the technologically advanced FX-class dialyser, whose special features are improved clearance properties and excellent biocompatibility. In peritoneal dialysis (PD), the new generation of PD solutions with the pH-neutral solution *balance* and the bicarbonate-buffered solution bica*Vera*™, both of which were registered in 2002, already made a positive contribution to the development of business in the region. Significant advances were also made in the field of acute dialysis: The newly-launched Genius 90 system offers an enlarged therapy spectrum with simplified handling and optimised costs and services. The key product in this area, the multi**Filtrate** device, was also very well received by the market. It is planned to use and establish this machine as a platform for further extracorporeal therapy options, especially adsorption processes.

In Central and Western Europe we further expanded the dialysis care share of our business, and utilized to a greater extent the resulting synergies with our traditionally strong product business. Furthermore, we made greater use of the FX-class dialysers in our clinics. In Spain we treated 4,000 patients in private clinics during the course of 2002 and succeeded in consolidating our market leadership. Furthermore we started to introduce the OnLine HDF treatment method to our clinics. In Portugal, we treated a total of 3,100 patients in 2002, a growth of 11%. In addition, we were able to expand our product business through new partnerships with office-based doctors. In Great Britain we treated 1,200 patients in 19 clinics in the past financial year. We also increased the number of patients cared for by Fresenius Medical Care in other European countries such as France and Italy. In the field of peritoneal dialysis we registered a significant 30% growth in patients in Central and Western Europe. This is due to the fact that we have steadily implemented our growth strategy in peritoneal dialysis. The product business developed positively in this region, due in part to the high acceptance of the FX-class dialysers. The PD solutions *balance* and bica*Vera*™ were also launched onto the market. Both were well received by the customers and show great promise for the 2003 financial year.

Our target in Central and Eastern Europe is to strengthen our presence with services in other countries, as well as the Czech Republic, Hungary and Slovakia. We have taken initial steps towards further opening up the market in Poland. In Turkey, we treated approx. 2,450 patients in 2002. We have been present in this region for many years and have achieved strong market positions.

In Europe we intend to expand our dialysis care business in the future. In the product business we foresee growth opportunities especially in peritoneal dialysis.

Asia-Pacific

We were able to increase the number of patients cared for by Fresenius Medical Care in the past financial year in the region Asia-Pacific as well, by about 40% to 2,700. Our product business also developed well and registered an increase of 17%.

In 2002 our activities in this region were again focused on the sale of products, on clinical training and dialysis care. We were able to increase our market shares in many countries.

In Japan, Asia's largest dialysis market, we are active with our products both in the field of haemodialysis as well as in peritoneal dialysis. We were again able to maintain our position as one of the leading companies on the Japanese haemodialysis market during the year under report. The success factor is the Fresenius Polysulfone® dialyser that is manufactured locally. A major achievement was the registration of the FX-class dialyser, which was presented and launched on the occasion of the conference of the Japanese Society for Dialysis Therapy (JSDT) in July 2002. Our product programme in the field of peritoneal dialysis was expanded with the market launch of our pH-neutral PD solution *balance* and the sleep • safe® *balance* for automated peritoneal dialysis. We anticipate significant growth in Japan in the years to come through the expansion of business with our FX-class dialyser and through our increased presence in the field of peritoneal dialysis.

In China and Taiwan, the main proportion of sales is generated by the product business. We constantly increased sales in these countries and further increased our market shares. In Taiwan we increased our market share in HD concentrates to about 50% as the result of an acquisition. We care for more than 1,100 patients in Taiwan via management services for dialysis clinics. This is around 37% more than in the year before. In the People's Republic of China we expanded our market share in haemodialysis where we are already the leading company for dialysis machines and dialysers. It is now mandatory in China to use dialysers only once, which opens up good growth opportunities for us in this country. We were able to maintain our leading position in the haemodialysis products in the Hong Kong region and expand our market position in peritoneal dialysis to 28%.

In the region Central Asia-Pacific our growth in the fields of peritoneal dialysis, 36%, and haemodialysis, 13%, was significantly higher than the average market growth rate of 8%. In Thailand we are the market leader in haemodialysis and have been the number one in peritoneal dialysis since 2002. Through the acquisition of the marketing and sales divisions of our former local partner in the Philippines we are now in a position to develop the full potential of this market with our own business organisation. Furthermore, we have pressed on with marketing the PD product A.N.D.Y.® • disc system, especially in India, Pakistan and the Philippines. In Korea we were able to exploit our strong position in the low flux segment and position ourselves as the market leader in the future growth market of high flux dialysers.

In the region Southern Asia-Pacific we more than doubled the number of peritoneal dialysis patients cared for by us to over 565. We were very successful in Malaysia, Australia and New Zealand. The field of dialysis care also developed fundamentally well, but did not meet our expectations as a result of legislation in the state health care systems in Australia. We are the market leader in haemodialysis in all those countries of the region South Asia-Pacific where we operate, and succeeded in expanding this position thanks to higher-than-average growth. The "Cross Regional Education and Exchange in Dialysis" programme that was established in co-operation with the Australian and Indonesian Society of Nephrologists developed successfully. It is planned to extend this programme to other countries as well. Two of the main aims of this initiative are to promote the building of dialysis clinics and to train doctors, nurses and technicians.

Our target is to grow in the region Asia-Pacific with both products and services at rates which are above those of the market.

Latin America

We are represented in Latin America both with products and services. In the past financial year we treated 14,200 patients, 6% more than in the previous year.

We succeeded in countering the economic crisis in Argentina due to our high flexibility, and thus maintain our market leadership. Smaller clinics were combined to form larger units in order to combat the economic challenges with greater cost efficiency. At the same time we integrated all the local subsidiaries into the holding company Fresenius Medical Care Argentina S.A. A higher quantity of products such as tubing systems and the HD dry concentrate bi*b*ag® was exported from Argentina to other Latin American markets. The Argentinian sales organisation was extended to the neighbouring countries in order to support the expansion of marketing activities in these countries.

In Brazil, the focus of the development of Fresenius Medical Care was on consolidating its market position and in coping with the challenges presented by the economic condition of the country. In the year under report we started the production of peritoneal dialysis products and haemodialysis concentrates in our plant in Jaguariúna in the state of São Paulo.

We expanded our market shares in Colombia. We opened four new dialysis clinics in the past financial year and increased the number of haemodialysis patients treated by 16%. The number of peritoneal dialysis patients cared for by us increased substantially by 15%. Furthermore we started with the market launch of the PD product A.N.D.Y.® • disc system in 2002.

Mexico is one of the most important economies of Latin America. Despite its strong dependence on the US dollar, the Mexican peso remained stable. Also the political situation of Mexico can be described as more or less stable. The Mexican market for peritoneal dialysis products is the third largest in the world. In the past financial year the focus of our activities was on commissioning the manufacturing plant for PD solutions and the A.N.D.Y.® • disc system in Guadalajara. We supply more than 50% of the Mexican market with our HD products and succeeded in maintaining our strong position in 2002. We have been operating and managing dialysis clinics in Mexico since 2001. We expanded this business in the year under report so that we now run a total of four clinics with more than 400 patients.

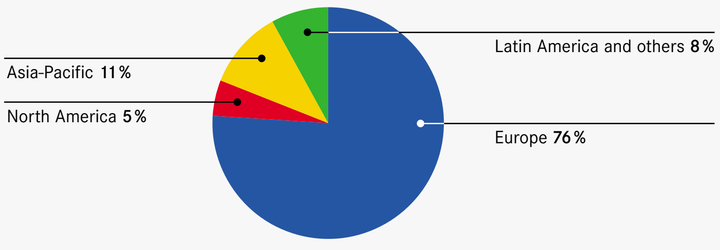
The Latin American markets are considered to be especially promising and interesting for dialysis products and services. Nevertheless they hold latent risks caused by the economic and political situation. We are combating the sustained difficult conditions in Latin America by a steady consolidation strategy and building up strategic partnerships with local companies. Thus we are reducing the risk potential while the economy is faltering, and at the same time we are creating a solid basis for growth when the environment improves again.

If you wish to know more, please ask for the Annual Report of Fresenius Medical Care: www.fmc-ag.com or tel. +49 (0) 6172/609-25 25.

Fresenius Kabi

- Our task is the therapy and care of seriously-ill patients in the hospital and in the field of ambulatory care.
- We consolidated our market leadership in Europe, and currency-adjusted grew significantly in Asia-Pacific, in Latin America and in South Africa.
- The restructuring measures have made Fresenius Kabi more efficient.
- Our achievements in 2002 are the basis for maintaining earnings growth in the future.

Sales by region



2002: € 1,262 million

In 2002 Fresenius Kabi implemented a comprehensive restructuring programme and achieved substantial improvements in efficiency. At the same time we strengthened our leading market position in infusion and nutrition therapy in Europe and considerably expanded our market shares in growth markets.

The portfolio of Fresenius Kabi focuses on the therapy and care of severely-ill patients in the hospital as well as on follow-up care in the ambulatory field. Within this supply chain we operate in three business units:

- Infusion therapy, i.e. products for fluid and blood volume replacement and anaesthetic agents for general anaesthesia.
- Nutrition therapy consisting of parenteral and enteral products for patients who cannot eat any, or sufficient, normal food. Parenteral nutrition is administered to the patient intravenously, and enteral nutrition products are given as sip and tube feeds using the gastro-intestinal tract.
- In ambulatory care we offer the following therapy concepts: enteral nutrition therapies, incontinence, wound care and respiratory therapies as well as patient-individual drug and nutrition solutions.

Since January 1, 2003, infusion and transfusion technology products, which were previously part of the business segment Fresenius HemoCare, have been included in the portfolio. Now that these products are assigned to Fresenius Kabi, we can better meet the steadily growing demand for systems for the hospital, such as infusion solutions and application systems. We are in a stronger position to market products of infusion and transfusion technology via our international distribution network now that they are integrated into this business segment.

Sales of Fresenius Kabi amounting to € 1,262 million were approximately the same as the previous year (2001: € 1,277 million). Sales development was mainly influenced by declining sales of the company ProReha, which was sold as of August 1, 2002, and in the manufacturing contract business. Organic growth of the core business amounted to 7%. This is a sound achievement in an environment marked by price pressure caused by the increasing number of purchasing co-operations, and by strong competition and cost savings in the health services. The changes in exchange rates, in particular of the Latin American currencies and the South African rand, had a strong negative impact of 3 percentage points on sales growth. The acquisition effect was 1 percentage point.

The breakdown between the hospital and ambulatory care businesses was as follows in 2002: The hospital business with € 959 million contributed 76% to total sales, and the ambulatory care business with € 303 million 24%.

Looking at the regions, we achieved significant growth in the Asia-Pacific region where we closed the reporting year very successfully with a sales plus of 14% (currency-adjusted: 20%). Growth was generated for the most part by the positive business development in China, Korea and India. In Latin America, we registered a sales decline of 11% in the year under report; however, on the basis of the exchange rates of the previous year the sales increase in this region was 10%. In South Africa we closed 2002 successfully with a sales rise of 4%, or 33% at constant exchange rates.

EBIT of Fresenius Kabi increased by 72 % in the year under report to € 91 million (2001: € 53 million; adjusted for goodwill: € 63 million). This development was influenced by measures to increase the efficiency of our production plants and by losses and the sale of the company ProReha.

Restructuring measures in production successfully completed

The year 2002 was characterised by a comprehensive restructuring programme with the aim of increasing the profitability of Fresenius Kabi. In the Friedberg plant in Germany we were able to achieve a reduction in production costs for all products manufactured in this factory due to organisational changes and optimisation. As a result of these measures we significantly increased the production volume of freeflex®, our PVC-free bag for infusion solutions in the year under report. At the same time, the technology for manufacturing sterile solutions in PVC-free bags was optimised.

The restructuring measures were also successful in the plant in Uppsala, Sweden. Now that these organisational changes have been completed, this facility is concentrating on the manufacture of parenteral nutrition. The research and development activities for parenteral nutrition which were originally located there have been integrated into our research and development centres in Germany and Austria mid of 2002. Furthermore, quality control was re-organised, and work is proceeding on technical improvements within specific production steps.

The restructuring measures carried out in the year under report will make a substantial contribution towards the future development of our earnings.

Infusion therapy

In the field of infusion therapy we maintained our market leadership in Europe and expanded the market position of our most important products. Outside Europe we further strengthened our good market positions by launching new products and through intensive marketing and sales activities. For instance, in China we sold more than one million units of our hydroxyethyl starch HAES-steril®, which is used in cases of blood volume deficiency, in the year under report.

One of the key products in the segment blood volume replacement is Voluven®. Voluven® is an infusion solution used for the prevention and therapy of blood volume deficiency and shock, as well as a substitute for donor blood during surgery. In the year under report, we introduced this product in further markets which include South Africa and South Korea. We currently can sell Voluven® in more than 40 countries of the world, and we have applied for registration in a further 20. This international presence has made a major contribution towards achieving our target of expanding Voluven® to become a blood volume replacement product used all over the world.

HyperHAES® – another product in the blood volume replacement segment – helps to quickly compensate for high losses of blood volume without using donor blood, and is mainly used in emergency medicine. In June 2002 we concluded the registration process for this product in most of the countries of Europe, so that we can also intensify our international marketing efforts for HyperHAES®.

Our infusion solution bag freeflex® is at the leading edge of technology. It is PVC-free, extremely compatible with drugs and safe and simple in its handling. In the year under report we successfully launched freeflex® in various markets such as France and considerably expanded the international market presence of this product.

In the product segment anaesthetic drugs, Propofol Fresenius® developed very well compared to the previous year, generating double-digit sales growth rates. Propofol Fresenius® is sold in more than 60 countries and is one of our most successful infusion therapy products today.

Nutrition therapy

In the field of nutrition therapy, Fresenius Kabi is one of the few companies which offer both parenteral and enteral nutrition for seriously-ill patients. We are the European market leader with these products. In the year under report, we were able to further strengthen market leadership and we also achieved substantial success in the growth regions with our nutrition products.

In parenteral nutrition, we concentrated on establishing our traditional products in additional countries. For instance, we introduced the fat emulsion Structolipid® in South Africa and Poland. Structolipid® provides severely-ill patients with quickly-available energy thanks to medium-chain and long-chain fatty acids. Likewise, we successfully established our three-chamber bag Kabiven® in further markets. This bag provides all the parenteral nutrition which a patient needs for one day. Carbohydrates, amino acids, fats and electrolytes are kept in three separate chambers during storage for reasons of stability. All essential nutrients are mixed immediately before the infusion by simply opening the individual chambers, thus ensuring that no contamination occurs. In spring 2002, we were given the Worldstar Award for this bag system by the international World Packaging Organisation.

We strengthened our good market position in Europe in the field of enteral nutrition. The market for enteral nutrition grew on average at double-digit rates over the past years. Due to the high medical benefits and the increasing demand for disease-specific enteral nutrition, we expect good expansion opportunities for the future.

One of the products we introduced in 2002 was Intestamin®, a product developed specially for the initial enteral nutrition of intensive care patients. These patients have an increased requirement for certain key nutrients such as glutamine and antioxidants. At the same time, the patients can tolerate only certain volumes of enteral nutrition, thus increasing the risk of malnutrition. Fresenius Kabi developed this new special high-dose feed in order to improve the nutritional therapy of such patients.

We are the market leader in Europe in the field of enteral medical technology. In the year under report, we further expanded our market position and launched the feeding pump APPLIX Vision, among other products. APPLIX Vision contains various nutrition programmes and enables patient data to be transferred to a hospital information system due to an integrated data interface. We expanded our competence with regard to technology and production processes in the field of medical-technical products for infusion and nutrition therapy through the acquisition of V. Krütten Medizinische Einmalgeräte GmbH, Germany.

We expect substantial future growth in ambulatory health care. Increasing hospital costs, budget caps, new savings measures in the governmental health systems, and the ever closer links between the ambulatory care of patients and the care of patients on the ward, will further increase the demand for ambulatory therapy services. We have streamlined our product range in this business and now concentrate on therapy concepts in important fields of indication. In the year under report, we have applied ambulatory therapies to the areas enteral nutrition, incontinence, diabetes, wound care and respiratory therapy.

The field of ambulatory care with enteral nutrition developed positively in Germany in 2002; we expanded our market leadership. New products and therapy concepts contributed to this success, as well as the higher number of patients cared for. Germany is the largest market in Europe for the provision of enteral nutrition to patients at home.

In the field of parenteral ambulatory therapy service we succeeded in significantly increasing the number of patients under care. We focus on parenteral nutrition that is specially prepared according to the health condition of the patient, and offer medication for ambulatory and home therapies, including the training and care of patients. As well as nutrition, we also provide a home service for intravenous antibiotic, antimycotic and antiviral therapies, and a compounding service for cytostatic agents.

Transfusion and infusion technology

We have included the Transfusion and Infusion Technology businesses of Fresenius HemoCare at this point in order to give you a full picture of the future programme of Fresenius Kabi.

Transfusion technology

The business unit Transfusion Technology offers a complete range of products for blood banks and blood donor services for the production and processing of blood products. Blood products are blood components (e.g. erythrocytes, thrombocytes, plasma) gained from a patient’s own blood, i.e. autologously, or from donor blood, i.e. homologously. They have now become essential to modern hospital medicine. We anticipate that the worldwide market for transfusion technology will continue to grow in the future due to the demographic development of the society and the increasing medical demand for therapeutic apheresis, i.e. the removal from the blood, or substitution of certain blood components (cells or plasma).

Our product programme ranges from complex disposable bag systems with integrated leukocyte depletion filters up to data management systems, blood component preparation systems and computer-controlled cell separators for performing therapeutic apheresis or multi-component blood donations.

We are the second leading company in the European market for transfusion technology. Here we succeeded in expanding our leading market position with the in-line filter blood bag systems, which are now mandatory in many countries – these are systems with integrated leukocyte filters. In South America, Eastern Europe and the Middle East we gained further market shares with our standard blood bag systems and achieved a good increase in sales. In South America we have been so far mainly active in Brazil. In 2002 we added locally-manufactured devices for the blood bank to our product portfolio. This enables us to sell our products in Central America based on our leading market position in South America combined with our competence in transfusion technology. We continued our intensive marketing activities in Asia in the year under report: We consider China to be a particularly promising market for the future.

Infusion technology

The business unit Infusion Technology offers technologically advanced products for infusion technology and infusion management. These products are mainly used in intensive care units and during surgery. We are one of the leading European specialists in this field.

In the 2002 financial year, we increased both sales and earnings in infusion technology. In the difficult European market, characterised by price pressure and delayed investments in the state health services, we maintained our position and generated a slight sales plus. We achieved double-digit growth rates in sales in the regions Africa and the Middle East, where we succeeded in substantially expanding our business. We have built up a distribution organisation in China, paving the way for future business expansion in Asia.

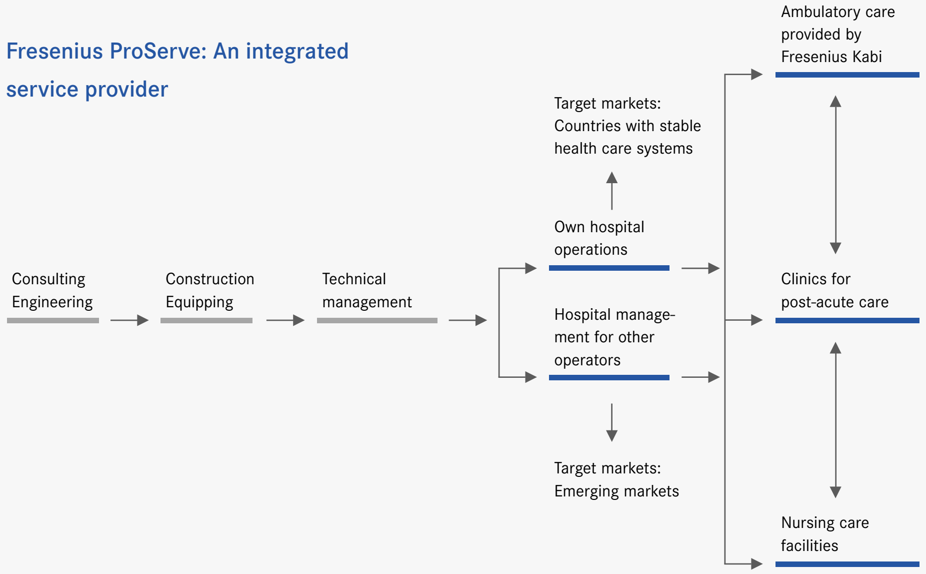
We gained market shares especially with the Orchestra® infusion workstation. The Orchestra® infusion system combines syringe pumps and volumetric infusion pumps in one central unit. Thus, doctors and nurses have the best possible control of all drugs being administered. The Orchestra® range of products was enhanced by the new syringe pump module DPS VISO and the new data station Base Intensive. In particular the DPS VISO module enables data from the Base Intensive to be displayed directly on the module. Orchestra® is thus an interactive and central infusion data management system without additional hard and software. All patient-related infusion data can be transferred to other systems from the Orchestra® configuration. This helps in making diagnoses and adjusting therapies. In the market segment volumetric pumps we were also able to strengthen our market position through the introduction of the infusion pump series OPTIMA.

A reliable and efficient patient data management system is essential to ensure effective infusion management for the patient and optimum processes in the hospital. We are also active in this area. Our first patient data management system MONICA (Monitoring@Intensive Care) was installed in the year under report. This system makes it possible to manage and document electronically patient data on intensive care units. We are thus steadily pursuing our goal of expanding our leading position in infusion technology by means of new products together with advanced communication electronics. You can find more information on MONICA on pages 76 and 77 of our Annual Report.

Fresenius ProServe

- Fresenius ProServe offers a unique range of services, from project development up to the management of health facilities.
- The establishment of health centres and the implementation of measures to increase efficiency were the focus of our activities in Germany in 2002, and these activities will continue during 2003.
- Our aim is to make Fresenius ProServe a global hospital management organisation.

Fresenius ProServe: An integrated service provider



We expanded our business model of health centres in the German hospital market in 2002, and implemented initial steps to increase efficiency. Globally, the successful business development was demonstrated by the record figure for orders received. The good sales and profit development in 2002 confirms our strategy.

Fresenius ProServe is a global provider of products and services in connection with the hospital and the pharmaceutical industry. The business comprises the consulting, planning, realisation and equipping of health care facilities as well as of pharmaceutical and medical-technical production plants on the one hand. On the other hand, Fresenius ProServe offers a complete range of services, from technical management up to the operation and management of hospitals, post-acute hospitals and care facilities. This spectrum of services means that our market strength is unique in international health care.

The long-term strategy of Fresenius ProServe is to develop into a leading global provider in the field of management of health care facilities. In Germany, Fresenius ProServe will focus in the coming years on offering an integrated system of acute care, post-acute care and nursing care services in the form of health centres. In the international market, the emphasis will be on obtaining contracts for hospital management.

In the 2002 financial year, Fresenius ProServe increased sales by 55% to € 701 million (2001: € 451 million). The Healthcare business achieved € 559 million or 80% of total sales and the Pharma Industry business € 142 million or 20% of total sales. The strong growth in the Healthcare business is largely a result of the consolidation for the first full year of Wittgensteiner Kliniken AG. Even without this acquisition, there still remains a good growth of 23%.

EBIT of Fresenius ProServe rose from € 6 million (goodwill adjusted: € 11 million) in 2001 to € 24 million in 2002.

We achieved new records in the key figures which are of major importance for the Project business – orders received and orders on hand – in the year under report: Orders received amounted to € 327 million on 31.12.2002 (2001: € 266 million), an increase of 23%. Orders on hand reached € 424 million (2001: € 366 million); a plus of 16%.

Healthcare business

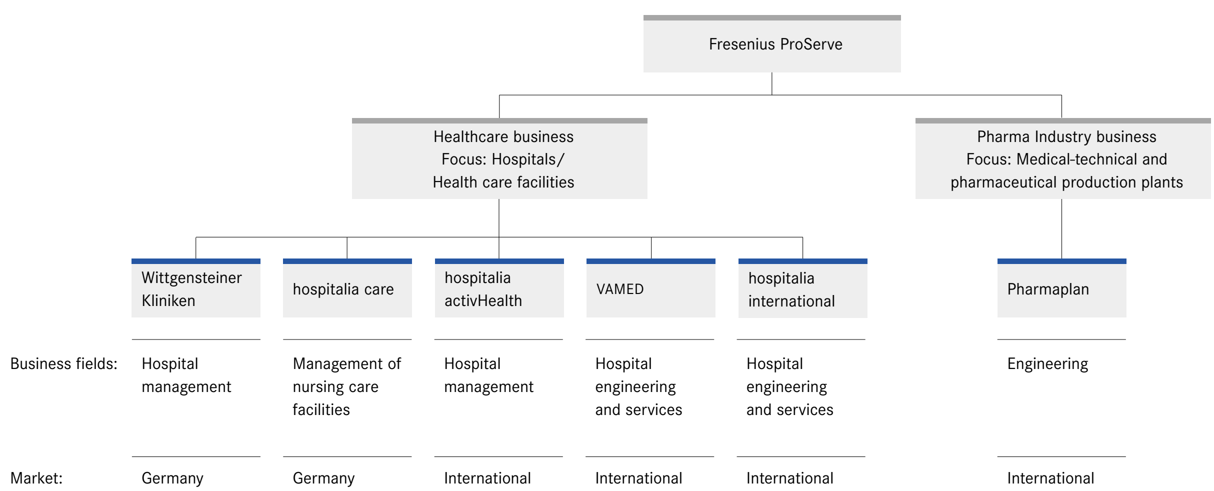
The Healthcare business comprises all activities in connection with health care facilities in the companies Wittgensteiner Kliniken, hospitalia care, hospitalia activHealth, VAMED and hospitalia international. The focus of activities in Germany was on the expansion of the acute hospital area by Wittgensteiner Kliniken AG (WKA). We took over the operation of three acute hospitals: The Rhein-Sieg Hospital (380 beds) in Siegburg which also has a cardiac centre, the Seehospital Sahlenburg (148 beds) in Cuxhaven with its recognised competence for treatment of the spinal column, and the City Hospital in Herbolzheim, Baden-Wuerttemberg (135 beds). The agreement to take over the operation of the neurological hospital in Bad Homburg, for which we have had a management contract since November 2001, was concluded effective January 1, 2003. In the field of post-acute hospitals, we assumed the operation of the oncological clinic in Bergisch-Land (110 beds); originally WKA had a management contract for this hospital.

In the year under report, one of the main focuses was to start implementating the strategy of offering holistic patient care in health centres. Bad Berleburg is a good example of this medical centre of competence. Four post-acute hospitals and one acute hospital were combined under the umbrella of a health centre. This is a model which WKA is continuing to pursue in other regions and that offers a platform for new, integrated forms of care.

In the 2002 financial year, WKA initiated or implemented far-reaching measures regarding cost optimisation. As well as savings in personnel, processes were improved and new therapy processes introduced. We expect further savings and increases in efficiency as a result of structural improvements in the fields of catering and facility management.

WKA operates and manages a total of 20 post-acute hospitals and 14 acute hospitals in Germany, the Czech Republic and Finland at the end of 2002, with more than 6,600 beds altogether. WKA is thus one of the leading operators of acute hospitals and post-acute clinics in Germany.

In the whole of Germany, there is a sustained demand for nursing care beds, mainly due to the increasing average age of the population and the associated increasing number of people needing full nursing care. According to a survey made by the German Institute of Economy, the number of people needing places in nursing care facilities will increase from 578,000 (as at 1999) to 909,000 (in the year 2020).



Our business model of health centres therefore also includes the operation of nursing care facilities. Our subsidiary hospitalia care operates own private care facilities and takes over the management and operation of them for third parties. hospitalia care places emphasis on offering nursing care which closes the gap between acute care in the hospital and care at home. In addition to the seven existing facilities in Germany with 741 beds, a care facility in Bremen (136 beds) went into operation. The care facility in Siegburg (206 beds and 45 apartments) was added to the facilities for which we have management contracts. Numerous new facilities are currently in the planning or building approval stages. Of these, four facilities with around 460 beds are planned to be completed by the end of 2003. It is our aim to build up further facilities together with institutional investors, investment funds and leasing companies.

hospitalia activHealth is involved in hospital management with an international focus. It places emphasis on countries with a stable social insurance system and/or a quickly-growing, private hospital market, such as South East Asia – Malaysia and the Philippines -, countries of the Middle East, or in Central and Eastern Europe. Two general hospitals were opened in Gabon, each with 130 beds. These hospitals were planned and built by the Fresenius ProServe company VAMED, and hospitalia activHealth has now signed a management contract with the local Ministry of Health. This is a good example of the implementation of Fresenius ProServe's strategy: to offer the complete value chain for a hospital – from the planning up to the management.

The companies VAMED and hospitalia international specialise in hospital projects, i.e. the development, planning, construction and supply of all the equipment, as well as maintenance and technical management. The two companies have different target markets. VAMED focuses on Central Europe, in particular on its domestic market of Austria and the neighbouring countries, the Middle East, South East Asia and Africa. On the other hand, the main markets of hospitalia international are Greece, Russia, Central Asia and selected countries of the Arabian Peninsular, Egypt and Libya.

2002 was an excellent year for VAMED. In Austria, construction work started on a series of major projects: the thermal spa in Längenfeld, Tyrol, the accident hospital of Allgemeine Unfallversicherungsanstalt and the maternity centre in Linz, as well as the Centre for Molecular Medicine (CeMM) of the Academy of Sciences in Vienna. The state social insurance has awarded the overall management of the Neurological Therapy Centre Rosenhügel in Vienna to a private provider, VAMED, for the first time. The spa facility Laa an der Thaya in Lower Austria was opened in October 2002. VAMED was responsible for the development, planning and construction of this project, and now manages the facility.

In the region Eastern Europe, the first project orders in Romania have been signed. Projects are currently being developed in Croatia, Serbia, Bosnia-Herzegovina and Italy. Outside Europe, special mention should be made of a major order from Nigeria with a total value of 100 million euros for the modernisation of eight university hospitals. Numerous projects were started and/or completed in 2002, including hospitals in Gabon and Ghana as well as in Malaysia, Indonesia and the Philippines.

hospitalia international won two tenders for the supply of medical-technical equipment for Indonesia in a programme initiated by the Federal Government of Germany. In addition, hospitalia international was awarded an order to supply medical-technical equipment to seven hospitals in Sudan. Additional tenders were achieved in China and Indonesia. Furthermore, emphasis was placed on the systematic expansion of the regional structures as well as on intensifying sales activities.

Pharma Industry business

Pharmaplan represents the Pharma Industry business in the business segment Fresenius ProServe. It comprises the planning, construction and supervision of pharmaceutical and medical-technical production plants. In the year under report, work was carried out on major orders in Germany, Austria, Russia and Switzerland. Offices were established in Korea and India in order to expand the company's presence in the growth markets of Asia. The business segment production plants in modules was expanded in 2002. The complete building including the technology for buildings and processes is pre-constructed and tested in Germany, and subsequently split into smaller units. These modules are re-assembled on site, similar to a pre-fabricated house. Production plants in modules have an advantage where projects have to be realised within short periods of time. We succeeded in acquiring a major order to construct a vaccine production facility in South Korea.

Pharmatec, a subsidiary of Pharmaplan, constructs process, purified water and sterilisation systems for the pharmaceutical industry. The focus of its work in the year under report was on expanding its international business. In North America, orders received nearly doubled. Internationally, the business with water systems developed particularly well. The international business with sterilization systems also increased.

QUALITY SAVES LIVES

The life of dialysis patients is determined by the quality of the treatment. Fresenius, and later Fresenius Medical Care, were therefore driving forces in the development process almost from the very beginning. Many of the achievements in dialysis therapy which are taken for granted today are a result of Fresenius' initiatives. By introducing the *Ultra*Care™ concept in the United States, Fresenius Medical Care has taken a further important step towards improving treatment for the patient.

"THOSE WHO ACT HAVE AN ADVANTAGE OVER

THOSE WHO TALK."

John F. Kennedy (1917-1963), 35th President of the United States of America

Fresenius has been operating in the United States since 1985, originally with dialysis products only. In 1996, following the merger with the American company National Medical Care and the creation of Fresenius Medical Care, dialysis care was added to the activities there. We started off with sales of US$ 5 million; today Fresenius Medical Care generates sales of US$ 3.75 billion in the United States, and is the leading dialysis company.

