Quarterly Report of Fresenius Group

applying United States Generally Accepted Accounting Principles

(US-GAAP)

1st Nine Months and 3rd Quarter 2006

Fresenius
health care worldwide

Contents

MANAGEMENT DISCUSSION AND ANALYSIS

- **Sales: € 7.8 billion, +37 % at actual rates, +36 % in constant currency**
- **EBIT: € 1.1 million, +51 % at actual rates, +49 % in constant currency**
- **Net income: € 233 million, +45 % at actual rates, +43 % in constant currency**

Excellent sales and earnings growth in all business segments – Strong third quarter – Outlook raised

- Fresenius Medical Care with excellent performance
- Fresenius Kabi with new record EBIT margin in the third quarter
- Fresenius ProServe sales and earnings fully on track
- Group EBIT for the first time exceeds one billion Euro mark

Sales growth across all business segments and regions
Group sales increased by 37 % to € 7,843 million (Q1-3 2005: € 5,712 million). Excellent organic growth contributed 9 %. Acquisitions, in particular Renal Care Group and HELIOS Kliniken, added 28 %. Divestitures had a -1 % effect on sales. Currency translation effects contributed 1 % to sales growth.

In North America, sales grew significantly due to the Renal Care Group consolidation and an excellent organic growth rate of 8 %. In Europe, the substantial sales increase was mainly driven by the consolidation of HELIOS Kliniken. Organic growth in Europe was 5 %. Excellent growth rates were achieved in the emerging markets with organic growth of 25 % in Asia-Pacific, 20 % in Latin America and 18 % in Africa.

Sales in million €	**Q1-3/2006**	Q1-3/2005	Change at actual rates	Currency translation effects	Change at constant rates	Organic growth	Acquisitions/ Divestitures	% of total sales
Europe	**3,297**	2,216	49%	0%	49%	5%	44%	43%
North America	**3,556**	2,729	30%	2%	28%	8%	20%	45%
Asia-Pacific	**506**	381	33%	2%	31%	25%	6%	6%
Latin America	**327**	252	30%	7%	23%	20%	3%	4%
Afrika	**157**	134	17%	-2%	19%	18%	1%	2%
Total	**7,843**	5,712	37%	1%	36%	9%	27%	100%

Sales contribution of the three business segments:

	Q1-3/2006	Q1-3/2005
Fresenius Medical Care	63%	69%
Fresenius Kabi	18%	21%
Fresenius ProServe	19%	10%

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

Strong earnings growth

Group EBIT increased by 51 % at actual rates and by 49 % in constant currency to € 1,060 million (Q1-3 2005: € 703 million) exceeding the one billion Euro mark for the first time. EBIT includes a gain of € 32 million from the divestitures of dialysis clinics in the USA. The sale was a condition of the US Federal Trade Commission for the approval of the Renal Care Group acquisition. EBIT also includes a total of € 20 million for one-time expenses, mainly for the integration of Renal Care Group as well as for expenses related to the stock option accounting change.

Group net interest was € -295 million, primarily as a result of the debt financing of the Renal Care Group acquisition (Q1-3 2005: € -146 million). Net interest however also includes one-time expenses of € 30 million associated with the early refinancing of Group debt.

The tax rate was 40.9 % (Q1-3 2005: 39.3 %). It was substantially influenced by the tax expense associated with the divestiture of the dialysis clinics in the USA as the goodwill attributable to the divested clinics is not considered for tax purposes. Excluding this effect the tax rate was 37.8 %.

Minority interest was € 219 million (Q1-3 2005: € 177 million). Thereof, 93 % was attributable to the minority interest in Fresenius Medical Care.

Group net income grew strongly by 45 % at actual rates and by 43 % in constant currency to € 233 million (Q1-3 2005: € 161 million). This includes a total of € 22 million for one-time expenses, primarily for the early refinancing of debt, as well as for expenses related to the stock option accounting change.

Earnings per ordinary share were € 4.56 (Q1-3 2005: € 3.92) while earnings per preference share were € 4.58 (Q1-3 2005: € 3.94). This is an increase of 16 % for both share classes (15 % in constant currency). The average number of shares grew to 50.9 million, mainly due to the share issue in December 2005.

Investments

Fresenius Group spent € 374 million for property, plant and equipment and intangible assets (Q1-3 2005: € 196 million). Acquisition spending increased to € 3,537 million (Q1-3 2005: € 264 million) mainly due to the acquisition of Renal Care Group.

Cash flow

Operating cash flow was € 588 million (Q1-3 2005: € 592 million). The strong earnings improvement was offset by net tax payments and other payments related to the divestiture of dialysis clinics and the RCG acquisition as well as by an US tax payment for the years 2000 and 2001. Cash flow before acquisitions and dividends was € 228 million (Q1-3 2005: € 412 million). The acquisition of Renal Care Group was financed through bank debt.

Solid balance sheet structure

Total assets increased by 31 % to € 15,194 million (December 31, 2005: € 11,594 million). In constant currency total assets grew by 36 %. The substantial increase is mainly related to the consolidation of the Renal Care Group. This acquisition was closed effective March 31, 2006. Current assets increased by 15 % to € 4,076 million (December 31, 2005: € 3,531 million). Non-current assets were € 11,118 million (December 31, 2005: € 8,063 million), an increase of 38 %, primarily due to the goodwill resulting from the Renal Care Group acquisition.

Group debt increased to € 6,136 million (December 31, 2005: € 3,502 million) due to the financing of the Renal Care Group acquisition.

As of September 30, 2006, the net debt/EBITDA ratio further improved to 3.2 (March 31, 2006: 3.5; December 31, 2005: 2.3).

Shareholders' equity including minority interest grew 9 % to € 5,583 million (December 31, 2005: € 5,130 million), driven by the very good earnings development. Given the debt financing of the Renal Care Group acquisition, the equity ratio (including minority interest) decreased to 36.7 % (December 31, 2005: 44.2 %).

Employees

As of September 30, 2006, the Group had 104,179 employees worldwide (December 31, 2005: 91,971). The increase of 12,208 employees is primarily due to the acquisition of the Renal Care Group.

Fresenius Biotech

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

Fresenius Biotech has successfully continued its clinical study program: A phase II study on breast cancer started in March 2006. A phase II study for the treatment of gastric cancer started in June 2006. A phase II study on ovarian cancer is planned to start in the first half of 2007. The results from the pivotal malignant ascites phase II/III study are expected by the end of this year.

For the full year 2006, Fresenius Biotech expects an EBIT of approximately € -45 million. Previously, an EBIT in the range of € -45 to -50 million was expected. The amount largely relates to expenses for the clinical study program. In the first nine months of 2006 EBIT at Fresenius Biotech was € -30 million.

THIRD QUARTER 2006

Sales increased by 38 % to € 2,765 million at actual rates (Q3 2005: € 2,010 million). In constant currency, sales increased by 40 %. Excellent organic growth contributed 8 %. Acquisitions, in particular Renal Care Group and HELIOS Kliniken, added 33 %. Divestitures had a -1 % and currency translation a -2 % effect on sales.

EBIT increased 52 % at actual rates to € 379 million (Q3 2005: € 250 million). In constant currency, EBIT grew 56 %. EBIT includes a total of € 9 million for one-time expenses, mainly for the integration of Renal Care Group as well as for expenses related to the stock option accounting change.

Fresenius achieved a significant increase of 55 % in net income to € 93 million (Q3 2005: € 60 million). In constant currency, the increase was 57 %. This result includes expenses of € 3 million mainly related to the stock option accounting change.

Earnings per ordinary and per preference share were € 1.81 (Q3 2005: € 1.46). This was an increase of 24 %.

In the third quarter of 2006, Fresenius increased spending for property, plant and equipment and intangible assets by 84 % to € 149 million (Q3 2005: € 81 million). Investments for acquisitions increased from € 37 million in the third quarter of 2005 to € 124 million in the third quarter of 2006.

GROUP OUTLOOK 2006

Earnings forecast raised

Based on the Company's strong financial results in the third quarter, Fresenius raises its full-year 2006 earnings outlook. Net income is now projected to grow by 40 to 45 % in constant currency. This guidance already includes an amount of approximately € 28 million (after tax) associated with expected one-time expenses as well as expenses related to the stock option accounting change. Previously, the Company had expected net income growth of approximately 40 %. Group sales are expected to increase to more than € 10.7 billion.

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

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 September 30, 2006, Fresenius Medical Care was serving 161,433 patients in 2,085 dialysis clinics.

in million US$	Q3/2006[1]	Q3 2006	Q3/2005[1]	Change in %[1]	Q1-3/2006[1]	Q1-3/2006	Q1-3/2005[1]	Change in %[1]
Sales	**2,234**	2,234	1,717	30	**6,147**	6,147	4,999	23
EBITDA	**438**	428	306	43	**1,167**	1,186	886	32
EBIT	**358**	349	244	47	**946**	964	703	35
Net income	**145**	139	120	21	**412**	385	344	20
Employees					**59,331 (Sep 30, 2006)**	59,331 (Sep 30, 2006)	50,250 (Dec 31, 2005)	18

[1] before one-time expenses, expenses related to the stock option accounting change and the effect of the FTC-related clinic divestment in the USA; excluding 2005 one-time expenses

First nine months 2006

- Excellent sales and earnings growth in all regions
- Integration of Renal Care Group fully on track
- Outlook for 2006 upgraded

Fresenius Medical Care achieved sales growth of 23 % to US$ 6,147 million (Q1-3 2005: US$ 4,999 million). This was driven by both the excellent organic growth of 10 % and the consolidation of the Renal Care Group. Sales in dialysis care increased by 28 % to US$ 4,628 million (Q1-3 2005: US$ 3,610 million). In dialysis products, Fresenius Medical Care achieved sales of US$ 1,519 million (Q1-3 2005: US$ 1,389 million), an increase of 9 % (10 % in constant currency).

