# Quarterly Financial Report of Fresenius Group

applying United States Generally Accepted Accounting Principles

(US GAAP)

## 1st Half and 2nd Quarter 2007

FRESENIUS

## Contents

# FRESENIUS GROUP FIGURES AT A GLANCE

| in million € | **Q2/2007** | Q2/2006 | Change in % | **H1/2007** | H1/2006 | Change in % |
|---|---|---|---|---|---|---|
| Sales | **2,825** | 2,690 | 5 | **5,592** | 5,078 | 10 |
| EBIT | **400** | 390 | 3 | **780** | 681 | 15 |
| EBIT margin | **14.2 %** | 14.5 % | | **13.9 %** | 13.4 % | |
| Net income | **102** | 75 | 36 | **195** | 140 | 39 |
| Earnings per ordinary share in € [1] | **0.66** | 0.48 | 36 | **1.26** | 0.91 | 38 |
| Earnings per preference share in € [1] | **0.67** | 0.49 | 36 | **1.27** | 0.92 | 38 |
| Operating cash flow | **266** | 187 | 42 | **553** | 373 | 48 |
| Operating cash flow in % of sales | **9.4** | 7.0 | | **9.9** | 7.3 | |
| Investments [2] | **230** | 243 | -5 | **525** | 3,633 | -86 |

| in million € | **June 30, 2007** | December 31, 2006 | Change in % |
|---|---|---|---|
| Total assets | **15,343** | 15,024 | 2 |
| Non-current assets | **11,068** | 10,918 | 1 |
| Net debt | **5,603** | 5,611 | 0 |
| Equity [3] | **5,895** | 5,728 | 3 |
| Equity ratio | **38.4 %** | 38.1 % | |
| Employees | **108,860** | 104,872 | 4 |

| **Fresenius shares** [1] | **H1/2007** | 2006 | Change in % |
|---|---|---|---|
| Number of ordinary shares (June 30/December 31) | **77,373,363** | 77,176,938 | 3 |
| Quarter-end quotation in € | **56.92** | 50.57 | 13 |
| High in € | **63.35** | 51.32 | 23 |
| Low in € | **50.17** | 35.47 | 41 |
| ∅ Trading volume (number of shares per trading day) | **73,517** | 61,023 | 20 |
| | | | |
| Number of preference shares (June 30/December 31) | **77,373,363** | 77,176,938 | 3 |
| Quarter-end quotation in € | **56.35** | 54.27 | 4 |
| High in € | **63.12** | 55.32 | 14 |
| Low in € | **52.57** | 37.41 | 41 |
| ∅ Trading volume (number of shares per trading day) | **538,960** | 362,595 | 49 |
| | | | |
| Market capitalization (in million €, Jun 30/Dec 31) | **8,764** | 8,091 | 8 |

[1] Previous year´s figure adjusted for share split in February 2007

[2] Investments in property, plant and equipment and intangible assets, acquisitions

[3] Equity including minority interest

# MANAGEMENT DISCUSSION AND ANALYSIS

- **Sales: € 5.59 billion, +10 % at actual rates, +15 % in constant currency**
- **EBIT: € 780 million, +15 % at actual rates, +20 % in constant currency**
- **Net income: € 195 million, +39 % at actual rates, +44 % in constant currency**

**H1 2007: Fresenius reports continued growth in sales and earnings and raises full-year earnings outlook**

- Excellent sales and earnings growth and further margin improvements in all business segments

**Sales – excellent organic growth**

Group sales increased by 10 % to € 5,592 million (H1 2006: € 5,078 million). Organic sales growth was 7 %. Acquisitions contributed 10 %, in particular Renal Care Group, which was consolidated as from the second quarter of 2006. Divestitures reduced sales by 2 %. Currency translation effects had a negative impact of 5 %. This was mainly attributable to the average dollar rate depreciating 8 % against the euro in the first half of 2007 compared to previous year's period.

In North America sales grew significantly due to the Renal Care Group consolidation and an excellent organic growth rate of 8 %. In Europe sales increased by 8 % in constant currency, with organic growth of 4 %. Strong growth rates were achieved in the emerging markets with organic growth of 9 % in Asia-Pacific, 13 % in Latin America and 24 % in Africa.

**Strong earnings growth**

EBITDA increased by 18 % in constant currency and by 13 % at actual rates to € 977 million (H1 2006: € 867 million). Group operating income (EBIT) increased by 20 % in constant currency and by 15 % at actual rates to € 780 million (H1 2006: € 681 million; adjusted € 652 million including a gain from the divestiture of US dialysis clinics and one-time expenses related to the Renal Care Group acquisition). The strong earnings growth was driven by the successful operating results in all business segments. The Group's EBIT margin improved to 13.9 % (H1 2006: 13.4 %, adjusted margin: 12.8 %).

Group net interest was € -185 million (H1 2006: € -194 million, including one-time expenses of € 30 million for the early refinancing of Group debt).

The tax rate improved to 36.0 % (H1 2006: 42.3 %; 37.4 % adjusted for the tax expense related to the divestiture of US dialysis clinics).

Minority interest increased to € 186 million (H1 2006: € 141 million), of which 93 % was attributable to the minority interest in Fresenius Medical Care.

Group net income also grew strongly by 44 % in constant currency and by 39 % at actual rates to € 195 million (H1 2006: € 140 million, including one-time expenses of € 16 million).

Earnings per ordinary share were € 1.26 and earnings per preference share were € 1.27 (H1 2006, adjusted for the February 2007 share split: ordinary share € 0.91, preference share € 0.92). This represents an increase of 38 % for both share classes.

| Sales in million € | H1/2007 | H1/2006 | Change at actual rates | Currency translation effects | Change at constant rates | Organic growth | Acquisitions/ Divestitures | % of total sales |
|---|---|---|---|---|---|---|---|---|
| Europe | 2,337 | 2,159 | 8 % | 0 % | 8 % | 4 % | 4 % | 42 % |
| North America | 2,515 | 2,270 | 11 % | -9 % | 20 % | 8 % | 12 % | 45 % |
| Asia-Pacific | 384 | 330 | 16 % | -6 % | 22 % | 9% | 13 % | 7 % |
| Latin America | 231 | 212 | 9 % | -5 % | 14 % | 13 % | 1 % | 4 % |
| Africa | 125 | 107 | 17 % | -8 % | 25 % | 24 % | 1 % | 2 % |
| Total | 5,592 | 5,078 | 10 % | -5 % | 15 % | 7 % | 8 % | 100 % |

## High level of investment

Fresenius Group spent € 304 million for property, plant and equipment and intangible assets (H1 2006: € 225 million). Acquisition spending was € 221 million (H1 2006: € 3,408 million).

## Strong cash flow

Operating cash flow increased by 48 % to € 553 million (H1 2006: € 373 million), mainly driven by the strong earnings increase. Cash flow before acquisitions and dividends increased by 60 % to € 256 million (H1 2006: € 160 million). Free cash flow after acquisitions (€ 162 million) and dividends (€ 188 million) was € -94 million (H1 2006: € -2,997 million).

## Solid balance sheet structure

Total assets increased by 3 % in constant currency and by 2 % at actual rates to € 15,343 million (December 31, 2006: € 15,024 million). Current assets increased by 4 % to € 4,275 million (December 31, 2006: € 4,106 million). Non-current assets were € 11,068 million (December 31, 2006: € 10,918 million).

Shareholders' equity including minority interest grew by 3 % to € 5,895 million (December 31, 2006: € 5,728 million). The equity ratio (including minority interest) was 38.4 % (December 31, 2006: 38.1 %).

The Group's debt was € 5,909 million (December 31, 2006: € 5,872 million). The net debt/EBITDA ratio stood at 2.9 on June 30, 2007 (December 31, 2006: 3.0).

## Employees

As of June 30, 2007, the Group had 108,860 employees (December 31, 2006: 104,872), an increase of 4 %.

## Cash flow statement (Summary)

| in million € | **H1/2007** | H1/2006 | Change in % |
|---|---|---|---|
| Net income before minority interest | 381 | 283 | 35 |
| Depreciation and amortization | 197 | 186 | 6 |
| Change in accruals for pensions | 4 | 2 | 100 |
| **Cash flow** | **582** | **471** | **24** |
| Change in working capital | -29 | -98 | 70 |
| **Operating cash flow** | **553** | **373** | **48** |
| Capital expenditure, net | -297 | -213 | -39 |
| **Cash flow before acquisitions and dividends** | **256** | **160** | **60** |
| Cash used for acquisitions, net | -162 | -3,003 | 95 |
| Dividends paid | -188 | -154 | -22 |
| **Free cash flow after acquisitions and dividends** | **-94** | **-2,997** | **97** |
| Cash provided by/used for financing activities | 141 | 3,009 | -95 |
| Effect of exchange rates on change in cash and cash equivalents | -2 | -11 | 82 |
| **Net increase in cash and cash equivalents** | **45** | **1** | -- |

**Second quarter of 2007**

Group sales increased by 5 % at actual rates to € 2,825 million (Q2 2006: € 2,690 million). In constant currency, sales increased by 9 %. Organic sales growth was 6 %. Aquisitions contributed 4 %.

EBIT increased by 3 % at actual rates to € 400 million (Q2 2006: € 390 million; adjusted € 361 million including a gain from the divestiture of US dialysis clinics and one-time expenses related to the RCG acquisition). In constant currency, EBIT grew by 7 %.

Group net income increased by 36 % to € 102 million (Q2 2006: € 75 million, including one-time expenses of € 5 million). In constant currency, excellent growth of 41 % was achieved.

Earnings per ordinary share were € 0.66 (Q2 2006*: € 0.48) and earnings per preference share were € 0.67 (Q2 2006*: € 0.49). This represents an increase of 36 % for both share classes.

Investments in property, plant and equipment and intangible assets grew by 31 % to € 164 million (Q2 2006: € 125 million). Acquisition spending was € 66 million (Q2 2006: € 118 million).

* adjusted for share split in February 2007

**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.

In July 2007, Fresenius Biotech announced further secondary endpoint data from a phase II/III study with removab® (catumaxomab) in patients with malignant ascites. The data confirmed clear benefits for patients treated with the antibody. The trial data showed that removab significantly increases time to tumor progression and has a positive influence on overall survival time. Moreover, a prolonged time interval between therapeutic punctures for the treatment of malignant ascites was seen in the removab group compared to the control group. This effect was also observed beyond the end of the study. In December 2006 and March 2007, Fresenius Biotech already announced encouraging results on the primary study endpoint – puncture free survival.

The submission for marketing authorization with the European Medicines Agency (EMEA) for removab in malignant ascites is expected in late 2007.

The Phase II studies with the antibody rexomun® to treat breast cancer and with the antibody removab to treat gastric cancer are ongoing. These studies started in March 2006 and June 2006, respectively. A phase II study with removab for the treatment of patients with ovarian cancer was started in Europe.

In the first half of 2007, Fresenius Biotech's operating income (EBIT) was € -20 million. For 2007, Fresenius Biotech expects an EBIT of approximately € -50 million (2006: € -45 million).

## OPPORTUNITIES AND RISK REPORT

Compared to the presentation in the 2006 annual report, there have been no material changes in Fresenius´ opportunities and risk situation.

In addition, we report on legal proceedings, currency, interest and liquidity risks on pages 32 to 39 in the Notes of this report.