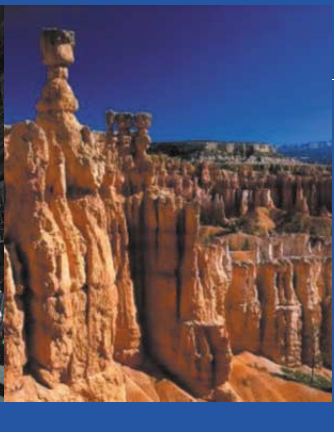



Photo New York · 5th avenue, Photo Utah · rock formations: Bildagentur mauritius GmbH

United States of America

Area: 9.629 million km^2

Population (2001): 278.1 million

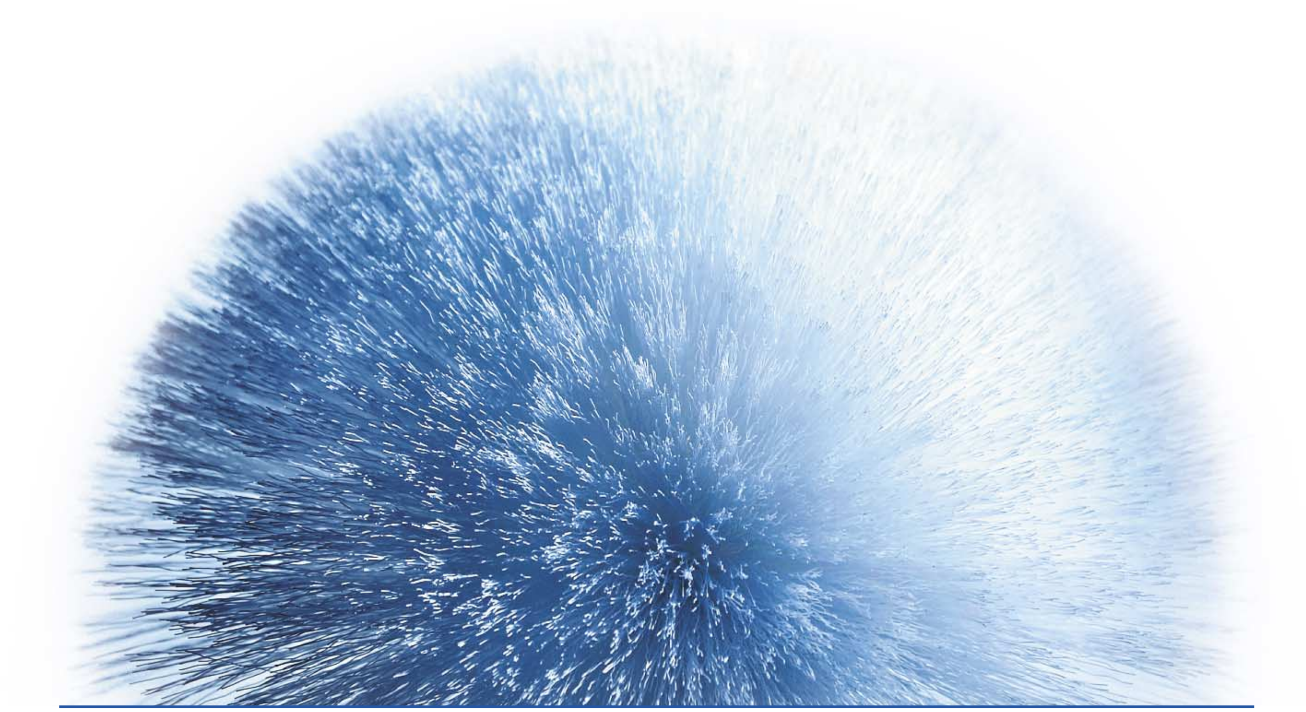
GDP per capita (2000): US$ 34,637

Health care spending per capita (2000): US$ 4,499

Health care spending in % of GDP (2000): 13%

Life expectancy (2001): women: 79.5 years; men: 74.3 years

Source: U.S. Census Bureau, Eurostat, World Health Organization



FRESENIUS MEDICAL CARE SETS STANDARDS IN THE UNITED STATES

Today, more than 1.2 million people with chronic kidney failure all over the world receive life-saving dialysis treatment regularly; of these, 299,000 alone live in the United States, the largest dialysis market in the world. The number of patients with chronic kidney failure in the United States is growing by 4 to 5 per cent a year and thus five times faster than the population. The United States Renal Data System (USRDS) estimates that in 2010, approximately 520,000 patients in the United States will have to undergo regular dialysis treatment. This is almost twice as many patients than today. Diabetes and high blood pressure are the main causes of kidney failure in the United States. But also the increasing average life expectancy as well as advanced treatment methods are reasons for the growing number of patients in the United States. If terminal kidney failure is untreated, it inevitably leads to the death of the patient.

Leading in dialysis

Patients who do not have the opportunity to receive a kidney transplant can be treated either by haemodialysis or peritoneal dialysis. In the United States, around 90 per cent choose haemodialysis. Fresenius Medical Care treated around 79,600 patients in its 1,080 clinics in

2002 and is by far the largest provider in the United States with a market share of 27%: The company thus cares for almost twice as many patients than its nearest competitor.

The quality of the treatment of our patients, both today and tomorrow, determines the focus of our activities. We continuously develop products, technologies and therapy concepts that satisfy more than just the latest standards. For this reason, we are the number one in dialysis today.

In 2002, Fresenius Medical Care set the course for the future by introducing a novel treatment concept in the United States. Other than the usual practice, the dialysers (artificial kidneys) are used not several times but only one single time within the scope of the so-called *Ultra*Care™ concept.

Best treatment with *Ultra*Care™

*Ultra*Care™ links together various leading technologies developed by Fresenius Medical Care: the high-flux polysulfone single-use dialyser, individual online treatment monitoring, and the ultra-pure dialysate DiaSafe™. Combining them in an integrated treatment process makes it possible to achieve optimum safety and comfort for the patient. The heart of this concept is the Optiflux™ single-use dialyser. It sets the undisputed standard of quality in kidney replacement treatment in the United States. Through highly-developed manufacturing processes, the membrane of the dialyser was able to be optimised so that the clearance, i.e. the blood cleansing performance during dialysis, is increased to practically 100 per cent of the performance of the human kidney. Further elements of *Ultra*Care™ are the 2008 haemodialysis machines that are distinguished by their versatility, easy handling and patient-specific treatment. With the additional On-line Clearance Monitor module, doctors and nursing staff can control fluid removal, blood flow and clearance during the treatment. The DiaSafe™ dialysis solution filter is integrated in the circulation of the dialysis fluid and thus reduces inflammation processes to a minimum. At the same time, a large amount of patient-relevant medical data with the aid of software programmes developed by Fresenius Medical Care are analysed during treatment.

Quality secures growth

Numerous doctors have chosen to treat patients with high-flux polysulfone single-use dialysers due to the medical advantages they offer. The impressive results of the first internal trial in our clinics proved the medical superiority of the *Ultra*Care™ concept. A comparison between 12,000 patients who have been treated with the new *Ultra*Care™ concept for one year, and 36,000 patients who are dialysed by the traditional method, produced very promising data that indicate a significantly lower mortality rate. This is in line with the experience that we gained with the introduction of single-use dialysers outside the United States. On the basis of the comprehensive database on the patients treated in North America, we are planning further trials and publications that are expected to provide convincing proof of the superiority of our new therapy concept. Today, the *Ultra*Care™ concept is used in around 85% of Fresenius Medical Care dialysis clinics in the United States.

This new concept, combined with the corresponding production capacities in the United States, enables Fresenius Medical Care to enhance its position even more versus its competitors in the United States, and thus creates a solid basis for future growth in products and services.

Optimum quality treatment will be a decisive factor in meeting the future demands of the US dialysis market, particularly in view of Disease State Management. This new form of reimbursement means that all medical costs incurred in connection with a specific disease of a patient are reimbursed by a fixed amount per patient. Of great importance are prevention of disease and the quality of treatment; both aspects make major contributions towards improving medical outcomes and reducing costs.

Management Report

The economic development of the Fresenius Group in the 2002 financial year was positive on the whole in view of the development of the global economy. We achieved a growth of 3% in sales (currency-adjusted: 9%). EBIT and net income rose by 10% and 44% respectively. In order to make comparison easier, the figures for 2001 were adjusted for the special charge for legal matters in the United States. The increase in earnings in 2002 was caused by goodwill no longer being amortized following the changes in the US GAAP effective January 1, 2002.

Fresenius changed its accounting methods at the start of the 2002 financial year to accounting standards of the United States. Thus, the economic situation of the Fresenius Group has become more transparent for the shareholder and easier to compare with international companies. We have adjusted the figures for the 2001 financial year accordingly.

The Fresenius Group consisted of four business segments until December 31, 2002: Fresenius Medical Care, Fresenius Kabi, Fresenius ProServe and Fresenius HemoCare. As of the 2003 financial year, the activities of the business segment Fresenius HemoCare were newly assigned within the Fresenius Group.

The business segments are legally-independent units which are managed by Fresenius AG as the operating parent company. Due to the strong international focus, all the business segments of the Fresenius Group are organised on a regional and decentralized basis. There are clear responsibilities with respect to the management principle “Entrepreneur in the enterprise”. An earnings and target-oriented compensation system strengthens the responsibility of the managerial staff.

In November 2002, Fresenius Medical Care reached an agreement in principle to settle fraudulent conveyance claims in connection with the transaction with National Medical Care, as well as all other claims related to W.R. Grace, the former owner of National Medical Care. Fresenius Medical Care does not expect that the total payments resulting from the agreement will exceed the accrual for the special charge made in 2001. The final agreement was signed in February 2003. According to the terms of this agreement, Fresenius Medical Care will pay US$ 115 million and receive protection from all resulting claims, as well as possible future claims, especially fraudulent conveyance and asbestos-related claims, and claims for tax payments, made against the W.R. Grace bankruptcy estate. The agreement will be submitted to the court for approval as part of the W.R. Grace Chapter 11 proceedings. The payments defined for Fresenius Medical Care are not due until the Grace Chapter 11 proceedings are concluded.

Economic environment

The development of the world economy in 2002 was modest. Following the downturn of the previous year, the recovery that was originally expected failed to occur. According to the latest forecasts, the growth of the global economy in 2002 amounted to 2.9%. This is an increase of 0.8% compared to the previous year’s figure of 2.1%.

- Europe
  The growth of 0.9% in the countries of the European Union was significantly lower than in the previous year (1.5%). Only Sweden, Denmark and Finland were able to increase their economic growth rates. The upswing hoped for, especially in Germany, the largest single European market, did not take place. GDP growth in Germany, 0.2%, was one of the lowest of all European growth rates. The main economic driver in 2002 was again trade with exports. The economic growth rates in France and Spain, 0.9% and 1.8% respectively, were significantly higher. The tense situation of government finances as well as rising unemployment figures had a negative effect on the economic environment in Europe. Also, the cuts in interest rates did not succeed in influencing the economy in the euro area at the end of 2002. It is not expected that positive developments will make themselves felt before the second half of 2003.

- USA
  The economy in the United States, after initial signs of recovery, slackened off in the second half of 2002. Despite monetary and fiscal policy measures, the American economy was not able to be stimulated to a noticeable degree. Substantial losses on the financial markets and fears related to the conflict with Iraq also had a negative impact on the development of the economy. The main weaknesses of the American economy were still the sustained deficit in foreign trade and the modest level of private investment. In 2002, GDP growth in the United States accelerated compared to the previous year, from 0.3% to 2.5%, but it is still considerably lower than the growth rates of over 4% which were achieved at the end of the 1990s.

- Asia
  Despite the weak global economy, Asia continues to be on a promising growth track which at 5.8% (excluding Japan) is significantly higher than the global average. This is largely due to the large economies of China (8.0%), India (5.0%) and South Korea (6.0%). The comparatively weak economic growth in Hong Kong (1.8%), Singapore (2.3%) and Taiwan (3.2%) is determined by various factors: Hong Kong is losing its importance to an increasing extent as a centre of trade now that the People's Republic of China has become a member of the World Trade Organization (WTO). In Taiwan, a massive exodus of industrial capacity to the People's Republic of China can be observed, and Singapore no longer benefits from the economic impulses of its neighbours. It is not yet clear whether the positive signs in Japan, especially in the second half of the year 2002, mean that the economic decline has finally come to a stop, because the structural problems still have not been solved.

- Latin America
  In many countries of Latin America, the difficult economic development is accompanied by currency devaluations, rising inflation, high interest rates, substantial outflows of capital and, particularly in the case of Argentina, political uncertainty. Altogether, the region registered an economic decline of -0.8% in 2002, which is a deterioration compared to the previous year (+ 0.2%). In Argentina, the economic situation has now stabilised, but this crisis cannot be considered to be over yet by any means. Last year's devaluation of the Argentinian peso, more than 60% compared to the euro, was dramatic. Brazil is battling with the strongly devalued exchange rate of the real and the resulting increase in debt, due to the numerous bonds which are linked to or have been issued in dollars. In Colombia, the most imperative domestic political challenges are to consolidate public finances and solve the conflict with the national guerrilla movement. In Mexico, the economy was stimulated in line with the economic recovery in the United States.

Trends in the health care sector

Health care is one of the most stable sectors in the world and is characterised by continuous growth and less dependence on economic fluctuations. The ageing of the population, the demands for innovative medicine and, in the developing countries, for basic health care, are the drivers of this development. The regional markets which are relevant to Fresenius developed to different degrees:

The trend in the European market continues to range from stagnation to decline. In Germany, pressure is increasing on companies active in the health care sector due to more and more new measures to save costs, driven by the tense financial situation of government finances. In this environment it is essential to develop new, innovative technologies and therapies in order to be able to benefit from growth in this sector on a higher-than-average scale. In Germany, the continuing privatisation of hospitals and the start of fee-for-case reimbursement in 2003 open up new opportunities for companies, but also present them with enormous challenges. The traditional system of placing emphasis on the number of beds will be replaced in future more and more by focusing on the service provided. As a result, hospitals will need to create structures that are able to offer cross-segment, process-oriented services.

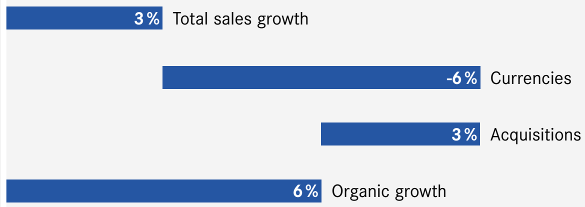
There is an identifiable trend in markets with less-developed health care systems, such as Asia and Latin America, towards a strong demand for medical products and services. As a result we have extended our product offering. Especially in the so-called emerging markets, favourable growth prospects are opening up for providers such as Fresenius with its programme of life-saving products.

The number of patients in the world who suffer from chronic kidney failure and who receive regular dialysis treatment amounts to about 1.2 million. This figure is rising by about 6 to 7% per year. The basis for this growth is on the one hand the increasing average life expectancy in the developed countries and improved treatment methods. On the other hand, more and more people in the developing countries have access to life-saving dialysis, in line with the increase in GDP and higher health care spending. Diabetes and high blood pressure continue to be the main causes of chronic kidney disease.

You will find estimates on the economic development and trends in the health care industry for this year on page 69.

Sales

In 2002 we increased consolidated sales to € 7,507 million. The 3% growth resulted from three factors: 6 percentage points were achieved by organic growth and 3 percentage points by acquisitions. The change in exchange rates had a negative impact of 6 percentage points. The devaluation of the Argentinian peso, and especially the weakening of the US dollar compared to the euro, 5.6% on average over the year, affected sales in the currency translation. This is due to the fact that a large part of our business activities is in North America. At constant exchange rates, the increase in consolidated sales would amount to 9%. The chart clearly shows these influences on the sales growth of the Fresenius Group.



Impacts on sales

The regions with the highest sales continue to be North America with 54 % and Europe with 34 % of total sales, followed by the region Asia-Pacific with 8 % and Latin America and other regions with 4 %. The German business contributed 13 % to consolidated sales.

We achieved substantial sales increases in all regions of the world. In order to show the operating achievements, the following table shows the growth rates at constant exchange rates. We reached especially high growth in the region Asia-Pacific. Despite the difficult economic situation in Argentina and Brazil, we increased sales in Latin America by 11 % at constant exchange rates. In these regions, the demand for our products and services continues to be substantial.

Sales of the business segments as a proportion of total sales changed in favour of Fresenius ProServe, since Wittgensteiner Kliniken AG, which was acquired effective June 1, 2001, was consolidated for the first full year in 2002.

	2001	**2002**
Fresenius Medical Care	74 %	**71 %**
Fresenius Kabi	17 %	**17 %**
Fresenius ProServe	6 %	**9 %**
Fresenius HemoCare	3 %	**3 %**

in million €	**2001**	**2002**	**Change**	**Change currency-adjusted**
Europe	2,241	2,539	13 %	13 %
North America	4,113	4,061	-1 %	4 %
Asia-Pacific	479	563	18 %	23 %
Latin America	368	239	-35 %	11 %
Africa	106	105	-1 %	8 %
Total	7,307	7,507	3 %	9 %

The breakdown of sales by business segment shows the following picture:

- Fresenius Medical Care achieved a sales increase at constant exchange rates of 6% on the basis of high absolute figures. If the changed exchange rates are taken into account, sales amounting to € 5,378 million were approximately 1% lower than the previous year (2001: € 5,426 million). Organic growth of 5 percentage points and the acquisitions, which contributed 1 percentage point to growth, were reduced by the negative effects from currency translation of 7 percentage points.
- Fresenius Kabi achieved sales of € 1,262 million (2001: € 1,277 million; -1%) and is therefore the second largest business segment of the Group. The sales development was mainly influenced by declining sales of the company ProReha and its sale in August 2002. In addition, falling sales in the contract manufacturing business had a negative impact. If these effects are not included, Fresenius Kabi achieved an organic sales growth of 7%. Acquisitions contributed 1 percentage point; currency effects diminished growth by 3 percentage points.
- Fresenius ProServe achieved a 55% sales upswing: Sales amounted to € 701 million (2001: € 451 million). Of the sales increase of € 250 million, € 145 million was generated by acquisitions, largely by Wittgensteiner Kliniken AG that in 2001 only contributed seven months to the sales of Fresenius ProServe. Orders received and orders on hand exceeded the high level of the previous year: Orders received relating to the project business of Fresenius ProServe increased to € 327 million (2001: € 266 million); orders on hand reached € 424 million (2001: € 366 million). This corresponds to a plus of 23% and 16% respectively. In 2002, Fresenius ProServe gained important orders in the Healthcare business where Fresenius ProServe was awarded planning contracts and orders for turnkey projects for hospitals. The order situation of the Pharma Industry business is also very positive since it received projects for the planning and construction of production plants for the pharmaceutical industry.
- Fresenius HemoCare generated sales of € 229 million in the year under report (2001: € 215 million). The 7% increase is mainly due to acquisition activities and organic growth. Currency translation effects had an impact of -2% on the sales development of Fresenius HemoCare.

Earnings

Two main factors influenced the earnings of the Fresenius Group in the 2002 financial year: Goodwill was no longer amortized due to the changed US GAAP in force since January 1, 2002, which had a positive effect on earnings. Also, there was a negative impact from expenses incurred in the production and services fields in connection with Fresenius Medical Care switching dialysis treatment from re-use to single-use dialysers in the United States.

In the 2001 financial year, Fresenius Medical Care had recorded a special charge of € 288 million and other expenses amounting to € 8 million in connection with legal matters in the United States from the National Medical Care transaction in the year 1996.

In order to enable you to better compare the development of the Group, the following report includes the figures for the previous year without the special charge mentioned above.

The following summary of the statement of income thus shows both figures, i.e. with and before the special charge.

Statement of income

in million €	2001	2001 before special charge for US legal matters	2002	Change 2002 vs. 2001 before special charge
Sales	7,307	7,307	7,507	3%
Cost of goods sold	-4,861	-4,861	-5,071	-4%
Gross profit	2,446	2,446	2,436	0%
Operating expenses	-1,980	-1,684	-1,599	5%
EBIT	466	762	837	10%
Balance of interest	-286	-286	-270	6%
Income taxes	-109	-203	-210	-3%
Minority interests	-53	-180	-218	-21%
Net income before extraordinary expenses	18	93	139	49%
Extraordinary expenses	0	0	-13	
Of which minority interests	0	0	8	
Net income	18	93	134	44%
Earnings per share (in €)	0.44	2.29	3.27	43%
EBITDA	960	1,256	1,178	-6%
Depreciation and amortization	494	494	341	-31%
EBITDA margin	13.1%	17.2%	15.7%	
EBIT margin	6.4%	10.4%	11.1%	

Gross profit amounted to € 2,436 million and was slightly lower than the previous year's figure of € 2,446 million. This corresponds to a gross profit margin of 32.4% (2001: 33.5%). This drop is mainly due to higher costs for the conversion of dialysis treatment to single-use dialysers in the US dialysis clinics of Fresenius Medical Care. Operating expenses fell by 5% to € 1,599 million compared to the previous year. This is largely due to depreciation and amortization which dropped by 31% to € 341 million (2001: € 494 million). Accordingly, the amortization ratio has changed to 4.5% compared to 6.8% in the previous year. The strong decline is mainly due to the fact that amortization of the year 2001 included goodwill amortization amounting to € 152 million. Starting from the 2002 financial year, goodwill is no longer amortized.

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to € 1,178 million and was 6% (currency-adjusted: 1%) lower than the previous year's figure of € 1,256 million. As already mentioned, the main reasons were expenses in connection with switching dialysis treatment to single-use dialysers in the United States.

The EBIT increase rate – 10% to € 837 million – derives from goodwill no longer being amortized. If goodwill amortization is not included in EBIT before the special charge of 2001, EBIT in 2002 would have been 8% (currency-adjusted: 4%) lower than the figure for the previous year. This is due to the business development of Fresenius Medical Care. Please see the table with the adjusted figures for the previous year.

EBIT of the individual business segments developed as follows:

- Fresenius Medical Care realised an EBIT of € 735 million after € 719 million before the special charge in 2001 (adjusted for goodwill: € 854 million). The currency translation had a negative impact, especially the weak US dollar compared to the euro. At constant exchange rates, the increase would have been 7%.
- The development of earnings of Fresenius Kabi was affected in the 2002 financial year by measures to increase profitability in the Uppsala, Sweden, facility; these include to a large extent costs of job reductions, mainly in connection with the transfer of research and development activities to Germany and Austria, as well as on-going measures to optimise the production processes. Furthermore, losses of the company ProReha, and its sale effective August 1, 2002, also affected earnings. These costs totalled € 27 million. Fresenius Kabi achieved an EBIT amounting to € 91 million compared to € 53 million (goodwill-adjusted: € 63 million) in 2001.

Key figures of the statement of income

in million €	2001 before special charge and adjusted for amortization of goodwill	**2002**	**Change**
Sales	7,307	**7,507**	**3%**
EBIT	914	**837**	**-8%**
Net income	152	**134**	**-12%**
Earnings per share (in €)	3.75	**3.27**	**-13%**
EBIT margin	12.5%	**11.1%**	

- Fresenius ProServe increased EBIT, which amounted to € 24 million in the year under report, by € 18 million (2001: € 6 million; adjusted for goodwill: € 11 million). This substantial increase is mainly a result of the development in the Healthcare business, including the consolidation of Wittgensteiner Kliniken AG for the whole year.
- EBIT of Fresenius HemoCare, € 10 million, was 25% higher than the previous year's figure of € 8 million (goodwill-adjusted: € 10 million). Continued high expenditure on research and development, and the expansion of the distribution network, affected earnings.

Balance of interest of the Group amounted to € -270 million and improved by 6% in the financial year (2001: € -286 million). A positive effect resulted from translating interest expenses from US dollars to euros, since a high proportion of bank loans are in the United States. Furthermore, the early redemption of high-interest trust preferred securities of Fresenius Medical Care, due in 2006, reduced the balance of interest.

The tax ratio dropped from 42.6% in 2001 to 37.0% in the reporting year, mainly due to goodwill no longer being amortized.

Profits allocated to minority interests increased to € 210 million after € 180 million in the 2001 financial year. Of this amount, 94% of minority interests concern other shareholders of Fresenius Medical Care.

Net income before extraordinary expenses increased by 49% to € 139 million (2001: € 93 million). The one-time extraordinary expenses which were incurred in the 2002 financial year amounting to € 13 million after taxes result from the early redemption of trust preferred securities of Fresenius Medical Care due in 2006. Of this amount, € 8 million concern minority interests.

This results in a net income of € 134 million compared to € 93 in 2001. Earnings per share amounted to € 3.27 following € 2.29 in the previous year, based on a total of 40,969,684 ordinary and preference shares.

Changes in exchange rates negatively affected the earnings situation of the Group in the year under report through translation effects. At constant exchange rates, i.e. calculated at the exchange rates of 2001, the increase in EBIT was 15% and the increase in net income 53%.

Profitability, driven by goodwill not being amortized in 2002, is as follows: The EBIT margin was 11.1% compared to 10.4% in the previous year. The return on sales before taxes and minority interests amounted to 7.6% (2001: 6.5%). If amortization of goodwill is not included in the previous year's figures, the profitability of the Group in 2002 however would have been lower than the figures for the previous year due to the business development of Fresenius Medical Care, as can be seen in the table with the adjusted figures for the previous year on page 48.

Value added

The value added statement shows output of Fresenius in the financial year less materials and services purchased and less depreciation and amortization. The value added of the Fresenius Group amounted to € 3,185 million for the 2002 financial year (2001: € 2,938 million). It is thus 8% higher than the previous year and reflects the solid development of the Group.

The distribution statement shows that the largest proportion of the value added was received by the employees; this was € 2,302 million or 72%. Next come lenders and governments with 8% each, or € 270 million and € 269 million respectively. The shareholders received € 47 million, and minority interests 7% or € 210 million. The company retained € 87 million of the value added for reinvestment.

Value added statement

in million €	2001	%	2002	%
Creation				
Company output	7,356	100	**7,576**	**100**
- Materials and services purchased	3,722	51	**4,037**	**53**
Gross value added	3,634	49	**3,539**	**47**
- Depreciation and amortization	494	7	**341**	**5**
Net value added before special charge / extraordinary expenses	3,140	43	**3,198**	**42**
Special charge (2001) / Extraordinary expenses (2002)	202	3	**13**	**0**
Net value added after special charge / extraordinary expenses	2,938	40	**3,185**	**42**
Distribution				
Employees	2,297	78	**2,302**	**72**
Governments	258	9	**269**	**8**
Lenders	312	11	**270**	**8**
Shareholders	43	1	**47**	**1**
Company and minority shareholders	28	1	**297**	**9**
Net value added	2,938	100	**3,185**	**100**

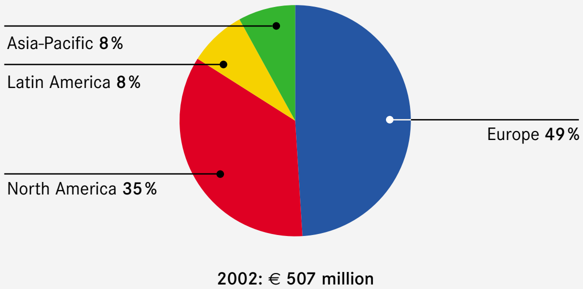
Dividend

The Managing Board and Supervisory Board propose to increase the dividend. A dividend is to be paid of € 1.14 per ordinary share entitled to dividend (2001: € 1.03) and € 1.17 per preference share entitled to dividend (2001: € 1.06), an increase of 11% and 10% respectively. This corresponds to a total amount of € 47.3 million.

Capital expenditure

We invested € 507 million in the Fresenius Group in 2002. This is 7% of consolidated sales. Compared to the previous year with an extremely high investment volume of € 1,233 million (17% of sales) due to acquisitions, the investment activity of the Group was reduced by € 726 million. While capital expenditure on tangible and intangible assets fell by € 52 million to € 377 million, funds used for acquisitions dropped substantially to € 130 million from € 804 million in 2001. Of the total amount invested in the year under report, 74% was invested in tangible and intangible assets. 26% was spent on acquisitions.

Acquisitions concerned mainly the purchase of dialysis clinics by Fresenius Medical Care.



Capital expenditure by region

Major investments in tangible assets were:

- the founding and equipping of dialysis clinics, mainly in the United States, as well as the extension and modernisation of existing clinics; € 121 million was spent on this
- the building of a joint production facility in Mexico for peritoneal dialysis products of Fresenius Medical Care and infusion solutions of Fresenius Kabi
- the further expansion and optimisation of production plants for infusion solutions of Fresenius Kabi in Europe

The breakdown by business segment shows that Fresenius Medical Care invested 68% of total capital expenditure, followed by Fresenius Kabi with 15%.

The breakdown by region shows that the largest amount, 49%, was invested in Europe, followed by North America with 35%, and the region Asia-Pacific and Latin America with 8% each.

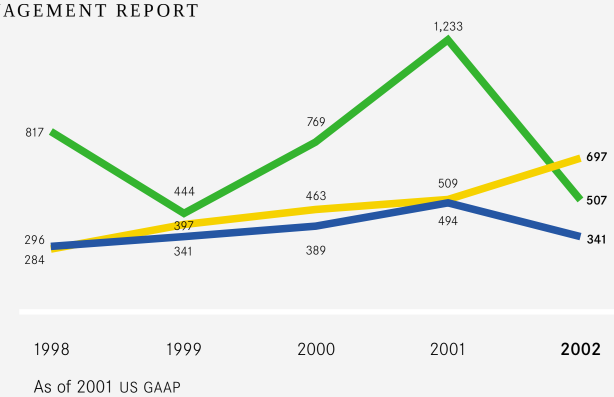
Cash flow

The cash flow statement of the Group shows an excellent development. There were high increase rates in the operating and free cash flows.

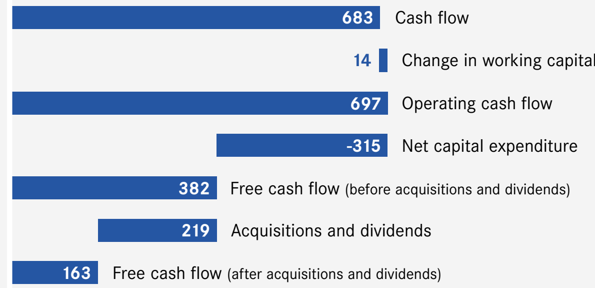
The cash flow of the Group amounted to € 683 million in 2002 (2001: € 778 million) and was a thus 12% lower than the level of the previous year. This resulted from the business development of Fresenius Medical Care, which was to a large extent affected by expenses in connection with the introduction of single-use dialysers in the United States. The change in working capital amounted to € +14 million. This financing requirement dropped significantly compared to the previous year, (€ -269 million) – above all because we have improved our receivables management.

Capital expenditure by business segment

in million €	2001	2002	Change	Share of total volume
Fresenius Medical Care	800	346	-57%	68%
Fresenius Kabi	88	76	-14%	15%
Fresenius ProServe	262	45	-83%	9%
Fresenius HemoCare	64	32	-50%	6%
Corporate / Other	19	8	-58%	2%
Total	1.233	507	-59%	100%



Capital expenditure Operating cash flow
Depreciation and amortization in million €



Cash flow statement in million €

Cash provided from operating activities amounted to € 697 million in the 2002 financial year (2001: € 509 million). This is an increase of 37 %. The operating cash flow completely covered the financing requirements from investment activities before acquisitions; payments for investments of the Group amounted to € 377 million and the proceeds from disposals of items of fixed assets amounted to € 62 million. The free cash flow before acquisitions and dividends amounted to € 382 million and was three times higher than the previous year's figure due to the significantly lower volume of capital expenditure and improved working capital management. We were able to finance all the acquisitions and the dividends of the year 2002 from the free cash flow. The free cash flow after acquisitions and dividends, € 163 million, was positive.

Cash flow statement (summary)

in million €	2001	2001 before special charge for US legal matters	**2002**
Net income before minority interests	71	273	**344**
Depreciation and amortization	494	494	**341**
Change in pension provisions	11	11	**-2**
Cash flow	576	778	**683**
Change in working capital	-67	-269	**14**
Operating cash flow	509	509	**697**
Capital expenditure	-429	-429	**-377**
Disposal of assets	47	47	**62**
Free cash flow before acquisitions and dividends	127	127	**382**
Cash used for acquisitions / Proceeds from disposals	-326	-326	**-118**
Dividends	-98	-98	**-101**
Free cash flow after acquisitions and dividends	-297	-297	**163**
Cash used for / provided from financing activities	197	197	**-161**
Currency-adjusted change in cash and cash equivalents	0	0	**-20**
Change in cash and cash equivalents	-2	-2	**-18**

The detailed cash flow statement is shown in the financial statements.

Cash and cash equivalents dropped by € 18 million compared to the previous year to € 163 million. At constant exchange rates, they would have increased by € 2 million.

Asset and equity structure

The total assets of the Group dropped compared to 31.12.2001 by € 952 million (10%) to € 8,915 million. This reduction is due to currency effects only. The negligible increase of 1% currency-adjusted in the total assets compared to the previous year reflects the decreased acquisition activity of the Group and improvements in current assets.

Non-current assets dropped by 10% to € 6,172 million (2001: € 6,837 million). Calculated at constant exchange rates, there would have been an increase of 3%.

Current assets also fell by 10% to € 2,743 million (2001: € 3,030 million). At constant exchange rates, current assets would have increased by 1%. Looking at the individual balance sheet items, one major factor was the € 116 million decrease in trade accounts receivable to € 1,299 million. If this figure is adjusted for exchange rate effects, receivables would have increased by € 41 million, i.e. 3%; this increase was still significantly lower than the currency-adjusted sales increase of 9%. The main reason was an optimised receivables management. The accounts receivable ratio dropped accordingly from 19.4% to 17.3%. This is also shown impressively in the change in the figure for day sales outstanding: This shrank from 96 days in 2001 to 89 days in the year under report. Also the inventory ratio improved: from 9.2% in 2001 to 8.8% in 2002. The inventory turnover dropped from 51 days in 2001 to 49 days in the year under report. The improvement in this key figure also meant that financial assets of the Group were bound to a lesser extent.

The liabilities side of the balance sheet shows a decrease in equity including minority interests: It dropped by 9% to € 3,369 million (2001: € 3,689 million). This change was mainly caused by the changes in exchange rates; currency-adjusted, there would have been an increase of 4%. The equity ratio including minority interests increased slightly from 37.4 % on 31.12.2001 to 37.8% at the end of the year under report.

Equity of the Group including minority interests covers 55% of non-current assets (2001: 54%). The liabilities side of the balance sheet continues to show a solid financing structure: Equity, minority interests and long-term liabilities cover all the tangible assets and 76% of inventories.

Long-term liabilities amounting to € 3,301 million were € 375 million or 10% lower than the figure for the previous year (2001: € 3,676 million). At constant exchange rates an increase of 2% would have resulted. Short-term liabilities amounted to € 2,245 million and were € 257 million lower than the figure for 2001 (€ 2,502 million). At constant exchange rates, short-term liabilities would have been 5% lower than the previous year.