In North America, Fresenius Medical Care increased sales by 29 % to US$ 4,367 million (Q1-3 2005: US$ 3,383 million). Organic growth was excellent with 9 %. Sales outside North America ("International") grew by 10 % (11 % in constant currency) to US$ 1,780 million (Q1-3 2005: US$ 1,616 million).

Net income increased by 13 % to US$ 385 million (Q1-3 2005: US$ 339 million). This result includes one-time expenses of US$ 27 million primarily for the refinancing of Fresenius Medical Care debt and the Renal Care Group integration, for expenses related to the stock option accounting change as well as for the after-tax loss on the divestiture of dialysis clinics in the USA. Excluding the above effects and adjusted by one-time expenses in the previous year, net income was up 20 % to US$ 412 million.

Third quarter of 2006

Sales in the third quarter of 2006 increased 30 % (29 % in constant currency) to US$ 2,234 million (Q3 2005: US$ 1,717 million). Organic growth was 10 %.

Net income for the third quarter 2006 was US$ 139 million, an increase of 20 % (Q3 2005: US$ 116 million). Excluding one-time costs and expenses related to the stock option accounting change and adjusted by one-time expenses in the previous year, net income increased by 21 % to US$ 145 million.

Full-year 2006 outlook

Based on the strong performance in the third quarter of 2006, Fresenius Medical Care upgrades its guidance for the full year 2006. After expecting to report net revenue of about US$ 8.3 billion, Fresenius Medical Care now expects net revenue for 2006 of about US$ 8.4 billion.

Fresenius Medical Care also upgrades its outlook for net income for 2006. After expecting a net income of at least US$ 542 million, the company now expects a net income of at least US$ 557 million, representing an increase of at least 18 % over the corresponding level in 2005.

In order to show the underlying performance of Fresenius Medical Care on a basis comparable with the prior year, the guidance does not take into effect any expected one-time items and the stock option accounting change in the fiscal year 2006. Fresenius Medical Care expects the after tax impact of the one-time items and the stock option accounting change to be about US$ 44 million for the full year 2006.

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 €	**Q3/2006**	Q3/2005	Change in %	**Q1-3/2006**	Q1-3/2005	Change in %
Sales	**467**	421	11	**1,404**	1,239	13
EBITDA	**93**	84	11	**270**	234	15
EBIT	**74**	60	23	**213**	170	25
Net income	**41**	30	37	**101**	81	25
Employees				**15,639 (Sep 30, 2006)**	14,453 (Dec 31, 2005)	8

First nine months of 2006

- Strong sales and earnings growth continues
- Filaxis acquisition strengthens i.v. drug portfolio
- Earnings outlook for 2006 raised

Fresenius Kabi's sales increased by 13 % to € 1,404 million (Q1-3 2005: € 1,239 million). The company achieved strong organic growth of 8 %. Acquisitions, primarily Clinico and Australian Pharmatel, contributed 4 % to sales. Currency translation effects contributed 1 % to growth.

Sales in Europe (excluding Germany) increased by 8 %, in Germany by 4 %. Fresenius Kabi continued its exceptional growth outside Europe and achieved sales growth of 44 % in Asia-Pacific, 31 % in Latin America and 21 % in the other regions. Organic growth in the regions outside Europe was again well into the double digits.

Fresenius Kabi showed an even stronger performance at the EBIT level, with an increase of 25 % to € 213 million (Q1-3 2005: € 170 million). The EBIT margin improved to 15.2 % (Q1-3 2005: 13.7 %).

Net profit rose by 25 % to € 101 million (Q1-3 2005: € 81 million). This already includes one-time expenses of € 11 million for the early redemption of the 2003 Euro Bond.

In September 2006, Fresenius Kabi signed an agreement to acquire 100 % of the shares of Filaxis. This Argentinean company based in Buenos Aires specializes in the development, production and distribution of intravenously administered generic drugs for cancer treatment (cytostatics) and markets its comprehensive product portfolio primarily in Latin America. In 2005 the company achieved sales of approximately € 12 million. The Filaxis acquisition strengthens Fresenius Kabi's portfolio of intravenously administered generic drugs by adding oncology products. Once the respective registration processes are finalized, the Filaxis products will also be marketed outside Latin America through Fresenius Kabi's existing sales and distribution organization. The acquisition still has to be approved by the local antitrust authorities.

Third quarter of 2006

Sales in the third quarter of 2006 increased by 11 % to € 467 million (Q3 2005: € 421 million). The company achieved organic growth of 7 %. Acquisitions, primarily Clinico and Australian Pharmatel, contributed 5 % to sales. Currency translation had a -1 % effect on sales.

EBIT increased 23 % to € 74 million (Q3 2005: € 60 million). Fresenius Kabi reached a quarterly all-time high EBIT margin of 15.8 % (Q3 2005: 14.3 %).

Full-year 2006 outllok

Based on its excellent performance in the third quarter, Fresenius Kabi raises its full year 2006 earnings outlook and now expects an EBIT margin in the range of 15.0 to 15.5 %. The company confirms its sales outlook and continues to expect an increase of 11 to 12 % in constant currency.

BUSINESS SEGMENT FRESENIUS PROSERVE

Fresenius ProServe is a leading German hospital operator with 56 facilities. Moreover, the company offers engineering and services for hospitals and other health care facilities as well as for the pharmaceutical industry.

in million €	Q3/2006	Q3/2005[1]	Q3 2005[2]	Change in %[1]	Q1-3/2006	Q1-3/2005[1]	Q1-3/2005[2]	Change in %[1]
Sales	**552**	500	201	10	**1,526**	1,442	551	6
EBITDA	**63**	47	10	34	**153**	127	29	20
EBIT	**43**	33	4	29	**105**	87	11	21
Net income	**21**	8	-3	163	**44**	23	-4	91
Employees					**28,561 (Sep 30, 2006)**	26,664 (Dec 31, 2005)	26,664 (Dec 31, 2005)	7

[1] including HELIOS Kliniken
[2] as reported

First nine months of 2006

- Good operating performance in the hospital operations business
- Strong order intake in the engineering and services business
- Outlook confirmed – Full-year 2006 expected to be at the top end of guidance

Fresenius ProServe's sales grew by 6 % to € 1,526 million (Q1-3 2005 incl. HELIOS Kliniken: € 1,442 million). Organic growth was 3 %. On a comparable basis, EBIT increased by 21 % to € 105 million (Q1-3 2005 incl. HELIOS Kliniken: € 87 million).

Sales in hospital operations (HELIOS Kliniken Group) increased by 5 % to € 1,204 million (Q1-3 2005 incl. HELIOS Kliniken : € 1,152 million). The growth is mainly attributable to the acquisition of HUMAINE Kliniken, which was consolidated as from July 1, 2006. Organic growth was 2 %. EBIT increased to € 94 million, the EBIT margin improved to 7.8 % (Q1-3 2005 incl. HELIOS Kliniken: € 79 million and 6.8 %).

Sales in the engineering and services business (VAMED, Pharmaplan) increased 11 % to € 322 million (Q1-3 2005: € 290 million). EBIT rose to € 14 million (Q1-3 2005: € 9 million). Order intake and order backlog continued to develop very positively. Order intake increased by 22 % to € 291 million (Q1-3 2005: € 239 million). Order backlog rose 21 % to € 437 million as of September 30, 2006 (December 31, 2005: € 360 million).

Third quarter of 2006

In the third quarter of 2006, Fresenius ProServe achieved a sales increase of 10 % to € 552 million (Q3 2005 incl. HELIOS Kliniken: € 500 million). Organic growth was 1 %.

EBIT increased to € 43 million (Q3 2005 incl. HELIOS Kliniken: € 33 million).

Full-year 2006 outlook

Fresenius ProServe confirms its outlook but now expects the full-year 2006 to be at the top end of guidance. Guidance calls for revenues to increase by 1 to 3 % before acquisitions (based on 2005 revenues including HELIOS Kliniken of € 2,009 million) and EBIT to rise to € 140 to 150 million (2005 incl. HELIOS Kliniken: € 125 million).

