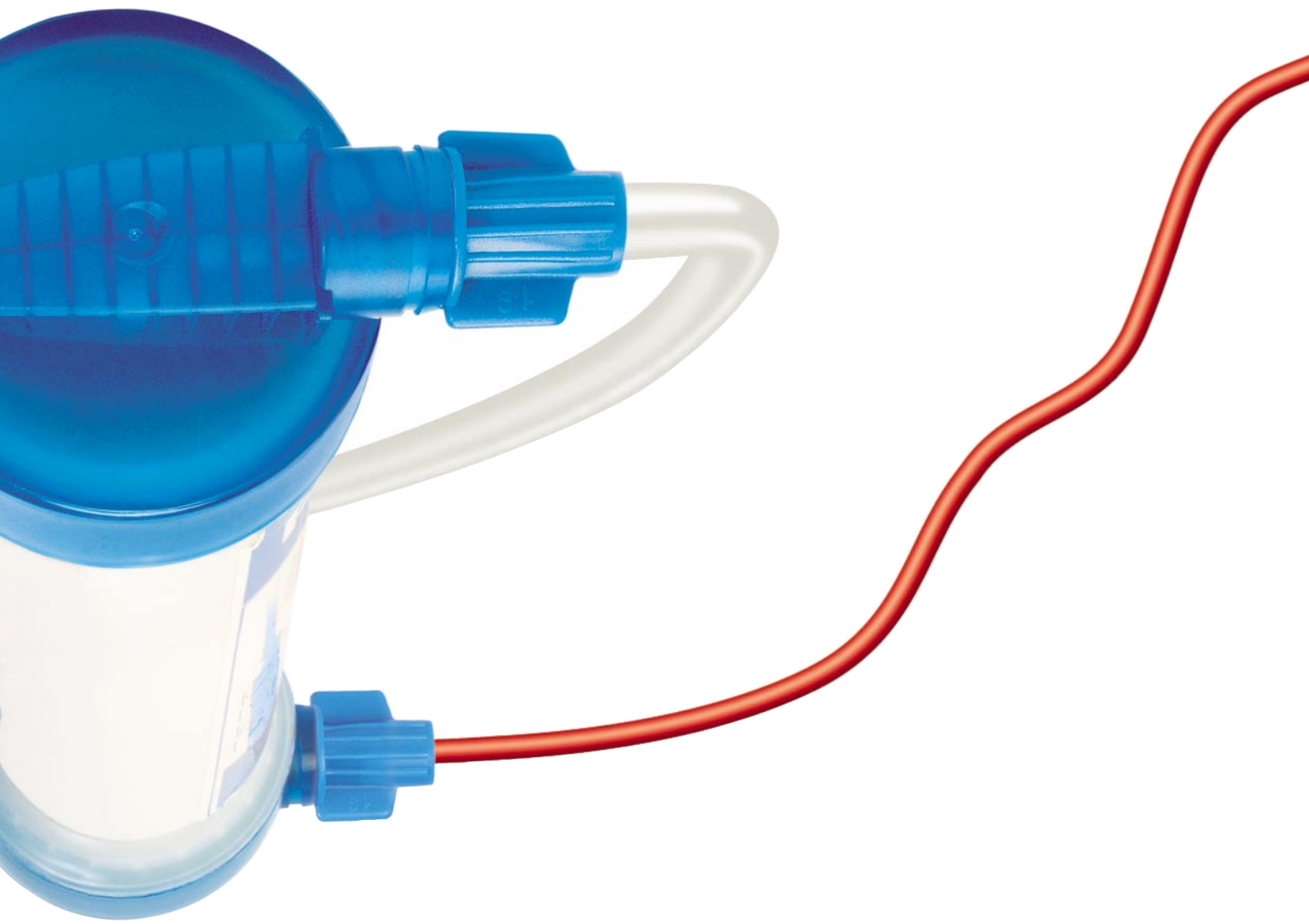
365 DAYS OF RESPONSIBILITY

Annual Report 2004

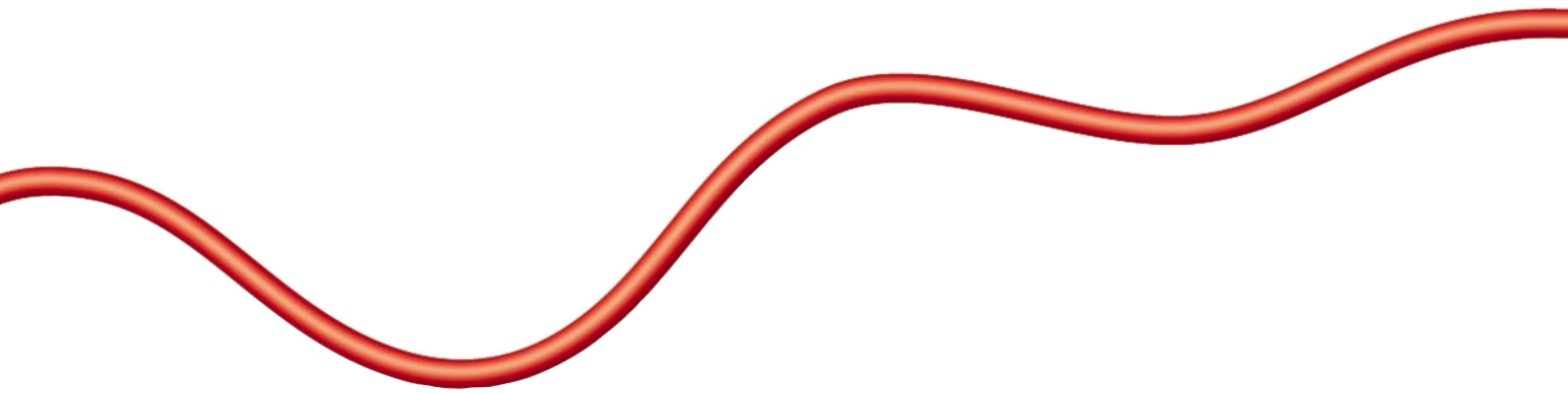


Fresenius Medical Care

Dialysis is vital to people with chronic renal disease. Their kidneys are no longer able to sufficiently filter their blood. Fresenius Medical Care is there for these patients – 365 days a year. To gain insight into just one day, we asked three patients – Mr. Woj Jr. from the U.S., Mr. Rakgosi from South Africa and Mr. Wollenhaupt from Germany – to document their daily routine in pictures. This annual report contains a glimpse into their lives. That dialysis fits so seamlessly into their everyday activities is a validation of our efforts.

Two of these patients are treated with hemodialysis, where the dialyzer plays a leading role. The dialyzer is the so-called artificial kidney and is made from tiny hollow membranes which are pictured in the adjacent photograph. The dialyzer is our most important product – Fresenius Medical Care produces nearly 60 million per year.

We hope you enjoy reading the annual report of Fresenius Medical Care AG.



365 days – one vision

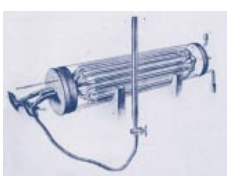
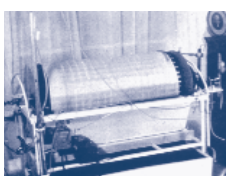
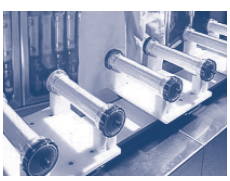
More than a quarter-century of experience in dialysis, innovative research, the global leader in dialysis services and dialysis products: This is Fresenius Medical Care. Patients with kidney disease can now look toward the future with much more confidence thanks to our innovative technologies and treatment concepts. We give them a future – one with the best-possible quality of life.

In order to meet the increasing demand for modern dialysis, we are working diligently to further the growth of our company. With more than 44,000 employees, we are pursuing goal-oriented strategies for continuous technological leadership. As a fully vertically integrated company, we offer products and services for the entire value chain in dialysis. The highest medical standards are our benchmark. This is our commitment to our patients, our partners in the health care system and our investors, who trust in the future and earnings ability of our company.

Our goal: Creating a future worth living. For people. Worldwide. **365 days a year.**

DIALYSIS COMPACT

The invention, development and success of the artificial kidney

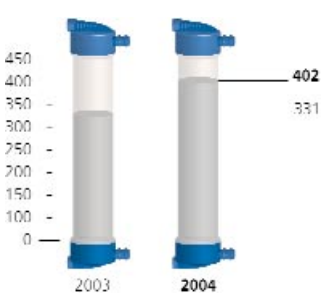
Fresenius Medical Care

Key Figures 2004

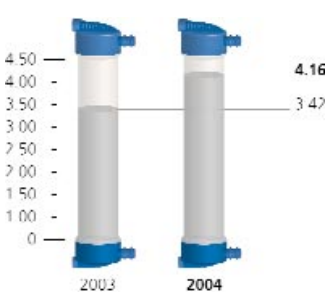
Operating data $ in millions	2004	2003	Change 2004 vs. 2003
Net revenue	6,228	5,528	13%
Earnings before interest and taxes, depreciation and amortization (EBITDA)	1,085	974	11%
Earnings before interest and taxes (EBIT)	852	757	13%
Net income	402	331	21%
Net cash-flow from operating activities	828	754	10%
Free Cash Flow[1]	567	478	19%
Capital expenditure (net)	261	276	-6%
Capital expenditure (net) including acquisitions	365	368	-1%
Data per share			
Earnings per ordinary share (EPS) ($)	4.16	3.42	21%
Dividend per ordinary share (€)	1.12	1.02	10%
Dividend per preference share (€)	1.18	1.08	9%
Key ratios (in %)			
EBIT margin	13.7	13.7	
Return on equity before taxes	18.4	16.8	
Equity to assets	45.7	43.2	
Other data			
Employees (full-time equivalents, Dec. 31)	44,526	41,097	8%
Patients	124,400	119,250	4%
Number of clinics	1,610	1,560	3%
Treatments (in millions)	18.8	17.8	5%

Net revenue
$ in millions

Net income
$ in millions



Earnings per share
$ in millions



[1] Before acquisitions and dividends

All figures in this report are stated in $, if not indicated otherwise, and in conformity with U.S. GAAP, if not indicated otherwise.
For more details please look to the 5-year summary at the back of the report.

365 DAYS OF PEOPLE AND LIFE

Three dialysis patients have documented a day in their life for us – Mr. Woj Jr. from the U.S., Mr. Wollenhaupt from Germany and Mr. Rakgosi from South Africa.

Content

Bad Homburg, March 2005

Dear ladies and gentlemen,

I am very proud to report to you, the shareholders of Fresenius Medical Care AG, that 2004 was a very successful year. Last year I promised we would move our company forward with the statement, "I expect that our initiatives will lead to continued improvements in our financial results". With the conclusion of an eventful 2004, we can review the impressive results. We achieved record revenue and record earnings. These facts confirm our commitment to creating long-term shareholder value. Together, the management and the employees of our company worked hard to realize this.

In total we generated revenues of $6.2 billion. This corresponds to an actual double-digit growth rate of 13%. On a currency-adjusted basis this represents an increase of 10% and significantly exceeded our target for 2004. Our operating margin also improved, although modestly. Our net income growth was strong, up 21% to $402 million, and our operating cash flow showed continued resilience with an increase of 10% to $828 million.

Let me give you some further insight into some of the key drivers for 2004 and our achivements in the regions.

2004 Performance Scorecard

	Products		Services	
North America	▸ Grow with key products like dialyzers and machines	✔	▸ Grow strongly organically ▸ Increase revenue per treatment ▸ Increase the clinic utilization with UltraCare	✔
Europe	▸ Increase demand for equipment and dialyzers ▸ Start business initiatives in acute dialysis and home therapies	✔	▸ Become largest service provider in Europe ▸ Increase revenue portion of services segment further ▸ Focus on expansion in Eastern Europe	✔
Asia-Pacific	▸ Continue hemodialysis leadership position throughout the region ▸ Grow strongly in peritoneal dialysis	✔	▸ Expand clinic network ▸ Open new centers in China ▸ Take advantage of vertical integrated business model to expand in Australia	✔
Latin America	▸ Strong growth in all key products	✔	▸ Concentrate on service strategy ▸ Grow strongly organically	✔

It is no secret that governments around the globe continue to struggle with financing and controlling healthcare costs as well as regulating advances in medical science. But we, the management and employees, are committed to using our expertise, know-how, dedication and innovative approach to continually strengthen the company for the renal products and services. The strategic initiatives we launched in the past several years are yielding shareholder returns and have created a sound foundation for further growth.

Therefore, we expect for the full year 2005 a constant-currency revenue growth between six and nine percent and a net income increase of more than 10%. In addition, and as a result of our strong cash flow performance in 2004, we have budgeted to increase our investments in 2005 that will provide for future growth and profitability.

Ladies and Gentlemen, I am honored and pleased to inform you that the Management Board and the Supervisory Board will propose the eighth consecutive dividend increase at the Annual General Meeting on May 24, 2005 with an increase to €1.12 per ordinary share and €1.18 per preference share.

I would like to thank you, the shareholders, the employees, our clinical associates, my colleagues on the Management Board, and our Supervisory Board members for your continued dedication and support of Fresenius Medical Care – the world's leading renal therapy company.

Yours sincerely,

Dr. Ben Lipps
Chief Executive Officer
Chairman of the Management Board

A sincere "thank you" for a job well done

The Annual Report represents the work of many people rather than the efforts of just one individual. At this point, we – the Investor Relations team of Fresenius Medical Care – would like to sincerely thank all of those who contributed their impressive knowledge and efforts to the publication of this report.

Our year 2004

January

Express service introduced. Fresenius Medical Care expands its comprehensive "Fresenius Express" service in Argentina. At the beginning of the year, this service is made available to patients with acute kidney failure. We begin shipping urgently needed dialysis products around the clock – including holidays, weekends and nights – to ensure that patients receive what they need as quickly as possible.

March

The closing bell rang. On March 1, Dr. Ben Lipps, Chairman of the Management Board of Fresenius Medical Care, rings the closing bell of the New York Stock Exchange. On that day, the bell not only marks the end of the trading day, but also the complete conversion to single-use dialyzers of all our dialysis clinics in the United States. This move fundamentally changes the American dialysis market.

May

Dividend increased. During the Annual Shareholders Meeting in Frankfurt am Main on May 27, shareholders approve the dividend proposal, hence receiving a dividend increased by 8% compared to 2003. Ordinary shareholders receive €1.02 per share while preference shareholders receive €1.08. This seventh dividend increase in a row is a clear sign of the continuity and earnings ability of our company.

Production record set. At the end of September, another milestone is passed: the 100 millionth PIN is produced. The PIN is used to detach the bloodlines in peritoneal dialysis. It was first implemented in 1995, and built its success on reliability and ease-of-use. The new record was celebrated in Amsterdam as part of the International Society for Peritoneal Dialysis Congress.

July

Anniversaries celebrated. Two Fresenius Medical Care production plants have their anniversary: St. Wendel, our largest production site for dialyzers in Europe, celebrates its 30th year, while the dialysis machine plant in Schweinfurt celebrates its 25th year of production. The exemplary and forward-looking efforts of both sites have contributed to the overall success of our company.

September

December

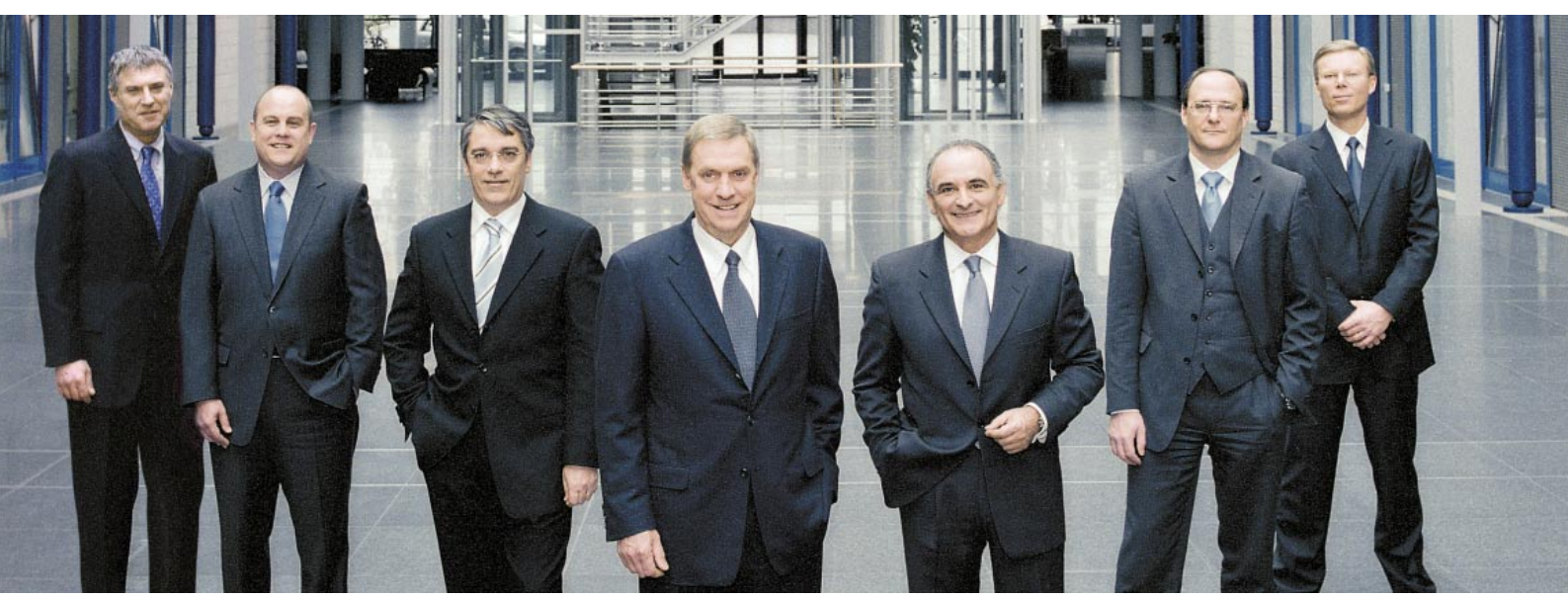
Contract won. In December, Fresenius Medical Care secures a contract for the delivery of dialysis products in British Columbia. Fresenius Medical Care North America will supply dialyzers, bloodline systems and dialysis concentrates to around 700 patients in this region.

