Interim Report H1/2003 and Q2/2003

Management discussion and analysis

First half of 2003:

- Sales: € 3.46 billion
  + 5 % at constant currency, - 8 % at current exchange rates
- EBIT: € 390 million
  + 7 % at constant currency, - 7 % at current exchange rates
- Net income: € 70 million
  + 45 % at constant currency, + 27 % at current exchange rates

- Exchange rates affect sales and earnings
- Operating cash flow and free cash flow at record level
- Continued margin improvements at Fresenius Medical Care
- Operating improvement at Fresenius Kabi
- Program initiated to reduce costs and increase profitability at Fresenius ProServe

In the first half of 2003 the Fresenius Health Care Group was substantially impacted by exchange rate fluctuations in the currency translation. At constant currency, sales increased 5 % in the first half of 2003. At current rates sales decreased 8 % to € 3,456 million mainly due to the strengthening of the euro against the dollar. Operating income (EBIT) increased 7 % at constant currency. At current rates, EBIT was 7 % lower than in the same period of 2002. Net income of the Fresenius Group grew 27 %, 45 % at constant currency.

Sales

Sales of the Fresenius Group decreased by 8 % in the first half of 2003 to € 3,456 million (first half 2002: € 3,749 million) due to exchange rate fluctuations. Organic growth was 3 %. Acquisitions contributed 2 % to this growth. Exchange rates had a 13 % negative impact on sales development. On average the 23 % weaker US dollar and 33 % weaker Argentinian peso had a negative impact on sales due to currency translation.

The region with the strongest sales was North America with 51 %, followed by Europe with 38 %. Asia-Pacific had 7 % and Latin America and other regions a total of 4 %. In almost all the regions the Group increased sales at constant currency. Even with the continuing difficult economic climate in Latin America, sales increased by 29 % at constant currency.

in million €	H1/2002	H1/2003	Change	Change currency-adjusted
Europe	1,230	1,310	7 %	8%
North America	2,078	1,748	-16 %	3%
Asia-Pacific	258	235	-9 %	3%
Latin America	134	116	-14 %	29%
Africa	49	47	-4 %	-8%
Total	3,749	3,456	-8 %	5%

Fresenius Kabi and Fresenius ProServe increased their sales contribution compared to the first half of 2002. Due to the weaker US dollar the sales contribution of Fresenius Medical Care in the first half of 2003 was 70 %.

	H1/2002	H1/2003
Fresenius Medical Care	72 %	70 %
Fresenius Kabi	19 %	20 %
Fresenius ProServe	9 %	10 %

Earnings

The stronger euro was also reflected in the earnings of the Fresenius Group. At constant currency, earnings before interest, income taxes, depreciation and amortization (EBITDA) increased by 5 % compared to the previous year. At current rates EBITDA was € 543 million in the first half of 2003, 8 % below previous year's € 592 million. EBIT increased 7 % at constant currency. At current rates, EBIT of € 390 million in the first half of 2003 was 7 % below previous year's € 420 million.

The 87 % increase in EBIT of Fresenius Kabi had a positive impact on group earnings. This increase is the result of the successful implementation of restructuring measures in 2001 and 2002 and the strong operating performance.

Net interest decreased to € -125 million in the first half of 2003 from € -165 million in the first half of 2002.

In the following table the previous year's income statement has been adjusted according to Statement of Financial Accounting Standards No. 145 which stipulates that as of January 1, 2003 the gains and losses from the early redemption of financial instruments are no longer classified as extraordinary. This rule requires the reclassification of € 22 million of expenses before taxes (€ 13 million after taxes and related minority interests of € 8 million) for the early redemption of Fresenius Medical Care's trust preferred securities which were to come due in 2006.

	H1/2002 as reported in million €	H1/2002 adjusted according to SFAS No.145 in million €	H1/2003 in million €	Change H1/2003 vs. H1/2002 as reported	Change H1/2003 vs. H1/2002 SFAS No.145
EBIT	420	420	390	-7%	-7%
Net interest	-143	-165	-125	13%	24%
Earnings before income taxes	277	255	265	-4%	4%
Taxes on income and profit	-106	-97	-104	2%	-7%
Minority interests	-111	-103	-91	18%	12%
Net income (before extraordinary expenses)	60	55	70	17%	27%
Extraordinary expenses after taxes and minority interests	-5	0	0		
Net income	55	55	70	27%	27%

The decrease of net interest is mainly due to changes in US GAAP. Further, net interest was positively influenced by the translation of US dollar to the euro, since a large portion of Fresenius Medical Care's bank loans are in US dollars.

The tax ratio was 39.2 % in the first half of 2003 compared to 38.0 % in the first half of 2002.

Minority interests decreased to € 91 million from € 103 million in the first half of 2002. This is a result of exchange rate effects. 93 % of minority interests involve Fresenius Medical Care.

Fresenius increased net income considerably. It grew 27 % from € 55 million in the first half of 2002 to € 70 million in the first half of 2003. At constant currency the increase was 45 %.

Earnings per ordinary share were € 1.70, up from € 1.33 in the same period of 2002. Earnings per preference share were € 1.72, up from € 1.35 in 2002. This was an increase of 28 % and 27 %, respectively (at constant currency: 46 % and 45 %).

Capital expenditure and acquisitions

Fresenius spent € 157 million in the first half of 2003 for capital expenditure and acquisitions. This is a reduction of 39 % compared to € 257 million in the first half of 2002 and was in line with Company planning. In 2001 and 2002 Fresenius made significant investments in increased capacity of production plants and further market expansion.

Of the total investments, 72 % was for capital expenditure, 28 % was for acquisitions. Capital expenditure was € 113 million, 39 % below the first half of 2002. Acquisitions were € 44 million in the first half of 2003 compared to € 72 million in the first half of 2002.

Acquisitions in the first half of 2003 were mainly dialysis clinics purchased by Fresenius Medical Care. Capital expenditure was mainly used for opening and equipping new dialysis clinics, especially in the United States, for expanding and modernising existing clinics and for the further expansion and optimization of production plants.

49 % of capital expenditure was made in Europe, 41 % in North America and 10 % elsewhere.

Cash flow

The Fresenius Group's operating cash flow and free cash flow were at record levels. Operating cash flow was € 311 million in the first half of 2003 (first half 2002: € 296 million). This 5 % increase is mainly due to continued improvement in receivables management. The free cash flow before acquisitions and dividends also improved and rose by 35 % to a record figure of € 208 million (first half 2002: € 154 million). This increase resulted from a lower investment volume of € 103 million (first half 2002: € 142 million). After net cash used for acquisitions of € 38 million and dividends of € 107 million Fresenius achieved an excellent free cash flow of € 63 million (first half 2002: € -6 million).

Asset and equity structure

Total assets of the Group was € 8,867 million, a decrease of € 48 million (1 %) compared to December 31, 2002 (€ 8,915 million). This is solely due to currency effects. At constant currency total assets increased 4 % over the previous year. This was mainly due to the reduction in the receivables securitization program of Fresenius Medical Care from US$ 445 million to US$ 249 million which led to a corresponding increase in accounts receivable.

Shareholders' equity including minority interests was € 3,217 million at June 30, 2003 compared to € 3,369 million as at December 31, 2002. This was a result of exchange rate fluctuations; at constant currency there was an increase of 2 %. Equity ratio including minority interests was 36.3 % at June 30, 2003 compared to 37.8 % as at December 31, 2002.

Liabilities from bank loans, Eurobonds, commercial paper and trust preferred securities were € 3,339 million on June 30, 2003. (December 31, 2002: € 3,283 million). This increase was the result of Fresenius Medical Care using existing credit lines to reduce the receivables securitization program. US dollar exchange rate fluctuations had an opposite effect.

Debt, including liabilities from the receivables securitization program of Fresenius Medical Care decreased from € 3,707 million as at December 31, 2002 to € 3,557 million on June 30, 2003.

The key ratio net debt/EBITDA was unchanged at 3.0 on June 30, 2003, the same as at the end of 2002.

Employees

On June 30, 2003, the Fresenius Group had 65,626 employees worldwide. This was around 3 % or 1,988 people more than at the end of 2002.