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

in million €	**Q3/2006**	Q3/2005	**Q1-Q3/2006**	Q1-Q3/2005
Sales	**2,765**	2,010	**7,843**	5,712
Cost of goods sold	**-1,890**	-1,325	**-5,386**	-3,838
Gross profit	**875**	685	**2,457**	1,874
Selling, general and administrative expenses	**-456**	-399	**-1,283**	-1,067
Research and development expenses	**-40**	-36	**-114**	-104
Operating income (EBIT)	**379**	250	**1,060**	703
Net interest	**-101**	-49	**-295**	-146
Earnings before income taxes and minority interest	**278**	201	**765**	557
Income taxes	**-107**	-79	**-313**	-219
Minority interest	**-78**	-62	**-219**	-177
Net income	**93**	60	**233**	161
Basic earnings per ordinary share in €	**1.81**	1.46	**4.56**	3.92
Fully diluted earnings per ordinary share in €	**1.80**	1.45	**4.52**	3.89
Basic earnings per preference share in €	**1.81**	1.46	**4.58**	3.94
Fully diluted earnings per preference share in €	**1.80**	1.45	**4.54**	3.91

See accompanying Notes to the unaudited consolidated financial statements.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

in million €	Sep 30, 2006	Dec 31, 2005
Cash and cash equivalents	**255**	252
Trade accounts receivable, less allowances for doubtful accounts	**2,091**	1,871
Accounts receivable and loans from related parties	**10**	15
Inventories	**820**	727
Prepaid expenses and other current assets	**702**	478
Deferred taxes	**198**	188
I. Total current assets	**4,076**	3,531
Property, plant and equipment	**2,661**	2,356
Goodwill	**7,355**	4,680
Other intangible assets	**527**	541
Other non-current assets	**418**	359
Deferred taxes	**157**	127
II. Total non-current assets	**11,118**	8,063
Total assets	**15,194**	11,594
Trade accounts payable	**354**	353
Short-term accounts payable to related parties	**4**	2
Short-term accrued expenses and other current liabilities	**1,920**	1,522
Short-term borrowings	**332**	224
Short-term liabilities and loans from related parties	**–**	1
Current portion of long-term debt and liabilities from capital lease obligations	**322**	222
Accruals for income taxes	**135**	146
Deferred taxes	**72**	27
A. Total short-term liabilities	**3,139**	2,497
Long-term debt and liabilities from capital lease obligations, less current portion	**4,512**	2,055
Long-term liabilities and loans from related parties	**–**	–
Long-term accrued expenses and other long-term liabilities	**362**	304
Pension obligations	**314**	305
Deferred taxes	**314**	303
Trust preferred securities of Fresenius Medical Care Capital Trusts	**970**	1,000
B. Total long-term liabilities	**6,472**	3,967
I. Total liabilities	**9,611**	6,464
II. Minority interest	**2,526**	2,289
Subscribed capital	**131**	130
Capital reserve	**1,673**	1,546
Other reserves	**1,218**	1,061
Accumulated other comprehensive income	**35**	104
III. Total shareholders' equity	**3,057**	2,841
Total liabilities and shareholders' equity	**15,194**	11,594

See accompanying Notes to the unaudited consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

in million €	Q1-3/2006	Q1-Q3/2005
Cash provided by/used for operating activities		
Net income	233	161
Minority interest	219	177
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Depreciation and amortization	290	234
Loss on sale of investments	4	0
Change in deferred taxes	-2	17
Gain on sale of fixed assets	-1	-1
Change in assets and liabilities, net of amounts from businesses acquired or disposed of		
Change in trade accounts receivable, net	-30	-6
Change in inventories	-83	-51
Change in prepaid expenses and other current and non-current assets	-156	-81
Change in accounts receivable from/payable to related parties	4	7
Change in trade accounts payable, accruals and other short-term and long-term liabilities	180	164
Change in accruals for income taxes	-9	-29
Tax payments related to divestitures and acquisitions	-61	0
Cash provided by operating activities	588	592
Cash provided by/used for investing activities		
Purchase of property, plant and equipment	-374	-196
Proceeds from the sale of property, plant and equipment	14	16
Acquisitions and investments, net of cash acquired	-3,481	-213
Proceeds from divestitures	426	0
Cash used for investing activities	-3,415	-393
Cash provided by/used for financing activities		
Proceeds from short-term borrowings	29	61
Repayments of short-term borrowings	-77	-60
Proceeds from borrowings from related parties	5	0
Repayments of borrowings from related parties	0	-3
Proceeds from long-term debt and capital lease obligations	4,262	367
Repayments of long-term debt and capital lease obligations	-1,689	-293
Changes of accounts receivable facility	155	-175
Proceeds from the exercise of stock options	64	57
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares	258	0
Dividends paid	-159	-132
Change in minority interest	-9	-1
Exchange rate effect due to corporate financing	–	-2
Cash provided by/used for financing activities	2,839	-181
Effect of exchange rate changes on cash and cash equivalents	-9	10
Net increase in cash and cash equivalents	3	28
Cash and cash equivalents at the beginning of the reporting period	252	140
Cash and cash equivalents at the end of the reporting period	255	168

See accompanying Notes to the unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Ordinary shares		Preference shares		Subscribed capital	
	Number of shares (thousand)	Amount (thousand €)	Number of shares (thousand)	Amount (thousand €)	Amount (thousand €)	Amount (million €)
As of December 31, 2004	**20,486**	**52,443**	**20,486**	**52,443**	**104,886**	**105**
Proceeds from the exercise of stock options	127	327	127	327	654	1
Compensation expense related to stock options						
Dividends paid						
Comprehensive income (loss)						
Net income						
Other comprehensive income (loss) related to						
Cash flow hedges						
Foreign currency translation						
Minimum pension liability						
Comprehensive income (loss)						
As of September 30, 2005	**20,613**	**52,770**	**20,613**	**52,770**	**105,540**	**106**
As of December 31, 2005	**25,361**	**64,924**	**25,361**	**64,924**	**129,848**	**130**
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares						
Proceeds from the exercise of stock options	151	386	151	386	772	1
Compensation expense related to stock options						
Dividends paid						
Comprehensive income (loss)						
Net income						
Other comprehensive income (loss) related to						
Cash flow hedges						
Foreign currency translation						
Minimum pension liability						
Comprehensive income (loss)						
As of September 30, 2006	**25,512**	**65,310**	**25,512**	**65,310**	**130,620**	**131**

See accompanying Notes to the unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Reserves		Other comprehensive income (loss)			
in million €	Capital reserve	Other reserves	Foreign currency translation	Cash flow hedges	Pensions	Total
As of December 31, 2004	**645**	**895**	**20**	**-18**	**-44**	**1,603**
Proceeds from the exercise of stock options	17					18
Compensation expense related to stock options	3					3
Dividends paid		-56				-56
Comprehensive income (loss)						
Net income		161				161
Other comprehensive income (loss) related to						
Cash flow hedges				-13		-13
Foreign currency translation			148			148
Minimum pension liability					-3	-3
Comprehensive income (loss)	0	161	148	-13	-3	293
As of September 30, 2005	**665**	**1,000**	**168**	**-31**	**-47**	**1,861**
As of December 31, 2005	**1,546**	**1,061**	**161**	**14**	**-71**	**2,841**
Proceeds from the conversion of Fresenius Medical Care's preference shares into ordinary shares	94					94
Proceeds from the exercise of stock options	25					26
Compensation expense related to stock options	8					8
Dividends paid		-76				-76
Comprehensive income (loss)						
Net income		233				233
Other comprehensive income (loss) related to						
Cash flow hedges				15		15
Foreign currency translation			-87			-87
Minimum pension liability					3	3
Comprehensive income (loss)	0	233	-87	15	3	164
As of September 30, 2006	**1,673**	**1,218**	**74**	**29**	**-68**	**3,057**

See accompanying Notes to the unaudited consolidated financial statements.

SEGMENT REPORTING FIRST THREE QUARTERS

	Fresenius Medical Care			Fresenius Kabi			Fresenius ProServe			Corporate/Other			Fresenius Group		
by business segments, in million €	**2006**	2005	Change	**2006**	2005	Change	**2006**	2005	Change	**2006**	2005	Change	**2006**	2005	Change
Sales	**4,939**	3,959	25%	**1,404**	1,239	13%	**1,526**	551	177%	**-26**	-37	30%	**7,843**	5,712	37%
thereof contribution to consolidated sales	**4,935**	3,940	25%	**1,376**	1,217	13%	**1,521**	544	180%	**11**	11	0%	**7,843**	5,712	37%
thereof intercompany sales	**4**	19	-79%	**28**	22	27%	**5**	7	-29%	**-37**	-48	23%	**0**	0	
contribution to consolidated sales	**63%**	69%		**18%**	21%		**19%**	10%		**0%**	0%		**100%**	100%	
EBITDA	**953**	695	37%	**270**	234	15%	**153**	29	--	**-26**	-21	-24%	**1,350**	937	44%
Depreciation and amortization	**178**	145	23%	**57**	64	-11%	**48**	18	167%	**7**	7	0%	**290**	234	24%
EBIT	**775**	550	41%	**213**	170	25%	**105**	11	--	**-33**	-28	-18%	**1,060**	703	51%
Net interest	**-205**	-100	-105%	**-55**	-38	-45%	**-31**	-7	--	**-4**	-1	--	**-295**	-146	-102%
Net income	**309**	269	15%	**101**	81	25%	**44**	-4	--	**-221**	-185	-19%	**233**	161	45%
Operating cash flow	**374**	372	1%	**156**	185	-16%	**115**	35	--	**-57**	0	--	**588**	592	-1%
Cash flow before acquisitions and dividends	**155**	244	-36%	**91**	151	-40%	**46**	28	64%	**-64**	-11	--	**228**	412	-45%
Debt[1]	**4,480**	1,857	141%	**888**	903	-2%	**936**	229	--	**-168**	513	-133%	**6,136**	3,502	75%
Total assets[1]	**10,005**	6,767	48%	**1,918**	1,867	3%	**3,164**	2,859	11%	**107**	101	6%	**15,194**	11,594	31%
Capital expenditure	**232**	139	67%	**66**	39	69%	**69**	8	--	**7**	10	-30%	**374**	196	91%
Acquisitions	**3,410**	73	--	**8**	189	-96%	**119**	1	--	**0**	1	-100%	**3,537**	264	--
Research and development expenses	**30**	32	-6%	**51**	44	16%	**–**	–	--	**33**	28	18%	**114**	104	10%
Employees (per capita on balance sheet date)[1]	**59,331**	50,250	18%	**15,639**	14,453	8%	**28,561**	26,664	7%	**648**	604	7%	**104,179**	91,971	13%
Key figures															
EBITDA margin	**19.3%**	17.6%		**19.2%**	18.9%		**10.0%**	5.3%					**17.2%**	16.4%	
EBIT margin	**15.7%**	13.9%		**15.2%**	13.7%		**6.9%**	2.0%					**13.5%**	12.3%	
ROOA[1]	**10.8%[2]**	12.6%		**16.9%**	14.5%		**6.3%**	3.6%[3]					**9.9%[2]**	11.7%[3]	
Depreciation and amortization in % of sales	**3.6%**	3.7%		**4.1%**	5.2%		**3.1%**	3.3%					**3.7%**	4.1%	