Our Management Board

Dr. Ben J. Lipps (64)
is Chairman of the Management Board of Fresenius Medical Care AG. The American has been active in the field of dialysis for more than 35 years. After earning his master's and doctoral degrees at the Massachusetts Institute of Technology in chemical engineering, Dr. Lipps led the research team that developed the first commercial Hollow Fiber Artificial Kidney at the end of the 1960s. With that, the triumphal procession of the artificial kidney – the dialyzer – commenced. Before joining the Fresenius Group in 1985, Dr. Lipps held several research management positions, among them with DOW Chemical.

Lawrence A. Rosen (47)
joined Fresenius Medical Care on November 1, 2003 as Chief Financial Officer. Prior to that, he worked for Aventis S.A., Strasbourg/France, and its predecessor companies, including Hoechst AG, beginning in 1984. His last position was Group Senior Vice President for Corporate Finance and Treasury. He holds a Masters of Business Administration (MBA) from the University of Michigan and a Bachelor of Science in Economics from the State University of New York at Brockport.

Dr. Rainer Runte (45)
is Member of the Management Board for Law & Compliance of Fresenius Medical Care AG and has worked for the Fresenius group for 14 years. Previously he served as scientific assistant to the law department of the Johann Wolfgang Goethe University in Frankfurt and as an attorney in a law firm specialized in economic law. Dr. Runte took the position as Senior Vice President for Law of Fresenius Medical Care in 1997 and was appointed as deputy member of the Management Board in 2002. Dr. Runte became a full member of the Management Board in early 2004.



Management Board members from left to right: Lawrence A. Rosen, Rice Powell, Dr. Emanuele Gatti, Dr. Ben Lipps, Roberto Fusté, Dr. Rainer Runte, Mats Wahlstrom

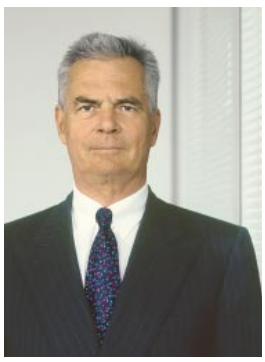
Dr. Emanuele Gatti (49)
is Chief Executive Officer for Europe, Latin America, Middle East and Africa. After completing his studies in bioengineering, Dr. Gatti lectured at several biomedical institutions. He continues to be involved in comprehensive research and development activities focusing on dialysis and blood purification, biomedical signal analysis, medical device safety and health care economics. Dr. Gatti has been with the company since 1989. Before being appointed to the Management Board of Fresenius Medical Care in 1997, he was responsible for the dialysis business in Southern Europe.

Roberto Fusté (53)
is Chief Executive Officer for Asia-Pacific. After finishing his studies in economic sciences at the University of Valencia, the Spaniard founded the company Nephrocontrol S.A. in 1983. In 1991, Nephrocontrol was acquired by the Fresenius Group, where Mr. Fusté has worked since. Before being appointed to the Management Board of Fresenius Medical Care in 1999, Mr. Fusté held several senior positions within the company in Latin America and the Asia-Pacific region.

Mats Wahlstrom (50)
can look back on 20 years of experience in the renal field. From 1983 to 1999 Mats Wahlstrom held various positions at Gambro AB (Sweden), including President and CEO of Gambro in North America as well as CFO of the Gambro Group. In November 2002 he joined Fresenius Medical Care as President of Fresenius Medical Care´s services division in North America. He became a member of the Management Board for dialysis care in North America in January 2004.

Rice Powell (49)
is member of the Management Board for the Products & Hospital Group of Fresenius Medical Care in North America. He joined Fresenius Medical Care in 1997 and was appointed to the Management Board of the Company in January 2004. Mr. Powell has more than 25 years of experience in the healthcare industry. From 1978 to 1996 he held various positions within Baxter International Inc. (U.S.), Biogen Inc. (U.S.) and Ergo Sciences Inc. (U.S.).

Report of the Supervisory Board



In the fiscal year 2004, the Managing Board again informed the Supervisory Board comprehensively, regularly and promptly about the progress of the business activities, the situation of the company and important business transactions. On the basis of written and oral reports and presentations of the Managing Board, we held a total of six meetings and also adopted a resolution by way of circular procedure. The chairman of the Supervisory Board was continuously kept informed of important events by the Managing Board. In particular, transactions requiring approval were reviewed by the Supervisory Board and discussed with the Managing Board. At a special meeting of one and a half days, we discussed the business model of the company and its medium-term and long-term strategy in a particularly comprehensive manner with the Managing Board. As in every year, the business development of acquisitions of the previous years and the profitability of the various national subsidiaries were examined. In addition, in the course of implementing the German Corporate Governance Code, the Supervisory Board reviewed its efficiency in the fiscal year 2004, in particular, the flow of information between the Managing Board and the Supervisory Board.

Activities of Audit Committee

The Audit Committee of the company met five times and held six telephone conferences. It dealt, inter alia, with the accounting of the annual and consolidated financial statements and quarterly financial statements and the risk management of the company. The specific focus of the audit procedures and the conduct of the audits were discussed with the auditor. Together with the Managing Board and representatives of the auditor, the introduction of the regulations for an internal control assessment under the Sarbanes-Oxley Act ("SOX 404") and their implementation for the company were discussed. Representatives of the auditor took part in all meetings of the Audit Committee and reported on their work. On several occasions, discussions took place between the Audit Committee and the auditor without the Managing Board being present.

Review of Consolidated Annual Financial Statements

The Supervisory Board reviewed the annual financial statements, the management report and the proposal for the appropriation of the profits as well as the consolidated financial statements and the group management report for the fiscal year 2004 in each case. The accounting, the annual financial statements and the management report of Fresenius Medical Care AG for the fiscal year 2004 as well as the consolidated financial statements and the group management report of Fresenius Medical Care AG were audited by KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft, Wirschaftsprüfungsgesellschaft, Frankfurt am Main, elected as auditors by resolution of the shareholders' meeting of May 27, 2004, and instructed by the Audit Committee of the Supervisory Board; they bear the unqualified audit certificate. The auditor's reports were submitted to the Audit Committee and the Supervisory Board. The Supervisory Board noted the auditor's findings with approval. No objections are to be made to the annual financial statements of Fresenius Medical Care AG, even according to the final result of the review by the Supervisory Board itself.

At its meeting on February 21, 2005, the Supervisory Board approved the annual financial statements of Fresenius Medical Care AG for the fiscal year 2004 as submitted by the Managing Board, which thereby became final. At the same meeting, also the draft 20-F form for the Securities and Exchange Commission (SEC), which includes the consolidated financial statements

according to US GAAP, was discussed. Likewise, the Supervisory Board approved the proposal of the Managing Board for the appropriation of the profits, providing for a dividend of €1.12 for common shares and €1.18 for preferred shares. On March 16, 2005, the Supervisory Board approved the consolidated financial statements. Representatives of the auditor attended the meetings of the Supervisory Board at which resolutions on the annual financial statements were passed.

In accordance with Section 312 AktG (German Stock Corporation Act), the Managing Board prepared a report for the fiscal year 2004 on the relations with affiliated companies. The report contains the Managing Board's final statement that Fresenius Medical Care AG in the transactions mentioned in the report has received adequate consideration under the circumstances known to the Managing Board at the time when such transactions were carried out and that no other measures within the meaning of Section 312 AktG were taken or omitted. The Supervisory Board has reviewed this report and concurs with the auditor who added the following audit certificate to the report:

"Based on our audit and the conclusions reached, we confirm that (1) the disclosures made in the report are factually correct, that (2) the consideration received or paid by the company for each legal transaction disclosed in the report was not unreasonably high and that (3) there are no other circumstances relating to the transactions and measures disclosed in the report which would lead a conclusion different to the one reached by the Managing Board".

According to the final result of the review by the Supervisory Board, no objections are to be raised to the Managing Board's final statement as contained in the subordinate status report.

Allocation of Supervisory Board

Our Supervisory Board member Stephen Peck died unexpectedly on March 30, 2004. We are greatly indebted to Mr. Peck for his work on the Supervisory Board, and will always honor his memory. The competent Amtsgericht (Local Court), on October 20, 2004, appointed John Gerhard Kringel to be a member of the Supervisory Board for the period until the ordinary shareholders' meeting 2005. Mr. Kringel will also stand for election as a member of the Supervisory Board for the period after the shareholders' meeting 2005. Mr. Kringel has wide management experience in the health care industry, most recently as Senior Vice President of Abbott Laboratories.

The Supervisory Board thanks the Managing Board and all the employees for their efforts and achievements in 2004.

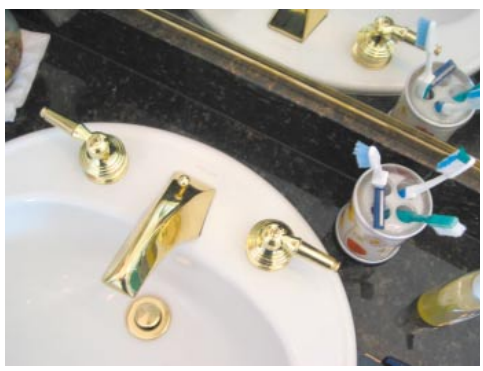
Bad Homburg v.d.H., March 16, 2005

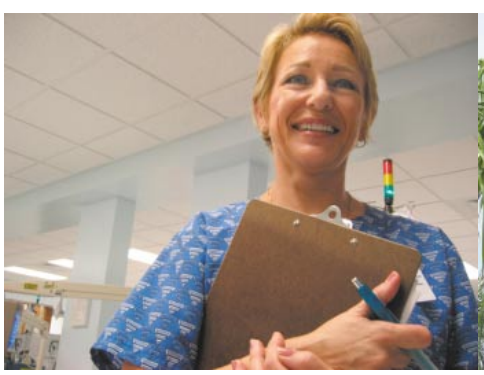
The Supervisory Board

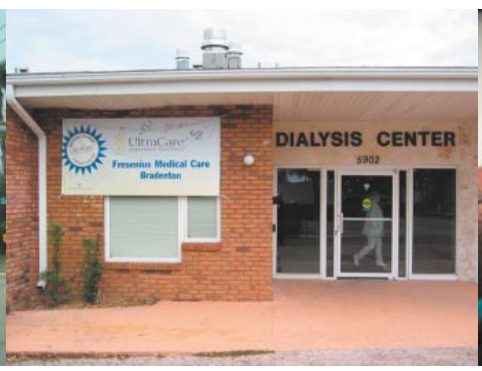
Dr. Gerd Krick
Chairman

Always in motion, leading and living his own life.

Sixteen years of dialysis haven't slowed Stephan Woj Jr. The retired vice president of a major bank often travels throughout the United States to attend medical conferences and learns about the latest treatment opportunities. At home in Florida, the Sunshine State, he uses the time during his morning dialysis to catch up on the latest business news. He relaxes at mid-day next to his pool and then likes to visit friends – sometimes at a fruit orchard near Tampa. Here the visits aren't just for pleasure since he knows a healthy diet can help keep him active.







Stephan Woj Jr. works with his doctors, nurses and technicians to optimize his treatments. Stephan believes "dialysis is a team sport". He relies on Fresenius Medical Care and a broad network of dialysis clinics during his many travels – just like many other dialysis patients. This is just one way in which we help our patients live independent lives. (More on holiday dialysis can be found on page 103).


THE WALL ST
What's News

365 DAYS OF MOVEMENT

Stock markets do not move consistently. Their constant ups and downs create a volatile environment. For a publicly listed company, proving itself under these conditions can be a challenge. The good news is that shares in Fresenius Medical Care performed well in 2004, supported by the company's operating earnings and successful growth strategy. With our dedication and good results we will further support a positive development – every day.

Content

Stock Market

While stock markets recovered strongly in 2003, share price development on most European exchanges in 2004 was relatively moderate. The strong increase in oil prices and the significant appreciation of the euro were a surprise in 2004. Oil prices gained more than 30% during the year while the euro gained 8% against the dollar, reaching a historic high of nearly $1.37 at the end of the year. A further decrease in the return on government bonds from their already low level was also not expected amid recovering global economies and increasing corporate profits.

At the beginning of 2004, the DAX surmounted the important 4,000 points mark along with encouraging economic data supported by corporate earnings figures. However, the German benchmark index then began a volatile sideways movement until mid-November, swinging between 3,700 and 4,100 points. By the end of the year, Europe's stock exchanges began an upward trend, supported by positive signals from the U.S. The decline in oil prices coupled with positive economic data helped to boost the overall sentiment.

The DAX can look back on a positive year when compared with other share indexes.

The DAX reached its year-low of 3,647 points in August. On December 28, 2004, the DAX ended the year, thanks to a final sprint, at its year-high of 4,262 points, an increase of 7% over the previous year. The growth is relatively encouraging when compared to the development of other large stock markets: the Dow Jones Euro STOXX 50 Index rose just 4% last year while the Dow Jones Industrial grew just 3%.

As in previous years, the development of shares in differing sectors varied widely. The biggest gainers in the Dow Jones STOXX 600 European share index included utilities, construction and consumer goods as well as the financial sector. These segments all rose more than 20% in 2004. Shares in the pharmaceutical and health care sector rose just 2%. The technology sector ended the year with a loss of nearly 2%, and was the only sector down for the year.

Overall, we expect an upturn in the stock markets in 2005. How the stock markets develop will continue to be dependent upon the same driving factors as in 2004. The risks include a significant momentum decrease in economic growth as well as geopolitical uncertainties. Even if the two significant factors from the previous year, namely the euro and oil prices, lose some steam in 2005, their development will remain decisive for stock market growth in 2005.

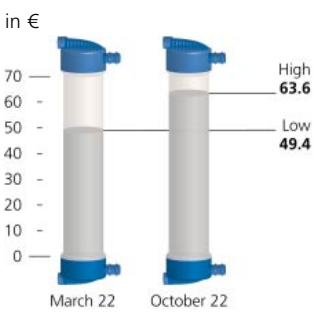
Development of Our Shares

Fresenius Medical Care shares had already performed well in 2003, closing at a year-high of €56.40. And in 2004, a continuance of this performance was confirmed. The ordinary shares rose 5%, closing at more than €59. From April to November, our shares – mainly supported by our solid operating results – even outpaced the DAX. When compared to sector-specific indexes from the health care industry such as the Dow Jones Europe STOXX Health Care, our shares posted a better performance: this index grew just 1% during 2004.

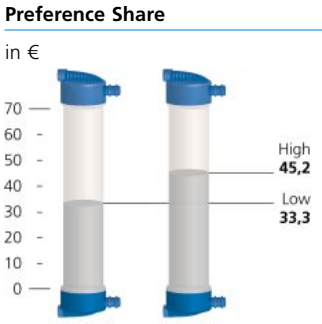
Our ordinary shares reached their year-high of €63.63 in October 2004.

Our ordinary shares recorded continuous increases from March to mid-November of last year, reaching their year-high of €63.63 on October 22, a gain of about 12%. Up until that point, our shares had outperformed the DAX by as much as 13%. During the above-described year-end rally in the DAX, however, our shares underperformed, largely due to profit taking. The significant increase in the euro versus the dollar by the end of the year was an important factor in this. While a strong euro has an operating advantage for Fresenius Medical Care, since we keep our accounts in dollars, it bears a negative impact on the evaluation of our share price. When our operating figures in dollars are translated into euros, they are naturally lower with a stronger euro. This creates the appearance that our shares are more expensive, even though they are mainly responding to changes in currency exchange rates and do not affect the operating side of our business.