## GROUP OUTLOOK 2007

**Earnings outlook for 2007 raised**
Based on the Group's strong financial results in the first half, Fresenius raises its earnings outlook for 2007. Net income is now expected to increase by ~25 % in constant currency. Previously, the Company expected net income to increase by 20 to 25 %. Group sales are expected to grow by 8 to 10 % in constant currency.

For divisional outlook information please see pages 9 to 11 of this report.

## RESOLUTIONS OF THE ANNUAL GENERAL MEETING

At the Annual General Meeting on May 16, 2007 the shareholders unanimously approved the proposal of the Management Board and Supervisory Board to increase the dividend by 15 % for the 2006 fiscal year. Ordinary shareholders received a dividend of € 0.57 (2005*: € 0.49), preference shareholders a dividend of € 0.58 (2005*: € 0.50) per share.

* adjusted for share split in February 2007

## CHANGES TO THE MANAGEMENT BOARD

Effective July 1, 2007, Dr. Jürgen Götz (43) was appointed as member of the Management Board of Fresenius AG. Jürgen Götz will be responsible for legal, compliance and personnel affairs.

With the conversion of Fresenius AG into a European Company (Societas Europaea) which took effect on July 13, 2007 with the entry of Fresenius SE in the commercial register all members of the Management Board of Fresenius AG became members of the Management Board of Fresenius SE (for further information on the SE conversion please see page 20 of this report).

In addition, Fresenius announced that it will reorganize its hospital business effective January 1, 2008. The current business segment Fresenius ProServe will be replaced by the two new business segments Fresenius HELIOS and Fresenius VAMED. Dr. Francesco De Meo (43) and Dr. Ernst Wastler (49) will join the Management Board of Fresenius SE effective January 1, 2008. Francesco De Meo will be responsible for the business segment Fresenius HELIOS. Ernst Wastler will be in charge of the business segment Fresenius VAMED. As a result of the reorganization, Andreas Gaddum, member of the Management Board of Fresenius SE and responsible for the business segment Fresenius ProServe, will leave the company effective December 31, 2007.

## CHANGES TO THE SUPERVISORY BOARD

With the entry of Fresenius SE in the commercial register on July 13, 2007 the Supervisory Board of Fresenius SE has the following members:

- Dario Ilossi, Rom (Italy), Secretary of the Trade Union FEMCA Cisl – Energy, Fashion and Chemicals
- Konrad Kölbl, Hof am Laitha-Gebirge (Austria), Chairman of the Corporate Works Council VAMED AG
- Dr. Gerd Krick, Königstein, former Chairman of the Management Board Fresenius AG
- Dr. Gabriele Kröner, Berg, Doctor
- Dr. Gerhard Rupprecht, Gerlingen, Member of the Management Board Allianz SE
- Wilhelm Sachs, Friedrichsdorf, Chairman of the General Works Council Fresenius SE
- Dr. Dieter Schenk, München, Lawyer and Tax consultant
- Stefan Schubert, Limburg-Staffel, Chairman of the Corporate Works Council Wittgensteiner Kliniken GmbH
- Dr. Karl Schneider, Mannheim, former Spokesman Südzucker AG
- Rainer Stein, Berlin, Chairman of the Corporate Works Council HELIOS Kliniken GmbH
- Niko Stumpfögger, Zeuthen, Secretary of the Trade Union ver.di, health care division
- Dr. Bernhard Wunderlin, Bad Homburg v.d.H., former Managing Director Harald Quandt Holding GmbH

# 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, 2007, Fresenius Medical Care was serving 171,687 patients in 2,209 dialysis clinics.**

| in million US$ | Q2/2007 | Q2/2006 | Change in % | H1/2007 | H1/2006 | Change in % |
|---|---|---|---|---|---|---|
| Sales | 2,404 | 2,165 | 11 | 4,725 | 3,912 | 21 |
| EBITDA | 477 | 452 | 5 | 926 | 757 | 22 |
| EBIT | 391 | 372 | 5 | 756 | 616 | 23 |
| Net income | 179 | 130 | 38 | 339 | 246 | 38 |
| Employees | | | | 63,296 (Jun 30, 2007) | 59,996 (Dec 31, 2006) | 6 |

**First half of 2007**

- Continued strong organic sales development
- Excellent earnings growth
- 2007 outlook raised

Fresenius Medical Care achieved significant sales growth of 21 % to US$ 4,725 million (H1 2006: US$ 3,912 million). This was mainly driven by the strong organic growth of 8 % and by the consolidation of Renal Care Group (RCG) as from the second quarter of 2006. Sales in dialysis care increased by 22 % to US$ 3,556 million (H1 2006: US$ 2,924 million). In dialysis products, Fresenius Medical Care achieved sales of US$ 1,169 million (H1 2006: US$ 988 million), an increase of 18 %.

In North America Fresenius Medical Care's sales increased by 20 % to US$ 3,297 million (H1 2006: US$ 2,754). Sales outside North America (International) grew by 23 % (in constant currency: 16 %) to US$ 1,428 million (H1 2006: US$ 1,158 million). This was driven by the positive operating performance in Europe, the Asia-Pacific region and in Latin America.

Fresenius Medical Care increased EBIT by 23 % to US$ 756 million (H1 2006: US$ 616 million, adjusted US$ 581 million including a gain from the divestiture of US dialysis clinics and one-time expenses related to the RCG acquisition). The EBIT margin was 16.0 % (H1 2006: 15.7 %, adjusted 14.8 %). Net income increased by 38 % to US$ 339 million (H1 2006: US$ 246 million, including one-time expenses of US$ 16 million).

**Second quarter of 2007**

Fresenius Medical Care increased sales by 11 % to US$ 2,404 million (Q2 2006: US$ 2,165 million). Sales growth was 9 % in constant currency. Organic sales growth was 8 %. EBIT increased by 5 % to US$ 391 million (Q2 2006: US$ 372 million; adjusted US$ 337 million including a gain from the divestiture of US dialysis clinics and one-time expenses related to the RCG acquisition). Net income grew by 38 % to US$ 179 (Q2 2006: US$ 130 million, including one-time expenses of US$ 8 million).

**Full-year 2007 outlook**

Based on the strong operational performance in the first half of 2007, Fresenius Medical Care raises its outlook for the full year 2007 and now expects to achieve revenue of more than US$ 9.5 billion. This represents an increase of at least 12 %. Previously, Fresenius Medical Care expected revenue of approximately US$ 9.4 billion. Net income is now projected to be in the range of US$ 685 million to US$ 705 million in 2007. This represents an increase of between 19 % and 23 % on an adjusted basis as compared to 2006 after one-time effects. On a reported basis, this translates into an increase in net income of between 28 % and 31 %. Previously, Fresenius Medical Care expected net income in the range of US$ 675 million to US$ 695 million.

For further information, please see Fresenius Medical Care's Investor News at 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 € | **Q2/2007** | Q2/2006 | Change in % | **H1/2007** | H1/2006 | Change in % |
|---|---|---|---|---|---|---|
| Sales | **503** | 471 | 7 | **986** | 937 | 5 |
| EBITDA | **101** | 90 | 12 | **197** | 177 | 11 |
| EBIT | **82** | 71 | 15 | **159** | 139 | 14 |
| Net income | **45** | 34 | 32 | **87** | 60 | 45 |
| Employees | | | | **16,581 (Jun 30, 2007)** | 15,591 (Dec 31, 2006) | 6 |

## First half of 2007

- Excellent organic sales growth
- Continued strong EBIT margin increase in second quarter and first half of 2007
- 2007 outlook fully confirmed

In the first half of 2007, Fresenius Kabi increased sales by 5 % to € 986 million (H1 2006: € 937 million). Currency translation effects had an impact of -2 %. This was mainly due to the depreciation of currencies in South Africa, China and Canada. Organic growth was 7 %.

In Europe (excluding Germany) organic sales growth was 5 % while sales in Germany were at previous year's level. Outside Europe, Fresenius Kabi achieved organic sales growth of 22 % in the Asia-Pacific region in the first half of 2007. Organic sales growth in Latin America was 10 % and in other regions 11 %.

Fresenius Kabi continued its excellent earnings growth. In the first half of 2007, EBIT increased by 14 % to € 159 million (H1 2006: € 139 million). The EBIT margin improved to 16.1 % (H1 2006: 14.8 %). Net income increased by 45 % to € 87 million (H1 2006: € 60 million, including one-time expenses for early debt refinancing of € 11 million).

## Second quarter of 2007

Fresenius Kabi's sales grew by 7 % to € 503 million (Q2 2006: € 471 million). Organic sales growth was an excellent 8 %. In Germany, the company achieved an organic sales growth of 1 %. EBIT increased by 15 % to € 82 million (Q2 2006: € 71 million). EBIT margin was 16.3 %. Net income increased by 32 % to € 45 million (Q2 2006: € 34 million, including one-time expenses for early debt refinancing of € 3 million).

## Full-year 2007 outlook

Fresenius Kabi fully confirms its outlook for the full year 2007. Organic sales growth is projected to be 6 to 8 %. Continued strong sales growth is anticipated from the regions outside Europe. Based on the positive sales projection and further manufacturing and logistics improvements Fresenius Kabi expects an EBIT margin of 16.0 to 16.5 % in 2007.

# BUSINESS SEGMENT FRESENIUS PROSERVE

**Fresenius ProServe is a leading private hospital operator with 58 facilities. Moreover, the company offers engineering and services for hospitals and other health care facilities.**

| in million € | **Q2/2007** | Q2/2006 | Change in % | **H1/2007** | H1/2006 | Change in % |
|---|---|---|---|---|---|---|
| Sales | **548** | 498 | 10 | **1,069** | 974 | 10 |
| EBITDA | **52** | 47 | 11 | **101** | 90 | 12 |
| EBIT | **39** | 32 | 22 | **75** | 62 | 21 |
| Net income | **17** | 12 | 42 | **31** | 23 | 35 |
| Employees | | | | **28,301 (Jun 30, 2007)** | 28,615 (Dec 31, 2006) | -1 |

**First half of 2007**

- Continued strong sales and earnings growth
- Sale of Pharmatec to Robert Bosch GmbH completed June 30, 2007
- 2007 earnings outlook raised

Fresenius ProServe's sales grew by 10 % to € 1,069 million (H1 2006: € 974 million). Organic sales growth was 2 %. EBIT increased by 21 % to € 75 million (H1 2006: € 62 million).

Sales in hospital operations (HELIOS Kliniken Group) grew by 16 % to € 890 million (H1 2006: € 767 million). The growth is mainly attributable to the acquisition of HUMAINE Kliniken, which was consolidated as from July 1, 2006. HELIOS achieved strong organic growth of 3 %. EBIT increased by 21 % to € 68 million, EBIT margin was 7.6 % (H1 2006: € 56 million and 7.3 %).

In the second quarter of 2007, HELIOS Kliniken inaugurated its newly constructed hospital Berlin-Buch. In parallel, HELIOS continued its growth strategy in the German hospital market. In July 2007, HELIOS agreed to acquire the Mariahilf hospital in Hamburg. The hospital has 255 beds and achieved revenues of € 26 million in 2006.

Sales in the engineering and services business was € 179 million (H1 2006: € 207 million). The decrease was mainly due to the sale of Pharmaplan, which was deconsolidated as of January 1, 2007. Organic growth was -2 %. EBIT was € 9 million (H1 2006: € 9 million).