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

SEGMENT REPORTING THIRD QUARTER

by business segments, in million €	Fresenius Medical Care 2006	2005	Change	Fresenius Kabi 2006	2005	Change	Fresenius ProServe 2006	2005	Change	Corporate/Other 2006	2005	Change	Fresenius Group 2006	2005	Change
Sales	**1,757**	1,404	25%	**467**	421	11%	**552**	201	175%	**-11**	-16	31%	**2,765**	2,010	38%
thereof contribution to consolidated sales	**1,755**	1,398	26%	**457**	413	11%	**550**	196	181%	**3**	3	0%	**2,765**	2,010	38%
thereof intercompany sales	**2**	6	-67%	**10**	8	25%	**2**	5	-60%	**-14**	-19	26%	**0**	0	
contribution to consolidated sales	**63%**	69%		**17%**	21%		**20%**	10%		**0%**	0%		**100%**	100%	
EBITDA	**337**	244	38%	**93**	84	11%	**63**	10	--	**-10**	-5	-100%	**483**	333	45%
Depreciation and amortization	**63**	51	24%	**19**	24	-21%	**20**	6	--	**2**	2	0%	**104**	83	25%
EBIT	**274**	193	42%	**74**	60	23%	**43**	4	--	**-12**	-7	-71%	**379**	250	52%
Net interest	**-78**	-34	-129%	**-12**	-12	0%	**-10**	-2	--	**-1**	-1	0%	**-101**	-49	-106%
Net income	**109**	95	15%	**41**	30	37%	**21**	-3	--	**-78**	-62	-26%	**93**	60	55%
Operating cash flow	**120**	163	-26%	**76**	80	-5%	**47**	3	--	**-28**	17	--	**215**	263	-18%
Cash flow before acquisitions and dividends	**31**	111	-72%	**47**	65	-28%	**19**	1	--	**-29**	11	--	**68**	188	-64%
Capital expenditure	**91**	58	57%	**29**	16	81%	**28**	2	--	**1**	5	-80%	**149**	81	84%
Acquisitions	**5**	33	-85%	**0**	3	-100%	**119**	–	--	**0**	1	-100%	**124**	37	--
Research and development expenses	**9**	11	-18%	**19**	16	19%	**–**	–	--	**12**	9	33%	**40**	36	11%
Key figures															
EBITDA margin	**19.2%**	17.4%		**19.9%**	20.0%		**11.4%**	5.0%					**17.5%**	16.6%	
EBIT margin	**15.6%**	13.8%		**15.8%**	14.3%		**7.8%**	2.0%					**13.7%**	12.4%	
Depreciation and amortization in % of sales	**3.6%**	3.6%		**4.1%**	5.7%		**3.6%**	3.0%					**3.8%**	4.1%	

Notes – Contents

1. PRINCIPLES

I. Group structure

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

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius ProServe

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

II. Transformation of Fresenius Medical Care AG's legal form and conversion of its preference shares

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

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

Prior to registration of the transformation of legal form, Fresenius Medical Care AG offered holders of its non-voting preference shares (including preference shares represented by American Depositary Shares (ADSs)) the opportunity to convert their shares into ordinary shares at a conversion ratio of one preference share plus a conversion premium of € 9.75 per ordinary share. Fresenius Medical Care received a total of € 258 million in premiums from the holders upon the conversion of their preference shares net of costs of € 2 million.

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

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

Fresenius Medical Care also agreed to bear court fees and shareholder legal expenses in connection with the settlement. The total costs of the settlement were estimated to be approximately € 5.9 million. A further part of the settlement agreement and German law require that these costs be borne by Fresenius AG and Fresenius Medical Care Management AG. The actual total costs of all ex gratia payments and all payments to shareholders who voted against the conversion proposal and who filed written claims in a timely fashion incurred in the settlement were € 5.2 million. The difference of € 0.7 million was recorded as a selling, general and administrative expense reduction during the period ending September 30, 2006.

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

III. Basis of presentation

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

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

IV. Significant accounting principles

Consolidation principles

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

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

The results of operations for the first three quarters and the third quarter ended September 30, 2006, are not necessarily indicative of the results of operations for the fiscal year 2006 ending December 31, 2006.

Classification

Certain items in the previous year’s quarterly reports and the previous year’s consolidated financial statements have been reclassified to conform with the current period’s presentation. In the first three quarters of 2005, the reclassification includes € 73 million relating to rents for clinics of Fresenius Medical Care which were removed from selling, general and administrative expenses and included in its cost of goods sold.

V. Change in accounting principles

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

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

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

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

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

An enterprise that presents a classified statement of financial position should classify a liability for unrecognized tax benefits as current to the extent that the enterprise anticipates making a payment within one year or the operating cycle, if longer. An income tax liability should not be classified as a deferred tax liability unless it results from a taxable temporary difference (that is, a difference between the tax basis of an asset or a liability as calculated using this Interpretation and its reported amount in the statement of financial position). FIN 48 does not change the classification requirements for deferred taxes.

Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Use of a valuation allowance as described in SFAS No. 109 is not an appropriate substitute for the derecognition of a tax position. The requirement to assess the need for a valuation allowance for deferred tax assets based on the sufficiency of future taxable income is unchanged by FIN 48. FIN 48 is effective for all fiscal years beginning after December 15, 2006. The Fresenius Group is in the process of determining the potential impact of FIN 48, if any, on the Group's consolidated financial statements.

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

In September 2006, the FASB issued **Statement No. 158**, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans -- An Amendment of FASB Statements No. 87, 88, 106, and 132R (SFAS 158). SFAS 158 requires the recognition of the overfunded or underfunded status of defined benefit as an asset or liability in the balance sheet of the fiscal year ending after December 15, 2006, with changes in the funded status of a plan, net of tax, resulting from actuarial gains or losses and prior service costs or credits that are not recognized as components of the net periodic benefit cost recognized through comprehensive income in the year in which they occur. In addition, a plan's assets and its obligations that determine its funded status must be measured as of the end of the employer's fiscal year beginning for all fiscal years ending after December 15, 2008. The Fresenius Group will adopt SFAS 158 as of December 31, 2006 and does not expect a material impact on the Group’s consolidated financial statements, beside the described balance sheet changes.

2. ACQUISITIONS

The Fresenius Group made acquisitions totaling € 3,537 million and € 264 million in the first three quarters of 2006 and the first three quarters of 2005, respectively. Of this amount, € 3,481 million and € 213 million were paid in cash and € 23 million and € 21 million were assumed obligations, respectively. Futhermore € 42 million will be paid in stocks. In connection with an acquisition in the first quarter of 2005 purchase price considerations in an amount of € 30 million were due in subsequent years, whereof € 9 million were paid in the first three quarters of 2006.

Acquisitions of Fresenius Medical Care in the first three quarters of 2006 in an amount of € 3,410 million related mainly to the purchase of Renal Care Group, Inc. (RCG).

On March 31, 2006, Fresenius Medical Care completed the acquisition of Renal Care Group, Inc. (RCG), a Delaware corporation with principal offices in Nashville, Tennessee, for an all cash purchase price, net of cash acquired, of approximately US$ 4,155 million for all of the outstanding common stock and the retirement of RCG stock options which generated an approximate US$ 60 million tax receivable. The purchase price included the concurrent repayment of approximately US$ 658 million indebtedness of RCG.

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

The preliminary purchase price allocation is as follows:

in million US$

Current assets	727
Property, plant and equipment	307
Intangible assets and other assets	74
Goodwill	3,480
Trade accounts payable, accrued expenses and other current liabilities	-275
Accruals for income taxes and deferred taxes	-75
Long-term debt and capital lease obligations	-4
Other liabilities	-79
Aggregate purchase price (net of cash received)	**4,155**

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

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

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

In September 2006, Fresenius Kabi has agreed to acquire all stakes in Filaxis, Argentina. The acquisition still requires approval by the antitrust authorities.