Ordinary Share



Preference Share

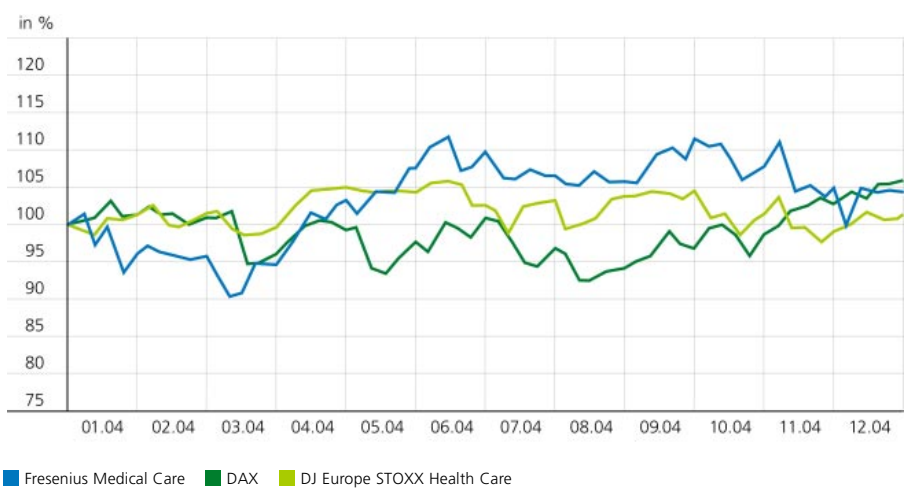


Development of Shares

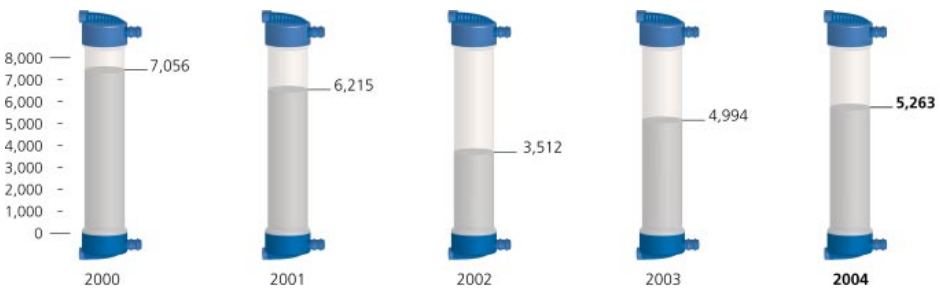
Because of this development in the final six weeks of the year, we ended 2004 with a 5% increase in the price of our ordinary shares, closing at €59.21. The performance of our ordinary and preference shares mirrored each other for most of the year. The preference shares ended 2004 with a gain of 4%, to €42.65. This was slightly below the percentage increase of the DAX Index, although the ordinary shares beat more sector-specific indexes such as the Dow Jones Europe STOXX Health Care Index by nearly 4 percentage points, while the preference shares outpaced the Healthcare Index by 3 percentage points. Both share classes reached their year-low on March 22, 2004 with ordinary shares touching €49.46 and preference shares hitting €33.73.

The significant influence of the increase in the euro versus the dollar on our valuation and, therefore, on the development of our share price can be seen in the development of our shares listed in the U.S. Our shares are traded in the U.S. as American Depository Shares (ADS) on the New York Stock Exchange (NYSE) in dollar. Three ADS represent one share and they basically trade parallel to the share prices of the related ordinary and preference shares. Our ADS, however, were able to end the year with a more significant increase of nearly 13% to $26.80 for the ordinary ADS while the preference ADS rose 14% to $19.15 last year.

Relative Share Price Performance



Market Capitalization
at December 31
€ in million



The market capitalization of our company rose by nearly €300 million by December 31, 2004 to €5.262 billion, an increase of 5% over the previous year.

The average trading volume of our ordinary shares last year was nearly 256,000 shares per trading day. The average daily trading volume of the preference shares was nearly 47,000 shares. As our preference shares have less liquidity and carry no voting rights, they trade at a discount to our ordinary shares. The discount averaged between 27% and 33% in 2004, largely unchanged from the trading ranges of 2002 and 2003.

Basic Data

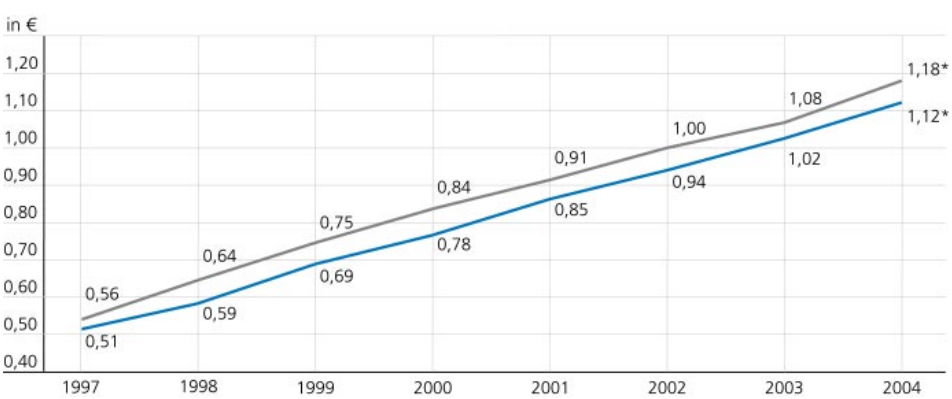
	Ordinary Shares	Preference Shares
Ticker symbol		
Frankfurt Stock Exchange	FME	FME3
New York Stock Exchange	FMS	FMS-p
Security code		
WKN	578 580	578 583
ISIN	DE 0005785802	DE 0005785836
CUSIP No. (NYSE)	358029106	358029205
Stock exchange		
Germany	Frankfurt (Prime Standard)	
North America	New York Stock Exchange (NYSE)	

Dividend

Eighth consecutive dividend increase: €1.12 per ordinary share and €1.18 per preference share.

Fresenius Medical Care follows an earnings-driven dividend policy. Because of the operating development of the previous year, which led to new company records in revenue as well as net income, the Management Board and the Supervisory Board will propose the eighth consecutive dividend increase at the Annual General Meeting on May 24, 2005. The dividend is set to increase to €1.12 from €1.02 per ordinary share, and to €1.18 from €1.08 per preference share. When compared to 2004, this is a dividend increase of around 10%. Based on these proposed dividend increases and the closing share prices of Fresenius Medical Care AG at the end of 2004, this would equate to a dividend yield of 1.9% for our ordinary shares and 2.8% for the preference shares, both being slightly above last year's levels.

Dividend Payment since 1997



* Proposal for approval at the Annual General Meeting on May 24, 2005

Ordinary Share Preference Share

If this joint proposal of the Management Board and the Supervisory Board is accepted during the Annual General Meeting, total dividends of approximately €109 million would be distributed for 2004. At an exchange rate of $1.32 per euro at the end of 2004, this represents total dividends of approximately $145 million. The strong increase in the euro in 2004 led to an 18% increase in total dividends in dollars for the same year. Based on our net income of $402 million, this is a payment ratio of 36%, which is relatively unchanged from the previous year.

Based on the earnings development of 2004, we consider these dividend increases appropriate. And as in previous years, we hope to use it as a way of expressing our trust in the future development of the company's earnings.

Capital Structure

The capital structure of Fresenius Medical Care changed only marginally in 2004. Fresenius AG held 50.76% of the 70 million ordinary shares at year-end, leaving 34.45 million ordinary shares as free float. About 26.2 million preference shares were outstanding with a free float of 100%. The registered capital of Fresenius Medical Care was practically unchanged at nearly 246.52 million on December 31, 2004. In fiscal 2004, about 82,000 options on preference shares were exercised as part of the stock option plan for management. More information on the stock option program can be found in the financial section on page 65.

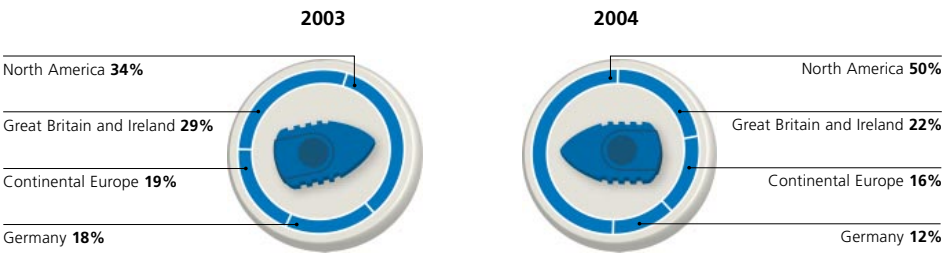
Shareholder Structure

For the third year in a row we have conducted a study on our shareholder structure. One of our stated goals last year was a further diversification in the regional distribution, as well as in the number of our shareholders. Overall, we were able to identify a total of 173 institutional investors, nearly 30% more than the previous year. These investors hold about 38.9 million shares in their accounts, including 26.5 million ordinary shares and 12.4 million preference shares. We were therefore able to identify about 77% of the free float of the ordinary shares and about 48% of the preference shares in 2004. The top 10 investors hold about 37% of the free float, and as a result, 19% of the total ordinary share capital. With preference shares, 36% of the preference share capital is held by the top 10 investors. Since 100% of preference shares are in free float, these investors hold 36% of all preference shares.

About 50% of our ordinary shares are held in North America.

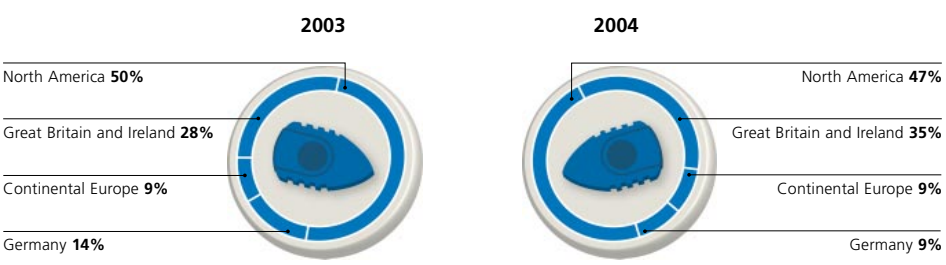
Our ordinary shares are held predominantly by investors in North America and Great Britain. In 2004 we saw another significant shift in shares to North America. The percentage of shares held there once again increased from 34% to 50% in 2004. The number of shares held in Continental Europe decreased to 16% by the end of last year from 19% at the end of 2003. At the same time, the percentage of shares held in Great Britain and Ireland also decreased from 29% to 22%. The percentage of shares held in Germany once again showed a significant decline to 12% from 18% in 2003. In 2004, no German institutional investor was among the top 10 investors; while in 2003, four German institutions remained in the top 10.

Regional Distribution of Ordinary Shares (Free Float)



The percentage of preference shares held in North America fell slightly from 50% to 47% in 2004. The most significant change in preference shares was identified in Great Britain, where the contingent of preference shares held rose from 28% to 35%. In Continental Europe, the percentage remained nearly unchanged at 9%. The percentage of preference shares held in Germany again declined significantly in 2004, from 14% in 2003 to 9% last year.

Regional Distribution of Preference Shares (Free Float)



Investor Relations

Open, comprehensive and timely communication with investors is a fixed component of our corporate culture.

Comprehensive, transparent, open and timely communication with the capital markets has also been the goal of our Investor Relations activities in 2004. This is not just limited to simply communicating our quarterly results; we continually strive to expand and improve the information we provide to allow a fair assessment of the company's situation.

Our comprehensive quarterly and annual reports are characterized by detailed segment reporting and comprehensive notes. The financial reports are published within the timeframes set by the various guidelines we are held to in both the U.S. and in Germany. This includes the requirements of the German Corporate Governance Code, the Sarbanes-Oxley Act, the Deutsche Börse and the New York Stock Exchange. In 2004 we also expanded the range of information available to the capital markets. We now broadcast our three annual analyst conferences live over the Internet and offer Web casts of these meetings for replay online. Questions can even be asked during these meetings using the Internet. When we hold telephone conferences, these are also available on our Web site. Furthermore, shareholders can follow the speech of our Chief Executive Officer at our Annual General Meeting and press conferences live over the Internet at www.fmc-ag.com or www.fmc-ag.de.

More than 300 one-on-one meetings and 18 roadshows highlight our dedicated communication with our investors.

The Investor Relations department is in active discussions with financial analysts as well as with institutional and private investors throughout the year. In the past year, we attended 8 investment conferences and also presented our company at 18 roadshows in Europe and North America – keeping the same pace as the previous year. As we are also dedicated to a continuous dialogue with our current and potential investors, we held more than 300 one-on-one meetings with analysts and institutional investors, once again proving our commitment to open communication. The high number and level of quality of these discussions is further evidence of our comprehensive communications policy, and highlights as well our dedication to Investor Relations and its unique role within our company.

In online communications, we once again expanded our Internet presence in 2004. Now that a German Web site is also available, we have extended and updated the content of our sites. Consensus estimates are now available from our Web sites as well as an email service that reminds users of the most important dates on Fresenius Medical Care's financial calendar. We would like to encourage you to continue taking advantage of the comprehensive information we provide and not hesitate to contact us. With 16 million page impressions of the past year, we are once again reminded of how important electronic communication has become. For us, this is an incentive to further optimize the information we make available on our Web sites. Suggestions on how we can further improve to meet your information needs are always welcome.

Corporate Governance

Corporate Governance – we adhere to the guidelines of internationally recognized institutions as a matter of course.

As a corporation with a stock market listing both in the U.S. and in Germany, we are subject to a number of regulations and recommendations for the management, administration and monitoring of the company and its subsidiaries. We are required to adhere to the German Corporate Governance Code, while at the same time we are subject to the regulations connected to our listing in the U.S., with an emphasis on the Sarbanes-Oxley Act and the Corporate Governance Code of the New York Stock Exchange. The Sarbanes-Oxley Act is a law for companies and their auditors aimed at improving disclosure and control. The broadening of regulations for financial reporting and related internal control systems is designed to increase the trust of investors and other interested parties. We meet all of the current requirements set forth in this law.

Fresenius Medical Care's declaration concerning significant differences between the systems of corporate governance in Germany and the U.S. – based on the listing standards of the New York Stock Exchange – can be seen on the Internet at www.fmc-ag.com.

German Corporate Governance Code and Declaration of Compliance
The German Corporate Governance Code includes many recommendations for the management and monitoring of companies listed in Germany. The code aims to make the rules for managing and monitoring companies in Germany more transparent for investors. This code should also increase the trust of the public as well as employees and customers in the management and monitoring of listed stock corporations.

The majority of the guidelines, recommendations and suggestions in the code have been an integral and active part of Fresenius Medical Care's day-to-day operations since the founding of the company.

In December 2004, the Management and Supervisory Boards of Fresenius Medical Care published the declaration of compliance called for in Section 161 of the German Stock Corporation Act. Fresenius Medical Care complies with the recommendations of the German Corporate Governance Code with the following exceptions:

Code Clause 4.2.4 "Individual Compensation"
The German Corporate Governance Codex determines that for each member of the Managing Board the compensation has to be disclosed individually. From our point of view this will limit the possibility for the company to structure the compensation of the management board members differentiated by individual performance and entrepreneurial responsibility.

Code Clause 5.1.2 and 5.4.1 "Age limit Executive and Supervisory Board"
Based on the German Corporate Governance Code the Supervisory Board has to introduce an age limit for the members of the Management Board. For now, we will abstain from introducing an age limit for the members of the Management Board since that will limit the Supervisory Board in general selecting suitable management

board members. We further abstain from introducing such an age limit for the Supervisory Board as we consider the Supervisory Board as an institution that inherits knowledge, abilities and expertise that are decisive for the Company.

Code Clause 5.4.5 "Compensation Supervisory Board"
Based on the German Corporate Governance Code Members of the Supervisory Board shall receive fixed as well as performance-related compensation. Performance-related compensation should also contain components based on the long-term performance of the company. Fresenius Medical Care AG does not pay any performance-related compensation to the members of the Supervisory Board in addition to the annual fixed compensation. For now, we do not intend to deviate from this compensation procedure as a performance-related compensation linked to the long term performance of the company is not common in our worldwide competitive environment.

Risk Management
To us, good corporate governance means responsibly handling the risks of our business. A comprehensive management system is therefore of utmost importance to identify risks early and minimize the costs related to these risks through early intervention. Our risk management is an integral component of our day-to-day business and is regularly reviewed by external auditors. Further information on Fresenius Medical Care's risk management activities can be found on page 60ff.

