# Quarterly Report of Fresenius Group

applying United States Generally Accepted Accounting Principles

(US-GAAP)

## 1st Half and 2nd Quarter 2006

Fresenius
health care worldwide

# Contents

# MANAGEMENT DISCUSSION AND ANALYSIS

- **Sales: € 5.1 billion, +37 % at actual rates, +34 % in constant currency**
- **EBIT: € 681 million, +50 % at actual rates, +46 % in constant currency**
- **Net income: € 140 million, +39 % at actual rates, +36 % in constant currency**

**First half 2006:**
**Firmly on growth track**
**Excellent operating performance in all segments**
**Full-year sales and earnings forecast raised**

- Fresenius Medical Care with strong sales and earnings growth
- Fresenius Kabi in the second quarter with EBIT margin record of more than 15 %
- Fresenius ProServe fully on track
- Integration of Renal Care Group progressing well; integration of HELIOS/WKA completed

**Sales – Strong growth continues**

Group sales increased by 37 % to € 5,078 million (H1 2005: € 3,702 million). Excellent organic growth contributed 9 % to revenue growth. Acquisitions, in particular the first-time consolidation of Renal Care Group and HELIOS Kliniken in the income statement, contributed 25 %. Currency translation effects added 3 % to sales growth.

In North America, sales grew significantly due to the first-time consolidation of Renal Care Group. In addition, organic growth was excellent with 8 %. In Europe, the substantial sales increase was driven by the first-time consolidation of HELIOS Kliniken. However, underlying organic growth came in at a very good rate of 7 %. Excellent growth rates were achieved in the emerging markets, with organic growth of 24 % in Asia-Pacific and 19 % each in Latin America and Africa.

| Sales in million € | H1/2006 | H1/2005 | Change at actual rates | Currency translation effects | Change at constant rates | Organic growth | Acquisitions/ Divestitures | % of total sales |
|---|---|---|---|---|---|---|---|---|
| Europe | **2,159** | 1,454 | 48% | 0% | 48% | 7% | 41% | 43% |
| North America | **2,270** | 1,758 | 29% | 6% | 23% | 8% | 15% | 45% |
| Asia-Pacific | **330** | 246 | 34% | 4% | 30% | 24% | 6% | 6% |
| Latin America | **212** | 156 | 36% | 13% | 23% | 19% | 4% | 4% |
| Africa | **107** | 88 | 22% | 2% | 20% | 19% | 1% | 2% |
| Total | **5,078** | 3,702 | 37% | 3% | 34% | 9% | 25% | 100 % |

Sales contribution of the three business segments:

| | H1/2006 | H1/2005 |
|---|---|---|
| Fresenius Medical Care | **63%** | 69% |
| Fresenius Kabi | **18%** | 22% |
| Fresenius ProServe | **19%** | 9% |

Fresenius ProServe's increased sales contribution is the result of the consolidation of HELIOS Kliniken.

**Strong earnings growth**
Group EBIT increased by 50 % at actual rates and by 46 % in constant currency to € 681 million (H1 2005: € 453 million). The growth was driven by the successful operating performance of all business segments as well as the first-time consolidation of Renal Care Group and HELIOS Kliniken. EBIT includes a gain of € 32 million from the divestitures of dialysis clinics in the USA. The sale was a condition of the US Federal Trade Commission for the approval of the Renal Care Group acquisition. EBIT also includes a total of € 11 million one-time expenses and expenses related to the stock option accounting change.

Primarily, given the debt financing of the Renal Care Group acquisition, Group net interest increased to € -194 million (H1 2005: -97 million). This number however also includes one-time expenses of € 30 million associated with the refinancing of Group debt.

The tax rate was 41.9 % (H1 2005: 39.3 %). It was substantially influenced by the tax expense associated with the divestitures of the dialysis clinics in the USA. As the goodwill attributable to the divested clinics is not considered for tax purposes, the sale resulted in a loss of € 2 million after tax. Excluding this effect the tax rate was 36.9 %.

Minority interest was € 143 million (H1 2005: € 115 million). 94 % was attributable to the minority interest of Fresenius Medical Care.

Group net income grew by 39 % at actual rates and by 36 % in constant currency to € 140 million (H1 2005: € 101 million). This result includes one-time expenses of € 19 million, primarily for the refinancing of debt as well as for expenses related to the stock option accounting change. Thus, approximately 70 % of the expected one-time expenses for the full-year 2006 are already included in the Group net income.

Earnings per ordinary share rose to € 2.75 (H1 2005: € 2.46) while earnings per preference share rose to € 2.77 (H1 2005: € 2.48). This is an increase of 12 % for both share classes (9 % in constant currency). The average number of shares grew to 50,852,320 mainly due to the share issue in December 2005.

**Investments**
Fresenius Group spent € 225 million for property, plant and equipment and intangible assets (H1 2005: € 115 million). Acquisition spending increased to € 3,408 million due to the acquisition of Renal Care Group (H1 2005: € 227 million).

**Cash flow**
Operating cash flow increased by 17 % to € 385 million (H1 2005: € 329 million). The key driver was the significant improvement in earnings whereas the tax expense associated with the divestitures of the dialysis clinics had a negative effect. Cash flow before acquisitions and dividends was € 172 million (H1 2005: € 224 million). The acquisition of Renal Care Group was financed through bank debt.

### Solid balance sheet structure

Total assets increased by 28 % to € 14,831 million (December 31, 2005: € 11,594 million). In constant currency, total assets grew 34 %. The substantial increase is mainly related to the Renal Care Group acquisition which was consolidated in the balance sheet for the first time as of March 31, 2006. Current assets increased by 10 % to € 3,871 million (December 31, 2005: € 3,531 million). Non-current assets were € 10,960 million (H1 2005: € 8,063 million), an increase of 36 %. This was primarily due to the goodwill resulting from the Renal Care Group acquisition.

Group debt increased to € 6,154 million (December 31, 2005: € 3,502 million) due to financing of the Renal Care Group acquisition.

As of June 30, 2006, the net debt/EBITDA ratio was 3.3 (December 31, 2005: 2.3).

Shareholders' equity including minority interest grew 5 % to € 5,380 million (December 31, 2005: € 5,130 million), driven by the very good earnings development. Given the debt financing of the Renal Care Group acquisition, the equity ratio (including minority interests) decreased to 36.3 % (December 31, 2005: 44.2 %).

### Employees

As of June 30, 2006, the Group had 100,196 employees worldwide (December 31, 2005: 91,971). The increase of 8,225 employees is primarily due to the acquisition of Renal Care Group.

### Fresenius Biotech

Fresenius Biotech develops innovative therapies with trifunctional antibodies for the treatment of cancer as well as cell therapies for the treatment of the immune system. In the field of polyclonal antibodies, Fresenius Biotech has successfully marketed ATG-Fresenius S for many years. ATG-Fresenius S is an immunosuppressive agent used to prevent and treat graft rejection following organ transplantation.

Fresenius Biotech has successfully continued its clinical study program. The company reported encouraging results of a phase IIa study with the trifunctional antibody removab® in the treatment of ovarian cancer patients. Based on these results, Fresenius Biotech is planning to start a European phase II study for this indication in the second half of 2006.

A phase II study on breast cancer started in March 2006. About 40 patients will be included in the trial. A phase II study for the treatment of gastric cancer with approximately 50 patients started in June 2006. The results from the malignant ascites phase II/III study are expected at the end of this year.

For the full year 2006, Fresenius Biotech continues to expect an EBIT in the range of € -45 to -50 million, largely due to the higher expenses for expanded clinical study program.

## SECOND QUARTER 2006

Sales increased by 40 % to € 2,690 million at actual rates (Q2 2005: € 1,915 million). In constant-currency, sales increased by 39 %. Acquisitions, in particular the first-time consolidation of Renal Care Group and HELIOS Kliniken in the income statement, contributed to the growth.

EBIT increased by 62 % at actual rates to € 390 million (Q2 2005: € 241 million). In constant currency, EBIT grew 59 %. EBIT includes a gain of € 32 million from the divestitures of dialysis clinics in the USA. The sale was a condition of the US Federal Trade Commission for the approval of the Renal Care Group acquisition. EBIT also includes a total of € 7 million one-time expenses and expenses related to the stock option accounting change.

Fresenius achieved an increase of 36 % in net income from € 55 million to € 75 million. In constant currency, the increase was also 36 %. This result includes one-time expenses of € 6 million, primarily for the refinancing of debt as well as for the after-tax loss on the divestitures of dialysis clinics in the USA and for expenses related to the stock option accounting change.

Earnings per ordinary share were € 1.47 (Q2 2005: € 1.35). Earnings per preference share were € 1.48 (Q2 2005: € 1.36). This was an increase of 9 % per ordinary and preference share.

In the second quarter of 2006, Fresenius increased spending for property, plant and equipment and intangible assets by 87 % from € 67 million to € 125 million. Investments for acquisitions increased from € 46 million in the second quarter of 2005 to € 118 million in the second quarter of 2006.

## GROUP OUTLOOK 2006

**Sales and earnings forecast raised**

Given the Company's strong performance in the first half, Fresenius raises its full-year 2006 sales and earnings outlook.

Group sales are now expected to increase by approximately 35 % in constant currency to about € 10.7 billion. Net income is projected to grow by about 40 % in constant currency. The net income guidance already includes an amount of approximately € 27 million (after tax) associated with expected one-time expenses as well as expenses related to the stock option accounting change. Previously, the Company had expected net income growth to exceed 30 %. Earnings per share are now projected to increase by approximately 15 % in constant currency. Previously, earnings per share growth of around 10 % had been projected.

For divisional outlook information please see pages 7 to 9 of this report.

## SUPERVISORY BOARD

The Management Board, Supervisory Board and employees of the Fresenius Group mourn the passing of former Chairman of the Management Board and Honorary Chairman of the Supervisory Board, Dr. Hans Kröner, who died on June 27, 2006 at the age of 96. Dr. Hans Kröner dedicated more than 40 years of his professional life to Fresenius until his retirement in 1992. His commitment was instrumental in the development of the company.

# BUSINESS SEGMENT FRESENIUS MEDICAL CARE

**Fresenius Medical Care is the world's leading provider of products and services for patients with chronic kidney failure. As of June 30, 2006, Fresenius Medical Care (incl. Renal Care Group and after divestitures) was serving approximately 161,675 patients in 2,078 dialysis clinics.**

| in million US$ | Q2/2006 | Q2/2005 | Change in % | H1/2006[1] | H1/2006 | H1/2005 | Change in %[1] |
|---|---|---|---|---|---|---|---|
| Sales | **2,165** | 1,674 | 29 | **3,912** | 3,912 | 3,283 | 19 |
| EBITDA | **452** | 299 | 51 | **728** | 757 | 579 | 26 |
| EBIT | **372** | 238 | 56 | **587** | 616 | 458 | 28 |
| Net income | **130** | 116 | 12 | **266** | 246 | 223 | 19 |
| Employees | | | | **58,394** | 58,394 | 50,250 | 16 |
| | | | | **(Jun 30, 2006)** | (Jun 30, 2006) | (Dec 31, 2005) | |

[1] before one-time expenses, expenses related to the stock option accounting change and the effect of the FTC-related clinic divestment in the USA

**First half of 2006**

- Strong sales and earnings growth in all regions
- Renal Care Group integration well under way and on track
- Outlook for 2006 upgraded

Fresenius Medical Care achieved strong sales growth of 19 % to US$ 3,912 million (H1 2005: US$ 3,283 million). This was driven by both the excellent operating performance and the first-time consolidation of Renal Care Group in the income statement. Organic growth reached 9 %. Sales in dialysis care increased by 24 % to US$ 2,924 million (H1 2005: US$ 2,363 million). In dialysis products, Fresenius Medical Care achieved sales of 988 million US$ (H1 2005: US$ 920 million), an increase of 7 % (10 % in constant currency).

In North America, Fresenius Medical Care increased sales by 24 % to US$ 2,754 million (H1 2005: US$ 2,215 million). Organic growth reached 8 %. Sales outside North America ("International") grew by 8 % (12 % in constant currency) to US$ 1,158 million (H1 2005: US$ 1,068 million).

Net income increased by 10 % to US$ 246 million (H1 2005: US$ 223 million). This result includes one-time expenses of US$ 20 million primarily for the refinancing of Fresenius Medical Care debt, for expenses related to the stock option accounting change as well as for the after-tax loss on the divestitures of dialysis clinics in the USA. Excluding the above effects net income was up 19 % to US$ 266 million.

**Second quarter of 2006**

Sales in the second quarter of 2006 increased 29 % (30 % in constant currency) to US$ 2,165 million (Q2 2005: US$ 1,674 million). Excluding Renal Care Group and the divested dialysis clinics in the USA, sales for the second quarter 2006 grew by 9 %.

Net income for the second quarter 2006 was US$ 130 million, an increase of 12 %. (Q2 2005: US$ 116 million). Excluding one-time expenses and expenses related to the stock option accounting change as well as the loss on the divestitures of dialysis clinics in the USA net income increased by 19 % to US$ 139 million.

**Full-year 2006 outlook**

Based on the strong performance in the first half of 2006, Fresenius Medical Care upgrades its guidance for the full year 2006. After expecting to report a revenue of about US$ 8.1 billion, the company now expects a revenue for 2006 of about US$ 8.3 billion.