In the first three quarters of 2006, Fresenius ProServe made acquisitions of € 119 million, referring mainly to the acquisition of a majority stake in HUMAINE Kliniken GmbH by the HELIOS Kliniken GmbH. Since the beginning of the third quarter of 2006, HUMAINE Kliniken GmbH is consolidated.

Impacts on the Fresenius Group resulting from acquisitions

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

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

in million €	as reported	pro forma
Sales	7,843	8,093
Net income	233	232
Basic earnings per ordinary share in €	4.56	4.55
Fully diluted earnings per ordinary share in €	4.52	4.51
Basic earnings per preference share in €	4.58	4.57
Fully diluted earnings per preference share in €	4.54	4.53

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

3. DIVESTITURES

Fresenius Medical Care was required to divest a total of 105 renal dialysis centers, consisting of both former Fresenius Medical Care's clinics (legacy clinics) and former RCG clinics, in order to complete the RCG acquisition in accordance with a consent order issued by the United States Federal Trade Commission (FTC) on March 30, 2006. Fresenius Medical Care sold 96 of such centers on April 7, 2006 to a wholly-owned subsidiary of DSI Holding Company, Inc. (DSI) and sold DSI the remaining 9 centers effective as of June 30, 2006. Fresenius Medical Care received cash consideration of US$ 507 million, net of related expenses, for all centers divested, subject to customary post-closing adjustments. The income of US$ 40 million on the sale of the legacy clinics was recorded in income from operations. The carrying values for tax basis for the legacy clinics were lower than the book values which resulted in taxes of US$ 45 million. Due to this difference between tax and book value, the divestiture of the legacy clinics resulted in a loss of US$ 4 million. There was no gain or loss on the sale of the RCG clinics. However, due to the tax basis for the RCG clinics, a US$ 90 million tax liability was generated and paid at the time of the divestiture of those clinics. The tax liabilities on the divestiture of the legacy clinics of US$ 45 million and the divested RCG clinics of US$ 90 million, partially offset by the tax receivable related to the retirement of RCG's stock options of US$ 60 million (see Note 2, Acquisitions), generated a tax payment of US$ 75 million during the first three quarters of 2006.

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

4. SALES

Sales by activity are as follows:

in million €	Q1-3/2006	Q1-3/2005
Sales of services	**5,059**	3,256
Sales of products and related goods	**2,565**	2,266
Sales from long-term production contracts	**219**	190
Other sales	**–**	–
Sales	**7,843**	5,712

5. EARNINGS PER SHARE

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

in million €, except amounts per share (€)	Q1-3/2006	Q1-3/2005
Numerators		
Net income	**233**	161
less preference on preference shares	**1**	–
Income available to all classes of shares	**232**	161
Denominators (number of shares)		
Weighted-average number of ordinary shares outstanding	**25,449,869**	20,516,309
Weighted-average number of preference shares outstanding	**25,449,869**	20,516,309
Weighted-average number of shares outstanding of all classes	**50,899,738**	41,032,618
Potentially dilutive ordinary shares	**252,402**	142,246
Potentially dilutive preference shares	**252,402**	142,246
Weighted-average number of shares outstanding of all classes assuming dilution	**51,404,542**	41,317,110
Weighted-average number of ordinary shares outstanding assuming dilution	**25,702,271**	20,658,555
Weighted-average number of preference shares outstanding assuming dilution	**25,702,271**	20,658,555
Basic earnings per ordinary share	**4.56**	3.92
Preference per preference share	**0.02**	0.02
Basic earnings per preference share	**4.58**	3.94
Fully diluted earnings per ordinary share	**4.52**	3.89
Preference per preference share	**0.02**	0.02
Fully diluted earnings per preference share	**4.54**	3.91

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

Earnings per share amount to € 1.81 and € 1.46 for each bearer ordinary share and € 1.81 and € 1.46 for each bearer preference share for the third quarter of 2006 and the third quarter of 2005, respectively.

6. CASH AND CASH EQUIVALENTS

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

in million €	**September 30, 2006**	December 31, 2005
Cash	**250**	209
Securities (with a maturity of up to 90 days)	**5**	43
Cash and cash equivalents	**255**	252

7. TRADE ACCOUNTS RECEIVABLE

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

in million €	**September 30, 2006**	December 31, 2005
Trade accounts receivable	**2,295**	2,071
less allowance for doubtful accounts	**204**	200
Trade accounts receivable, net	**2,091**	1,871

8. INVENTORIES

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

in million €	**September 30, 2006**	December 31, 2005
Raw materials and purchased components	**187**	176
Work in process	**154**	116
Finished goods	**479**	435
Inventories	**820**	727

9. GOODWILL AND OTHER INTANGIBLE ASSETS

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

Regularly amortizable intangible assets

	September 30, 2006			December 31, 2005		
in million €	**Acquisition cost**	**Accumulated amortization**	**Carrying amount**	Acquisition cost	Accumulated amortization	Carrying amount
Non-compete agreements	**178**	**106**	**72**	0	0	0
Patents	**49**	**39**	**10**	46	33	13
Distribution rights	**21**	**9**	**12**	24	14	10
Other	**260**	**201**	**59**	339	210	129
Total	**508**	**355**	**153**	409	257	152

Non-regularly amortizable intangible assets

in million €	**September 30, 2006**			December 31, 2005		
	Acquisition cost	**Accumulated amortization**	**Carrying amount**	Acquisition cost	Accumulated amortization	Carrying amount
Tradenames	**191**	**0**	**191**	204	0	204
Management contracts	**183**	**0**	**183**	185	0	185
Subtotal	**374**	**0**	**374**	389	0	389
Goodwill	**7,359**	**4**	**7,355**	4,684	4	4,680
Total	**7,733**	**4**	**7,729**	5,073	4	5,069

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

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

in million €	Q4/2006	2007	2008	2009	2010	Q1-3/2011
Estimated amortization expenses for the next five fiscal years	10	40	34	32	29	20

The carrying amount of goodwill has developed as follows:

in million €	
Carrying amount as of January 1, 2006	**4,680**
Additions/disposals, net	2,876
Foreign currency translation	-201
Carrying amount as of September 30, 2006	**7,355**

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

10. DEBT AND CAPITAL LEASE OBLIGATIONS

Short-term borrowings

Lines of credit and short-term borrowings

Short-term borrowings of € 332 million and € 224 million at September 30, 2006 and December 31, 2005, respectively, represent amounts borrowed by certain subsidiaries of the Fresenius Group under lines of credit with commercial banks.

Accounts receivable facility

Fresenius Medical Care has an asset securitization facility (accounts receivable facility), which provides borrowings up to a maximum of US$ 460 million (€ 363 million). Under the facility, certain receivables are sold to NMC Funding Corp. (NMC Funding), a wholly-owned subsidiary of Fresenius Medical Care. NMC Funding then assigns undivided ownership interests in the accounts receivable to certain bank investors. Under the terms of the accounts receivable facility, NMC Funding retains the right to recall all transferred interests in the accounts receivable assigned to the banks under the facility. As Fresenius Medical Care has the right at any time to recall the then outstanding interests, the receivables remain on the consolidated balance sheet and the proceeds from the transfer of undivided interests are recorded as short-term borrowings.

At September 30, 2006, there are outstanding short-term borrowings under the facility of US$ 287 million (€ 227 million). On October 19, 2006, Fresenius Medical Care amended the accounts receivable facility to extend the maturity date to October 18, 2007 and increase the provided borrowings up to US$ 650 million.

Long-term debt and liabilities from capital lease obligations

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

in million €	**September 30, 2006**	December 31, 2005
Fresenius Medical Care 2006 Credit Agreement	**2,818**	0
Euro Bonds	**1,098**	400
Euro Notes	**366**	460
European Investment Bank agreements	**216**	41
Capital lease obligations	**57**	40
Bridge loan facility	**0**	600
Fresenius Medical Care 2003 Senior Credit Agreement	**0**	399
Other	**279**	337
Subtotal	**4,834**	2,277
less current portion	**322**	222
Long-term debt and liabilities from capital lease obligations, less current portion	**4,512**	2,055

Fresenius Medical Care 2006 Credit Agreement

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

The Fresenius Medical Care 2006 Credit Agreement consists of:

- A 5-year US$ 1 billion revolving credit facility (of which up to US$ 250 million is available for letters of credit, up to US$ 300 million is available for borrowings in certain non-US currencies, up to US$ 150 million is available as swing lines in US dollars, up to US$ 250 million is available as a competitive loan facility and up to US$ 50 million is available as swing lines in certain non-US currencies, the total of which cannot exceed US$ 1 billion) which will be due and payable on March 31, 2011.

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

- A 7-year term loan facility (Loan B) of US$ 1,750 million scheduled to mature on March 31, 2013. The terms of the Fresenius Medical Care 2006 Credit Agreement require 28 quarterly payments that permanently reduce the term loan facility that began June 30, 2006. The first 24 quarterly payments will be equal to one quarter of one percent (0.25%) of the original principal balance outstanding, payments 25 through 28 will be equal to twenty-three and one half percent (23.5%) of the original principal balance outstanding with the final payment due on March 31, 2013 subject to an early repayment requirement on March 1, 2011 if the Trust Preferred Securities due June 15, 2011 are not repaid or refinanced or their maturity is not extended prior to that date.