Transparency in our Financial Reporting
We place special importance on informing our shareholders simultaneously and uniformly during regular financial reporting events. Regulatory reports and our Web site play an important role in these efforts. Institutional investors as well as private shareholders have equal access to the information we release.

On October 30, 2004, new regulations (Anlegerschutzverbesserungsgesetz: Investor Protection Improvement Act) designed to guard shareholders were introduced by the German government to expand the legal basis protecting investors. Among the most important guidelines within the new law are the insider list, expanded requirements regarding board members' trading activities ("Directors Dealings") and a tightening of requirements for ad hoc disclosure.

Companies are now required to maintain a so-called insider list that is comprised of all persons who come into contact with information relevant to the company's share price before the public is notified. This is designed to prohibit individuals from exploiting their timing advantage for the purchase or sale of stock of individual companies.

We have implemented the expanded requirements for investor protection.

According to Section 15 of the German Securities Trade Act, members of the Management and Supervisory Boards are required to inform the company when buying or selling shares in Fresenius Medical Care AG. These guidelines were expanded as part of the new Investor Protection Improvement Act. The number of people covered by this law was broadened while the volume of shares requiring disclosure was lowered to €5,000 within a single year, compared with a previous volume of €30,000 within a single month.

During 2004, only one disclosure was made to us according to Section 15 of the German Securities Trade Act. And in keeping with the regulation, we publicized it on our Internet site.

The requirements for ad hoc disclosure were also increased. Companies must now notify the public about more significant business processes such as a change in the company's rating. The exceptions are few and strict, such as when an announcement could have a negative impact on ongoing contractual negotiations with another company and prohibit a closing of the talks as planned.

Key Figures of Fresenius Medical Care Shares

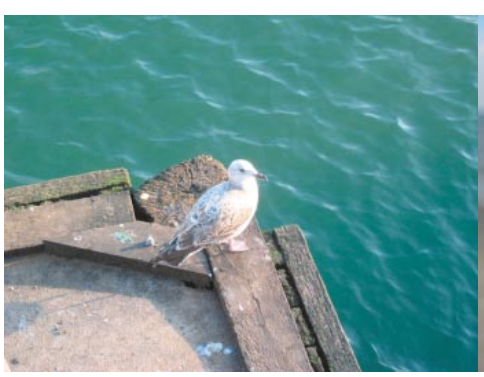
		2004		2003	
		Ordinary	Preference	Ordinary	Preference
Authorized capital	$ in mio.	229.494	69.879	229.494	69.616
Number of Shares	mio.	70	26.24	70	26.19
Closing price (Xetra-trading)					
High	€	63.6	45.2	56.4	40.5
Low	€	49.4	33.3	38.2	27.6
Year-end	€	59.2	42.7	56.4	40.0
Average daily trading volume	Share	256,000	47,000	350,000	35,000
Closing price (ADS - NYSE)					
High	$	27.2	19.2	23.5	16.7
Low	$	20.4	13.9	12.7	9.6
Year-end	$	26.8	19.2	23.4	16.0
Market capitalization					
(at December 31)	€ in bn	5.26		4.99	
Dividend					
Per Share*	€	1.12	1.18	1.02	1.08
Dividend yield	%	1.89	2.76	1.80	2.70
Distribution amount	€ in mio.	109		100	
Earnings per Share (EPS)					
Shares	$	4.16	4.23	3.42	3.49
ADS (NYSE – Level III program)	$	1.39	1.41	1.14	1.16
Rating					
Standard & Poor's		BB+		BB+	
Moody's		Ba1		Ba1	
Index weight					
DAX 30	%	0.450		0.460	

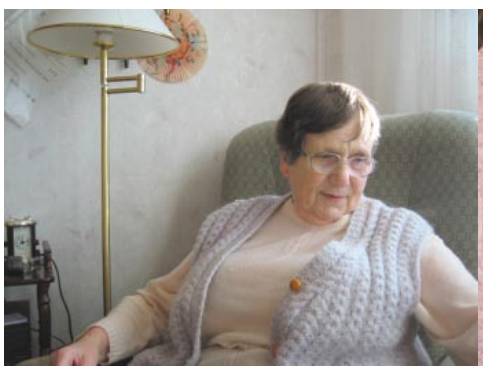
* 2004: Proposal for approval at the Annual General Meeting on May 24, 2005.

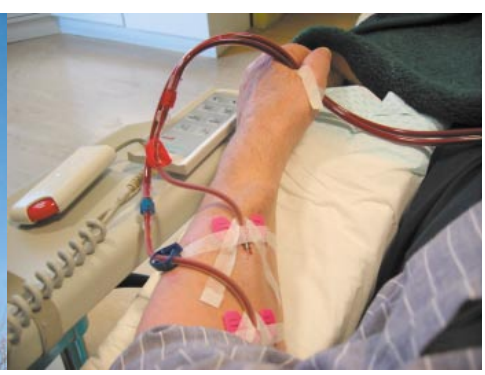
For a more detailed version please refer to the 5-year summary on page 88.

Fresh air and fresh perspectives.

Mr. Wollenhaupt feels very much at home in Rostock. Little wonder – he can see the Baltic Sea from his apartment and often goes for a walk to the beach or the harbor with his long-time companion. The ships are a special treat. He's also proud of his patch in the "Wiesengrund" community garden. And when health permits, he works in the beds of flowers. Mr. Wollenhaupt's reliance on dialysis hasn't affected his zest for action. Every two days he drives to his dialysis clinic. During treatment he watches television or uses the time to develop plans. It's all part of his credo: "You have to keep moving".





Mr. Wollenhaupt is no exception. Allowing dialysis patients to lead normal lives is a primary goal of Fresenius Medical Care. Our innovative dialysis products, along with more than 44,000 employees, ensure that this goal is met for 124,400 patients worldwide.

365 DAYS OF BUSINESS

2004 was the most successful year in the history of our company. Our vertical business model and ability to continuously innovate resulted in new records in revenue and earnings. Modern products and treatment options have made us the global leader in the dialysis market. We are working to reinforce and expand this position – every day.

Content

Economic Environment

Economic Development

After positive economic growth in the beginning of 2004, signs of a sustained global economic recovery diminished as the year progressed. The global economy showed indications of weaker development in the second half despite advantageous monetary conditions that remained nearly unchanged. The most significant determinants contributing to this situation were the end to fiscal measures from years past and an increase in raw material prices – oil prices occasionally topped $50 per barrel. Unlike in the 1970s, the increase in oil prices was not due to artificial shortage but rather to high demand, which led to record production rates. High energy costs caused a drop in buying power and, concurrently, slowed private spending. At the same time, corporate investments continued to increase.

Global economic development lost steam in 2004.

With the weakening of the robust U.S. economy and intervention in China aimed at preventing the economy there from overheating, the global economy lacked the impetus for continued strong growth. The remaining developing countries of East Asia as well as the euro countries were unable to seize the leading role. Growing debts among the governments of leading industrial nations coupled with the weakening of the dollar against the euro at the end of the year presented a significant economic risk. In the fall of 2004, leading German economic institutes forecast 3.9% growth for the global economy, significantly more than the year before. At the same time, the institutes warned that an initial peak had already been reached.

United States

At the beginning of 2004, the world's largest economy was marked by overall economic growth. However, economic indicators turned mixed in the second half of the year and the economic dynamics weakened. Financial investments stabilized at a high level but private spending grew only moderately. To counteract the dangers of inflation, interest rates were increased in five steps from 1.0% to 2.25%. Stronger growth in imports when compared to exports also led to a small increase in the trade deficit. U.S. gross domestic product rose 4.4% in 2004 after a 3.0% gain in 2003. The economic developments of the first half of the year were largely responsible for this growth.

Europe

As in 2003, the individual economies within Europe developed differently. While the Euro countries posted an average 1.9% growth amid low inflationary pressures and interest rates, gross domestic product in the ten new member-countries of the European Union rose on average 5.1% in 2004. The U.K. and Sweden also grew disproportionately with 3.5% and 3.2% growth respectively. As one of the largest exporters of raw materials and with higher investments, Russia was once again able to separate itself from this development with a 7.0% increase in gross domestic product.

For Germany, leading German economic institutes forecast a growth of 1.6% – a higher growth rate than in the previous year but still below the average compared with the Euro region. As with many other countries worldwide, Europe also saw weakening economic dynamics as the year progressed. A drop in exports was a significant factor as domestic demand was unable to offset lower demand from the U.S. and East Asia. The general economic framework in Europe remained nearly unchanged. The improved profitability of companies and minimal increases in per-unit labor costs stood in contrast to a stagnation in gross investments.

Asia

Asia was the fastest-growing region in 2004. Japan played a significant role as well as China and the other developing countries in East Asia. Japan's 4.2% gross domestic product growth was based on an especially strong increase in economic production through spring that leveled off as the year progressed. This was mainly caused by nearly unchanged private spending connected with a slight increase in real earnings and a decrease in public investment. The economic conditions have further improved, one of the factors being a broad reform in the Japanese financial sector. Negative factors there remain the deficit and the urgent need for consolidation in the public budget. Overall, Japan last year was finally able to free itself from the economic low of the past decade.

China once again counted among the strongest growth regions, with 8% growth.

China, however, can now look back on two decades of economic growth averaging 8% per year. The demand for raw materials has increased along with the high growth rates, a significant reason for the high raw materials prices worldwide last year. At the same time, the global economy also benefited from increasing exports to the most populous country in the world with exports to China continuing to grow in 2004. To prevent a potential overheating of the Chinese economy last year, the high level of investment was held stable and potential inflationary pressures were kept in check by a restrictive monetary policy. Gross domestic product rose 9% in 2004, nearly the same increase as a year earlier.

The remaining East Asian countries grew an average of 5.4%, outpacing the previous year. Even here the growth curve leveled off in 2004 due to moderate weakening in China and the U.S. which had an impact on the other developing nations of East Asia. However, domestic demand in South Korea proved to be an exception and had a stabilizing effect.

Latin America

The economic situation in Latin America continued to improve in 2004. Demand for raw materials led to an increase in export profits which fueled higher domestic demand as well as an increase in corporate investment. At the same time, unemployment figures were noticeably reduced resulting in an increase in consumer spending. Mexico continued to profit from its proximity to the U.S. Brazil and Argentina also showed positive growth although the unpaid national debt presents an ongoing problem here. Gross domestic product growth of 4.5% is expected on the Latin American continent, a significant increase over 2003 when the GDP rose only 1.0%.

The Dialysis Market

Patient Numbers – A Global Perspective

Globally, we find that renal replacement therapy in the form of dialysis or transplantation is offered to patients with end stage renal disease (ESRD) in more than 120 countries worldwide.

The country prevalence values (in other words, the relative number of patients treated for ESRD) vary significantly, spanning a range from less than 100 to more than 2,000 patients per million population (p.m.p.). Around 95% of ESRD patients are treated in only 60 countries. Analyzing these 60 countries with regard to their economic strength, using the gross national product per capita as a reference, three prevalence-wealth categories can be established. The 20 countries with the greatest economic power (such as the U.S., Japan and Germany) show an average ESRD prevalence of more than 1,200 p.m.p., and in none of these countries is the prevalence lower than 600 p.m.p. The 20 countries with moderate economic performance have an average prevalence of approximately 600 p.m.p. In the countries on the lowest end of the economic spectrum, only approximately 80 p.m.p. receive treatment. This relatively low prevalence value suggests that, in addition to the lower occurrence of high blood pressure and diabetes, accessibility to ESRD treatment plays a significant role in these countries.

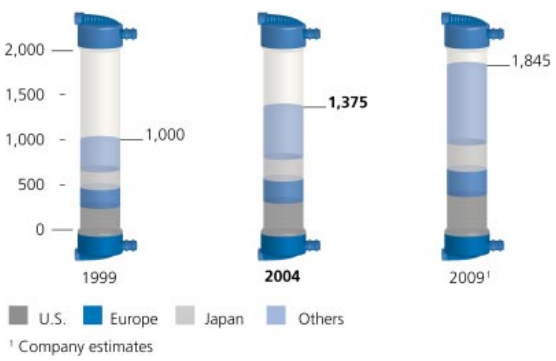
Patient Numbers – The Regional Development

By the end of 2004, the number of patients undergoing dialysis treatment for ESRD had reached 1.375 million. Of these patients, around 24% were treated in the U.S., 18% in Japan and 18% in the 25 countries of the European Union. The remaining 40% of all dialysis patients were distributed throughout more than 90 countries in different geographical regions. The number of dialysis patients rose at an average of approximately 6% compared to the previous year.

For 2005 we expect worldwide growth in patient numbers of about 6%.

Fresenius Medical Care expects average dialysis patient growth for the upcoming fiscal year to be of similar magnitude to 2004, with regional differences prevailing. A below-average increase in the number of patients was experienced in the U.S., Japan and Western and Central Europe where, as reflected in the high dialysis prevalence values, patients with terminal kidney failure already have access to treatment, usually dialysis. Contrary to this, growth rates in the economically weaker regions continued to be around 10% and were thus far higher than on average levels. The relatively high annual growth rate in these countries indicates that even though the accessibility to treatment is, to some extent, still limited, a gradual improvement seems to be on the horizon.

2004 Dialysis Patients Split
in thousands



Given the observed annual growth rates and the differences between economically stronger and weaker regions, one can extrapolate the potential future patient numbers. If regional growth patterns persist, a change in the regional distribution of patients in the coming years is inevitable: a significantly higher proportion of patients will undergo dialysis treatment in Asia, Latin America, Eastern Europe, the Middle East and Africa. The enormous potential regarding the entire spectrum of dialysis services and products is obvious here, as more than 80% of the world population live in these regions.

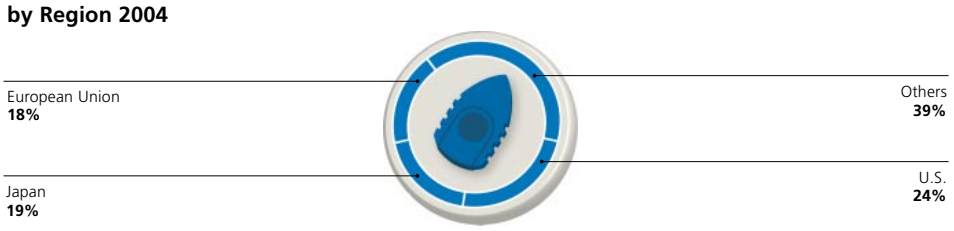
Patient Numbers – Treatment Mode Development

At the end of 2004, the total number of patients treated for terminal kidney failure had reached approximately 1.8 million. Of the 1.375 million that undergo dialysis treatment, 1.225 million are treated by hemodialysis and approximately 150,000 receive peritoneal dialysis treatment. More than 400,000 kidney patients live with a transplanted kidney.

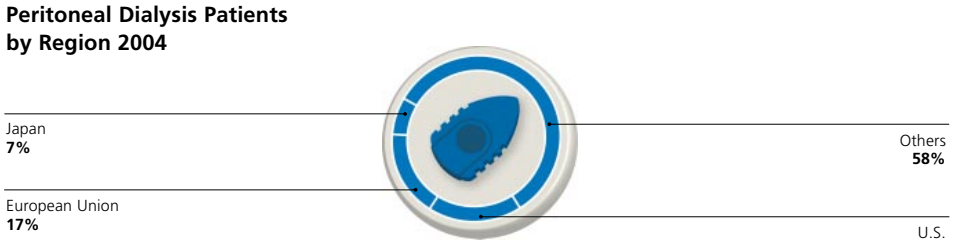
Accounting for about 89% of all treatments, hemodialysis is the dominant dialysis treatment option.

In a global comparison of treatment methods, hemodialysis dominates. More than 89% of the dialysis patients were treated with this method in 2004. Within the group of the 15 largest dialysis countries accounting for approximately 80% of the world dialysis population, hemodialysis is the predominant treatment method in all countries except in Mexico, where dialysis clinics have insufficient capacities. Besides Mexico, only the Republic of Korea and Great Britain treat a higher percentage of patients with peritoneal dialysis.