Second quarter of 2003

At constant exchange rates, the Fresenius Group increased its sales by 4 % in the second quarter of 2003. At current rates, sales were € 1,727 million or 9 % lower than previous year's € 1,895 million. Operating income (EBIT) increased 11 % at constant rates. At current rates, EBIT in the second quarter 2003 of € 196 million was 3 % lower than in the previous year with € 203 million. Fresenius achieved a significant increase of 26 % in the quarterly net income from € 27 million to € 34 million. At constant rates the increase was 44 %. Earnings per ordinary share amounted to € 0.83 compared to € 0.66 in the second quarter of 2002. Earnings per preference share amounted to € 0.84 compared to € 0.67 in the second quarter of 2002. This corresponds to an increase of 26 % per ordinary share and 25 % per preference share (at constant rates: 44 % and 43 %, respectively).

Group outlook on year-end 2003

In the first half of 2003, health care systems were affected by cost-cutting, delayed investments and price pressure. The Fresenius Group showed positive results despite this difficult environment. With 5 % sales growth in the first half of 2003, the Group now anticipates a mid single-digit revenue growth rate at constant currency for the full year 2003.

The Fresenius ProServe business segment initiated a program at Wittgensteiner Kliniken AG to reduce costs and increase profitability. With these measures Fresenius ProServe is overcoming at an early stage challenges in the German health care system, and is supporting its strong position in the German hospital market. The expected one-time expenses of this program are € 25 million (see also page 11).

Before these one-time expenses, the Managing Board maintains its forecast that at constant currency, net income will increase at a double-digit rate. This increase will be mainly driven by the good performance of Fresenius Medical Care and Fresenius Kabi. After these one-time expenses, net income at constant currency will remain at previous year's level.

Fresenius Biotech

In biotechnology, Fresenius is active in the field of immune and cell therapies. Various clinical trials for the immunotherapeutical treatment of cancer are currently being carried out. The results of a phase I/II study for treatment of ovarian cancer patients with symptomatic ascites are to be presented at the European Cancer Conference (ECCO) in September.

Changes in the Managing Board

Dr. Gerd Krick handed over his office as Chairman of the Managing Board to Dr. Ulf M. Schneider at the annual general meeting held on May 28, 2003. Previously, Dr. Ulf M. Schneider was the CFO of Fresenius Medical Care AG.

Mr. Wolf-Peter Graeser, responsible in the Managing Board for the Fresenius HemoCare business segment left the company as this business segment has been re-allocated within the Fresenius Group.

Changes in the Supervisory Board

The following members of the Supervisory Board were elected by the Annual General Meeting:

Dr. Gerd Krick, Königstein
Chairman

Dr. Gabriele Kröner, Munich
Doctor

Gerhard Roggemann, Hanover
Member of the Managing Board of WestLB AG, Düsseldorf/Münster

Dr. Dieter Schenk, Munich
Lawyer and tax consultant
Law office Nörr, Stiefenhofer & Lutz

Dr. Karl Schneider
Former Spokesman of the Managing Board of Südzucker AG

Dr. Bernhard Wunderlin, Bad Homburg v.d.H.
Former Managing Director Harald Quandt Holding GmbH

The employees of Fresenius AG had already elected the following representatives on March 28, 2003:

Arnold Danneck, St. Wendel
Chairman of the General Works Council

Christel Neumann, Schweinfurt
Chairman of the Works Council Schweinfurt plant

Ilona Oesterle, Bad Homburg v.d.H.
Deputy Chairlady of the General Works Council

As representatives of senior staff:

Dr. Bernd Mathieu, St. Wendel
Business unit Patents

As representative of the trade unions:

Gerd Holtgrefe, IGBCE
Deputy Chairman

Gerhard Herres, DHV

At its constitutive meeting on May 28, 2003, the Supervisory Board of Fresenius AG, elected Dr. Gerd Krick as its new Chairman. Mr. Gerd Holtgrefe was elected as Deputy Chairman.

Resolutions passed by the annual general meeting

At the annual general meeting held on May 28, 2003, the shareholders approved the proposal of the Managing Board and Supervisory Board to increase the dividend by approximately 10 %. The holder of an ordinary share received € 1.14 (2002: € 1.03) and the holder of a preference share € 1.17 (2002: € 1.06) per share.

In addition, the annual general meeting approved changes to the Articles of Association in accordance with the recommendation of the Corporate Governance Code and agreed to a conditional increase of the subscribed capital by up to € 4,608,000.00 through the issue of up to 900,000 bearer ordinary shares and of up to 900,000 non-voting bearer preference shares in order to issue convertible bonds to employees due to the 2003 stock option plan.

91.89 % of the ordinary share capital and 28.66 % of the preference share capital, i.e. 60.29 % of the total capital, were represented at the annual general meeting.

The Business Segments

Fresenius Medical Care

Fresenius Medical Care AG is the world's leading provider of products and services for patients with chronic kidney failure.

in US$ million	Q2/2002	**Q2/2003**	Change in %	H1/2002	**H1/2003**	Change in %
Sales	1,254	1,366	9	2,441	2,666	9
EBITDA	224	236	5	449	458	2
EBIT	170	184	8	344	353	2
Net income	74	79	7	138	149	8
Employees				41,766 (31.12.2002)	43,101 (30.6.2003)	3

First half of 2003

In the first half of 2003, Fresenius Medical Care increased sales 9 % to US$ 2,666 million (previous year: US$ 2,441 million). 71 % of sales were achieved in North America, 29 % elsewhere. At constant currency, Fresenius Medical Care increased sales 5 % in the first half of 2003.

Dialysis care business contributed 72 % to sales and dialysis products 28 %. Sales of dialysis products increased 15 % to US$ 743 million (first half 2002: US$ 648 million). The dialysis care business grew 7 % to US$ 1,922 million (first half 2002: US$ 1,793 million). The main source of growth was the increased number of dialysis treatments. Fresenius Medical Care performed approximately 8.7 million treatments in the first half of 2003, an increase of 9 % year over year. As at June 30, 2003, Fresenius Medical Care provided treatment to around 115,800 patients in 1,510 dialysis clinics, 7 % more than in the first half of 2002.

EBIT of Fresenius Medical Care in the first half of 2003 increased 2 % to US$ 353 million. Net income increased 8 % to US$ 149 million.

For the year 2003, Fresenius Medical Care reconfirms its outlook and expects mid single digit revenue growth (in constant currency) and net income growth in the high single digit to low double digits range. As mentioned in the first quarter of 2003 Fresenius Medical Care expects to achieve net income growth for the full year 2003 near the lower end within the predicted range due to the increased risks and unpredictability.

Fresenius Medical Care's US dollar sales of US$ 2,666 million were € 2,413 million after conversion into euros. This is a decrease of 11 % compared to previous year's € 2,718 million. EBIT decreased 17 % to € 319 million (first half 2002: € 383 million) due to currency translation.

Second quarter of 2003

Fresenius Medical Care increased sales in the second quarter 2003 by 9 % (at constant rates: 5 %) to US$ 1,366 million. The operating income (EBIT) increased 8 % in the second quarter 2003 to US$ 184 million. The quarterly net income of Fresenius Medical Care in the second quarter 2003 increased around 7 % to US$ 79 million.

For further information – please refer to Investor News Fresenius Medical Care www.fmc-ag.com.

Fresenius Kabi

The portfolio of Fresenius Kabi focuses on the nutrition and infusion therapy of patients in the hospital, many of whom are seriously ill, and in ambulatory care, as well as on infusion and transfusion technology.

in € million	Q2/2002*	**Q2/2003**	Change in %	H1/2002*	**H1/2003**	Change in %
Sales	363	363	0	717	718	0
EBITDA	39	54	38	78	108	38
EBIT	19	36	89	38	71	87
Net income	3	15	400	7	30	329
Employees				11,311 (31.12.2002)	11,418 (30.6.2003)	1

First half of 2003

In the first half of 2003, Fresenius Kabi's sales were € 718 million, substantially the same as in the previous year (€ 717 million). This is the result of currency translation effects of -6%. The organic growth of Fresenius Kabi was 7 %. This is fully in line with our expected growth of 6 to 7 % for 2003 as a whole. Furthermore, divestments (the sale of the company ProReha effective August 1, 2002) reduced sales by 1 percentage point.

The hospital business had € 574 million in sales, which was 80 % of total sales (first half 2002: € 568 million). The Ambulatory Care business had sales of € 145 million (first half 2002: € 149 million), which was 20 % of total sales.

Fresenius Kabi achieved an EBIT of € 71 million in the first half of 2003 compared to the previous year's figure of € 38 million. Fresenius Kabi achieved an EBIT margin of 9.9 % in the first half 2003 compared to 5.3 % in the first half of 2002. This also exceeds the EBIT margin for 2002 as a whole (6.7 %).