Fresenius Medical Care also upgrades its outlook for reported net income for 2006. After expecting a net income between US$ 515 million and US$ 535 million, the company now expects to report a net income of at least US$ 542 million, which represents an increase of at least 15% over the 2005 level.

In order to show the underlying performance of Fresenius Medical Care, the guidance provided does not take into effect any expected one-time items and the stock option accounting change. After previously assuming the after-tax impact of one-time items and the stock option accounting change to be about US$ 60 million Fresenius Medical Care now expects this impact to be about US$ 40 million for the full year 2006.

For further information, please see Fresenius Medical Care's website: www.fmc-ag.com.

# BUSINESS SEGMENT FRESENIUS KABI

**Fresenius Kabi offers infusion therapies and clinical nutrition for seriously and chronically ill patients in the hospital and out-patient environments. The company is also a leading provider of transfusion technology products.**

| in million € | **Q2/2006** | Q2/2005 | Change in % | **H1/2006** | H1/2005 | Change in % |
|---|---|---|---|---|---|---|
| Sales | **471** | 420 | 12 | **937** | 818 | 15 |
| EBITDA | **90** | 79 | 14 | **177** | 150 | 18 |
| EBIT | **71** | 58 | 22 | **139** | 110 | 26 |
| Net income | **34** | 27 | 26 | **60** | 51 | 18 |
| Employees | | | | **15,345** | 14,453 | 6 |
| | | | | **(Jun 30, 2006)** | (Dec 31, 2005) | |

**First half of 2006**

- Strong organic sales growth of 8 %
- Record EBIT margin of more than 15 % in the second quarter
- Sales and earnings outlook for 2006 raised

Fresenius Kabi's sales increased by 15 % to € 937 million (H1 2005: € 818 million). The company achieved strong organic growth of 8 %. Acquisitions, primarily Clinico and the first-time consolidation of Pharmatel, contributed 4 % to sales. Currency translation added a further 3 %.

Sales in Europe (excluding Germany) increased by 9 %, in Germany by 5 %.

Fresenius Kabi did extremely well in the emerging markets outside Europe and achieved sales growth of 44 % in Asia-Pacific, 36 % in Latin America and 25 % in the other regions. Organic growth in the regions outside Europe was well into the double digits.

Fresenius Kabi showed an excellent performance at the EBIT level, with an increase of 26 % to € 139 million (H1 2005: € 110 million). The EBIT margin improved by 140 basis points to 14.8 % (H1 2005: 13.4 %). Net profit rose by 18 % to € 60 million (H1 2005: € 51 million). This already includes one-time expenses of € 11 million for the early redemption of the 2003 Eurobond.

**Second quarter of 2006**

Sales in the second quarter of 2006 increased by 12 % to € 471 million (Q2 2005: € 420 million).

EBIT increased 22 % to € 71 million (Q2 2005: € 58 million). Fresenius Kabi reached a quarterly all-time high EBIT margin of 15.1 % (Q2 2005: 13.8 %).

**Full-year 2006 outllok**

Based on the excellent performance in the first half, Fresenius Kabi raises its EBIT margin outlook for the full year 2006 from previously 14.5-15.0 % to now >15 %.

The company now expects sales growth of 11 to 12 % in constant currency. Previously, growth of around 10 % had been projected.

# BUSINESS SEGMENT FRESENIUS PROSERVE

**Fresenius ProServe is a leading German hospital operator with more than 50 clinics. Moreover, the company offers engineering and services for hospitals and other health care facilities as well as for the pharmaceutical industry.**

| in million € | **Q2/2006** | Q2/2005[1] | Change in %[1] | **H1/2006** | H1/2005[1] | H1/2005[2] | Change in %[1] |
|---|---|---|---|---|---|---|---|
| Sales | **498** | 473 | 5 | **974** | 942 | 350 | 3 |
| EBITDA | **47** | 40 | 18 | **90** | 80 | 19 | 13 |
| EBIT | **32** | 27 | 19 | **62** | 54 | 7 | 15 |
| Net income | **12** | 7 | 71 | **23** | 15 | -1 | 53 |
| Employees | | | | **25,844 (Jun 30, 2006)** | 26,664 (Dec 31, 2005) | 26,664 (Dec 31, 2005) | -3 |

[1] including HELIOS Kliniken
[2] as reported

**First half of 2006**

- Very good performance in hospital operations
- Strong order intake in the engineering & services businesses
- Outlook for 2006 fully confirmed

Fresenius ProServe achieved excellent financial results. Sales grew by 3 % to € 974 million (H1 2005 incl. HELIOS Kliniken: € 942 million). Organic growth amounted to 4 %. On a comparable basis, EBIT increased by 15 % to € 62 million (H1 2005 incl. HELIOS Kliniken: € 54 million).

Sales in hospital operations (HELIOS Kliniken Group) amounted to € 767 million (H1 2005: € 765 million). Organic growth was 2 %. EBIT increased to € 56 million, the EBIT margin improved to 7.3 % (H1 2005 incl. HELIOS Kliniken: € 48 million and 6.3 %). The integration of WKA into HELIOS Kliniken Group was successfully completed. The focus is now on continued efficiency improvements at the WKA clinics and on further growth through privatization in the German hospital market.

Sales in the engineering and services business (VAMED, Pharmaplan) increased 17 % to € 207 million (H1 2005: € 177 million). EBIT rose 50 % to € 9 million (H1 2005: € 6 million). Order intake and order backlog continued to develop very positively. Order intake increased by 19 % to € 185 million (H1 2005: € 156 million). Order backlog rose 14 % to € 409 million as of June 30, 2006 (December 31, 2005: € 360 million).

In March 2006, HELIOS Kliniken agreed to acquire HUMAINE Kliniken GmbH. HUMAINE operates six acute and post-acute care hospitals with a total of 1,850 beds. The transaction is expected to be completed in the third quarter. The acquisition of HUMAINE will be accretive to Fresenius Group's earnings per share in the fiscal year 2006 already.

**Second quarter of 2006**

In the second quarter of 2006, Fresenius ProServe achieved sales of € 498 million (Q2 2005 incl. HELIOS Kliniken: € 473 million). On a comparable basis, sales ncreased by 5 %.

EBIT increased to € 32 million (Q2 2005 incl. HELIOS Kliniken: € 27 million).

**Full-year 2006 outlook**

Fresenius ProServe confirms its 2006 full-year outlook and expects revenue growth of 1 to 3 % before acquisitions, based on 2005 revenues including HELIOS of € 2,009 million.

EBIT is forecast to rise to € 140 to 150 million (2005 incl. HELIOS: € 125 million).

# FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

| in million € | **Q2/2006** | Q2/2005 | **H1/2006** | H1/2005 |
|---|---|---|---|---|
| Sales | **2,690** | 1,915 | **5,078** | 3,702 |
| Cost of goods sold | **-1,844** | -1,298 | **-3,496** | -2,486 |
| **Gross profit** | **846** | 617 | **1,582** | 1,216 |
| Selling, general and administrative expenses | **-417** | -341 | **-827** | -695 |
| Research and development expenses | **-39** | -35 | **-74** | -68 |
| **Operating income (EBIT)** | **390** | 241 | **681** | 453 |
| Net interest | **-110** | -50 | **-194** | -97 |
| **Earnings before income taxes and minority interest** | **280** | 191 | **487** | 356 |
| Income taxes | **-128** | -75 | **-204** | -140 |
| Minority interest | **-77** | -61 | **-143** | -115 |
| **Net income** | **75** | 55 | **140** | 101 |
| **Basic earnings per ordinary share in €** | **1.47** | 1.35 | **2.75** | 2.46 |
| **Fully diluted earnings per ordinary share in €** | **1.46** | 1.34 | **2.72** | 2.44 |
| **Basic earnings per preference share in €** | **1.48** | 1.36 | **2.77** | 2.48 |
| **Fully diluted earnings per preference share in €** | **1.47** | 1.35 | **2.74** | 2.46 |

See accompanying Notes to the unaudited consolidated financial statements.

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

| in million € | June 30, 2006 | Dec 31, 2005 |
|---|---|---|
| Cash and cash equivalents | 253 | 252 |
| Trade accounts receivable, less allowances for doubtful accounts | 2,017 | 1,871 |
| Accounts receivable and loans from related parties | 10 | 15 |
| Inventories | 803 | 727 |
| Prepaid expenses and other current assets | 566 | 478 |
| Deferred taxes | 222 | 188 |
| **I. Total current assets** | **3,871** | 3,531 |
| Property, plant and equipment | 2,577 | 2,356 |
| Goodwill | 7,222 | 4,680 |
| Other intangible assets | 531 | 541 |
| Other non-current assets | 478 | 359 |
| Deferred taxes | 152 | 127 |
| **II. Total non-current assets** | **10,960** | 8,063 |
| **Total assets** | **14,831** | 11,594 |
| | | |
| Trade accounts payable | 327 | 353 |
| Short-term accounts payable to related parties | 3 | 2 |
| Short-term accrued expenses and other current liabilities | 1,785 | 1,522 |
| Short-term borrowings | 285 | 224 |
| Short-term liabilities and loans from related parties | – | 1 |
| Current portion of long-term debt and capital lease obligations | 325 | 222 |
| Accruals for income taxes | 183 | 146 |
| Deferred taxes | 34 | 27 |
| **A. Total short-term liabilities** | **2,942** | 2,497 |
| Long-term debt and capital lease obligations, less current portion | 4,586 | 2,055 |
| Long-term liabilities and loans from related parties | – | – |
| Long-term accrued expenses and other long-term liabilities | 306 | 304 |
| Pension obligations | 307 | 305 |
| Deferred taxes | 352 | 303 |
| Trust preferred securities of Fresenius Medical Care Capital Trusts | 958 | 1,000 |
| **B. Total long-term liabilities** | **6,509** | 3,967 |
| **I. Total liabilities** | **9,451** | 6,464 |
| **II. Minority interest** | **2,429** | 2,289 |
| Subscribed capital | 130 | 130 |
| Capital reserve | 1,665 | 1,546 |
| Other reserves | 1,125 | 1,061 |
| Accumulated other comprehensive income | 31 | 104 |
| **III. Total shareholders' equity** | **2,951** | 2,841 |
| **Total liabilities and shareholders' equity** | **14,831** | 11,594 |

See accompanying Notes to the unaudited consolidated financial statements.

## CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

| in million € | **H1/2006** | H1/2005 |
|---|---|---|
| **Cash provided by/used for operating activities** | | |
| Net income | **140** | 101 |
| Minority interest | **143** | 115 |
| **Adjustments to reconcile net income to cash and cash equivalents provided by operating activities** | | |
| Depreciation and amortization | **186** | 151 |
| Loss on sale of investments | **4** | 0 |
| Change in deferred taxes | **-32** | 12 |
| Gain/loss on sale of fixed assets | **–** | -1 |
| **Change in assets and liabilities, net of amounts from businesses acquired or disposed of** | | |
| Change in trade accounts receivable, net | **17** | -3 |
| Change in inventories | **-75** | -52 |
| Change in prepaid expenses and other current and non-current assets | **-65** | -60 |
| Change in accounts receivable from/payable to related parties | **3** | 5 |
| Change in trade accounts payable, accruals and other short-term and long-term liabilities | **84** | 86 |
| Change in accruals for income taxes | **41** | -25 |
| Tax payments related to divestitures and acquisitions | **-61** | 0 |
| **Cash provided by operating activities** | **385** | 329 |
| **Cash provided by/used for investing activities** | | |
| Purchase of property, plant and equipment | **-225** | -115 |
| Proceeds from the sale of property, plant and equipment | **12** | 10 |
| Acquisitions and investments, net of cash acquired | **-3,427** | -182 |
| Proceeds from divestitures | **412** | 0 |
| **Cash used for investing activities** | **-3,228** | -287 |
| **Cash provided by/used for financing activities** | | |
| Proceeds from short-term borrowings | **43** | 191 |
| Repayments of short-term borrowings | **-80** | -41 |
| Proceeds from borrowings from related parties | **3** | 0 |
| Repayments of borrowings from related parties | **0** | -2 |
| Proceeds from long-term debt and capital lease obligations | **4,257** | – |
| Repayments of long-term debt and capital lease obligations | **-1,603** | -91 |
| Changes of accounts receivable facility | **106** | 21 |
| Proceeds from the exercise of stock options | **38** | 10 |
| Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares | **260** | 0 |
| Dividends paid | **-154** | -127 |
| Change in minority interest | **-5** | – |
| Exchange rate effect due to corporate financing | **-10** | -1 |
| **Cash provided by/used for financing activities** | **2,855** | -40 |
| **Effect of exchange rate changes on cash and cash equivalents** | **-11** | 7 |
| **Net increase in cash and cash equivalents** | **1** | 9 |
| **Cash and cash equivalents at the beginning of the reporting period** | **252** | 140 |
| **Cash and cash equivalents at the end of the reporting period** | **253** | 149 |

See accompanying Notes to the unaudited 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 of December 31, 2004** | **20,486** | **52,443** | **20,486** | **52,443** | **104,886** | **105** |
| Proceeds from the exercise of stock options | 32 | 82 | 32 | 82 | 164 | – |
| Compensation expense related to stock options | | | | | | |
| Dividends paid | | | | | | |
| Comprehensive income (loss) | | | | | | |
| Net income | | | | | | |
| Other comprehensive income (loss) related to | | | | | | |
| Cash flow hedges | | | | | | |
| Foreign currency translation | | | | | | |
| Minimum pension liability | | | | | | |
| Comprehensive income (loss) | | | | | | |
| **As of June 30, 2005** | **20,518** | **52,525** | **20,518** | **52,525** | **105,050** | **105** |
| | | | | | | |
| **As of December 31, 2005** | **25,361** | **64,924** | **25,361** | **64,924** | **129,848** | **130** |
| Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares | | | | | | |
| Proceeds from the exercise of stock options | 107 | 274 | 107 | 274 | 548 | – |
| Compensation expense related to stock options | | | | | | |
| Dividends paid | | | | | | |
| Comprehensive income (loss) | | | | | | |
| Net income | | | | | | |
| Other comprehensive income (loss) related to | | | | | | |
| Cash flow hedges | | | | | | |
| Foreign currency translation | | | | | | |
| Minimum pension liability | | | | | | |
| Comprehensive income (loss) | | | | | | |
| **As of June 30, 2006** | **25,468** | **65,198** | **25,468** | **65,198** | **130,396** | **130** |

See accompanying Notes to the unaudited consolidated financial statements.