Hemodialysis Patients by Region 2004



Peritoneal Dialysis Patients by Region 2004



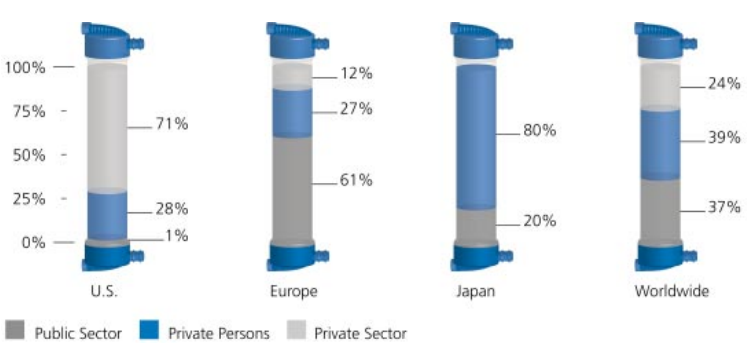
In addition to these two dialysis therapies, a third option in treating patients with terminal kidney failure is kidney transplantation. But there has been a prevailing trend with the number of donated organs worldwide being much lower than the number of patients on transplant waiting lists. In 2004, despite efforts by many regional authorities to increase awareness and willingness for kidney donation, transplantation growth rates were similar to growth rates in hemodialysis or peritoneal dialysis. Extrapolation of patient numbers based on current growth rates suggests no significant change in the distribution of patients between the various treatment modes in the near future.

Xenotransplants – the use of organs from animal donors – is not likely, in our opinion, to affect this trend in the near future. Due to remaining challenges, this method cannot be considered an alternative therapy to well-known treatment methods. Among the difficulties facing xenotransplantation are the uncontrolled transfer of retroviruses and other potentially dangerous pathogens from animal donors to humans, unknown variables in the suppression of immune rejection reactions in the body, and the open question concerning the adequate functioning of animal organs in the human body. It has to be mentioned that only a few dialysis patients are suitable for xenotransplantation: even if there were an unlimited supply of organs, many patients suffer from such severe co-morbid conditions that xenotransplantation is very unlikely to become the treatment of choice for them. Furthermore, many patients would still suffer from diseases which would detrimentally affect the new organ within a short period of time, making transplantation a stressful and only short-term alternative to dialysis with negative effects on the patients' quality of life. Given all these circumstances, it is obvious that xenotransplantation is far from becoming a routine organ replacement therapy, whereas dialysis treatment in the form of hemodialysis or peritoneal dialysis is a safe and reliable treatment option for more than 1.3 million patients.

Provider Business

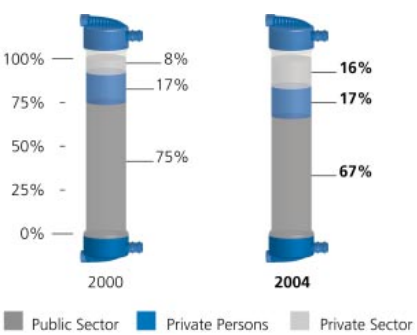
The majority of all hemodialysis patients are treated in over 22,500 dialysis centers worldwide, yielding an average of 55 patients per center. Clear differences exist in the organizational structure of dialysis center operations, depending on whether a country's health system is predominantly private or public. In the U.S., for example, less than 5% of the approximately 4,300 dialysis centers are public, whereas 60% of the approximately 3,500 dialysis centers in Western Europe are publicly operated.

Operators of Dialysis Clinics 2004
in %



Private nephrologists play a key role in clinic operations in Japan, where they run about 80% of all clinics. Here, private companies are not allowed to own dialysis clinics, whereas these are the main stakeholders in the U.S., operating more than two-thirds of all centers there. The last few years have seen a significant increase in the number of company-owned clinics in Eastern Europe, possibly reflecting the fact that private companies are more effective and efficient when it comes to modernization and capacity extension than the respective government bodies.

Operators of Dialysis Clinics in Eastern Europe
in %



Fresenius Medical Care has confirmed its position as the worldwide dialysis market leader.

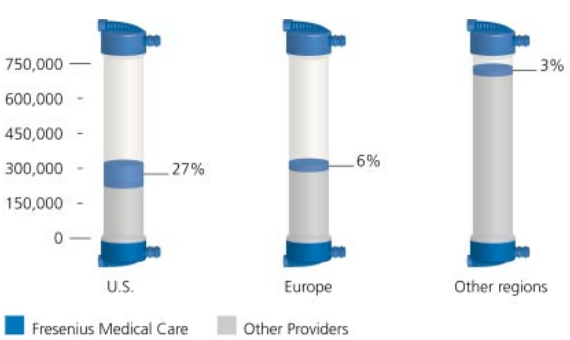
In 2004, many healthcare systems continued to face increasing challenges caused by soaring costs as well as increasing pressure to reduce costs for existing services, yet striving to simultaneously improve treatment standards for individual patients. Under these conditions, product supply, patient education, quality benchmarking, treatment guidelines and innovative approaches towards optimizing patient care constitute key success factors for market participants. A vertically integrated dialysis provider like Fresenius Medical Care, which offers not only the entire product spectrum in the dialysis area but also high quality treatment in dialysis clinics worldwide, has the best chances to improve its status in the current and future healthcare systems and expand its market position even further. In 2004, Fresenius Medical Care continued to uphold its clear leadership as the largest global private provider of dialysis care, treating more than 124,400 dialysis patients in over 1,610 clinics worldwide. With that, we are number one in the global dialysis market.

Consolidation of the dialysis industry continued in 2004, a positive development for us as it inherently offers more opportunities than risks. The American company DaVita announced the acquisition of the North American dialysis care business of Swedish Gambro, which would make DaVita the second-largest provider of dialysis care in the world after Fresenius Medical Care. The acquisition still needs the approval of competition regulators in the North America. A Preferred Provider Contract is also part of the purchase, which would make Gambro the most important product supplier to DaVita.

Top 5 Dialysis Providers Worldwide
Number of Treated Patients in 2004

Still, from our point of view, the acquisition would not create a vertically integrated company like Fresenius Medical Care. Significant advantages can only be realized in the dialysis market when the entire value chain – from dialysis products to dialysis care – is covered by the same company. Fresenius Medical Care has been involved in both sectors since its formation and remains the only company worldwide that is structured as a completely vertically integrated company. The takeover and the intended provider structure represent for us a confirmation of our business model and our corporate strategy.

Fresenius Medical Care
Number of Treated Patients by Region 2004



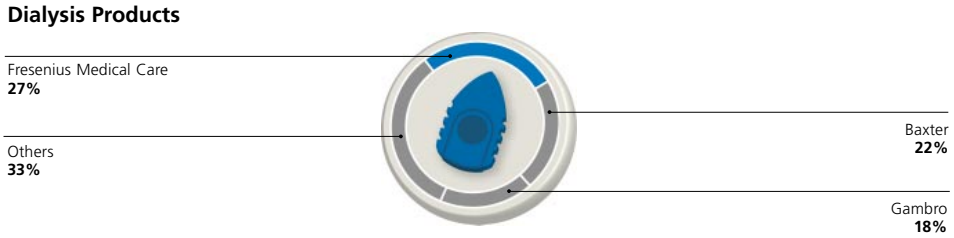
The quality of dialysis becomes a key component in reimbursement systems worldwide.

Dialysis reimbursement schemes differ from country to country, and also vary within the countries with factors such as the type of treatment provided, the type of care provider and respective regulatory issues. The situation gets even more complicated when one takes the different items that are included in the individual reimbursement packages into account. In general, we see many national and regional dialysis reimbursement systems striving towards setting incentives for high-quality yet cost-efficient treatment of a growing dialysis population. Being active in dialysis care globally, Fresenius Medical Care is well able to support national health systems in customizing structures, to adapt its business according to the local needs and regulations, and to act profitably in different healthcare environments.

Product Business

The global dialysis product market value in 2004 reached a value of around $8 billion. The products offered in this market include dialyzers, concentrates and solutions, bloodlines and needles, hemodialysis machines and peritoneal dialysis products, water treatment systems and auxiliary products. The three largest suppliers of dialysis products together hold a worldwide market share of 70%, whereby Fresenius Medical Care was market leader and commanded a market share of over 27% alone in 2004.

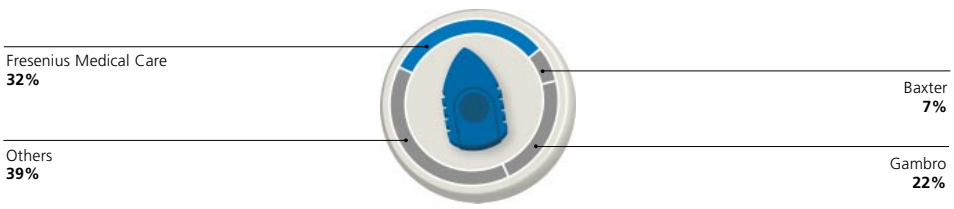
Market Shares 2004
Dialysis Products



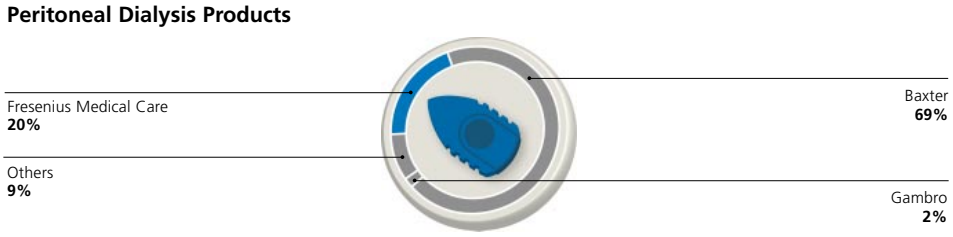
An increase in market share to 20% in peritoneal dialysis is both a success and a motivation for us.

The largest single product group in this market is dialyzers, of which around 140 million were needed by dialysis patients worldwide in 2004. The fact that 58 million of these dialyzers were designed and produced by Fresenius Medical Care underlines our leadership in this market. Dialyzers can be categorized as cellulosic or synthetic, according to the material used for the production of their functional part, the membrane. 2004 saw a prevailing trend towards the use of dialyzers containing membranes made from synthetic material. The market for synthetic membrane dialyzers now constitutes over 60% of the dialyzer market. Market withdrawal of cellulose-based dialyzers by some producers in 2004 opens the door further for increased sales of synthetic dialyzers in the years to come. The pioneering work of Fresenius Medical Care in the development and production of synthetic dialyzers is now being followed by other major competitors. Our leading position in dialyzers, as well as in other hemodialysis products, is the main reason that Fresenius Medical Care remained the overall leading company for dialysis products. In the market for peritoneal dialysis products, Fresenius Medical Care once again increased its market share, and now holds 20% of a market that historically has been heavily dominated by Baxter. Further information to our position in the peritoneal dialysis market can be found on page 80.

Market Shares 2004
Hemodialysis Products



Market Shares 2004
Peritoneal Dialysis Products



Overview of Fiscal Year 2004

Fresenius Medical Care's business developed very successfully in 2004. The positive results of the first six months in particular allowed us to increase our original forecast for revenue growth. We had expected constant-currency revenue growth in the mid-single-digit percentages at the beginning of the year but revised the outlook upward after releasing first-half figures in the high single-digit range. At the start of 2004, we had also forecasted net income growth in the low double-digit range and increased this forecast to more than 15% in November.

We beat our forecasts for 2004.

Overall, we clearly reached – and even partly exceeded – our increased outlook on revenue and net income growth. Our revenue growth was clearly above market growth, and net income rose at an even higher rate. Other key financial metrics also developed positively, including Free Cash Flow. In 2004, we concentrated on our own strengths and focused more on growing organically.

Revenue

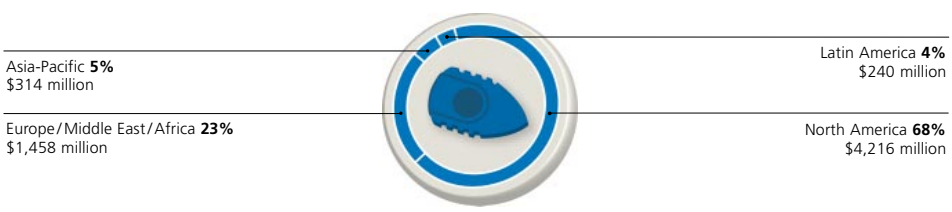
Currency-adjusted revenue growth of 10% exceeded our forecasts.

Revenue of Fresenius Medical Care increased 13% in 2004 to $6.23 billion. We exceeded our forecast of high single-digit revenue growth with a currency-adjusted increase of 10%. Since we made only minor acquisitions and remained within our forecast of $100 million for acquisition spending, the revenue increase was predominantly due to a currency-adjusted organic growth of 6 percentage points. Acquisitions contributed 2 percentage points while the consolidation of businesses according to the new U.S. accounting rule FIN 46R added another 2 percentage points. The new rule requires companies to include businesses in their accounting in which they have not necessarily a voting majority but have a controlling influence. FIN 46R thus resulted in the inclusion of a joint venture in extracorporeal therapy and various dialysis clinics.

North America was and remains by far the most important market for Fresenius Medical Care, accounting for 68% of revenue in 2004, compared with 70% in 2003. Revenue rose 9% to $4.22 billion in this region.

Revenue in the International region, which includes all business regions outside North America, increased 20% to $2.01 billion, representing 32% of Fresenius Medical Care's total revenue. Currency-adjusted growth was 11%. The contribution to overall sales of the individual regions within the International region changed only marginally over the previous year.

Revenue by Region
Total $6,228 million

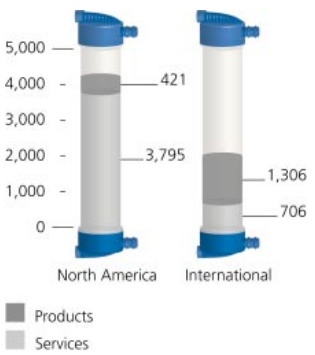


In Europe, including the Middle East and Africa, and the largest region within the International segment, revenue increased 22% to $1.46 billion. Currency-adjusted, the increase was 11%. The contribution of European revenue to total revenue in 2004 gained one percentage point over 2003 to 23%. The change in the exchange rate between the dollar and the euro played a significant role. In Europe we saw considerable growth in most countries in 2004 and were able to maintain the margin at the same level as the previous year.

The economic situation in Latin America continued to improve and this became noticeable in the dialysis market in 2004. Revenue in Latin America exceeded our expectations, growing 30% over the previous year to $240 million. The contribution to total sales increased by one percentage point to 4%. Exchange rates between Latin American currencies and the dollar remained relatively stable last year, resulting in constant-currency revenue growth of 27%.

Revenue by Segment

$ in millions



Fresenius Medical Care treated more than 124,400 patients in about 1,610 dialysis clinics in 2004.

Revenue growth in the Asia-Pacific region failed to meet our expectations as we were unable to completely offset a decrease in the reimbursement rate for dialysis products in Japan – our largest market in the region. The Asia-Pacific region achieved overall revenue growth of 6% to $314 million. Because of the fluctuations in the exchange rate between Asian currencies and the dollar, constant currency growth was just 1%, while the contribution to total sales from the region remained unchanged at 5%.

As explained in the section about the dialysis market on page 32ff, Fresenius Medical Care is a vertically integrated dialysis company. Globally, we offer a full array of dialysis products as well as dialysis care in the form of high-quality treatments in dialysis centers. While dialysis care accounted for 90% of North American revenue, which was nearly the same as in the previous year, dialysis products dominated in the International region. Dialysis products contributed 65% of revenue outside of North America, compared to 67% the previous year. The rising proportion of revenue generated by dialysis care proves that this business area is becoming increasingly important in the International segment.

Operating dialysis clinics is the core of dialysis care. At the end of 2004, our company operated 1,610 dialysis centers, 3% more than a year earlier. By December 31, 2004, we had treated a total of 124,400 patients in these clinics, an increase of 4% over a year earlier. The number of treatments rose 5% over the previous year to about 18.8 million.

The dialysis care business, including all regions, achieved revenue growth of 13% to $4.50 billion, or 72% of total revenue, the same level as in the previous year. In constant currency, dialysis care revenue grew 12%. Organic growth accounted for 7 percentage points of the growth while acquisitions accounted for 2 percentage points. Consolidation according to FIN 46R added another 3 percentage points of growth.

In dialysis products, we were able to increase revenue 11% to $1.73 billion. Currency-adjusted, the increase was 5%. Dialysis product revenue, including sales to our own clinics, rose 10% to $2.24 billion. Currency-adjusted, the increase was 5%. Dialysis products contributed 28% of Fresenius Medical Care's overall revenue.

Earnings

In 2004, gross profit rose 14% over the previous year to $2.09 billion, resulting in a gross profit margin of 33.5%. The gross profit margin in 2003 was 33.1%. Contributing to this growth were increases in reimbursement, higher margins for related services in North America, an increase in the number of treatments because of two additional treatment days in North America and operational improvements in Latin America as well as growth in regions with high gross margins. This increase was partially offset by increased personnel and recruitment costs in connection with a lack of qualified treatment personnel in North America. One-time price reductions granted to a marketing partner in Japan as well as price pressure in Japan as a result of bi-annually reimbursement rate reductions had a further negative impact.