Our restructuring of production facilities, particularly in Uppsala, Sweden, and the good operating performance had a positive impact on earnings in the first half of 2003. These measures will continue to contribute to the future earnings growth of Fresenius Kabi.

In the important European market, the Company achieved a single-digit growth rate. In all other regions, Fresenius Kabi achieved double-digit organic growth rates in the first half of 2003.

For the full year 2003, Fresenius Kabi expects to achieve an organic growth of 6 to 7 %. EBIT of the second half of 2003 is expected to be in the range of the first half of the year.

Second quarter of 2003

At € 363 million, sales of Fresenius Kabi in the second quarter of 2003 were on previous year' s level. This is attributable to substantial exchange rate effects. Operating income (EBIT) of Fresenius Kabi increased substantially in the second quarter of 2003 (by 89 %): from € 19 million in the previous year to € 36 million. Net income of Fresenius Kabi in the second quarter achieved a fivefold increase from € 3 million in the previous year to € 15 million in the current year.

* The previous year's figures have been adjusted to include the newly-assigned activities of the business segment Fresenius HemoCare (transfusion and infusion technology) effective January 1, 2003.

Fresenius ProServe

Fresenius ProServe specialises in international health care services. The range of services includes hospital management, the planning and construction of hospitals as well as of pharmaceutical and medical-technical production plants.

in € million	Q2/2002	**Q2/2003**	Change in %	H1/2002	**H1/2003**	Change in %
Sales	172	170	-1	321	336	5
EBITDA	9	10	11	19	22	16
EBIT	4	4	0	8	10	25
Net income	0	0		1	1	0
Employees				9,894 (31.12.2002)	10,599 (30.6.2003)	7

First half of 2003

Fresenius ProServe increased sales 5 % to € 336 million in the first half of 2003 (first half 2002: € 321 million). 85 % of sales were from the Healthcare business, 15 % from the Pharma Industry business. Sales were € 287 million in the Healthcare business, an increase of 12 % (first half 2002: € 256 million). Sales were € 49 million in the Pharma Industry business compared to € 65 million in the previous year due to a general investment caution of the pharma industry and delays in project handling.

In the Healthcare business, sales from services increased 31 % to € 239 million (first half 2002: € 183 million). This was driven by the consolidation of newly-acquired hospitals (mainly Klinikum Rhein-Sieg in Siegburg). Project sales in the Healthcare business were € 48 million compared to € 73 million in the first half of 2002 due to delays in project handling.

Fresenius ProServe's EBIT in the first half of 2003 was € 10 million compared to € 8 million in 2002. However, Fresenius ProServe did not achieve its earnings target for the second quarter. This is mainly due to the hospital management business in Germany. The bed utilization rate declined to 81 % compared to 85 % for the same period of the previous year. In addition, delays in the project business had an impact on earnings.

A major study of Wittgensteiner Kliniken AG, which is part of Fresenius ProServe, was completed in July 2003. This study shows that in addition to the measures carried out in the past one and a half years, there is additional potential to reduce costs and increase efficiency. Fresenius ProServe expects to fully utilize this potential and create a solid basis for Wittgensteiner Kliniken to achieve sustainable growth. The implementation of the measures, including further staff reductions, will result in one-time expenses of € 25 million before tax. It is expected that Wittgensteiner Kliniken will achieve annual cost savings of € 20 - 25 million which will become fully effective in the 2005 financial year.

Assuming a reserve is created for the one-time expenses in 2003, Fresenius ProServe expects, that it will have a single-digit negative EBIT for the full year 2003. Sales for 2003 are expected to increase to approximately € 800 million.

These measures will significantly strengthen the position of Wittgensteiner Kliniken in the German hospital market.

Second quarter of 2003
At € 170 million, sales of Fresenius ProServe in the second quarter of 2003 were slightly lower than the € 172 million achieved in the previous year. Fresenius ProServe achieved an EBIT of € 4 million in the second quarter which was on the same level as in the previous year. This amount was not in line with the set objectives.

Fresenius Group in Figures

Consolidated statement of income (unaudited)

in million €	2nd quarter 2002*	2nd quarter 2003	1st half year 2002*	1st half year 2003
Sales	1,895	1,727	3,749	3,456
Cost of goods sold	-1,281	-1,166	-2,544	-2,330
Gross profit	**614**	**561**	**1,205**	**1,126**
Selling, general and administrative expenses	-379	-336	-723	-680
Expenditure on research and development	-32	-29	-62	-56
Operating income (EBIT)	**203**	**196**	**420**	**390**
Balance of interest	-72	-61	-165	-125
Earnings before income taxes and minority interests	**131**	**135**	**255**	**265**
Income taxes	-50	-53	-97	-104
Minority interests	-54	-48	-103	-91
Net income	**27**	**34**	**55**	**70**
Basic earnings per ordinary share (in €)	**0.66**	**0.83**	**1.33**	**1.70**
Fully diluted earnings per ordinary share (in €)	**0.66**	**0.83**	**1.33**	**1.70**
Basic earnings per preference share (in €)	**0.67**	**0.84**	**1.35**	**1.72**
Fully diluted earnings per preference share (in €)	**0.67**	**0.84**	**1.35**	**1.72**

* adjusted according to US GAAP SFAS 145

	as reported		as reported	
Extraordinary expenses after income taxes and minority interests	0	0	5	0
Net income before extraordinary expenses	**27**	**34**	**60**	**70**

Average number of shares				
Ordinary shares	**20,484,797**	**20,484,842**	**20,484,785**	**20,484,842**
Preference shares	**20,484,797**	**20,484,842**	**20,484,785**	**20,484,842**
EBIT (in million €)	**203**	**196**	**420**	**390**
Depreciation and amortization (in million €)	**86**	**76**	**172**	**153**
EBITDA (in million €)	**289**	**272**	**592**	**543**
EBIT margin	**10.7%**	**11.3%**	**11.2%**	**11.3%**
EBITDA margin	**15.3%**	**15.7%**	**15.8%**	**15.7%**

See accompanying notes to the unaudited condensed consolidated financial statements.

Consolidated balance sheet (unaudited)

	in million €	Dec 31, 02	June 30, 03
	Cash and cash equivalents	163	194
	Trade accounts receivable less allowances for doubtful accounts	1,299	1,419
	Accounts receivable from related parties	16	27
	Inventories	659	706
	Prepaid expenses and other current assets	379	398
	Deferred taxes (current)	227	218
I.	**Total current assets**	**2,743**	**2,962**
	Tangible assets	1,797	1,712
	Goodwill	3,405	3,198
	Other intangible assets	581	545
	Other non-current assets	308	361
	Deferred taxes (non-current)	81	89
II.	**Total non-current assets**	**6,172**	**5,905**
	Total assets	**8,915**	**8,867**
	Trade accounts payable	300	231
	Trade accounts payable to related parties	4	3
	Accruals and other short-term liabilities	1,066	1,105
	Short-term loans	557	219
	Short-term loans from related companies	5	4
	Current portion of long-term loans and capital lease obligations	44	442
	Accruals for income taxes	231	261
	Deferred taxes (short-term)	38	43
A.	**Total short-term liabilities**	**2,245**	**2,308**
	Long-term debt and liabilities from capital lease obligations less the current portion	1,594	1,640
	Long-term liabilities to and loans from related companies	1	-
	Other long-term liabilities	217	221
	Accruals for pensions	224	224
	Deferred taxes (long-term)	182	224
	Trust preferred securities	1,083	1,033
B.	**Total long-term liabilities**	**3,301**	**3,342**
I.	**Total liabilities**	**5,546**	**5,650**
II.	**Minority interests**	**1,762**	**1,670**
	Subscribed capital	105	105
	Capital reserves	643	644
	Other reserves	710	733
	Accumulated other comprehensive income	149	65
III.	**Total shareholders´equity**	**1,607**	**1,547**
	Total liabilities and shareholders´equity	**8,915**	**8,867**

See accompanying notes to the unaudited condensed consolidated financial statements.