Furthermore, Fresenius ProServe agreed to sell its subsidiary Pharmatec to Robert Bosch GmbH on May 1, 2007. In 2006, the company had sales of about € 30 million. The transaction was completed June 30, 2007.

Order intake in the engineering and services business was € 106 million (H1 2006: € 185 million). The decrease was due to the postponement of orders to the second half of 2007 and to a very strong order intake in the second quarter of 2006. Order backlog was € 379 million (December 31, 2006: € 428 million).

**Second quarter of 2007**

In the second quarter of 2007, Fresenius ProServe achieved sales growth of 10 % to € 548 million (Q2 2006: € 498 million). Organic growth was 1 %. EBIT increased by 22 % to € 39 million (Q2 2006: € 32 million). Net income increased by 42 % to € 17 million (Q2 2006: € 12 million).

**Full-year 2007 outlook**

Based on the excellent financial results in the first half, Fresenius ProServe raises its 2007 EBIT outlook from previously € 160 to 170 million to now € ~170 million. The outlook for organic sales growth is confirmed at 2 to 3 %.

# FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

| in million € | **Q2/2007** | Q2/2006 | **H1/2007** | H1/2006 |
|---|---|---|---|---|
| Sales | **2,825** | 2,690 | **5,592** | 5,078 |
| Cost of sales | **-1,889** | -1,844 | **-3,768** | -3,496 |
| **Gross profit** | **936** | 846 | **1,824** | 1,582 |
| Selling, general and administrative expenses | **-493** | -417 | **-960** | -827 |
| Research and development expenses | **-43** | -39 | **-84** | -74 |
| **Operating income (EBIT)** | **400** | 390 | **780** | 681 |
| Net interest | **-90** | -110 | **-185** | -194 |
| **Earnings before income taxes and minority interest** | **310** | 280 | **595** | 487 |
| Income taxes | **-111** | -130 | **-214** | -206 |
| Minority interest | **-97** | -75 | **-186** | -141 |
| **Net income** | **102** | 75 | **195** | 140 |

| | | | | |
|---|---|---|---|---|
| **Basic earnings per ordinary share in €** | **0.66** | 0.48 | **1.26** | 0.91 |
| **Fully diluted earnings per ordinary share in €** | **0.65** | 0.48 | **1.24** | 0.90 |
| **Basic earnings per preference share in €** | **0.67** | 0.49 | **1.27** | 0.92 |
| **Fully diluted earnings per preference share in €** | **0.66** | 0.49 | **1.25** | 0.91 |

See accompanying Notes to the unaudited consolidated financial statements.

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

| in million € | June 30, 2007 | Dec 31, 2006 |
|---|---|---|
| Cash and cash equivalents | **306** | 261 |
| Trade accounts receivable, less allowance for doubtful accounts | **2,146** | 2,088 |
| Accounts receivable from and loans to related parties | **7** | 8 |
| Inventories | **868** | 761 |
| Prepaid expenses and other current assets | **683** | 730 |
| Deferred taxes | **265** | 258 |
| **I. Total current assets** | **4,275** | 4,106 |
| Property, plant and equipment | **2,817** | 2,712 |
| Goodwill | **7,159** | 7,107 |
| Other intangible assets | **547** | 548 |
| Other non-current assets | **374** | 378 |
| Deferred taxes | **171** | 173 |
| **II. Total non-current assets** | **11,068** | 10,918 |
| **Total assets** | **15,343** | 15,024 |
| | | |
| Trade accounts payable | **425** | 464 |
| Short-term accounts payable to related parties | **3** | 2 |
| Short-term accrued expenses and other short-term liabilities | **1,923** | 1,808 |
| Short-term borrowings | **653** | 330 |
| Short-term loans from related parties | **–** | 1 |
| Current portion of long-term debt and liabilities from capital lease obligations | **178** | 265 |
| Short-term accruals for income taxes | **113** | 159 |
| Deferred taxes | **35** | 29 |
| Current portion of trust preferred securities of Fresenius Medical Care Capital Trusts | **477** | 0 |
| **A. Total short-term liabilities** | **3,807** | 3,058 |
| Long-term debt and liabilities from capital lease obligations, less current portion | **4,142** | 4,330 |
| Long-term liabilities and loans from related parties | **0** | – |
| Long-term accrued expenses and other long-term liabilities | **287** | 300 |
| Pension liabilities | **316** | 310 |
| Long-term accruals for income taxes | **95** | 0 |
| Deferred taxes | **342** | 352 |
| Trust preferred securities of Fresenius Medical Care Capital Trusts, less current portion | **459** | 946 |
| **B. Total long-term liabilities** | **5,641** | 6,238 |
| **I. Total liabilities** | **9,448** | 9,296 |
| **II. Minority interest** | **2,628** | 2,560 |
| Subscribed capital | **155** | 155 |
| Capital reserve | **1,718** | 1,701 |
| Other reserves | **1,421** | 1,315 |
| Accumulated other comprehensive income (loss) | **-27** | -3 |
| **III. Total shareholders' equity** | **3,267** | 3,168 |
| **Total liabilities and shareholders' equity** | **15,343** | 15,024 |

See accompanying Notes to the unaudited consolidated financial statements.

## CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

| in million € | H1/2007 | H1/2006 |
|---|---|---|
| **Cash provided by/used for operating activities** | | |
| Net income | 195 | 140 |
| Minority interest | 186 | 143 |
| **Adjustments to reconcile net income to cash and cash equivalents provided by operating activities** | | |
| Depreciation and amortization | 197 | 186 |
| Loss on sale of investments | 0 | 4 |
| Change in deferred taxes | 15 | -32 |
| Gain on sale of fixed assets | – | – |
| **Change in assets and liabilities, net of amounts from businesses acquired or disposed of** | | |
| Change in trade accounts receivable, net | -53 | 17 |
| Change in inventories | -104 | -75 |
| Change in prepaid expenses and other current and non-current assets | -5 | -65 |
| Change in accounts receivable from/payable to related parties | 2 | 3 |
| Change in trade accounts payable, accruals and other short-term and long-term liabilities | 96 | 72 |
| Change in accruals for income taxes | 24 | 41 |
| Tax payments related to divestitures and acquisitions | 0 | -61 |
| **Cash provided by operating activities** | 553 | 373 |
| **Cash provided by/used for investing activities** | | |
| Purchase of property, plant and equipment | -315 | -225 |
| Proceeds from the sale of property, plant and equipment | 18 | 12 |
| Acquisitions and investments, net of cash acquired | -211 | -3,415 |
| Proceeds from divestitures | 49 | 412 |
| **Cash used for investing activities** | -459 | -3,216 |
| **Cash provided by/used for financing activities** | | |
| Proceeds from short-term borrowings | 247 | 43 |
| Repayments of short-term borrowings | -29 | -80 |
| Proceeds from borrowings from related parties | 0 | 3 |
| Repayments of borrowings from related parties | -1 | 0 |
| Proceeds from long-term debt and liabilities from capital lease obligations | 146 | 4,257 |
| Repayments of long-term debt and liabilities from capital lease obligations | -350 | -1,603 |
| Changes of accounts receivable facility | 105 | 106 |
| Proceeds from the exercise of stock options | 16 | 38 |
| Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares | 0 | 260 |
| Dividends paid | -188 | -154 |
| Change in minority interest | 0 | -5 |
| Exchange rate effect due to corporate financing | 7 | -10 |
| **Cash provided by/used for financing activities** | -47 | 2,855 |
| **Effect of exchange rate changes on cash and cash equivalents** | -2 | -11 |
| **Net increase in cash and cash equivalents** | 45 | 1 |
| **Cash and cash equivalents at the beginning of the reporting period** | 261 | 252 |
| **Cash and cash equivalents at the end of the reporting period** | 306 | 253 |

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, 2005** | **76,812** | **76,243** | **76,812** | **76,243** | **152,486** | **153** |
| 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 | | | | | | |
| Adjustments relating to pension obligation | | | | | | |
| Comprehensive income (loss) | | | | | | |
| **As of June 30, 2006** | **76,919** | **76,517** | **76,919** | **76,517** | **153,034** | **153** |
| | | | | | | |
| **As of December 31, 2006** | **77,177** | **77,177** | **77,177** | **77,177** | **154,354** | **155** |
| Proceeds from the exercise of stock options | 196 | 196 | 196 | 196 | 392 | – |
| 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 | | | | | | |
| Adjustments relating to pension obligation | | | | | | |
| Comprehensive income (loss) | | | | | | |
| **As of June 30, 2007** | **77,373** | **77,373** | **77,373** | **77,373** | **154,746** | **155** |

See accompanying Notes to the unaudited consolidated financial statements.

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

| | Reserves | | Other comprehensive income (loss) | | | |
|---|---|---|---|---|---|---|
| | Capital reserve (million €) | Other reserves (million €) | Foreign currency translation (million €) | Cash flow hedges (million €) | Pensions (million €) | Total shareholders' equitiy (million €) |
| **As of December 31, 2005** | **1,523** | **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 |
| Adjustments relating to pension obligation | | | | | 4 | 4 |
| Comprehensive income (loss) | | 140 | -118 | 41 | 4 | 67 |
| **As of June 30, 2006** | **1,642** | **1,125** | **43** | **55** | **-67** | **2,951** |
| | | | | | | |
| **As of December 31, 2006** | **1,701** | **1,315** | **34** | **30** | **-67*** | **3,168** |
| Proceeds from the exercise of stock options | 10 | | | | | 10 |
| Compensation expense related to stock options | 7 | | | | | 7 |
| Dividends paid | | -89 | | | | -89 |
| Comprehensive income (loss) | | | | | | |
| Net income | | 195 | | | | 195 |
| Other comprehensive income (loss) related to | | | | | | |
| Cash flow hedges | | | | 7 | | 7 |
| Foreign currency translation | | | -34 | | | -34 |
| Adjustments relating to pension obligation | | | | | 3 | 3 |
| Comprehensive income (loss) | | 195 | -34 | 7 | 3 | 171 |
| **As of June 30, 2007** | **1,718** | **1,421** | **–** | **37** | **-64** | **3,267** |

* Including the effect of the first-time adoption of FAS 158 at December 31, 2006 in an amount of € -19 million