The return on equity after taxes, 8.3%, was higher than the previous year's figure of 5.3%. The return on total assets after taxes and before minority interests amounted to 4.0% in the year under report (2001: 2.8%).

Further key figures on the asset and equity structure compared to 31.12.2001 are as follows:

	31.12.2001	**31.12.2002**
Debt*/EBITDA ratio	3.4	**3.1**
Net debt*/EBITDA ratio	3.2	**3.0**
EBITDA/interest ratio	4.4	**4.4**

* including receivables securitization program of Fresenius Medical Care

These key ratios which are important for Fresenius, by which we measure and control the debt ratio of the Group in relation to financial strength, have further improved over the previous year.

Bank loans, Eurobonds, commercial papers and trust preferred securities of the Group amounted to € 3,283 million on 31.12.2002; this corresponds to a reduction of € 454 million compared to the previous year's figure of € 3,737 million. The drop resulted from the changes in exchange rates used in the translation of the US dollar bank loans into euros. € 175 million of financial liabilities were repaid in the year under report. Loans with a remaining term of up to one year amounted to € 606 million (31.12.2001: € 710 million); loans with terms from one to five years, and over five years, totalled € 2,677 million (31.12.2001: € 3,027 million). Fresenius AG received a credit rating at the end of 2002 in connection with preparations for future financing activities. The rating agency Standard & Poors gave Fresenius AG a BB+ rating, stable outlook, and Moody's a rating of Ba1.

Currency and interest risk management

The use of derivative financing instruments within the scope of our risk management is one of the ways in which the Fresenius Group reduces or eliminates foreign currency risks and interest exposures arising from its international operations. These derivative instruments are restricted to marketable instruments traded outside the stock exchange and are only used to hedge underlying transactions, but not for trading or speculation purposes.

The Fresenius Group uses currency risk management and interest rate risk management on the basis of a guideline approved by the Managing Board that clearly defines the targets, organisation and handling of the risk management processes. In particular, the responsibilities for the determination of risks, for closing hedging transactions and for regular reporting on risk management are clearly defined. These responsibilities are co-ordinated with the decision structures in the other business processes of the company. Transactions with derivative financing instruments are made solely in the Corporate Treasury Department of the Fresenius Group, apart from a few exceptions due to currency regulations, and are subject to stringent internal controls. This ensures that the Managing Board is always informed in detail about all major risks and about the hedging transactions executed.

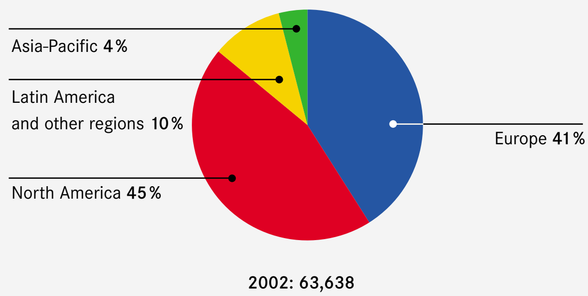
The notional value of all foreign currency hedging contracts amounted to € 1,346 million on the balance sheet date. These contracts had a market value of € 94 million. Accordingly, the notional value of the interest hedging contracts amounted to € 1,019 million and its market value to € -96 million. The fair value of derivatives reflects the amounts that the Fresenius Group would receive or pay to terminate the contracts on the reporting date. Contrary value developments of the underlying to be hedged are not taken into account when determining market value. Please see further information on page 141 of the Notes.

Employees

At the end of 2002, 63,638 people all over the world were employed by the Fresenius Group, 2,971 (5%) more than at the end of 2001 (60,667).

By business segment, the increase in the number of employees is as follows:

Number of employees	31.12.2001	31.12.2002	Change
Fresenius Medical Care	40,258	41,766	4%
Fresenius Kabi	10,248	9,389	-8%
Fresenius ProServe	7,620	9,894	30%
Fresenius HemoCare	2,189	2,204	1%
Corporate / Services	352	385	9%
Total	60,667	63,638	5%



Employees by region

The largest growth, 30 %, was registered by Fresenius ProServe. The main reasons are first-time consolidations, especially as a result of the purchase of new hospitals. Through the restructuring and subsequent sale of the company ProReha, the restructuring measures in the Uppsala facility and the closure of the factory in Stockholm at the end of 2001, the number of employees of Fresenius Kabi dropped by 8 % to 9,389.

The global business activities of the Group are reflected in the distribution of employees on the various continents: 45 % of the work force is employed in North America, 41 % in Europe, 10 % in Latin America and other regions and 4 % in Asia.

Personnel expenses of the Fresenius Group amounted to € 2,302 million, and were thus at the same level as the previous year (€ 2,297 million). Changes in exchange rates, especially in the conversion of the US dollar to the euro, had a diminishing effect on these costs; at constant exchange rates there would have been an increase of 5 %, significantly less than the increase in sales of 9 % at constant exchange rates.

Quality starts with education

Great importance is placed on vocational training at Fresenius. This is shown by the fact that the number of apprentices at Head Office, and in the Friedberg, Schweinfurt and St. Wendel plants, increased once again in the year under report. Altogether we had 355 young apprentices in the year under report.

Apprenticeships at Fresenius are much sought after: This is due to the broad range of vocations for which we offer training, as well as the high quality of the training which is proved by the good examination results. In the year under report, the occupations of “management assistant in office communication”, “pharmaceutical technician” and “mechatronical fitter” were added to the training courses provided. Thus we met the demand to offer a wider range of commercial courses and increased the range of courses open to applicants with middle school certificates. The scope of technical training was widened: In co-operation with the Fachhochschule Ulm, Fresenius gives young people the opportunity to study for an on-the-job degree in mechanical engineering.

Fostering of qualified employees

An integral part of our corporate culture is to foster personnel development and to accompany all employees over the whole of their career at Fresenius. Our concept includes not only traditional training in specialized and management topics, but also topics such as handling conflicts, training in negotiations and individual career advice. In the year under report, the advancement programmes for junior managers, programmes for high potentials and executive training courses for the management level were fundamentally revised, taking into account new learning methods. Our co-operation with the renowned French business academy INSEAD in Fontainebleau has proved its worth. The courses offered by USW (Universitätsseminar der Wirtschaft), Erftstadt, were developed further and the new courses will be realised this year.

In the year under report, numerous employees took part in our Graduate Development Programme, a course for university graduates who were prepared for their future roles as managers.

In 2001 Fresenius established a university foundation, which in turn founded the International Nations HealthCareer School of Management in Berlin. The aim of the new internationally-oriented MBA programme is to train health care and hospital managers for the health care systems which all over the world are increasingly marked by structures of the private-sector economy. The first course started in April of the year under report and will last for 18 months.

Personnel marketing as an important instrument to recruit staff

The “War for Talents” concerning university graduates, which was the subject of much discussion in the past, has gained a new direction: Many fields also have a distinct lack of specialized employees. We have therefore kept up our personnel marketing efforts and increased their scope via the Internet by actively using online job exchanges, taking part in online job fairs as well as through Internet chat sessions. We have also continued our contact programmes with selected universities, which range from taking part in fairs to supporting internships and theses and issuing publications for specific target groups. These measures will help Fresenius to become even better known as an attractive employer in the medium term, especially in the professions where there is a lack of good people. The career pages of our web site are an important proof of this, as well as the high number of unsolicited applications.

Pension reform in Germany: Retirement pensions at Fresenius

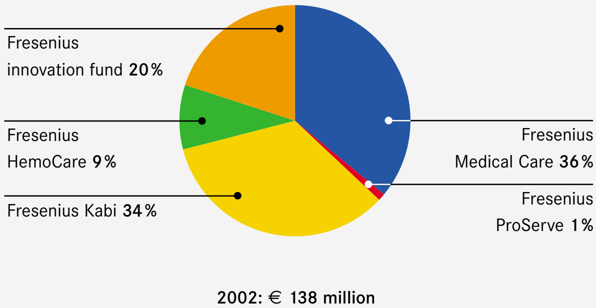
As a result of the pension reform which took effect in Germany in 2002, private and company pension plans have become even more important. Company pensions have decades of tradition at Fresenius. We have utilized the new framework created by the legal amendments and created important elements of the employee-financed pension plan in the year under report. We thus offer our employees an extremely flexible deferred-compensation plan that makes use of relief on taxes and social security contributions, and enables our employees to build up a supplementary retirement pension. Since this subject is extremely difficult and complex, we held special meetings to give information to the employees about the choices available, issued an explanatory brochure and established a special external hotline. The deferred compensation plan offered by the company involves direct life insurance for the employee combined with a pension commitment of the employer.

Profit-sharing scheme and stock option plan

To identify oneself with the company means sharing in its success. Paying a performance-oriented salary is not sufficient for us. Our employees, both managerial and non-managerial, share in the earnings of the company.

In the year under report, each non-managerial employee received 956.00 euros gross as their share of the profits for the year 2001. Of this amount, two thirds was paid in the form of preference shares of Fresenius AG or Fresenius Medical Care AG. The employee could choose whether to have the remaining third paid out in cash or use it to finance additional preference shares.

287,866 options of Fresenius AG were issued to the managerial staff of the Group as well as to the Managing Board in July 2002 under the stock option plan. Before the first options can be exercised, EBIT of the Group must



Expenditure on research and development by business segment

have increased by 20% within the two-year vesting period after the options were issued, in accordance with the prevailing regulations. Fresenius Medical Care AG introduced a stock incentive programme based on the issuance of convertible bonds.

Research and development

Innovation for us means maintaining life. Innovations are essential in order to be able to help patients who are often seriously ill. They are crucial to achieve constant progress in medicine. We develop products and therapies on the basis of our knowledge of extracorporeal blood treatment, nutritional therapy concepts and the immune system. Our aims are the optimum care of patients, better treatment and a higher quality of life. For Fresenius, innovations are the cornerstones of the company's strategy – the basis of economic success. Therefore, we place great importance on our research and development activities.

Research and development in the Group focuses on the core competences of the individual business segments. These are

- dialysis and other extracorporeal therapies
- nutrition and infusion therapies
- transfusion and infusion technology
- immune therapies

We not only develop products; to a large extent our work concentrates on optimising or newly developing therapies, treatment processes and services. In 2002 we successfully continued with many projects. A series of new products was introduced onto the markets.

Expenditure on research and development increased again in the 2002 financial year to € 138 million. The previous year's figure of € 123 million was exceeded by 12%. We thus invested 5% of our product sales in research and development. If we look at this expenditure by fields of activity, expenditure on dialysis amounted to € 50 million, we invested € 47 million in infusion and nutrition therapies and € 13 million in research and development work in the field of blood treatment, immune therapies and infusion technology. € 1 million was spent on research in the business segment ProServe. We contributed a total of € 27 million from an innovation fund financed by Fresenius AG to support promising, long-term projects, especially in the field of immune and adsorber technology.

At the end of the 2002 financial year, 711 people in the Group were employed in research and development, 36 less than in the previous year. Of these, 336 worked for Fresenius Medical Care, 230 for the business segment Fresenius Kabi, 138 for Fresenius HemoCare and 7 for Fresenius ProServe. The drop in the number of employees compared to the 2001 financial year resulted from the transfer of research and development activities from Sweden to Germany and Austria. Our main research locations are in Europe; production-related development work is also carried out in the United States.

Our research and development work in dialysis is aimed at offering to the patient individual, therapeutic processes which help to improve their quality of life and increase their life expectancy. The quality and safety of our systems are the focus of our work. Of major importance in the past financial year was the optimisation of dialysers and dialysis machines for haemodialysis as well as of peritoneal dialysis products.

The polysulfone fibre developed by Fresenius has represented the “Golden Standard” in the field of dialysis membranes for two decades. Through continuing development and the use of novel production technologies, the quality of this hollow fibre has been further optimised. Our aim continues to be to achieve advances in membrane technology in the future: Our research concentrates on both obtaining an even better membrane performance and on extending the application spectrum to other medical fields outside dialysis.

In order to realise this ambitious goal, we are active in three main fields regarding the development of membranes: Firstly we develop production means such as spinning systems and spinnerets with which we can manufacture new membranes. Secondly, we are examining new materials and researching the mechanisms of membrane formation. Thanks to our expertise in the field of polymer chemistry, we anticipate that we can optimise the production processes for membranes in the future so that we can increase the efficacy and functionality of our present dialysers. Thirdly, we are working on improving haemocompatibility. Using new materials or coatings, and other components of the extracorporeal blood circuit, we shall be able to increase comfort for the patient.

We are convinced that we shall be able to achieve even more significant improvements in membranes for dialysis and other blood treatment processes based on our new fibre-spinning technologies, materials and concepts. To this end, we anticipate that each of the three fields of development will make important contributions towards achieving this target.

One of the most important research and development projects in dialysis is the process which enables the dry weight of patients to be determined by a reliable and practicable method for the first time. The fluid status of patients with end-stage renal disease is seriously disturbed due to their not being able to eliminate urine, either partly or completely. Consequently, this results in chronic over-hydration, which is one of the main causes of high blood pressure and severe cardio-vascular diseases. The main aim of dialysis treatment, apart from the removal of uraemic toxins, is to achieve the physiological target weight of the patient, which up to now was extremely difficult.

The new system is based on a multi-frequency bioimpedance measuring device that measures the electrical resistance in the body and thus determines the intra and extracellular fluid volume quickly, cost-effectively and precisely. The method makes use of the different electrical conductivities of muscle, body fat, water and bones. For instance, body fluids are excellent conductors of electricity due to the high percentage of electrolytes they contain, while fat presents high resistance. The method provides measurement data that are evaluated in a newly-developed algorithm and give a detailed overview of the constitution of the body. This enables the fluid status of the patient to be determined with high precision. A newly-developed software programme developed by Fresenius Medical Care that establishes and processes patient-specific data completes the system. This Fluid Management Tool gives the doctor technical support for the first time in determining the target weight of his patients. Another newly-developed software system, the Treatment Recommendation Tool, gives the physician support in determining the therapy.

In the area of home dialysis, the internet-based *iCare* monitoring system will be introduced onto the North American market in 2003. This innovative alarm system enables home haemodialysis treatment to be observed and documented by a specialist in a monitoring centre. The advantage of this system is that if problems occur during the nocturnal home haemodialysis treatment, an alarm system immediately wakes the sleeping patient. In the monitoring centre, alarm signals and irregularities can be seen on a central monitor. If the patient does not react, the staff member can immediately contact him and call an ambulance if necessary.

Nowadays, heparin is normally used to avoid coagulation of the blood in the extracorporeal blood circuit. Apart from the fact that some patients are allergic, another disadvantage of heparin treatment is that the blood coagulation of the patient is hindered for some time after the treatment has ended. This means that wounds that are still bleeding, such as those that occur when the cannulae are removed at the end of dialysis, do not close well. Fresenius Medical Care has been working since the end of 2002 on the development of heparin-free anticoagulation as an alternative procedure for dialysis. Such alternative procedures are also of immense importance for intensive care medicine and other extracorporeal treatment methods.

Dialysis was not the only focus of our research and development work in 2002, but also other extracorporeal therapy processes for related indications such as the therapy of liver diseases. Many of the toxic substances present in blood cannot be removed by means of dialysis since they are difficult to dissolve in water. In this case, these substances can be removed by means of extracorporeal adsorption, i.e. by binding them to special surfaces. The detoxification system Prometheus® adsorbs the liver toxins that are not water-soluble and then dialyses the water-soluble ones. As a result of the special principle of direct adsorption of liver toxins, and the separation of the dialysis and adsorption processes, which increases efficiency, the medical community has shown great interest in this process. The Prometheus® system that was developed together with the university in Krems, Austria, was successfully used in various centres in Germany and in one centre in Vienna in 2002 within the scope of clinical trials. The CE mark for the machine and the necessary disposables was issued during 2002. As well as Germany and Austria, more trials in Europe are being prepared which are expected to prove the clinical benefits of the Prometheus® process. The first tests are very promising. The market launch is expected to commence in 2003.

Prometheus® is to be supplemented in the future by a second system for the therapy of liver diseases, a cellular module (bioreactor) developed by the Charité University Hospital in Berlin. This contains living cells as well as synthetic membranes. It can therefore assume part of the natural function of the liver via the extracorporeal blood circuit during treatment of acute liver failure. The human liver cells (hepatocytes) contained in the module assume the essential synthetic functions instead of the failed liver, such as those of proteins, hormones and coagulation factors. As well as these synthetic functions, the cells in the bioreactor also have detoxifying properties.

The aim of the treatment with the cellular module is to ensure that patients with acute liver failure can survive for several days until a suitable transplant has been found or, as in some cases, the liver of the patient recovers and assumes the vital functions again. The cellular module can be used in the extracorporeal blood circuit on its own or in combination with the Prometheus® system. Clinical trials to prove the efficacy of the cellular module are currently being performed in several European hospitals.

Research and development work of Fresenius Kabi concentrated on the fields of blood volume replacement and nutrition therapy during the year under report.

In the field of blood volume replacement, we achieved significant advances with our product Voluven®: Clinical trials showed that the daily dose of Voluven® can be increased from previously 33 ml/kg body weight/day to as much as 50 ml/kg body weight/day. Higher doses of a volume replacement product may be necessary in some cases, such as during long surgical operations. Based on the results of these trials, Fresenius Kabi received the registration for Voluven® for a maximum daily dose of 50 ml/kg body weight/day from authorities in the European Union in the year under report. Voluven® is thus the only hydroxyethyl starch for this high dosage currently on the market.

In nutrition therapy, Fresenius Kabi is one of the few companies in the world that develops both parenteral and enteral products. In both product groups we are working on new preparations that make a valuable contribution to the therapy of severely-ill people. For instance, in the year under report we worked on a new parenteral nutrient combination. An innovative fat emulsion developed by Fresenius Kabi in combination with a special amino acid pattern developed according to latest findings optimises the supply of rapidly-available energy to severely-ill patients. This fat emulsion is based on chemically-modified triglycerides, which are made up of both long-chain and medium-chain fatty acids. The varying distribution of these fatty acids means that there are six differently-structured triglycerides resulting in significant advantages in the metabolism compared to traditional physical medium-chain and long-chain triglyceride mixtures as well as over purely long-chain triglycerides. The amino acid pattern contained in this product ensures that the patient receives sufficient essential and branched-chain amino acids and provides a balanced spectrum of semi-essential and non-essential amino acids. In 2003 we shall launch this combination of innovative components for parenteral nutrition in an optimised 3-chamber bag.

Regarding the development of enteral nutrition products, we have worked intensively on the early nutrition of severely-ill patients. These patients have an increased requirement for certain key substrates such as glutamine and antioxidants, while at the same time their capacity for taking in enteral nutrition is limited due to their impaired intestinal function. We have developed the new enteral supplement Intestamin® to support the intestines and to prevent malnutrition which can be detrimental to the course of the illness. Intestamin® is the first ready-to-use enteral nutrition to administer a complete dose of key nutrients with a low volume of 500 ml. It contains a high dose of 30 g glutamine that helps to support the immune system and sustain the function of the intestines. Such a high concentration in a ready-to-use nutrition can only be achieved through the use of glutamine dipeptides. The structured fat tributyrate which is used for the first time in an enteral feed can also effectively support the functions of the intestines. The antioxidants vitamins C, E, ß-carotin and selenium which are used prevent aggressive oxygen molecules, also called free radicals, from starting up harmful oxidation processes in tissue and organs.

We achieved significant advances both in the production technology and in the further development of our primary packaging in our Friedberg, Germany, factory in the year under report. A new process was developed for the manufacture of sterile solutions in PVC-free bags, which is a milestone in this manufacturing technology due to its modular concept and novel process monitoring. It is planned to transfer this new platform technology into large-scale production in 2003.

In the field of primary packaging, new developments of the year under report were successfully implemented in the manufacturing facilities: such as welding processes and a connector system for our PVC-free bag freeflex®.

Scientific information is an important element of our research and development activities. In 2002, we held our scientific symposium **Fr**esenius **K**abi **A**dvanced **N**utrition **C**ourse, FRANC, for the ninth consecutive time, this time in Austria, and for the second time in the region Asia-Pacific, namely in Thailand. Lectures on the latest findings in nutrition therapy and subsequent workshops for the participants are the main elements of this event.

The research and development activities in Transfusion Technology concentrated, as in the previous years, on the cell separation range of products, i.e. the separation of whole blood into its individual components. The Compas cell separator which is based on a new technology platform has already passed initial clinical trials. The market launch will now be able to take place in the 2nd quarter of 2003. This system makes it possible to extract blood components (e.g. platelets, erythrocytes, plasma) in combination. Based on this technology, further development work will follow in 2003 regarding performance and scope of the process. In the field of blood bag systems we are concentrating on the development of new blood filters to remove leukocytes during the production of blood products: a soft red cell filter, which will be used to filter erythrocytes, and two whole blood filters will be ready to be marketed during 2003. Work on a universal system for connecting blood bags was continued, and clinical trials will follow in 2003.

Our development target in infusion technology is to achieve more effective management of fluid and drug administration. Data communication and data management will be integral elements of these systems. We are working on extending our infusion data management system Orchestra® to include a new data station Orchestra® Base especially for target-controlled intravenous anaesthesia.

In the field of adsorber technology, we develop and optimise innovative systems for extracorporeal blood treatment that will help to remove selected pathogenic substances from the blood. Depending on the type of adsorber material, different substances can be eliminated and thus various types of diseases can be treated.

In connection with the development of the endotoxin adsorber MATISSE® for the treatment of sepsis, we succeeded in completing the multicentre trial on 145 patients. Promising results emerged especially in the case of patients with sepsis due to peritonitis, the most frequent form of surgery-related sepsis: The functions of the organs of the patients treated with the MATISSE® system improved, particularly those of the kidneys and the cardiovascular system. The registration of MATISSE® was applied for in the year under report.

We are planning the market launch in Japan of our adsorber system DALI® - a process for the treatment of familiar hypercholesterolaemia, a disturbance of the lipometabolism. Japan is the second largest market for this process. The registration documents will be filed at the Japanese Ministry of Health in the 2nd quarter of 2003.

Our development work has also concentrated on improving our adsorber application technology. The adsorption of pathogenic substances from whole blood simplifies the treatment considerably. Therefore we have developed a new method which enables us to adsorb pathogenic substances from whole blood regardless of the ligands used. The ligand is the binding site for the pathogenic substance. Frequently the ligand binds or activates the blood cells, so that in these cases the plasma has to be separated from the blood cells before adsorption. We succeeded in changing the surfaces of the adsorber material in such a way that the ligands are accessible for the pathogenic substances but not for the blood cells. This method now makes it possible to develop whole blood adsorbers for various ligands.

In the field of immune therapy we are currently working on innovative developments both for antibody-based and cellular-based immune therapy.

In immune therapy with monoclonal antibodies we have taken a further step together with our partner Trion Pharma in the treatment of epithelial tumours in the year under report. In clinical compassionate trials, these bispecific trifunctional antibodies have already produced positive results with some patients surviving for longer periods free of tumours. Two trials relevant for the registration (Phases I/II) for the indications lung cancer and ovarian cancer have commenced. According to plan, the last patients were included in the trials at the end of last year. During the assessment of these two trials we hope for valid results mainly regarding application safety and dosage. Three further clinical trials for the indications breast cancer and cancer of the pancreas, and for malignant tumours in the head and neck, received the necessary approvals in the year under report and are now ready to start after the appropriate centres for the trials were recruited.

The second pillar of immune therapy of cancer are patient-specific cell therapies. In 2002 we achieved advances in the production of hybrid cells, made by fusing donor dendritic cells with tumour cells of the patient. We have now received approval from the responsible authorities to manufacture these fused cells in our GMP laboratory (Good Manufacturing Practice) in Göttingen that was completed and registered in the year under report. Fresenius is thus the first company in Europe to obtain authorisation to fuse cells under GMP conditions. In addition, the ethical committee of the University Hospital of Göttingen gave its approval for us to carry out a multi-centre trial to treat renal cell cancer.

The immune suppressive agent ATG Fresenius, a polyclonal antibody, is used in the transplantation of bone marrow and stem cells from the blood of donors. It is important not only to prevent the transplanted stem cells being rejected, but also to ward off the frequently life-threatening attacks of the immune-competent donor cells against the recipient. We therefore started a multi-centre clinical phase III trial to prevent this so-called graft-versus-host-disease (GVHD) in the year under report. We plan to extend immune suppressive therapy with polyclonal antibodies to selected autoimmune diseases. Small-scale pilot trials have already been initiated.

Procurement

In a market environment dominated by cost and price pressure, procurement of the goods and services we need is extremely important from the point of view of profitability. It is therefore essential for us to continue to optimise our procurement activities and achieve best prices while maintaining great flexibility and stringent quality and safety standards. In the year under report, measures were initiated to achieve this objective:

The "Purchasing Consulting Center" (PCC) of Fresenius Medical Care co-ordinates the requirements of our plants which are of a similar nature, and concludes skeleton agreements with suppliers. The aim is to bundle requirements and exploit optimum global procurement terms and conditions worldwide. In the 2002 financial year, further raw materials and parts which our factories have to purchase, especially in the region Asia-Pacific and in North America, were integrated into skeleton agreements with our suppliers. Services offered by PCC, which benefit all business segments, include the analysis of trends in market and price data, feasibility studies with regard to "make or buy", the compiling of price indices as well as global price comparisons covering all areas of the company.

In the field of parenteral nutrition, the procurement prices, in particular for our important raw materials amino acids, and for soy bean oil that is used in the production of fat emulsions, remained stable in the year under report. We succeeded in considerably reducing prices of packaging materials. The market price for caseinates rose substantially in 2001, but dropped again in the 2nd half of 2002. We succeeded in maintaining the 2001 price levels for our major raw materials for our infusion therapy products. With regard to our dialysis products we achieved stable prices for important plastic materials, partly by signing contracts valid for several years. For packaging materials such as foils and cartons we obtained price reductions by exploiting European market conditions. The costs of energy were able to be reduced significantly by pooling the purchasing activities of various locations and by taking advantage of the liberalisation of the energy market.

The introduction of B2B e-commerce/e-procurement to additional production areas of the Group accelerates and optimises work flows and results in lower transaction costs.

Apart from the standardisation of purchased raw materials and parts, as well as of processes and contracts, and the optimisation of the number of suppliers, one of the main aspects of procurement work was the further implementation of a supplier qualification process with emphasis on delivery reliability and quality. Quality security agreements and regular meetings on quality issues are essential for this process.

Environmental and quality management

The main feature of our work is our dedication to the health of the human being in accordance with our motto "Caring for Health". Products and services of Fresenius serve to maintain life and improve the quality of life. This responsibility means that it is a matter of course for us to protect nature as the basis of life for the present generations and those to come, and be conscientious and careful in our dealings with it.

We are convinced that a company can only fulfil its obligation regarding environmental protection if it ensures that ecological awareness is integrated into its innovations at an early stage and this is implemented in economic success. When we develop innovative, environmentally-friendly products we want to contribute to dealing with nature responsibly very early in the value added chain.

As a member of the Association of the Chemical Industry, we follow their guidelines titled “Responsible Care” to which the international chemical industry has committed itself. Within the scope of these guidelines we have committed ourselves to constantly improving our activities in the fields of environmental protection, as well as occupational, health and technical safety, product responsibility and logistics, and to fulfil legal requirements. We co-operate closely with authorities and customers with regard to environmental protection. We consider it to be our task and obligation to constantly reduce the dangers and risks involved in the manufacture, storage, transport, utilisation and disposal of our products.

We have firmly integrated environmental protection targets into our operations; the environmental targets are determined and adhered to during all stages of our products, from their development to their disposal, and we check whether the targets are reached. This is also documented by the audits in accordance with DIN EN ISO 14001:1996 carried out at our most important production plants and also at the first European dialysis clinics.

In the year under report, Fresenius Medical Care has further implemented the “Integrated Management System”, that is based on business processes, in European organisational units. This system meets and combines the requirements of DIN EN ISO 9001:2000 for a quality management system with those of DIN EN ISO 14001:1996 for an environmental management system. It makes it possible to identify and utilise potential for improvement even more effectively.

In our business processes, we are concentrating our environmental efforts especially on the responsible and rational use of resources, in particular water and energy. Avoiding waste takes priority over reducing, utilising and disposing of it.

For instance, in our St. Wendel plant we substantially reduced the amount of steam used by means of innovative technical solutions. Re-using energy in hot rinsing water has resulted in significant savings in resources, leading to annual savings in natural gas of 5,100 MWh, which corresponds to € 100,000. Another environmental project during the year under report dealt with reducing energy consumption. We succeeded in reducing energy consumption and its associated costs, while at the same time increasing product quality and safety, by using a new welding process for bags.

In our Schweinfurt plant the project “Take good care of water” was successfully started up by switching from water to air for testing the hydraulic system components of the dialysis machines.

In our largest plants for the manufacture of infusion solutions – Friedberg, Germany, and Uppsala, Sweden – all product packaging is manufactured from recyclable, PVC-free materials. The quantity of PVC-free infusion bags manufactured further increased in the year under report. As well as using these environmentally-friendly packaging materials, we are constantly working on minimising the volume of packaging and thus reducing the quantities that need to be disposed of later.

The logistics departments of the Fresenius Group also pay a decisive role in environmental protection, especially with respect to the reduction of air pollution. We use double-decker articulated lorries between our production facility in St. Wendel and our main German warehouse, and thus achieve a significant increase in transport capacity. This saves us more than 300,000 kilometers p.a. which results in a substantial reduction in air pollution through carbon dioxide.

The consumption of water during dialysis treatment in the European dialysis clinics of Fresenius Medical Care was optimised. This was made possible by using modern, innovative products such as more effective water sterilisation systems and the new FX-class dialysers. By using more of the lighter and smaller FX-class dialysers, the quantity of waste contaminated by blood was also considerably reduced. We have continued to train our staff in the dialysis centres to increase their awareness of environmental effects. This is a major element on the pathway towards implementing the “Integrated Management System” and fulfilling the requirements of ISO 14001.

We shall continue in the future to fulfil our obligations as a health care company to protect the environment. We have established our "Eco Controlling" in the European dialysis clinics of Fresenius Medical Care and thus created the conditions for the controlled optimisation of the consumption of resources and for the avoidance and reduction of waste. Water consumption is one of the main objectives. The measures to save water already introduced will harmonize very well with the UNO initiative "2003 – International Year of Fresh Water". This initiative is an additional spur for us to motivate our employees for this subject.

Fresenius as a manufacturer of medical devices and drugs is obliged by law to maintain a comprehensive quality management system in accordance with ISO 9001/EN 46001. As part of this system, quality audits were carried out in various Fresenius facilities in 2002 by the notified bodies. Thus, we retained our certification according to ISO 9001/EN 46001. The basis for these audits are the international standards ISO 9001 and EN 46001 and the requirements described in the European guideline 93/42/EEC. The certification confirms that we have an effective quality management system and that we produce constant high quality in all our manufacturing facilities and can thus be flexible within our global production organisation.

Activities in the social and cultural fields

One of our responsibilities as a health care group is to actively participate in numerous projects that benefit the community as a whole, in addition to our normal business activities. In this connection, we place priority on the medical and social field:

Our activities range from medical prevention and education of people, and practical help for those who are in need due to sickness or other blows of fortune, right up to the advancement and support of charitable projects initiated by Fresenius employees and organized in their free time, such as when our employees spontaneously collected donations for the victims of the floods in East Germany.

Every two years, Fresenius organises and finances, together with the town of Bad Homburg, the Bad Homburg Health Week. This is one of the largest health events in Germany with around 20,000 visitors. Self-help groups, associations, spa facilities, and also commercial health care facilities offer advice, diagnostic tests and information free of charge in connection with the subject of health. These include elaborate examinations such as tests on veins and for the prophylaxis of strokes, as well as individual advice on nutrition.

The Fresenius Inventors' Fair has for many years supported independent researchers to arouse the interest of representatives of industry and doctors in their developments. In the past years, numerous innovations have been further developed and are now in practical use. In 2002 Fresenius enabled about 40 exhibitors to present their developments to the medical community during the world's largest medical fair, Medica, in Düsseldorf. The participants, including leading scientists and working groups from ten German university hospitals, were selected from more than 100 applications. On the first day of Medica, an independent jury consisting of doctors, journalists and patent specialists awarded the Fresenius Inventors' Prize to the four most promising developments.

Many doctors are not only skilled in using the scalpel, tweezers and injection needles, but are also adept with the paint brush, paints and other materials. Hundreds of visitors can see the results at the art exhibition ARTES MEDICORUM, organised by Fresenius. Approximately 70 doctors from all over Germany again presented a wide spectrum of their artistic creations at the Corporate Head Office from 4 to 18 May 2002.

Risks of future development

Due to its constant expansion, in particular in international markets, and the increasing complexity and dynamics of our business, the Fresenius Group is exposed to all sorts of risks as a matter of course. These risks are immediately linked to entrepreneurial activities. It is only possible to seize opportunities presented if managers are willing to take risks.

Risk management

We consider the management of risks to be an on-going obligation. To determine, analyse and manage risks has been an important management element for the Fresenius Group for many years.

The Fresenius risk management system is an integral part of corporate strategy and is based on its regulations for handling risks. We are therefore sure that, together with our internal monitoring system, risk controlling and an early-warning system derived from it, we can identify and avoid at an early stage those developments which could endanger the continued existence of the company. We have identified the actual and potential risks in the individual business segments of the Group and defined the responsibilities for the procedures and monitoring:

- The risk situation is determined on a regular basis according to standards, and compared with the existing requirements. This means that countermeasures can be initiated at an early stage in order to counteract negative developments.
- The responsible managers are obliged to inform the Managing Board without delay about any relevant changes in the risk profile.
- By continuously observing the markets and by maintaining close contacts to our customers, suppliers and other institutions, we can recognise and react swiftly to changes in our business environment.