Consolidated cash flow statement (unaudited)

in million €	H1/2002	H1/2003
Cash provided by / used for operating activities		
Net income	55	70
Minority interests	103	91
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Depreciation and amortization	172	153
Loss from early redemption of trust preferred securities	13	0
Change in deferred taxes	15	24
Gain/loss on sale of fixed assets	1	-3
Changes in assets and liabilities, net of amounts from businesses acquired or disposed of		
Change in trade accounts receivable (net)	-17	20
Change in inventories	-43	-62
Change in prepaid expenses and other current and non-current assets	-9	-5
Change in accounts receivable from/payable to related companies	-1	-12
Change in trade accounts payable, accruals and other short-term and long-term liabilities	1	-1
Change in accruals for taxes	6	36
Cash provided by operating activities	**296**	**311**
Cash provided by/used for investing activities		
Purchase of tangible assets	-185	-113
Proceeds from sale of tangible assets	43	10
Purchase of shares in related companies and investments	-63	-38
Cash used for investing activities	**-205**	**-141**
Cash provided by/used for financing activities		
Changes in short-term loans	67	-339
Changes in short-term loans with related companies	5	-
Changes in long-term debt and capital lease obligations	337	505
Redemption of trust preferred securities	-419	0
Redemption of series D trust preferred stock	0	-8
Proceeds from receivables securitization program	16	-178
Proceeds from exercising stock options	-	-
Dividends paid	-97	-107
Change in minority interests	-1	-2
Payments on hedge contracts for inter-company loans in foreign currency	-1	-3
Cash provided by/used for financing activities	**-93**	**-132**
Effect of exchange rates on change in cash and cash equivalents	**-14**	**-7**
Net decrease in cash and cash equivalents	**-16**	**31**
Cash and cash equivalents at beginning of year	**181**	**163**
Cash and cash equivalents at end of year	**165**	**194**

See accompanying notes to the unaudited condensed consolidated financial statements.

Consolidated statement of shareholders' equity (unaudited)

	Ordinary Shares		Preference Shares		Subscribed capital	
	Number of shares thousand	Amount thousand €	Number of shares thousand	Amount thousand €	Amount thousand €	Amount million €
As at 31.12.2002	20,485	52,441	20,485	52,441	104,882	105
Issuance of bearer ordinary and bearer preference shares						
Proceeds from exercise of stock options						
Compensation expense related to exercise of options						
Dividends paid						
Comprehensive income						
Net income						
Other comprehensive income from cash flow hedges						
Foreign currency translation adjstments						
Minimum pension liability						
Comprehensive income						
As at 30.06.2003	20,485	52,441	20,485	52,441	104,882	105

in million €	Capital reserves	Other-reserves	Other Comprehensive Income			Total
			Currency translation differences	Cashflow Hedges	Pensions	
As at 31.12.2002	643	710	194	-17	-28	1,607
Issuance of bearer ordinary shares and bearer preference shares						0
Proceeds from exercise of stock options						0
Compensation expense related to exercise of options	1					1
Dividends paid		-47				-47
Comprehensive income						
Net income		70				70
Other comprehensive income from cash flow hedges				22		22
Foreign Currency translation adjustment			-108			-108
Minimum pension liability					2	2
Ccmprehensive income		70	-108	22	2	-14
As at 30.06.2003	644	733	86	5	-26	1,547

See accompanying notes to the unaudited condensed consolidated financial statements.

Segment reporting H1/2003

	Fresenius Medical Care			Fresenius Kabi			Fresenius ProServe			Corporate/Other			Total		
	H1/2002	H1/2003 [2]	Change	H1/2002 [1]	H1/2003	Change	H1/2002	H1/2003	Change	H1/2002 [1]	H1/2003 [2]	Change	H1/2002	H1/2003	Change
	€m	€m		€m	€m		€m	€m		€m	€m		€m	€m	
Sales	2,718	2,413	-11%	717	718	0%	321	336	5%	-7	-11	-57%	3,749	3,456	-8%
of which contributing to consolidated sales	2,705	2,400	-11%	704	708	1%	319	334	5%	21	14		3,749	3,456	-8%
of which intercompany sales	13	13	0%	13	10	-23%	2	2		-28	-25	11%	0	0	
contribution to consolidated sales	72%	70%		19%	20%		9%	10%		0%	0%		100%	100%	
EBITDA	500	414	-17%	78	108	38%	19	22	16%	-5	-1	80%	592	543	-8%
Depreciation and amortization	117	95	-19%	40	37	-8%	11	12	9%	4	9	125%	172	153	-11%
EBIT	383	319	-17%	38	71	87%	8	10	25%	-9	-10	-11%	420	390	-7%
Balance of interest	-138	-97	30%	-19	-21	-11%	-5	-5	0%	-3	-2	33%	-165	-125	24%
Net income	153	135	-12%	7	30	329%	1	1	0%	-106	-96	9%	55	70	27%
Operating cash flow	272	271	0%	2	47	++	6	12	100%	16	-19	-219%	296	311	5%
Free cash flow before acquisitions and dividends	172	201	17%	-17	26	253%	-13	2	115%	12	-21	-275%	154	208	35%
Debt*	2,277	2,300	1%	764	758	-1%	241	248	3%	1	33	++	3,283	3,339	2%
Total assets*	6,465	6,340	-2%	1,531	1,550	1%	759	809	7%	160	168	5%	8,915	8,867	-1%
Capital expenditure	129	78	-40%	32	23	-28%	19	10	-47%	5	2	-60%	185	113	-39%
Acquisitions	51	59	16%	17	1	-94%	0	4		4	-20	--	72	44	-39%
Research and development expenses	22	22	0%	28	22	-21%	0	0		12	12	0%	62	56	-10%
Employees (per capita on balance sheet date)*	41,766	43,101	3%	11,311	11,418	1%	9,894	10,599	7%	667	508	-24%	63,638	65,626	3%
Key figures															
EBITDA margin	18.4%	17.2%		10.9%	15.0%		5.9%	6.5%					15.8%	15.7%	
EBIT margin	14.1%	13.2%		5.3%	9.9%		2.5%	3.0%					11.2%	11.3%	
Depreciation and amortization as % of sales	4.3%	3.9%		5.6%	5.2%		3.4%	3.6%					4.6%	4.4%	

[1] previous year adjusted for the reallocation of the Fresenius HemoCare business since January 1, 2003:

- Fresenius Kabi incl. transfusion and infusion technology
- Corporate/Other incl. immune therapy and adsorber technology

[2] Adsorber technology business consolidated in Corporate/Others until March 31, 2003; consolidated in Fresenius Medical Care as of April 1, 2003

* previous year as of 31.12.2002

Segment reporting Q2/2003

	Fresenius Medical Care			Fresenius Kabi			Fresenius ProServe			Corporate/Other			Total		
	Q2/2002	Q2/2003 [2]	Change	Q2/2002 [1]	Q2/2003	Change	Q2/2002	Q2/2003	Change	Q2/2002 [1]	Q2/2003 [2]	Change	Q2/2002	Q2/2003	Change
	€m	€m		€m	€m		€m	€m		€m	€m		€m	€m	
Sales	1,364	1,202	-12%	363	363	0%	172	170	-1%	-4	-8	-100%	1,895	1,727	-9%
of which contributing to consolidated sales	1,358	1,195	-12%	356	358	1%	170	169	-1%	11	5		1,895	1,727	-9%
of which intercompany sales	6	7	17%	7	5	-29%	2	1		-15	-13	13%	0	0	
contribution to consolidated sales	72%	69%		19%	21%		9%	10%		0%	0%		100%	100%	
EBITDA	244	207	-15%	39	54	38%	9	10	11%	-3	1	133%	289	272	-6%
Depreciation and amortization	59	45	-24%	20	18	-10%	5	6	20%	2	7	250%	86	76	-12%
EBIT	185	162	-12%	19	36	89%	4	4	0%	-5	-6	-20%	203	196	-3%
Balance of interest	-55	-47	15%	-10	-11	-10%	-3	-2	33%	-4	-1	75%	-72	-61	15%
Net income	81	70	-14%	3	15	400%	0	0		-57	-51	11%	27	34	26%
Operating cash flow	192	154	-20%	16	34	113%	-18	6	133%	26	-20	-177%	216	174	-19%
Free cash flow before acquisitions and dividends	150	123	-18%	8	22	175%	-30	1	103%	23	-21	-191%	151	125	-17%
Capital expenditure	66	37	-44%	21	14	-33%	12	5	-58%	4	1	-75%	103	57	-45%
Acquisitions	41	27	-34%	12	1	-92%	0	4		1	-20	--	54	12	-78%
Research and development expenses	11	12	9%	14	11	-21%	0	0		7	6	-14%	32	29	-9%
Key figures															
EBITDA margin	17.9%	17.2%		10.7%	14.9%		5.2%	5.9%					15.3%	15.7%	
EBIT margin	13.6%	13.5%		5.2%	9.9%		2.3%	2.4%					10.7%	11.3%	
Depreciation and amortization as % of sales	4.3%	3.7%		5.5%	5.0%		2.9%	3.5%					4.5%	4.4%	

[1] previous year adjusted for the reallocation of the Fresenius HemoCare business since January 1, 2003:

- Fresenius Kabi incl. transfusion and infusion technology
- Corporate/Other incl. immune therapy and adsorber technology

[2] Adsorber technology business consolidated in Fresenius Medical Care as of April 1, 2003

Contents Notes

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 restructuring that took place at the beginning of the 1999 financial year, Fresenius AG acts as an operating holding. The operating activities have been split into the following legally-independent business segments (sub-groups) since January 1, 2003:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

Effective January 1, 2003, the activities of the business segment Fresenius HemoCare were re-allocated within the Fresenius Group. The previous year's figures have been adjusted to the new organisational structure.