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 € | **2007** | 2006 | Change | **2007** | 2006 | Change | **2007** | 2006 | Change | **2007** | 2006 | Change | **2007** | 2006 | Change |
| Sales | **3,554** | 3,182 | 12 % | **986** | 937 | 5 % | **1,069** | 974 | 10 % | **-17** | -15 | -13 % | **5,592** | 5,078 | 10 % |
| thereof contribution to consolidated sales | **3,553** | 3,180 | 12 % | **964** | 919 | 5 % | **1,066** | 971 | 10 % | **9** | 8 | 13 % | **5,592** | 5,078 | 10 % |
| thereof intercompany sales | **1** | 2 | -50 % | **22** | 18 | 22 % | **3** | 3 | 0 % | **-26** | -23 | -13 % | **0** | 0 | |
| contribution to consolidated sales | **64 %** | 63 % | | **17 %** | 18 % | | **19 %** | 19 % | | **0 %** | 0 % | | **100 %** | 100 % | |
| EBITDA | **697** | 616 | 13 % | **197** | 177 | 11 % | **101** | 90 | 12 % | **-18** | -16 | -13 % | **977** | 867 | 13 % |
| Depreciation and amortization | **129** | 115 | 12 % | **38** | 38 | 0 % | **26** | 28 | -7 % | **4** | 5 | -20 % | **197** | 186 | 6 % |
| EBIT | **568** | 501 | 13 % | **159** | 139 | 14 % | **75** | 62 | 21 % | **-22** | -21 | -5 % | **780** | 681 | 15 % |
| Net interest | **-140** | -127 | -10 % | **-24** | -43 | 44 % | **-21** | -21 | 0 % | **–** | -3 | 100 % | **-185** | -194 | 5 % |
| Net income | **255** | 200 | 28 % | **87** | 60 | 45 % | **31** | 23 | 35 % | **-178** | -143 | -24 % | **195** | 140 | 39 % |
| Operating cash flow | **382** | 254 | 50 % | **62** | 80 | -23 % | **132** | 68 | 94 % | **-23** | -29 | 21 % | **553** | 373 | 48 % |
| Cash flow before acquisitions and dividends | **202** | 124 | 63 % | **8** | 44 | -82 % | **71** | 27 | 163 % | **-25** | -35 | 29 % | **256** | 160 | 60 % |
| Debt[1] | **4,193** | 4,236 | -1 % | **951** | 880 | 8 % | **956** | 932 | 3 % | **-191** | -176 | -9 % | **5,909** | 5,872 | 1 % |
| Total assets[1] | **10,026** | 9,905 | 1 % | **2,105** | 1,965 | 7 % | **3,103** | 3,108 | 0 % | **109** | 46 | 137 % | **15,343** | 15,024 | 2 % |
| Capital expenditure | **189** | 141 | 34 % | **44** | 37 | 19 % | **70** | 41 | 71 % | **1** | 6 | -83 % | **304** | 225 | 35 % |
| Acquisitions | **90** | 3,400 | -97 % | **38** | 8 | -- | **84** | – | -- | **9** | 0 | -- | **221** | 3,408 | -94 % |
| Research and development expenses | **21** | 21 | 0 % | **40** | 32 | 25 % | **1** | – | -- | **22** | 21 | 5 % | **84** | 74 | 14 % |
| Employees (per capita on balance sheet date)[1] | **63,296** | 59,996 | 6 % | **16,581** | 15,591 | 6 % | **28,301** | 28,615 | -1 % | **682** | 670 | 2 % | **108,860** | 104,872 | 4 % |
| Key figures | | | | | | | | | | | | | | | |
| EBITDA margin | **19.6 %** | 19.4 % | | **20.0 %** | 18.9 % | | **9.4 %** | 9.2 % | | | | | **17.5 %** | 17.1 % | |
| EBIT margin | **16.0 %** | 15.7 % | | **16.1 %** | 14.8 % | | **7.0 %** | 6.4 % | | | | | **13.9 %** | 13.4 % | |
| ROOA[1] | **12.1 %** | 11.3 %[2] | | **17.8 %** | 17.3 % | | **5.7 %** | 6.9 % | | | | | **11.0 %** | 10.4 %[2] | |
| Depreciation and amortization in % of sales | **3.6 %** | 3.6 % | | **3.9 %** | 4.1 % | | **2.4 %** | 2.9 % | | | | | **3.5 %** | 3.7 % | |

[1] 2006: December 31
[2] Calculation is based on the pro forma EBIT excluding the gain on the sale of Fresenius Medical Care's dialysis clinics.

## SEGMENT REPORTING SECOND QUARTER

| | Fresenius Medical Care | | | Fresenius Kabi | | | Fresenius ProServe | | | Corporate/Other | | | Fresenius Group | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| by business segments, in million € | **2007** | 2006 | Change | **2007** | 2006 | Change | **2007** | 2006 | Change | **2007** | 2006 | Change | **2007** | 2006 | Change |
| Sales | **1,783** | 1,729 | 3 % | **503** | 471 | 7 % | **548** | 498 | 10 % | **-9** | -8 | -13 % | **2,825** | 2,690 | 5 % |
| thereof contribution to consolidated sales | **1,782** | 1,727 | 3 % | **492** | 462 | 6 % | **546** | 496 | 10 % | **5** | 5 | 0 % | **2,825** | 2,690 | 5 % |
| thereof intercompany sales | **1** | 2 | -50 % | **11** | 9 | 22 % | **2** | 2 | 0 % | **-14** | -13 | -8 % | **0** | 0 | |
| contribution to consolidated sales | **63 %** | 64 % | | **18 %** | 17 % | | **19 %** | 19 % | | **0 %** | 0 % | | **100 %** | 100 % | |
| EBITDA | **354** | 362 | -2 % | **101** | 90 | 12 % | **52** | 47 | 11 % | **-9** | -9 | 0 % | **498** | 490 | 2 % |
| Depreciation and amortization | **64** | 64 | 0 % | **19** | 19 | 0 % | **13** | 15 | -13 % | **2** | 2 | 0 % | **98** | 100 | -2 % |
| EBIT | **290** | 298 | -3 % | **82** | 71 | 15 % | **39** | 32 | 22 % | **-11** | -11 | 0 % | **400** | 390 | 3 % |
| Net interest | **-68** | -80 | 15 % | **-12** | -17 | 29 % | **-10** | -11 | 9 % | **–** | -2 | 100 % | **-90** | -110 | 18 % |
| Net income | **133** | 103 | 29 % | **45** | 34 | 32 % | **17** | 12 | 42 % | **-93** | -74 | -26 % | **102** | 75 | 36 % |
| Operating cash flow | **166** | 119 | 39 % | **43** | 52 | -17 % | **70** | 31 | 126 % | **-13** | -15 | 13 % | **266** | 187 | 42 % |
| Cash flow before acquisitions and dividends | **69** | 43 | 60 % | **19** | 34 | -44 % | **28** | 11 | 155 % | **-15** | -19 | 21 % | **101** | 69 | 46 % |
| Capital expenditure | **100** | 83 | 20 % | **24** | 19 | 26 % | **39** | 20 | 95 % | **1** | 3 | -67 % | **164** | 125 | 31 % |
| Acquisitions | **19** | 115 | -83 % | **38** | 3 | -- | **9** | – | -- | **0** | 0 | 0 % | **66** | 118 | -44 % |
| Research and development expenses | **11** | 11 | 0 % | **21** | 17 | 24 % | **1** | – | -- | **10** | 11 | -9 % | **43** | 39 | 10 % |
| Key figures | | | | | | | | | | | | | | | |
| EBITDA margin | **19.8 %** | 20.9 % | | **20.1 %** | 19.1 % | | **9.5 %** | 9.4 % | | | | | **17.6 %** | 18.2 % | |
| EBIT margin | **16.3 %** | 17.2 % | | **16.3 %** | 15.1 % | | **7.1 %** | 6.4 % | | | | | **14.2 %** | 14.5 % | |
| Depreciation and amortization in % of sales | **3.6 %** | 3.7 % | | **3.8 %** | 4.0 % | | **2.4 %** | 3.0 % | | | | | **3.5 %** | 3.7 % | |

# Notes – Contents

## 1. PRINCIPLES

### I. GROUP STRUCTURE

Fresenius is a worldwide operating 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 operations as well as engineering and services for hospitals. In addition to the activities of Fresenius SE, the operating activities are split into the following legally independent business segments (subgroups) as of June 30, 2007:

- 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 are marked with "–".

### II. CONVERSION OF FRESENIUS AG INTO A EUROPEAN COMPANY (SE) AND NEW DIVISION OF THE SUBSCRIBED CAPITAL

On December 4, 2006, at the Extraordinary General Meeting, Fresenius AG's shareholders approved the proposal to convert the Company's legal form from a German stock corporation (Aktiengesellschaft) into a European Company (Societas Europaea – SE). The conversion became effective on July 13, 2007 upon the registration in the commercial register after the successful completion of the procedure for the involvement of the employees. Fresenius AG's name after the conversion is Fresenius SE. The conversion of Fresenius AG into a SE neither lead to a liquidation of the company nor to the formation of a new legal entity. The Company's corporate structure and management organization as well as the interests of the shareholders in the company continue to exist unchanged because of the identity of the legal entity. In the statutes of Fresenius SE, the existing two-tier system consisting of Management Board and Supervisory Board will remain unchanged. The Supervisory Board of Fresenius SE continues to have twelve members.

Furthermore, Fresenius AG's shareholders approved at the Extraordinary General Meeting to conduct a new division of the subscribed capital of Fresenius AG (share split) in connection with a capital increase from the company's funds without the issuance of new shares. As a result, the number of ordinary shares and preference shares issued tripled. The share split in connection with an increase of the subscribed capital became effective upon the registration in the commercial register on January 24, 2007. The subscribed capital of Fresenius AG amounted to € 131,715,307.52 before the registration in the commercial register and was divided into 25,725,646 ordinary shares and 25,725,646 preference shares. Through a conversion of capital reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided into 77,176,938 ordinary shares and 77,176,938 preference shares. The new proportionate amount of the subscribed capital is € 1,00 per share. After the share split, every holder of an ordinary share holds three ordinary shares and every holder of a preference share holds three preference shares.

### III. BASIS OF PRESENTATION

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

Since the fiscal year 2005, Fresenius SE as a stock exchange listed company with a domicile in a member state of the European Union has the obligation to prepare and publish the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applying Section 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 simultaneously.

## IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of consolidation

The consolidated financial statements for the first half-year and the second quarter ended June 30, 2007 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, 2006, published in the 2006 Annual Report. There have been no major changes in the entities consolidated.

The consolidated financial statements for the first half-year and the second quarter ended June 30, 2007 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 of 2007 are not necessarily indicative of the results of operations for the fiscal year 2007 ending December 31, 2007.

### Classification

Certain items in the prior year's quarterly financial reports and the prior year's consolidated financial statements have been reclassified to conform with the current year's presentation including certain items in the cash flow statements which have been reclassified by Fresenius Medical Care to decrease net cash provided by operating activities and net cash used in financing activities, each by € 12 million. The calculation of earnings per share (see Note 4, Earnings per share) has been adjusted due to the share split of Fresenius AG recorded in the commercial register on January 24, 2007 for the increased number of shares in the fiscal year 2006. Furthermore, for any information relating to the transactions regarding stock options, the number of stock options granted until December 31, 2006 has been tripled. Thus, the number of potentially issued shares is shown according to the relation after the share split (see Note 18, Stock options).

### Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## V. NEW ACCOUNTING STANDARDS

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

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115 (FAS 159), which permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date.

The fair value option:

- may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method;
- is irrevocable (unless a new election date occurs); and
- is applied only to entire instruments and not to portions of instruments.

This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FAS 157. The Fresenius Group is currently evaluating the impact of this standard on its consolidated financial statements.

## 2. ACQUISITIONS AND DIVESTITURES

The Fresenius Group made acquisitions amounting to € 221 million and € 3,408 million in the first half-year of 2007 and the first half-year of 2006, respectively. Of this amount, € 211 million were paid in cash and € 10 million were assumed obligations in the first half-year of 2007.

The acquisitions in the first half-year of 2006 related mainly to the aquisition of Renal Care Group, Inc. (RCG), United States, with a purchase price of US$ 4,158 million. The operations of RCG are included in Fresenius Group's consolidated statements of income and cash flows from April 1, 2006; therefore, the current half-year's results are not comparable with the first half-year's results for 2006.

In the first half-year of 2007, acquisitions of Fresenius Medical Care in an amount of € 90 million related mainly to the purchase of dialysis clinics.