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

| | Reserves | | Other comprehensive income (loss) | | | |
|---|---|---|---|---|---|---|
| in million € | Capital reserve | Other reserves | Foreign currency translation | Cash flow hedges | Pensions | Total |
| **As of December 31, 2004** | **645** | **895** | **20** | **-18** | **-44** | **1,603** |
| Proceeds from the exercise of stock options | 4 | | | | | 4 |
| Compensation expense related to stock options | 2 | | | | | 2 |
| Dividends paid | | -56 | | | | -56 |
| Comprehensive income (loss) | | | | | | |
| Net income | | 101 | | | | 101 |
| Other comprehensive income (loss) related to | | | | | | |
| Cash flow hedges | | | | -3 | | -3 |
| Foreign currency translation | | | 113 | | | 113 |
| Minimum pension liability | | | | | -3 | -3 |
| Comprehensive income (loss) | 0 | 101 | 113 | -3 | -3 | 208 |
| **As of June 30, 2005** | **651** | **940** | **133** | **-21** | **-47** | **1,761** |
| | | | | | | |
| **As of December 31, 2005** | **1,546** | **1,061** | **161** | **14** | **-71** | **2,841** |
| Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares | 94 | | | | | 94 |
| Proceeds from the exercise of stock options | 20 | | | | | 20 |
| Compensation expense related to stock options | 5 | | | | | 5 |
| Dividends paid | | -76 | | | | -76 |
| Comprehensive income (loss) | | | | | | |
| Net income | | 140 | | | | 140 |
| Other comprehensive income (loss) related to | | | | | | |
| Cash flow hedges | | | | 41 | | 41 |
| Foreign currency translation | | | -118 | | | -118 |
| Minimum pension liability | | | | | 4 | 4 |
| Comprehensive income (loss) | 0 | 140 | -118 | 41 | 4 | 67 |
| **As of June 30, 2006** | **1,665** | **1,125** | **43** | **55** | **-67** | **2,951** |

See accompanying Notes to the unaudited consolidated financial statements.

## SEGMENT REPORTING FIRST HALF

| | Fresenius Medical Care | | | Fresenius Kabi | | | Fresenius ProServe | | | Corporate/Other | | | Fresenius Group | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| by business segments, in million € | **2006** | 2005 | Change | **2006** | 2005 | Change | **2006** | 2005 | Change | **2006** | 2005 | Change | **2006** | 2005 | Change |
| Sales | **3,182** | 2,555 | 25% | **937** | 818 | 15% | **974** | 350 | 178% | **-15** | -21 | 29% | **5,078** | 3,702 | 37% |
| thereof contribution to consolidated sales | **3,180** | 2,542 | 25% | **919** | 804 | 14% | **971** | 348 | 179% | **8** | 8 | 0% | **5,078** | 3,702 | 37% |
| thereof intercompany sales | **2** | 13 | -85% | **18** | 14 | 29% | **3** | 2 | 50% | **-23** | -29 | 21% | **0** | 0 | |
| contribution to consolidated sales | **63%** | 69% | | **18%** | 22% | | **19%** | 9% | | **0%** | 0% | | **100%** | 100% | |
| EBITDA | **616** | 451 | 37% | **177** | 150 | 18% | **90** | 19 | -- | **-16** | -16 | 0% | **867** | 604 | 44% |
| Depreciation and amortization | **115** | 94 | 22% | **38** | 40 | -5% | **28** | 12 | 133% | **5** | 5 | 0% | **186** | 151 | 23% |
| EBIT | **501** | 357 | 40% | **139** | 110 | 26% | **62** | 7 | -- | **-21** | -21 | 0% | **681** | 453 | 50% |
| Net interest | **-127** | -66 | -92% | **-43** | -26 | -65% | **-21** | -5 | -- | **-3** | 0 | -- | **-194** | -97 | -100% |
| Net income | **200** | 174 | 15% | **60** | 51 | 18% | **23** | -1 | -- | **-143** | -123 | -16% | **140** | 101 | 39% |
| Operating cash flow | **266** | 209 | 27% | **80** | 105 | -24% | **68** | 32 | 113% | **-29** | -17 | -71% | **385** | 329 | 17% |
| Cash flow before acquisitions and divdends | **136** | 133 | 2% | **44** | 86 | -49% | **27** | 27 | 0% | **-35** | -22 | -59% | **172** | 224 | -23% |
| Debt[1] | **4,482** | 1,857 | 141% | **954** | 903 | 6% | **853** | 229 | -- | **-135** | 513 | -126% | **6,154** | 3,502 | 76% |
| Total assets[1] | **9,944** | 6,767 | 47% | **1,941** | 1,867 | 4% | **2,906** | 2,859 | 2% | **40** | 101 | -60% | **14,831** | 11,594 | 28% |
| Capital expenditure | **141** | 81 | 74% | **37** | 23 | 61% | **41** | 6 | -- | **6** | 5 | 20% | **225** | 115 | 96% |
| Acquisitions | **3,400** | 40 | -- | **8** | 186 | -96% | **–** | 1 | -100% | **0** | 0 | 0% | **3,408** | 227 | -- |
| Research and development expenses | **21** | 21 | 0% | **32** | 28 | 14% | **–** | 0 | -- | **21** | 19 | 11% | **74** | 68 | 9% |
| Employees (per capita on balance sheet date)[1] | **58,394** | 50,250 | 16% | **15,345** | 14,453 | 6% | **25,844** | 26,664 | -3% | **613** | 604 | 1% | **100,196** | 91,971 | 9% |
| Key figures | | | | | | | | | | | | | | | |
| EBITDA margin | **19.4%** | 17.7% | | **18.9%** | 18.3% | | **9.2%** | 5.4% | | | | | **17.1%** | 16.3% | |
| EBIT margin | **15.7%** | 14.0% | | **14.8%** | 13.4% | | **6.4%** | 2.0% | | | | | **13.4%** | 12.2% | |
| ROOA[1] | **10.3%[2]** | 12.6% | | **16.5%** | 14.5% | | **5.9%** | 3.6%[3] | | | | | **9.9%[2]** | 11.7%[3] | |
| Depreciation and amortization in % of sales | **3.6%** | 3.7% | | **4.1%** | 4.9% | | **2.9%** | 3.4% | | | | | **3.7%** | 4.1% | |

[1] 2005: December 31
[2] calculation is based on the pro forma EBIT which does not include the gain on the sale of Fresenius Medical Care dialysis clinics (see Note 3, Divestitures)
[3] operating assets excluding HELIOS Klinken

## SEGMENT REPORTING SECOND QUARTER

| by business segments, in million € | Fresenius Medical Care 2006 | 2005 | Change | Fresenius Kabi 2006 | 2005 | Change | Fresenius ProServe 2006 | 2005 | Change | Corporate/Other 2006 | 2005 | Change | Fresenius Group 2006 | 2005 | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | **1,729** | 1,327 | 30% | **471** | 420 | 12% | **498** | 179 | 178% | **-8** | -11 | 27% | **2,690** | 1,915 | 40% |
| thereof contribution to consolidated sales | **1,727** | 1,320 | 31% | **462** | 413 | 12% | **496** | 178 | 179% | **5** | 4 | 25% | **2,690** | 1,915 | 40% |
| thereof intercompany sales | **2** | 7 | -71% | **9** | 7 | 29% | **2** | 1 | 100% | **-13** | -15 | 13% | **0** | 0 | |
| contribution to consolidated sales | **64%** | 69% | | **17%** | 22% | | **19%** | 9% | | **0%** | 0% | | **100%** | 100% | |
| EBITDA | **362** | 238 | 52% | **90** | 79 | 14% | **47** | 10 | -- | **-9** | -7 | -29% | **490** | 320 | 53% |
| Depreciation and amortization | **64** | 49 | 31% | **19** | 21 | -10% | **15** | 6 | 150% | **2** | 3 | -33% | **100** | 79 | 27% |
| EBIT | **298** | 189 | 58% | **71** | 58 | 22% | **32** | 4 | -- | **-11** | -10 | -10% | **390** | 241 | 62% |
| Net interest | **-80** | -34 | -135% | **-17** | -14 | -21% | **-11** | -2 | -- | **-2** | 0 | -- | **-110** | -50 | -120% |
| Net income | **103** | 92 | 12% | **34** | 27 | 26% | **12** | 0 | -- | **-74** | -64 | -16% | **75** | 55 | 36% |
| Operating cash flow | **131** | 104 | 26% | **52** | 67 | -22% | **31** | 14 | 121% | **-15** | -24 | 38% | **199** | 161 | 24% |
| Cash flow before acquisitions and divdends | **55** | 58 | -5% | **34** | 55 | -38% | **11** | 11 | 0% | **-19** | -26 | 27% | **81** | 98 | -17% |
| Capital expenditure | **83** | 48 | 73% | **19** | 12 | 58% | **20** | 4 | -- | **3** | 3 | 0% | **125** | 67 | 87% |
| Acquisitions | **115** | 23 | -- | **3** | 23 | -87% | **–** | 0 | -- | **0** | 0 | 0% | **118** | 46 | 157% |
| Research and development expenses | **11** | 11 | 0% | **17** | 14 | 21% | **–** | 0 | -- | **11** | 10 | 10% | **39** | 35 | 11% |
| Key figures | | | | | | | | | | | | | | | |
| EBITDA margin | **20.9%** | 17.9% | | **19.1%** | 18.8% | | **9.4%** | 5.6% | | | | | **18.2%** | 16.7% | |
| EBIT margin | **17.2%** | 14.2% | | **15.1%** | 13.8% | | **6.4%** | 2.2% | | | | | **14.5%** | 12.6% | |
| Depreciation and amortization in % of sales | **3.7%** | 3.7% | | **4.0%** | 5.0% | | **3.0%** | 3.4% | | | | | **3.7%** | 4.1% | |

# Notes – Contents

## 1. PRINCIPLES

**I. Group structure**
Fresenius is a health care Group with products and services for dialysis, the hospital and the medical care of patients at home. Further areas of activity are hospital management as well as engineering and services for hospitals and health care facilities as well as the pharmaceutical industry. In addition to the activities of the Fresenius AG, the operating activities are split into the following legally-independent business segments (subgroups) as of June 30, 2006:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

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

**II. Transformation of Fresenius Medical Care AG's legal form and conversion of its preference shares**
On February 10, 2006, Fresenius Medical Care completed a transformation of its legal form under German law as approved by its shareholders during an Extraordinary General Meeting held on August 30, 2005 (EGM). Upon registration of the transformation of legal form in the commercial register of the local court in Hof an der Saale on February 10, 2006, Fresenius Medical Care AG's legal form was changed from a stock corporation (Aktiengesellschaft) to a partnership limited by shares (Kommanditgesellschaft auf Aktien) with the name Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA). Fresenius Medical Care as a KGaA is the same legal entity under German law, rather than a successor to the AG. Fresenius Medical Care Management AG, a wholly-owned subsidiary of Fresenius AG, the majority voting shareholder of Fresenius Medical Care AG prior to the transformation, is the general partner of FMC-AG & Co. KGaA. Upon effectiveness of the transformation of legal form, the share capital of Fresenius Medical Care AG became the share capital of FMC-AG & Co. KGaA, and persons who were shareholders of Fresenius Medical Care AG became shareholders of the company in its new legal form.

This transformation of legal form has no impact on the consolidation of Fresenius Medical Care in the consolidated financial statement of the Fresenius Group.

Prior to registration of the transformation of legal form, Fresenius Medical Care AG offered holders of its non-voting preference shares (including preference shares represented by American Depositary Shares (ADSs)) the opportunity to convert their shares into ordinary shares at a conversion ratio of one preference share plus a conversion premium of € 9.75 per ordinary share. Fresenius Medical Care received a total of € 260 million in premiums from the holders upon the conversion of their preference shares.

Several ordinary shareholders challenged the resolutions adopted at the EGM approving the conversion of the preference shares into ordinary shares, the adjustment of the employee participation programs, the creation of authorized capital and the transformation of the legal form of Fresenius Medical Care AG, with the objective of having the resolutions declared null and void. On December 19, 2005 Fresenius Medical Care AG and the claimants agreed to a settlement with the participation of Fresenius AG and Fresenius Medical Care Management AG and all proceedings were terminated.