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). 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 the internationally recognised accounting principles and in conformity with the fourth and seventh EU guidelines.

The condensed consolidated financial statements at June 30, 2003 and for three- and six-month ended June 30, 2003 have not been audited and should be read in the context of the consolidated financial statements as at December 31, 2002 together with the notes to these statements which can be found in the 2002 Annual Report. There have been no major changes in the entities consolidated.

The financial statements for the half-year and the quarter include all adjustments that, in the opinion of the management board, are normal and need to be made on an on-going basis, and that are necessary in order to give an appropriate view of the net assets, financial position and results of operations of the Fresenius Group.

The financial statements for the half-year and the quarter do not necessarily express a statement about the expected results for the whole financial year.

III. Recent pronouncements

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 adopted SFAS No. 143 as of January 1, 2003. The adoption of SFAS No. 143 has no material impact on the financial statements of the Fresenius Group.

In April 2002, the Financial Accounting Standards Board issued SFAS No., *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 such 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 adopted SFAS No. 145 with regard to SFAS No. 4 effective 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. This loss is no longer 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 certain obligations undertaken, relating 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 warrantees. The Fresenius Group did not have any guarantees of material amounts on June 30, 2003.

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 on the results reported. The Fresenius Group adopted the amended disclosure requirements for the half-yearly and quarterly report as of June 30, 2003.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 (“FIN 46”) *Consolidation of Variable Interest Entities.* FIN 46 addresses the consolidation of variable interest entities by the primary beneficiary, when the total
equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated support from other parties and / or the equity investor lacks certain essential characteristics of a controlling financial interest. FIN 46 requires existing variable interest entities to be consolidated by the primary beneficiary. The interpretation becomes effective at various dates in 2003, is fully effective July 1, 2003 and provides various transition rules. We are currently reviewing the effect of this Statement on our financial statements.

On April 3, 2003, the Financial Accounting Standards Board announced SFAS No. 149 (*Amendment of Statement 133 on Derivative Instruments and Hedging Activities*). This regulation amends and clarifies the financial accounting regulations and reporting standards for derivative financial instruments, including certain derivative financial instruments embedded in other contracts (Derivatives) and hedging instruments under SFAS No. 133 (*Accounting for Derivative Instruments and Hedging Activities).* This regulation relates to contracts entered into or modified after June 30, 2003. We are currently reviewing the effect of this Statement on our financial statements.

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150 (*Accounting for certain Financial Instruments with Characteristics of both Liabilities and Equity*). This Statement requires an issuer to classify certain financial instruments with the characteristics of both liabilities and equity as a liability (or asset in some circumstances) instead of equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. We are currently reviewing the effect of this Statement on our financial statements

2. Special charge of Fresenius Medical Care for legal matters

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

Fresenius Medical Care accrued US$ 172 million, principally representing a provision for income taxes payable 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, the US$ 172 million includes the estimated costs of defending Fresenius Medical Care in all litigation arising out of W.R. Grace's Chapter 11 Proceedings. During the second quarter of 2003, the court supervising Grace’s Chapter 11 Proceedings approved the definitive settlement agreement entered into among Fresenius Medical Care, the committees representing asbestos creditors and W.R. Grace.

Fresenius Medical Care included US$ 55 million in the special charge to provide for settlement obligations, legal expenses and the resolution of disputed accounts receivable related to various insurance companies. In the second quarter of 2003, Fresenius Medical Care reached an agreement to settle litigation with another group of insurance companies and a process to resolve remaining accounts receivable issues. Fresenius Medical Care continues its discussions and negotiations with the commercial insurers to resolve this component of the special charge.

The remaining amount of the special charge (US$ 31 million pre-tax) was accrued mainly for 1) assets and receivables that are impaired in connection with other legal matters and 2) anticipated expenses associated with the continued defense and resolution of the legal matters.

Based on these developments, Fresenius Medical Care has reduced its estimate for the settlement and related costs of the Grace Chapter 11 Proceedings by US$ 39 million. This reduction of the provision for the Grace matter has been applied to the other components of the special charge (i.e. reserves for settlement obligations and disputed accounts receivable from the commercial insurers and other merger-related legal matters).

On June 30, 2003 there is a remaining balance of US$ 179 million (€ 157 million) for the accrual for the special charge for legal matters. Fresenius Medical Care believes that these reserves are adequate for the settlement of all matters described above. During the second quarter and the first half-year of 2003, charges in the amount of US$ 7 million (€ 6 million) and US$ 12 million (€ 11 million), respectively, were applied against the accrued special charge for legal matters.

3. Acquisitions

The Fresenius Group made acquisitions of € 12 million and € 44 million in the second quarter and first half-year of 2003 mainly used for the acquisition of dialysis clinics. Of this amount, € 12 million and € 38 million, respectively, were paid in cash, with no debt being assumed in the second quarter and financial liabilities of € 6 million in the half-year.

Notes on the Consolidated Balance Sheet

4. Cash and cash equivalents

in million €	Dec. 31, 2002	June 30, 2003
Cash	149	177
Securities (with a maturity of up to 90 days)	14	17
Total cash and cash equivalents	**163**	**194**

5. Trade accounts receivable

in million €	Dec. 31, 2002	June 30, 2003
Trade accounts receivable	1,469	1,582
less allowance	170	163
Trade accounts receivable (net)	**1,299**	**1,419**

In the business segment Fresenius Medical Care, National Medical Care, Inc., (NMC), has concluded an agreement for 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 net of allowances 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 date was extended to October 23, 2003.

In the first half-year of 2003, liabilities from the receivables securitization programme were reduced from US$ 445 million by US$ 196 million to US$ 249 million, which resulted in a corresponding increase of accounts receivable of Fresenius Medical Care.

6 . Inventories

As of June 30, 2003 and December 31, 2002, inventories are as follows:

in million €	Dec. 31, 2002	June 30, 2003
Raw materials and purchased components	145	139
Work in process	106	126
Finished goods	408	441
Inventories (net)	**659**	**706**

7. Goodwill and other intangible assets

As of June 30, 2003 and December 31, 2002 intangible assets, split into amortizable and non-amortizable intangible assets, consisted of the following:

Amortizable intangible assets in million €	Purchasing/ manufacturing costs		Accumulated amortization		Carrying amount	
	Dec. 31, 2002	June 30, 2003	Dec. 31, 2002	June 30, 2003	Dec. 31, 2002	June 30, 2003
Patient relationships	236	216	183	172	53	44
Patents	39	35	29	25	10	10
Distribution rights	25	17	16	12	9	5
Other	219	196	115	102	104	94
Total	**519**	**464**	**343**	**311**	**176**	**153**

Non-amortizable intangible assets in million €	Purchasing/ manufacturing costs		Accumulated amortization		Carrying amount	
	Dec. 31, 2002	June 30, 2003	Dec. 31, 2002	June 30, 2003	Dec. 31, 2002	June 30, 2003
Trade names	226	210	0	0	226	210
Management contracts	175	179	0	0	175	179
Subtotal	**401**	**389**	**0**	**0**	**401**	**389**
Goodwill	3,405	3,198	0	0	3,405	3,198
Assembled workforce	4	3	0	0	4	3
Subtotal	**3,409**	**3,201**	**0**	**0**	**3,409**	**3,201**
Total	**3,810**	**3,590**	**0**	**0**	**3,810**	**3,590**

The following table shows the anticipated amortization of intangible assets for the next five years:

in million €	Q3-Q4/2003	2004	2005	2006	2007	Q1-Q2/2008
Anticipated amortization for the five financial years to come	19	32	29	23	19	9

Carrying amount of goodwill and assembled workforce

The carrying amount of goodwill and assembled workforce are as follows:

in million €	
Carrying amount 1.1.2003	3,409
Additions/Disposables, net	36
Transfers	-11
Exchange rate differences	-233
Carrying amount 30.6.2003	3,201

8. Debt and capital lease obligations

Short-term loans from third parties amounting to € 219 million and € 557 million as at June 30, 2003 and December 31, 2002, respectively, concern loans taken up by individual subsidiaries of the Group in connection with lines of credit with commercial banks. The decrease mainly resulted from the refinancing of short-term bank loans by the issuance of the 2003 Eurobond.