Fresenius Medical Care sold the perfusion business unit of Fresenius Medical Care Extracorporeal Alliance (FMCEA) during the second quarter of 2007. In 2006, FMCEA's perfusion business contributed revenue of approximately € 83 million. The US perfusion business was deconsolidated effective May 9, 2007.

In the first half-year of 2007, Fresenius Kabi made acquisitions of € 38 million relating mainly to the acquisition of the artificial colloid product business of Kyorin Pharmaceuticals Co. Ltd, Japan, the purchase of the remaining shares in Pharmatel Fresenius Kabi Pty Ltd., Australia, as well as the acquisition of all shares of Laboratorios Filaxis S.A., Argentina.

Fresenius ProServe made acquisitions of € 84 million, mainly related to the acquisition of the remaining 40 % of the shares of HUMAINE Kliniken GmbH (HUMAINE), Germany, in the first half-year of 2007.

In the first quarter of 2007, Fresenius ProServe closed the divestiture of its subsidiary Pharmaplan GmbH, Germany, to NNE A/S, Denmark. Furthermore, Fresenius ProServe sold its subsidiary Pharmatec GmbH, Germany. This transaction was completed on June 30, 2007.

In the last quarter of 2006, Fresenius Biotech signed a contract to acquire additional shares of Trion Pharma GmbH, Germany, in an amount of € 9 million. Contingent upon the achievement of certain performance criteria, additional contractual milestone payments in a maximum amount of € 14 million have been agreed. The acquisition was closed in the first quarter of 2007.

# NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

## 3. SALES

Sales by activity were as follows:

| in million € | H1/2007 | H1/2006 |
|---|---|---|
| Sales of services | 3,657 | 3,239 |
| Sales of products and related goods | 1,820 | 1,702 |
| Sales from long-term production contracts | 115 | 137 |
| Other sales | 0 | – |
| **Sales** | **5,592** | 5,078 |

## 4. EARNINGS PER SHARE

The following table is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations and shows the basic and fully diluted earnings per ordinary and preference share, retroactively considering the share split of Fresenius AG entered into the commercial register on January 24, 2007, for the first half-year ending June 30.

| | H1/2007 | H1/2006 |
|---|---|---|
| **Numerators in million €** | | |
| Net income | 195 | 140 |
| less preference on preference shares | 1 | – |
| less effect from dilution due to Fresenius Medical Care shares | 1 | – |
| Income available to all classes of shares | 193 | 140 |
| **Denominators in number of shares** | | |
| Weighted-average number of ordinary shares outstanding | 77,271,249 | 76,278,480 |
| Weighted-average number of preference shares outstanding | 77,271,249 | 76,278,480 |
| Weighted-average number of shares outstanding of all classes | 154,542,498 | 152,556,960 |
| Potentially dilutive ordinary shares | 971,947 | 804,336 |
| Potentially dilutive preference shares | 971,947 | 804,336 |
| Weighted-average number of shares outstanding of all classes assuming dilution | 156,486,392 | 154,165,632 |
| Weighted-average number of ordinary shares outstanding assuming dilution | 78,243,196 | 77,082,816 |
| Weighted-average number of preference shares outstanding assuming dilution | 78,243,196 | 77,082,816 |
| **Basic earnings per ordinary share in €** | 1.26 | 0.91 |
| **Preference per preference share in €** | 0.01 | 0.01 |
| **Basic earnings per preference share in €** | 1.27 | 0.92 |
| **Fully diluted earnings per ordinary share in €** | 1.24 | 0.90 |
| **Preference per preference share in €** | 0.01 | 0.01 |
| **Fully diluted earnings per preference share in €** | 1.25 | 0.91 |

## 5. INCOME TAXES

The Fresenius Group adopted FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, Accounting for Income Taxes (FAS 109) as of January 1, 2007. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109. FIN 48 prescribes a two step approach to the recognition and measurement of all tax positions taken or expected to be taken in a tax return. The enterprise must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If the threshold is met, the tax position is measured at the largest amount of benefit that is greater than 50 % likely of being realized upon ultimate settlement and is recognized in the financial statements. The implementation of this interpretation had no impact on the assets and liabilities of the Fresenius Group.

Fresenius SE and its subsidiaries are subject to tax audits mainly in Germany and the United States, on a regular basis.

In Germany, the tax audit for the years 1998 until 2001 is substantially finalized with all results of this tax audit sufficiently recognized in the financial statements as of December 31, 2006. Fiscal years 2002 through 2005 are currently under audit and fiscal year 2006 is open to audit. With respect to HELIOS Kliniken Group, years 2001 to 2004 are currently under audit. All further fiscal years for the Group are open to future tax audits. Fresenius Medical Care filed a lawsuit against the decision of the tax authority regarding the disallowance of certain deductions taken for fiscal year 1997 and has included the related unrecognized tax benefit in the total unrecognized tax benefit noted below.

In the United States, except for refund claims Fresenius Medical Care has filed relative to the disallowance of tax deductions with respect to certain civil settlement payments for 2000 and 2001, the federal tax audit for the years 1999 through 2001 is completed. The tax has been paid and all results are recognized in the financial statements as of December 31, 2006. The unrecognized tax benefit relating to these deductions is included in the total unrecognized tax benefit noted below. Fiscal years 2002 through 2004 are currently under federal audit, and 2005 and 2006 are open to audit. There are a number of state audits in progress and various years are open to audit in various states. All expected results have been recognized in the financial statements.

Subsidiaries of Fresenius SE in a number of countries outside of Germany and the United States are also subject to tax audits. The Fresenius Group estimates that the tax effects of such audits are not material to these consolidated financial statements.

At adoption of FIN 48, the Fresenius Group had € 230 million of unrecognized tax benefits including the amounts relating to the tax audit items for Germany and the United States noted above. The vast majority of these unrecognized tax benefits would reduce the effective tax rate if recognized. There have been no material changes to unrecognized tax benefits during the first half-year of 2007. The Fresenius Group is currently not in the position to forecast timing and magnitude of changes in the unrecognized tax benefits. It is Fresenius Group's policy to recognize interest and penalties related to its tax positions as income tax expense. At January 1, 2007, the Fresenius Group had total accruals of € 44 million for such interest and penalties.

# NOTES ON THE CONSOLIDATED BALANCE SHEET

## 6. CASH AND CASH EQUIVALENTS

As of June 30, 2007 and December 31, 2006, cash and cash equivalents were as follows:

| in million € | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Cash | 301 | 259 |
| Securities (with a maturity of up to 90 days) | 5 | 2 |
| **Cash and cash equivalents** | **306** | 261 |

## 7. TRADE ACCOUNTS RECEIVABLE

As of June 30, 2007 and December 31, 2006, trade accounts receivable were as follows:

| in million € | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Trade accounts receivable | 2,365 | 2,306 |
| less allowance for doubtful accounts | 219 | 218 |
| **Trade accounts receivable, net** | **2,146** | 2,088 |

The following table shows the development of the allowance for doubtful accounts in the first half-year:

| | June 30, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| in million € | Germany | Abroad | Germany | Abroad |
| **Allowance for doubtful accounts at the beginning of the year** | **32** | **186** | 23 | 177 |
| Change in valuation allowances as recorded in the consolidated statement of income | 3 | 76 | 10 | 145 |
| Write-offs and recoveries of amounts previously written-off | -10 | -66 | – | -119 |
| Foreign currency translation | – | -2 | -1 | -17 |
| **Allowance for doubtful accounts at the end of the reporting period** | **25** | **194** | 32 | 186 |

The following table shows the ageing analysis of trade accounts receivable and their allowance for doubtful accounts:

| in million € | not overdue | up to 3 months overdue | 3 to 6 months overdue | 6 to 12 months overdue | more than 12 months overdue | Total |
|---|---|---|---|---|---|---|
| Trade accounts receivable | 1,157 | 584 | 213 | 171 | 240 | **2,365** |
| less allowance for doubtful accounts | 8 | 24 | 23 | 31 | 133 | **219** |
| **Trade accounts receivable, net** | 1,149 | 560 | 190 | 140 | 107 | **2,146** |

## 8. INVENTORIES

As of June 30, 2007 and December 31, 2006, inventories consisted of the following:

| in million € | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Raw materials and purchased components | 200 | 182 |
| Work in process | 114 | 101 |
| Finished goods | 554 | 478 |
| **Inventories** | **868** | 761 |

## 9. GOODWILL AND OTHER INTANGIBLE ASSETS

As of June 30, 2007 and December 31, 2006, intangible assets, split into regularly amortizable and non-regularly amortizable intangible assets, consisted of the following:

### REGULARLY AMORTIZABLE INTANGIBLE ASSETS

| | June 30, 2007 | | | December 31, 2006 | | |
|---|---|---|---|---|---|---|
| in million € | Acquisition cost | Accumulated amortization | Carrying amount | Acquisition cost | Accumulated amortization | Carrying amount |
| Non-compete agreements | 155 | 91 | 64 | 154 | 90 | 64 |
| Technology | 48 | 2 | 46 | 49 | 0 | 49 |
| Other | 352 | 257 | 95 | 331 | 246 | 85 |
| **Total** | **555** | **350** | **205** | 534 | 336 | 198 |

### NON-REGULARLY AMORTIZABLE INTANGIBLE ASSETS

| | June 30, 2007 | | | December 31, 2006 | | |
|---|---|---|---|---|---|---|
| in million € | Acquisition cost | Accumulated amortization | Carrying amount | Acquisition cost | Accumulated amortization | Carrying amount |
| Tradenames | 181 | 0 | 181 | 185 | 0 | 185 |
| Management contracts | 161 | 0 | 161 | 165 | 0 | 165 |
| Subtotal | 342 | 0 | 342 | 350 | 0 | 350 |
| Goodwill | 7,163 | 4 | 7,159 | 7,111 | 4 | 7,107 |
| **Total** | **7,505** | **4** | **7,501** | 7,461 | 4 | 7,457 |

The accumulated amortization of non-amortizable intangible assets is due to impairment as a result of the implementation of FAS 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 € | Q3-Q4/2007 | 2008 | 2009 | 2010 | 2011 | Q1-Q2/2012 |
|---|---|---|---|---|---|---|
| Estimated amortization expenses for the next five fiscal years | 17 | 31 | 28 | 24 | 23 | 10 |

The carrying amount of goodwill has developed as follows:

| in million € | |
|---|---|
| **Carrying amount as of January 1, 2007** | **7,107** |
| Additions/disposals, net | 167 |
| Reclassifications | 9 |
| Foreign currency translation | -124 |
| **Carrying amount as of June 30, 2007** | **7,159** |

## 10. DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

### SHORT-TERM BORROWINGS

Short-term borrowings of € 653 million and € 330 million at June 30, 2007 and December 31, 2006, respectively, consisted of the borrowings under Fresenius Medical Care's accounts receivable facility of € 301 million (US$ 406 million) and € 295 million borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks. Additionally, at June 30, 2007, Fresenius SE had short-term liabilities of € 57 million under its commercial paper program. No commercial papers were outstanding as of December 31, 2006.