Pursuant to the settlement, Fresenius Medical Care Management AG undertook to (i) make an ex gratia payment to the ordinary shareholders of Fresenius Medical Care (other than Fresenius AG) of € 0.12 for every share issued as an ordinary share up to August 30, 2005 and (ii) to pay to ordinary shareholders who, at the EGM of August 30, 2005, voted against the conversion proposal, an additional € 0.69 per ordinary share. Ordinary shareholders who were shareholders at the close of business on the day of registration of the conversion and transformation with the commercial register were entitled to a payment under (i) above. Ordinary shareholders who voted against the conversion resolution in the extraordinary general meeting on August 30, 2005, as evidenced by the voting cards held by FMC-AG & Co. KGaA, were entitled to a payment under (ii) above, but only in respect of shares voted against the conversion resolution. The right to receive payment under (ii) has lapsed as to any shareholder who did not make a written claim for payment with Fresenius Medical Care by February 28, 2006.

Fresenius Medical Care also agreed to bear court fees and shareholder legal expenses in connection with the settlement. The total costs of the settlement were estimated to be approximately € 5.9 million. A further part of the settlement agreement and German law require that these costs be borne by Fresenius AG and Fresenius Medical Care Management AG. The actual total costs of the settlement were € 5.2 million. The difference of € 0.7 million was recorded as a Selling, general and administrative expense reduction during the period ending March 31, 2006.

As part of the settlement, Fresenius Medical Care, with the participation of Fresenius AG and Fresenius Medical Care Management AG, also agreed to establish, at the first ordinary general meeting after registration of the transformation of legal form, a joint committee (the Joint Committee) (gemeinsamer Ausschuss) of the supervisory boards of Fresenius Medical Care Management AG and FMC-AG & Co. KGaA with authority to advise and decide on certain significant transactions between FMC-AG & Co. KGaA and Fresenius AG and to approve certain significant acquisitions, dispositions, spin-offs and similar matters. FMC-AG & Co. KGaA also agreed to establish an Audit and Corporate Governance Committee of the FMC-AG & Co. KGaA Supervisory Board to review the report of Fresenius Medical Care Management AG on relations with related parties and report to the overall supervisory board thereon. Additionally, Fresenius Medical Care Management AG undertook in this settlement to provide data on the individual remuneration of its management board members according to provisions of the German Commercial Code, commencing with remuneration paid for the year ending December 31, 2006.

## III. Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with the United States Generally Accepted Accounting Principles (US GAAP).

From January 1, 2005 on, Fresenius AG as a stock exchange listed company in a member state of the European Union has to prepare and to publish the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applying § 315a of the German Commercial Code (HGB). The Fresenius Group continues to prepare and publish the consolidated financial statements in accordance with US GAAP and in addition will prepare and publish the consolidated financial statements according to IFRS as legally required.

## IV. Significant accounting principles

### Consolidation principles

The consolidated financial statements for the first half-year and the second quarter ended June 30, 2006 have not been audited or reviewed and should be read in conjunction with the notes included in the consolidated financial statements as of December 31, 2005, published in the 2005 Annual Report. There have been no major other changes in the entities consolidated in addition to the reported acquisitions (see Note 2, Acquisitions).

The consolidated financial statements for the first half-year and the second quarter ended June 30, 2006 include all adjustments that, in the opinion of the Management Board, are of a normal and recurring nature, necessary to provide an appropriate view of the assets and liabilities, financial position and results of operations of the Fresenius Group.

The results of operations for the first half-year and the second quarter of 2006 are not necessarily indicative of the results of operations for the fiscal year 2006 ending December 31, 2006.

### Classification

Certain items in the previous year’s consolidated financial statements have been reclassified to conform with the current year’s presentation. In the first half-year of 2005, the reclassification includes € 46 million relating to rents for clinics of Fresenius Medical Care which were removed from selling, general and administrative expenses and included in its cost of goods sold.

### V. Change in accounting principles

In December 2004, the Financial Accounting Standards Board issued its final standard on accounting for share-based payments, SFAS No. 123(R) (Share-Based Payment (SBP) (revised 2004)). On April 14, 2005, the Securities and Exchange Commission (SEC) delayed the implementation of SFAS No. 123(R) to the beginning of the next fiscal year that begins after June 15, 2005. SFAS No. 123(R) requires companies to recognize the cost in its financial statements resulting from the exchange of its equity shares, equity share options or other equity instruments in return for goods or services from suppliers or employees, a SBP, at fair value on the grant date of SBP awards. Fair value of the SBP awards will be estimated using an option-pricing model that appropriately reflects the specific circumstances and economics of the awards. Compensation cost for the SBP awards will be recognized over the vesting period based upon an estimate of the number of awards expected to vest. Effective January 1, 2006, the Fresenius Group adopted the provisions of SFAS No. 123(R) using the modified prospective method for all awards granted, modified or settled on or after January 1, 2006. Under this method, unvested SBP awards granted prior to the effective date of the new statement are accounted for under SFAS No. 123(R), and related costs are recognized in the income statement. Before January 1, 2006 awards were accounted for under the intrinsic value based recognition and measurement provisions of APB No. 25 (Accounting for Stock Issued to Employees), and related Interpretations. Under APB No. 25, compensation cost, if any, is measured based on the excess of the quoted market price at grant date over the amount an employee must pay to acquire the stock.

In June, 2006, the Financial Accounting Standards Board issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No. 109, Accounting for Income Taxes. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition: The enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement: A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one of the following:

a) An increase in a liability for income taxes payable or a reduction of an income tax refund receivable;
b) A reduction in a deferred tax asset or an increase in a deferred tax liability; or
c) Both a) and b).

An enterprise that presents a classified statement of financial position should classify a liability for unrecognized tax benefits as current to the extent that the enterprise anticipates making a payment within one year or the operating cycle, if longer. An income tax liability should not be classified as a deferred tax liability unless it results from a taxable temporary difference (that is, a difference between the tax basis of an asset or a liability as calculated using this Interpretation and its reported amount in the statement of financial position). FIN 48 does not change the classification requirements for deferred taxes.
Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Use of a valuation allowance as described in SFAS No. 109 is not an appropriate substitute for the derecognition of a tax position. The requirement to assess the need for a valuation allowance for deferred tax assets based on the sufficiency of future taxable income is unchanged by FIN 48.

FIN 48 is effective for all fiscal years beginning after December 15, 2006. The Fresenius Group is in the process of determining the potential impact of FIN 48, if any, on the Group's consolidated financial statements.

## 2. ACQUISITIONS

The Fresenius Group made acquisitions totaling € 3,408 million and € 227 million in the first half-year of 2006 and the first half-year of 2005, respectively. Of this amount, € 3,427 million and € 182 million were paid in cash and € 39 million and € 15 million were assumed obligations, respectively. In the first half-year of 2006, receivables due to acqusitions in an amount of € 49 million were offset against payments. In connection with an acquisition in the first half-year 2005 purchase price considerations in an amount of € 30 million were due in subsequent years, whereof € 9 million were paid in the first half-year 2006.

Acquisitions of Fresenius Medical Care in the first half-year of 2006 in an amount of € 3,400 million related mainly to the purchase of Renal Care Group, Inc. (RCG).

On March 31, 2006, Fresenius Medical Care completed the acquisition of Renal Care Group, Inc. (RCG), a Delaware corporation with principal offices in Nashville, Tennessee, for an all cash purchase price, net of cash acquired, of approximately US$ 4,155 million for all of the outstanding common stock, the retirement of RCG stock options and including the concurrent repayment of approximately US$ 658 million indebtedness of RCG. During 2005, RCG provided dialysis and ancillary services to over 32,360 patients through more than 450 owned outpatient dialysis centers in 34 states within the United States, in addition to providing acute dialysis services to more than 200 hospitals.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition. This preliminary allocation of the purchase price is based upon the best information available to management. Any adjustments to the preliminary allocation, net of related income tax effects, will be recorded with a corresponding adjustment to goodwill.

The preliminary purchase price allocation is as follows:

in million US$

| | |
|---|---|
| Current assets | 732 |
| Property, plant and equipment | 307 |
| Intangible assets and other assets | 74 |
| Goodwill | 3,486 |
| Trade accounts payable, accrued expenses and other current liabilities | -281 |
| Accruals for income taxes and deferred taxes | -84 |
| Long-term debt and capital lease obligations | -4 |
| Other liabilities | -75 |
| **Aggregate purchase price (net of cash received)** | **4,155** |

In connection with the acquisition of RCG, Fresenius Medical Care performed a detailed review of the identification of intangible assets related to its dialysis clinic operations in the United States. In connection with this review, Fresenius Medical Care considered the conditions for recognition as an intangible asset apart from goodwill and practices in the dialysis care industry. The amortizable intangible assets acquired included US$ 67 million for non-compete agreements and US$ 4 million for acute care agreements. As a result of this review Fresenius Medical Care and Fresenius Group concluded that its past practice of identifying a separate intangible asset associated with patient relationships should be discontinued. Accordingly, the carrying amount of patient relationships that had been identified as separate intangible assets in prior business combinations involving clinics in the US and related income tax effects have been reallocated to goodwill. These changes result in an increase of goodwill as of January 1, 2006 of US$ 35 million, a corresponding decrease of intangible assets of US$ 37 million and deferred income tax liabilities of US$ 2 million. The amortization recorded in prior periods on such intangible assets that should have been included in goodwill did not result in a material understatement of Fresenius Medical Care's and Fresenius Group's results of operations for any prior period and the aggregate effect does not materially understate Fresenius Medical Care's and Fresenius Group's shareholders' equity.

Fresenius Medical Care believes the RCG acquisition and related divestitures will be earnings neutral to slightly accretive in 2006 after excluding the transaction related expenses and accretive from 2007 onward.

In the first half-year of 2006 Fresenius Kabi made acquisitions of € 8 million, referring to subsequent costs for the acquisition of Endomed Laboratório Farmacéutico Ltda., Brazil, as well as the taking over of a distributor in South Africa.

In March 2006, HELIOS Kliniken GmbH, a company of the business segment Fresenius ProServe, has agreed to acquire a majority stake in HUMAINE Kliniken GmbH. The acquisition still requires approval by the antitrust authorities and is expected to be closed in the third quarter of 2006.

**Impacts on the Fresenius Group resulting from acquisitions**

The operations of RCG are included in Fresenius Group's consolidated statements of income and cash flows from April 1, 2006.

The following financial information, on a pro forma basis, reflects the consolidated results of operations as if the acquisition of RCG and the divestitures (see Note 3, Divestitures) had been consummated at the beginning of 2006. The pro forma information includes adjustments mainly for interest expense on acquisition debt and income taxes. The pro forma financial information is not necessarily indicative of the results of operations as it would have been had the acquisition of RCG been consummated at the beginning of the respective periods.

| in million € | as reported | pro forma |
|---|---|---|
| Sales | 5,078 | 5,331 |
| Net income | 140 | 138 |
| Basic earnings per ordinary share in € | 2.75 | 2.70 |
| Fully diluted earnings per ordinary share in € | 2.72 | 2.67 |
| Basic earnings per preference share in € | 2.77 | 2.72 |
| Fully diluted earnings per preference share in € | 2.74 | 2.69 |

The RCG acquisition increased the total assets of the Fresenius Group by € 3.6 billion.

## 3. DIVESTITURES

Fresenius Medical Care was required to divest a total of 105 renal dialysis centers, consisting of both former Fresenius Medical Care's clinics (legacy clinics) and former RCG clinics, in order to complete the RCG acquisition in accordance with a consent order issued by the United States Federal Trade Commission (FTC) on March 31, 2006. Fresenius Medical Care sold 96 of such centers on April 7, 2006 to a wholly owned subsidiary of DSI Holding Company, Inc. (DSI) and sold DSI the remaining 9 centers effective as of June 30, 2006. Fresenius Medical Care received cash consideration of US$ 505 million, net of related expenses, for all centers divested, subject to customary post-closing adjustments. The income of US$ 39 million on the sale of the legacy clinics was recorded in income from operations. The carrying values for tax basis for the legacy clinics were lower than the book values which resulted in taxes of US$ 44 million. Due to this difference between tax and book value, the divestiture of the legacy clinics resulted in a loss of US$ 5 million. There was no gain or loss on the sale of the RCG clinics. However, due to the tax basis for the RCG clinics, a US$ 90 million tax liability was generated and paid at the time of the divestiture of those clinics.