Abbreviated Statement of Earnings

$ in millions	2004	2003	Change
Net revenue	**6,228**	**5,528**	**13%**
Cost of revenue	4,142	3,699	12%
Gross profit	**2,086**	**1,829**	**14%**
in % of revenue	33.5	33.1	
Operating income (EBIT)	**852**	**757**	**13%**
Interest expenses, net	183	211	-13%
Income before income taxes	**669**	**546**	**23%**
Net income	**402**	**331**	**21%**

For the first time Earnings before Interest, Taxes and Depreciation and Amortization exceeded $1 billion.

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) came in at $1.08 billion, an increase of 11% over the $974 million recorded a year earlier. With that we reached an EBITDA of more than $1 billion for the first time in the history of the Company.

We were able to increase our operating income (Earnings before Interest and Taxes – EBIT) by 13% in 2004 to $852 million. The EBIT margin of 13.7% remained unchanged over a year earlier, although adjusted to FIN 46R, the EBIT margin would have increased from 13.69% to 13.85%. An increase in marketing and overall administration costs affected the operating margin as a percentage of sales. The increase was primarily due to higher personnel costs in North America as well as to growth in regions with higher marketing and overall administration costs. This was partially offset by compensation paid in relation to a clinic in the Asia-Pacific region and lower expenses as part of cost-efficiency efforts in Latin America.

Fresenius Medical Care's net interest expenses were $183 million in 2004, 13% lower than the $211 million of the previous year. The decrease in interest expenses was the result of two factors: the debt development, which we were able to further reduce due to our strong operating Cash Flow, and changes in our credit agreement that led to lower interest rates. (More details can be found in the financial section on page 54, Note 7.)

Net income rose to $402 million from $331 million – an increase of 21%.

Net income last year rose to $402 million, an increase of 21% over the $331 million of the previous year. This was above our expectations of net income growth of more than 15%.

Earnings Per Share

Earnings per share (EPS) were calculated in accordance with US GAAP using the weighted average number of outstanding shares. Earnings per ordinary share are calculated by dividing net income minus preference dividends for preference shares by the weighted average number of outstanding shares during the fiscal year. In keeping with our articles of association, preference shares receive a premium dividend of €0.06 per share more than ordinary shares. Based on the average exchange rate of the euro and the dollar during 2004, this is equal to $0.07, resulting in a total preference dividend payment of $1.96 million. This must be subtracted from net income to determine earnings per ordinary share. In 2004, an average of 96.2 million shares were outstanding, comprised of 70 million ordinary shares and approximately 26.2 million preference shares.

Based on 2004 net income of $402 million, earnings per ordinary share rose 21% to $4.16 from $3.42 in the previous year. When including the preference dividend of $0.07, we were able to increase earnings per preference share to $4.23 compared with $3.49 in 2003, also an increase of 21%.

Dividends

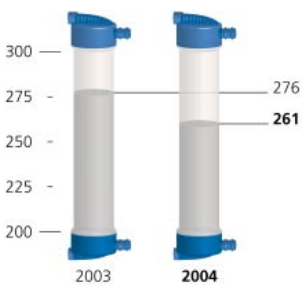
The Management and the Supervisory Board propose a dividend increase to €1.12 per ordinary share and €1.18 per preference share.

Fresenius Medical Care once again followed an earnings-driven dividend policy in 2004. The Management Board and the Supervisory Board propose the eighth dividend increase in a row to allow shareholders to participate in the company's growth. The dividend per ordinary share would then increase to €1.12 per ordinary share and €1.18 per preference share. Last year, ordinary shareholders received €1.02 per share while preference shareholders received €1.08. This would represent a dividend increase of 10% for ordinary shares and 9% for preference shares. The total dividend volume would amount to €109.4 million. Further information on dividends can be found on page 18 within the chapter "Our Shares".

Investments and Acquisitions

Net Capital Expenditure

$ in millions



In 2004, Fresenius Medical Care invested a net amount of $261 million, or 4% of the company's revenue. The company used its high operating cash flow for an early lease buyout refinancing of $29 million worth of dialysis machines. We remained within our forecast of $250 million for capital expenditures in 2004. In the previous year, capital expenditures on property, plant and equipment and intangible assets were $276 million, or 5% of revenue, $15 million higher than in 2004.

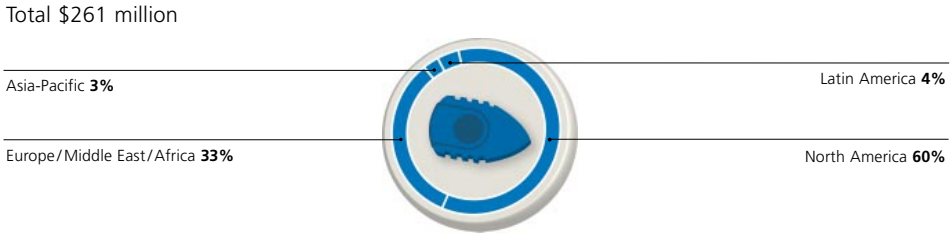
The majority of our capital expenditures, equaling $157 million, were used to upgrade and expand existing clinics. In addition to the early lease buyout of $29 million, an additional $49 million was invested in expanding existing production facilities in North America, Germany, France and Italy. A further $44 million went to our sales and distribution activities, primarily for activating dialysis machines for use by customers. Some $18 million came from the sale of property, plant and equipment.

Of net capital expenditures 47% were invested in expanding capacity and 42% in the maintenance of existing production sites and dialysis clinics. The early lease buyout represented 11% of the net expenditures. In dialysis care, 66% of the investment went to property, plant and equipment, as well as to intangible assets, while 34% was used for dialysis products.

A regional breakdown of capital expenditures shows: roughly 60% of all capital expenditures in 2004 went to North America, our strongest region for revenue, compared to 62% a year earlier. The Asia-Pacific region received 3%, Europe 33% and Latin America the remaining 4%.

Net Capital Expenditures by Region

Total $261 million



Acquisition spending increased to $104 million in 2004, compared with $92 million in the previous year. We followed our strategy of concentrating on a few, select purchases and remained within the forecasted acquisition volume of about $100 million. The majority of the acquisitions were in the dialysis care business. Some 62% of the total volume was used to buy dialysis clinics in North America, while European dialysis clinic purchases accounted for 32%. The remaining 6% were used in the dialysis product business in the Segment International.

Overall, $365 million was spent in 2004 for capital expenditures and acquisitions. This figure remained largely unchanged when compared with the $369 million the previous year.

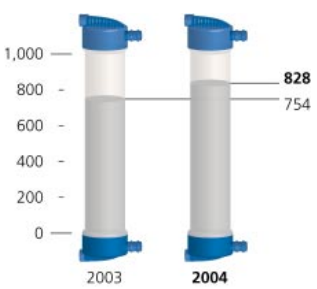
Cash Flow

Abbreviated Statement of Cash Flow

$ in millions	2004	2003	Change
Cash at the beginning of the year	48	65	-26%
Cash from operating activities	828	754	10%
Cash from investing activities	(365)	(369)	-1%
Cash from financing activities	(452)	(416)	9%
Effect of exchange rate changes on cash	0	14	
Cash at the end of the year	59	48	23%
Free Cash Flow	567	478	19%

Operativer Cash Flow

in Mio. US-$



Operating Cash Flow increased 10% in 2004 to $828 million, following $754 million in the previous year. This renewed increase was able to fully finance the capital expenditures and acquisitions of 2004. The Cash Flow growth was marked by an increase in net income and the optimization of the management of working capital. We reduced the days sales outstanding (DSO) in North America to 67 days by the end of 2004 from 72 days in 2003. Outside North America, DSO were reduced to 119 days by the end of 2004 from 127 days in 2003. Overall, the company reduced DSO by 5 days to 84 days. A clear focus on organic growth and an improvement in managing working capital led to strong Cash Flow growth.

Days Sales Outstanding

in days	2004	2003
North America	67	72
International	119	127
Group	84	89

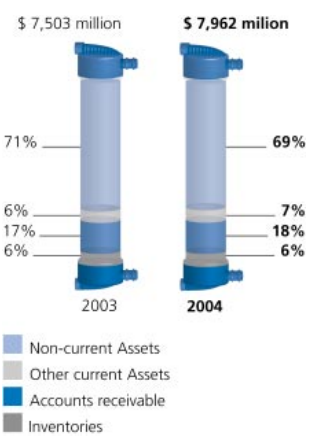
Another record – Free Cash Flow before acquisitions and dividends rose 19% to $567 million.

Capital expenditures were $261 million in 2004. This resulted in a 19% increase in Free Cash Flow before acquisitions and dividends of $567 million, a new record in the history of our company. We spent $104 million on acquisitions and paid $122 million in dividends in the year 2004, resulting in a Free Cash Flow after acquisitions and dividend payments of $341 million. This is a 23% increase over a year earlier, setting yet another record in the company's history. This figure was used predominantly to reduce debt.

Based on an increase in the value of the euro against the dollar, the liabilities denominated in euros on the balance sheet were valued higher. When including the sales from the accounts receivables program in our liabilities, as well as the above currency exchange effects, the net decrease in our financial liabilities was $311 million.

Balance Sheet, Assets and Financial Situation

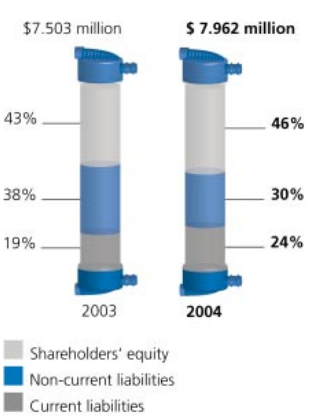
Assets



The company's total assets rose significantly over a year earlier, increasing 6% to $7.96 billion. Currency effects were largely responsible for this gain as the euro strengthened versus the dollar. The currency valuation differences led to a $179 million increase in total assets.

After an increase of 4% to nearly $5.5 billion, non-current assets accounted for 69% of total assets. An increase in property, plant and equipment as well as goodwill is primarily responsible for the gain in non-current assets. Non-current assets include goodwill of $3.4 billion, with $2.14 billion of goodwill from the 1996 founding of Fresenius Medical Care. Property, plant and equipment rose 9% to $1.18 billion in 2004 as a result of currency effects and investments of $269 million. The investments included equipping new clinics and modernizing existing clinics, as well as maintaining and expanding production capacities in North America, Germany, France and Italy. An increase in working capital of 11% to $2.4 billion was the result of higher accounts receivable from deliveries and services, which rose 19% to $1.46 billion, largely because of changes in the accounting of the accounts receivable program in North America beginning January 1, 2004 (see also financial section on page 54, Note 7). Inventories remained nearly unchanged at $443 million compared with $445 million in 2003 (see also financial section on page 47, Note 3).

Equity and Liabilities



Shareholders' equity increased significantly, gaining 12% to $3.63 billion. This increase was chiefly due to an increase in retained earnings to $658 million (2003: $378 million) and a significantly lower negative effect of other accumulated comprehensive income (loss) (see financial section, page 79). Total liabilities rose 2% as of December 31, 2003 to $4.3 billion because of the increase in the euro versus the dollar.

With an improvement of 3 percentage point to 46% we clearly increased out equity-to-assets ratio in 2004.

The equity-to-assets ratio also improved significantly by 3 percentage points in 2004 to 46%, mainly due to the net profit achieved in 2004 minus dividends distributed for 2003.

The ratio of debt to Earnings Before Interest, Taxes and Amortization was 2.26 at the end of 2004 after 2.76 in 2003. Excluding any unforeseeable events, and despite a planned increase in capital expenditures and investments on acquisitions, we expect a debt/EBITDA ratio of less than 2.5. A ratio of less than 2.5 is – according to the individual calculation methods among the leading rating agencies – one requirement for investment-grade status. This rating is especially important for companies that look to the capital markets for financing, and is also a sign of their high credit worthiness or earning power, leading to a reduction in the cost of financing.

Value Added Statement

$ in millions	2004		2003	
Creation				
Company Output	6,230	100%	5,570	100%
Materials and services purchased	(3,120)	50%	(2,821)	51%
Gross value added	3,110	50%	2,749	49%
Depreciation and amortization	(233)	4%	(216)	4%
Net value added	2,877	46%	2,533	45%
Distribution[1]				
Employees	2,012	70%	1,756	61%
Government	265	9%	213	9%
Lenders	197	7%	231	9%
Shareholders & minority interest holders	152	5%	125	5%
Company	251	9%	208	8%
Net value added	**2,877**	**100%**	**2,533**	**100%**

[1] Assuming that the proposal for the allocation of profits for 2004 is accepted.

Employees

Our economic success is based on the experience, knowledge and motivation of our employees. We continuously support our employees, and in challenging them to do their very best, we allow the Company as well as each one of them to master the demands and challenges of the future. This is the key to personnel development at Fresenius Medical Care.

At the end of 2004, Fresenius Medical Care employed 44,526 people, an increase of more than 8% over a year earlier. The increase reflects the dynamic regional development of Fresenius Medical Care. An increase in manufacturing capacity as well as an expansion in dialysis care is responsible for the personnel growth, although individual regions developed differently.

Last year we posted an increase in personnel in Europe, mainly through the acquisition of clinics in Turkey, Hungary and other Eastern European countries. About two-thirds of our employees are in North America, where we relied largely on organic growth, resulting in personnel expansion of just about 4%, a lower personnel growth rate when compared with other business regions.

Latin America and Asia-Pacific posted above-average growth in employee numbers as we continued to strengthen our dialysis care activities there. The acquisition and opening of dialysis centers in these regions contributed significantly to the personnel growth and reflected the dynamic growth of the Asia-Pacific region, excluding Japan.

Employees

Full-time equivalents	**2004**	2003	2002	2001	2000
	44,526	41,097	39,264	37,331	33,316

Last year, human resources efforts were adjusted to fit the varying development of the individual regions. In Asia-Pacific, the focus was on recruiting new employees from the external job market while in North America the further optimization of existing organizations received the most attention.

Among other initiatives, we introduced a personnel management training program for dialysis clinic managers last year to further improve the quality of our human resources activities in North America, our largest market. By taking part in the program, clinical managers expanded their knowledge and learned effective methods to even more competently implement personnel decisions, such as selecting the most qualified colleague for a specific task or constructive conflict resolution.

In addition, we developed a new North American Web site exclusively for our employees at www.fmc4me.com. The portal is the most important Internet-based

information source for our company as well as for information on the benefits provided by Fresenius Medical Care as an employer.

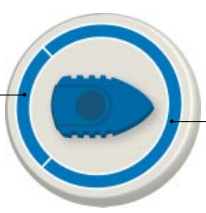
Employees by Region

Full-time equivalents	2004	2003	Change
North America	28,154	26,953	4%
Europe	9,999	9,181	9%
Other regions	6,373	4,963	28%
Total	**44,526**	**41,097**	**8%**

Continual internal and external training of our employees is important to us. For several years now we co-operate with the French INSEAD business school bringing together leading managers from various industries for strategic management seminars and the exchange of ideas.

In addition, we continued a move toward more personalized employee development, which began in 2003. Targeted, individual consultations empower our managerial and skilled personnel to operate creatively, actively and successfully. Acquiring and communicating the necessary knowledge and social competences is as much the responsibility of the employees as it is of the Company itself.

Employees by Segment
Full-time equivalent



Training ensures the future: in 2004 we also employed more trainees than we required.

Last year, the Fresenius Group offered 450 young people in Germany the opportunity to take part in a career training program. As in 2003, this number exceeded our own needs, but helped fulfill a vocational training pact between the private sector and the German government. It also allows us to make a qualitative and quantitative contribution to the difficult vocational situation in Germany. We look for motivated young people from different backgrounds for our forward-looking technical, scientific and business training programs. In addition to the traditional two-tier career training program, we also intensified our cooperations with vocational and technical schools last year. We also added an engineer training cooperation with the University of Applied Sciences Gießen-Friedberg.

The deficiency of qualified personnel continued in 2004 and was not limited to just academically qualified personnel. Comprehensive recruiting programs as well as personnel development efforts actively combat the lack of skilled candidates. Fresenius Medical Care continued to improve its reputation as an attractive employer for scientific engineers and care personnel in dialysis centers. This can be seen in the large response of potential candidates to personnel ads in Germany and other countries. In addition, we keep in contact with selected technical schools through conventions, internships and support when preparing the degree dissertation as well as through targeted specialty publications.

Profit Sharing and Stock Option Program

Profit sharing and stock option programs motivate our employees and help them identify with the company.

Economic success is only possible when our employees identify with our company. Owning a part of Fresenius Medical Care can play a valuable role. A new profit sharing program was introduced as a value-oriented incentive after our previous profit-sharing system completed its five-year term. The new program will run until 2006, with incentive payments as well as their size being linked to the Company's EBIT. Two-thirds of the bonuses are paid in shares. Eligible employees receive preferred shares in Fresenius Medical Care AG. The remaining third is either paid in cash or invested in additional shares. Bonus shares were awarded to those that opted for additional shares last year. About half of the eligible employees chose to invest in additional shares in 2004, proving their faith in Fresenius Medical Care and reflecting their identification with the company.