### LONG-TERM DEBT AND LIABILITIES FROM CAPITAL LEASE OBLIGATIONS

As of June 30, 2007 and December 31, 2006, long-term debt and liabilities from capital lease obligations consisted of the following:

| in million € | **June 30, 2007** | December 31, 2006 |
|---|---|---|
| Fresenius Medical Care 2006 Senior Credit Agreement | **2,575** | 2,707 |
| Euro Bonds | **1,100** | 1,100 |
| Euro Notes | **240** | 366 |
| European Investment Bank Agreements | **209** | 169 |
| Capital lease obligations | **38** | 39 |
| Other | **158** | 214 |
| Subtotal | **4,320** | 4,595 |
| less current portion | **178** | 265 |
| **Long-term debt and liabilities from capital lease obligations, less current portion** | **4,142** | 4,330 |

### Fresenius Medical Care 2006 Senior Credit Agreement

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

The following table shows the available and outstanding amounts under the Fresenius Medical Care 2006 Senior Credit Agreement at June 30, 2007 and December 31, 2006:

| | Maximum Amount Available | | Balance Outstanding | |
|---|---|---|---|---|
| in million US$ | **June 30, 2007** | Dec 31, 2006 | **June 30, 2007** | Dec 31, 2006 |
| Revolving Credit | **1,000** | 1,000 | **49** | 68 |
| Term Loan A | **1,700** | 1,760 | **1,700** | 1,760 |
| Term Loan B | **1,728** | 1,737 | **1,728** | 1,737 |
| **Total** | **4,428** | 4,497 | **3,477** | 3,565 |

On June 26, 2007, Fresenius Medical Care amended its Fresenius Medical Care 2006 Senior Credit Agreement to increase the aggregate amount of certain senior indebtedness Fresenius Medical Care may incur in anticipation of issuing senior debt. On July 2, 2007, FMC Finance III S.A., a wholly owned subsidiary of Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA), issued US$ 500 million aggregate principal amount of 6⅞% Senior Notes due 2017. The Senior Notes are guaranteed on a senior basis jointly and severally by FMC-AG & Co. KGaA and by its subsidiaries Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Deutschland GmbH. The proceeds, net of discounts and bank fees but prior to the payment of other offering related expenses, were used to reduce US$ 300 million of term indebtedness under the Fresenius Medical Care 2006 Senior Credit Agreement with the remaining US$ 185 million applied to the outstanding balance under its short-term accounts receivable facility.

The obligations under the Fresenius Medical Care 2006 Senior Credit Agreement are secured by pledges of capital stock of certain material subsidiaries in favor of the lenders.

As of June 30, 2007, Fresenius Medical Care is in compliance with all covenants under the Fresenius Medical Care 2006 Senior Credit Agreement.

### Euro Notes

As scheduled, during the first half-year of 2007, Fresenius Finance B.V. redeemed € 126 million of Euro Notes (Schuldscheindarlehen) out of € 166 million Euro Notes outstanding as of December 31, 2006. At June 30, 2007, the Euro Notes outstanding amounted to € 40 million. In addition, Fresenius Medical Care has outstanding Euro Notes of € 200 million. In July 2007, Fresenius Finance B.V. issued additional Euro Notes of € 200 million.

### European Investment Bank Aggrements

At June 30, 2007, the credit facilities with the European Investment Bank (EIB) were utilized in the amount of € 209 million, which consisted of borrowings by Fresenius Medical Care of € 69 million, loans by a subsidiary of Fresenius ProServe of € 100 million and loans by Fresenius SE of € 40 million. In July 2007, the floating rate loan of Fresenius SE of € 40 million has been hedged by means of interest rate swaps.

## 11. PENSIONS AND SIMILAR OBLIGATIONS

### DEFINED BENEFIT PENSION PLANS

Two-thirds of the pension obligations in an amount of € 322 million relate to the “Versorgungsordnung der Fresenius-Unternehmen“ established in 1988, which applies for most of the German entities of the Fresenius Group. One-third of the benefit obligations mainly relate to individual plans from Fresenius ProServe entities in Germany and non-German Group entities.

Fresenius Medical Care currently has two principal pension plans, one for German employees, and the other covering employees in the United States, which has been curtailed since 2002. Each year, Fresenius Medical Care Holdings, Inc. (FMCH) contributes at least the minimum amount 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 2007. FMCH voluntarily contributed US$ 0.6 million (€ 0.4 million) during the first half-year of 2007.

Contributions to the Group's pension fund in the first half-year of 2007 amounted to € 2 million. In the full year 2007, expected transfers to the pension fund amount to approximately € 5 million.

As of June 30, 2007, the current portion of the pension liability in an amount of € 6 million is recognized as a current liability in the line item “short-term accrued expenses and other current liabilities” in the balance sheet. The non-current portion of € 316 million is recorded as non-current pension liability in the balance sheet.

Defined benefit pension plans gave rise to a net periodic benefit cost of € 17 million for the Fresenius Group, comprising the following components:

| in million € | **H1/2007** | H1/2006 |
|---|---|---|
| Service cost | **9** | 9 |
| Interest cost | **13** | 13 |
| Expected return on plan assets | **-8** | -8 |
| Loss component, net | **3** | 4 |
| Amortization of prior service costs | **–** | – |
| Amortization of transition obligations | **–** | – |
| Settlement loss | **–** | – |
| **Net periodic benefit cost** | **17** | 18 |

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

The following weighted-average assumptions were used in determining net periodic benefit cost for the first half-year ended June 30:

| in % | **H1/2007** | H1/2006 |
|---|---|---|
| Discount rate | **4.63** | 4.67 |
| Expected return of plan assets | **5.72** | 5.76 |
| Rate of compensation increase | **3.29** | 3.28 |

Pension obligations at June 30, 2007 and December 31, 2006 relate to the following geographical regions:

| in million € | **June 30, 2007** | December 31, 2006 |
|---|---|---|
| Germany | **270** | 260 |
| Europe (excluding Germany) | **48** | 53 |
| North America | **4** | 5 |
| Asia-Pacific | **0** | 0 |
| Latin America | **0** | 0 |
| Africa | **0** | 0 |
| **Total pension liabilities** | **322** | 318 |

## 12. MINORITY INTEREST

Minority interest in the Group has developed as follows:

| in million € | **June 30, 2007** | December 31, 2006 |
|---|---|---|
| Minority interest in FMC-AG & Co. KGaA | **2,414** | 2,362 |
| Minority interest in the business segments | | |
| Fresenius Medical Care | **74** | 57 |
| Fresenius Kabi | **29** | 23 |
| Fresenius ProServe | **113** | 119 |
| Corporate/Other | **-2** | -1 |
| **Total minority interest** | **2,628** | 2,560 |

In the first half-year of 2007, minority interest increased by € 68 million to € 2,628 million. The change resulted from the minorities' share of profit of € 186 million less dividends paid in an amount of € 99 million and from negative currency effects as well as first-time consolidations in a total amount of € -19 million.

## 13. SHAREHOLDERS' EQUITY

### SUBSCRIBED CAPITAL

On December 4, 2006, at the Extraordinary General Meeting, Fresenius AG's shareholders approved a new division of the subscribed capital in connection with a capital increase from the company's funds. The registration in the commercial register took place on January 24, 2007. Through a conversion of capital reserves, the subscribed capital was first increased by € 22,638,568.48 to € 154,353,876.00 and then divided into 77,176,938 ordinary shares and 77,176,938 preference shares (see Note 1.II, Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital). The new proportionate amount of the subscribed capital is € 1.00 per share.

During the first half-year of 2007, 392,850 stock options were exercised. Accordingly, at June 30, 2007, the subscribed capital of Fresenius SE is divided into 77,373,363 bearer ordinary shares and 77,373,363 non-voting bearer preference shares. All shares are issued as non-par value shares.

## CONDITIONAL CAPITAL

Corresponding to the stock option plans, the conditional capital of the Fresenius Group is divided into Conditional Capital I and Conditional Capital II. Both exist to secure the subscription rights in connection with already issued stock options on bearer ordinary shares and bearer preference shares of the stock option plans of 1998 and 2003 (see Note 18, Stock Options).

Due to the capital increase from the company's funds (see Note 1.II, Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital), the conditional capital increased in the same proportion as the subscribed capital by operation of law (cf. Section 218 sentence 1 of the German Stock Corporation Act (AktG)). After the registration of the share split in the commercial register on January 24, 2007, the Conditional Capital I amounts to € 1,971,966.00 (as of December 31, 2006: € 1,682,744.32), divided into 985,983 bearer ordinary and bearer preference shares and the Conditional Capital II amounts to € 5,104,962.00 (as of December 31, 2006: € 4,356,234.24), divided into 2,552,481 bearer ordinary and bearer preference shares.

The conditional capital has developed as follows:

| in € | Ordinary Shares | Preference Shares | Total |
|---|---|---|---|
| Conditional Capital I Fresenius SE Stock Option Plan 1998 | 985,983.00 | 985,983.00 | 1,971,966.00 |
| Conditional Capital II Fresenius SE Stock Option Plan 2003 | 2,552,481.00 | 2,552,481.00 | 5,104,962.00 |
| **Total conditional capital as of January 1, 2007** | **3,538,464.00** | **3,538,464.00** | **7,076,928.00** |
| Fresenius SE Stock Option Plan 1998 - options exercised | -162,837.00 | -162,837.00 | -325,674.00 |
| Fresenius SE Stock Option Plan 2003 - options exercised | -33,588.00 | -33,588.00 | -67,176.00 |
| **Total conditional capital as of June 30, 2007** | **3,342,039.00** | **3,342,039.00** | **6,684,078.00** |

## DIVIDENDS

Under the German Stock Corporation Act, the amount of dividends available for distribution to shareholders is based upon the unconsolidated retained earnings of Fresenius SE as reported in its balance sheet determined in accordance with the German Commercial Code (HGB).

In May 2007, a dividend of € 0.57 per bearer ordinary share and € 0.58 per bearer preference share was approved by Fresenius SE's shareholders at the Annual General Meeting and paid. The total dividend payment was € 88.8 million.

# OTHER NOTES

## 14. 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 (now called Fresenius SE). 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 (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 counter-claims against FMCH seeking monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. On July 17, 2006, the court entered judgement in favor of FMCH finding that all the asserted claims of the Baxter patents are invalid as obvious and/or anticipated in light of prior art. On February 13, 2007, the court granted Baxter's motion to set aside the jury's verdict in favor of FMCH and retry certain aspects of the case. Fresenius Medical Care will appeal the court's rulings. An adverse judgment in any new trial could have a material adverse impact on the business, financial condition and results of operations of Fresenius Medical Care.

FMC-AG & Co. KGaA's Australian subsidiary, Fresenius Medical Care Australia Pty Limited (hereinafter referred to as Fresenius Medical Care Australia) and Gambro Pty Limited and Gambro AB (hereinafter referred to as the Gambro Group) are in litigation regarding infringement and damages with respect to the Gambro AB patent protecting intellectual property in relation to a system for preparation of dialysis or replacement fluid, the Gambro bicart device in Australia (Gambro Patent). As a result of the commercialisation of a system for the preparation of dialysis fluid based on the Fresenius Medical Care Bibag device in Australia, the Australian courts concluded that Fresenius Medical Care Australia infringed the Gambro Patent. The parties are still in legal dispute with respect to the issue of potential damages related to the patent infringement. As the infringement proceedings have solely been brought in the Australian jurisdiction any potential damages to be paid by Fresenius Medical Care Australia will be limited to the potential losses of the Gambro Group caused by the patent infringement in Australia.