# NOTES ON THE CONSOLIDATED STATEMENT OF INCOME AND ON THE CONSOLIDATED BALANCE SHEET

## 4. SALES

Sales by activity are as follows:

| in million € | **H1/2006** | H1/2005 |
|---|---|---|
| Sales of services | **3,239** | 2,106 |
| Sales of products and related goods | **1,702** | 1,486 |
| Sales from long-term production contracts | **137** | 110 |
| Other sales | **–** | – |
| **Sales** | **5,078** | 3,702 |

## 5. EARNINGS PER SHARE

The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations.

| in million €, except amounts per share (€) | **H1/2006** | H1/2005 |
|---|---|---|
| **Numerators** | | |
| Net income | **140** | 101 |
| less preference on preference shares | **–** | – |
| Income available to all classes of shares | **140** | 101 |
| **Denominators (number of shares)** | | |
| Weighted number of ordinary shares outstanding | **25,426,160** | 20,499,712 |
| Weighted number of preference shares outstanding | **25,426,160** | 20,499,712 |
| Total weighted-average number of shares outstanding of all classes | **50,852,320** | 40,999,424 |
| Potentially dilutive ordinary shares | **268,112** | 165,796 |
| Potentially dilutive preference shares | **268,112** | 165,796 |
| Total weighted-average shares outstanding of all classes assuming dilution | **51,388,544** | 41,331,016 |
| Total weighted-average ordinary shares assuming dilution | **25,694,272** | 20,665,508 |
| Total weighted-average preference shares assuming dilution | **25,694,272** | 20,665,508 |
| **Basic earnings per ordinary share** | **2.75** | 2.46 |
| **Preference per preference share** | **0.02** | 0.02 |
| **Basic earnings per preference share** | **2.77** | 2.48 |
| **Fully diluted earnings per ordinary share** | **2.72** | 2.44 |
| **Preference per preference share** | **0.02** | 0.02 |
| **Fully diluted earnings per preference share** | **2.74** | 2.46 |

The owners of preference shares are entitled to an additional dividend of € 0,02 for each bearer preference share for the first half-year.

Earnings per share amount to € 1.47 and € 1.35 for each bearer ordinary share and € 1.48 and € 1.36 for each bearer preference share for the second quarter of 2006 and the second quarter of 2005, respectively.

## 6. CASH AND CASH EQUIVALENTS

As of June 30, 2006 and December 31, 2005, cash and cash equivalents are as follows:

| in million € | **June 30, 2006** | December 31, 2005 |
|---|---|---|
| Cash | **247** | 209 |
| Securities (with a maturity of up to 90 days) | **6** | 43 |
| **Cash and cash equivalents** | **253** | 252 |

## 7. TRADE ACCOUNTS RECEIVABLE

As of June 30, 2006 and December 31, 2005, trade accounts receivable are as follows:

| in million € | **June 30, 2006** | December 31, 2005 |
|---|---|---|
| Trade accounts receivable | **2,225** | 2,071 |
| less allowance for doubtful accounts | **208** | 200 |
| **Trade accounts receivable, net** | **2,017** | 1,871 |

## 8. INVENTORIES

As of June 30, 2006 and December 31, 2005, inventories consist of the following:

| in million € | **June 30, 2006** | December 31, 2005 |
|---|---|---|
| Raw materials and purchased components | **184** | 176 |
| Work in process | **131** | 116 |
| Finished goods | **488** | 435 |
| **Inventories** | **803** | 727 |

## 9. GOODWILL AND OTHER INTANGIBLE ASSETS

As of June 30, 2006 and December 31, 2005 intangible assets, split into regularly amortizable and non-regularly amortizable intangible assets, consist of the following:

### Regularly amortizable intangible assets

| | June 30, 2006 | | | December 31, 2005 | | |
|---|---|---|---|---|---|---|
| in million € | Acquisition cost | Accumulated amortization | Carrying amount | Acquisition cost | Accumulated amortization | Carrying amount |
| Non-compete agreements | 176 | 102 | 74 | 0 | 0 | 0 |
| Patents | 50 | 39 | 11 | 46 | 33 | 13 |
| Distribution rights | 23 | 11 | 12 | 24 | 14 | 10 |
| Other | 252 | 191 | 61 | 339 | 210 | 129 |
| **Total** | **501** | **343** | **158** | 409 | 257 | 152 |

### Non-regularly amortizable intangible assets

| | June 30, 2006 | | | December 31, 2005 | | |
|---|---|---|---|---|---|---|
| in million € | Acquisition cost | Accumulated amortization | Carrying amount | Acquisition cost | Accumulated amortization | Carrying amount |
| Tradenames | 191 | 0 | 191 | 204 | 0 | 204 |
| Management contracts | 182 | 0 | 182 | 185 | 0 | 185 |
| Subtotal | 373 | 0 | 373 | 389 | 0 | 389 |
| Goodwill | 7,226 | 4 | 7,222 | 4,684 | 4 | 4,680 |
| **Total** | **7,599** | **4** | **7,595** | 5,073 | 4 | 5,069 |

The accumulated amortization of non-amortizable intangible assets is due to impairment as a result of the implementation of SFAS No. 142 (Goodwill and Other Intangible Assets).

Estimated regular amortization expenses of intangible assets for the next five years are shown in the following table:

| in million € | H2/2006 | 2007 | 2008 | 2009 | 2010 | H1/2011 |
|---|---|---|---|---|---|---|
| Estimated amortization expenses for the next five fiscal years | 18 | 35 | 28 | 25 | 19 | 8 |

The carrying amount of goodwill has developed as follows:

in million €

| | |
|---|---|
| **Carrying amount as of January 1, 2006** | **4,680** |
| Additions/disposals, net | 2,755 |
| Foreign currency translation | -213 |
| **Carrying amount as of June 30, 2006** | **7,222** |

The increase in the carrying amount mainly results from the addition of the goodwill due to the RCG acquisition in an amount of approximately € 2.7 billion.

## 10. DEBT AND CAPITAL LEASE OBLIGATIONS

### Short-term borrowings

#### Lines of credit and short-term borrowings

Short-term borrowings of € 285 million and € 224 million at June 30, 2006 and December 31, 2005, respectively, represent amounts borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks.

#### Accounts receivable facility

Fresenius Medical Care has an asset securitization facility (accounts receivable facility), which provides borrowings up to a maximum of US$ 460 million (€ 362 million). Under the facility, certain receivables are sold to NMC Funding Corporation (NMC Funding), a wholly-owned subsidiary of Fresenius Medical Care. NMC Funding then assigns undivided ownership interests in the accounts receivable to certain bank investors. Under the terms of the accounts receivable facility, NMC Funding retains the right to recall all transferred interests in the accounts receivable assigned to the banks under the facility. As Fresenius Medical Care has the right at any time to recall the then outstanding interests, the receivables remain on the consolidated balance sheet and the proceeds from the transfer of undivided interests are recorded as short-term borrowings.

At June 30, 2006 there are outstanding short-term borrowings under the facility of US$ 225 million (€ 177 million). On October 20, 2005 Fresenius Medical Care amended the accounts receivable facility to extend the maturity date to October 19, 2006.

**Long-term debt and liabilities from capital lease obligations**

As of June 30, 2006 and December 31, 2005, long-term debt and capital lease obligations consist of the following:

| in million € | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Fresenius Medical Care 2006 Credit Agreement | 2,909 | 0 |
| Euro Bonds | 1,098 | 400 |
| Euro Notes | 366 | 460 |
| European Investment Bank agreement | 129 | 41 |
| Capital lease obligations | 40 | 40 |
| Bridge loan facility | 0 | 600 |
| Fresenius Medical Care 2003 Senior Credit Agreement | 0 | 399 |
| Other | 369 | 337 |
| Subtotal | 4,911 | 2,277 |
| less current portion | 325 | 222 |
| **Long-term debt and capital lease obligations, less current portion** | 4,586 | 2,055 |

## Fresenius Medical Care 2006 Credit Agreement

Fresenius Medical Care entered into a new US$ 4.6 billion syndicated credit facility (Fresenius Medical Care 2006 Credit Agreement) with Bank of America, N.A. (BofA); Deutsche Bank AG New York Branch; The Bank of Nova Scotia; Credit Suisse, Cayman Islands Branch; JP Morgan Chase Bank, National Association; and certain other lenders (collectively, Fresenius Medical Care 2006 Credit Agreement) on March 31, 2006 which replaced the existing credit facility (Fresenius Medical Care 2003 Senior Credit Agreement).

The Fresenius Medical Care 2006 Credit Agreement consists of:

- A 5-year US$ 1 billion revolving credit facility (of which up to US$ 250 million is available for letters of credit, up to US$ 300 million is available for borrowings in certain non-US currencies, up to US$ 150 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$ 1 billion) which will be due and payable on March 31, 2011.

- A 5-year term loan facility (Loan A) of US$ 1,850 million, also scheduled to mature on March 31, 2011. The Fresenius Medical Care 2006 Credit Agreement requires 20 quarterly payments of US$ 30 million each that permanently reduce the term loan facility beginning June 30, 2006 through December 31, 2010. The remaining amount outstanding is due on March 31, 2011.

- A 7-year term loan facility (Loan B) of US$ 1,750 million scheduled to mature on March 31, 2013. The terms of the Fresenius Medical Care 2006 Credit Agreement require 28 quarterly payments that permanently reduce the term loan facility beginning June 30, 2006. The first 24 quarterly payments will be equal to one quarter of one percent (0.25%) of the original principal balance outstanding, payments 25 through 28 will be equal to twenty-three and one half percent (23.5%) of the original principal balance outstanding with the final payment due on

March 31, 2013 subject to an early repayment requirement on March 1, 2011 if the Trust Preferred Securities due June 15, 2011 are not repaid or refinanced or their maturity is not extended prior to that date.

Interest on the new credit agreements will be, at Fresenius Medical Care's option, depending on the interest periods chosen, at a rate equal to either (i) LIBOR plus an applicable margin or (ii) the higher of (a) BofA's prime rate or (b) the Federal Funds rate plus 0.5%, plus an applicable margin.

The applicable margin is variable and depends on Fresenius Medical Care's Consolidated Leverage Ratio which is a ratio of its Consolidated Funded Debt less up to US$ 30 million cash and cash equivalents held by Fresenius Medical Care to Consolidated EBITDA of Fresenius Medical Care (as these terms are defined in the Fresenius Medical Care 2006 Credit Agreement).

In addition to scheduled principal payments, indebtedness outstanding under the Fresenius Medical Care 2006 Credit Agreement will be reduced by portions of the net cash proceeds from certain sales of assets, securitization transactions other than Fresenius Medical Care's existing accounts receivable facility, the issuance of subordinated debt other than certain intercompany transactions, certain issuances of equity and excess cash flow.

The Fresenius Medical Care 2006 Credit Agreement contains affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. 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 Fresenius Medical Care 2006 Credit Agreement provides for a dividend restriction which is US$ 240 million for dividends paid in 2007, and increases in subsequent years. Fresenius Medical Care paid dividends of US$ 154 million (€ 120 million) in May of 2006 which was in compliance with the restrictions set forth in Fresenius Medical Care 2006 Credit Agreement. In default, the outstanding balance under the Fresenius Medical Care 2006 Credit Agreement becomes immediately due and payable at the option of the Lenders. As of June 30, 2006, Fresenius Medical Care is in compliance with all financial covenants under the Fresenius Medical Care 2006 Credit Agreement.

In conjunction with the new Fresenius Medical Care 2006 Credit Agreement and the related variable rate based interest payments, Fresenius Medical Care entered into interest rate swaps in the notional amount of US$ 2,465 million. These instruments, designated as cash flow hedges, effectively convert forecasted LIBOR-based interest payments into fixed rate based interest payments which fix the interest rate on US$ 2,465 million of the financing under the new Fresenius Medical Care 2006 Credit Agreement at 4.32% plus an applicable margin. These swaps are denominated in US dollars and expire at various dates between 2008 and 2012.

Fresenius Medical Care incurred fees of approximately US$ 86 million in conjunction with the Fresenius Medical Care 2006 Credit Agreement which will be amortized over the life of the credit agreement and wrote off approximately US$ 15 million in unamortized fees related to its prior Fresenius Medical Care 2003 Senior Credit Agreement at March 31, 2006.

## Euro Bonds

In April 2003, Fresenius Finance B.V. issued Euro Bonds 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 first tranche of € 300 million bore interest at 7.75% p.a. and was callable by the issuer for the first time on April 30, 2006. The redemption prices were fixed at the date of issue. The Fresenius Group issued a tender offer to repurchase the bonds in January 2006 and 71% of the volume of the first tranche were actually repurchased. At the end of March, Fresenius Finance B.V. has exercised its option to redeem the remaining outstanding amount. The repurchase price was 103.875% or € 1,038.75 per € 1,000 nominal value of the Notes, plus accrued interest. The redemption was effective on April 30, 2006 and payment was made on May 2, 2006. The second tranche of € 100 million bears interest at 7.5% p.a. and is not callable before maturity.

In October 2005, Fresenius AG entered into an agreement pursuant to which two banks agreed to provide a loan facility in the amount of € 700 million with a term of 364 days to bridge the issuance of the Notes. The bridge financing facility is shown under the balance sheet caption long-term debt as of December 31, 2005, as it belongs to this long-term Note. The loan facility was guaranteed by Fresenius Kabi AG and Fresenius ProServe GmbH and was used in addition to the proceeds from the capital increase placed at the end of 2005 to fund the acquisition of HELIOS Kliniken GmbH and the business of Clinico GmbH. From December 1, 2005, the bridge loan facility was reduced by € 100 million to € 600 million because the proceeds from the capital increase exceeded the amount according to the original finance concept. At the end of December 2005, the loan facility was fully used for the payment of the purchase prices of the acquisitions.

In January 2006, Fresenius issued a bond with a total value of € 1 billion through its wholly-owned subsidiary Fresenius Finance B.V. The new bond comprises one tranche with a nominal value of € 500 million, a maturity of seven years and an annual coupon of 5.0% and a second tranche with a nominal value of € 500 million, a maturity of ten years and an annual coupon of 5.5% as well as a call option for the issuer after five years. The above mentioned bridge loan facility was repaid by the proceeds of this bond issuance.