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

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

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

The Fresenius Medical Care 2006 Credit Agreement contains affirmative and negative covenants with respect to Fresenius Medical Care and its subsidiaries and other payment restrictions. Certain of the covenants limit indebtedness of Fresenius Medical Care and investments by Fresenius Medical Care, and require Fresenius Medical Care to maintain certain financial ratios defined in the agreement. Additionally, the Fresenius Medical Care 2006 Credit Agreement provides for a limitation on dividends and other restricted payments which is US$ 240 million for dividends paid in 2007, and increases in subsequent years. Fresenius Medical Care paid dividends of US$ 154 million (€ 120 million) in May of 2006 which was in compliance with the restrictions set forth in the Fresenius Medical Care 2006 Credit Agreement. In default, the outstanding balance under the Fresenius Medical Care 2006 Credit Agreement becomes immediately due and payable at the option of the Lenders. As of September 30, 2006, Fresenius Medical Care is in compliance with all financial covenants under the Fresenius Medical Care 2006 Credit Agreement.

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

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

Euro Bonds

In April 2003, Fresenius Finance B.V. issued Euro Bonds for a total amount of € 400 million in two tranches in order to repay short-term bank loans. Both tranches have a maturity of six years. The first tranche of € 300 million bore interest at 7.75% p.a. and was callable by the issuer for the first time on April 30, 2006. The redemption prices were fixed at the date of issue. The Fresenius Group issued a tender offer to repurchase the bonds in January 2006 and 71% of the volume of the first tranche were actually repurchased. At the end of March, Fresenius Finance B.V. has exercised its option to redeem the remaining outstanding amount. The repurchase price was 103.875% or € 1,038.75 per € 1,000 nominal value of the Notes, plus accrued interest. The redemption was effective on April 30, 2006 and payment was made on May 2, 2006. The second tranche of € 100 million bears interest at 7.5% p.a. and is not callable before maturity.

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

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

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

Euro Notes

The Euro Notes (Schuldscheindarlehen) issued by Fresenius Finance B.V. amounting to € 166 million will mature in 2007 and 2008. Interest rates are linked to EURIBOR. As of September 30, 2006, the Euro Notes (Schuldschein-darlehen), which are completely hedged through interest swaps, carried interest rates of between 4.30% and 5.24% during the first three quarters of 2006.

On July 27, 2005, Fresenius Medical Care issued new Euro Notes (Schuldscheindarlehen) totaling € 200 million with a € 126 million tranche at a fixed interest rate of 4.57% and a € 74 million tranche with a floating rate at EURIBOR plus applicable margin resulting in an average interest rate of 4.72% for the first three quarters of 2006. The Euro Notes mature on July 27, 2009. The proceeds were used to liquidate € 129 million of Euro Notes issued in 2001 that were due in July 2005 and for working capital.

European Investment Bank Agreements

On June 15, 2006, in connection with the European Investment Bank (EIB) agreements entered into on July 13, 2005, Fresenius Medical Care borrowed an additional € 90 million (US$ 116 million) from the revolving credit line which terminates on July 12, 2013. At September 30, 2006, the amounts outstanding under Fresenius Medical Care's revolving credit line and the term loan were € 90 million (US$ 116 million) and € 41 million (US$ 49 million), respectively.

As of September 30, 2006, a subsidiary of Fresenius ProServe had borrowings of € 45 million under a term loan agreement with the EIB. The total amount of this term loan agreement is € 100 million which can be drawn down in several tranches. The term loan will mature in December 2019 and will be permanently reduced with constant halfyearly payments starting in December 2007.

In addition, Fresenius AG has a revolving credit line of € 96 million provided by the EIB which is available until June 2013. As of September 30, 2006, the credit line had been utilized with € 40 million.

The above mentioned loans bear variable interest rates that change quarterly. The borrowers have options to convert those interest rates into fixed rates. The loans under these EIB Agreements are secured by bank guarantees and have customary covenants.

11. PENSIONS AND SIMILAR OBLIGATIONS

Defined benefit pension plans

More than half of the pension obligations totaling € 314 million relate to the "Versorgungsordnung der Fresenius-Unternehmen" established in 1988, which applies for most of the German entities of the Group. Approximately one-tenth of the pension obligations relates to the Fresenius Medical Care Retention Plan in the United States. The rest, approximately one-third of the pension obligations, relates to individual pension plans.

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

Fresenius Medical Care currently has two principal pension plans, one for German employees, and the other covering employees in the United States. Each year Fresenius Medical Care Holdings, Inc. (FMCH) contributes to the pension plan in the United States at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended. There is no minimum funding requirement for FMCH for the defined benefit plan in 2006. FMCH made US$ 11 million (€ 9 million) in contributions accumulated as of September 30, 2006.

Transfers to the Group's pension fund in the first three quarters of 2006 amounted to € 12 million. Expected transfers to the pension fund in the full year 2006 amount to approximately € 13 million.

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

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

in million €	Q1-3/2006	Q1-3/2005
Components of net periodic benefit cost		
Service costs	**13**	10
Interest cost	**20**	17
Expected return on plan assets	**-12**	-9
Amortization of unrealized actuarial losses, net	**6**	4
Amortization of prior service costs	**–**	–
Amortization of transition obligations	**–**	–
Realized gains/losses	**–**	–
Net periodic benefit cost	**27**	22

The following assumptions for net periodic benefit cost are applied:

in %	Q1-3/2006	Q1-3/2005
Weighted-average assumptions for the net periodic benefit cost		
Discount rate	**4.62%**	5.34%
Expected return on plan assets	**5.78%**	6.18%
Rate of compensation increase	**3.28%**	3.21%

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

in million €	September 30, 2006	December 31, 2005
Germany	**243**	229
Europe (excluding Germany)	**50**	49
North America	**21**	27
Asia-Pacific	**0**	0
Latin America	**0**	0
Africa	**0**	0
Total pension obligations	**314**	305

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

12. TRUST PREFERRED SECURITIES

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

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

	Year issued	Stated amount	Interest rate	Mandatory redemption date	**Sept 30, 2006 in million €**	Dec 31, 2005 in million €
Fresenius Medical Care Capital Trust II	1998	US$ 450 million	7⅞%	Feb 1, 2008	**348**	366
Fresenius Medical Care Capital Trust III	1998	DM 300 million	7⅜%	Feb 1, 2008	**154**	154
Fresenius Medical Care Capital Trust IV	2001	US$ 225 million	7⅞%	Jun 15, 2011	**171**	183
Fresenius Medical Care Capital Trust V	2001	€ 300 million	7⅜%	Jun 15, 2011	**297**	297
Trust preferred securities					**970**	1,000

13. MINORITY INTEREST

Minority interest in the Group has developed as follows:

in million €	**September 30, 2006**	December 31, 2005
Minority interest in FMC-AG & Co. KGaA	**2,337**	2,144
Minority interest in the business segments		
Fresenius Medical Care	**59**	12
Fresenius Kabi	**23**	25
Fresenius ProServe	**109**	108
Corporate/Other	**-2**	–
Total minority interest	**2,526**	2,289

Minority interest increased in the first three quarters of 2006 by € 237 million to € 2,526 million. The change resulted from the minorities' share of profit of € 219 million, dividend payments of € 83 million and from positive currency effects, capital measures as well as first-time consolidations in a total amount of € 101 million.

14. SHAREHOLDERS' EQUITY

Subscribed capital

The subscribed capital of Fresenius AG is divided into 25,511,915 bearer ordinary shares and 25,511,915 non-voting bearer preference shares. The shares are issued as non-par value shares with a proportionate amount of the subscribed capital of € 2.56. During the first three quarters of 2006 301,550 stock options were exercised.

Approved Capital

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

- to increase the company's subscribed capital by a nominal total amount of up to € 12,800,000.00 through a single or multiple issue of new bearer ordinary shares and/or non-voting bearer preference shares against cash contributions (Approved Capital I). A subscription right must be granted to shareholders.

- to increase the company's subscribed capital by a nominal total amount of up to € 6,400,000.00 through a single or multiple issue of new bearer ordinary shares and/or non-voting bearer preference shares against cash contributions and/or contributions in kind (Approved Capital II). The Management Board is authorized, with the consent of the Supervisory Board, to decide on the exclusion of the shareholders' subscription right (§§ 203 section 2, 186 section 3 sentence 4 Stock Corporation Law (AktG)).

Conditional capital

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

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

The conditional capital has developed as follows:

in €	Ordinary Shares	Preference Shares	Total
Conditional Capital I Fresenius AG Stock Option Plan 1998	1,246,248.96	1,246,248.96	2,492,497.92
Conditional Capital II Fresenius AG Stock Option Plan 2003	2,254,433.28	2,254,433.28	4,508,866.56
Total conditional capital as of January 1, 2006	**3,500,682.24**	**3,500,682.24**	**7,001,364.48**
Fresenius AG Stock Option Plan 1998 - options exercised	-326,330.88	-326,330.88	-652,661.76
Fresenius AG Stock Option Plan 2003 - options exercised	-59,653.12	-59,653.12	-119,306.24
Total conditional capital as of September 30, 2006	**3,114,698.24**	**3,114,698.24**	**6,229,396.48**

Dividends

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

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

OTHER NOTES

15. COMMITMENTS AND CONTINGENT LIABILITIES

Legal Proceedings

Commercial litigation

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

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

In 2003, Fresenius Medical Care reached agreement with the asbestos creditors' committees on behalf of the W.R. Grace & Co. bankruptcy estate and W.R. Grace & Co. in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to Fresenius Medical Care that arise out of the bankruptcy of W.R. Grace & Co. Under the terms of the settlement agreement as amended (the Settlement Agreement), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and Fresenius Medical Care will receive protection against existing and potential future W.R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W.R. Grace & Co. consolidated tax group upon confirmation of a W.R. Grace & Co. final bankruptcy reorganization plan that contains such provisions.