Upper management continued to be covered under the "2001 International Stock Incentive Plan" that will run for four years and offers convertible bonds. The plan is used worldwide to increase managements' identification with and focus on creating and implementing corporate goals. For further information about the Stock Option Program, please refer to page 65, Note 13 of the Consolidated Financial Statements.

Research and Development

Innovative research – this is what Fresenius Medical Care stands for. The continuous development and refinement of dialysis therapies and products as well as other extracorporeal treatments is an integral component of our corporate strategy. More than 350 of our highly qualified employees (full-time employees) work in the Research and Development department alone. And with good reason: our innovations improve the quality of life of our patients and ensure the future of our company.

Hemodialysis Machines

Our key task:
the next generation of the successful dialysis machine – the 4008 series.

The finalization of the development of a new generation of hemodialysis machines was a major part of our research and development activities in 2004. These machines should gradually follow the 4008 series in the coming years – an ambitious project considering the 4008 is the most successful machine internationally, and the most widely used in hemodialysis. Overall, nearly 200,000 machines have been produced in recent years. This figure includes machines from the 4008 series as well as the 2008 series, which is built on the same platform but customized for the North American market.

R&D Expenditure

$ in millions

The success of the 4008 is based not only on fundamental characteristics such as dependability, service and price, but also on the broad flexibility of the machine which allows it to be adapted to all major treatment types and locations. This flexibility is available in all hemodialysis machines developed and produced by Fresenius Medical Care and is based on the machines' modular construction. It enables a longer product life and offers users the advantage of upgrading to keep in the loop with the newest discoveries in the treatment of chronic and acute kidney failure. The 4008-series machines produced today have benefited from our continuous development efforts and offer significantly more functions than the first 4008E machines unveiled in 1992. Still, the newer machines stick to the basic concepts, thus preventing users from having to make frequent cost-intensive new investments. Holding on to these key concepts was one of the main goals in the development of the next generation of machines to the 4008.

Comprehensive tests have prepared the new generation of dialysis machines for introduction.

The successor to the 4008 contains a number of newly developed technical components and altered or refined procedures. Externally, the modern, ergonomic design sets it apart from its predecessor, as does its large, user-friendly interface. Major advances in electronics have made performing and monitoring the complex processes involved in dialysis treatment from such interfaces safe and manageable. Because of the highly complex procedures during dialysis, the new generation of machines underwent a comprehensive review in both the laboratory and under actual dialysis conditions. By the end of 2004, the successor to the 4008 had performed 35,000 clinical dialysis treatments in selected test centers in various European countries. These series of comprehensive clinical tests allowed our developers to make precise adjustments to all operating parameters, eventually leading to the machine's internal approval of the series based on the broad set of data gathered in the clinics. Fresenius Medical Care is now intensively preparing for the market introduction of the machine.

Expanded Treatment Concepts for Chronic Kidney Failure

Despite the fact that dialysis has become an established procedure for the treatment of terminal kidney failure worldwide, this diagnosis still has a dramatic effect on the life of a dialysis patient. Today, the chances of living with the disease for a number of years with an acceptable quality of life are much better than in earlier years. However, dialysis patients still have a significantly shortened life expectancy when compared to people of the same age without kidney disease. Medical research is currently intensively focused on how this can be further improved using existing technology. One approach researchers are exploring is to alter the length and frequency of dialysis treatment. Until now, dialysis patients undergo three treatments a week of about four hours each. Now, many potential new configurations seem possible. For example, more frequent dialysis treatments, including daily treatments, allow for a reduction in treatment duration; or a patient can undergo more frequent and longer treatments, perhaps overnight. These types of procedures, however, can present significant organizational problems for typical hemodialysis centers, and are better suited to specially-designed centers or in in-home treatment of patients.

The medical results of related pilot studies – which indicate an improvement of the status of patients – are reason enough to continue this type of research and support it with the necessary equipment, despite heavy discussion about the type of patients that are appropriate for these treatments.

The Research and Development department of Fresenius Medical Care has played a part in this current trend – our hemodialysis machines have been further refined for home treatment. The machines offer simplified operating procedures and use modern technology to guide patients step-by-step through the complex sequences of dialysis treatment. In addition, machines that can operate without being monitored by qualified medical personnel – and even allow patients to sleep during treatment – require a high level of technical safety devices than can identify and prevent potential risks during treatment.

Improved Function of Dialyzers and Functional Membranes

The search for innovative dialyzer characteristics is a permanent focus of our research.

The research and development activities of Fresenius Medical Care are increasingly shaped by a fact mentioned above – that despite all the advances, the survival rate as well as the quality of life of chronic dialysis patients is desperately in need of further improvement. The increasing cost pressure taking place around this optimization further increases the complexity of this task and is a central focus in the development of the new generation of hemodialysis machines.

These particular challenges are not just limited to dialysis machines; but affect all components in the highly complex system of dialysis and the various inter-relationships to each other, although the dialyzer plays a major role.

An improved series of dialyzers, which allows a highly diffusive and convective removal of material from the blood of the patient, was a focus of research in 2004 in our Research department. In interaction with the new generation of hemodialysis machines, such dialyzers allow the optimum use of treatment options available from the machines. The use of such complementary systems also enables cost-optimized treatments of high quality and matches the current organizational conditions of local dialysis centers.

The new dialyzer series is based on the further development of production technologies for the well-known Polysulfone membrane. These technologies permit production at a level of precision not previously possible for all membrane components – which are ultimately responsible for the performance of the dialyzer – and allow the adaptation of dialyzers to its various uses. A refined production process and closely related quality control are a guarantee for the user that every one of our dialyzers will filter blood from patients according to its specifications during clinical use.

Fresenius Medical Care sees this development as a move toward dialyzers that implement specially acting membranes, which until now have seen little use. Membranes can have special functions that have specific impacts on the treatment process – either specific adsorption properties or even the targeted release of substances impregnated in the membrane.

Alternative Anticoagulants

More about Heparin can be found in "Dialysis Compact".

The at least temporary prevention of blood coagulation is a major requirement of all medical procedures that treat the blood of patients in extracorporeal circulation. In chronic hemodialysis, the systemic and extracorporeal administration of the drug Heparin is the procedure of choice for this purpose. Heparin can be used in the majority of the treatments without complication. The fact that it reduces the clotting ability of the blood within the patient's circulatory system for a certain period is also acceptable, with only minor exceptions. Among the exceptions are those patients who have recently undergone surgery or those with a bleeding ulcer. Patients who are allergic to Heparin also cannot be administered with Heparin.

The situation with intensive-care patients who are suffering from acute kidney or liver failure is especially unique because of the severity of the illness and the related complications. Limiting the anticoagulation to the extracorporeal circulation is an advantage, and is known as "regional anticoagulation". Citrate has become the anticoagulant of choice for this procedure in recent years. A solution containing citrate is introduced into the blood of the patient as it enters the extracorporeal circulation, and through complexation of the calcium ions in the blood, prevents clotting. The controlled introduction of a calcium solution at the end of the extracorporeal circulation reinstates the original clotting ability. Using the correct dosage in both solutions requires the appropriate pumping units as well as computer-aided calculations and broad practical experience about the behavior of the solutions in extracorporeal circulation. Our Research and Development department performed significant work in this field in 2004, and developed the necessary modules for our systems for the treatment of acute kidney failure and acute liver failure.

Peritoneal Dialysis

Optimizing the safety of products during use is a major factor in the success and length of peritoneal dialysis.

Peritoneal dialysis is the treatment method of choice of a significant number of new dialysis patients that meet the necessary requirements. These are predominantly related to the body weight of the patients and some residual function of the kidneys. If the necessary requirements are met, these patients can be successfully treated with peritoneal dialysis for at least a few years. This approach, which is increasingly overcoming with the traditional "either-or" approach of hemodialysis versus peritoneal dialysis, can help make a significant improvement in the quality of life of dialysis patients. Hemodialysis and peritoneal dialysis are no longer seen as opposing approaches but rather as two sides of the same coin that are appropriate at different times and in different situations.

Fresenius Medical Care has acknowledged the importance of this approach for the long-term management of end-stage renal disease patients and is using it to shape its product and development strategies. When a new dialysis patient begins the necessary kidney replacement therapy using peritoneal dialysis as the treatment, there are a number of factors that influence the length of success of this treatment alternative. Many of these factors are directly related to the products and solutions used in the treatment. Design details and the simple and safe use of lines and connectors used in transferring the peritoneal dialysis solution into the abdominal cavity reduce the risk of, for example, introducing bacteria, which could lead to peritoneal infections. Such infections of the peritoneum – which is the natural membrane used in peritoneal dialysis – can limit its effectiveness or render it not usable for future treatments. The composition of the solutions and the buffer systems are additional factors that can influence the long-term success of peritoneal dialysis treatments. Fresenius Medical Care is active in the research and development of all the areas mentioned and has a comprehensive repertoire of technological experience in production.

Liver Failure Therapies

Acute liver failure is a drastic illness with high mortality. Cases of liver failure have significantly increased in recent years. The causes include poisoning (often abuse of medications), the final stages of viral liver diseases (Hepatitis B and especially Hepatitis C) and the late effects of alcohol abuse. The sheer complexity of the liver has, until now, prevented the use of an artificial organ similar to the artificial kidney for treatment in such cases, and for long-term life-saving therapies. Research on so-called "hybrid organs", which use natural liver cells to detoxify blood in an extracorporeal reactor, has made advances but remains at an experimental stage.

We are using our dialysis expertise to successfully operate in other areas of extracorporeal therapy.

For this reason, the treatment of acute liver failure currently uses extracorporeal detoxification techniques that are based strongly on the experience and techniques of dialysis. This makes it possible in many cases to at least buy time until a liver transplant is possible; or until the affected liver can regenerate itself, if possible, as the liver is an organ with the amazing ability to heal itself. Fresenius Medical Care offers the Prometheus system for this important aspect of intensive medicine. Clinical studies of this system in 2004 showed that the method used by Fresenius Medical Care in cooperation with the Danube University Krems in Austria has a significantly higher detoxification ability than that of competing systems. The Research and Development department will continue to investigate the expansion of various procedures to increase the already admirable detoxification effectiveness for specific toxic substances.

Liver cells that continue to function in a so-called bioreactor will surely one day offer an alternative method for the treatment of liver failure. Fresenius Medical Care is intensively involved in solving the complex challenges of bioreactors, including harvesting the necessary cells as well as ensuring the operation and design of such machines.

The availability of cells is a major problem that has in no way been solved. A bioreactor for the treatment of liver failure must, according to current estimates, contain about 25 billion liver cells, known as hepatocytes. Until now, experiments with bioreactors used liver cells predominantly from human donor livers that for one reason or another could not be used for transplantation. The lack of donor organs makes it obvious that the sole usage of human liver cells is not a long-term solution. The in-vitro generation of liver cells has recently made very promising advances.

Procurement

Efficient procurement is a key for the profitability of a company. For us that means, first, to negotiate the best possible prices and conditions and, secondly, to ensure the highest quality and safety of the acquired materials and semi-finished products. We require high-quality materials to produce products for the best-possible therapies and to satisfy our own quality standards.

Our PCC is the main contact for all procurement and purchasing activities.

Our international Purchasing Consulting Center (PCC) serves a key function as the central coordination and contact point in the procurement process. This center bundles similar needs, enters global supply contracts and negotiates price and delivery conditions. In addition, the PCC organizes purchasing for our production facilities and performs extensive quality and safety checks of the purchased products. In order to react in a timely fashion to changes in the market, the PCC constantly analyzes current market and price conditions. Having close relationships with suppliers guarantees a consistently high production and delivery quality of purchased materials.

We were able to achieve savings in the purchasing of plastic granulates in 2004 by following our purchasing strategy and pooling orders from our Central European production sites. We were able to purchase these raw materials at prices lower than in 2003. Plastic granulates are important components for the production of single-use products such as dialyzers, blood line systems and continuous out-patient peritoneal dialysis. We hope for continued savings in the subsequent years and to use multi-year contracts to keep the price for granulates as stable as possible.

We also benefited from ongoing competition between suppliers of bicarbonate, which we use in peritoneal dialysis solutions and dry concentrate, as well as in semi-finished products such as canisters and empty bags. In some cases, we purchased these items at lower or identical prices as twelve months ago.

Fixing the prices for raw materials and semi-finished products in mid- and long-term delivery contracts is an important element to manage in a successful procurement policy. Contracts completed in previous years allowed us to offset a general price increase in crude oil that reached its highest level in October 2004. We did not have to cope with, at times, immense increases in this raw material. We were also able to keep the price of packaging stable through a multi-year contract.

In the U.S. last year we established a rating system that is customized to the local market and rates our suppliers according to quality, reliability and, of course, price. The rating system provides key selection criteria for the choice of suppliers and for the negotiation of price and delivery conditions.

Quality and Environmental Management

As the world's leading dialysis company, we want to offer our patients the best possible treatment and future-oriented technologies. The exhaustive quality control measures at our dialysis clinics and production facilities are an integral part of this vision. Last year, we continued to optimize our products and therapies through regular reviews and further improvements in our production and treatment processes. This included minimizing reject rates, increasing production efficiency and reducing the number of customer complaints.

Our Integrated Management System (IMS) ensures that quality standards,norms and goals are met.

To reach these goals, Fresenius Medical Care has developed a so-called Integrated Management System (IMS) that has been in use at our production facilities, as well as at a number of dialysis clinics, since 2002. The IMS uses legal and normative guidelines for our products and services and focuses closely on the established practices of the related operational workflows. The system fulfills the ISO-Norm 9001:2000 requirements for quality control systems and links it with the ISO-Norm 14001:1996 for environmental control systems. At the same time, it conforms to the medical devices requirements of ISO-Norm 13485:2003.

In 2004, our subsidiaries in Poland, Slovakia and the Czech Republic were certified for the quality control of dialysis products. Canada updated its legal standards for medical products, requiring the successful recertification of our dialyzers, bloodline systems and accessories for peritoneal dialysis.

The approval of products in existing EU markets helped accelerate certification in the new member states.

The approval of drugs, which often falls under numerous national and international regulations, is coordinated centrally. Following the enlargement of the European Union (EU), we were able to profit from the so-called Mutual Recognition Procedure. Valid throughout the EU, this directive allows for the accelerated approval of medical products – if they have already been approved by another EU member state. This led to a concerted effort in 2004 to gain approval in the ten new member states for drugs already approved in the EU countries. The successful completion of that task now allows our products to be distributed in all 25 EU countries.

The approval of two important dialysis solutions for peritoneal dialysis – multibic and bicaVera – is a good example. The dialysis solutions, with their differing ingredients, require the approval of each state's regulators. Using the procedure as described above for reciprocal recognition, we achieved the complete approval for both products in all EU states during 2003 and 2004.

Along with the certification of our business segments, we pushed ahead with certification of the IMS in specific dialysis clinics. Around 20 further clinics in Europe implemented the IMS in 2004, meaning it is now used by approximately 46% of all clinics in the region.

As previously mentioned, the IMS covers environmental as well as quality management, taking into account ISO-Norm 14001:1996. It can be used both in production and in dialysis clinics. It is also integrated into our standard business practices. For example, we set environmental protection goals for each phase of our product lifecycle – from development to disposal – and follow up to determine if these goals have been met.

By reducing our water usage during production, we have lowered our costs.

In particular, we considerably reduced our water usage at our production facilities last year. At our largest European production facility in St. Wendel, we saved over 12,000 cubic meters of water by optimizing operations of the sterilization autoclaves during bag production and by replacing a water-operated vacuum pump for filling the bags with a so-called Venturi nozzle. At our largest North American plant in Ogden, Utah, we installed a reverse osmosis system for the production of ultrapure water at the beginning of 2004. That enabled us to increase our efficiency in processing water by 25% while reducing our energy usage by a similar amount. Purified water is a key quality criterion both in the production process for dialyzers and during dialysis treatment. Due to the large amounts we require of some resources, even small changes can lead to immense savings. At our plant for dialysis machines in Schweinfurt, we have implemented an electronic document management system in certain areas, greatly reducing the amount of paper used.

Each year we pick a top environmental goal for our dialysis clinics to focus on for at least one year depending on their specific location and situation. To compare and set targets, we use our average usage at other dialysis facilities. The best options for improving environmental protection and cost savings are then decided on and implemented locally. For example, in Portugal the focus was on freshwater usage, but the dialysis clinics in Turkey and the Czech Republic concentrated in 2004 on improving waste separation. In our North American dialysis clinics, we were able to reduce freshwater usage by a third while simultaneously lowering energy cost with a new water purification system.