The Euro Bonds of Fresenius Finance B.V. are guaranteed by Fresenius AG, Fresenius Kabi AG and Fresenius ProServe GmbH. Fresenius AG has given a number of commitments to provide protection to the bondholders, which, under certain circumstances, partly restrict the scope of action of Fresenius AG and its subsidiaries (excluding FMC-AG & Co. KGaA and their subsidiaries). These commitments include, amongst other things, restrictions in the amount of further debt that can be raised, the payment of dividends, the volume of capital expenditure, the redemption of subordinated liabilities and the mortgaging or sale of assets. Some of these restrictions are lifted automatically when the rating of the company reaches investment grade. In the event of non-compliance with the terms of the Euro Bonds, the bondholders (owning in aggregate more than 25% of the outstanding Euro Bonds) are entitled to call the Euro Bonds and demand immediate repayments plus interest. As of June 30, 2006, the Fresenius Group is in compliance with all of its commitments.

### Euro Notes

As of June 30, 2006, Euro Notes (Schuldscheindarlehen) issued by Fresenius Finance B.V. amounting to € 166 million have residual terms to maturity of up to two years. Interest rates are linked to EURIBOR. The Euro Notes (Schuldscheindarlehen), which are completely hedged through interest swaps, carried interest rates of between 4.30% and 5.61% during the first half-year of 2006.

On July 27, 2005, Fresenius Medical Care issued new Euro Notes (Schuldscheindarlehen) totaling € 200 million with a € 126 million tranche at a fixed interest rate of 4.57% and a € 74 million tranche with a floating rate at EURIBOR plus applicable margin resulting in an average interest rate of 4.59% for the first half-year of 2006. The Euro Notes mature on July 27, 2009. The proceeds were used to liquidate € 129 million of Euro Notes issued in 2001 that were due in July 2005 and for working capital.

### European Investment Bank Agreement

On June 15, 2006, in connection with the European Investment Bank (EIB) agreement entered into on July 13, 2005, Fresenius Medical Care borrowed an additional € 90 million (US$ 116 million) with an initial interest rate of 5.26% from the revolving credit line which terminates on July 12, 2013. The loan bears variable interest rates that change quarterly with FMC-AG & Co. KGaA having options to convert into fixed rates. The loan is secured by a bank guarantee and has customary covenants.

## 11. PENSIONS AND SIMILAR OBLIGATIONS

**Defined benefit pension plans**

More than half of the pension obligations totaling € 307 million relate to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1988, which applies for most of the German entities of the Group. Approximately one tenth of the pension obligations relates to the Fresenius Medical Care Retention Plan in the United States. The rest, approximately one third of the pension obligations, relates to individual pension plans.

Plan benefits are generally based on an employee's years of service and final salary. Consistent with predominant practice in Germany, the pension obligations of the German entities of the Fresenius Group are unfunded. The German pension plan does not have a separate pension fund.

Fresenius Medical Care currently has two principal pension plans, one for German employees, and the other covering employees in the United States. Each year Fresenius Medical Care Holdings, Inc. (FMCH) contributes to the pension plan in the United States at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended. There is no minimum funding requirement for FMCH for the defined benefit plan in 2006. FMCH made US$ 10 million (€ 8 million) in contributions accumulated as of June 30, 2006.

Transfers to the Group's pension fund in the first half-year of 2006 amounted to € 10 million. Expected transfers to the pension fund in the full year 2006 amount to € 21 million.

Net periodic benefit cost is allocated as personnel expense to each of the income statement function lines.

The following table provides the calculation of net periodic benefit cost:

| in million € | H1/2006 | H1/2005 |
|---|---|---|
| **Components of net periodic benefit cost** | | |
| Service costs | **9** | 6 |
| Interest cost | **13** | 12 |
| Expected return on plan assets | **-8** | -6 |
| Amortization of unrealized losses, net | **4** | 3 |
| Amortization of prior service costs | **–** | – |
| Amortization of transition obligations | **–** | – |
| Realized gains/losses | **–** | 0 |
| **Net periodic benefit cost** | **18** | 15 |

The following assumptions for net periodic benefit cost are applied:

| in % | H1/2006 | H1/2005 |
|---|---|---|
| **Weighted-average assumptions for the net periodic benefit cost** | | |
| Discount rate | **4.67** | 5.40 |
| Expected return on plan assets | **5.76** | 6.16 |
| Rate of compensation increase | **3.28** | 3.16 |

Pension obligations at June 30, 2006 and December 31, 2005 relate to the following geographical regions:

| in million € | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Germany | **237** | 229 |
| Europe (excluding Germany) | **50** | 49 |
| North America | **20** | 27 |
| Asia-Pacific | **0** | 0 |
| Latin America | **0** | 0 |
| Africa | **0** | 0 |
| **Total pension obligations** | **307** | 305 |

The pension obligations relate mainly to Europe and North America, with approximately three quarters relating to Germany and approximately one quarter relating to the rest of Europe and North America.

## 12. TRUST PREFERRED SECURITIES

The trust preferred securities agreements contain affirmative and negative covenants with respect to FMC-AG & Co. KGaA and its subsidiaries and other payment restrictions. Some of the covenants limit the Fresenius Medical Care's indebtedness and its investments, and require Fresenius Medical Care to maintain certain ratios defined in the agreement. Some of these covenants are subordinated to the Fresenius Medical Care 2006 Senior Credit Agreement covenants. As of June 30, 2006, Fresenius Medical Care is in compliance with all financial covenants under all trust preferred securities agreements.

The trust preferred securities outstanding as of June 30, 2006 and December 31, 2005 are as follows:

| | Year issued | Stated amount | Interest rate | Mandatory redemption date | **June 30, 2006 in million €** | Dec 31, 2005 in million € |
|---|---|---|---|---|---|---|
| Fresenius Medical Care Capital Trust II | 1998 | US$ 450 million | 7 7/8 % | Feb 1, 2008 | **336** | 366 |
| Fresenius Medical Care Capital Trust III | 1998 | DM 300 million | 7 3/8 % | Feb 1, 2008 | **154** | 154 |
| Fresenius Medical Care Capital Trust IV | 2001 | US$ 225 million | 7 7/8 % | Jun 15, 2011 | **171** | 183 |
| Fresenius Medical Care Capital Trust V | 2001 | € 300 million | 7 3/8 % | Jun 15, 2011 | **297** | 297 |
| **Trust preferred securities** | | | | | **958** | 1,000 |

## 13. MINORITY INTEREST

Minority interest in the Group has developed as follows:

| in million € | **June 30, 2006** | December 31, 2005 |
|---|---|---|
| Minority interest in FMC-AG & Co. KGaA | **2,250** | 2,144 |
| Minority interest in the business segments | | |
| Fresenius Medical Care | **55** | 12 |
| Fresenius Kabi | **26** | 25 |
| Fresenius ProServe | **99** | 108 |
| Corporate/Other | **-1** | – |
| **Total minority interest** | **2,429** | 2,289 |

Minority interest increased in the first half-year of 2006 by € 140 million to € 2,429 million. The change resulted on the one hand from the minorities' share of profit (€ 143 million) and on the other from negative currency effects, capital measures as well as first-time consolidations in a total amount of € -3 million.

## 14. SHAREHOLDERS' EQUITY

**Subscribed capital**

The subscribed capital of Fresenius AG is divided into 25,468,026 bearer ordinary shares and 25,468,026 non-voting bearer preference shares. The shares are issued as non-par value shares with a nominal amount of € 2.56. During the first half-year of 2006 213,772 stock options were exercised.

**Approved Capital**
By resolution of the Annual General Meeting on May 10, 2006, the previous Approved Capital II was revoked. The Management Board of Fresenius AG was authorized, with the approval of the Supervisory Board, until May 9, 2011,

- to increase the company's subscribed capital by a nominal total amount of up to € 12,800,000 through a single or multiple issue of new bearer ordinary shares and/or non-voting bearer preference shares against cash contributions (Approved Capital I). A subscription right must be granted to shareholders.

- to increase the company's subscribed capital by a nominal total amount of up to € 6,400,000 through a single or multiple issue of new bearer ordinary shares and/or non-voting bearer preference shares against cash contributions and/or contributions in kind (Approved Capital II). The Management Board is authorized, with the consent of the Supervisory Board, to decide on the exclusion of the shareholders' subscription right (§§ 203 Section 2, 186 Section 3 sentence 4 Stock Corporation Law (AktG)).

**Conditional capital**
By 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 was 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 Fresenius AG 2003 Stock 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.

The conditional capital has developed as follows:

| in € | Ordinary Shares | Preference Shares | Total |
|---|---|---|---|
| Conditional Capital I Fresenius AG Stock Option Plan 1998 | 1,246,248.96 | 1,246,248.96 | 2,492,497.92 |
| Conditional Capital II Fresenius AG Stock Option Plan 2003 | 2,254,433.28 | 2,254,433.28 | 4,508,866.56 |
| **Total conditional capital as of January 1, 2006** | **3,500,682.24** | **3,500,682.24** | **7,001,364.48** |
| Fresenius AG Stock Option Plan 1998 - options exercised | -270,205.44 | -270,205.44 | -540,410.88 |
| Fresenius AG Stock Option Plan 2003 - options exercised | -3,422.72 | -3,422.72 | -6,845.44 |
| **Total conditional capital as of June 30, 2006** | **3,227,054.08** | **3,227,054.08** | **6,454,108.16** |

**Dividends**
According to German Stock Corporation Act, the distribution of 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).

At the Annual General Meeting on May 10, 2006, a resolution was passed to pay a dividend of € 1.48 per bearer ordinary share and € 1.51 per bearer preference share, i.e. a total dividend of € 76 million was resolved.

# OTHER NOTES

## 15. COMMITMENTS AND CONTINGENT LIABILITIES

**Legal Proceedings**

Commercial litigation

Fresenius Medical Care was originally formed as a result of a series of transactions pursuant to the Agreement and Plan of Reorganization (the Merger) dated as of February 4, 1996 by and between W.R. Grace & Co. and Fresenius AG. At the time of the Merger, a W.R. Grace & Co. subsidiary known as W.R. Grace & Co.-Conn. had, and continues to have, significant liabilities arising out of product-liability related litigation (including asbestos-related actions), pre-Merger tax claims and other claims unrelated to National Medical Care, Inc. (NMC), which was W.R. Grace & Co.'s dialysis business prior to the Merger. In connection with the Merger, W.R. Grace & Co.-Conn. agreed to indemnify Fresenius Medical Care, Fresenius Medical Care Holdings, Inc. (FMCH) and NMC against all liabilities of W.R. Grace & Co., whether relating to events occurring before or after the Merger, other than liabilities arising from or relating to NMC's operations. W.R. Grace & Co. and certain of its subsidiaries filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code (the Grace Chapter 11 Proceedings) on April 2, 2001.

Prior to and after the commencement of the Grace Chapter 11 Proceedings, class action complaints were filed against W.R. Grace & Co. and FMCH by plaintiffs claiming to be creditors of W.R. Grace & Co.- Conn., and by the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate in the Grace Chapter 11 Proceedings, alleging among other things that the Merger was a fraudulent conveyance, violated the uniform fraudulent transfer act and constituted a conspiracy. All such cases have been stayed and transferred to or are pending before the U.S. District Court as part of the Grace Chapter 11 Proceedings.

In 2003, Fresenius Medical Care reached agreement with the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate and W.R. Grace & Co. in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to Fresenius Medical Care that arise out of the bankruptcy of W.R. Grace & Co. Under the terms of the settlement agreement as amended (the Settlement Agreement), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and Fresenius Medical Care will receive protection against existing and potential future W.R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W.R. Grace & Co. consolidated tax group upon confirmation of a W.R. Grace & Co. final bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, 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 U.S. District Court. Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (Sealed Air, formerly known as Grace Holding, Inc.). Fresenius Medical Care is engaged in litigation with 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.

On April 4, 2003, FMCH filed a suit in the U.S. District Court for the Northern District of California, (Fresenius USA, Inc., et al., v. Baxter International, Inc., et al.), Case No. C 03-1431, seeking a declaratory judgment that FMCH does not infringe on patents held by Baxter International, Inc. and its subsidiaries and affiliates (Baxter), that the patents are invalid, and that Baxter is without right or authority to threaten or maintain suit against FMCH for alleged infringement of Baxter's patents. In general, the alleged patents concern touch screens, conductivity alarms, power failure data storage, and balance chambers for hemodialysis machines. Baxter filed counterclaims against FMCH seeking monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. On July 17, 2006, the court entered judgement in our favor of FMCH finding that all the asserted claims of the Baxter patents are invalid as obvious and/or anticipated in light of prior art.

### Other litigation and potential exposures

On May 31, 2005, RCG was served with a complaint in the Chancery Court for the State of Tennessee Twentieth Judicial District at Nashville styled Indiana State District Council of Laborers and Hod Carriers Pension Fund, on behalf of itself and others similar situated, Plaintiff, vs. RCG, William P. Johnston, Gary Brukardt, Peter J. Grua, Joseph C. Hutts, Harry R. Jacobson, William V. Lapham, Thomas A. Lowery, Stephen D. McMurray and C. Thomas Smith, Defendants. The complaint was brought by the plaintiff shareholder as a purported class action on behalf of all shareholders similarly situated. The complaint alleges that RCG and its directors engaged in self-dealing and breached their fiduciary duties to RCG's shareholders in connection with the merger agreement between RCG and Fresenius Medical Care because, among other things, RCG used a flawed process, the existence of the previously disclosed subpoena from the Department of Justice, the lack of independence of one of RCG's financial advisors and the existence of RCG's supplemental executive retirement plan. RCG removed this case to federal court in June 2005.