The risk management measures are supported both at a corporate level and in the business segments by our risk controlling and a management information system. Deviations in the profit and asset situation compared to budgeted figures are identified and analysed in detailed monthly financial reports. As well as risk management, a monitoring system has been established comprising organisational safety measures as well as internal controls and audits.

The functionality and effectiveness of the risk management system is included in the annual audit of the financial statements. The conclusions are taken into consideration in the continuous development of our risk management system.

Our risk management is subject to active change so that we can react quickly to the demands of the markets; the existing system has proved its worth over the past years.

Risk areas

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

- Risks due to the economic environment
  The risk situation for the individual business segments depends on the economic development of the relevant main markets. For this reason, the political, legal and financial environments are also carefully observed and assessed, as well as the development of the world's economy. Furthermore, the advancing internationalisation of the markets of the Fresenius Group makes it essential for us to keep a close eye on risks related to specific countries.

- Risks related to the general economic environment
  From today's point of view, there is no substantial danger for the Fresenius Group with regard to the development of the global economy. For the 2003 financial year, we anticipate stagnating economies in some fields, although there are currently no signs of a general recession in the economy as a whole. We

anticipate a continued positive development in demand for health services especially as a result of the sustained positive economic prospects for the markets of the Asia-Pacific region.

- Risks in the health care sector

Risks related to changes in market conditions in the health care sector are of major importance for the Fresenius Group. The main risks are the development of new products and therapies by competitors, the financing of the health systems and reimbursement in the health care sector. Due to the large proportion of sales generated in the United States, this is especially true for this region, where changes especially in the reimbursement system could have a significant impact on our business. Therefore we not only constantly observe legislative activities, but we also collaborate closely on our own initiative with governmental health care institutions. In addition, our co-operation with doctors and scientists means that we are in a position to seize on and promote important new technological innovations. These collaborations also mean that we are always up to date regarding new developments of alternative treatment methods, on the basis of which we can assess and adapt our business strategy.

- Risks of operations
- Production, products and services

We counteract potential risks in the services and product businesses by the following measures: The production companies of the Fresenius Group manufacture in accordance with the international Good Manufacturing Practice (GMP) guidelines. Our “Quality Management and Compliance Program” is the basis for the treatment of patients and the invoicing of services in our dialysis clinics. This programme ensures that both our high ethical standards and the official regulations are adhered to. Furthermore, measures relating to quality management are documented precisely in company guidelines such as quality manuals and procedure regulations. They are essential to obtain certification in accordance with international standards, which is obligatory for medical products, and are regularly checked by our quality management offices. The legitimacy and efficiency of our business processes and the effectiveness of our internal control systems are regularly checked by means of internal and external audits. We counteract possible risks connected with the start-up of new production plants or new technologies by careful project planning and by regular analysis and monitoring of the progress of the project.

- Research and development

We counteract any risks from research and development projects by regularly analysing and assessing development trends and examining the progress of research projects. We also ensure strict compliance with legal regulations regarding clinical and chemical-pharmaceutical research and development.

- Other risks

Other types of risks such as those relating to our information technology systems or in personnel marketing due to the intense competition in the recruiting of specialist and managerial staff, are not considered to be significant. Nevertheless, it will be a great challenge in the future to find suitable employees and retain them in the company in the long term.

- Financial risks
  Possible risks exist in the financial area in the form of interest and currency risks which we counteract by appropriate risk management. This is based on the hedging of foreign currency and interest risks with derivative financing instruments. These instruments are solely used in connection with an existing underlying transaction, i.e. transactions for the purpose of trading or speculation are not concluded. Possible risks which could occur as a result of acquisitions and investments are considered carefully in advance through careful and detailed investigations into the respective projects. We are sometimes supported in this by external consultants.

- Legal risks
  The Fresenius Group is involved in various legal issues which result from our operations. Furthermore, Fresenius Medical Care is involved in legal matters in connection with the NMC transaction in 1996. Although it is not possible to forecast the outcome of this litigation, we do not expect any major negative effects on the assets and liabilities, financial position and results of operations. For details, please see page 139 in the Notes.

- Overall risk
  At the present time there are no recognisable risks regarding the future development which could lead to lasting and material damage to the assets and liabilities, financial position and results of operations of the Fresenius Group. We have created the organisational conditions in order to be alerted at an early stage about possible risk situations. We are a provider of products and services which often save the lives of seriously-ill people and which are basically not subject to cyclical economic risks. Our experience, both from a technology point of view and also in our markets, provides us with a sound basis to estimate risks reliably.

Subsequent events

At this point we report on important activities that occurred after the close of the 2002 financial year:

Since the beginning of the 2003 financial year no major changes in the health care environment or regarding the situation of the company have taken place.

The organisational structure of the Fresenius Group changed at the start of the 2003 financial year: the business activities of the business segment Fresenius HemoCare were newly allocated within the Fresenius Group. The Infusion Technology and Transfusion Technology Divisions were integrated into Fresenius Kabi, and Immune Therapy into Fresenius AG. The business segment Adsorber Technology is planned to be sold to Fresenius Medical Care.

The Fresenius Group therefore now consists of three independent units:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

Apart from this, there are no major changes in the structure, administration or legal structure of the Group or in human resources.

In February 2003 Fresenius Medical Care signed the definitive agreement regarding the settlement of the fraudulent conveyance claims relating to the transaction with National Medical Care and all other legal matters in connection with W.R. Grace. Please see page 42 of the Management Report.

In the same month, Fresenius Medical Care successfully refinanced a credit facility in the amount of US$ 1.3 billion, which was not due to be repaid until September

30, 2003. The new facility was provided by a group of international banks and is for a total amount of US$ 1.5 billion (see also page 152 of the Notes).

No further events of material importance have occurred since the close the financial year.

Outlook

General economic outlook

The existing uncertainty regarding the development of the global economy is exacerbated by the risk of an escalation of the Iraq crisis and by the continued volatility of the financial markets. The decisive factor for the development of the world economy in the next few years will be the generally expected recovery of the economy in the United States.

Even if the American economy should revive in the second half of 2003 as forecasted, growth is not expected to be higher than the previous year. It is also not certain to what extent a war with Iraq could cause recovery to falter. Of great concern is the American trade deficit: Since America imports nearly 50% more goods than it exports, the country has to depend on an immense influx of capital.

In view of the global risks, it is extremely difficult to make a forecast regarding the economic development in Europe. Important factors influencing the economy in Europe are the manufacture of capital goods and exports. In Germany, the tax reforms of the government, both enacted and planned, are generating negative impulses to private consumption, which is still restrained on the whole, and to investments.

The growth prospects for the export-oriented Asian economies depend very strongly on the development of the global economy and are generally estimated to remain at the previous year's level in 2003. In China, reforms and modernisation are steadily driving domestic demand. Economic growth is expected to be at around the previous year's level. The first signs of recovery are noticeable in Japan, but structural problems still continue to exist.

After the crisis year 2002, the economic prospects for Latin America are on the whole marked by strong uncertainty. Brazil must be observed carefully in 2003. If the positive trend towards economic recovery should be sustained, this should benefit the whole Latin American region. However, it is probably very difficult to combine a strict monetary and budget policy with the creation of more jobs and social justice. The initial signs of an increase in industrial output in Argentina give cause to hope for a slight economic recovery in 2003. The country is still faced with considerable challenges with respect to government finances. Since the rescheduling of debts has not yet started, there has been almost no influx of funds from private investors. Mexico has succeeded in detaching itself even more from the development in the southern part of the continent, now that it has become a member of the North American Free-Trade Area NAFTA and is thus tied more strongly to the United States.

Health care sector and markets

The health systems of the western countries will continue to have to cope with the strong demands for the best health care. The main reasons are the demographic development and the steadily improving diagnostic and therapy methods. For the patient, this increases his chances of recovering from even severe health disturbances. Also, modern healing methods maintain the quality of life even in cases of chronic illness. Reforms of the health systems such as those planned in Germany will put further pressure on companies in the health care business. In future, it will be necessary to have efficient organisational structures which make it possible to do business both for the benefit of the patient and cost-effectively.

In the Asia-Pacific region we believe that health care spending will continue to depend to a great extent on the development of GDP. However, we anticipate that spending on health will continue to grow at a faster rate than GDP. The demand for life-saving health care is steadily increasing. We therefore expect that the markets in which we are active will still grow at high single-digit or at double-digit rates.

A strong demand for health care provision also exists in Latin America. However, economic and political influences are making it difficult for health care to be financed. The growth rates of the markets vary: While the development in Argentina and Brazil continues to be difficult, Mexico shows a positive picture.

Hospitals and health care facilities will continue to be further privatised. Fresenius ProServe is presented with new market opportunities in the profitable management and operation of hospitals, while maintaining high quality. Experts expect that the number of privately operated hospitals in Germany will increase from 7% at present to approximately 20% in 2020, since these can react to the changing environment in a more flexible way.

In Germany, the new fee-for-case reimbursement system (DRGs – Diagnosis Related Groups) in the hospitals will lead to increased cost awareness and inevitably to a further cutting of the time a patient is hospitalised. Accordingly, it will be increasingly important to transfer the medical treatment of a patient from the acute hospital to non-acute specialist hospitals for follow-up treatment and to nursing care facilities, that have a lower overhead structure, or to treatment at home. One proof of this is the market for ambulatory treatment which is growing at 10% p.a. In the field of in-hospital rehabilitation, alliances with hospitals will increase.

In the field of dialysis we anticipate that the number of dialysis patients will increase by 6 - 7% per year. The reasons are the higher average life expectancy of the population, the increasing incidence of diseases in connection with kidney failure, improved technologies and therapies and, in particular, better access to treatment in developing countries. The prevalence of patients treated demonstrates considerable differences over the globe, ranging from far below 100 to well above 1,000 patients per million population. The worldwide average amounts to about 250 patients with chronic kidney failure per one million population. This leads to the conclusion that – from a global point of view – a multitude of patients do not receive any treatment at present.

Despite the generally high demand for medical products and services, the question regarding how medical care should be paid for remains unanswered. Many indicators show that costs will have to be saved more than ever before. We shall continue to be confronted with falling prices, strong purchasing management and delayed investments on the part of the hospitals, and more regulations regarding the provision of health care. Also, treatment costs are frequently not reimbursed, especially for innovative therapies.

All in all, we expect that nevertheless the demand for medical products and services will further increase.

Sales and earnings

Thanks to our leading market position in many of our fields of activity, together with our established products and services, we have a good basis to continue to grow in future. New products and processes will support this growth. We expect a high single-digit increase in sales for the Fresenius Group in the 2003 financial year at the exchange rates in force in 2002. On the basis of the high absolute sales figure of € 7.5 billion achieved in 2002, and in view of the fact that the markets where we are operating are growing more slowly on the whole, this is quite an ambitious goal. All business segments are expected to contribute to sales growth.

For the 2003 financial year we anticipate that we shall be able to further increase earnings at constant exchange rates. All business segments will likewise contribute to this rise. The growth rate in net income is expected to be higher than that of sales. As well as an intact business development in our markets, an improvement in the cost structure will lead to this increase. The measures of the year 2002, especially in our production facilities, as well as the completion of the switch to single-use dialysers in the United States, will make major contributions towards achieving this.

We maintain our targets regarding margins: In the medium term we anticipate achieving an EBIT margin of around 15% and a return on operating assets (ROOA) in the same amount.

Regional expansion

The demand for our products and services in the various markets also determines the regional structure of Fresenius. Growth in the region Asia-Pacific and also in Latin America will be at a higher rate than in our domestic markets Europe and North America. But in the short term we shall not be able to achieve a sustained change in the regional structure in favour of the growth markets. Europe and America generated 88% of our sales in 2002 and will continue to grow on the basis of this high absolute sales volume. Nevertheless, our target has not changed: to expand our sales share in the region Asia-Pacific to 10%. We have created the conditions to achieve this by building up the necessary infrastructure via subsidiaries and joint ventures.

Financing

After the extraordinarily positive development of the cash flow in the 2002 financial year, which was realised to a large extent through measures in receivables management, we anticipate that we shall be able to achieve a good figure of about 7% of sales for the operating cash flow. The free cash flow may possibly be influenced in the 2003 financial year by the payments in connection with the agreement reached by Fresenius Medical Care regarding the legal matters in the United States.

Our financial targets are based on our important key figure debt/EBIDTA ratio. This key figure is expected to be 2.5 in 2005. In comparison, this figure was only 3.1 in the 2002 financial year. We plan to achieve this with increases in earnings and lower bank loans due to the improved cash flow. In the 2nd quarter of 2003 it is planned to refinance bank loans of Fresenius AG in the amount of € 250 million, due in May 2003.

Capital expenditure

In the past years, Fresenius has made huge investments in tangible and intangible assets and carried out numerous acquisitions. These investments, especially those in our market presence and our production organisation, have been made to secure future growth. We can now slow down our engines to a more moderate pace: After the 2002 financial year with investments in tangible and intangible assets amounting to € 377 million, we shall require around € 300 million for such funds in the current financial year. We also expect our investment volume to be of this size in the subsequent years. The investments in tangible assets will be used mainly to construct and equip dialysis clinics and expand our international production capacities, further optimise production technologies and implement new technologies.

We shall invest nearly half of these funds in Europe, around 35% in the United States and the remaining portion in the regions Asia-Pacific and Latin America. Our planning continues to foresee investment funds for acquisitions, which will largely be used to purchase further dialysis clinics.

Dividend

Fresenius has pursued an earnings-linked dividend policy for many years and showed remarkable continuity in the 2002 financial year with the tenth consecutive dividend increase. We shall continue to maintain this policy: In the current financial year we hope to pay our shareholders an earnings-oriented dividend.

Procurement

We shall continue our activities in the field of procurement optimisation. The further qualification of our suppliers will play an important role. We therefore assume that the price structure for our most important purchased goods will not change significantly in the current year. In 2003 we expect further price reductions or stable prices in the areas of energy and media as well as for polycarbonate, which is one of our important plastic materials. For other raw materials such as glucose, bicarbonate and salts we expect negligible price adjustments. No price increases will occur in 2003 in the important US market for the product erythropoietin (EPO), a hormone that stimulates the production of red blood cells and is used in dialysis treatment, due to contractual agreements.

Research and development

We shall maintain the pace of our research and development activities in our business segments. We shall continue to pay special attention to the development of patient-specific therapies in dialysis, to the development of new therapies using extracorporeal blood treatment and to novel immune therapies.

Corporate legal structure and organisation

The Fresenius Group comprises three business segments, each of which are legally independent. In addition, the business segments are organised on a regional and decentralised basis, so that they can meet the demands of their markets with the greatest possible flexibility. The principle of the “Entrepreneur in the enterprise” with clearly-defined responsibilities has been implemented successfully over many years. We shall maintain this principle. It is not planned to change the legal structure.

Planned changes in human resources and social welfare

The number of employees in the Group is expected to increase moderately. However, this rise will be lower than the growth rate in sales. To increase productivity is one of the key targets of the Group.

INTELLIGENCE LIBERATES

The European market for infusion technology is reported to be largely saturated. Whoever wishes to achieve above-average growth has to come up with convincing innovations, for example with the Patient Data Management System MONICA. It liberates staff in the intensive care unit so that they can devote valuable time to medical and nursing tasks. Experts believe that such systems can revolutionise work on the intensive care unit, just like the personal computer did for everyday office work.

“ALL STRENGTH IS KNOWN ONLY BY THE OBSTACLES THAT IT CAN OVERCOME.“

Immanuel Kant (1724 – 1804), German philosopher

People are demanding the best health care – innovative products and therapies to maintain life. Especially for patients on long-term therapy it is also becoming more and more important to increase their quality of life by means of excellent ambulatory medical treatment concepts. For many years Fresenius has been in a leading position in Europe, not only with regard to market position but above all in research and development, and can therefore fulfil these demands.

Photo Frankfurt · Alte Oper: Bildagentur mauritius GmbH

Europe (15 EU countries)

Area : 3.191 million km^2

Population (2001): 377.1 million

GDP per capita (2001): I$ 24,535

Health care spending per capita (2000): I$ 2,136

Health care spending in % of GDP (2000): 8.7 %

Life expectancy (2000): women: 81.4 years; men: 75.5 years

Source: Eurostat, World Health Organization

EUROPE: MANAGING PATIENT DATA

“Death by scribbling”: this was the diagnosis of the news magazine “Spiegel” in June 2000. The magazine wrote that illegible handwriting on prescriptions and notes leads to thousands of cases of capital malpractice. Pharmacists and nurses reached for the wrong drugs with worrying frequency. Surgery plans looked like a jumble of pages from a scribbling pad – sometimes with fatal results for the patients.

It is true that most prescriptions are now printed by computer, and hospital information systems such as those offered by Fresenius Netcare bring order into the piles of paper by means of electronic patients’ files. But in the intensive care unit and the operating theatre of all places, where really a lot of technical equipment is installed, doctors and nurses still battle on today against a rising flood of data with pencil and paper. “For a long time there was no suitable alternative in these areas,” confirms Dr. Klaus Hankeln, senior physician for anaesthetics and intensive care medicine at the Central Hospital Bremen North.

Over the years, Hankeln worked on providing a solution to this problem and together with other specialists founded the company IntelliCare, in which Fresenius also has an interest. Its product MONICA – Monitoring@Intensive Care – is the most advanced patient data management system on the market today. Fresenius owns the exclusive sales rights, which opens up completely new sales perspectives. The company has been a leading provider of syringe pumps and other products for intensive care medicine in Europe for many years. Supporting hospitals with innovative software solutions and services – this brings future growth, even in a saturated market such as Germany.

Intensive care unit: A dozen machines and devices secure survival

Erich S. is one of the first patients to be treated with the support of MONICA. The cardiac patient, in his mid fifties, is admitted to hospital with pneumonia. A little while later, germs and their toxic metabolic substances flood the blood circuit and cause the dreaded sepsis. The blood count deteriorates rapidly, and his kidneys fail. As with many patients in the intensive care unit, Erich's chances of survival at this point are at the mercy of a dozen machines and devices: Monitors show his temperature chart, ECG, blood pressure and respiratory data, and a battery of syringe pumps infuses various antibiotics, sedatives, catecholamines for the cardiac muscle and solutions for clinical nutrition.

Considerable time saving possible

Previously, nurses had the arduous task of writing down on paper every fifteen minutes the data shown on the monitors. In addition to their busy everyday workload, they had to do sums. Nurses have to calculate the fluid balance of the patient from the infusions administered and the amount of urine drained into a bag in order to ensure that the patients do not dehydrate or overhydrate; or they have to convert the right dose of drugs administered intravenously from milligrams into millilitres per hour. "Up to half the working time of the nursing staff went on this work" Hankeln estimates. The automatic collection and calculation of this data alone would save up to 60 percent of the time now spent on documentation.

Electronic assistant for doctors and nurses

If things go as planned, a MONICA special computer will in future be at the bedside in modern intensive care units. This computer will receive patient data on-line from all the apparatus. Doctors and nurses can therefore see all the data immediately and can calculate doses at the screen, enter laboratory results, document therapies or prescribe new ones directly on the computer. The pen for using the touch screen is also their personal identification.

This means that scribbled notes, wrong calculations and the time-consuming filling in of patient files is a thing of the past. Hospital management also automatically receives the processed data and uses it to claim reimbursement according to the new system of the health insurance companies. Competition and economic pressure will probably mean that most of the European hospitals will install patient data management systems in their intensive care units in the coming years. They will need experts to adapt the system to the specific needs of each hospital, and who can carry out the maintenance and further development of these systems. These experts must be familiar both with the development of software and the routine in the intensive care unit. Companies which are geared to these demands will be able to achieve substantial growth in this field.

MONICA will continue to be optimised through the development of new modules and become an intelligent assistant that will liberate doctors and nurses for other tasks. Intelligent neuronal networks which imitate the human brain will be able to collect medical findings, compare them with the data and therapy results of thousands of patients, and then make suggestions regarding the specific therapy for a patient. There are good prospects due to the linking of apparatus and intelligent software that the chances of survival for patients in the intensive care unit will further improve over the coming years.

Key figures of affiliated companies

Company	Held by Fresenius in %	Sales 2002 million US$	Profit/Loss[1] 31.12.2002 million US$	Equity 31.12.2002 million US$	Employees 31.12.2002
Affiliated company Germany					
1 Fresenius Medical Care AG Hof an der Saale (sub-group/US GAAP)	36.94 share of equity 50.76 share of votes	5,084.1	289.8	2,807.2	41,766

Company	Held by Fresenius in %	Sales 2002 million €	Profit/Loss[1] 31.12.2002 million €	Equity 31.12.2002 million €	Employees 31.12.2002
Affiliated companies Germany					
2 Fresenius Kabi Compounding GmbH Neufahrn (with profit transfer agreement)	100	64.0	-	0.5	260
3 Fresenius Kabi Deutschland GmbH Frankfurt a. M. (with profit transfer agreement)	100	401.8	-	48.2	1,219
4 MC Medizintechnik GmbH Alzenau	100	17.6	0.3	2.0	63
5 Fresenius HemoCare Deutschland GmbH Schweinfurt	100	23.0	0.1	10.6	150
6 Pharmaplan Group Bad Homburg v.d.H.	100	142.6	4.4	-5.5	570
7 Wittgensteiner Kliniken Group Bad Berleburg	93	269.2	4.0	116.3	6,704
8 hospitalia care Group Bad Lauterberg	100	19.8	0.3	1.1	522
9 hospitalia kliniken gmbh Bad Homburg v.d.H.	100	17.2	0.2	10.4	329

Company	Held by Fresenius in %	Sales 2002 million €	Profit/Loss[1] 31.12.2002 million €	Equity 31.12.2002 million €	Employees 31.12.2002
Affiliated foreign companies					
10 Fresenius Kabi France S.A.S. Sèvres, France	100	110.3	2.3	25.1	506
11 Calea France S.A.S. Sèvres, France	100	33.4	-0.9	-4.3	152
12 Fresenius Vial S.A. Brézins, France	100	32.2	2.5	18.7	177
13 Fresenius Kabi Italia S.p.A. Verona, Italy	100	54.4	-4.3	22.0	260
14 Fresenius HemoCare Italia S.r.l. Medolla/Modena, Italy	100	31.2	0.6	6.5	143
15 Fresenius Kabi España S.A. Vilassar de Dalt, Spain	100	38.6	1.9	15.3	168
16 Fresenius Kabi Ltd. Warrington, Great Britain	100	92.9	7.7	11.3	257

Key figures of affiliated companies

Company		Held by Fresenius in %	Sales 2002 million €	Profit/Loss[1] 31.12.2002 million €	Equity 31.12.2002 million €	Employees 31.12.2002
Affiliated foreign companies						
17	Fresenius Kabi Austria GmbH Graz, Austria	100	129.9	20.8	59.5	522
18	VAMED Group Vienna, Austria	77	242.5	15.6	54.2	1,658
19	Fresenius Kabi (Schweiz) AG Stans, Switzerland	100	17.2	1.4	5.9	38
20	NPBI International B.V. Emmen, Netherlands	100	77.9	7.3	20.6	768
21	Fresenius Kabi Nederland B.V. 's-Hertogenbosch, Netherlands	100	14.7	2.6	3.6	13
22	Fresenius Kabi N.V. Antwerp, Belgium	100	23.3	0.5	2.1	33
23	Fresenius Kabi Norge A.S. Oslo, Norway	100	44.7	1.8	13.0	348
24	Fresenius Kabi AB Stockholm, Sweden	100	143.6	-20.2	169.8	724
25	Fresenius Kabi Polzka Sp.Z.o.o. Warsaw, Poland	100	19.2	0.8	12.1	248
26	Fresenius Kabi Clayton L.P. Wilmington, USA	100	22.3	-1.6	-1.6	112
27	Calea Ltd. Ontario, Canada	100	35.8	0.7	3.7	224
28	Grupo Fresenius México S.A. de C.V. Guadalajara, Mexico	100	40.5	2.3	29.6	659
29	Fresenius Kabi Brasil Ltda. Campinas/São Paulo, Brazil	100	13.5	-1.6	5.6	415
30	Sino-Swed Pharmaceutical Corporation Ltd. Wuxi, China	51	63.1	13.5	51.6	756
31	Beijing Fresenius Kabi Pharmaceutical Co., Ltd. Beijing, China	65	29.8	7.4	23.6	234
32	Fresenius Kabi Green Cross Ltd. Yongin, Korea	80	13.7	0.7	5.8	88
33	Fresenius Kabi India Private Ltd. Puna, India	100	15.7	-1.9	6.0	571
34	Fresenius Kabi South Africa Ltd. Midrand, South Africa	100	32.5	4.3	14.8	458

[1] net income/loss

The complete list of investment holdings will be submitted to the Commercial Register of the District of Bad Homburg v.d.H.

Consolidated balance sheet

Assets

as at December 31; in million €	Note	2001	2002
Cash and cash equivalents	6	181	**163**
Trade accounts receivable less allowances for doubtful accounts	7	1,415	**1,299**
Accounts receivable from related parties		16	**16**
Inventories	8	674	**659**
Prepaid expenses and other current assets	9	443	**379**
Deferred taxes (current)	23	301	**227**
I. Total current assets		3,030	**2,743**
Tangible assets	10	1,893	**1,797**
Goodwill	11	3,872	**3,405**
Other intangible assets	11	700	**581**
Other non-current assets	9	284	**308**
Deferred taxes (non-current)	23	88	**81**
II. Total non-current assets		6,837	**6,172**
		9,867	**8,915**

Liabilities and shareholders' equity

in million €	Note	2001	2002
Trade accounts payable		348	**300**
Accounts payable to related parties		11	**4**
Accruals and other short-term liabilities	12	1,129	**1,066**
Short-term loans	13	295	**557**
Short-term loans from related companies		2	**5**
Current portion of long-term loans and capital lease obligations	13	413	**44**
Accruals for income taxes		266	**231**
Deferred taxes (short-term)	23	38	**38**
A. Total short-term liabilities		2,502	**2,245**
Long-term debt and liabilities from capital lease obligations less the current portion	13	1,406	**1,594**
Long-term liabilities to and loans from related companies		1	**1**
Other long-term liabilities		268	**217**
Accruals for pensions	14	184	**224**
Deferred taxes (long-term)	23	196	**182**
Trust preferred securities	15	1,621	**1,083**
B. Total long-term liabilities		3,676	**3,301**
I. Total liabilities		6,178	**5,546**
II. Minority interests	16	1,928	**1,762**
Subscribed capital	17	105	**105**
Capital reserves	17	641	**643**
Other reserves	17	619	**710**
Accumulated other comprehensive income	18	396	**149**
III. Total shareholders' equity		1,761	**1,607**
		9,867	**8,915**

The following Notes are an integral part of the Consolidated Financial Statements.

Consolidated statement of income

in million €	Note	2001	2002
Sales	27	7,307	**7,507**
Cost of goods sold		-4,861	**-5,071**
Gross profit		2,446	**2,436**
Selling, general and administrative expenses		-1,569	**-1,461**
Expenditure on research and development	27	-123	**-138**
Special charge for legal matters	3	-288	**0**
Operating income		466	**837**
Interest income		26	**27**
Interest expense		-312	**-297**
Earnings before income taxes, minority interests and extraordinary expenses		180	**567**
Income taxes	23	-109	**-210**
Minority interests	16, 24	-53	**-218**
Net income before extraordinary expenses		18	**139**
Extraordinary expenses after income taxes and minority interests	24	0	**-5**
Net income		18	**134**

in €	Note	2001	2002
Basic earnings per ordinary share before extraordinary expenses		0.42	**3.37**
Fully diluted earnings per ordinary share before extraordinary expenses		0.42	**3.37**
Basic earnings per ordinary share	17	0.42	**3.25**
Fully diluted earnings per ordinary share	17	0.42	**3.25**
Basic earnings per preference share before extraordinary expenses		0.45	**3.40**
Fully diluted earnings per preference share before extraordinary expenses		0.45	**3.40**
Basic earnings per preference share	17	0.45	**3.28**
Fully diluted earnings per preference share	17	0.45	**3.28**

The following Notes are an integral part of the Consolidated Financial Statements.

Consolidated cash flow statement

in million €	Note	2001	2002
Cash provided by/used for operating activities			
Net income		18	**134**
Minority interests	16, 24	53	**210**
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities			
Depreciation and amortization	27	494	**341**
Loss from early redemption of trust preferred securities	24	0	**13**
Loss from sale of investments		0	**6**
Change in deferred taxes		-64	**54**
Gain/loss on sale of fixed assets		-3	**2**
Changes in assets and liabilities, net of amounts from businesses acquired or disposed of			
Change in trade accounts receivable (net)	7	-169	**-32**
Change in inventories	8	-67	**-36**
Change in prepaid expenses and other current and non-current assets	9	-56	**49**
Change in accounts receivable from/payable to related companies		11	**-7**
Change in trade accounts payable, accruals and other short-term and long-term liabilities		231	**-25**
Change in accruals for taxes		61	**-12**
Cash provided by operating activities		509	**697**
Cash provided by/used for investing activities			
Purchase of tangible assets		-429	**-377**
Proceeds from sale of tangible assets		47	**62**
Purchase of shares in related companies and investments	5, 28	-326	**-119**
Proceeds from sale of shares in related companies and investments	28	0	**1**
Cash used for investing activities		-708	**-433**

in million €	Note	2001	2002
Cash provided by/used for financing activities			
Proceeds from short-term loans	13	152	**161**
Repayments of short-term loans	13	-218	**-87**
Proceeds from short-term loans from related companies		6	**6**
Repayments of short-term loans from related companies		-2	**0**
Proceeds from long-term loans and capital lease obligations	13	521	**418**
Repayments of long-term loans and capital lease obligations	13	-606	**-275**
Payments on obligations from OIG agreement	2	-96	**0**
Proceeds from issuance of trust preferred securities		537	**0**
Redemption of trust preferred securities	15, 24	0	**-398**
Proceeds from receivables securitization program	7	-4	**3**
Proceeds from exercising stock options	17	10	**1**
Dividends paid		-98	**-101**
Change in minority interests	16	-3	**1**
Payments on hedge contracts for inter-company loans in foreign currency		-2	**9**
Cash provided by/used for financing activities		197	**-262**
Effect of exchange rates on change in cash and cash equivalents		0	**-20**
Net decrease in cash and cash equivalents		-2	**-18**
Cash and cash equivalents at beginning of year		183	**181**
Cash and cash equivalents at end of year	6	181	**163**

The following Notes are an integral part of the Consolidated Financial Statements.

Consolidated statement of shareholders' equity

		Ordinary shares		Preference shares		Subscribed capital	
	Note	Number of shares (thousand)	Amount (thousand €)	Number of shares (thousand)	Amount (thousand €)	Amount (thousand €)	Amount (million €)
As at 31.12.2000		10,008	25,619	10,008	25,619	51,238	51
Issuance of bearer ordinary and bearer preference shares	17	10,461	26,781	10,461	26,781	53,562	54
Proceeds from exercise of stock options	19	16	41	16	41	82	-
Compensation expense related to exercise of options	19						
Dividends paid	17						
Comprehensive income							
Net income							
Other comprehensive loss related to cash flow hedges	18, 26						
Foreign currency translation adjustment	18						
Minimum pension liability	14, 18						
Comprehensive income							
As at 31.12.2001		20,485	52,441	20,485	52,441	104,882	105
Issuance of bearer ordinary shares and bearer preference shares	17						
Proceeds from exercise of stock options	19	–	–	–	–		–
Compensation expense related to exercise of options	19						
Dividends paid	17						
Comprehensive income							
Net income							
Other comprehensive loss related to cash flow hedges	18, 26						
Foreign currency translation adjustment	18						
Minimum pension liability	14, 18						
Comprehensive income							
As at 31.12.2002		20,485	52,441	20,485	52,441	104,882	105

in million €	Note	Capital reserves	Other reserves	Other comprehensive income: Currency translation differences	Cash flow hedges	Pensions	Total
As at 31.12.2000		575	645	432	0	0	1,703
Issuance of bearer ordinary shares and bearer preference shares	17	60					114
Proceeds from exercise of stock options	19	3					3
Compensation expense related to exercise of options	19	3					3
Dividends paid	17		-44				-44
Comprehensive income							
Net income			18				18
Other comprehensive loss related to cash flow hedges	18, 26				-58		-58
Foreign currency translation adjustment	18			28			28
Minimum pension liability	14, 18					-6	-6
Comprehensive income		0	18	28	-58	-6	-18
As at 31.12.2001		641	619	460	-58	-6	1,761
Issuance of bearer ordinary shares and bearer preference shares	17						-
Proceeds from exercise of stock options	19						-
Compensation expense related to exercise of options	19	2					2
Dividends paid	17		-43				-43
Comprehensive income							
Net income			134				134
Other comprehensive gain related to cash flow hedges	18, 26				41		41
Foreign currency translation adjustment	18			-266			-266
Minimum pension liability	14, 18					-22	-22
Comprehensive income		0	134	-266	41	-22	-113
As at 31.12.2002		643	710	194	-17	-28	1,607

The following Notes are an integral part of the Consolidated Financial Statements.

Contents

1. Principles

I. Group structure

Fresenius is a health care group operating worldwide with products and services for dialysis, the hospital and the ambulatory medical care of patients. After the legal structuring that took place at the beginning of the 1999 financial year, Fresenius AG acts in the capacity of an operating holding. The operating activities were split into the following legally-independent business segments (sub-groups) until December 31, 2002:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius HemoCare
- Fresenius ProServe

Effective January 1, 2003 the activities of the business segment HemoCare were newly allocated within the Fresenius Group.

Fresenius Medical Care was created through the merger of the worldwide dialysis business of Fresenius with that of W.R. Grace & Co. (USA) that took place on September 30, 1996. This business segment is the world's leading provider of dialysis products and dialysis services for the treatment of patients with chronic kidney failure.