## Other litigation and potential exposures

RCG has been named as a nominal defendant in a second amended complaint filed September 13, 2006, in the Chancery Court for the State of Tennessee Twentieth Judicial District at Nashville against former officers and directors of RCG which purports to constitute a class action and derivative action relating to alleged unlawful actions and breaches of fiduciary duty in connection with the RCG Acquisition and in connection with alleged improper backdating and/or timing of stock option grants. The amended complaint is styled Indiana State District Council of Laborers and Hod Carriers Pension Fund, on behalf of itself and all others similarly situated and derivatively on behalf of RCG, Plaintiff, vs. RCG, Gary Brukardt, William P. Johnston, Harry R. Jacobson, Joseph C. Hutts, William V. Lapham, Thomas A. Lowery, Stephen D. McMurray, Peter J. Grua, C. Thomas Smith, Ronald Hinds, Raymond Hakim, and R. Dirk Allison, Defendants. The complaint seeks damages against former officers and directors and does not state a claim for money damages directly against RCG. Fresenius Medical Care anticipates that the individual defendants may seek to claim indemnification from RCG. Fresenius Medical Care is unable at this time to assess the merits of any such claim for indemnification.

FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. FMCH received its subpoena in April 2005. RCG received its subpoena in August 2005. The subpoenas require production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relationships, joint ventures, anemia management programs, RCG's supply company, pharmaceutical and other services that RCG provides to patients, RCG's relationships to pharmaceutical companies, and RCG's purchase of dialysis equipment from FMCH. The Office of the Inspector General of the U.S. Department of Health and Human Services and the U.S. Attorney's office for the Eastern District of Texas have also confirmed that they are participating in the review of the anemia management program issues raised by the U.S. Attorney's office for the Eastern District of Missouri. On July 16, 2007, the U.S. Attorney's office filed a civil complaint against RCG and FMCH in its capacity as RCG's current corporate parent in United States District Court, Eastern District of Missouri. The complaint seeks monetary damages and penalties with respect to issues arising out of the operation of RCG's Method II supply company through 2005, prior to the date of FMCH's acquisition of RCG. The complaint is styled United States of America ex rel. Julie Williams et al. vs. Renal Care Group, Renal Care Group Supply Company and FMCH. Fresenius Medical Care believes that RCG's operation of its Method II supply company was in compliance with applicable law and will defend this litigation vigorously. Fresenius Medical Care will continue to cooperate in the ongoing investigation. An adverse determination in this investigation or litigation or any settlement arising out of this investigation or litigation could result in significant financial penalties, and any adverse determination in any litigation arising out of the investigation could have a material adverse effect on Fresenius Medical Care's business, financial condition and results of operations.

In October 2004, FMCH and its subsidiaries, including RCG (prior to the RCG acquisition), received subpoenas from the U.S. Department of Justice, Eastern District of New York, in connection with a civil and criminal investigation, which requires production of a broad range of documents relating to FMCH's and RCG's operations, with specific attention to documents relating to laboratory testing for parathyroid hormone (PTH) levels and vitamin D therapies. 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.

In May 2006, RCG received a subpoena from the U.S. Department of Justice, Southern District of New York, in connection with an investigation into RCG's administration of its stock option programs and practices, including the procedure under which the exercise price was established for certain of the option grants. The subpoena requires production of a broad range of documents relating to the RCG stock option program prior to the RCG acquisition. 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 of US$ 258 million to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. With the exception of the proposed US$ 115 million (€ 87 million) payment under the Settlement Agreement, all other matters included in the special charge have been resolved. While Fresenius Medical Care believes that its remaining accrual reasonably estimates its currently anticipated costs related to the continued defense and resolution of this matter, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual.

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, the Fresenius Group does not expect any material adverse effects on the business, financial condition and results of operations of the Group.

## 15. FINANCIAL INSTRUMENTS

### VALUATION OF FINANCIAL INSTRUMENTS

The Fresenius Group classifies its financial instruments in categories. The following categories are recognized at amortized acquisition costs: non-derivative assets, trade accounts receivable and payable, income taxes payable, long-term debt (excluding the separate category trust preferred securities), Euro Notes, Euro Bonds and short-term borrowings. The category of derivatives is recognized at fair value. Cash and cash equivalents are considered a separate category and are stated at nominal value. With the exception of the derivative financial instruments, all categories are included in the balance sheet under the corresponding line item. Derivatives are recognized separately as other assets and other liabilities.

The following table shows the effect on net income of the financial instruments recognized at amortized acquisition cost:

| in million € | **H1/2007** | H1/2006 |
|---|---|---|
| Assets | | |
| Allowance for doubtful accounts, net | **79** | 65 |
| Liabilities and shareholders' equity | | |
| Interest on debt, net | **185** | 194 |

### MARKET RISK

#### General

The Fresenius Group is inevitably exposed to effects related to foreign exchange fluctuations in connection with its international business activities that are denominated in various currencies. 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 bearing 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, 2007, the notional amounts of Fresenius Group's foreign exchange derivatives amounted to € 633 million and the notional amounts of interest rate derivatives amounted to € 2,614 million. In the case of interest rate derivatives, it should be noted that the notional amounts generally only represent the base for contract specific computations and not necessarily the exchange of those amounts by the parties. Therefore, a potential risk resulting from the use of interest rate derivatives cannot be measured solely on the basis of the notional amounts of the contracts.

The after-tax losses of € 30 million deferred in accumulated other comprehensive income (loss) at December 31, 2006 had a low negative currency impact.

In the first half-year of 2007, earnings of the Fresenius Group were not materially affected by hedge ineffectiveness since the critical terms of the interest and foreign exchange derivatives matched the critical terms of the underlying exposures. The effect of hedged underlyings recognized in the income statement amounted to € -2 million (H1 2006: € 3 million) and was mainly offset by the effect of the hedging instruments recognized in the income statement in an amount of € 2 million (H1 2006: € -3 million).

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

**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 positions reported in the consolidated financial statements.

Fresenius Group's foreign exchange transaction risks mainly relate to transactions such as sales and purchases as well as project business denominated in foreign currency. 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. As of June 30, 2007, the Fresenius Group had no foreign exchange options.

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, 2007, the notional volume and fair value of foreign exchange contracts relating to foreign currency intercompany loans amounted to € 240 million and € 1 million, respectively. Hedge accounting is not applied to these foreign exchange contracts. Accordingly, the respective foreign exchange contracts are recognized as assets or liabilities and changes in fair values are recognized against earnings, thus offsetting with changes in fair values of the underlying foreign currency denominated intercompany loans.

As of June 30, 2007, the notional amounts of foreign exchange forward contracts in place to hedge risks from operational business totaled € 393 million with a fair value of € 3 million.

As of June 30, 2007, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 30 months.

In order to estimate and quantify the transaction risks from foreign currencies, the Fresenius Group considers the cash flows reasonably expected for the following three months as the relevant assessment basis for a sensitivity analysis. For this analysis, the Fresenius Group assumes that all foreign exchange rates in which the Group had unhedged positions as of reporting date would be negatively impacted by 10 %. By multiplying the calculated unhedged risk positions with this factor, the maximum possible negative impact of the foreign exchange transaction risks on the Group's results of operations would be € 9 million.

**Interest rate risk management**

Fresenius Group's interest rate risks mainly arise from money market and capital market transactions of the Group for financing its business activities. Interest rate hedging transactions are primarily concluded by Fresenius SE 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 or to hedge against changes of the fair value of the underlying fixed rate financial liabilities.

For purposes of analyzing the impact of changes in the relevant reference interest rates on Fresenius Group's results of operations, the Group calculates the portion of financial debt which bears variable interest rate and which has not been hedged by means of interest rate swaps or options against rising interest rates, plus the portion of financial debt which bears fixed interest rates and which has been converted into floating rate debt by using interest rate swaps. For this particular part of its liabilities, the Fresenius Group assumes an increase in the reference rates of 0.5 % compared to the actual rates as of reporting date. The corresponding additional annual interest expense is then compared to the Group's net income. This analysis shows that an increase of 0.5 % in the relevant reference rates would have an effect of less than 1 % on the Group's net income.

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$ 3,015 million expire at various dates between 2007 and 2012. The Euro interest rate swaps with a notional volume of € 43 million expire in 2008. The US dollar interest rate swaps bear an average interest rate of 4.55 % and the Euro interest rate swaps bear an average interest rate of 3.29 %, plus an applicable margin each.

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 rate borrowings. These interest rate swaps effectively convert the fixed interest payments on Fresenius Medical Care Capital Trust II trust preferred securities denominated in US dollar into variable interest rate payments. At June 30, 2007, the notional volume of these swaps at Fresenius Medical Care was US$ 450 million (€ 333 million).

## CREDIT RISK

The Fresenius Group is exposed to potential losses in the event of non-performance by counterparties to derivative financial instruments but does not expect any counterparty to fail to meet its obligations as the counterparties are highly rated financial institutions. In the opinion of Fresenius Group's Management, the maximum credit risk resulting from the use of non-derivative financial instruments, defined as the carrying amount of all receivables, is covered by the allowance for doubtful accounts in an amount of € 219 million. In order to control this credit risk, the Management of the Fresenius Group carries out an ageing analysis of trade accounts receivable. For details on the ageing analysis and on the allowance for doubtful accounts, please see Note 7, Trade accounts receivable.

### LIQUIDITY RISK

The liquidity risk is defined as the risk that a company is potentially unable to meet its financial obligations. The Management of the Fresenius Group manages the liquidity of the Group by means of effective working capital and cash management as well as an anticipatory evaluation of refinancing alternatives. The Management of the Fresenius Group believes that existing credit facilities as well as the cash generated by operating activities and additional short-term borrowings are sufficient to meet the Company's foreseeable demand for liquidity (see Note 10, Debt and liabilities from capital lease obligations).

## 16. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

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

| in million € | **H1/2007** | H1/2006 |
|---|---|---|
| Interest paid | **199** | 139 |
| Income taxes paid | **168** | 200 |

Cash paid for acquisitions consisted of the following:

| in million € | **H1/2007** | H1/2006 |
|---|---|---|
| Assets acquired | **293** | 3,803 |
| Liabilities assumed | **-62** | -256 |
| Minority interest | **0** | -45 |
| Notes assumed in connection with acquisitions | **-10** | -39 |
| Cash paid | **221** | 3,463 |
| Cash acquired | **-10** | -48 |
| **Cash paid for acquisitions, net** | **211** | 3,415 |

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

| in million € | **H1/2007** | H1/2006 |
|---|---|---|
| **Operating cash flow** | **553** | 373 |
| Purchase of property, plant and equipment | **-315** | -225 |
| Proceeds from sale of property, plant and equipment | **18** | 12 |
| **Cash flow before acquisitions and dividends** | **256** | 160 |
| Purchase/sale of shares in related companies and investments, net | **-162** | -3,003 |
| **Cash flow before dividends** | **94** | -2,843 |
| Dividends paid | **-188** | -154 |
| **Free cash flow after dividends** | **-94** | -2,997 |

## 17. SUPPLEMENTARY INFORMATION ON SEGMENT REPORTING

### GENERAL

The segment reporting tables shown on pages 17 and 18 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, 2007.

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 FAS 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 171,687 patients in its 2,209 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. Fresenius Kabi is also a leading provider of transfusion technology products in Europe.

Fresenius ProServe is a leading German hospital operator. The company offers engineering and services for hospitals and other health care facilities.

The segment Corporate/Other mainly comprises the holding functions of Fresenius SE 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 2006 Annual Report.