On June 30, 2003 and December 31, 2002, long-term loans and liabilities in connection with capital lease obligations are as follows:

in million €	Dec. 31, 2002	June 30, 2003
Fresenius Medical Care-Senior credit agreement	822	893
Capital lease obligations	60	57
Euronotes	129	129
Eurobonds	400	799
Other	227	204
	1,638	**2,082**
less current maturities	44	442
Total loans and capital lease obligations	**1,594**	**1,640**

Eurobonds

On April 27, 1999 Fresenius Finance B.V., 's-Hertogenbosch (Netherlands), a wholly-owned 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 has 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 amount. The tranche with a variable interest rate matured after three years; repayment was made on May 18, 2002 at the nominal amount.

In April 2003, Fresenius Finance B.V., 's-Hertogenbosch (Netherlands), a wholly-owned subsidiary of Fresenius AG, issued Eurobonds for a total amount of € 400 million in two tranches in order to repay short-term bank loans. Both tranches have a maturity of six years. The € 300 million tranche bears interest at 7.75 % p.a. and is three years non-callable by the Issuer. The second tranche of € 100 million bears interest at 7.5 % p.a. and is not callable before maturity.

Fresenius Medical Care – 2003 senior credit agreement

In February 2003, Fresenius Medical Care entered into an amended and restated bank agreement (hereafter “2003 Senior Credit Agreement”) with Bank of America N.A., Credit Suisse First Boston, Dresdner Bank AG New York, JP Morgan Chase Bank, The Bank of Nova Scotia and certain other lenders (collectively, the “Lenders”), pursuant to which the Lenders have made available to Fresenius Medical Care and certain subsidiaries and affiliates an aggregate amount of up to US$ 1,500 million through three credit facilities:

- a revolving credit facility of up to US$ 500 million which will be due and payable on October 31, 2007. Of this amount, 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.

- 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. The remaining amount outstanding is due on October 31, 2007.

- a term loan facility (“Loan B”) of US$ 500 million. This loan is scheduled to expire in February 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.

For the revolving credit facility and Loan A, interest will be at a rate equal to LIBOR plus an applicable margin, or base rate, defined as the higher of the Bank of America prime rate or the Federal Funds rate plus 0.5 % plus the applicable margin. The applicable margin is variable and depends on the ratio of funded debt to EBITDTA as defined in the credit agreement. The initial 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 affirmative and negative covenants with respect to the company and its subsidiaries and other payment restrictions. They are substantially similar to the previous NMC senior credit agreement. Some of the covenants limit indebtedness of Fresenius Medical Care and investments by Fresenius

Medical Care, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. Additionally, the senior credit agreement provides for a dividend restriction by Fresenius Medical Care, which is US$ 130 million in 2003 and increases in the years after. As of June 30, 2003, Fresenius Medical Care is in compliance with all financial covenants.

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 with 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.

9. Pensions and similar obligations

In the first half of 2002, Fresenius Medical Care recorded a gain of approximately € 13 million resulting from the curtailment of Fresenius Medical Care's defined benefit and supplemental executive retirement plans in the US. Fresenius Medical Care has retained all employee pension obligations as of the closing date for the fully vested and frozen benefits for all employees.

10. Trust preferred securities

Fresenius Medical Care 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 wholly-owned 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 following a rating decline or defined events of default including a failure to pay interest. Upon liquidation of the trusts, the holders of trust preferred securities are entitled to a distribution equal to the stated amount. The trust preferred securities do not hold voting rights in the trust except under limited circumstances.

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 1996 senior credit agreement.

As a result of the early redemption of the trust preferred securities in the first quarter 2002, an extraordinary loss of US$ 12 million (€ 13 million) was incurred. This loss consisted of US$ 16 million (€ 18 million) of redemption premium and US$ 3 million (€ 4 million) of associated debt issuance costs, net of a US€ 8 million (€ 9 million) tax benefit. Of the total amount of € 13 million, € 8 million was allocated to minority interest holders, resulting in an extraordinary loss of € 5 million for the Fresenius Group.

As of January 1, 2003, Fresenius Medical Care adopted SFAS No. 145, *(Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections)* in regard to SFAS No. 4. As a result, the loss is no longer presented as an extraordinary loss, but in interest expense, with the related income tax effect included in income taxes. The figures for the first half-year of 2002 have been adjusted accordingly.

The trust preferred securities outstanding in the Fresenius Group as at June 30, 2003 are as follows:

	Year issued	Stated amount	Interest rate	Mandatory redemption date	Dec. 31, 2002	June 30, 2003
Fresenius Medical Care Capital Trust	1996	360 US$m	9%	redeemed 14.2.02	0 €m	0 €m
Fresenius Medical Care Capital Trust II	1998	450 US$m	7 7/8%	1/2/2008	429 €m	394 €m
Fresenius Medical Care Capital Trust III	1998	300 DMm	7 3/8%	1/2/2008	154 €m	154 €m
Fresenius Medical Care Capital Trust IV	2001	225 US$m	7 7/8%	15/6/2011	203 €m	188 €m
Fresenius Medical Care Capital Trust V	2001	300 €m	7 3/8%	15/6/2011	297 €m	297 Mio €
					1,083 €m	**1,033 €m**

11. Minority interests

Minority interests in the Group on June 30, 2003 and December 31, 2002 were as follows:

in million €	Dec. 31, 2002*	June 30, 2003
Minority interests in Fresenius Medical Care AG	1,688	1,612
Minority interests in the business segments		
Fresenius Medical Care	21	11
Fresenius Kabi	35	29
Fresenius ProServe	16	17
Corporate / Other	2	1
Total minority interests	**1,762**	**1,670**

* according to new organisational structure as at January 1, 2003

The minority interests decreased in the first half of 2003 by € 92 million to € 1,670 million. The change resulted from the inclusion of a portion of profits of € 91 million, reduced by dividends of € 60 million, Fresenius Medical Care’s redemption of its Class D preference shares which were issued in connection with the 1996 merger of the worldwide dialysis business of Fresenius with the dialysis business of W.R. Grace & Co. (USA) in the amount of € 8 million and negative currency effects amounting to € 115 million.

12. Shareholders’ equity

Conditional capital

With the resolution of the annual general meeting on May 28, 2003, the previous conditional capital (Conditional Capital I) of € 4,448,010.24 was reduced to € 3,296,010.24, divided into 643,752 bearer ordinary shares and 643,752 bearer preference shares. This amount is required to secure the subscription rights in connection with the stock options on bearer ordinary shares and bearer preference shares authorized by the annual general meeting on June 18, 1998.

In order to enable the 2003 share option plan to be executed, the subscribed capital was increased conditionally (Conditional Capital II) by up to € 4,608,000.00 through the issue of up to 900,000 bearer ordinary shares and 900,000 non-voting bearer preference shares. The issue of bearer ordinary shares and non-voting bearer preference shares is made at the specified conversion price. The conditional capital increase can only be carried out to the extent that the convertible bonds are issued and the owners of the convertible bonds exercise their conversion right.

Dividends

A dividend of € 1.14 for each bearer ordinary share and € 1.17 for each bearer preference share, i.e. a total amount of € 47.3 million, was agreed at the annual general meeting on May 29, 2003.

According to German stock corporation law, the basis for distributing dividends to shareholders is based upon the unconsolidated retained earnings of Fresenius AG as reported in its balance sheet determined in accordance with the German commercial code (HGB).