Fresenius Kabi was created through the merger of the former business segment Pharma of Fresenius AG with that of the international infusion business of Pharmacia & Upjohn which was acquired on December 1, 1998. The business segment is active in the field of nutrition and infusion therapy and offers products and services worldwide for the hospital and the patient at home.

Fresenius ProServe offers a range of products and services in connection with the hospital and the pharmaceutical industry. The products and services portfolio ranges from the consulting, planning, construction and equipping of hospitals, up to the management and operation of health care facilities all over the world. Furthermore, ProServe offers services related to the planning, construction, service and technical management of medical and pharmaceutical production plants.

Fresenius HemoCare is a leading company active in the field of blood treatment and infusion technology in Europe. Its products and services are used in blood transfusion and cell separation, as well as for the infusion of solutions and pharmaceuticals. Other core competences of Fresenius HemoCare are innovative processes of immune therapy and adsorber processes for extracorporeal blood treatment.

Fresenius AG continued to own 50.76% of the ordinary voting shares of Fresenius Medical Care AG at the end of the 2002 financial year.

Fresenius AG's share of the total subscribed capital of Fresenius Medical Care AG (ordinary and preference shares) changed from 37.0% on December 31, 2001 to 36.9% on December 31, 2002 as a result of the issuance of additional preference shares by Fresenius Medical Care in the 2002 financial year under the stock option plan of Fresenius Medical Care.

Fresenius AG continued to hold 100% of the management companies of the business segments Fresenius Kabi (Fresenius Kabi AG), Fresenius HemoCare (Fresenius HemoCare GmbH) and Fresenius ProServe (Fresenius ProServe GmbH) on December 31, 2002.

In addition, Fresenius AG holds interests in companies with holding functions regarding real estate, financing and insurance, as well as in Fresenius Netcare GmbH which was founded in connection with the spin-off of the Information Technology Department and which offers services in the field of information technology.

The reporting currency in the Fresenius Group is the euro. In order to make the presentation clearer, amounts are practically always shown in million euros. Amounts which are lower than one million euros after they have been rounded off are marked with "-".

II. Basis of presentation

The enclosed financial statements have been prepared in accordance with the United States Generally Accepted Accounting Principles (US GAAP) for the first time. The figures for the previous year are also presented according to US GAAP in order to ensure comparability.

The Fresenius Group avails itself of the right to claim exemption in accordance with § 292a Commercial Code (HGB) which stipulates that a company is not obliged to present consolidated financial statements in accordance with HGB if the statements have been prepared in accordance with internationally recognised accounting principles and in conformity with the fourth and seventh EU guidelines. The main differences between US GAAP and German accounting principles are explained below.

Fresenius AG as a German parent company is fundamentally obliged to prepare annual financial statements according to German Commercial Code (HGB). § 292a HGB however exempts companies from this obligation if consolidated financial statements are presented in accordance with internationally recognised accounting principles and are published. Fresenius AG prepares its consolidated financial statements in accordance with the accounting principles generally accepted in the United States (US GAAP). The main consolidation, evaluation and accounting methods which differ from German accounting principles are explained.

III. Analysis of the consolidation, evaluation and accounting methods that differ from German accounting rules

a) General differences

US GAAP accounting rules differ from those of German accounting with respect to the objectives: While the emphasis in US GAAP is on providing decision-relevant information to investors, German accounting rules focus on the protection of creditors' rights and by the principle of caution.

b) Requirements for the classification of the financial statements

The preparation of accounts in accordance with US GAAP is based with respect to assets on the degree of realisability and with respect to liabilities on their remaining term. Balance sheets according to § 266 HGB are classified based on the estimated time the assets remain in the company or on the sources of funds, such as loans or shareholders' equity.

c) Consolidation principles

In business combinations, German accounting rules allow companies in certain circumstances to determine purchase costs in connection with the purchase of companies on the basis of the nominal value of shares issued. In US GAAP, purchase costs are determined by the fair value of the shares.

Furthermore, there are differences between German accounting and US GAAP regarding currency translation.

d) Capitalization of interest during construction

German accounting standards allow to capitalize interest expenses of tangible assets, but this is not imperative. According to US GAAP the capitalization of interest expenses is mandatory under certain conditions. The capitalized interest is then amortized over the expected useful life of the fixed assets concerned.

e) Inventories

According to US GAAP, inventories are accounted for under the full cost principle. In using the lower of market or cost principle, the valuation of the inventories is more strongly based on the sales market, so that in certain circumstances a higher value results than according to HGB.

f) Amortization of goodwill

In contrast to German accounting rules, goodwill and separable intangible assets with indefinite useful lives are no longer amortized but examined annually for impairment.

g) Pension accruals and similar obligations

Compared to German accounting standards, accruals for pensions and similar obligations are calculated in US GAAP using the projected unit credit method. By taking into account the current interest rates and the future development of salaries and pensions, this method results in a better projection of the fair value of the obligations than the partial value (Teilwert) method allowed by German tax law.

The rules of the Commercial Code (HGB) require accruals to be made for obligations deriving from early retirement agreements for settled, current and unsettled obligations to people entitled to payments – in accordance with the probable amounts to be claimed. In US GAAP an accrual for early retirement agreements may be made only if a binding agreement with the employee has been made.

h) Other accruals

In US GAAP, accruals for uncertain liabilities and anticipated losses may only be made if a claim will probably be made and the amount of the accrual can be estimated reliably. When assessing the amount of the accrual, the most probable value should be shown, and in the case of several values of equal probability, the lowest should be shown. In HGB, accruals are accounted for under the principle of caution.

i) Trust preferred securities

German accounting rules stipulate that trust preferred securities are to be shown as part of shareholders' equity. According to US GAAP they are to be recorded as liabilities.

j) Minority interests

According to US GAAP, minority interests are not part of net income and of shareholders' equity, unlike German accounting rules.

k) Deferred taxes

According to German principles of consolidation, deferred taxes have to be created for all timing differences between the tax balance sheet and the consolidated balance sheet (timing concept). For quasi-permanent differences, deferred taxes may only be taken into account if they are fairly certain to be released. Deferred taxes on losses carried forward are not capitalized.

In US GAAP, deferred taxes have to be created for all temporary and quasi-permanent differences between the tax balance sheet and the consolidated balance sheet (temporary concept). Furthermore, according to US GAAP deferred taxes have to be shown for losses carried forward. Deferred taxes are to be calculated on the basis of the tax rate which will be effective in the future. A valuation allowance has to be made to reduce the carrying amount of the deferred tax assets unless it is more likely than not that such assets will be realised.

l) Sales recognition

In the case of long-term industrial plant business, the Fresenius Group makes use of the percentage of completion method allowed by US GAAP. According to this method, sales and earnings are realised according to the effective progress made in the construction process. According to HGB on the other hand, sales and earnings are not realised until the contract has been fully completed.

m) Share-based compensation

The Fresenius Group accounts for the stock options granted according to the Fresenius stock option plan under the "intrinsic value method" (APB 25) of US GAAP which in the case of variable plans results in a recognition of the compensation expense over the vesting period if the current market price of the underlying share exceeds the exercise price on the measurement date. According to HGB, the structure of the Fresenius stock option plan is such that no compensation expense arises.

n) Foreign currency translation

According to US GAAP, receivables and liabilities in foreign currency are translated at the foreign currency exchange rate on the balance sheet date, and the gains and losses resulting are shown with effect on net income. In HGB, the translation is made according to the principle of lower of cost or market, i.e. at the least favourable exchange rate on the balance sheet date. In accordance with the principle of caution, only unrealised losses may be recorded with effect on net income.

o) Derivative financial instruments

According to US GAAP accounting rules (SFAS No. 133) all derivative financial instruments are to be recorded at their fair value. The changes in fair values are either recorded in the statement of income or, if the conditions allow, are included in "other comprehensive income" not affecting net income.

According to German accounting regulations, derivative financial instruments are only included in the financial statements to recognize unrealised losses.

p) Reconciliation of shareholders' equity and of net income

The reconciliation of shareholders' equity as of December 31, 2001 according to German accounting principles with US GAAP is shown in the following table:

in million €	
Shareholders' equity including minority interests according to HGB on December 31, 2001	**3,430**
Differences in capitalisation and amortization of goodwill from consolidation	1,376
Differences in capitalisation and amortization of other intangible assets, tangible assets and other non-current assets	495
Presentation of trust preferred securities as liabilities	–1,621
Other, net	9
Shareholders' equity including minority interests according to US GAAP on December 31, 2001	**3,689**
Presentation of minority interests as liabilities	1,928
Shareholders' equity according to US GAAP on December 31, 2001	**1,761**

The effects of the differences between German accounting principles and US GAAP on operating profit (EBIT) in 2001 is shown in the following reconciliation:

in million €	
EBIT 2001 according to HGB	**797**
Increased amortization and depreciation, mainly through higher goodwill	–22
Special charge for legal matters not shown as extraordinary expenses	–274
Increased special charge for legal matters	–22
Other, net	–13
EBIT 2001 according to US GAAP	**466**

The differences affecting net income between German accounting rules and US GAAP are shown in the reconciliation of net income of the 2001 financial year:

in million €	
Net income before minority interests according to HGB	**179**
Increased amortization and depreciation, mainly due to higher goodwill (after taxes)	-14
Higher expenses in connection with legal matters (after taxes)	-12
Release of valuation allowances on deferred taxes (HGB)	-59
Other, net (after taxes)	-23
Net income 2001 before minority interests according to US GAAP	**71**

The difference in EBIT results mainly from the accruals made in the 2001 financial year by Fresenius Medical Care for special charges in connection with US legal matters. While these accruals were shown as extraordinary expenses after taxes according to German accounting rules (€ 190 million; before taxes: € 274 million), in US GAAP these special charges in the amount of € 296 million diminish EBIT. The difference compared to the amount in accordance with German accounting rules results from the fact that according to German accounting rules, accruals amounting to € 22 million had already been made in previous years. In addition, accounting differences in the operating earnings result from the different dates for the first-time consolidation of companies and of restructuring expenses, as well as through currency effects and in the engineering business of Fresenius ProServe from invoicing according to the percentage of completion method.

Positive effects resulted with respect to income taxes according to German accounting rules because valuation allowances on deferred tax assets amounting to € 59 million were released, which reduced tax expense accordingly.

IV. Summary of significant accounting principles

a) Principles of consolidation

The consolidated financial statements include all material companies of which Fresenius AG has legal or effective control. The equity method of accounting is used for investments in associated companies (20% to 50% owned). All other investments are accounted for at purchasing cost.

The consolidated financial statements of the year 2002 include, as well as Fresenius AG, 70 (previous year 53) German and 576 (previous year 572) foreign companies.

The consolidated entities have changed as follows:

Change in entities to be consolidated

	Germany	Abroad	Total
31.12.2001	53	572	625
Additions	19	33	52
Disposals	2	29	31
31.12.2002	70	576	646

52 companies have been consolidated for the first time. Of these, seven companies were newly founded and 27 companies were acquired.

Five companies are no longer included in the consolidated entities. 26 companies have been merged with other companies included in the consolidated financial statements.

Nine companies were accounted for by the equity method.

The complete list of the investment holdings of Fresenius AG will be submitted to the Commercial Register of the District Court of Bad Homburg v.d.H. under the number HRB 2617.

All significant inter-company expenses and income as well as inter-company receivables and liabilities were eliminated.

b) Classifications

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

c) Cash and cash equivalents

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

d) Trade accounts receivable

Estimates for allowances for doubtful accounts are mainly based on historic collection experience, taking into account the ageing of accounts receivable and the contract partner. From time to time, accounts receivable are reviewed for changes from the historic collection experience to ensure the appropriateness of the allowances.

e) Inventories

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

f) Tangible assets

Tangible assets are stated at purchase cost less accumulated depreciation. Significant improvements are capitalized; repairs and maintenance costs that do not extend the useful lives of the assets are charged to expenses as incurred. Tangible assets 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 tangible assets 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 16 years) and 3 to 15 years for machinery and equipment (with a weighted average life of 9 years). Equipment held under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

The Fresenius Group capitalizes interest on borrowed funds during construction periods. Interest capitalized during 2002 and 2001 was € 3 million and € 10 million respectively.

g) Intangible assets

In July 2001 the Financial Accounting Standards Board issued and the Fresenius Group adopted SFAS No. 141 (Business Combinations). Accordingly, the Fresenius Group uses the purchase method of accounting for all business combinations. Intangible assets acquired are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No. 141.

The Fresenius Group adopted SFAS No. 142 (Goodwill and Other Intangible Assets) effective January 1, 2002. Pursuant to SFAS No. 142, intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets) (see Impairment).

Prior to the adoption of SFAS No. 142, goodwill was amortized over its estimated useful life ranging from 20 to 40 years. As of January 1, 2002, in accordance with SFAS No. 142, goodwill and separable intangibles with indefinite lives are no longer amortized, but tested annually for impairment.

To accomplish the provisions of SFAS No. 142 and to evaluate the recoverability of goodwill, the Fresenius Group identified its reporting units according to SFAS No. 142 and determined the carrying value of each reporting unit by assigning the assets and liabilities, including existing goodwill and intangible assets, to those reporting units. Assembled workforce was classified into goodwill in the amount of € 4 million. In the next step Fresenius Group compared the fair value of each reporting unit to the reporting unit's carrying amount. Fair value is determined using a discounted cash flow approach. In the case that the fair value of the reporting unit is less than its carrying amount, a second step is performed which compares the fair value of the reporting unit's goodwill to the carrying amount of its goodwill. If the fair value of the goodwill is less than the carrying amount, the difference is recorded as an impairment.

To evaluate the recoverability of separable intangible assets with indefinite useful lives, the Fresenius Group compares the fair values of intangible assets with their carrying value. An intangible asset's fair value is determined using a discounted cash flow approach.

The recoverability of the goodwill and other separable intangible assets with indefinite useful lives was verified. Fresenius Group did not record any impairment charges.

h) Derivative financial instruments

The Fresenius Group adopted SFAS No. 133 (Accounting for Derivative Instruments and Hedging Activities) as amended by SFAS No. 138 on January 1, 2001. The Fresenius Group utilizes derivative financial instruments including forward currency contracts and interest rate swaps. SFAS No. 133 requires all derivatives to be recognized as assets or liabilities at fair value.

Gains and losses from foreign currency forward contracts designated and qualifying as cash flow hedges of forecasted transactions are deferred in other comprehensive income and realised when the forecasted transaction occurs. Gains and losses from other currency forward contracts which are not classified as cash flow hedges are recorded as selling, general and administrative expenses, or as cost of goods sold, in the period when the gains or losses occur.

Changes in the fair value of interest rate swaps that are designated as cash flow hedges and effectively convert variable interest payments into fixed interest payments are deferred in accumulated other comprehensive income. The interest income and interest expense under the terms of the swaps are accrued and recorded as an adjustment to the interest or related expense of the designated liability or obligation.

Amounts due from and payable to the counter-parties of interest rate swaps are recorded on an accrual basis at each balance sheet date at amounts computed by reference to the respective interest rate swap contract. Realised gains and losses that occur from the early termination or expiration of contracts are deferred and recorded in income over the remaining period of the original swap agreement. Gains and losses arising from interest differential on contracts that hedge specific borrowings are recorded as a component of interest expense over the life of the contract. In the event the hedged asset or liability is terminated, sold, or disposed of, or a hedged obligation is repaid, the gain or loss on the interest rate swap would be matched in the same period with the offsetting gain or loss of the related item (see Note 26).

i) Foreign currency translation

The reporting currency is the euro. The Fresenius Group follows the provisions of SFAS No. 52 (Foreign Currency Translation). Substantially all assets and liabilities of the foreign subsidiaries are translated at year-end exchange rates, while expenses and earnings are translated at the average exchange rates during the year. Adjustments for foreign currency translation fluctuations are excluded from earnings and are reported in accumulated other comprehensive income. In addition, the translation adjustments of certain inter-company borrowings, which are considered foreign equity investments, are also reported in accumulated other comprehensive income.

The exchange rates of the main currencies affecting foreign currency translation developed as follows:

	Exchange rate on balance sheet date* in € 31.12.2001	Exchange rate on balance sheet date* in € 31.12.2002	2001 Average exchange rate in €	2002 Average exchange rate in €
1 US dollar	1.1347	**0.9536**	1.1166	**1.0578**
1 Pound sterling	1.6434	**1.5373**	1.6081	**1.5904**
100 Brazilian reals	48.9309	**26.9454**	47.5240	**35.9169**
100 Mexican pesos	12.4533	**9.3109**	11.9700	**10.8008**
1 Argentinian peso**	0.6675	**0.2836**	1.1166	**0.3235**
100 Yen	0.8671	**0.8039**	0.9201	**0.8470**

* Mean rate on balance sheet date
** The rate of the Argentinian peso on 31.12.2001 corresponds to the rate on 11.1.2002.

Gains and losses resulting from the translation of intercompany borrowings, which are not considered to be equity investments, are included in selling, general and administrative expense. Foreign exchange transaction losses amounted to € 12 million in 2002, while in 2001 gains amounted to € 10 million.

j) Sales recognition policy

Sales from services are recognized at amounts estimated to be received under reimbursement arrangements. Sales are recognized on the date services and related products are provided.

Product sales are recognized when title to the product passes to the customer 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, the appropriate reductions to sales, accounts receivable and cost of sales are made only when goods are actually returned.

In the business segment Fresenius ProServe, sales are recognised for long-term production orders depending on the individual order and in accordance with the percentage-of-completion method. The sales to be recognized are calculated as a percentage of the costs already incurred to the estimated total volume of cost of the contract, milestones laid down in the contract, or the progress made in carrying out the contract.

k) Research and development expenses

Research and development expenses are expensed as incurred.

l) Legal costs

The Fresenius Group sets up accruals for losses resulting from legal issues when they are probable and their amount can be reasonably estimated. These accruals include expenses for legal and consulting services in connection with these legal issues.

m) Income taxes

In accordance with SFAS No. 109 (Accounting for Income Taxes), deferred tax assets and liabilities are recognized for the future consequences attributable to differences between the 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 these temporary differences are expected to be recovered or settled. A valuation allowance is recorded to reduce the carrying amount of the deferred tax assets, if it is more likely than not that such deferred tax assets will not be realised (see Note 23).

n) Impairment

In August 2001, the FASB issued SFAS No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets) which was adopted by the Fresenius Group effective January 1, 2002. SFAS No. 144 modifies the existing guidance in SFAS No. 121 and APB Opinion No. 30. Goodwill and certain separable intangible assets with indefinite useful lives are evaluated annually for impairment under SFAS No. 142. In accordance with SFAS No. 144, the Fresenius Group reviews the carrying value of its tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of long-lived 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 Fresenius Group uses various valuation factors, including discounted cash flows, fair values and replacement costs 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 of selling them, and depreciation is ceased. Long-lived assets to be disposed of other than by sale are considered to be held and used until disposal.

o) Debt issuance costs

Costs related to the issuance of debt are capitalized and amortized using the straight-line method over the term of the related obligation.

p) Self-insurance programs

A major subsidiary of the Fresenius Group in North America is self-insured for professional, product and general liability, auto and workers' compensation claims up to predetermined amounts above which third-party insurance applies. Estimates are made for reported claims and for incurred but not reported claims. The estimates are based on actuarial projections using various factors including recent history of claims and expected claims development.

q) Use of estimates

For the preparation of consolidated financial statements in accordance with US GAAP it is necessary to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the balance sheet date and the reported amounts of earnings and expenses during the financial year. Actual results could differ from those estimates.

r) Receivables management

The companies of the Fresenius Group constantly examine the financial situation of their customers and normally do not demand a collateral from the customers for the supply of products and provision of services.

Approximately 31% of the sales of the Fresenius Group in 2002 and 2001 are subject to the regulations of the governmental health care programs in the United States, especially Medicare and Medicaid.

s) Earnings per preference share and per ordinary share

Basic earnings (loss) per preference share and basic earnings (loss) per ordinary share for all years presented have been calculated using the two-class method required under US GAAP based upon the weighted average number of ordinary and preference shares outstanding. Basic earnings per share are computed by dividing net income less interest paid on convertible investment securities and preference amounts of the preference shares by the weighted average number of ordinary shares and preference shares outstanding during the year. Diluted earnings per share include the effect of all potentially dilutive ordinary and preference shares granted under the Fresenius and/or Fresenius Medical Care stock option plans (see Note 19) that would have been outstanding during the year.

t) Stock option plans

The stock option plans of the Fresenius Group are accounted for in accordance with the provisions of Opinion No. 25 of the Accounting Principles Board (APB) (Accounting for Stock Issued to Employees), and related interpretations in SFAS No. 123 (Accounting for Stock-Based Compensation) with regard to conforming with additional disclosure requirements of SFAS No. 123 with the supplements of SFAS No. 148 (Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement No. 123). Accordingly, compensation expense for options is recorded only if the current market price of the underlying share exceeds the exercise price on the measurement date. For stock option plans which are performance based, the Fresenius Group recognizes compensation expense over the vesting periods, based on the then current market values of the underlying shares.

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS No. 123 to share-based employee compensation (pro-forma):

in million €, except the amounts per share (€)	2001	2002
Net income, as reported	18	**134**
plus share-based employee compensation expense according to APB No. 25	3	**1**
less share-based employee compensation expense according to SFAS No. 123	-11	**-11**
Pro-forma	10	**124**
Basic earnings per ordinary share		
As reported	0.42	**3.25**
Pro-forma	0.22	**3.00**
Basic earnings per preference share		
As reported	0.45	**3.28**
Pro-forma	0.25	**3.03**
Fully-diluted earnings per ordinary share		
As reported	0.42	**3.25**
Pro-forma	0.22	**3.00**
Fully-diluted earnings per preference share		
As reported	0.45	**3.28**
Pro-forma	0.25	**3.03**

u) Recent pronouncements and accounting changes

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141 (Business Combination) and SFAS No. 142 (Goodwill and Other Intangible Assets). The Fresenius Group adopted SFAS No. 141 and SFAS No. 142 (see Note IV. g). In Note 11, net income and earnings per share are shown as if the Fresenius Group had calculated amortization in the 2001 financial year using SFAS No. 142.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 (Accounting for Asset Retirement Obligations). SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset. The Fresenius Group will adopt SFAS No. 143 for the first time as of January 1, 2003. The adoption of SFAS No. 143 will not have a material impact on the financial statements.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144 (Accounting for the Impairment or Disposal of Long-Lived Assets). It provides new guidance that modifies and supersedes the existing guidance in SFAS No. 121 and APB No. 30. The Fresenius Group adopted SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 did not have an impact on consolidated financial statements of the Fresenius Group.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145 (Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections). SFAS No. 145 rescinds SFAS No. 4; SFAS No. 64 concerned classifications of gains and losses on debt extinguishments. The rescission of this regulation means that most debt extinguishment gains and losses will no longer be classified as extraordinary. SFAS No. 145 also amends SFAS No. 13 with respect to certain sale and leaseback transactions. The Fresenius Group will adopt SFAS No. 145 with regard to SFAS No. 4 on January 1, 2003. In the first quarter of 2002, the Fresenius Group recorded an extraordinary loss after income taxes and after minority interests of € 5 million as a result of the early redemption of debt (see Note 24). This loss will no longer be presented as an extraordinary loss upon the adoption of SFAS No. 145. The Fresenius Group adopted the other provisions of SFAS No. 145 effective April 1, 2002.

In July 2002, the Financial Accounting Standards Board issued SFAS No. 146 (Accounting for Costs Associated with Exit or Disposal Activities). The standard requires companies to recognize costs associated with exit or disposal activities when liabilities are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 replaces EITF Issue No. 94-3 (Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)). This statement is to be applied to exit or disposal activities initiated after December 31, 2002.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45 (FIN 45) (Guarantor's Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others). FIN 45 requires a guarantor to recognize a liability measured at fair value at the inception of a guarantee for obligations undertaken, including its obligation to stand ready to perform over the term of the guarantee. The initial recognition and measurement provisions are applicable prospectively to guarantees issued or modified after December 31, 2002. FIN 45 also clarifies and expands the disclosure requirements related to guarantees, including product warranties. The Fresenius Group adopted those disclosure requirements as of December 31, 2002. The Fresenius Group did not have any guarantees of material amounts on December 31, 2002.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148 (Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement No. 123). SFAS No. 148 amends SFAS No. 123 (Accounting for Stock-Based Compensation) to provide alternative methods for a change to the fair value based method of accounting for share-based employee compensation. It also amends the disclosure requirement of SFAS No. 123 to require disclosures in both annual and interim financial statements of the method of accounting for share-based employee compensation and the effect of the method had on reported results. The Fresenius Group adopted the amended disclosure requirements as of December 31, 2002 (see Note IV. t).

V. Critical accounting policies

We have selected the following accounting policies and topics which in our opinion are critical for the financial statements in the present economic environment. The influences and judgements as well as the uncertainties which affect them are also important factors to be considered when looking at our present and future operating earnings.

a) Recoverability of goodwill and intangible assets

The growth of the Fresenius Group through acquisitions has created a significant amount of intangible assets, including goodwill, patient relationships, trade names and other factors. On December 31, 2002, the carrying amount of goodwill and intangible assets with indefinite useful lives amounted to € 3,810 million, which represented 43% of the total assets.

In accordance with SFAS No. 142 (Goodwill and Other Intangible Assets) an annual impairment test of goodwill and non-amortizable intangible assets with indefinite useful lives is performed once a year, or if events occur or circumstances change that would indicate the carrying value might be impaired.

To comply with the provisions of SFAS No. 142 and to determine possible impairments of these assets, the fair value of the reporting units determined under SFAS 142 is compared to the reporting unit's carrying amount. The fair value of each reporting unit is estimated using a discounted cash flow method discounted by a weighted average cost of capital (WACC) specific to that unit. Estimated cash flows used in this method are based on our budgets for 2003 – 2005, and projections for the following years based on an expected growth rate. The growth rates are based on industry and internal projections. The discount rates reflect any inflation in local cash flows and risks inherent to each reporting unit. If the fair value of the reporting unit should be lower 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 as well as changes in the discount rates could adversely affect the estimated future cash flows of certain countries or segments. As a result, our future operating results could be materially affected by additional impairment charges.

b) Legal contingencies

The Fresenius Group is involved in legal matters relating to a number of matters arising in the ordinary course of our business. Furthermore, Fresenius Medical Care is party to litigation in connection with the NMC transaction in 1996. For details, please see Note 25 "Commitments and contingent liabilities".

We regularly analyse current information including, as applicable, our legal defences and insurance cover and 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, we consider the degree of probability of an unfavourable outcome and our ability to make a reasonable estimate of the amount of loss.

If an unfavourable outcome is probable but the amount of loss cannot be reasonably estimated, appropriate disclosure is provided, but no contingent losses are accrued. The filing of a suit or formal assertion of a claim or assessment does not automatically indicate that accrual of a loss may be appropriate.

c) 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 € 1,299 million and € 1,415 million in 2002 and 2001 respectively, net of allowances and after sales of accounts receivable under the accounts receivable facility. The allowance for doubtful accounts was € 170 million and € 174 million for 2002 and 2001 respectively. The majority of our receivables derives from the business segment Fresenius Medical Care and mainly relates to the dialysis care business in North America.

Sales are recognized and invoiced at amounts estimated to be received under reimbursement arrangements with third party payors.

Estimates for the allowance for doubtful accounts are mainly based on historic collection experience, taking into account the ageing of accounts receivable and the contract partners. We believe that these analyses result in a well-founded estimate of allowance for doubtful accounts. From time to time, accounts receivable are reviewed for deviations from the historic collection experience to ensure the appropriateness of the allowance.

A significant change in our collection experience, a deterioration in the ageing of receivables and collection difficulties may 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.

2. Special charge for the agreement with the US authorities (OIG)

Since 1995 National Medical Care, Inc., Delaware (USA), a subsidiary of Fresenius Medical Care Holdings, Inc., New York (USA), was subject to an investigation by various US federal authorities and offices (OIG: Office of the Inspector General). These investigations concerned the period before these companies were part of the Fresenius Group. The investigations mainly concerned contracts and remuneration of medical directors of dialysis clinics, the laboratory business of the business unit LifeChem™, over-payments from the Medicare program and the administration of intradialytic parenteral nutrition (IDPN).

In order to settle these investigations, a definitive agreement was reached on January 18, 2000 between Fresenius Medical Care Holdings, Inc., National Medical Care, Inc., and other companies of the Group and the Office of the Inspector

General. Of the amount of US$ 486 million agreed to be paid to the US government to settle civil claims and fines, the outstanding amount of US$ 86 million was paid in 2001.

Of the IDPN claims amounting to US$ 59 million outstanding on December 31, 1999 which are recognised by the US Government, the remaining US$ 5 million was paid in the 2001 financial year. The Letter of Credit purchased to secure the settlement payment was closed out with the last payment.

3. Special charge of Fresenius Medical Care for legal matters

In the fourth quarter of 2001, Fresenius Medical Care recorded a special charge amounting to US$ 258 million (US$ 177 million after taxes). The charge was recorded in view of the legal matters related to the merger of 1996, potential liabilities and legal expenses arising in connection with the W.R. Grace Chapter 11 Proceedings as well as costs for resolving pending litigation and other disputes with certain commercial insurers (see Note 25).

Fresenius Medical Care accrued US$ 172 million principally representing an accrual for income taxes for the years prior to the 1996 merger. Fresenius Medical Care has been indemnified by W.R. Grace but may ultimately be obliged to pay as a result of W.R. Grace's Chapter 11 Proceedings. In addition, that amount includes the costs of defending the company in all litigation arising out of W.R. Grace's Chapter 11 Proceedings.

Fresenius Medical Care has included in the special charge the amount of US$ 55 million to provide for settlement obligations, legal expenses and disputed accounts receivable regarding various commercial insurers.

The remaining amount of US$ 31 million mainly represents (1) assets and receivables that are impaired in connection with other legal matters and (2) anticipated expenses associated with the continued defence and resolution of the legal matters.

On December 31, 2002 the accruals for the special charge for legal matters amounted to US$ 191 million (€ 182 million). Fresenius Medical Care anticipates that the accruals are adequate for all the risks described above in connection with legal matters. During the year 2002, payments in the amount of US$ 33 million were applied against the accrued special charge.

4. Related party transactions

A member of the Supervisory Board of Fresenius AG is a member of the Managing Board of a bank which is the dealer in the euro multi-currency commercial paper program with a total amount of € 250 million.

A member of the Supervisory Board of Fresenius Medical Care AG is the Chairman of the Managing Board of another bank that serves as dealer and administrative agent of the euro multi-currency commercial paper program.

In 2001, subsidiaries of this bank acted as joint global co-lead managers in the dollar-denominated tranche and as initial purchasers of the euro-denominated tranche of a global public offering of trust preferred securities issued by Fresenius Medical Care AG. Fresenius Medical Care AG paid a total of € 8 million in underwriting fees and commissions to the coordinators of the offering. The bank is also a lender and one of the managing agents in connection with the senior credit agreement.

A member of the Supervisory Boards of Fresenius AG and Fresenius Medical Care AG is a partner in a law firm that provided services to the Group. The Fresenius Group paid to this law firm approximately € 0.7 million each in 2002 and 2001.

5. Acquisitions

The Fresenius Group made acquisitions totalling € 130 million and € 804 million in 2002 and 2001 respectively. Of this total, Fresenius Medical Care invested € 93 million and € 493 million, Fresenius Kabi € 19 million and € 24 million, Fresenius ProServe € 8 million and € 235 million, and Fresenius HemoCare € 10 million and € 44 million.

The acquisitions completed in the 2002 financial year, or which were included in the consolidated statements for the first full year, contributed the following amounts to the development of sales and earnings compared to the previous year:

Sales	€ 230 million
EBITDA	€ 21 million
EBIT	€ 10 million
Balance of interest	€ -10 million
Net income	€ -3 million

The acquisitions increased the balance sheet total of the Fresenius Group by € 176 million.

All acquisitions have been accounted for as purchase transactions and accordingly have been consolidated from the date of acquisition. The excess of the total acquisition costs over the fair value of the tangible net assets acquired amounted to € 124 million and € 553 million in 2002 and 2001 respectively.

Fresenius Medical Care made acquisitions in 2002 amounting to € 93 million, of which € 84 million was paid in cash and debts totalling € 9 million were assumed. The majority of this amount (€ 87 million) was used for the purchase of individual dialysis clinics.

The largest acquisition of Fresenius Medical Care in the 2001 financial year was the purchase of Everest Healthcare Services Corporation, USA, for the amount of US$ 365 million. In order to pay the purchase price, US$ 131 million was paid in cash, preference shares of Fresenius Medical Care in the amount of US$ 100 million were issued and debts totalling US$ 134 million were assumed. In addition, further dialysis clinics were purchased, especially in the United States.

The main acquisition of Fresenius Kabi was the purchase of V. Krütten Medizinische Einmalgeräte GmbH, Idstein. In addition, further payments already determined in the purchase contract were made to Polfa Kutno, Poland.

The major acquisitions of Fresenius Kabi in 2001 were the purchase of Medical Agencies, S.A., Argentina, assets and debts of Coopers S.A., Greece (asset deal) and other payments for Novamedical S.A., France and Green Cross Ltd., Korea which were subject to certain conditions being fulfilled.

In the 2002 financial year, Fresenius ProServe acquired Seehospital Sahlenburg GmbH, Sahlenburg, and Klinikum Rhein-Sieg GmbH, as well as Klinikum Rhein-Sieg Dienstleistungs GmbH, Siegburg.

The largest acquisition of Fresenius ProServe in the previous year was the purchase of Wittgensteiner Kliniken AG, Bad Berleburg, for € 221 million.

The largest acquisition of Fresenius HemoCare in 2002 was the purchase of shares in Trion GmbH, Munich, Kitaro GmbH, Hanover and IntelliCare GmbH, Bremen.