The plaintiff filed an amended complaint asserting that RCG's proxy statement distributed in connection with the solicitation of shareholder approval of the Merger Agreement makes material misrepresentations and omissions regarding the process by which the Merger Agreement was negotiated. Specifically, the Amended Complaint asserts that the proxy statement makes material misstatements or omissions regarding: (1) the reason why RCG's management and Board engaged in a closed process of negotiating a potential merger with Fresenius Medical Care and did not solicit potential competing bids from alternative purchasers; (2) the reason why RCG's Board did not appoint a special committee to evaluate the fairness of the merger; (3) the alternatives available to RCG, including potential alternative transactions and other strategic business opportunities, which purportedly were considered by RCG's Board during the strategic planning process the Board engaged in during the second half of 2004; (4) all information regarding conflicts of interest suffered by defendants and their financial and legal advisors as alleged therein; (5) all information regarding past investment banking services Bank of America has performed for RCG and Fresenius Medical Care and the compensation Bank of America received for those services; (6) the forecasts and projections prepared by RCG's management for fiscal years 2005 through 2008 that were referenced in the fairness opinions by Morgan Stanley; (7) the estimates of transaction synergies provided by RCG's management that were referenced in the fairness opinions by Morgan Stanley; and (8) information concerning the amount of money Bank of America and Morgan Stanley received in connection with the Acquisition. Fresenius Medical Care believes that the allegations in the pending complaint are without merit. The pending complaint sought to enjoin and prevent the parties from completing the merger. The pending complaint was remanded to Tennessee state court in September 2005. After consummation of the RCG merger, the court granted additional time for the plaintiffs to seek leave to amend the complaint. Fresenius Medical Care has been advised by counsel for the plaintiffs that they intend to seek leave to amend the complaint to state claims related to RCG's stock option program.

FMCH and its subsidiaries, including RCG, received subpoenas from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. The subpoenas require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relations, joint ventures, anemia management programs, RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, and RCG's purchase of dialysis equipment from FMCH. Fresenius Medical Care is cooperating with the government's requests for information. An adverse determination in this investigation could have a material adverse effect on Fresenius Medical Care's business, financial condition and results of operations.

FMCH and its subsidiaries, including RCG, have received subpoenas from the U.S. Department of Justice, Eastern District of New York, in connection with a civil and criminal investigation, which requires production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents relating to laboratory testing for parathyroid hormone (PTH) levels and vitamin D therapies. Fresenius Medical Care is cooperating with the government's requests for information. While Fresenius Medical Care believes that it has complied with applicable laws relating to PTH testing and use of vitamin D therapies, an adverse determination in this investigation could have a material adverse effect on Fresenius Medical Care's business, financial condition, and results of operations.

RCG received a subpoena from the U.S. Department of Justice, Southern District of New York, in connection with an investigation into RCG's administration of its stock option programs and practices, including the procedure under which the exercise price was established for certain of the option grants. The subpoena requires production of a broad range of documents relating to the RCG stock option program. Fresenius Medical Care is cooperating with the government's requests for information. The outcome and impact of this investigation cannot be predicted at this time.

### Accrued special charge of Fresenius Medical Care for legal matters

At December 31, 2001, Fresenius Medical Care recorded a pre-tax special charge to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. While Fresenius Medical Care believes that its remaining accruals reasonably estimate its currently anticipated costs related to the continued defense and resolution of the remaining matters, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual.

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.

## 16. FINANCIAL INSTRUMENTS

**Market risk**

### General

In order to finance its business operations the Fresenius Group issues bonds, trust preferred securities and commercial papers and concludes mainly long-term credit agreements and mid-term Euro Notes (Schuldscheindarlehen) with banks. Due to these financing activities the Fresenius Group is exposed to interest risk caused by changes in variable interest rates and the risk of changes in the fair value of balance sheet items caused by changes in fixed interest rates.

In order to manage the risks of interest rate and foreign exchange rate fluctuations, the Fresenius Group enters into appropriate hedging transactions with highly rated financial institutions as authorized by the Management Board. Derivative financial instruments are not used for trading purposes.

As of June 30, 2006 the notional amounts of Fresenius Group's foreign exchange derivatives amounted to € 1,449 million and the notional amounts of interest rate derivatives amounted to € 3,214 million. In the case of interest rate derivatives it should be voted that the notional amounts generally only represent the base for contract specific computations and not necessarily the exchange of amounts by the parties. A potential risk resulting from the use of interest rate derivatives therefore cannot be measured solely on the bases of the notional amounts of the contracts.

Earnings of the Fresenius Group were not materially affected by hedge ineffectiveness in the reporting period since the critical terms of the interest and foreign exchange derivatives matched the critical terms of the underlying exposures.

### Accounting for and reporting of derivative financial instruments (and hedge accounting)

General

Deferred gain from cash flow hedges in accumulated other comprehensive income (loss) at € 14 million as of December 31, 2005 increased by € 41 million to € 55 million at June 30, 2006.

The after tax gain of € 14 million deferred in accumulated other comprehensive income (loss) at December 31, 2005 had no material currency impact.

Foreign exchange risk management

The Fresenius Group has determined the euro as its financial reporting currency. Therefore, foreign exchange translation risks resulting from the fluctuation of exchange rates between the euro and the local currencies in which the financial statements of the foreign subsidiaries are maintained, have an impact on results of operations and financial position reported in the consolidated financial statements.

For the purpose of hedging the existing and foreseeable foreign exchange transaction risks the Fresenius Group enters into foreign exchange forward contracts and, on a small scale, foreign exchange options. Foreign exchange forward contracts and options are not used for purposes other than hedging foreign exchange exposures.

In connection with intercompany loans in foreign currency the Fresenius Group normally uses foreign exchange swaps thus assuring that no foreign exchange risks arise from those loans.

As of June 30, 2006, the notional volume and fair value of foreign exchange contracts relating to foreign currency intercompany loans amounted to € 1,115 million and € 14 million, respectively. Hedge accounting is not applied to these foreign exchange contracts. Accordingly, the foreign exchange contracts are recognized as assets and liabilities and changes in fair values are recognized against earnings.

As of June 30, 2006 the notional amounts of foreign exchange forward contracts in place to hedge risks from operational business totalled € 334 million with a fair value of € 3 million.

As of June 30, 2006, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 36 months.

Interest rate risk management
The Fresenius Group's interest rate risks mainly arise from money market and capital market transactions of the subgroup parent company in connection with the financing of the business segments Fresenius ProServe, Fresenius Kabi and the subgroup Fresenius Medical Care. Interest rate hedging transactions are therefore primarily concluded by Fresenius AG and FMC-AG & Co. KGaA.

The Fresenius Group enters into interest rate swaps and, on a small scale, into interest rate options in order to hedge against interest rate exposures arising from short-term and long-term borrowings and accounts receivable securitization programs at variable rates by swapping them into fixed rates and to hedge against fluctuations in market interest rates by swapping fixed interest rates against variable interest rates.

Cash Flow Hedge
The Fresenius Group enters into interest rate swaps that are designated as cash flow hedges effectively converting certain variable interest rate payments, resulting from existing revolving loans, Euro Notes (Schuldscheindarlehen) and an accounts receivable facility mainly denominated in US dollar or euro, into fixed interest rate payments. The US dollar interest rate swaps with a notional volume of US$ 3,415 million bear an average interest rate of 4.50% and expire at various dates between 2006 and 2012. These instruments, designated as cash flow hedges, effectively convert forecasted variable rate based interest payments into fixed interest payments, completed by the contractual margin The Euro interest rate swaps with a notional volume of € 166 million bear an average interest rate of 3.06% and expire at various dates between 2007 and 2008.

Fair Value Hedge
Fresenius Medical Care entered into US dollar interest rate swaps designated as fair value hedges to hedge the risk of changes in the fair value of parts of its fixed interest borrowings. These interest rate swaps effectively convert the fixed interest payments on Fresenius Medical Care Capital Trust II trust preferred securities denominated in US dollars into variable interest rate payments. At June 30, 2006, the notional volume of these swaps at Fresenius Medical Care was US$ 450 million (€ 354 million).

**Credit risk**
The Fresenius Group is exposed to potential 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.

## 17. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

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

| in million € | **H1/2006** | H1/2005 |
|---|---|---|
| Interest paid | **139** | 95 |
| Income taxes paid | **200** | 144 |

The increase in interest paid related mainly to higher interest payments in connection with the RCG acquisition, payments in connection with the issuance of the Eurobond 2006, the repurchase of the Eurobond 2003 as well as interest payments for the financing of the acquisition of HELIOS Kliniken.

The increase in income taxes paid referred mainly to tax payments of € 61 million (US$ 75 million) related to the acquisition of RCG.

Cash paid for acquisitions consists of the following:

| in million € | **H1/2006** | H1/2005 |
|---|---|---|
| Assets acquired | **3,803** | 266 |
| Liabilities assumed | **-244** | -72 |
| Minority interest | **-45** | 4 |
| Notes assumed in connection with acquisitions | **-39** | -15 |
| Cash paid | **3,475** | 183 |
| Cash acquired | **-48** | -1 |
| **Cash paid for acquisitions, net** | **3,427** | 182 |

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

| in million € | **H1/2006** | H1/2005 |
|---|---|---|
| **Operating cash flow** | **385** | 329 |
| Purchase of property, plant and equipment | **-225** | -115 |
| Proceeds from sale of property, plant and equipment | **12** | 10 |
| **Cash flow before acquisitions and dividends** | **172** | 224 |
| Purchase/sale of shares in related companies and investments, net | **-3,015** | -182 |
| **Cash flow before dividends** | **-2,843** | 42 |
| Dividends paid | **-154** | -127 |
| **Free cash flow after dividends** | **-2,997** | -85 |

## 18. SUPPLEMENTARY INFORMATION ON SEGMENT REPORTING

**General Information**
The segment reporting tables shown on page 15 and 16 of this report are an integral part of the Notes.

The Fresenius Group has identified the business segments Fresenius Medical Care, Fresenius Kabi and Fresenius ProServe which corresponds to the internal organizational and reporting structures (Management Approach) at June 30, 2006.

The key data disclosed in conjunction with segment reporting correspond to the key data of the internal reporting system in place across the Fresenius Group. Internal and external reporting and accounting correspond to each other; the same key data and definitions are used.

Sales and proceeds between the segments are indicative of the actual sales and proceeds agreed with third parties. Administrative services are billed in accordance with service level agreements.

The business segments were identified in accordance with SFAS No. 131 (Disclosures about Segments of an Enterprise and Related Information), which defines the segment reporting requirements in annual financial statements and interim reports with regard to the operating business, product and service businesses and regions. The business segments of the Fresenius Group are 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 kidney failure. Fresenius Medical Care treats about 161,700 patients in its own dialysis clinics.

Fresenius Kabi is Europe's leading company in the field of infusion therapy and clinical nutrition with subsidiaries and distributors worldwide. Fresenius Kabi's products are used in hospitals as well as in out-patient medical care. Within the scope of this care chain, the company offers products for fluid and blood volume replacement, generic intravenously administered drugs, parenteral and enteral nutrition products and medical devices. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe is a leading German hospital operator. Moreover, Fresenius ProServe offers engineering and services for hospitals, health care facilities and the pharmaceutical industry.

The segment Corporate/Other mainly comprises the holding functions of Fresenius AG as well as Fresenius Netcare GmbH, which provides services in the field of information technology as well as Fresenius Biotech, which does not fulfill the characteristics of a reportable segment. In addition, the segment Corporate/Other includes intersegment consolidation adjustments.

## Notes on the business segments

Explanations regarding the notes on the business segments can be found in the consolidated financial statements in the 2005 Annual Report.

In connection with the issuance of the Euro Bond in January 2006 and the refinancing of the bridge financing used in December 2005, the debt for the acquisition of HELIOS Kliniken in an amount of € 600 million is stated in the business segment Fresenius ProServe from the first quarter 2006 onwards. In the year end segment reporting of 2005 this debt was stated in the business segment Corporate/Other.

### Reconciliation of key figures to consolidated earnings

| in million € | **H1/2006** | H1/2005 |
|---|---|---|
| Total EBITDA of reporting segments | **883** | 620 |
| Depreciation and amortization | **-186** | -151 |
| General corporate expenses Corporate/Other | **-16** | -16 |
| Net interest | **-194** | -97 |
| **Total earnings before income taxes and minority interest** | **487** | 356 |
| Total EBIT of reporting segments | **702** | 474 |
| General corporate expenses Corporate/Other | **-21** | -21 |
| Net interest | **-194** | -97 |
| **Total earnings before income taxes and minority interest** | **487** | 356 |
| Depreciation and amortization of reporting segments | **181** | 146 |
| Depreciation and amortization Corporate/Other | **5** | 5 |
| **Total depreciation and amortization** | **186** | 151 |

### Reconciliation of net debt

| in million € | **June 30, 2006** | December 31, 2005 |
|---|---|---|
| Short-term borrowings | **285** | 224 |
| Short-term liabilities and loans from related parties | **–** | 1 |
| Current portion of long-term debt and capital lease obligations | **325** | 222 |
| Long-term debt and liabilities from capital lease obligations, less current portion | **4,586** | 2,055 |
| Trust preferred securities of Fresenius Medical Care Trusts | **958** | 1,000 |
| **Debt** | **6,154** | 3,502 |
| less cash and cash equivalents | **253** | 252 |
| **Net debt** | **5,901** | 3,250 |

## 19. STOCK OPTIONS

**Change in accounting for stock options**

Effective January 1, 2006, the Fresenius Group adopted the provisions of SFAS No. 123(R) (Share-Based Payment (SBP) (revised 2004)) using the modified prospective transition method. Under this transition method, compensation cost recognized in the reporting period ended June 30, 2006, includes applicable amounts of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 and previously presented in the Fresenius Group's pro forma footnote disclosures), and (b) compensation cost for all stock-based payments subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123(R)).