Earnings per share

Earnings per share, taking into consideration dilution by exercisable stock options, are as follows on June 30 of the report years:

in million €, except for amounts per share (€)	H1/2002	H1/2003
Numerators		
Net income	55	70
less		
preference on preference shares	-	-
Income (loss) available to all classes of shares	55	70
Denominators (number of shares)		
Weighted average number of shares outstanding	40,969,570	40,969,684
Weighted average number of ordinary shares outstanding	20,484,785	20,484,842
Weighted average number of preference shares outstanding	20,484,785	20,484,842
Total weighted average number of shares outstanding of all classes	40,969,570	40,969,684
Potentially dilutive ordinary shares	3,881	0
Potentially dilutive preference shares	3,881	0
Total weighted average shares outstanding of all classes assuming dilution	40,977,332	40,969,684
Total weighted average ordinary shares assuming dilution	20,488,666	20,484,842
Total weighted average preference shares assuming dilution	20,488,666	20,484,842
Basic earnings per ordinary share	1.33	1.70
Preference per preference share	0.02	0.02
Basic earnings per preference share	1.35	1.72
Fully diluted earnings per ordinary share	1.33	1.70
Preference per preference share	0.02	0.02
Fully diluted earnings per preference share	1.35	1.72

The owners of preference shares are entitled to an additional dividend of € 0.02 for each bearer preference share in the first half-year.

Earnings per share amount to € 0.83 and € 0.66 for each bearer ordinary share and € 0.84 and € 0.67 for each bearer preference share for the second quarter of 2003 and the second quarter of 2002.

13. Stock options

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)* subject to complying with additional disclosure requirements of SFAS No. 123 as amended by SFAS No. 148 *(Accounting for Stock-Based Compensation – Transaction 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 shares 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 €, excluding amounts per share (€)	**H1/2002**	**H1/2003**
Net income		
as reported	55	70
plus personnel expenses according to APB No 25	-	-
less personnel expenses according to SFAS No 123	-5	-4
pro forma	50	66
Earnings per ordinary share		
as reported	1.33	1.70
pro forma	1.22	1.61
Earnings per preference share		
as reported	1.35	1.72
pro forma	1.24	1.63
Fully diluted earnings per ordinary share		
as reported	1.33	1.70
pro forma	1.22	1.61
Fully diluted earnings per preference share		
as reported	1.35	1.72
pro forma	1.24	1.63

Stock option plan of Fresenius AG

As of June 30, 2003, the members of the Managing Board held 264,450 stock options (following the capital increase by conversion of capital reserves in the ratio of 1:1 in 2001) and managerial staff held 924,296 stock options (following the capital increase by conversion of capital reserves in the ratio of 1:1 in 2001).

Bases of the 2003 stock option plan of Fresenius AG
Authorization to issue convertible bonds
With the resolution passed by the annual general meeting on May 28, 2003, the Managing Board is, with the approval of the Supervisory Board, authorized to issue once or recurrently convertible bonds up to May 27, 2008 entitling to a total subscription of up to 900,000 bearer ordinary shares and up to 900,000 non-voting bearer preference shares with a total nominal amount of € 4,608,000.00 to members of the Managing Board, to members of the management of affiliated companies, to employees of the company and to employees of its affiliated companies. Members of the Managing Board and employees of Fresenius Medical Care AG and its affiliated companies which are only affiliated with the company through Fresenius Medical Care AG are excluded. The Supervisory Board is correspondingly authorized if members of the Managing Board of the company are involved.

Each convertible bond has a nominal value of € 2.56 and bears interest in arrears at 5.5 % p.a. The convertible bonds have a term of ten years as of grant. A convertible bond of € 2.56 entitles the holder to subscribe a bearer ordinary share or a non-voting bearer preference share of the company during a period of up to ten years as from the date on which the convertible bond was granted.

Subscribers and allocation of convertible bonds
The persons entitled to subscribe for the convertible bonds and the number and type (with or without a success target) are specified annually by the Managing Board for the group of employees and by the Supervisory Board for the group consisting of the members of the Managing Board. Convertible bonds for bearer ordinary shares and convertible bonds for non-voting bearer preference shares will always be issued in equal numbers. The group of employees include the members of management - with the exception of the members of the Managing Board of the company – managerial staff and other senior employees of Fresenius AG and its affiliated companies. Based on the dutiful discretion of the executing body granting the bonds, convertible bonds may also be granted to persons who would not be eligible for obtaining convertible bonds with respect to the applicable time period, but who are eligible with respect to another time period within the business year concerned.

The convertible bonds may either be offered as convertible bonds with a success target or as convertible bonds with no success target, whereby the convertible bonds with no success target reduce the number of convertible bonds to be acquired by 15 %.

The group of members of the Managing Board is entitled to 400,000 convertible bonds with an entitlement to subscribe to 200,000 bearer ordinary shares and the same number of non-voting bearer preference shares. The group of employees is entitled to 1,400,000 convertible bonds with an entitlement to subscribe to 700,000 bearer ordinary shares and the same number of non-voting bearer preference shares.

The statutory subscription right of shareholders is excluded.

The convertible bonds are granted on the first working day of July.

Vesting period and conversion periods
Entitled subscribers may exercise the conversion right for a third of the convertible bonds two years from the date on which the bonds were granted; the conversion right for a further third of the convertible bonds may be exercised three years after the date on which the bonds were granted and the conversion right for the remaining third of the convertible bonds may be exercised four years after the date on which the bonds were granted. Convertible bonds for bearer ordinary shares and convertible bonds for non-voting preference shares may only be exercised in equal numbers.

The conversion right may be exercised within 15 working days after the annual general meeting of the company and within 15 working days after the publication of the company’s financial results on the previous calendar quarter but not in the period from the commencement of the fiscal year up to the annual general meeting.

General conversion right prerequisites
The conversion right may basically only be exercised as long as the holder of the convertible bonds has a valid, i.e. unterminated contract of employment or service with the company or with an affiliated company.

Success target as an exercise prerequisite
A prerequisite for exercising the conversion right relating to the convertible bonds with a success target is that the success target is attained. The success target is attained if the price increase for the joint average stock exchange price of the bearer ordinary share and the non-voting bearer preference share compared with the joint average stock exchange price of the bearer ordinary share and the non-voting bearer preference share on the date on which the conversion right was granted (“Initial Value”) prior to the exercise of the respective conversion right amounted to 25 % or more for at least one day. The initial value is the joint average stock exchange price of bearer ordinary shares and non-voting bearer preference shares of the company during the last 30 days of trading before the convertible bond was granted.

Conversion price
Entitled subscribers have to pay a conversion price to the company for each bearer ordinary share and each bearer preference share when the conversion price is exercised. The conversion price for convertible bonds with no success target is equivalent to the joint average stock exchange price of the bearer ordinary share and the non-voting bearer preference share of the company during the last 30 trading days before the respective grant of the convertible bonds, less the nominal value of the converted convertible bond. The conversion price of convertible bonds with a success target is equivalent to the stock exchange price of the bearer ordinary share and the non-voting bearer preference share of the company when the success target was attained for the first time, less the nominal value of the converted convertible bond.

Fresenius Medical Care stock options

As of June 30, 2003, the members of the Fresenius Medical Care Managing Board held 350,824 stock options and managerial staff held 3,320,869 stock options.

As of June 30, 2003, 1,429,352 convertible bonds have been issued to the members of the Managing Board and managerial staff of Fresenius Medical Care under the Fresenius Medical Care 2001 International Stock Incentive Plan.

Other notes

14. 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 product liability-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 the 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 approximately 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 Holdings by plaintiffs claiming to be creditors of W.R. Grace & Co.- Conn., and by the creditors’ committee on behalf of the W.R. Grace & Co. bankruptcy estate in the Grace Chapter 11 Proceedings, alleging among other things that the Merger was a fraudulent conveyance, violated the uniform fraudulent transfer act and constituted a conspiracy. All such cases have been stayed, 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 with the asbestos creditors of W.R. & Co. Grace bankruptcy estate in the matters pending in the Grace Chapter 11 Proceedings 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. Subsequently, the settlement agreement was amended and W.R. Grace & Co. was added as a settling party. Under the terms of the Settlement Agreement as amended (the “Settlement Agreement”), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and Fresenius Medical Care will receive protection against 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 a W.R. Grace & Co. bankruptcy reorganization plan that contains such provisions. 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 has been approved by the US District Court. The foregoing summary of the material terms of the settlement is qualified in its entirety by reference to the full text of the Settlement Agreement. The Settlement Agreement has been filed with the Securities and Exchange Commission.

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 Holdings, 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 by Fresenius Medical Care relating 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.