The main acquisitions of Fresenius HemoCare in 2001 were the purchase of EUFETS AG, Idar-Oberstein, Gerätezentrale für Bluttransfusion des Österreichischen Roten Kreuzes GmbH, Austria, and the purchase of the remaining shares in NPBI B.V., Netherlands.

Notes on the consolidated balance sheet

6. Cash and cash equivalents

in million €	2001	2002
Cash	169	**149**
Securities (with a maturity of up to 90 days)	12	**14**
Total cash and cash equivalents	181	**163**

in million €	2001	2002
Securities with a maturity of up to 90 days		
Securities available for sale	2	**1**
Securities held to maturity	0	**1**
Term deposits	10	**12**
	12	**14**

7. Trade accounts receivable

in million €	2001	2002
Trade accounts receivable	1,589	**1,469**
less allowance	174	**170**
Trade accounts receivable (net)	1,415	**1,299**

In the business segment Fresenius Medical Care, National Medical Care, Inc., (NMC) has an accounts receivable securitization facility. This facility sells receivables of NMC and certain affiliates to NMC Funding Corporation, a wholly-owned subsidiary of NMC, which subsequently transfers and assigns percentage ownership interests in the receivables to certain bank investors. The NMC Funding Corporation was not consolidated as it does not meet the control criteria of SFAS No. 140. The retained interest in accounts receivable is shown in the balance sheet at fair value net of allowance on receivables. NMC has a servicing obligation to act as a collection agent on behalf of NMC Funding Corporation. The amount of the accounts receivable facility was last amended on December 21, 2001, when Fresenius Medical Care increased the accounts receivable facility to US$ 560 million. On October 24, 2002 its maturity was extended to October 23, 2003.

On December 31, 2002 and 2001, US$ 445 million and US$ 442 million respectively had been received pursuant to such sales. These accounts are reflected in a corresponding reduction in accounts receivable of the company. The NMC Funding Corporation pays interest to the bank investors, calculated on the basis of the commercial paper rates for the particular tranches selected. The effective interest rate was approximately 1.48% for the amount of US$ 429 million and 1.89% for the amount of US$ 16 million at the end of 2002. Under the terms of the agreement, new interests in accounts receivable are sold as collections reduce accounts receivable previously sold. The costs related to such sales are shown as interest and similar expenses in the respective period. There were no gains or losses from these transactions.

8. Inventories

As at December 31, 2002, inventories were as follows:

in million €	2001	2002
Raw materials and purchased components	164	**152**
Work in process	77	**106**
Finished goods	465	**438**
less reserves	32	**37**
Inventories (net)	674	**659**

The companies of the Fresenius Group are obliged to purchase raw materials to the value of approximately € 349 million at pre-determined conditions, of which € 171 million was committed on December 31, 2002 for purchases in the 2003 financial year. The terms of these agreements run from 1 to 6 years. The inventories include the amount of approximately € 20 million for the product EPO as at December 31, 2002. This product is purchased in the United States from one single supplier. Delays, interruptions in deliveries or termination of supplies could materially affect the operating results of the business segment Fresenius Medical Care. In 2002, sales of EPO comprised about 12% of total sales of the Fresenius Group.

9. Prepaid expenses and other current and non-current assets

in million €	2001	2002
Tax receivables	151	**101**
Derivative financial instruments	12	**97**
Re-insurance claims	82	**58**
Investments and long-term loans	58	**57**
Receivables from management contracts in clinics	52	**40**
Prepaid expenses	75	**34**
Payments made on account	20	**24**
Notes receivable	34	**7**
Other assets	247	**274**
Prepaid expenses and other assets (gross)	731	**692**
of which short-term	447	**384**
less allowance	4	**5**
Prepaid expenses and other assets (net)	727	**687**

10. Tangible assets

As of December 31, 2002 tangible assets were as follows:

Purchasing and manufacturing costs

in million €	As at January 1, 2002	Exchange rate differences	Changes in entities consolidated	Additions	Transfers	Disposals	As at December 31, 2002
Land and improvements	94	-5	6	5	-1	0	**99**
Buildings and improvements	1,076	-88	1	92	55	34	**1,102**
Machinery and equipment	1,655	-112	18	147	57	125	**1,640**
Machinery, equipment and rental equipment under capitalized leases	128	-1	21	7	11	5	**161**
Construction in process	168	-15	0	83	-122	10	**104**
Tangible assets	3,121	-221	46	334	0	174	**3,106**

Depreciation

in million €	As at January 1, 2002	Exchange rate differences	Changes in entities consolidated	Additions	Transfers	Disposals	As at December 31, 2002
Land and improvements	1	0	0	1	-1	0	**1**
Buildings and improvements	306	-31	1	70	6	10	**342**
Machinery and equipment	883	-60	3	189	-1	95	**919**
Machinery, equipment and rental equipment under capitalized leases	37	-1	0	14	-2	1	**47**
Construction in process	1	0	0	3	-2	2	**0**
Tangible assets	1,228	-92	4	277	0	108	**1,309**

in million €	Carrying amounts December 31, 2001	Carrying amounts December 31, 2002
Land and improvements	93	**98**
Buildings and improvements	770	**760**
Machinery and equipment	772	**721**
Machinery, equipment and rental equipment under capitalized leases	91	**114**
Construction in process	167	**104**
Tangible assets	1,893	**1,797**

Depreciation expenses for tangible assets amounted to € 277 million and € 260 million for 2002 and 2001 respectively.

Included in tangible assets on December 31, 2002 and 2001 are € 86 million and € 80 million respectively for peritoneal dialysis cycler machines which Fresenius Medical Care leases to customers with end-stage renal disease on a month-to-month basis and haemodialysis machines which Fresenius Medical Care leases to physicians under operating leases. Identification of the rental income is not practicable as the company's return on the machines is received through contractual arrangements whereby a premium is charged for other support equipment and supplies sold during the life of the lease.

To a negligible extent, tangible assets are also leased to patients by other business segments.

Depreciation related to machinery, equipment and rental equipment under capital leases amounts to € 14 million and € 9 million on December 31, 2002 and December 31, 2001 respectively.

11. Goodwill and other intangible assets

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

Purchasing and manufacturing costs

in million €	As at January 1, 2002	Exchange rate differences	Changes in entities consolidated	Additions	Transfers	Disposals	As at December 31, 2002
Goodwill	3,876	-562	102	0	-5	2	**3,409**
Patient relationships	272	-45	9	0	0	0	**236**
Trade names and patents	293	-40	0	3	10	1	**265**
Distribution rights	24	0	0	1	0	0	**25**
Other	441	-64	7	17	-5	2	**394**
Intangible assets	4,906	-711	118	21	0	5	**4,329**

Amortization

in million €	As at January 1, 2002	Exchange rate differences	Changes in entities consolidated	Additions	Transfers	Disposals	As at December 31, 2002
Goodwill	0	0	0	0	0	0	**0**
Patient relationships	179	-33	0	37	0	0	**183**
Trade names and patents	28	-2	0	5	0	2	**29**
Distribution rights	13	1	0	2	0	0	**16**
Other	114	-16	0	20	0	3	**115**
Intangible assets	334	-50	0	64	0	5	**343**

in million €	Carrying amounts December 31, 2001	Carrying amounts December 31, 2002
Goodwill	3,876	**3,409**
Patient relationships	93	**53**
Trade names and patents	265	**236**
Distribution rights	11	**9**
Other	327	**279**
Intangible assets	4,572	**3,986**

If intangible assets are split into amortizable and non-amortizable intangible assets, the following table results:

Amortizable intangible assets

	31.12.2001			31.12.2002		
in million €	Purchasing/ manu-facturing costs	Accu-mulated amor-tization	Carrying amounts	Purchasing/ manu-facturing costs	Accu-mulated amor-tization	Carrying amounts
Patient relationships	272	179	93	**236**	**183**	**53**
Patents	39	28	11	**39**	**29**	**10**
Distribution rights	24	13	11	**25**	**16**	**9**
Other	233	114	119	**219**	**115**	**104**
Total	568	334	234	**519**	**343**	**176**

Non-amortizable intangible assets

	31.12.2001			31.12.2002		
in million €	Purchasing/ manu-facturing costs	Accu-mulated amor-tization	Carrying amounts	Purchasing/ manu-facturing costs	Accu-mulated amor-tization	Carrying amounts
Trade names	254	0	254	**226**	**0**	**226**
Management contracts	208	0	208	**175**	**0**	**175**
Subtotal	462	0	462	**401**	**0**	**401**
Goodwill (including assembled workforce)	3,876	0	3,876	**3,409**	**0**	**3,409**
Total	4,338	0	4,338	**3,810**	**0**	**3,810**

Amortization on intangible assets (in 2001 including amortization of goodwill, trade names and management contracts) amounted to € 64 million and € 231 million for 2002 and 2001 respectively.

Amortizable intangible assets have an average useful life of 11 years (patient relationships an average of 7 years, patents an average of 8 years, distribution rights an average of 12 years, other intangible assets of 21 years).

Research results acquired in connection with an acquisition have alternative future use, so that in this case, in deviation to the accounting principle, the costs amounting to € 7 million have been capitalised and are amortized over the expected useful life of 6 years.

Anticipated amortization expenses on intangible assets for the next five years is shown in the following table:

in million €	2003	2004	2005	2006	2007
Anticipated amortization expenses for the next five financial years	43	37	32	28	21

If the Fresenius Group had determined all the amortization expenses in the 2001 financial year using SFAS No. 142, the following (adjusted) net income and (adjusted) earnings per share would have been recorded:

in million €	2001	2002
Net income		
as reported	18	**134**
plus		
Goodwill amortization (after minority interests)	55	**0**
Amortization of trade names (after minority interests)	2	**0**
Amortization of management contracts (after minority interests)	2	**0**
Net income (adjusted)	77	**134**

Basic earnings per ordinary share

in €	2001	2002
Basic earnings per ordinary share		
as reported	0.42	**3.25**
plus		
Goodwill amortization (after minority interests)	1.36	**0.00**
Amortization of trade names (after minority interests)	0.05	**0.00**
Amortization of management contracts (after minority interests)	0.05	**0.00**
Basic earnings per ordinary share (adjusted)	1.88	**3.25**

Fully-diluted earnings per ordinary share

in €	2001	2002
Fully-diluted earnings per ordinary share		
as reported	0.42	**3.25**
plus		
Goodwill amortization (after minority interests)	1.36	**0.00**
Amortization of trade names (after minority interests)	0.05	**0.00**
Amortization of management contracts (after minority interests)	0.05	**0.00**
Fully-diluted earnings per ordinary share (adjusted)	1.88	**3.25**

Basic earnings per preference share

in €	2001	2002
Basic earnings per preference share		
as reported	0.45	**3.28**
plus		
Goodwill amortization (after minority interests)	1.36	**0.00**
Amortization of trade names (after minority interests)	0.05	**0.00**
Amortization of management contracts (after minority interests)	0.05	**0.00**
Basic earnings per preference share (adjusted)	1.91	**3.28**

Fully-diluted earnings per preference share

in €	2001	2002
Fully-diluted earnings per preference share		
as reported	0.45	**3.28**
plus		
Goodwill amortization (after minority interests)	1.36	**0.00**
Amortization of trade names (after minority interests)	0.05	**0.00**
Amortization of management contracts (after minority interests)	0.05	**0.00**
Fully-diluted earnings per preference share (adjusted)	1.91	**3.28**

12. Accruals and other short-term liabilities

Accruals and other short-term liabilities are as follows on 31 December:

in million €	2001	2002
Accrued salaries and wages	203	**201**
Accruals in connection with legal matters	251	**182**
Payments received on account	58	**69**
Accounts receivable credit balances	65	**61**
Accrued taxes (without income taxes)	63	**61**
Self-insurance program	46	**47**
Interest	48	**45**
Derivative financial instruments	9	**33**
Accounts payable to government institutions	28	**27**
Bonuses and discounts	17	**25**
Commissions	21	**19**
Accrued physician compensation	20	**18**
Legal costs	14	**12**
Deferred income	11	**9**
Other accruals	275	**257**
Total accrued expenses and other short-term liabilities	1,129	**1,066**

13. Loans and capital lease obligations

Short-term loans from third parties amounting to € 557 million and € 295 million as at December 31, 2002 and 2001 respectively concern loans taken up by individual subsidiaries of the Group in connection with lines of credit with commercial banks. The average interest rates on the loans were 4.6% and 5.1% in 2002 and 2001 respectively.

Without the funds from the NMC senior credit agreement the Fresenius Group had a total credit line of € 438 million and € 421 million on December 31, 2002 and December 31, 2001 respectively in connection with credit agreements with commercial banks. These credit lines are secured by accounts receivable facilities and contain certain covenants including, but not limited to, requirements for maintaining defined levels of working capital, net worth, capital expenditure and various financial ratios. The Fresenius Group is in line with its obligations in this respect as at December 31, 2002.

On December 31, long-term loans and capital lease obligations were as follows:

in million €	2001	2002
NMC senior credit agreement	789	**822**
Capital lease obligations	45	**60**
Notes	129	**129**
Bonds	600	**400**
Other	256	**227**
	1,819	**1,638**
less short-term portion	413	**44**
	1,406	**1,594**

Eurobonds

On April 27, 1999 Fresenius Finance B.V., ‘s-Hertogenbosch (Netherlands), a 100% subsidiary of Fresenius AG, issued Eurobonds for a total of € 600 million in two tranches in order to repay short-term bank loans which were mainly used for the acquisition of the international infusion business of Pharmacia & Upjohn AB, Stockholm (Sweden).

The fixed interest tranche with a nominal amount of € 400 million is divided into 400,000 certificates denominated at € 1,000 each, which have an annual interest rate of 4.5%. The fixed-interest tranche matures after five years; repayment will be made on May 18, 2004 at the nominal value.

The tranche with a variable interest rate with a total nominal amount of € 200 million comprised 200,000 certificates denominated at € 1,000 each, on which interest was paid quarterly at the prevailing EURIBOR rate for three months plus 0.90 % p.a. The tranche matured after three years; repayment was made on May 18, 2002 at the nominal value.

NMC senior credit agreement

Fresenius Medical Care AG is party to a bank agreement dated September 27, 1996 (hereafter “NMC senior credit agreement”) with Bank of America, N.A., The Bank of Nova Scotia, The Chase Manhattan Bank, Dresdner Bank AG and certain other lenders (collectively, the “Lenders”), as amended, pursuant to which the Lenders have made available to Fresenius Medical Care and certain subsidiaries and affiliates two credit facilities:

- a revolving credit facility of up to US$ 1,000 million expiring on September 30, 2003. Of the total amount, up to US$ 250 million is available for letters of credit, up to US$ 450 million is available for borrowings in certain non-US currencies, up to US$ 50 million is available as swing lines in US dollars and up to US$ 20 million is available as swing lines in certain non-US currencies. On December 31, 2002, Fresenius Medical Care had US$ 619 million outstanding balance under the revolving credit facility, including US$ 34 million for letters of credit.
- a term loan facility of US$ 277 million outstanding balance at December 31, 2002, also expiring September 30, 2003. The terms of the NMC senior credit agreement relating to the term loan facility require payments that permanently reduce the term loan facility. Repayment began in the fourth quarter of 1999 and continued with quarterly payments of US$ 38 million until February 2003 when the loan was redeemed and replaced by a new loan agreement.

Interest for loans under the NMC senior credit agreement was calculated at a base rate determined in accordance with the agreement, or at LIBOR, plus in either case an applicable margin. A fee was payable to the Lenders equal to a percentage per annum (initially 0.375 %) of the portion of the NMC senior credit agreement not used.

In addition to scheduled principal payments, the NMC senior credit agreement was reduced by certain portions of the net cash proceeds from certain sales of assets, sales of accounts receivable and the issuance of subordinated debt and equity securities. The loan can be redeemed before maturity at any time, with the exception of certain determined periods, without paying additional prepayment penalties. The NMC senior credit agreement contains customary affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions, mainly related to dividends. Under the terms of the agreement Fresenius Medical Care is restricted as to the level of dividends that may be paid in any calendar year. This limit was US$ 87 million in 2002 for dividend payments of Fresenius Medical Care AG. Fresenius Medical Care's dividend distribution in 2002 for 2001 was below this limit.

Dividends from Fresenius Medical Care Holdings, Inc., a wholly owned subsidiary, were limited as a result of a restriction on dividends from its subsidiary, National Medical Care, Inc. The restriction limited National Medical Care dividends to not more than 50% of its consolidated net income of the preceding year. On May 31, 2001, the NMC senior credit agreement was amended so that the proceeds of the preference share offerings during 2001 did not trigger repayment obligations on the term loan. On June 30, 2001, the NMC senior credit agreement was amended again to increase the allowed other indebtedness of Fresenius Medical Care Holdings and its subsidiaries. On November 26, 2001, the payment restrictions on the NMC senior credit agreement were amended to allow for the early redemption of US$ 360 million of 9% trust preferred securities on February 14, 2002 (see Note 15). On February 25, 2002, the NMC senior credit agreement was amended to clarify the impact of the special charge for legal matters (see Note 3) on covenant computations under the facility. The company is within the terms of its obligations in this respect.

On December 31, 2002, Fresenius Medical Care had approximately US$ 381 million of additional borrowing capacity available under the revolving credit facility of the NMC senior credit agreement, including approximately US$ 216 million for additional letters of credit. No further borrowings are available under the term loan facility.

In February 2003, Fresenius Medical Care successfully entered into a new bank agreement which replaced the NMC senior credit agreement scheduled to mature on September 30, 2003. The new facility was provided by a group of international banks and has a total volume of US$ 1.5 billion in three facilities (see Note 29).

Euronotes

In 2001, Fresenius Medical Care AG issued four tranches of senior notes (Euronotes) totalling € 129 million. The first two tranches were issued on July 13, 2001. The first tranche is for € 80 million and has a fixed interest rate of 6.16%, and the second tranche is for € 29 million with a variable interest rate which averaged 4.78% in 2002. The third tranche, issued in September 2001, was for € 15 million and had an average interest rate of 4.78% in 2002. The final tranche for € 5 million was issued on December 5, 2001 and has a fixed interest rate of 5.33%. All four tranches have a maturity date of July 13, 2005. Both floating rates are tied to the EURIBOR rate.

Aggregate annual payments applicable to the long-term loans, capital leases and other borrowings for the five years subsequent to December 31, 2002 (excluding borrowings underlying trust preferred securities, see Note 15) are:

	in million €
2003	44
2004	500
2005	268
2006	127
2007	594
Subsequent years	105
	1,638

14. Pensions and similar obligations

Defined benefit pension plans

Plan benefits are generally based on an employee's years of service and final salary. Consistent with normal business custom in Germany, the pension obligations of the companies of the Fresenius Group are unfunded. Fresenius Medical Care currently has two principle pension plans, one for German employees and the other for employees in the United States.

In the United States, substantially all employees are covered by the National Medical Care (NMC) defined benefit pension plan (non-contributory). Plan assets consist principally of publicly traded ordinary shares, fixed income securities and cash equivalents. In addition, NMC also sponsors a supplemental executive retirement plan to provide certain key executives with benefits in excess of normal pension benefits.

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

in million €	2001	2002
Change in benefit obligation		
Benefit obligation at beginning of year	269	**319**
Change in entities consolidated	2	**16**
Translation loss (gain)	6	**-24**
Service cost	24	**15**
Interest cost	21	**20**
Other changes	-3	**-1**
Curtailment of pension plans	0	**-21**
Transfer of plan participants	0	**-3**
Actuarial losses/gains	10	**14**
Benefits paid	-10	**-10**
Benefit obligation at end of year	319	**325**
Change in plan assets		
Fair value of plan assets at beginning of year	120	**125**
Translation loss (gain)	4	**-15**
Actual return on plan assets	-6	**-10**
Contributions	10	**8**
Benefits paid	-3	**-4**
Fair value of plan assets at end of year	125	**104**
Funded status	-194	**-221**
Unrecognized loss	21	**45**
Unrecognized prior service cost	0	**0**
Unrecognized transition obligation	1	**1**
Net amount recognized	-172	**-175**
Net amount recognized	-172	**-175**
Accumulated other comprehensive income	5	**37**
Pension accrual (31.12.)	-177	**-212**

in million €	2001	2002
Weighted average assumptions at end of year		
Discount rate	6.50%	**6.10%**
Expected return on plan assets	8.80%	**7.50%**
Rate of compensation increase	4.20%	**3.70%**
Components of net period benefit cost		
Service cost	24	**15**
Interest cost	21	**20**
Expected return on plan assets	-14	**-11**
Amortization of transition obligations	1	**1**
Amortization of unrealised gains/losses	-1	**1**
Gain from curtailment of pension plans	0	**-13**
Net periodic benefit costs	31	**13**

During the first quarter of 2002, Fresenius Medical Care recorded a gain of approximately € 13 million resulting from the curtailment of the defined benefit and supplemental executive retirement plans. Under the curtailment amendment, no additional defined benefits for future services will be earned by substantially all employees eligible for the plans. Fresenius Medical Care has retained all employee pension obligations as of the curtailment date for the fully-vested and frozen benefits for all employees.

The Fresenius Group recognized an additional minimum pension liability of € 37 million which resulted from an unfunded accumulated benefit obligation (ABO) in excess of accrued pension cost.

In addition to the principal pension plans, certain additional separate retirement plans were offered by Fresenius Medical Care's North American and international subsidiaries. For the North America plans, the Fresenius Group recorded € 4 million in accumulated other comprehensive income to recognize the additional minimum liability for these plans related to the excess of the accumulated benefit obligation over the fair value of the plan assets and accrued benefit cost at December 31, 2002. The total accrued pension cost for these plans was € 12 million and € 7 million for 2002 and 2001 respectively.

Defined contribution plans

The employees of National Medical Care, Inc., and Fresenius USA, Inc., are eligible to join the 401(k) savings plan once they have achieved a minimum of 90 days of service and if they have more than 900 hours of service before their one year anniversary date. Under the provisions of the 401(k) savings plan, employees are allowed to contribute up to 16% of their salaries. Fresenius Medical Care contributes 50% of employees' savings, up to 6% of saved pay after one year. The total contributions of Fresenius Medical Care for 2002 and 2001 were € 14 million and € 12 million respectively.

The Fresenius Group does not provide any post-retirement benefits to its employees and managerial staff other than those provided under the benefit plans noted above.

15. Trust preferred securities

The Company issued trust preferred securities through five Fresenius Medical Care capital trusts. These are statutory business trusts organized under the laws of the State of Delaware. The trusts are 100% subsidiaries of Fresenius Medical Care. The sole asset of the trusts is a senior subordinated note of a wholly-owned subsidiary of Fresenius Medical Care and related guarantees by Fresenius Medical Care AG, Fresenius Medical Care Deutschland GmbH and Fresenius Medical Care Holdings; Fresenius Medical Care Deutschland GmbH and Fresenius Medical Care Holdings are the subsidiary guarantors. The trust preferred securities are guaranteed by Fresenius Medical Care and by the subsidiary guarantors through a series of undertakings.

The trust preferred securities entitle the holders to distributions at a fixed annual rate of the stated amount and are mandatorily redeemable after ten years. Earlier redemption may also occur upon a change of control or upon 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.

On February 14, 2002, Fresenius Medical Care redeemed the entire US$ 360 million aggregate amount outstanding of its 9% trust preferred securities due in 2006. Fresenius Medical Care exercised its option to redeem the securities at a price of $ 1,045 per $ 1,000 liquidation amount plus accrued distributions of $ 18.25 per $ 1,000 for a total redemption price of $1,063.25 per $1,000. Fresenius Medical Care funded the redemption utilizing its NMC senior credit agreement.

The trust preferred securities outstanding as of December 31, 2002 are as follows:

	Year issued	Stated amount	Interest rate	Mandatory redemption date	2001	2002
Fresenius Medical Care Capital Trust	1996	$ 360 million	9%	redeemed 14.2.2002	€ 408 million	**€ 0 million**
Fresenius Medical Care Capital Trust II	1998	$ 450 million	7 7/8%	1.2.2008	€ 511 million	**€ 429 million**
Fresenius Medical Care Capital Trust III	1998	DM 300 million	7 3/8%	1.2.2008	€ 154 million	**€ 154 million**
Fresenius Medical Care Capital Trust IV	2001	$ 225 million	7 7/8%	15.6.2011	€ 251 million	**€ 203 million**
Fresenius Medical Care Capital Trust V	2001	€ 300 million	7 3/8%	15.6.2011	€ 297 million	**€ 297 million**
					€ 1,621 million	**€ 1,083 million**

16. Minority interests

Minority interests in the Group on December 31 of the financial year were as follows:

in million €	2001	2002
Minority interests in Fresenius Medical Care AG	1,853	**1,688**
Minority interests in the business segments		
Fresenius Medical Care	23	**21**
Fresenius Kabi	37	**35**
Fresenius ProServe	13	**16**
Fresenius HemoCare	2	**2**
Total minority interests	1,928	**1,762**

The minority interests decreased in the 2002 financial year by € 166 million to € 1,762 million. The change largely resulted from the inclusion of a portion of profits amounting to € 210 million, reduced by the proportionate dividend distribution of € 58 million and negative currency effects amounting to € 318 million.

17. Shareholders' equity

Subscribed capital

According to a resolution of the Annual General Meeting of May 31, 2001, the subscribed capital of Fresenius AG was increased by € 51.2 million to € 102.4 million through the issuance of 10,007,604 new bearer ordinary shares and 10,007,604 non-voting bearer preference shares respectively through the conversion of capital reserves. Each holder of an old bearer ordinary share was entitled to an additional new bearer ordinary share, and each holder of an old bearer preference share was entitled to an additional new bearer preference share.

According to the resolution of the same Annual General Meeting and with the approval of the Separate Meeting of the preference shareholders on the same day, the subscribed capital was increased by an additional € 2.3 million for the purchase of shares in Wittgensteiner Kliniken Aktiengesellschaft, Bad Berleburg. 453,594 new bearer ordinary shares and 453,594 new non-voting bearer preference shares were issued in exchange for shares of Wittgensteiner Kliniken Aktiengesellschaft, Bad Berleburg.

The subscribed capital increased in the 2002 financial year by € 348 through the exercising of 68 options on ordinary shares granted in 1998 and 1999, and of 68 options on preference shares granted in 1998 and 1999.

The subscribed capital of Fresenius AG is now divided into 20,484,842 bearer ordinary shares and 20,484,842 non-voting bearer preference shares. The shares are issued as non-par value shares and have a nominal value of € 2.56.

Approved capital

The Annual General Meeting of May 31, 2001 revoked the authorization given by the resolution of the Annual General Meetings of June 12, 1997 and of June 10, 1999 to increase the subscribed capital by a maximum nominal amount of € 10,225,837.67 (approved capital I) and by a maximum nominal amount of € 5,112,918.81 (approved capital II).

Following a resolution of the same Annual General Meeting, the Managing Board of Fresenius AG was authorized, with the approval of the Supervisory Board, to increase by May 30, 2006

- the subscribed capital of Fresenius AG by a maximum nominal value of € 20,480,000.00 by issuing new bearer ordinary shares and/or non-voting bearer preference shares for cash (approved capital I),
- the subscribed capital of Fresenius AG by a maximum nominal amount of € 10,240,000.00 by issuing new bearer ordinary shares and/or non-voting bearer preference shares for cash (approved capital II). The Managing Board is authorised, with the approval of the Supervisory Board, to preclude the subscription rights of the shareholders as a whole (§§ 203 Section 2, 186 Section 3 phrase 4 Stock Corporation Law [AktG]).

The authorization resolved by the Annual General Meeting of May 31, 2001 to increase the subscribed capital of Fresenius AG through the issuance of new bearer ordinary shares and/or non-voting bearer preference shares excluding the statutory preemptive rights for distribution in kind for the purpose of purchasing shares of Wittgensteiner Kliniken Aktiengesellschaft (WKA), Bad Berleburg (approved capital III) elapsed when the deadline expired on March 31, 2002.

Conditional capital

Through resolutions of the Annual General Meetings of June 18, 1998 and June 10, 1999, a conditional capital of € 1,152,000 was created through the issuance of 450,000 bearer ordinary shares, and of € 1,152,000 through the issuance of 450,000 non-voting bearer preference shares. This conditional capital increase will only be carried out to the extent that, in accordance with the stock option plan resolved by the Annual General Meeting on June 18, 1998, subscription rights for bearer ordinary shares and/or bearer preference shares are issued and the holders of these subscription rights exercise them. It was possible to exercise stock options for the first time in the 2000 financial year. According to a resolution of the Annual General Meeting of May 31, 2001 the conditional capital was doubled through the conversion of capital reserves.

Dividends

At the Annual General Meeting of May 29, 2002, a resolution was passed to pay a dividend of € 1.03 per bearer ordinary share and € 1.06 per bearer preference share, i.e. a total distribution of € 42.8 million was resolved.

According to German stock corporation law, the retained earnings which are determined in the annual financial statements prepared according to German Commercial Code (HGB) of Fresenius AG, are the basis for the distribution of dividends to the shareholders.

Earnings per share

Earnings per share, taking into consideration dilution by exercisable stock options, were as follows on 31 December of the financial year:

in million €, except for amounts per share (€)	2001	2002
Numerators		
Net income	18	**134**
less preference on preference shares	1	**1**
Income (loss) available to all classes of shares	17	**133**
Denominators (number of shares)		
Weighted average number of shares outstanding	40,591,554	**40,969,684**
Weighted average number of ordinary shares outstanding	20,295,777	**20,484,842**
Weighted average number of preference shares outstanding	20,295,777	**20,484,842**
Total weighted average number of shares outstanding of all classes	40,591,554	**40,969,684**
Potentially dilutive ordinary shares	63,771	**0**
Potentially dilutive preference shares	63,771	**0**
Total weighted average shares outstanding of all classes assuming dilution	40,719,096	**40,969,684**
Total weighted average ordinary shares assuming dilution	20,359,548	**20,484,842**
Total weighted average preference shares assuming dilution	20,359,548	**20,484,842**
Basic earnings per ordinary share	0.42	**3.25**
Preference per preference share	0.03	**0.03**
Basic earnings per preference share	0.45	**3.28**
Fully diluted earnings per ordinary share	0.42	**3.25**
Preference per preference share	0.03	**0.03**
Fully diluted earnings per preference share	0.45	**3.28**

following the capital increase by conversion of capital reserves at a ratio of 1:1 in 2001

The owners of preference shares are entitled to an additional dividend of € 0.03 per bearer ordinary share per financial year.

18. Other comprehensive income

Changes in the components of other comprehensive income were as follows for 2002 and 2001:

in million €	Amount before taxes 2001	Tax effect 2001	Amount after taxes 2001	Amount before taxes 2002	Tax effect 2002	Amount after taxes 2002
Change in unrealised gains / losses from derivative financial instruments						
Change in unrealised gains / losses	-94	37	-57	**64**	**-25**	**39**
Realised gains / losses due to reclassifications	-1	0	-1	**3**	**-1**	**2**
Change in unrealised gains / losses from derivative financial instruments	-95	37	-58	**67**	**-26**	**41**
Minimum pension liability	-7	1	-6	**-35**	**13**	**-22**
Foreign currency translation adjustment	28	0	28	**-266**	**0**	**-266**
	-74	38	-36	**-234**	**-13**	**-247**

19. Stock options

Stock option plan of Fresenius AG

The stock option plan resolved by the Annual General Meeting of June 18, 1998, authorises the Managing Board of Fresenius AG, with the approval of the Supervisory Board, to issue subscription rights to members of the Managing Board and/or managerial staff of Fresenius AG and its affiliated companies (with the exception of Fresenius Medical Care AG and companies affiliated with it other than through the company) once or several times during a period of 5 years. Altogether, these subscription rights entitle their holders to purchase up to 450,000 bearer ordinary shares and up to 450,000 bearer preference shares. The entitlement to purchase the rights in one group of shares excludes the entitlement to purchase the rights in another group of shares.

The options may only be exercised under the following conditions:

An option has a duration of 10 years from the date it was granted (duration).

One third of the options can be exercised at the earliest two years after the date they were granted, another third at the earliest three years and the last third of the options at the earliest four years after the date they were granted (vesting period).

Within the two-year vesting period, EBIT must have increased by at least 15 % (hurdle rate). The Managing Board has availed itself of its entitlement to increase and increased this percentage to 30 % for the stock options granted in 1998, and to 20 % for the stock options granted in 1999, 2000, 2001 and 2002.

The person entitled to options must be in an unterminated employment or service relationship on the date he/she exercises the options (employment relationship).

The options can only be exercised within a maximum period of fifteen working days after the results of the respective past quarter have been announced (exercise period).

The hurdle rates defined in the plan for the stock options granted in 1998, 1999, 2000 and 2001 were achieved so that these stock options may be exercised according to the regulations described above.