### Reconciliation of key figures to consolidated earnings

| in million € | **H1/2007** | H1/2006 |
|---|---|---|
| Total EBITDA of reporting segments | **995** | 883 |
| Depreciation and amortization | **-197** | -186 |
| General corporate expenses Corporate/Other | **-18** | -16 |
| Net interest | **-185** | -194 |
| **Total earnings before income taxes and minority interest** | **595** | 487 |
| Total EBIT of reporting segments | **802** | 702 |
| General corporate expenses Corporate/Other | **-22** | -21 |
| Net interest | **-185** | -194 |
| **Total earnings before income taxes and minority interest** | **595** | 487 |
| Depreciation and amortization of reporting segments | **193** | 181 |
| Depreciation and amortization Corporate/Other | **4** | 5 |
| **Total depreciation and amortization** | **197** | 186 |

### Reconciliation of net debt

| in million € | **June 30, 2007** | December 31, 2006 |
|---|---|---|
| Short-term borrowings | **653** | 330 |
| Short-term liabilities and loans from related parties | **–** | 1 |
| Current portion of long-term debt and liabilities from capital lease obligations | **178** | 265 |
| Current portion of trust preferred securities of Fresenius Medical Care Capital Trusts | **477** | 0 |
| Long-term debt and liabilities from capital lease obligations, less current portion | **4,142** | 4,330 |
| Trust preferred securities of Fresenius Medical Care Capital Trusts, less current portion | **459** | 946 |
| **Debt** | **5,909** | 5,872 |
| less cash and cash equivalents | **306** | 261 |
| **Net debt** | **5,603** | 5,611 |

## 18. STOCK OPTIONS

### COMPENSATION COST IN CONNECTION WITH STOCK OPTION PLANS OF THE FRESENIUS GROUP

In the first half-year of 2007, the Fresenius Group recognized compensation cost in an amount of € 12 million for stock options granted since 1998. For stock incentive plans which are performance based, the Fresenius Group recognizes compensation cost over the vesting periods, starting at the grant date, based on the current market values of the underlying stock.

### FAIR VALUE OF STOCK OPTIONS

Fresenius Group's determination of the fair value of grants is based on the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair values of options that have no vesting restrictions. Option valuation models require the input of 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. Fresenius Group's stock options have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option.

The weighted-average assumptions for the calculation of the fair value of grants under the stock option plan of 2003 (2003 Plan) made during the year ending December 31, 2006 are as follows:

| Weighted-average assumptions | **2006** |
|---|---|
| Expected dividend yield | **1.50 %** |
| Risk-free interest rate | **3.80 %** |
| Expected volatility | **35.50 %** |
| Expected life of options, | **5.3 years** |
| Exercise price per option in € | **40.45*** |

* Before the share split became effective on January 24, 2007, the exercise price per option was € 121.36.

### FRESENIUS SE STOCK OPTION PLANS

On June 30, 2007, Fresenius SE has two stock option plans in place – the stock option based plan of 1998 (1998 Plan) and the currently active 2003 Plan which is based on convertible bonds. The latter is currently the only plan under which options in the form of convertible bonds are granted.

#### Changes due to capital measures

At December 4, 2006, the Extraordinary General Meeting of Fresenius AG resolved to newly divide the subscribed capital of Fresenius AG at a ratio of 1 (previously) : 3 (in the future) (share split). Furthermore, the General Meeting agreed to a capital increase from the company's funds in order to attain, after the share split, a proportionate nominal value of € 1.00 per ordinary and preference share to the subscribed capital. The entry of both measures into the commercial register on January 24, 2007 resulted in the following consequences for the two stock option plans:

Under the 1998 Plan, upon exercise, one granted option now entitles to receipt of three instead of one ordinary or preference share of Fresenius SE, respectively. The maximum number of ordinary or preference shares to be issued to the members of the Management Board or senior employees of Fresenius SE is adjusted accordingly. The calculation of the exercise price remains unaffected.

Under the 2003 Plan, a convertible bond granted prior to entry of the share split in the commercial register but converted after the commercial registration, now entitles to receipt of three instead of one ordinary or preference share of Fresenius SE, respectively. The calculation of the conversion price remains unaffected for all convertible bonds without stock price target.

Regarding convertible bonds with stock price target, the stock price target is reached if the applicable stock price target has been reached prior to the commercial register entry of the share split, or if, after the commercial registration, the stock exchange quoted average price of the ordinary and preference shares reaches on one day a 25 % increase against one third of the average stock exchange rate of the ordinary and preference shares on the grant date. The calculation of the conversion price remains unaffected if the stock price target has been reached prior to the date of entry into the commercial register. If the stock price target is reached for the first time after the commercial registration the conversion price for receipt of three ordinary shares or preference shares, respectively, per each convertible bond, shall be the triple of one third of the initial value.

After entry of the share split into the commercial register, each convertible bond granted has a nominal value of € 1.00, instead of previously € 2.56. The number of convertible bonds with a nominal value of € 1.00 each, still to be issued under the 2003 Plan, increases to 1,080,000, of which 240,000 are attributable to the members of the Management Board and 840,000 to senior employees.

In the following, the number of stock options that originally entitle to receipt of three ordinary shares or preference shares, respectively, has been tripled in order to show the number of shares potentially issued according to the ratio after the share split. Consequently, the number of stock options is shown as if one stock option always entitles to receipt of one ordinary or preference share, respectively.

### Transactions during the first half-year of 2007

At June 30, 2007, of 2,806,300 outstanding options issued under the 2003 Plan, 352,476 were exercisable and 394,740 were held by the members of the Fresenius SE Management Board. The number of outstanding and exercisable stock options issued under the 1998 Plan was 966,588, of which 51,600 were held by the members of the Fresenius SE Management Board.

During the first half-year of 2007, Fresenius SE received € 10 million from the exercise of 392,850 stock options. The intrinsic value of options exercised in the first half-year of 2007 was € 12 million.

| Options for ordinary shares | Number of options | Average exercise price in € |
|---|---|---|
| **Balance at December 31, 2006** | **2,090,406** | **27.97** |
| Exercised | 196,425 | 24.94 |
| Forfeited | 7,537 | 29.36 |
| **Balance at June 30, 2007** | **1,886,444** | **28.27** |

| Options for preference shares | Number of options | Average exercise price in € |
|---|---|---|
| **Balance at December 31, 2006** | **2,090,406** | **29.21** |
| Exercised | 196,425 | 28.55 |
| Forfeited | 7,537 | 29.18 |
| **Balance at June 30, 2007** | **1,886,444** | **29.28** |

The following table provides a summary of fully vested options outstanding and exercisable for both preference and ordinary shares at June 30, 2007:

| | Number of options | Average remaining contractual life in years | Average exercise price in € | Aggregate intrinsic value in million € |
|---|---|---|---|---|
| Options for ordinary shares | 659,532 | 4.34 | 23.84 | 21 |
| Options for preference shares | 659,532 | 4.34 | 26.63 | 20 |

At June 30, 2007, there was € 10 million of total unrecognized compensation costs related to non-vested options granted under the Fresenius SE plans. These costs are expected to be recognized over a weighted-average period of 2 years.

## FRESENIUS MEDICAL CARE STOCK OPTION PLANS

On June 30, 2007, Fresenius Medical Care has two stock option plans in place – the Fresenius Medical Care 2001 International Stock Incentive Plan which is based on convertible bonds and the stock option based FMC-AG & Co. KGaA Stock Option Plan 2006. The latter is currently the only plan under which stock options are granted.

### Changes due to capital measures

During the Annual General Meeting held on May 15, 2007, FMC-AG & Co. KGaA’s shareholders approved a three-for-one share split for both ordinary and preference shares which became effective upon registration in the commercial register on June 15, 2007. In connection therewith, FMC-AG & Co. KGaA transferred approximately € 43 million and € 0.5 million from additional paid in capital to ordinary shares and preference shares, respectively, to maintain a nominal value of € 1 per each ordinary and each preference share. All details of stock options for all periods presented have been adjusted to reflect the stock split.

### Transactions during the first half-year of 2007

During the first half-year of 2007, Fresenius Medical Care received €5 million from the exercise of 253,878 stock options for ordinary shares and 9,387 stock options for preference shares as well as a tax benefit in an amount of €1 million relating to these stock options.

## 19. RELATED PARTY TRANSACTIONS

Dr. Gerhard Rupprecht, a member of the Supervisory Board of Fresenius SE, is a member of the Management Board of Allianz SE and the Chief Executive Officer of Allianz Deutschland AG. Dr. Gerd Krick, chairman of the Supervisory Board of Fresenius SE, is a member of the Supervisory Board of Allianz Private Krankenversicherungs-AG. In the first half-year of 2007, the Fresenius Group paid € 3 million for insurance premiums to Allianz.

Dr. Gerd Krick is also a member of the Advisory Board of HDI Haftpflichtverband der deutschen Industrie V. a. G. that, just as the Gerling Insurance Group, belongs to the Talanx Group. In the first half-year of 2007, this group received € 4.5 million for insurance premiums.

Dr. Dieter Schenk is a member of the Supervisory Board of Fresenius SE and a partner in the law firm Nörr Stiefenhofer Lutz that provides legal services to the Fresenius Group. In the first half-year of 2007, the Fresenius Group paid this law firm €0.5 million.

## 20. SUBSEQUENT EVENTS

The conversion of Fresenius AG into a European Company (Societas Europaea – SE) became effective upon the registration in the commercial register on July 13, 2007, after the successful completion of the procedure for the involvement of the employees (see Note 1.II, Conversion of Fresenius AG into a European Company (SE) and new division of the subscribed capital).

## 21. CORPORATE GOVERNANCE

The members of the Management Board and the Supervisory Board of Fresenius SE and the general partner of FMC-AG & Co. KGaA, represented by the Management Board of Fresenius Medical Care Management AG, and the Supervisory Board of FMC-AG & Co. KGaA have submitted the Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) in accordance with the German Corporate Governance Code dated June 12, 2006, and made this permanently available to the shareholders.

## 22. RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year."

Bad Homburg v.d.H., August 14, 2007

Fresenius SE
Management Board

| | | | | | |
|---|---|---|---|---|---|
| Dr. U. M. Schneider | R. Baule | A. Gaddum | Dr. J. Götz | Dr. B. Lipps | S. Sturm |

# FINANCIAL CALENDAR

| | |
|---|---|
| Report on 1st - 3rd quarters 2007<br>Analysts' Meeting, Bad Homburg v.d.H.<br>Live webcast<br>Press conference, Bad Homburg v.d.H.<br>Live webcast | October 31, 2007 |

**Corporate Head Office**
Else-Kröner-Straße 1
Bad Homburg v.d.H.

**Post address**
Fresenius SE
61346 Bad Homburg v.d.H.

**Contact for shareholders**
Investor Relations
Telephone: ++49 61 72 6 08-24 87
Telefax: ++49 61 72 6 08-24 88
e-mail: ir-fre@fresenius.de

**Contact for journalists**
Corporate Communications
Telephone: ++49 61 72 6 08-2302
Telefax: ++49 61 72 6 08-2294
e-mail: pr-fre@fresenius.de

Location: 61352 Bad Homburg v.d.H.
Commercial Register: AG Bad Homburg v.d.H.; HRB 10660
Management Board: Dr. Ulf M. Schneider (Chairman), Rainer Baule, Andreas Gaddum, Dr. Jürgen Götz, Dr. Ben Lipps, Stephan Sturm
Chairman of the Supervisory Board: Dr. Gerd Krick