In April 2003, Fresenius Medical Care, Fresenius Medical Care Holdings, National Medical Care and certain National Medical Care subsidiaries agreed to settle all litigation filed by a group of insurance companies concerning allegations of inappropriate billing practices and misrepresentations and Fresenius Medical Care’s counterclaims against the plaintiffs in these matters based on inappropriate claim denials and delays in claim payments. The costs of the settlement will be charged against previously established accruals (see note 2, “Special charge of Fresenius Medical Care for legal matters”). Other private payers have contacted Fresenius Medical Care regarding similar claims and may file their own lawsuit seeking reimbursement and other damages. Although the ultimate outcome on Fresenius Medical Care of any such proceedings cannot be predicted at this time, an adverse result could have a material adverse effect on Fresenius Medical Care’s business, financial condition and results of operations.

On April 4, 2003, Fresenius Medical Care filed a suit in the United States District Court for the Northern District of California, *Fresenius USA, Inc., et al., v. Baxter International Inc., et al.*, Case No. C 03-1431, seeking a declaratory judgement that Fresenius Medical Care does not infringe on patents held by Baxter International, Inc. and its subsidiaries and affiliates ("Baxter"), that the patents are invalid, and that Baxter is without right or authority to threaten or maintain suit against Fresenius Medical Care for alleged infringement of Baxter's patents. In general, the alleged patents concern touch screens, conductivity alarms, power failure data storage, and balance chambers for hemodialysis machines. Baxter has filed counterclaims against

Fresenius Medical Care seeking monetary damages and injunctive relief, and alleging that Fresenius Medical Care willfully infringes on Baxter's patents. Fresenius Medical Care believes its claims are meritorious, although the ultimate outcome of any such proceedings cannot be predicted at this time and an adverse result could have a material adverse effect on Fresenius Medical Care's business, financial condition, and results of operations.

Accrued special charge of Fresenius Medical Care for legal matters

At December 31, 2001, Fresenius Medical Care recorded a pre-tax special charge of US$ 258 million to reflect anticipated expenses associated with the continued defense and resolution of pre-merger tax claims, merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlement with insurers are 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 defense 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.

15. Reports on the segments

Segment reporting in the Fresenius Group with the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe corresponds to the internal organisational and reporting structures (Management Approach) as from January 1, 2003. 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 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 115,800 patients in its own dialysis clinics. In the United States, the range of services include apheresis and hemoperfusion services for hospitals. In the second quarter of 2003 Fresenius Medical Care acquired Fresenius AG's adsorber technology business.

Fresenius Kabi is one of Europe's leading companies in the field of infusion and nutrition therapies. The company also has leading positions in Europe in the fields of infusion and transfusion technology. The business activities of Fresenius Kabi are focussed on the therapy and care of critically-ill patients in the hospital and on follow-up care in an ambulatory environment.

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.

The Corporate/Other segment 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. It also includes the Biotech business. In addition, the segment Corporate/Other includes the consolidation measures to be carried out between 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 figures for the previous years which have been adjusted in accordance with the new organisational structure.

The tables of the segment reporting are on page 17 and 18 of this Interim Report.

Notes on the business segments

Explanations regarding the notes on the business segments can be found in the consolidated financial statements in the 2002 Annual Report.

Reconciliation of the key figures with the consolidated results:

in million €	H1/2002 *	H1/2003
Total EBITDA of reporting segments	597	544
Depreciation and amortization	-172	-153
General corporate expenses Corporate / Other	-6	-1
Interest expenses	-165	-125
Total earnings before income taxes and minority interests	**254**	**265**
Total EBIT of reporting segments	429	400
General corporate expenses Corporate / Other	-9	-10
Interest expenses	-165	-125
Total earnings before income taxes and minority interests	**255**	**265**
Depreciation and amortization of reporting segments	168	144
Depreciation and amortization of Corporate / Other	4	9
Total depreciation and amortization	**172**	**153**

* according to new organisational structure as at January 1, 2003

16. Additional information on the cash flow statement

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

in million €	H1/2002	H1/2003
Interest paid	143	130
Income taxes paid	87	47

in million €	H1/2002	H1/2003
Assets acquired	83	63
Debts assumed	-10	-19
Non-cash portions in connection with acquisitions	-7	-6
Cash paid	66	38
Cash acquired	-3	0
Net cash paid for acquisitions	**63**	**38**

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

in million €	H1/2002	H1/2003
Operating cash flow	**296**	**311**
Purchase of tangible assets	-185	-113
Proceeds from sale of tangible assets	43	10
Free cash flow before acquisitions and dividends	**154**	**208**
Acquisitions and investments, net of cash acquired	-63	-38
Free cash flow before dividends	**91**	**170**
Dividends paid	-97	-107
Free cash flow after dividends	**-6**	**63**

17. Financial instruments

General

Gains and losses arising in connection with exchange rate fluctuations are shown in the consolidated statement of income under sales and general administration expenses.

Market risks

The Fresenius Group is exposed to market risks arising from changes in interest rates and foreign exchange rates. In order to manage these risks, the Fresenius Group enters into hedging deals with investment grade financial institutions as authorized by the Managing Board. The company does not use financial instruments for trading purposes. The Fresenius Group manages its financial instrument activities under the control of a single centralized department with a few exceptions due to exchange control regulations. The Fresenius Group has established guidelines for risk assessment procedures and controls for the use of financial instruments. These guidelines include a clear separation of responsibilities with regard to execution on the one hand and administration, accounting and controlling on the other.

Foreign exchange risk management

The Euro is the reporting currency for financial reporting purposes. Exchange rate fluctuations between the Euro and the US Dollar and local currencies in which the individual annual financial statements of foreign divisions are prepared have a major effect on the results of operations and financial position as reported in the consolidated financial statements. The Fresenius Group utilizes foreign exchange forward contracts in order to secure existing and foreseeable currency risks. It is a basic principle rigorously adopted by the Fresenius Group that foreign exchange forward contracts and options are only used to hedge against foreign currency risks.

The foreign currency risks of the individual companies result from transactions such as buying and selling in foreign currencies and the granting and raising of loans and credits in foreign currencies, including loans and credits within the Group. The Fresenius Group sells products which are produced in its production units in Europe to international divisions of the Fresenius Group. These sales are generally billed in Euros. Subsidiaries are therefore exposed to foreign exchange fluctuations between the Euro and the currencies in which these subsidiaries conduct their local activities.

Changes in the market value of foreign exchange forward contracts which are used and appropriate as a cash-flow hedge for scheduled purchases of goods are reported in the 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. As at June 30, 2003, after tax gains of € 4 million (€ 6 million before tax) were deferred in accumulated other comprehensive income and will be reclassified into earnings in the statement of income in the next twelve months.

Fluctuations in the value of forward exchange contracts which are used and appropriate as a cash-flow hedge for forecasted intercompany financing transactions are reported in accumulated other comprehensive income. After tax gains of € 60 million (€ 100 million before tax) as at June 30, 2003 were deferred in accumulated other comprehensive income and will be reclassified into earnings as a component of the forecasted transaction in the same period as the forecasted transaction affects earnings.

Foreign exchange contracts contain credit risk that banks counterparties of the Fresenius Group 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 utilizes interest rate hedging instruments, especially interest rate swaps, in order to secure itself against interest rate risks, particularly relating to long 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 in interest swap agreements that are designated as a cash-flow hedge by effectively converting certain variable interest rate payments, mainly denominated in US Dollars, into fixed interest rate payments. After-tax losses of € 59 million (€ 98 million pre-tax) as at June 30, 2003 were deferred in accumulated other comprehensive income. Interest liabilities and interest receivable resulting from the swap agreement are accrued and recorded on each reporting date as an adjustment of the interest expense. The half-year results were only immaterially effected by the ineffectiveness of the hedging transactions.

The after-tax losses of € 17 million in accumulated other comprehensive income as at December 31, 2002 provided a foreign currency gain of € 2 million after tax (€ 3 million before tax).

The Fresenius Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not expect any counterparties to fail to meet their obligations. The current credit exposure of derivatives is represented by the fair value of contracts with a positive fair value at the reporting date.

18. Subsequent events after the end of the half-year 2003

The Fresenius ProServe business segment initiated a program at Wittgensteiner Kliniken AG in July 2003 with the aim of reducing costs and increasing profitability (see also page 11 of this Interim Report). The implementation of the measures will result in one-time expenses of € 25 million before tax. It is expected that annual cost savings of € 20 – 25 million will become fully effective in the 2005 financial year.

19. 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.

Contact

Fresenius AG
Investor Relations
61346 Bad Homburg v.d.H.

Telephone: +49 (0)6172 608-2485/-2486/-2487
Telefax: +49 (0)6172 608-2488

e-mail: ir-fre@fresenius.de