Ordinary shares 31 December	Number of options	Price range in €
Balance 2000	397,792	69.23 – 93.45*
granted	163,194	94.40*
exercised	16,132	69.23 – 93.65*
forfeited	24,808	69.23 – 94.40*
Balance 2001	520,046	69.23 – 94.40*
granted	143,933	61.26*
exercised	68	69.23*
forfeited	42,270	61.26 – 94.40*
Balance 2002	621,641	61.26 – 94.40*
exercisable on December 31, 2002	478,444	69.23 – 94.40*

Preference shares 31 December	Number of options	Price range in €
Balance 2000	397,792	79.23 – 128.42*
granted	163,194	106.23*
exercised	16,132	79.42 – 90.72*
forfeited	24,808	79.23 – 128.42*
Balance 2001	520,046	79.42 – 128.42*
granted	143,933	65.45*
exercised	68	79.42*
forfeited	42,270	65.45 – 128.42*
Balance 2002	621,641	65.45 – 128.42*
exercisable on December 31, 2002	478,444	79.42 – 128.42*

* all following capital increase by conversion of capital reserves in the ratio 1:1 in 2001

Ordinary shares Range of exercise prices in €*	Options outstanding*	Weighted average remaining contractual life	Weighted average exercise price*	Options exercisable	Weighted average exercise price*
60.00 – 65.00	143,197	9.5	61.26	0	61.26
65.01 – 70.00	116,562	6.5	69.23	116,562	69.23
80.01 – 85.00	84,792	5.4	82.26	84,792	82.26
90.01 – 95.00	277,090	8.0	93.93	277,090	93.93
	621,641	7.7	80.18	478,444	80.18

Preference shares Range of exercise prices in €*	Options outstanding*	Weighted average remaining contractual life	Weighted average exercise price*	Options exercisable	Weighted average exercise price*
65.01 – 70.00	143,197	9.5	65.45	0	65.45
75.01 – 80.00	116,562	6.5	79.42	116,562	79.42
90.01 – 95.00	84,792	5.4	90.72	84,792	90.72
105.01 – 110.00	152,550	8.4	106.23	152,550	106.23
125.01 – 130.00	124,540	7.5	128.42	124,540	128.42
	621,641	7.7	94.14	478,444	94.14

* all following capital increase by conversion of capital reserves in the ratio 1:1 in 2001

Fair value of stock options

The per share weighted average fair value of stock options granted during 2002 and 2001 was € 17.46 and € 47.97 respectively on the date of the grant using the Black-Scholes option-pricing model with the weighted average assumptions presented below:

Weighted average assumptions	2001	2002
Expected dividend yield	1.00%	**1.00%**
Risk-free interest rate	4.90%	**3.80%**
Expected volatility	45.00%	**45.00%**
Expected life of option	5.3 years	**5.3 years**

Fresenius Medical Care stock option plans

In connection with the formation of Fresenius Medical Care in 1996, certain options outstanding under stock option plans of W.R. Grace and Fresenius USA, Inc., were exchanged for equivalent options on Fresenius Medical Care AG ordinary shares within the framework of the "Fresenius Medical Care Rollover Options Plan".

In 2002, 38,085 Fresenius Medical Care Rollover Plan options were exercised by employees. In connection therewith, Fresenius AG transferred 12,695 ordinary shares of Fresenius Medical Care AG to employees and remitted € 0.2 million to Fresenius Medical Care. This amount was accounted for as a capital contribution within additional paid in capital. Rollover plan options for 104,418 Ordinary American Depository Shares were exercisable as at December 31, 2002 at a weighted average exercise price of $ 9.28 per Ordinary American Depository Share.

Fresenius Medical Care Plan

Immediately prior to the merger of the worldwide dialysis business of Fresenius with that of W.R. Grace & Co., Fresenius Medical Care adopted a stock incentive plan (Fresenius Medical Care Plan) for its key management and executive employees. Under this plan, the options have a ten-year term and vest after three or five years. During the financial year, no options were exercised. As at December 31, 2002, 53,389 options for preference shares were outstanding, available and exercisable with a price range between $ 55.59 and $ 78.33 per share. Since September 2001, no additional options on preference shares have been granted under the Fresenius Medical Care Plan.

Fresenius Medical Care 98 Plan 1 and Plan 2

During 1998, the Company adopted two new stock incentive plans (Fresenius Medical Care 98 Plan 1 and Fresenius Medical Care 98 Plan 2) for its key management and executive employees.

Fresenius Medical Care 98 Plan 1

The Fresenius Medical Care 98 Plan 1 grants to eligible employees the right to acquire preference shares of the Fresenius Medical Care AG. Options granted under Fresenius Medical Care 98 Plan 1 have a ten-year term, and one third of them vest on each of the second, third and fourth anniversaries of the award date at the earliest. The maximum number of preference shares that may be issued under this plan is 2,443,333 less any shares issued, or subject to issue, under the Fresenius Medical Care Plan. Any shares available due to forfeiture of grants under the Fresenius Medical Care Plan would be considered available under Fresenius Medical Care 98 Plan 1 as long as the total number of preference shares issued under both plans does not exceed the 2,443,333 shares noted above.

Fresenius Medical Care 98 Plan 2

Under the Fresenius Medical Care 98 Plan 2, eligible employees have the right to acquire preference shares of Fresenius Medical Care AG.

The share price of the preference shares shall be equal to the average of the official daily quotation prices of the non-voting preference shares on the Frankfurt Stock Exchange on the 30 days of trading immediately prior to the date of grant of the option.

One third of the options vests on each of the second, third and fourth anniversaries of the award date, provided that Fresenius Medical Care achieves certain performance criteria for the full fiscal year following the grant date in comparison to its performance for the full fiscal year preceding the grant date.

The options granted under the Fresenius Medical Care 98 Plan 2 have a ten year term. The maximum number of preference shares that may be issued under this plan is 2,500,000, of which 500,000 are designated for Managing Board members and 2,000,000 for other executive staff. Each option is exercisable into one preference share.

The following table shows the number of preference shares available and the price ranges under Fresenius Medical Care 98 Plan 1 and Plan 2:

Fresenius Medical Care Plan 1 31 December	Number of options in thousands	Price range in €
Balance 2000	1,793	32.90 – 56.24
granted	183	48.81 – 52.30
exercised	132	32.90 – 56.24
forfeited	154	32.90 – 56.24
Balance 2001	1,690	32.90 – 56.24
exercised	10	32.90 – 40.70
forfeited	65	32.90 – 56.24
Balance 2002	1,615	32.90 – 56.24
exercisable on 31.12.2002	1,323	32.90 – 56.24

Fresenius Medical Care Plan 2 31 December	Number of options in thousands	Price range in €
Balance 2000	817	32.41 – 47.64
exercised	26	32.41 – 44.66
forfeited	9	32.41 – 47.64
Balance 2001	782	32.41 – 47.64
exercised	2	32.41 – 44.66
forfeited	301	32.41 – 47.64
Balance 2002	479	32.41 – 47.64
exercisable on 31.12.2002	479	32.41 – 47.64

Preference share Price range in €	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
30.00 – 35.00	613,817	6.5	32.69	613,817	32.69
40.01 – 45.00	344,990	6.0	43.28	306,880	43.60
45.01 – 50.00	576,837	7.6	48.95	333,125	48.97
50.01 – 55.00	16,712	8.3	52.30	5,572	52.30
55.01 – 60.00	541,653	5.4	56.24	541,653	56.24
	2,094,009	6.5	45.16	1,801,047	44.70

Proceeds totalling € 0.4 million from the exercising of options on 12,067 shares under the Fresenius Medical Care 98 Plan 1 and Plan 2 were recorded as a capital contribution. Effective September 2001, no additional grants or options can be awarded under Fresenius Medical Care 98 Plan 1 or Fresenius Medical Care 98 Plan 2.

Fresenius Medical Care 2001 International Stock Incentive Plan

On May 23, 2001, by resolution of the Annual General Meeting, the Fresenius Medical Care Plans were replaced by a new plan. The Managing Board was empowered to issue convertible bonds with a total value of € 10.24 million to the members of the Managing Board and to other employees of the company, entitling a total subscription of up to 4 million non-voting preference shares.

The convertible bonds have a par value of € 2.56 and have an interest rate of 5.5%. Purchase of the bonds is funded by a non-recourse loan secured by the bond with respect to which the loan was made. Fresenius Medical Care has the right to offset its obligation on a convertible bond against the employee obligation on the related loan; therefore, the convertible bond obligations and employee loan receivables are not reflected in Fresenius Medical Care's consolidated financial statements.

The bonds mature in ten years and are generally fully convertible after three years. The bonds may be issued either as convertible bonds which are subject to a share price target or convertible bonds without a share price target. In the case of convertible bonds which are subject to a share price target, the conversion right is exercisable only if the market price of the preference shares increased by 25% or more over the grant-date price subsequent to the day of grant for at least one day prior to exercise. Participants have the right to opt for convertible bonds with or without the share price target. The number of convertible bonds awarded to those employees who select the bonds without a share price target will be reduced by 15%. Each convertible bond entitles the holder thereof, upon payment of a conversion price, to convert the bond into one preference share.

The conversion price of the convertible bonds which are not subject to the share price target is determined by the average price of the preference shares during the last 30 trading days prior to the date of grant. The conversion price of the convertible bonds which depend on achieving the share price target corresponds to the closing price of the preference shares on the day the share price target is reached.

The Managing Board and Supervisory Board are authorized to issue up to 20% of the total number of convertible bonds each year up to May 22, 2006. The plan is valid until the last convertible bond issued under this plan is forfeited or converted.

The following table shows the number of preference shares available and the average price range under the Fresenius Medical Care 2001 International Stock Incentive Plan:

Fresenius Medical Care International Plan 31 December	Number of shares in thousands	Price range in €
Balance 2000	0	
granted	763	53.27 – 73.72
forfeited	43	58.88 – 73.72
Balance 2001	720	53.27 – 73.72
granted	793	25.13 – 43.16
forfeited	23	58.88 – 73.72
Balance 2002	1,490	25.13 – 73.72
exercisable on 31.12.2002	0	–

The weighted average fair value of the stock options granted in 2002 and 2001 amounted to € 8.83 and € 19.02 per share respectively on the date of the grant, using the Black-Scholes option-pricing model and the assumptions presented below:

Weighted average assumptions	2001	2002
Expected dividend yield	1.50%	**3.30%**
Risk-free interest rate	4.90%	**3.80%**
Expected volatility	40.00%	**40.00%**
Expected life of option	5.3 years	**5.3 years**

Fresenius Medical Care applies Opinion No. 25 of the Accounting Principles Board (APB) for stock compensation in the financial statements and in 2002 recognized approximately € 2 million compensation expense for the stock options granted in 2002, 2001, 2000, 1999 and 1998.

Notes on the consolidated statement of income

20. Cost of materials

The cost of materials comprises costs of raw materials, supplies and purchased components and of purchased services as follows:

in million €	2001	2002
Cost of raw materials, supplies and purchased components	2,031	**1,938**
Cost of purchased services	370	**383**
Cost of materials	2,401	**2,321**

21. Personnel expenses

In the cost of goods sold, selling, general and administrative costs and the costs of research and development, personnel expenses amounting to € 2,302 million and € 2,297 million are included in 2002 and 2001 respectively. The personnel expenses are made up as follows:

in million €	2001	2002
Wages and salaries	1,907	**1,883**
Social security contributions and cost of retirement pensions and social assistance	390	**419**
thereof amount for retirement pensions	45	**37**
Personnel expenses	2,297	**2,302**

On average the Fresenius Group employed the following full-time equivalents:

By group	2001	2002
Wage earnings employees	29,901	**32,084**
Salaried employees	27,206	**30,664**
Apprentices	279	**355**
Total employees	57,386	**63,103**

22. Remuneration of the Managing Board and Supervisory Board

The total remuneration of the Managing Board paid in cash for carrying out their duties in Fresenius AG and its subsidiaries amounted to € 3,818,000. Of this amount, € 1,856,000 was paid in salaries and € 1,960,000 was paid in the form of variable income. The amount of the variable income depends on the earnings of the Fresenius Group and/or the business segments.

In addition the members of the Managing Board received 51,600 stock options from the 1998 Fresenius stock option plan in 2002. At the end of the financial year, the members of the Managing Board hold 264,450 stock options (following the capital increase by conversion of capital reserves in 2001). The prices of the ordinary and preference shares of Fresenius AG on December 31, 2002, were both lower than the option price of the ordinary and preference share respectively (following the capital increase by conversion of capital reserves in 2001).

Fresenius AG has made accruals of € 9,091,000 for pension commitments to active members of the Managing Board.

€ 183,000 was paid to former members of the Managing Board and their dependants. The pension accrual for these persons amounts to € 1,443,000.

The fixed remuneration of the Supervisory Board corresponds to € 13,000 per member. The Chairman receives twice and his deputy one and a half times the remuneration of a member of the Supervisory Board. The remuneration increases each financial year by 10% if the dividend for this financial year paid out on an ordinary share (dividend amount according to the resolution of the Annual General Meeting (gross dividend)) is one percentage point above 13% of an amount equal to the subscribed capital divided by the number of non-par value shares; fractional amounts are interpolated. Thus, the variable remuneration per Supervisory Board member amounts to € 45,000 for 2002. All members of the Supervisory Board receive appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board.

One subsidiary paid € 21,000 to the surviving dependants of a former Supervisory Board member. The pension accrual of the subsidiary for this purpose amount to € 70,000.

23. Income taxes

Earnings before income taxes, minority interests and extraordinary expenses can be allocated to the various geographical regions as follows:

			2001			2002
in million €	Germany	Abroad	Total	Germany	Abroad	Total
EBT	88	92	180	**66**	**501**	**567**

Tax expenses and benefit for the years 2002 and 2001 were as follows:

			2001			2002
in million €	Germany	Abroad	Total	Germany	Abroad	Total
Current taxes	22	166	188	**28**	**130**	**158**
Deferred taxes	5	-84	-79	**8**	**44**	**52**
Income taxes	27	82	109	**36**	**174**	**210**

For the years 2002 and 2001, the Fresenius Group in Germany is subject to a corporation tax rate of 25% plus a solidarity surcharge of 5.5% on the corporation tax due; therefore the statutory rate in 2002 and 2001 was 26.375%.

In September 2002 the German parliament (Bundestag) passed the Flood Victim Solidarity Act. This act increases the basic German corporation tax rate for one year from 25% to 26.5%. This increase is valid for the company's 2003 financial year. The statutory tax rate is scheduled to return to 25% as of January 1, 2004. This change did not have any material effects on the 2002 financial year.

The difference between the income tax expense and the amounts computed a corporation tax rate of 26.375% had been applied to earnings before income taxes, minority interests and extraordinary expenses in 2002 and 2001 is as follows:

in million €	2001	2002
Computed "expected" corporation tax expense / income	47	**149**
Increase (reduction) in income taxes resulting from:		
Tax-free income	23	**12**
Dividend distribution of the year	-15	**0**
Trade income taxes	15	**17**
Foreign tax rate differential	15	**30**
Non-deductible portion of special charge for legal matters	16	**0**
Non-deductible expenses	-6	**-12**
Other	14	**14**
Income taxes	109	**210**
Effective tax rate	60.6%	**37.0%**

The tax effects from the temporary differences that give rise to deferred tax assets and liabilities on 31 December are as follows:

in million €	2001	2002
Deferred tax assets		
Accounts receivable	37	**29**
Inventories	33	**29**
Other current assets	13	**10**
Other non-current assets	43	**55**
Accruals	164	**127**
Other short-term liabilities	14	**33**
Other liabilities	9	**13**
Pension obligations	8	**10**
Special charge for legal matters	119	**45**
Losses carried forward from previous years	58	**84**
Deferred tax assets (gross)	498	**435**
less valuation allowance	16	**29**
Deferred tax assets (net)	482	**406**
Deferred tax liabilities		
Accounts receivable	6	**21**
Inventories	12	**15**
Other current assets	3	**2**
Other non-current assets	213	**192**
Accruals	34	**35**
Other short-term liabilities	11	**19**
Other liabilities	4	**34**
Pension obligations	2	**0**
Special charge for legal matters	42	**0**
Deferred tax liabilities	327	**318**
Total deferred taxes	155	**88**

in million €	2001	of which long-term	2002	of which long-term
Deferred tax assets	389	88	**308**	**81**
Deferred tax liabilities	234	196	**220**	**182**
Total deferred taxes (net)	155	-108	**88**	**-101**

During 2002, the valuation allowance increased by € 26 million, mainly attributable to the exchange rate losses in Latin America. The following table shows the amounts and years that operating losses expire:

for the financial years	in million €
2003	7
2004	10
2005	9
2006	18
2007	47
2008	8
2009	8
2010	0
thereafter	4
	111

The total remaining operating losses of € 188 million can be carried forward for an unlimited period. For US state tax purposes, the net operating loss carried forward amounts to € 151 million.

In assessing the realisability of deferred tax assets, it must be considered whether it is more likely than not that some portion or all of the deferred tax assets will be realised in the future. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The scheduled reversal of deferred tax liabilities and projected future taxable income are taken into account when 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, the company believes it is more likely than not that the company will realise the benefits of these deductible differences, net of the existing valuation allowance on December 31, 2002.

Provision has not been made for additional taxes on approximately € 157 million undistributed earnings of foreign subsidiaries of Fresenius Medical Care because the majority of these earnings have been, and will continue to be, permanently reinvested. The earnings could be become subject to additional tax if remitted or deemed remitted as dividends.

24. Extraordinary expenses

Extraordinary expenses amounting to US$ 12 million (€ 13 million) were incurred through the early redemption of the trust preferred securities amounting to US$ 360 million by Fresenius Medical Care in February 2002. These expenses are made up of a redemption premium of US$ 16 million (€ 17 million) and debt issuance costs of US$ 3 million (€ 4 million) net of a tax benefit of US$ 8 million (€ 8 million). Of the total amount of € 13 million, € 8 million concerns minority interests so that extraordinary expenses of € 5 million are retained in the Fresenius Group.

Other notes

25. Commitments and contingent liabilities

Operating leases and rental payments

The companies of the Fresenius Group lease office and manufacturing buildings as well as machinery and equipment under various lease agreements expiring on various dates up to 2022. In 2002 and 2001, rental expenses for leases amounted to € 310 million and € 282 million respectively.

Future minimum rental payments under non-cancellable operating leases for the five years following December 31, 2002 are:

for the financial years	in million €
2003	210
2004	228
2005	159
2006	145
2007	98
thereafter	349
	1,189

Legal proceedings

Commercial litigation

Fresenius Medical Care was formed as a result of a series of transactions pursuant to the Agreement and Plan of Reorganization (the “Merger”) dated February 4, 1996 by and between W.R. Grace & Co. and Fresenius AG. At the time of the Merger, a W.R. Grace & Co. subsidiary known as W.R. Grace & Co.-Conn. had, and continues to have, significant potential liabilities arising out of productliability-related litigation, pre-Merger tax claims and other claims unrelated to National Medical Care, which was Grace’s dialysis business prior to the Merger. In connection with the Merger, W.R. Grace & Co.-Conn. agreed to indemnify Fresenius Medical Care, Fresenius Medical Care Holdings and National Medical Care 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 National Medical Care’s operations. W.R. Grace & Co. and certain of its subsidiaries filed for reorganization under Chapter 11 of the US Bankruptcy Code (the “Grace Chapter 11 Proceedings”) on April 2, 2001.

Pre-Merger tax claims or tax claims that would arise if events were to violate the tax-free nature of the Merger, could ultimately be the obligation of Fresenius Medical Care. In particular, W.R. Grace & Co. has disclosed in its filings with the Securities and Exchange Commission that: its tax returns for the 1993 to 1996 tax years are under audit by the Internal Revenue Service (the “Service”); W.R. Grace & Co. has received the Service’s examination report on tax periods 1993 to 1996; that during those years W.R. Grace & Co. deducted approximately US$ 122 million in interest attributable to corporate-owned life insurance (“COLI”) policy loans; that W.R. Grace & Co. has paid US$ 21 million of tax and interest related to COLI deductions taken in tax years prior to 1993; that a US District Court ruling has denied interest deductions of a taxpayer in a similar situation and that W.R. Grace & Co. is seeking a settlement of the Service’s claims. Subject to certain representations made by W.R. Grace & Co., Fresenius Medical Care and Fresenius AG, W.R. Grace & Co. and certain of its affiliates agreed to indemnify Fresenius Medical Care against this and other pre-Merger and Merger-related tax liabilities.

Prior to and after the commencement of the Grace Chapter 11 Proceedings, class action complaints were filed against W.R. Grace & Co. and Fresenius Medical Care 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 and Co. bankruptcy estate in the Grace Chapter 11 Proceedings. Among other things, it is alleged 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 US District Court as part of the Grace Chapter 11 Proceedings. On February 6, 2003, Fresenius Medical Care reached a definitive agreement in the matters pending in the Grace Chapter 11 Proceedings (the "Settlement Agreement") for the settlement of all fraudulent conveyance claims against it and other claims related to Fresenius Medical Care that arise out of the bankruptcy of W.R. Grace & Co. Under the terms of the Settlement Agreement, fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice. Fresenius Medical Care will receive protection against all existing and potential future W.R. Grace-related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-National Medical Care members of the W.R. Grace & Co. consolidated tax group upon confirmation of the W.R. Grace & Co. bankruptcy reorganization plan. Under the Settlement Agreement, Fresenius Medical Care will pay a total of US$ 115 million 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 is subject to the approval of the US District Court.

Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (formerly known as W.R. Grace Holding, Inc.). Fresenius Medical Care is engaged in litigation with Sealed Air Corporation ("Sealed Air") to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred that relate to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of Fresenius Medical Care's payment obligation, this litigation will be dismissed with prejudice.

Since 1997, Fresenius Medical Care, Fresenius Medical Care Holdings, National Medical Care, Inc. and certain NMC subsidiaries have been engaged in litigation with various insurance companies concerning allegations of inappropriate billing practices for nutritional therapy and diagnostic and clinical laboratory tests and misrepresentations. These claims against Fresenius Medical Care seek unspecified damages and costs. However, Fresenius Medical Care, Fresenius Medical Care Holdings, National Medical Care and its subsidiaries believe that there are substantial defences to the claims asserted, and intend to vigorously defend all lawsuits. Fresenius Medical Care has filed counterclaims against the plaintiffs in these matters based on inappropriate claim denials and delays in claim payments. Other private payors have contacted Fresenius Medical Care Holdings and may assert that National Medical Care received excess payments and, similarly, may join the lawsuits or file their own lawsuit seeking reimbursement and other damages. Although the ultimate outcome for Fresenius Medical Care of these proceedings cannot be predicted at this time, an adverse result could have a material adverse effect on the Fresenius Medical Care's business, financial condition and results of operations.

In 2001 Fresenius Medical Care recorded a special charge of US$ 258 million before taxes to reflect anticipated expenses associated with the continued defence and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement will be charged against this accrual. While Fresenius Medical Care believes that its remaining accruals reasonably estimate Fresenius Medical Care's currently anticipated costs related to the continued defence and resolution of the remaining matters, no assurances can be given that the actual costs incurred by Fresenius Medical Care will not exceed the amount of these accruals.

Furthermore, the Fresenius Group is involved in various legal disputes arising from the ordinary course of its business. Although the ultimate outcome of these legal disputes cannot be predicted, we do not expect any material adverse effects on the business, financial condition and results of operations of the Group.

26. Financial instruments

General

Gains and/or losses from changes in exchange rates are shown in the consolidated statement of income under other selling, general and administrative expenses.

Market risks

The Fresenius Group is exposed to market risks from changes in interest rates and foreign exchange rates. In order to manage these risks, the Fresenius Group enters into various hedging transactions with investment grade financial institutions as authorized by the Managing Board. We do not use financial instruments for trading purposes. The Fresenius Group conducts its financial instrument activity under the control of a single centralized department, with a few exceptions due to exchange control regulations. The Fresenius Group 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 the one hand and administration, accounting and controlling on the other.

Foreign exchange risk management

The Fresenius Group uses the euro as its financial reporting currency. Therefore, mainly changes in the rate of exchange between the euro and US dollar, and the local currencies in which the financial statements of the foreign subsidiaries are maintained, affect its results of operations and financial position as reported in its consolidated financial statements. The Fresenius Group employs forward contracts to hedge its existing and anticipated currency exposure. The Fresenius Group's policy, which has been consistently followed, is that forward currency contracts and options be used only for the purpose of hedging foreign currency exposure.

Fresenius Group'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 in foreign currency. The Fresenius Group sells products from its manufacturing facilities in Europe to its other international operations. In general, these sales are denominated in euros. This exposes the subsidiaries to fluctuations in the rate of exchange between the euro and the currency in which their local operations are conducted.

Changes in the fair values of foreign currency forward contracts designated and qualifying as cash flow hedges of forecasted product purchases are reported in accumulated other comprehensive income. These amounts are subsequently reclassified into earnings in the statement of income as a component of cost of goods sold, in the same period in which the hedged transaction affects earnings. After tax gains of € 3.5 million (before taxes € 5.5 million) (in the previous year losses of € 0.7 million; before taxes € 1.3 million) for the year ended December 31, 2002 are deferred in accumulated other comprehensive income and will be reclassified into earnings in the statement of income during 2003 and 2004. As at December 31, 2002, the Fresenius Group reclassified after-tax gains of € 0.8 million (before taxes € 1.2 million) (previous year losses of € 0.8 million; before taxes € 1.3 million) from accumulated other comprehensive income into the statement of income.

Changes in the fair value of foreign currency forward contracts designated and qualifying as cash flow hedges for forecasted intercompany financing transactions are reported in accumulated other comprehensive income. After tax gains of € 36.1 million (€ 60.0 million before taxes) (previous year: losses of € 11.4 million; before taxes € 19.3 million) as at December 31, 2002 were deferred in accumulated other comprehensive income.

As at December 31, 2002, the notional volume of foreign currency forward contracts to hedge intercompany loans and intercompany financing transactions amounted to € 1.007 billion. Earnings were not materially affected by hedge ineffectiveness.

As at December 31, 2002, the Fresenius Group had exchange forward contracts with a maximum maturity of 17 months.

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

Interest rate risk management

The Fresenius Group uses interest rate hedging instruments, particularly interest rate swaps, to protect interest rate exposures arising particularly from long-term and short-term borrowings at floating rates. This is done by swapping the mainly floating interest rates into fixed rates. Under interest rate swaps, we agree with other parties to exchange, for specified periods, the differences between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

The Fresenius Group enters into interest rate swap agreements that are designated as cash flow hedges by effectively converting certain variable interest rate payments, mainly denominated in US dollars, into fixed interest rate payments. After-tax losses of € 57.0 million (€ 95.2 million before taxes) for the year ended December 31, 2002 (previous year after taxes € 45.4 million; € 76.3 million before taxes) were deferred in accumulated other comprehensive loss. Interest payable and interest receivable under the swap terms are accrued and recorded as an adjustment to interest expense on each balance sheet date. There is no material impact on earnings due to hedge ineffectiveness. As at December 31, 2002, the notional volume of US dollar interest rate hedge contracts totalled US$ 1.05 billion (€ 1.01 billion) (previous year: US$ 1.05 billion; € 1.19 billion). These interest rate swap agreements, which expire on various dates between 2004 and 2009, effectively fix the company's variable interest rate exposure on the majority of the US dollar-denominated revolving loans and outstanding obligations under the accounts receivable securitization program at an average interest rate of 5.51% (previous year: 6.52%). As of December 31, 2002, the notional volume of Yen-denominated interest rate hedge contracts entered into in connection with a Yen-denominated floating rate borrowing by the Japanese subsidiaries of Fresenius Medical Care totalled 2,149 million Yen (€ 17.3 million) (previous year 1,249 million Yen; € 10.8 million). The Yen-denominated interest rate hedge contracts will expire between July 2008 and June 2011. The amounts of the bank loans and the notional amounts of the Yen-denominated interest rate hedge agreements always coincide until the final maturities when the bank debts are completely repaid and the hedge contracts expire.

The pre-tax losses deferred in accumulated other comprehensive income amounting to € 58 million as of December 31, 2001 provided a currency gain of € 10 million after taxes (€ 16 million before taxes).

Fair value of financial instruments

The following table presents the carrying amounts and fair values of the Group's financial instruments on December 31, 2002 and 2001. SFAS No. 107 (Disclosures about Fair Value of Financial Instruments) defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

		2001		2002
in million €	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivatives				
Assets				
Cash and cash equivalents	181	181	**163**	**163**
Accounts receivable	1,415	1,415	**1,299**	**1,299**
Liabilities				
Trade accounts payable	359	359	**304**	**304**
Income taxes payable	266	266	**231**	**231**
Long-term loans (excluding trust preferred securities, notes and bonds)	1,090	1,090	**1,109**	**1,109**
Trust preferred securities	1,621	1,626	**1,083**	**1,045**
Notes	129	130	**129**	**132**
Bonds	600	588	**400**	**402**
Derivatives				
Foreign exchange contracts	(18)	(18)	**94**	**94**
Dollar interest rate hedges	(76)	(76)	**(95)**	**(95)**
Yen interest rate hedges	(1)	(1)	**(1)**	**(1)**
Other interest rate hedges	(1)	(1)	–	–

The carrying amounts in the table are included in the consolidated balance sheet under the indicated captions, except for derivative asset amounts related to liabilities which are shown in other assets.

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.

Long-term bank loans of Fresenius Medical Care are valued at their carrying amount because the actual drawings under the facility carry interest on a variable basis, mainly with an interest rate fixed for 3 months. The interest rates reflect 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 NMC senior credit agreement.

The fair value of the bonds and trust preferred securities is calculated based on market quotes on the balance sheet date. The fair value of the notes is calculated as the difference between the coupon of the notes and the market quotes on the balance sheet date that includes the company-related margin. The margin is reasonably estimated to be unchanged at the balance sheet date from the dates when the notes were issued because of the relatively short period of time between the balance sheet date and the issue dates.

The fair value of financial derivatives generally reflects the estimated amounts that the Fresenius Group would receive or pay to terminate the contracts, thereby taking into account the current unrealised gains or losses of open contracts. Dealer quotes are available for all of the derivatives of the Fresenius Group.

27. Reports on the segments

Segment reporting of the Fresenius Group with the business segments Fresenius Medical Care, Fresenius Kabi, Fresenius ProServe and Fresenius HemoCare corresponds to the internal organisational and reporting structures (Management Approach) as at December 31, 2002.

The key data which are presented in the segment reporting correspond to the key data of the internal reporting system in the Fresenius Group. Internal and external reporting and corporate accounting correspond to each other; the same key data and definitions are used.

Sales and proceeds between the segments are always transacted at prices which would be agreed with third parties. Administrative services are settled by means of service agreements.

The basis for the segmentation is the accounting rule SFAS No. 131 (Disclosures about Segments of an Enterprise and Related Information). This accounting rule defines the segment reporting requirements in the annual financial statements and interim reports to the shareholders on the operating business, product and service businesses and regions. The split into business segments is thus as follows:

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic renal failure. Fresenius Medical Care treats about 112,200 patients in its own dialysis clinics. In the United States, the range of services include apheresis and haemoperfusion services for hospitals.

Fresenius Kabi is one of Europe’s leading companies in the field of infusion and nutrition therapies and offers products and services worldwide for the hospital and the patient at home. The range of product and services comprises solutions for fluid and blood volume substitution for parenteral nutrition, and products for enteral nutrition. The business unit Ambulatory Care specialises in medical services in the field of nutrition and infusion therapy and service concepts for ambulatory health care.

Fresenius ProServe is an international provider of products and services in connection with the hospital and the pharmaceutical industry. The products and services portfolio ranges from the consulting, planning, construction and equipping of hospitals up to technical management and the management and operation of health care facilities all over the world. Furthermore, ProServe offers services related to the planning, construction, service and operation of medical and pharmaceutical production plants.

Fresenius HemoCare is one of Europe’s leading providers in the field of blood treatment and infusion technology. The products and services are used in blood transfusion and cell separation, as well as for the infusion of solutions and pharmaceuticals. Further core competences are innovative processes of immune therapy and adsorber processes for extracorporeal blood treatment.

The segment Corporate/Other mainly comprises the holding functions of Fresenius AG as well as Fresenius Netcare GmbH, which was founded in connection with the spin-off of the information technology department, and which provides services in the field of information technology. In addition, the segment Corporate/Other includes the consolidation adjustments of the segments.

Effective January 1, 2003 the activities of the business segment Fresenius HemoCare were re-allocated within the Fresenius Group. Therefore the segment reporting includes additional information in accordance with the new organisational structure.

The regional segmentation takes into account not only the geographical partition, but also the homogeneity of the markets regarding opportunities and risks. The regional allocation to the individual segments depends on the domicile of the customers.

Notes on the business segments

Management evaluates each segment using a measure that reflects all of the segments’ controllable expenses and income. Management believes that the most appropriate measure in this regard is earnings before interest and income taxes (EBIT). In addition to EBIT, management believes that earnings before interest, income taxes, depreciation and amortization (EBITDA) is helpful for investors as a measurement of company's ability to generate cash and to service its financing obligations. EBITDA is defined as earnings before interest, income taxes, depreciation and amortization.

Depreciation and amortization always refers to the intangible assets with definite useful lives and tangible assets of the respective business segment.

Balance of interest comprises interest and other similar expenses and income.

Net income is defined as earnings after income taxes, minority interests and extraordinary expenses.

The operating cash flow is calculated from net income, minority interests, depreciation and amortization and the change in working capital.

The free cash flow before acquisitions and dividends is calculated from the operating cash flow less net capital expenditure.

Financial liabilities comprise bank loans, bonds, trust preferred securities, obligations from leasing contracts, liabilities from outstanding acquisitions as well as inter-company liabilities.

Capital expenditure includes additions to intangible and tangible assets.

Acquisitions refer to both the purchase of shares in legally-independent companies, and the purchase of business divisions. The key figures shown here are the contractual purchase prices which are made up of amounts paid in cash, debts assumed and the issuance of shares, while only those portions of the purchase prices that were paid in cash are included in the cash flow statement.

The EBITDA margin is calculated from EBITDA as a ratio of sales.

The EBIT margin is calculated from EBIT divided by sales.

The return on operating assets (ROOA) is defined as a ratio from EBIT and operating assets.

In addition "Depreciation and amortization as percentage of sales" has been included as a further key figure.