**Personnel expenses in connection with stock option plans of the Fresenius Group**

Effective January 1, 2006, the Fresenius Group applies SFAS No. 123(R) in accounting for stock compensation and recognized compensation expenses in an amount of € 9 million for stock options granted since 1998.

**Fair Value of Stock Options**

The Fresenius Group elected to adopt SFAS No. 123(R) prospectively. Compensation expense in the first half-year of 2005 has been recorded in accordance with Accounting Principles Board APB No. 25 (Accounting for Stock Issued to Employee).

Fresenius Group's determination of the fair value of grants is based on the Black-Scholes option pricing Model. No options have been granted in the first half-year of 2006. The fair value of grants made during the years ended December 31, 2005 and 2004 is as follows:

| Weighted-average assumptions of Fresenius AG | 2005 | 2004 |
|---|---|---|
| Expected dividend yield | **2.10 %** | 2.05 % |
| Risk-free interest rate | **2.50 %** | 3.50 % |
| Expected volatility | **40.00 %** | 40.00 % |
| Expected life of options | **5.3 years** | 5.3 years |
| Estimated weighted-average fair value per option in € | **31.89** | 25.31 |
| Fair value of total options granted during year in million € | **10** | 6 |

| Weighted-average assumptions of Fresenius Medical Care | 2005 | 2004 |
|---|---|---|
| Expected dividend yield | **2.87%** | 2.60% |
| Risk-free interest rate | **3.50 %** | 3.80 % |
| Expected volatility | **40.00 %** | 40.00 % |
| Expected life of options | **5.3 years** | 5.3 years |
| Estimated weighted-average fair value per option in € | **18.70** | 12.92 |
| Fair value of total options granted during year in million € | **20** | 13 |

The Black-Scholes option valuation model was developed for use in estimating the fair values of options that have no vesting restrictions. Option valuation models require the input of highly subjective assumptions including expected stock price volatility. Fresenius Group's assumptions are based upon its past experiences, market trends and the experiences of other entities of the same size and in similar industries and discussions with third parties with valuation experience. Fresenius Group's stock options may have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option.

The following table illustrates the effect on net income and earnings per share in the first half-year of 2005 if the Fresenius Group had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation in 2005:

| in million €, except amounts per share (€) | H1/2005 |
|---|---|
| **Net income** | |
| As reported | 101 |
| Net income as reported less preference on preference shares | 101 |
| plus share-based employee compensation expense according to APB No. 25 | 1 |
| less share-based employee compensation expense according to SFAS No. 123 | -4 |
| Pro forma less preference on preference shares | 98 |
| Pro forma | 98 |
| Basic earnings per ordinary share | |
| As reported | 2.46 |
| Pro forma | 2.38 |
| Basic earnings per preference share | |
| As reported | 2.48 |
| Pro forma | 2.40 |
| Fully-diluted earnings per ordinary share | |
| As reported | 2.44 |
| Pro forma | 2.36 |
| Fully-diluted earnings per preference share | |
| As reported | 2.46 |
| Pro forma | 2.38 |

**Fresenius AG stock option plans**

On June 30, 2006, Fresenius AG has two stock option plans in place. Besides the stock option based program of 1998, the currently active plan from the year 2003 is based on convertible bonds. The latter is currently the only plan under which options in the form of convertible bonds are granted.

Under the Fresenius AG 1998 Stock Option Plan, the members of the Fresenius AG Management Board held 91,736 stock options and other employees held 447,360 stock options as of June 30, 2006. Under the Fresenius AG 2003 Stock Option Plan the members of the Fresenius AG Management Board held 129,144 stock options and other employees held 605,964 stock options as of June 30, 2006.

During the first half-year of 2006, Fresenius AG received € 20 million from the exercise of 213,772 stock options. The intrinsic value of options exercised in the first half-year of 2006 was € 8 million.

Stock option transactions are summarized as follows:

| Options for ordinary shares | Number of options | Average exercise price in € | Number of options exercisable |
|---|---|---|---|
| **Balance at December 31, 2005** | **765,295** | **73.67** | **361,980** |
| Exercised | 106,886 | 84.82 | |
| Forfeited | 21,307 | 73.86 | |
| **Balance at June 30, 2006** | **637,102** | **73.20** | **257,421** |

| Options for preference shares | Number of options | Average exercise price in € | Number of options exercisable |
|---|---|---|---|
| **Balance at December 31, 2005** | **765,295** | **80.91** | **361,980** |
| Exercised | 106,886 | 103.25 | |
| Forfeited | 21,307 | 75.06 | |
| **Balance at June 30, 2006** | **637,102** | **77.35** | **257,421** |

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at June 30, 2006:

| | Number of options | Average remaining contractual life in years | Average exercise price in € | Aggregate intrinsic value in million € |
|---|---|---|---|---|
| Options for ordinary shares | 257,421 | 4.61 | 77.21 | 14 |
| Options for preference shares | 257,421 | 4.61 | 90.39 | 10 |

At June 30, 2006, there was € 7 million of total unrecognized compensation costs related to non-vested SBP awards granted under the Fresenius AG plans. These costs are expected to be recognized over a weighted-average period of 2.0 years.

The table below provides a reconciliation of the non-vested outstanding options for preference and ordinary shares at June 30, 2006.

| Options for ordinary shares | Number of options | Weighted-average grant-date fair value in €* |
|---|---|---|
| **Non-vested at December 31, 2005** | **403,315** | **26.72** |
| Forfeited | 23,634 | 24.97 |
| **Non-vested at June 30, 2006** | **379,681** | **26.83** |

| Options for preference shares | Number of options | Weighted-average grant-date fair value in €* |
|---|---|---|
| **Non-vested at December 31, 2005** | **403,315** | **25.37** |
| Forfeited | 23,634 | 22.94 |
| **Non-vested at June 30, 2006** | **379,681** | **25.52** |

*Considering the reduction of the exercise and conversion price due to the capital increase in December 2005.

### Fresenius Medical Care stock option plans

#### General

At June 30, 2006, Fresenius Medical Care has awards outstanding under the terms of various stock-based compensation plans. Since May 2006 options can only be granted under the FMC-AG & Co. KGaA Stock Option Plan 2006. The Management Board members of the Fresenius Medical Care Management AG, the general partner of FMC-AG & Co. KGaA, held 475,730 stock options for ordinary shares and other employees of Fresenius Medical Care held 2,184,783 stock options for ordinary shares and 160,728 stock options for preference shares as of June 30, 2006.

In connection with the conversion of the Fresenius Medical Care's preference shares into ordinary shares, holders of options to acquire preference shares had the opportunity to convert their options so that they would be exercisable to acquire ordinary shares. Holders of 234,311 options elected not to convert. Holders of 3,863,470 options converted resulting in 2,849,318 options for ordinary shares.

### Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006

On May 9, 2006, the FMC-AG & Co. KGaA Stock Option Plan 2006 (2006 Plan) was established by resolution of FMC-AG & Co. KGaA's annual general meeting with a conditional capital increase up to € 12.8 million subject to the issue of up to five million no par value bearer ordinary shares with a nominal value of € 2.56 each. Under the 2006 Plan, up to five million options can be issued, each of which can be exercised to obtain one ordinary share, with up to one million options designated for members of the Management Board of Fresenius Medical Care Management AG, up to one million options designated for members of management boards of direct or indirect subsidiaries of Fresenius Medical Care Management AG and up to three million options designated for managerial staff members of FMC-AG & Co. KGaA and such affiliates. With respect to participants who are members of the Fresenius Medical Care Management AG's Management Board, its Supervisory Board has sole authority to grant stock options and exercise other decision making powers under the 2006 Plan (including decisions regarding certain adjustments and forfeitures). The Fresenius Medical Care Management AG will have such authority with respect to all other participants in the 2006 Plan.

Options under the 2006 Plan can be granted the last Monday in July and/or the first Monday in December. The exercise price of options granted under the 2006 Plan shall be the average closing price on the Frankfurt Stock Exchange of FMC-AG & Co. KGaA's ordinary shares during the last 30 calendar days prior to each grant date. Options granted under the 2006 Plan have a seven-year term but can be exercised only after a three-year vesting period. Options granted are subject to success targets measured over a three-year period from the grant date. For each such year, the success target is achieved if Fresenius Medical Care's adjusted basic income per ordinary share (EPS), as calculated in accordance with the 2006 Plan, increases by at least 8% year over year during the vesting period, beginning with EPS for the year of grant as compared to EPS for the year preceding such grant. For each grant, one-third of the options granted are forfeited for each year in which EPS does not meet or exceed the 8% target. Vesting of the portion or portions of a grant for a year or years in which the success target is met does not occur until completion of the entire three-year vesting period.

Options granted under the 2006 Plan to US participants will be non-qualified stock options under the United States Internal Revenue Code of 1986, as amended. Options under the 2006 Plan are not transferable by a participant or a participant's heirs, and may not be pledged, assigned, or otherwise disposed of. At June 30, 2006 no options had been granted under this plan.

The table below provides reconciliations for options outstanding at June 30, 2006, as compared to December 31, 2005 taking in consideration the conversion, options exercised and forfeited.

| | Number of options in thousand | Average exercise price in € |
|---|---|---|
| **Balance at December 31, 2005** | **4,103** | **47.88** |
| Forfeited prior to conversion | 5 | 41.00 |
| Eligible for conversion | 4,098 | 47.94 |
| Options not converted | 235 | 49.18 |
| Options converted | 3,863 | |
| Reduction due to impact of conversion ratios | 1,014 | |
| Balance of options outstanding after conversion into ordinary shares as of February 10, 2006 | 2,849 | 64.22 |
| Exercised | 175 | 71.14 |
| Forfeited | 13 | 74.32 |
| **Balance at June 30, 2006 (options for ordinary shares)** | **2,661** | **63.72** |
| | | |
| Balance of options not converted as of February 10, 2006 | 235 | 49.18 |
| Exercised | 67 | 50.37 |
| Forfeited | 7 | 50.93 |
| **Balance at June 30, 2006 (options for preference shares)** | **161** | **48.62** |

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at June 30, 2006.

| | Number of options | Average remaining contractual life in years | Average exercise price in € | Aggregate intrinsic value in million € |
|---|---|---|---|---|
| Options for ordinary shares | 730,574 | 4.56 | 58.85 | 23 |
| Options for preference shares | 89,905 | 3.69 | 46.72 | 3 |

At June 30, 2006, there was € 16 million of total unrecognized compensation costs related to non-vested SBP awards granted under the Fresenius Medical Care 2001 Plan. These costs are expected to be recognized over a weighted-average period of 1.5 years.

The tables below provide a reconciliation of the non-vested outstanding options for preference and ordinary shares under the Fresenius Medical Care 2001 Plan at June 30, 2006:

| Options for ordinary shares | Number of options in thousand | Weighted-average grant-date fair value in € |
|---|---|---|
| **Non-vested at February 10, 2006** | **1,870** | **19.73** |
| Forfeited | 14 | 21.80 |
| **Non-vested at June 30, 2006** | **1,856** | **19.71** |

| Options for preference shares | Number of options in thousand | Weighted-average grant-date fair value in € |
|---|---|---|
| **Balance at January 1, 2006** | **2,566** | **14.84** |
| Options not converted | 76 | 14.94 |
| Options converted | 2,490 | |
| Reduction due to impact of conversion ratios | 620 | |
| Balance of options outstanding after conversion into ordinary shares as of February 10, 2006 | 1,870 | 19.73 |
| | | |
| Balance at February 10, 2006 | 76 | 14.94 |
| Forfeited | 5 | 15.49 |
| **Balance at June 30, 2006** | **71** | **14.90** |

During the period ended June 30, 2006, Fresenius Medical Care received € 16 million from the exercise of stock options as well as a tax benefit in an amount of 2 million € relating to stock options. The intrinsic value of options exercised in the first half-year of 2006 was € 6 million.

## 20. SUBSEQUENT EVENTS

There have been no significant changes in the group position or environment sector since the end of the first half-year of 2006. At present, the Fresenius Group is not planning to carry out any significant changes in its structure, administration or legal form or in the area of personnel.

## 21. CORPORATE GOVERNANCE

The Management Boards and the Supervisory Boards of Fresenius AG and Fresenius Medical Care AG have submitted the Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act (AktG) in accordance with the German Corporate Governance Code dated June 2, 2005 and made this permanently available to the shareholders.

# Financial Calendar

| | |
|---|---|
| Report on 1st - 3rd quarters 2006 | |
| Analysts' Meeting, Bad Homburg v.d.H. | |
| Live webcast | |
| Press conference, Bad Homburg v.d.H. | |
| Live webcast | October 31, 2006 |

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