Under the Settlement Agreement, Fresenius Medical Care will pay a total of US$ 115 million to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation. No admission of liability has been or will be made. The Settlement Agreement has been approved by the U.S. District Court. Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (Sealed Air, formerly known as Grace Holding, Inc.). Fresenius Medical Care is engaged in litigation with Sealed Air to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by Fresenius Medical Care relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of Fresenius Medical Care's payment obligation, this litigation will be dismissed with prejudice.

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

Other litigation and potential exposures

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

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

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

Accrued special charge of Fresenius Medical Care for legal matters

At December 31, 2001, Fresenius Medical Care recorded a pre-tax special charge 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. While Fresenius Medical Care believes that its remaining accruals reasonably estimate its currently anticipated costs related to the continued defense and resolution of the remaining matters, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual.

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

16. FINANCIAL INSTRUMENTS

Market risk

General

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

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

As of September 30, 2006, the notional amounts of Fresenius Group's foreign exchange derivatives amounted to € 1,603 million and the notional amounts of interest rate derivatives amounted to € 3,231 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 amounts by the parties. A potential risk resulting from the use of interest rate derivatives therefore cannot be measured solely on the bases of the notional amounts of the contracts.

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

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

General

Deferred gain from cash flow hedges in accumulated other comprehensive income (loss) at € 14 million as of December 31, 2005 increased by € 15 million to € 29 million at September 30, 2006.

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

Foreign exchange risk management

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

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

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

As of September 30, 2006, the notional volume and fair value of foreign exchange contracts relating to foreign currency intercompany loans amounted to € 1,091 million and € 7 million, respectively. Hedge accounting is not applied to these foreign exchange contracts. Accordingly, the foreign exchange contracts are recognized as assets and liabilities and changes in fair values are recognized against earnings.

As of September 30, 2006, the notional amounts of foreign exchange forward contracts in place to hedge risks from operational business totalled € 512 million with a fair value of € 1 million.

As of September 30, 2006, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 33 months.

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

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

Cash Flow Hedge
The Fresenius Group enters into interest rate swaps that are designated as cash flow hedges effectively converting certain variable interest rate payments, resulting from existing revolving loans, Euro Notes (Schuldscheindarlehen) and an accounts receivable facility mainly denominated in US dollar or euro, into fixed interest rate payments. The US dollar interest rate swaps with a notional volume of US$ 3,415 million bear an average interest rate of 4.50% and expire at various dates between 2006 and 2012. These instruments, designated as cash flow hedges, effectively convert forecasted variable rate based interest payments into fixed interest payments, completed by the contractual margin. The Euro interest rate swaps with a notional volume of € 168 million bear an average interest rate of 3.06% and expire at various dates between 2007 and 2008.

Fair Value Hedge
Fresenius Medical Care entered into US dollar interest rate swaps designated as fair value hedges to hedge the risk of changes in the fair value of parts of its fixed interest borrowings. These interest rate swaps effectively convert the fixed interest payments on Fresenius Medical Care Capital Trust II trust preferred securities denominated in US dollars into variable interest rate payments. At September 30, 2006, the notional volume of these swaps at Fresenius Medical Care was US$ 450 million (€ 356 million).

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

17. SUPPLEMENTARY INFORMATION ON CASH FLOW STATEMENT

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

in million €	**Q1-3/2006**	Q1-3/2005
Interest paid	**291**	140
Income taxes paid	**320**	219

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

The increase in income taxes paid referred mainly to tax payments of € 61 million (US$ 75 million) related to the acquisition of RCG as well as tax payments of € 79 million (US$ 99 million) for tax audit adjustments related to Fresenius Medical Care’s 2000 and 2001 US tax filings.

Cash paid for acquisitions consists of the following:

in million €	**Q1-3/2006**	Q1-3/2005
Assets acquired	**4,005**	319
Liabilities assumed	**-432**	-87
Minority interest	**0**	4
Notes assumed in connection with acquisitions	**-23**	-21
Cash paid	**3,550**	215
Cash acquired	**-69**	-2
Cash paid for acquisitions, net	**3,481**	213

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

in million €	**Q1-3/2006**	Q1-3/2005
Operating cash flow	**588**	592
Purchase of property, plant and equipment	**-374**	-196
Proceeds from sale of property, plant and equipment	**14**	16
Cash flow before acquisitions and dividends	**228**	412
Purchase/sale of shares in related companies and investments, net	**-3.055**	-213
Cash flow before dividends	**-2.827**	199
Dividends paid	**-159**	-132
Free cash flow after dividends	**-2.986**	67

18. SUPPLEMENTARY INFORMATION ON SEGMENT REPORTING

General Information

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

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

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

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

The business segments were identified in accordance with SFAS No. 131 (Disclosures about Segments of an Enterprise and Related Information), which defines the segment reporting requirements in annual financial statements and interim reports with regard to the operating business, product and service businesses and regions. The business segments of the Fresenius Group are as follows:

Fresenius Medical Care is the world's leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic kidney failure. Fresenius Medical Care treats 161,433 patients in its 2,085 own dialysis clinics.

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

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

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

Notes on the business segments

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

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

Reconciliation of key figures to consolidated earnings

in million €	**Q1-3/2006**	Q1-3/2005
Total EBITDA of reporting segments	**1,376**	958
Depreciation and amortization	**-290**	-234
General corporate expenses Corporate/Other	**-26**	-21
Net interest	**-295**	-146
Total earnings before income taxes and minority interest	**765**	557
Total EBIT of reporting segments	**1,093**	731
General corporate expenses Corporate/Other	**-33**	-28
Net interest	**-295**	-146
Total earnings before income taxes and minority interest	**765**	557
Depreciation and amortization of reporting segments	**283**	227
Depreciation and amortization Corporate/Other	**7**	7
Total depreciation and amortization	**290**	234

Reconciliation of net debt

in million €	**September 30, 2006**	December 31, 2005
Short-term borrowings	**332**	224
Short-term liabilities and loans from related parties	**–**	1
Current portion of long-term debt and liabilities from capital lease obligations	**322**	222
Long-term debt and liabilities from capital lease obligations, less current portion	**4,512**	2,055
Trust preferred securities of Fresenius Medical Care Capital Trusts	**970**	1,000
Debt	**6,136**	3,502
less cash and cash equivalents	**255**	252
Net debt	**5,881**	3,250

19. STOCK OPTIONS

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

Compensation expenses in connection with stock option plans of the Fresenius Group
Effective January 1, 2006, the Fresenius Group applies SFAS No. 123(R) in accounting for stock compensation and recognized compensation expenses in an amount of € 14 million for stock options granted since 1998.

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

Fresenius Group's determination of the fair value of grants is based on the Black-Scholes option pricing model. The fair value of grants made during the year ending December 31, 2006, are as follows:

Weighted-average assumptions of Fresenius AG	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 €	121.07

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 highly subjective assumptions including expected stock price volatility. Fresenius Group's assumptions are based upon its past experiences, market trends and the experiences of other entities of the same size and in similar industries and discussions with third parties with valuation experience. Fresenius Group's stock options may have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option.

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

in million €, except amounts per share (€)	Q1-3/2005
Net income	
As reported	161
Net income as reported less preference on preference shares	161
plus share-based employee compensation expense according to APB No. 25	2
less share-based employee compensation expense according to SFAS No. 123	-7
Pro forma less preference on preference shares	156
Pro forma	156
Basic earnings per ordinary share	
As reported	3.92
Pro forma	3.80
Basic earnings per preference share	
As reported	3.94
Pro forma	3.82
Fully-diluted earnings per ordinary share	
As reported	3.89
Pro forma	3.77
Fully-diluted earnings per preference share	
As reported	3.91
Pro forma	3.79

Fresenius AG stock option plans

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

In the first three quarters of 2006, Fresenius Group awarded 297,520 stock options, including 36,550 to members of the Management Board of Fresenius AG, at an exercise price of € 121,07, a fair value of € 47.94 each and a total fair value of € 14 million, which will be amortized over the next 5.3 years.

Under the Fresenius AG 1998 Stock Option Plan, the members of the Fresenius AG Management Board held 86,000 stock options and other employees held 406,118 stock options as of September 30, 2006. Under the Fresenius AG 2003 Stock Option Plan the members of the Fresenius AG Management Board held 153,512 stock options and other employees held 818,956 stock options as of September 30, 2006.

During the first three quarters of 2006 Fresenius AG received € 26 million from the exercise of 301,550 stock options. The intrinsic value of options exercised in the first three quarters of 2006 was € 14 million.