Report on the business segments

	Fresenius Medical Care			Fresenius Kabi				
in million €	2001	2002	Change	2001	2002	Change	according to new organizational structure 2002	2001
Sales	5,426	5,378	-1%	1,277	1,262	-1%	1,441	451
of which contribution to consolidated sales	5,399	5,352	-1%	1,265	1,248	-1%	1,419	448
of which intercompany sales	27	26	-4%	12	14	17%	22	3
contribution to consolidated sales	74%	71%		17%	17%		19%	6%
EBITDA	1,081	958	-11%	137	163	19%	181	30
Depreciation and amortization	362	223	-38%	84	72	-14%	84	24
EBIT	719[1]	735	2%	53	91	72%	97	6
Balance of interest	-249	-219	12%	-27	-35	-30%	-38	-4
Net income	71	306	331%	6	29	383%	30	-4
Operating cash flow	473	582	23%	64	87	36%	104	0
Free cash flow before acquisitions and dividends	193	369	91%	18	46	156%	49	-27
Financing liabilities	2,766	2,277	-18%	714	690	-3%	764	169
Total assets	7,394	6,465	-13%	1,383	1,314	-5%	1,531	681
Capital expenditure	307	253	-18%	64	57	-11%	71	27
Acquisitions	493	93	-81%	24	19	-21%	20	235
Research and development expenses	40	50	25%	47	47	0%	58	0
Employees (per capita on balance sheet date)	40,258	41,766	4%	10,248	9,389	-8%	11,311	7,620
Key figures								
EBITDA margin	19.9%	17.8%		10.7%	12.9%		12.6%	6.7%
EBIT margin	13.3%	13.7%		4.2%	7.2%		6.7%	1.3%
ROOA	11.2%	11.4%		4.4%	7.7%		7.1%	2.1%
Depreciation and amortization as % of sales	6.7%	4.1%		6.6%	5.7%		5.8%	5.3%

[1] before special charge for legal matters of € 296 million

Fresenius ProServe		Fresenius HemoCare				Corporate / Other				Total		
					according to new organiza-tional structure				according to new organiza-tional structure			
2002	Change	2001	2002	Change	2002	2001	2002	Change	2002	2001	2002	Change
701	55%	215	229	7%	0	-62	-63	-2%	-13	7,307	7,507	3%
698	56%	195	209	7%	0				38	7,307	7,507	3%
3	0%	20	20	0%	0	-62	-63	-2%	-51	0	0	0
9%		3%	3%		0%	0%	0%		1%	100%	100%	
48	60%	25	25	0%	0	-17	-16	6%	-9	1,256	1,178	-6%
24	0%	17	15	-12%	0	7	7	0%	10	494	341	-31%
24	300%	8	10	25%	0	-24	-23	4%	-19	762[1]	837	10%
-9	-125%	-5	-5	0%	0	-1	-2	-100%	-4	-286	-270	6%
1	125%	0	2		0	-55	-204	-271%	-203	18	134	645%
-26		6	24	300%	0	-34	30	188%	37	509	697	37%
-58	-115%	-14	3	121%	0	-43	22	151%	22	127	382	201%
241	43%	110	142	29%	0	-22	-67	-205%	1	3,737	3,283	-12%
759	11%	294	303	3%	0	115	74	-36%	160	9,867	8,915	-10%
37	37%	20	22	10%	0	11	8	-27%	16	429	377	-12%
8	-97%	44	10	-77%	0	8	0	-100%	9	804	130	-84%
1		15	13	-13%	0	21	27	29%	29	123	138	12%
9,894	30%	2,189	2,204	1%	0	352	385	9%	667	60,667	63,638	5%
6.8%		11.6%	10.9%							17.2%	15.7%	
3.4%		3.7%	4.4%							10.4%	11.1%	
4.4%		4.0%	4.0%							9.0%	9.7%	
3.4%		7.9%	6.6%							6.8%	4.5%	

Report on the segments by region

in million €	Europe 2001	Europe 2002	Europe Change	North America 2001	North America 2002	North America Change
Sales	2,241	2,539	13%	4,113	4,061	-1%
in % of total sales	31%	34%		56%	54%	
EBIT	178	218	22%	491	515	5%
Depreciation and amortization	172	154	-10%	280	150	-46%
Total assets	3,161	3,191	1%	5,757	4,856	-16%
Capital expenditure	188	181	-4%	156	138	-12%
Acquisitions	316	66	-79%	448	40	-91%
Employees (per capita on balance sheet date)	24,247	26,106	8%	28,027	28,442	1%

[1] before special charge for legal matters of € 296 million

	Latin America			Asia-Pacific			Africa			Total		
	2001	2002	Change	2001	2002	Change	2001	2002	Change	2001	2002	Change
	368	239	-35%	479	563	18%	106	105	-1%	7,307	7,507	3%
	5%	3%		7%	8%		1%	1%		100%	100%	
	28	15	-46%	52	76	46%	13	13	0%	762[1)]	837	10%
	21	13	-38%	20	23	15%	1	1	0%	494	341	-31%
	450	333	-26%	462	504	9%	37	31	-16%	9,867	8,915	-10%
	32	37	16%	52	20	-62%	1	1	0%	429	377	-12%
	14	2	-86%	23	22	-4%	3	0	-100%	804	130	-84%
	5,204	5,636	8%	2,661	2,943	11%	528	511	-3%	60,667	63,638	5%

Reconciliation of key figures to consolidated earnings

in million €	2001	2002
Total EBITDA of reporting segments	1,273[1)]	**1,194**
Depreciation and amortization	-494	**-341**
General corporate expenses Corporate / Other	-17	**-16**
Interest expenses	-312	**-297**
Interest income	26	**27**
Total earnings before income taxes and minority interests	476	**567**
Total EBIT of reporting segments	786[1)]	**860**
General corporate expenses Corporate / Other	-24	**-23**
Interest expenses	-312	**-297**
Interest income	26	**27**
Total earnings before income taxes and minority interests	476[1)]	**567**
Depreciation and amortization of reporting segments	487	**334**
Depreciation and amortization Corporate / Other	7	**7**
Total depreciation and amortization	494	**341**

[1)] before special charge of € 288 million and other expenses of € 8 million, a total of € 296 million, in connection with legal matters

28. Additional information on cash flow statement

The following summaries provide additional information with regard to the consolidated cash flow statement:

in million €	2001	2002
Interest paid	297	**273**
Income taxes paid	146	**139**

in million €	2001	2002
Assets acquired	1,085	**212**
Debts assumed	-363	**-80**
Non-cash portions in connection with acquisitions	-386	**-9**
Cash paid	336	**122**
Cash acquired	-10	**-4**
Net cash paid for acquisitions	326	**118**

The free cash flow is an important management key figure in the Group. It is calculated as follows:

in million €	2001	2002
Operating cash flow	509	**697**
Purchase of tangible assets	-429	**-377**
Proceeds from sale of tangible assets	47	**62**
Free cash flow before acquisitions and dividends	127	**382**
Purchase of shares in related and associated companies, net	-326	**-118**
Free cash flow before dividends	-199	**264**
Dividends paid	-98	**-101**
Free cash flow after dividends	-297	**163**

29. Subsequent events

2003 senior credit agreement

In February 2003, Fresenius Medical Care was party to a bank agreement (hereafter “2003 senior credit agreement”) with the Bank of America and certain other lenders (collectively the “Lenders”), pursuant to which the Lenders have made available to the company and certain subsidiaries and affiliates an aggregate of up to US$ 1,500 million through three credit facilities:

- a revolving credit facility of up to US$ 500 million of which up to US$ 250 million is available for letters of credit, up to US$ 300 million is available for borrowings in certain non-US currencies, up to US$ 75 million is available as swing lines in US dollars, up to US$ 250 million is available as a competitive loan facility and up to US$ 50 million is available as swing lines in certain non-US currencies, the total of which cannot exceed US$ 500 million which will be due and payable on October 31, 2007.
- a term loan facility (“Loan A”) of US$ 500 million, also scheduled to expire on October 31, 2007. The terms of the 2003 senior credit agreement require payments that permanently reduce the term loan facility. The repayment begins in the third quarter of 2004 and amounts to US$ 25 million per quarter.
- a term loan facility (“Loan B”) of US$ 500 million is scheduled to expire in 2010 with a repayment provision that if the trust preferred securities due February 1, 2008 are not repaid, refinanced or have their maturity extended, repayment will be on October 31, 2007. The terms of the 2003 senior credit agreement require repayments of 0.25% per quarter beginning with the second quarter of 2003.

Loans under the 2003 senior credit agreement bear interest at a base rate determined in accordance with the agreement. For the revolving credit facility and Loan A, interest will be at a rate equal to LIBOR plus an applicable margin, or an alternate base rate, defined as the higher of the Bank of America prime rate or the Federal Funds rate plus 0.5% plus the applicable margin. The applicable margin is variable and depends on the ratio of EBITDA and funded debt as defined in the credit agreement. The interest rate for Loan B is LIBOR plus 2.5%. Fees are also payable at a percentage (initially 0.5%) per annum on the portion of the 2003 senior credit agreement not used.

In addition to scheduled principal payments, the 2003 senior credit agreement will be reduced by portions of the net cash proceeds from certain sales of assets, securitization transactions and the issuance of subordinated debt and equity securities.

The 2003 senior credit agreement contains usual affirmative and negative covenants with respect to the company and its subsidiaries and other payment restrictions substantially similar to the previous 1996 NMC senior credit agreement. Some of the limitations imposed by the covenant are the indebtedness of the company, investments by the company, and require the company to maintain certain ratios defined in the agreement. In this loan agreement, there is an upper limit for the amount of dividend of Fresenius Medical Care that may be paid in one calendar year. For 2003 this limit is US$ 130 million.

30. Corporate governance

Fresenius AG and Fresenius Medical Care AG have submitted the declaration of compliance required by the § 161 German Stock Corporation Law and made this available to the shareholders.

31. Proposal for the distribution of earnings

The Managing Board of Fresenius AG proposes to the Annual General Meeting that the earnings for 2002 of Fresenius AG be distributed as follows:

Payment of a dividend of € 1.14 per bearer ordinary share on the 20,484,842 ordinary shares entitled to dividend	€ 23,352,719.88
Payment of a dividend of € 1.17 per bearer preference share on the 20,484,842 shares entitled to dividend	€ 23,967,265.14
Balance to be carried forward	€ 487,652.91
	€ 47,807,637.93

Bad Homburg v.d.H., February 21, 2003

Dr. G. Krick | R. Baule | R. Hohmann | W.-P. Graeser | U. Werlé

Independent Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the Fresenius AG for the business year from January 1, 2002 to December 31, 2002. The preparation and the content of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US GAAP) are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with Accounting Principles Generally Accepted in the United States of America.

Our audit, which also extends to the group management report prepared by the company's management for the business year from January 1, 2002 to December 31, 2002, has not led to any reservations.

In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, 2002 to December 31, 2002 satisfy the conditions required for the company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Frankfurt am Main, February 21, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Böttcher Walter

Dr. Böttcher
German Public Auditor

Walter
German Public Auditor

Report of the Supervisory Board

In 2002, the Supervisory Board observed the duties assigned to it according to the law and the Articles of Association and advised and supervised the Managing Board. It was closely involved in all decisions which were of major importance to the company.

The Managing Board informed the Supervisory Board regularly both in writing and orally about the progress and planning of the business, the situation of the company and the individual business segments, and important business transactions. The Supervisory Board dealt in detail with the development of business and the business strategy on the basis of these reports in five joint meetings with the Managing Board. The main subjects of the meetings were the development of the operating business, and the transactions requiring approval which were reviewed in detail and discussed in detail. Important business transactions were reviewed on the basis of the reports of the Managing Board, and discussed with the Managing Board. In addition, the Supervisory Board deliberated on and discussed the strategy of the business segments in detail with the Managing Board, and sanctioned this strategy. The Chairman of the Supervisory Board was informed regularly outside the meetings about the current situation of the company and its main transactions.

As well as the continuous discussion and review of the business development of Fresenius, the Supervisory Board also dealt with the following important topics in the 2002 financial year: One focus was the development of the business segment Fresenius Kabi. The Supervisory Board was informed in a whole day's meeting in Uppsala, Sweden, about the measures initiated to increase profitability in the parenteral nutrition factory there, and at the same time about the development of a new production technology for PVC-free primary packaging in the Friedberg plant in Germany. It approved the expansion of this new technique to a platform technology. In addition, the Supervisory Board gave its approval to the investment in building a production plant for infusion solutions in Mexico. The Supervisory Board also discussed in detail the development of the hospital business in the business segment Fresenius ProServe. The Supervisory Board was informed about the current development of business of Fresenius Medical Care AG.

Another important topic was the continued development of the organisational structure of the Fresenius Group. The Supervisory Board and the Managing Board decided that the Fresenius Group would be divided into three independent units – Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe – effective January 1, 2003. The divisions of the former business segment Fresenius HemoCare are to be integrated into these units.

In addition, the Supervisory Board was regularly informed about the risk management of the Fresenius Group. The Supervisory Board approved the medium-term planning of the Fresenius Group after detailed examination and intensive discussion with the Managing Board.

The decision-making personnel committee held three meetings in 2002. The committee stipulated by § 27 Section 3 of the Co-determination Law did not meet in the year under report. The Supervisory Board, together with the Managing Board, submitted the declaration of compliance with the German Corporate Governance Code. In addition, it decided to establish an audit committee.

The audit carried out by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, in accordance with the resolution of the Annual General Meeting of Fresenius AG of May 29, 2002, and the subsequent contract awarded by the Supervisory Board, has confirmed that the accounting records, the financial statements and the management report of Fresenius AG for the 2002 financial year which were drawn up in accordance with Commercial Code (HGB) comply with German law and the company's statutes. The same applies to the consolidated financial statements of Fresenius AG which were drawn up according to US GAAP. A consolidated management report and further notes were added to these statements. The US GAAP consolidated financial statements discharge the company according to § 292a Commercial Code (HGB) from the obligation to present consolidated financial statements according to German law.

The financial statements, consolidated financial statements and management reports as well as the auditor's reports were submitted to the Supervisory Board within the time limit. The Supervisory Board noted the auditor's findings with approval. The Supervisory Board's own examination also confirmed that there were no objections to the financial statements of Fresenius AG and the Fresenius Group. The auditor attended all the Supervisory Board Meetings.

In its meeting of March 7, 2003 the Supervisory Board approved the financial statements of Fresenius AG and the consolidated financial statements of Fresenius AG for 2002, as submitted by the Managing Board, which thereby became final. The auditor of the company reported during the meeting on the main results of the audit. The Supervisory Board concurs with the proposal of the Managing Board for the appropriation of the retained earnings for the 2002 financial year.

The Supervisory Board expresses its thanks to the Managing Board and all employees for their achievements and dedication in the 2002 financial year.

Bad Homburg v.d.H., March 7, 2003

The Supervisory Board
Dr. Karl Schneider
Chairman

Supervisory Board

Dr. h. c. Hans Kröner

Bad Homburg v.d.H.
Honorary Chairman of the Supervisory Board

Dr. Karl Schneider

Mannheim
Former Spokesman of the Managing Board of Südzucker AG
Chairman

Gerd Holtgrefe

Hanover
Secretary of the trade union IG Bergbau, Chemie, Energie
Deputy Chairman

Offices
Supervisory Board
Astra Zeneca Holding GmbH
Enka GmbH & Co. KG

Arnold Danneck

Tholey
Chairman of the General Works Council
Deputy Chairman of the Works Council St. Wendel plant

Dr. Gabriele Kröner

Munich
Doctor

Friedrich Meyer

Wehrheim
Executive Vice President Intravenous Therapy Region Europe 1

Christel Neumann

Schonungen
Chairlady of the European Works Council
Chairlady of the Works Council Schweinfurt plant
Member of the General Works Council

Ilona Oesterle

Waldsolms
Deputy Chairlady of the Works Council Bad Homburg v.d.H.
Deputy Chairlady of the General Works Council

Gerhard Roggemann

Hanover
Member of the Managing Board WestLB AG Düsseldorf/Münster (former: Westdeutsche Landesbank Girozentrale)

Offices
Supervisory Board
AXA Lebensversicherung AG
AXA Investment Managers Deutschland GmbH
Börse Düsseldorf AG (Deputy Chairman)
Deutsche Börse AG
Hapag-Lloyd AG
Solvay Deutschland GmbH
VHV Autoversicherungs-AG
WestAM Holding GmbH (Chairman)
WestLB Asset Management Kapitalanlagegesellschaft mbH (Chairman)
West Pensionsfonds AG (Deputy Chairman)
West Pensionskasse AG (Deputy Chairman)
WPS WertpapierService Bank AG
Board of Governors
International University of Bremen GmbH
Board of Directors
Banque d'Orsay S.A., Paris (Chairman)
Administrative Board
WestLB International S.A., Luxembourg (Chairman)

Dr. Manfred Schaudwet

Frankfurt am Main
Lawyer

Offices
Supervisory Board
Aachener und Münchener Lebensversicherung AG (until 31.12.2002)
dresdnerbank investment management Kapitalanlagegesellschaft mbH (ended in 2002)
Deutsche Vermögensberatung AG (until 31.12.2002)
Ergo Hestia Insurance S.A., Zopot, Polen (ended in 2002)

Dr. Dieter Schenk

Munich
Lawyer and tax consultant

Offices
Supervisory Board
Deutsche BA Luftfahrtgesellschaft mbH
Fresenius Medical Care AG (Deputy Chairman)
Gabor Shoes AG (Chairman)
Greiffenberger AG (Deputy Chairman)
TOPTICA Photonics AG (Deputy Chairman)

Volker Weber

Löhnberg
Full-time secretary of the trade union IG Bergbau, Chemie, Energie

Dr. Bernhard Wunderlin

Bad Homburg v.d.H.
Former Managing Director Harald Quandt Holding GmbH

Offices
Supervisory Board
Augsburger Aktienbank AG
FERI Family Office AG (Chairman)
Harald Quandt Holding GmbH
Advisory Board
Von Rautenkranz Nachfolger GbR
Board of Directors
PerryCapital, New York
Managing Board
Gemeinnützige Hertie-Stiftung

Managing Board

Dr. Gerd Krick

Königstein

Chairman

External Offices
Supervisory Board
Vereinte Krankenversicherung AG
Advisory Board
HDI Haftpflichtverband der deutschen Industrie V.a.G.
Board of Directors
Adelphi Capital Europe Fund, Grand Cayman, Cayman Islands
Board of Trustees
Donau Universität Krems, Austria
Administrative Board
Dresdner Bank Luxembourg S.A., Luxembourg

Corporate Offices
Supervisory Board
Fresenius Kabi AG (Chairman)
Fresenius Kabi Austria GmbH, Graz, Austria
Fresenius Medical Care AG (Chairman)
VAMED AG, Vienna, Austria (Chairman)

Rainer Baule

Ettlingen

Business segment Fresenius Kabi

Corporate offices
Supervisory Board
Fresenius Kabi Austria GmbH, Graz, Austria (Chairman)
NPBI International B.V., Emmen, Netherlands (Chairman)
EUFETS AG (Chairman)

Wolf-Peter Graeser

Bad Homburg v.d.H.

Business segment Fresenius HemoCare

Deputy Chairman

Corporate offices
Supervisory Board
ASEM-NPBI Produtos Hospitalares Ltda., São Paulo, Brazil
NPBI International B.V., Emmen, Netherlands
Fresenius HemoCare Italia S.r.l., Modena, Italy
Fresenius HemoCare France S.A., Lyon, France (Chairman)

Board of Directors
Fresenius Vial N.V., Schelle, Belgium
Fresenius HemoCare Inc., Wilmington, Delaware, USA

Rainer Hohmann

Bochum

Business segment Fresenius ProServe

Corporate Offices
Supervisory Board
VAMED AG, Vienna, Austria
Wittgensteiner Kliniken AG (Chairman)

Udo Werlé

Lampertheim

Chief Financial Officer and Labour Relations Director

External Offices
Supervisory Board
K & C Kremsner & Consultants

Corporate offices
Supervisory Board
Fresenius Kabi AG
Fresenius Vial S.A., Brézins, France (Deputy Chairman)
Wittgensteiner Kliniken AG

Glossary

Health care terms

Antimycotics
Substances used to treat fungus diseases.

Antioxidants
Substances (e.g. vitamin C, vitamin E, ß-carotin, selenium) which protect cells and tissue from aggressive molecules.

Apheresis
Process of obtaining blood from a donor or patient by which certain components (thrombocytes, plasma) are separated or removed and then the remainder is re-infused.

Autotransfusion
Process used for surgical operations where large quantities of blood are shed. The blood of the patient is cleansed and then returned to the patient.

Biocompatibility
Quality and compatibility of the material, the system or the solution which prevent negative reactions by the organism of the patient.

Bispecific antibodies
Whole, not fragmented, antibodies that bind various types of cell.

Blood component preparation
Procedure by which one or several of the following blood components are obtained: erythrocytes, thrombocytes, plasma, stem cells.

Blood volume substitution
Infusion solution to compensate blood loss.

Cardiovascular perfusion
A term to describe all types of extracorporeal support of the circulation and respiratory system. This includes the traditional heart-lung machine, procedures such as ECMO (extracorporeal membrane oxygenation) and also the extracorporeal administration of cytostatic agents by means of the extracorporeal perfusion of specific parts of the body.

Cell separator
A device to obtain blood components. Blood is donated by means of tube pumps and transported to a centrifuge. In the centrifuge, the desired components (e.g. red blood cells, plasma, thrombocytes) are enriched and collected. The components which are not required are returned to the donor.

Clearance
A quantitative parameter to describe the dialyser performance in terms of uraemic toxin removal.

Compounding
The preparation of patient-specific drug and nutrition solutions.

Cytostatic agents
Chemical substances used in tumour therapy. Cytostatic agents prevent or delay the growth of malignant tumour cells.

Dialyser
Special filter used in haemodialysis for removing toxic substances and excess water from the blood.

Dialysis
A type of renal replacement therapy where a semipermeable membrane – in peritoneal dialysis the peritoneum of the patient, and in haemodialysis the membrane of the dialyser – is used for solute transport.

Dialysis machine
The haemodialysis process is controlled by a dialysis machine which pumps blood, adds anti-coagulants, regulates the cleansing process, and controls the mixture of dialysate and its flow rate through the system.

Disease State Management (DSM)
Holistic concept of patient treatment taking into account all medical aspects associated with the disease.

Dry weight
The target weight of a patient to be achieved by fluid removal during dialysis treatment. This target weight is characterized by a physiologically adequate quantity of fluid in the body. In a healthy person with the same body structure as the patient, the body would adjust this fluid quantity automatically.

Endotoxins
Bacterial toxins which are released when the bacteria decompose.

Enteral nutrition
Application of liquid nutrition as tube or sip feed via the gastrointestinal tract.

Erythrocytes
Red blood cells.

ESRD (End-Stage Renal Disease)
Chronic kidney failure, associated with complications which the patient has had for a long period, such as renal anaemia, high blood pressure and other cardiovascular problems, including bone diseases, loss of appetite and malnutrition.

Extracorporeal
Taking place outside the body.

Glutamin dipeptides
Protein compounds consisting of two amino acids, one of which is glutamin.

Glycerine molecule
Element of fats (triglycerides).

Haemodialysis
A treatment method for dialysis patients where the blood of the patient is cleansed by a dialyser. The solute exchange between blood and dialysate is dominated by diffusive processes.

Hydroxyethyl starch solution
Infusion solution with the active ingredient hydroxyethyl starch. Fields of application: Treatment and prevention of blood volume deficiency and shock in connection with operations, injuries, infections, burns; therapeutic blood dilution; reducing the use of autologous blood in surgery.

Immunocompetent cells
Cells which can take over the specific functions of the immune system (e.g. lymphocytes and killer cells).

Immunosuppressive agent
Drug that artificially suppresses or weakens the immune reaction of the organism. It is used in the treatment of autoimmune diseases or to prevent transplanted organs being rejected.

Leukocyte filtration
Removal of white blood cells by means of filtration.

Ligand
Small molecule or ion which forms a complex with a larger molecule without forming a chemical bond (binding affinity).

Mechatronical fitter
Mechatronical fitters process materials and assemble mechanical, electromechanical, electrical and electronic components to create mechatronical systems. They work in plant and mechanical engineering, and in the chemical and automobile industry.

Multi-component donation
Collection of a variable combination of blood components (e.g. two red cell concentrates and one plasma unit) from one donor by apheresis. The remaining blood constituents are re-infused to the donor. This makes better use of donor resources as well improves the supply of blood products due to standardized high quality blood products.

Parenteral nutrition
Application of nutrients directly into the bloodstream of the patient (intravenously).

Peritoneal dialysis
Dialysis treatment method using the patient's peritoneum as a “filter” to cleanse his blood.

Peritoneal dialysis solution
Solution introduced into the abdominal cavity of the patient to adsorb toxins and excess water.

Pre-ESRD care
All treatment and care before the actual ESRD treatment (see ESRD).

Sepsis
Blood poisoning through bacteria, fungi or viruses.

Thrombocytes
Blood platelets.

Triglycerides
Fats made up of one glycerine molecule and three fatty acids.

Uraemia
A complex of symptoms accompanying kidney failure characterised by highly-increased blood levels of urea and other substances.

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

Virostatic agents
Chemical substances for the therapy of virus-related infections.

Financial terms

EBIT
Earnings before interest and income taxes.

EBITDA
Earnings before interest, income taxes, depreciation and amortization.

I/B/E/S
Institutional Broker Estimate System.

International dollar (I$)
The international dollar has the same purchasing power as the US dollar in the United States. Costs in local currency are converted into international dollars using purchasing power parity exchange rates.

ROIC (Return On Invested Capital)
Calculated by:
(EBIT – taxes) : invested capital
Invested capital = total assets + amortization of goodwill (accumulated) – cash and cash equivalents – trade accounts payable – accruals (without pension accruals) – other liabilities not bearing interest.

ROOA (Return On Operating Assets)
Calculated by:
EBIT x 100 : operating assets (average)
Operating assets = total assets – deferred tax assets – trade accounts payable – payments received on account.

US GAAP
United States Generally Accepted Accounting Principles.

Working capital
Current assets accruals - trade accounts payable - other liabilities.

Products and services

A.N.D.Y.® • disc system
This is a double bag PD system (solution and drainage bag). The dialysate is a lactate-buffered conventional PD solution. The disc guarantees easy and safe handling of the system by the patients.

ATG-Fresenius (anti T-lymphocyte globulin)
Protein which suppresses T-lymphocytes.

balance
Lactate-buffered peritoneal dialysis solution in a double-chamber bag. When the contents of the two bags are mixed, the ready-to-use solution has a physiological pH value and a lower content of glucose degradation products.

DiaSafe™
Filter to obtain ultra-pure dialysis solution during haemodialysis.

FX-class-dialyser
A new generation of dialysers with increased performance and outstanding biocompatibility. Helixone® capillaries with their special three-dimensional structure are built in high capillary density into a specifically-designed housing which, for instance, leads to an optimised flow distribution within the dialyser.

Infusion workstation Orchestra®
Integrated infusion management system for the intensive care unit. Syringe pumps, volumetric pumps and a data management system can be combined. The composition of the workstation can be adjusted to the daily therapy needs by freely selecting the number and position of the modules.

In-line filter blood bag system
Blood bag system with integrated filter for leukocyte filtration.

multi**Filtrate**
Multi-functional acute dialysis machine for therapy processes in intensive care and for intermittent acute dialysis.

Newton IQ™
Device for nocturnal peritoneal dialysis which enables higher flow rates compared to filling and emptying the bags via gravity.

Online Clearance Monitor
Optional component of a haemodialysis machine to measure online the effective in-vivo dialyser clearance for quality assurance purposes.

Optiflux™ dialyser
A new series of Fresenius Polysulfone® dialysers with substantially higher performance measurements to remove toxic substances and excess water from the blood.

Propofol Fresenius
Anaesthetic for injection and infusion.

Index

The German version of this annual report is legally binding.

On request, we shall be delighted to send to you the financial statements of Fresenius AG.

You will find further information and current news about our company on our website at:
http://www.fresenius-ag.com

Forward-looking statements:
This Annual Report contains forward-looking statements. These statements represent assessments which we have made on the basis of the information available to us at the time. Should the assumptions on which the statements are based not occur, or if risks should arise – as mentioned in the risk management report – the actual results could differ materially from the results currently expected.

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Design: Hilger & Boie, Büro für Gestaltung, Wiesbaden **Print:** Kempkes, Gladenbach **Litho:** digital aktuell, Steinbach / Taunus

Products and Services of our Business Segments

Fresenius Medical Care

Haemodialysis

- Machines for
  - Haemodialysis
  - Haemodiafiltration
  - Haemofiltration
  - Acute dialysis
  - Plasmafiltration
- Low-Flux dialysers (Fresenius Polysulfone®)
- High-Flux dialysers (Fresenius Polysulfone®)
- FX-class dialysers (Helixone®)
- Haemofilters for acute and chronic renal replacement therapy
- Plasmafilters
- Dialysis fluid filters
- Tubing systems
- Dialysis cannulae
- Dialysis fluids
- Dialysis concentrates (liquid, dry)
- Haemofiltration solutions
- Irrigation solutions
- Disinfectants
- Water treatment systems
- Analysis devices
- Data management systems

Peritoneal dialysis

- Machines and tubing systems for Automated Peritoneal Dialysis (APD)
- Peritoneal dialysis solutions
- CAPD systems
- CAPD double chamber systems
- Peritoneal dialysis catheters
- Accessories

Fresenius Kabi

Infusion therapy

- Basic solutions
- Solutions for osmotic therapy
- Irrigation solutions/urology
- Infusion solutions for blood volume replacement and haemodilution therapy
- I.V. anaesthetics
- I.V. anti-infective drugs and disinfectants
- I.V. catecholamines
- Innovative I.V. packaging systems
- Clinical medical products
  - Application technology
  - Technical equipment for irrigation systems
  - Suprapubic drainage systems
  - Infusion devices and accessories
  - In-dwelling venous cannulae
  - Central venous catheters
  - Wound drainage systems
  - Implantable port systems
  - Portable drug pumps

Nutrition therapy

Parenteral nutrition:

- Industrial All-In-One mixtures (3 and 2 chamber bags, All-In-One bags)
- Standard and special amino acid solutions
- Lipid emulsions
- Products for immunonutrition
- Additives
- Devices and support tools for parenteral nutrition and application
- Scientific support and information; training and education

Enteral nutrition:

- Sip and tube feeds
  - Standard diets
  - Disease-specific diets
  - Nutritional supplements
- Feeding tubes and application technology
  - Transnasal tubes
  - Percutaneous tubes
  - Giving sets
  - Feeding pumps
- Accessories and dressing packs
- Scientific support and information; training and education

Fresenius ProServe

Wittgensteiner Kliniken

Operation and management of hospitals in Germany

hospitalia care

Project development and ownership of private residential nursing care facilities; professional management for third parties

hospitalia activHealth

Ownership and management of hospitals internationally

hospitalia international

Worldwide services and consultancy on all aspects of the hospital, turn-key realisation and modernisation of health facilities

- Feasibility studies
- Consultancy
- Project development, management and control
- Design
- Turn-key projects
- Complete medical and technical equipment for hospitals
- Installation
- Staff training
- Maintenance services

Dialysis care

- Dialysis clinics for chronic haemodialysis treatment
- Acute in-patient dialysis treatment
- Training (haemodialysis and peritoneal dialysis)

Spectra Renal Management

- Laboratory and diagnostic dialysis-related services
- Data management
- Managed care services for dialysis patients

Ambulatory Care

- Concepts for management and provision of ambulatory therapies:
  - Antiviral, antimyotic, antibiotic and cytostatic infusion therapies
  - Enteral and parenteral nutrition therapies
  - Respiratory therapies
  - Wound care
  - Incontinence care
  - Diabetes monitoring
  - Patient monitoring
  - Technical service

Infusion technology

- Infusion and clinical fluid data management systems
- Syringe pumps
- I.V. anaesthesia and analgesia systems
- Volumetric infusion pumps
- Enteral feeding systems
- Dedicated disposables and accessories
- Clinical medical disposables for infusion and wound drainage
- Patient data management system "PDMS"

Transfusion technology

- Blood bags
- Blood bag systems with in-line filters
- Leukocyte filters
- Transfer bags
- Platelet storage bags
- Mixing devices
- Cooling and transportation systems
- Automatic blood component processing systems
- Sealing devices
- Sterile docking devices
- Blood cell separators for
  - Haemapheresis
  - Therapeutic apheresis
  - Multi-component donation
- Stem cell bags
- Cryopreservation bags
- Autotransfusion
- Processing solutions
- Donor couches

VAMED

Worldwide projects and services for health facilities

- Feasibility studies
- Operational and organisational planning
- IT systems planning
- Architectural planning
- Planning of medical-technical equipment and packages
- Medical-technical maintenance
- Buildings technology planning
- Facility management
- Project development and management
- Turn-key projects
- Financial engineering
- General and technical management of health facilities

Pharmaplan

Engineering and plant design for the pharmaceutical and medical device industry

- Feasibility studies
- Consulting and engineering
- Turn-key projects
- Validation and quality management
- Logistics and warehousing
- Services for pharmaceutical production
- Training
- Facility management for pharmaceutical companies
- Supply, installation and maintenance of water systems/ preparation systems for the pharma industry (Pharmatec)

Others

Adsorber technology

LDL-apheresis:

- DALI®-system

Immunoadsorption:

- Prosorba® system
- Immunosorba® system

Immune therapy

- Immunosuppressive agent ATG Fresenius S
- Fluids and disposables for organ perfusion and preservation
- Cell products for research and clinical application
- Vector production gene therapy

Financial calendar

Report on 1st quarter 2003	May 7, 2003
Conference call	
Annual General Meeting, Frankfurt am Main (Germany)	May 28, 2003
Payment of dividend	May 29, 2003
Interim report on the first six months 2003	August 5, 2003
Analysts' Meeting, Bad Homburg v.d.H.	
Conference call	
Report on 1st – 3rd quarters 2003	November 4, 2003
Analysts' Meeting, Bad Homburg v.d.H.	
Press conference, Bad Homburg v.d.H.	
Conference call	