Stock option transactions are summarized as follows:

Options for ordinary shares	Number of options	Average exercise price in €	Number of options exercisable
Balance at December 31, 2005	**765,295**	**73.67**	**361,980**
Granted	148,760	119.78	
Exercised	150,775	78,11	
Forfeited	30,987	73,25	
Balance at September 30, 2006	**732,293**	**83,36**	**327,416**

Options for preference shares	Number of options	Average exercise price in €	Number of options exercisable
Balance at December 31, 2005	**765,295**	**80.91**	**361,980**
Granted	148,760	122.35	
Exercised	150,775	91.43	
Forfeited	30,987	73.16	
Balance at September 30, 2006	**732,293**	**63.69**	**327,416**

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

	Number of options	Average remaining contractual life in years	Average exercise price in €	Aggregate intrinsic value in million €
Options for ordinary shares	327,416	4.97	72.45	21
Options for preference shares	327,416	4.97	81.50	19

During the first three quarters of 2006 116,422 options for ordinary shares, having a total fair value of € 3 million, vested. During the same period, 116,422 options for preference shares, having a total fair value of € 2 million, vested.

At September 30, 2006, there was € 16 million of total unrecognized compensation expenses related to non-vested options granted under the Fresenius AG plans. These costs are expected to be recognized over a weighted-average period of 2.4 years.

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

Options for ordinary shares	Number of options	Weighted-average grant-date fair value in € *
Non-vested at December 31, 2005	**403,315**	**26.72**
Granted	148,760	48.23
Vested	116,422	21.57
Forfeited	30,776	25.59
Non-vested at September 30, 2006	**404,877**	**36.19**

Options for preference shares	Number of options	Weighted-average grant-date fair value in € *
Non-vested at December 31, 2005	**403,315**	**25.37**
Granted	148,760	47.65
Vested	116,422	19.86
Forfeited	30,776	20.67
Non-vested at September 30, 2006	**404,877**	**35.26**

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

Fresenius Medical Care stock option plans

General

At September 30, 2006, Fresenius Medical Care has awards outstanding under the terms of various stock-based compensation plans. Since May 2006, options can only be granted under the FMC-AG & Co. KGaA Stock Option Plan 2006. The Management Board members of the Fresenius Medical Care Management AG, the general partner of FMC-AG & Co. KGaA, held 548,197 stock options for ordinary shares and other employees of Fresenius Medical Care held 2,570,615 stock options for ordinary shares and 125,427 stock options for preference shares as of September 30, 2006.

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

The weighted-average assumptions of Fresenius Medical Care used to determine the fair value are as follows:

Weighted-average assumptions of Fresenius Medical Care	2006
Expected dividend yield	**1.64%**
Risk-free interest rate	**3.78%**
Expected volatility	**30.05%**
Expected life of options	**7 years**
Exercise price per option in €	**91.48**

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

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

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

Options granted under the 2006 Plan to US participants are non-qualified stock options under the United States Internal Revenue Code of 1986, as amended. Options under the 2006 Plan are not transferable by a participant or a participant's heirs, and may not be pledged, assigned, or otherwise disposed of.

In the first three quarters of 2006 Fresenius Medical Care awarded 762,730 stock options, including 132,800 to members of the Management Board of Fresenius Medical Care Management AG, at an exercise price of € 91.48, a fair value of € 29.67 each and a total fair value of € 23 million, which will be amortized over the 3 year vesting period.

The following table provides a summary of the activities during the period ending September 30, 2006, for all Fresenius Medical Care plans:

	Number of options in thousand	Average exercise price in €
Balance at December 31, 2005	**4,103**	**47.88**
Forfeited prior to conversion	5	41.00
Eligible for conversion	4,098	47.94
Options not converted	235	49.18
Options converted	3,863	
Reduction due to impact of conversion ratios	1,014	
Balance of options outstanding after conversion into ordinary shares as of February 10, 2006	2,849	64.22
Granted	763	91.48
Exercised	468	61.08
Forfeited	25	69.56
Balance at September 30, 2006 (options for ordinary shares)	**3,119**	**71.32**
Balance of options not converted as of February 10, 2006	235	49.18
Exercised	102	49.85
Forfeited	8	50.61
Balance at September 30, 2006 (options for preference shares)	**125**	**48.56**

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

	Number of options in thousand	Average remaining contractual life in years	Average exercise price in €	Aggregate intrinsic value in million €
Options for ordinary shares	855	5.02	57.77	38
Options for preference shares	72	3.87	44.07	4

During the first three quarters of 2006 419.227 options for ordinary shares, having a total fair value of € 7 million, vested. During the same period 17.045 options for preference shares, having a total fair value of € 0.2 million, vested.

At September 30, 2006, there was € 33 million of total unrecognized compensation expenses related to non-vested options. These costs are expected to be recognized over a weighted-average period of 1.7 years.

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

Options for ordinary shares	Number of options in thousand	Weighted-average grant-date fair value in €
Balance at January 1, 2006	**0**	**0**
Balance at February 10, 2006	**1,870**	**19.73**
Granted	763	29.67
Vested	419	16.27
Forfeited	23	20.86
Balance at September 30, 2006	**2,191**	**23.84**

Options for preference shares	Number of options in thousand	Weighted-average grant-date fair value in €
Balance at January 1, 2006	**2,566**	**14.84**
Options not converted	76	14.94
Options converted to options for ordinary shares	2,490	
Reduction due to impact of conversion ratios	620	
Balance of options for ordinary shares after conversion as of February 10, 2006	**1,870**	**19.73**
Balance of options for ordinary shares not converted at February 10, 2006	**76**	**14.94**
Vested	17	11.72
Forfeited	5	15.49
Balance at September 30, 2006	**54**	**15.90**

During the period ended September 30, 2006, Fresenius Medical Care received € 33 million from the exercise of stock options as well as a tax receivable in an amount of 5 million € relating to stock options. The intrinsic value of options exercised in the first three quarters of 2006 was € 19 million.

20. SUBSEQUENT EVENTS

The Management Board and Supervisory Board of Fresenius AG will propose to its shareholders in an extraordinary general meeting on December 4, 2006, to convert the Company's legal form from a German AG (Aktiengesellschaft) into a European Company (Societas Europaea – SE). This is a public limited-liability company under European law. At the same time, the shareholders will be asked to approve a share split that triples the number of shares issued in connection with a capital increase from the Company's funds. The conversion into SE does not have any effect on the Company's corporate structure and management organization. The two-tier system consisting of Management Board and Supervisory Board will remain unchanged. The Supervisory Board of Fresenius SE will continue to have twelve members. However, employee representatives from various European countries will be represented in the Supervisory Board. Currently, only German employee representatives serve on the Company's Supervisory Board. The conversion into an SE does not lead to a liquidation of the company or to the formation of a new legal entity. The Company's legal and economic identity will be preserved. All shareholders' stakes in Fresenius will remain unchanged.

As of September 30, 2006, the subscribed capital of Fresenius AG amounted to € 130.6 million. Includes the capital increase from authorized capital against contribution in kind in the course of the acquisition of HUMAINE Kliniken GmbH, which yet has to be registered in the commercial register, the subscribed capital of Fresenius AG amounts to € 131.5 million. The subscribed capital is divided into 25,688,455 ordinary shares and 25,688,455 preference shares. Through a conversion of capital reserves, the subscribed capital will be first increased to € 154.1 million. The subscribed capital will be then divided into 77,065,365 ordinary shares and 77,065,365 preference shares. The new proportionate amount of the subscribed capital will be 1 € per share. After the share split, every holder of an ordinary share will hold three ordinary shares and every holder of a preference share will hold three preference shares. As a result of the share split, the price level will be reduced arithmetically without affecting the overall value for shareholders.

On October 12, 2006, Fresenius Medical Care announced that it has signed a definitive agreement to acquire the worldwide rights to the phosphate binder product line and its related assets (PhosLo) of Nabi Biopharmaceuticals. PhosLo is a calcium acetate phosphate binder for oral application in end-stage renal disease patients that has total product line revenues in the US of approximately US$ 40 million. The total consideration paid in the transaction will be US$ 65 million cash at closing, royalties on a new potential product formulation plus milestone payments. The milestone payments consist of US$ 10 million expected to be paid in 2007 and US$ 10 million to be paid over the next two to three years, contingent upon the achievement of certain performance criteria. The transaction is subject to customary closing conditions including the expiration of the applicable waiting period under the Hart Scott Rodino Antitrust Improvement Act. Fresenius Medical Care anticipates closing this transaction in the fourth quarter of 2006.

21. CORPORATE GOVERNANCE

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

Financial Calendar

Extraordinary General Meeting, Frankfurt am Main (Germany) Live webcast of the speech of the Chairman of the Management Board of Fresenius AG	December 4, 2006
Report on Fiscal Year 2006 Analysts´ Meeting , Bad Homburg v.d.H. Live webcast Press conference, Bad Homburg v.d.H. Live webcast	February 22, 2007
Report on 1st quarter 2007 Conference call Live webcast	May 3, 2007
Annual General Meeting, Frankfurt am Main (Germany) Live webcast of the speech of the Chairman of the Management Board of Fresenius AG	May 16, 2007
Payment of dividend*	May 17, 2007
Report on the first six months 2007 Analysts' Meeting, Bad Homburg v.d.H. Live webcast	August 2, 2007
Report on 1st - 3rd quarters 2007 Analysts' Meeting, Bad Homburg v.d.H. Live webcast Press conference, Bad Homburg v.d.H. Live webcast	October 31, 2007

* subject to the prior approval by the AGM

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