A further environmental protection measure we implemented in North America in 2004 was better separation of clinic waste, which led to a reduction in overall trash. Through initiating this program at 640 Fresenius Medical Care locations, we were able to recycle more than 1,700 tons of paper and cardboard packaging.

Using double-decker trucks saved us nearly 90,000 liters of diesel fuel.

We also found that there were several opportunities to save resources in our logistics operations, including the shipping of goods between production facilities. In the past we have used our trucks with double-decker cargo areas to increase the amount that could be transported at any given time. In 2004, we expanded the use of double-decker trucks on a number of routes, including the Germany-Turkey route. That enabled us to save approximately 87,000 liters of diesel fuel, which is equal to roughly 250,000 transport kilometers.

Compliance-Program

Further information about our compliance activities is available at www.fmc-ag.com

For us, compliance means adhering to defined ethical and legal guidelines as part of our business activities. Voluntarily following our compliance guidelines is an integrated component of our corporate culture. Fresenius Medical Care's Compliance Program is one of the most demanding in our industry and was first introduced to our American subsidiary at the end of the '90s. We then made it our mission to implement the program and its related codes of conduct in all of our business regions. We achieved this goal in 2004. Today our guidelines apply in every country from Argentina to Thailand and from Belgium to Australia. We also have specially trained compliance officers in every country where we have subsidiaries. Each employee has been fully informed about our code of conduct and its goals. If our employees need to contact the compliance officer, they can do so either personally, via a special telephone number or by email.

Compliance is a major indicator of the quality-related activities our company performs for our clients, patients and investors. The highest-possible quality, compliance and Corporate Governance are principles that guide Fresenius Medical Care. They are the guidelines that we use to shape and frequently realign our operational business. Our Compliance Program is one of the most admired in the Health Care industry and we will continue to rely on and expand it in the future, emphasizing the integrity of our employees and the quality of our corporate activities.

Risk Management

Fresenius Medical Care Group, with worldwide activities, is naturally exposed to a variety of risks, and the active management of the business is directly related to these challenges. Managing these risks allows us to exploit corresponding opportunities while both our technical experience and market knowledge form a solid basis to evaluate risks reliably. As a provider of often life-saving products and therapies, we are less dependent on economic cycles. At the same time, our technological experience and market knowledge provide a solid basis to discover risk as early and reliably as possible.

Fresenius Medical Care sees risk management as a means of determining, analyzing and managing new and potential developments. Our broad risk management system is an important component of company management and allows us to make changes when necessary. It enables management to identify and eliminate risks that could threaten the health or growth of the company at an early stage, quickly minimizing unfavorable impacts.

Regional monitoring systems form the backbone of the risk management system and identify all inherent branch- and market-specific risks. Status reports are presented to the Managing Board by the corresponding risk managers twice a year. In addition, the Board is immediately and directly informed of any newly identified risks. Economic conditions affecting the Group's markets are carefully monitored and analyzed. As well as assessing political, legal and economic data, particular attention is paid to evaluating country-specific risks.

Risk management is part of the management information system and is based on group-wide controlling as well as an internal monitoring system that identifies risks as early as possible. Detailed financial reports provide monthly and quarterly data as well as an analysis of earnings and assets, while highlighting deviations from budgets and forecasts.

Due to our listing on the New York Stock Exchange, we comply with the Sarbanes-Oxley Act, an American law aimed at improving corporate accounting and financial control. In keeping with the unique demands of Section 404 of the Sarbanes Oxley Act, a special project team, initiated in April 2003, is documenting and assessing our group-wide internal controls, which ensures our financial reporting complies with relevant regulations and guidelines. As with all our business processes, the risk management system is continuously updated to identify risks as early as possible and correctly react to changing market conditions. Non-U.S. companies (known as "foreign private issuers") must adopt the regulations in the Sarbanes-Oxley Act by December 31, 2006.

No unusual risks were identified that could affect our business or external environment.

As required by law, the functionality and effectiveness of the risk management system was included in the 2004 financial audit. At year-end, no specific risks affecting the Group's general business, internal organization or external environment were identified.

Risk Areas

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

Risks due to economic conditions
The economic development of corresponding markets only indirectly affects the risk situation of individual business segments. However, our international business is influenced by fluctuations in foreign currency exchange rates, leading us to carefully monitor and assess the development of the global economy as well as political, legal and financial conditions. The international strategy of the Fresenius Medical Care Group also makes it essential for us to keep a close eye on country-specific risks.

Risks related to the general economic environment
From today's point of view, the global economy presents no substantial danger to the Fresenius Medical Care Group. For 2005, we expect positive overall economic development, though at a lower level than 2004.

Risks in the health care sector
Risks related to changes in the health care market are of major importance to the Fresenius Medical Care Group. The main risks are the development of new products and therapies by competitors, the financing of health care systems and reimbursement in the health care sector.

Risks are kept to a minimum by closely monitoring the market: especially the products of our competitors and the introduction of new dialysis-related products. As part of our active risk management, Fresenius Medical Care maintains strategic business units that help anticipate and quickly react to new market conditions. Their main activity is to identify, analyze and internally communicate activities that could affect the dialysis market and the Group's business. In addition, close ties with the medical and scientific communities enable us to quickly identify and capitalize on technological innovation. This involvement also keeps us up-to-date on alternative treatment methods and enables us to evaluate and adjust our corporate strategy. Consequently, we continuously analyze trends and review improvements in research and development. The development of new and innovative products will remain a decisive factor in the dialysis market for the foreseeable future.

We carefully watch changes being made to health care systems including laws just introduced or under discussion.

Because we operate in a highly regulated environment, changes in the law, such as those relating to reimbursement, can have a major economic and strategic impact on the Group. This is especially true in the United States, where approximately 90% of our sales is generated with dialysis care, and where changes in the reimbursement system could have a significant impact on our business. In 2004, the Medicare Modernization Act took center stage here and, beginning in 2005, will re-calculate reimbursement for dialysis treatment for patients in the public Medicare/Medicaid program. Regulatory changes outside our most important market could also have a significant impact on the Group. For this reason, we not only carefully monitor regulatory planning and changes but actively work together with governmental health care agencies. More details on changes to reimbursement in the U.S. can be found in the "Global Activities" section on page 91.

Consolidation in the dialysis industry continued in 2004. In December, our American competitor DaVita announced the acquisition of the dialysis services business of Gambro in the U.S. The acquisition needs the approval of competition regulators in the U.S. Should this approval be granted, it would make DaVita the world's second-largest provider in the dialysis care sector. At the same time, DaVita and Gambro plan to complete a ten-year contract for the supply of dialysis products in North America. This so-called "Preferred Provider Contract" could result in a situation where current supply contracts between Fresenius Medical Care and DaVita run out. From our point of view, the risk related to this is small as DaVita contributes only about 1% of Fresenius Medical Care's overall sales. Further information on the situation in the industry can be found in the "Dialysis Market" section on page 32.

Operating risks

We confront potential risks in production, products and services using the following pro-active, quality-control measures:

Production. Compliance with product and manufacturing regulations is ensured by quality management systems in accordance with ISO 9001 and ISO 9002 as well as by the application of internal standards as defined by our quality and work procedure manuals. Regular audits are carried out by quality management managers at each of the Group's sites and dialysis clinics to ensure adherence to the guidelines. The audits look at all areas and aspects affecting quality, from the management and administration of clinical activities to patient satisfaction.

Reviewing and adhering to relevant local norms and standards ensures a high level of quality worldwide.

Production is organized based on the "Good Manufacturing Practice" (GMP) guideline or other nationally and internationally recognized standards. In addition, the "Quality Management and Compliance Programs" document ensures that business is performed in line with high ethical standards, and in accordance with guidelines established by regulators. These programs are monitored by well-trained internal Compliance Auditors.

Products. Substantial demands are placed on suppliers to control the risk of low-quality raw materials, consumable goods and other external products. This includes demanding external certification, performing our own inspections of suppliers and sample products and performing regular quality control checks. Fresenius Medical Care demands high-quality, safe products from certified suppliers that meet the Group's specifications and requirements, and have a proven track record. These suppliers are evaluated using a supplier assessment system and are continuously re-evaluated.

Services. Performing medical procedures on patients at our dialysis clinics presents inherent risks; operational risks, for example, include the need for hygiene and sterile conditions. We counteract these risks by using strict operating procedures, continuous personnel training and patient-oriented methods. In addition, we have linked our existing innovation and clinical management with our Integrated Management System (IMS), which is detailed on page 57ff. As a consequence, quality flaws and risks can be more quickly identified and reacted to in a timely manner.

Continuous observation of the market reduces potential risks related to supply interruptions and movements in raw material prices and currency exchange rates.

Suppliers. We keep an eye out for, and work to avoid, market-related dependencies with major suppliers. Our strategy calls for a primary and back-up source for every product and raw material we require. Where this is not possible, we minimize risk by entering into long-term contracts to ensure steady supply and exploit price advantages while avoiding price swings. Fresenius Medical Care is also exposed to general price swings in raw materials. Using continuous market analysis, we work to anticipate such price swings to counteract any potential negative impact.

The risk of late or non-payment is reduced by reviewing the credit worthiness and credit limits of our customers as well as new clients. Outstanding payments are monitored while assessing the possibility of default.

Other operative risks. Potential financial risks arising from acquisitions and capital expenditures are identified ahead of time by performing careful, in-depth reviews with the help of external and internal professionals. Potential acquisitions or divestments are also reviewed at regular intervals using internal guidelines based on various factors such as key earnings figures. The development of acquisitions is monitored using specific financial factors including Return on Invested Capital (ROIC), cash flow and key earnings figures.

Potential risks, such as those arising from the introduction of a new production site or new technologies, are countered through careful planning and continual progress reviews. In construction of new production sites we use internal milestones that are monitored constantly.

The production of dialysis products requires the use of environmental resources. An environmental management system certified under DIN-ISO 14001 standards has been introduced at many of our production sites to help protect the environment and raw materials while identifying potential cost savings. This simplifies the monitoring and reduction of raw material use while providing better cost control. Our environmental goals have been further supported by the optimization of recycling and logistics. Further information on environmental protection management at Fresenius Medical Care can be found in the "Quality and Environmental Management" section, beginning on page 57.

Comprehensive measures allow us to provide care for our patients even during natural disasters and electricity outages.

Further risk management measures limit the effect of environmental factors, especially on dialysis services. Many of our own dialysis clinics have emergency generators that allow the continuation of life-saving dialysis treatments even in the case of a complete loss of electricity. In the U.S., for example, an emergency Fresenius Medical Care team steps in during natural disasters such as hurricanes to professionally coordinate aid efforts and allow dialysis treatments for patients in the affected region.

Non-operative risks

We confront potential risks outside the operative business using the following pro-active, quality-control measures:

Research and development. Failing to achieve goals is an inherent risk in the development of new products and therapies. Comprehensive, cost-intensive pre-clinical and clinical studies are necessary before a new product can receive regulatory approval. We counteract risks from research and development projects by regularly analyzing and assessing development trends and examining the progress of research projects. We also strictly comply with legal regulations governing clinical and chemical-pharmaceutical research and development.

Personnel risks. Fresenius Medical Care has developed guidelines and codes of conduct for its employees worldwide to establish authoritative standards for our internal as well as external communication. With these guidelines and our Compliance Program, we hope to fulfill our own expectations as well as those of our partners and align our business activities with recognized standards as well as with local laws and regulations. Further details on Fresenius Medical Care's Compliance Program can be found on page 59.

Employees who are trusted with confidential or so-called insider information guarantee that they will comply with relevant guidelines, such as the new investor protection law that took effect in November of 2004, and handle the information responsibly.

Risks in employee recruiting are seen as insignificant due to risk-management measures. We preemptively counteract the risk of a shortage of qualified personnel through comprehensive recruiting and employee development programs. We work against a general shortage of trained clinical personnel using targeted marketing programs to locate qualified and motivated personnel for our clinics and ensure a high standard in our treatment quality.

IT-Risks. Information technology (IT) risks are controlled using back-ups, monitoring and tests. Group guidelines address and outline the procedures for countering organizational risks such as data loss, software failure and virus attacks. Except for the North American region, Lotus-Notes, SAP and several other networks are maintained by Fresenius Netcare, a business unit of Fresenius AG, under a comprehensive contract that specifies responsibilities, availability, data security and archiving. Fresenius Netcare has contractually committed to DIN ISO 9001 certification, ensuring quality management. A monthly review of key indicators ensures that Netcare is adhering to the agreed IT-systems service standards. The indicators include accessibility during specific periods, answer times within the system as well as the availability and problem-solving ratio of Fresenius Netcare's hotline.

In the North American and Asia-Pacific regions, availability, data security and archiving are handled by the regions' own business units. The IT systems are continually monitored for quality, functionality and adherence to service standards.

The high value placed on our computer-assisted processes is reflected in our comprehensive IT security measures.

Risks related to infrastructure as well as program- and process-related risks, that can include the misuse of data and programs, are minimized through the use of access controls, filters and scanners to name a few. Regular back-ups and external data storage counter data-loss risks. Software used by Fresenius Medical Care is validated when legally necessary. For example, the European region installed its own Corporate Software Validation Committee (CSVC) as part of its risk analysis to identify and validate critical production and logistics processes, that are supported by SAP. Global software changes that affect validated processes must always be approved by the CSVC and undergo a new review before they can be implemented.

Cost- and project-related IT risks such as poor cost control or faulty projects are minimized through the evaluation of IT projects. Internal databases and special software are used to test new IT projects to prohibit technological diversity and ensure software compatibility.

Legal Risks. Risks associated with litigation are constantly identified, assessed and communicated within our organization. Fresenius Medical Care Group is involved in various lawsuits resulting from business operations. And, although it is not possible to predict the outcome of these disputes, none are expected to have a significant adverse impact on the financial position or the results of the Group. For details, please refer to page 70ff of the Consolidated Financial Statements (Note 16).

Interest-hedging transactions help reduce the risk of fluctuating interest rates in international financial markets.

Financial risks. We actively manage foreign currency and interest rate exposures that are part of our normal business activities. The risk management is based on strategies that were defined in close cooperation with the Management Board. This includes, for example, guidelines that cover all steps and levels of the risk management process. They define responsibilities for the determination of risks, the careful use of financial instruments for hedging purposes and for accurate financial reporting. The use of derivative instruments is restricted to hedging exposures that arise in the ordinary course of our business. Transactions for the purpose of trading or speculation are not allowed. All transactions are conducted with highly rated financial institutions as approved by the Management Board.

We use interest rate hedging instruments to reduce the impact of interest rate fluctuations on floating-rate short- and long-term borrowings including accounts receivable securitization programs. Such instruments are also applied to transform fixed-rate liabilities into variable-rate liabilities in order to protect the market value of fixed-rate debt against changes in market interest rates. The aggregate nominal value of the respective hedge contracts was $1.265 billion as of December 31, 2004. The contracts expire on various dates until June 2011.

Foreign currency hedge transactions are entered into for the purpose of limiting the exchange rate exposure from sales and purchases as well as lendings and borrowings between Group companies located in different countries and reporting in different currencies. Most of the transaction exposures arise from sales of products from Group companies in Europe to other international business units. The aggregate nominal value of foreign currency hedge contracts as of December 31, 2004 was $1.34 billion, primarily for hedging euro exposure to the dollar and various other currencies.

Accounting. Our internal monitoring system ensures compliance with valid accounting standards. This system is based on automated and manual checks, a separation of functions and the use of guidelines and operational mandates. Internal audits ensure that risks directly related to financial reporting are identified and that checks are in place to manage these risks. This allows an intensive analysis of business-critical processes and keeps decision-makers informed of information derived from the system. The implementation of improvements can also be verified in subsequent reviews. Keeping abreast of changes in accounting standards as well as continual training for persons and teams responsible for the creation of financial information are an integral part of the system.

Overall risk

Our basis for the evaluation of general risk is Fresenius Medical Care's risk management system, which is subject to its own external reviews and receives scrutiny from management. The effectiveness of the risk management system is monitored and, when necessary, improved as part of the Group-wide review of the Integrated Management System using quality norms DIN ISO 9001 and DIN ISO 9002. We will continue to expand our risk management as well as the review of the related management system to more quickly identify, examine and evaluate potential risks and respond appropriately.

Potential risks include factors partly or wholly out of our control, such as the overall development of national and global economies, which we continuously analyze. Potential risks also include factors within our control, which are usually operating risks and are anticipated early so that, when necessary, we can introduce counteractive measures.

Currently, none of these risks appear to present a long-term and significant impairment to the assets, earnings and financial condition of the Fresenius Medical Care Group. We have established a structure that includes all the conditions needed to quickly identify developing risk situations.

Social Activities

Making local social contributions, both material and financial, around the world is part of our everyday activities.

As an internationally active company, we feel it is our responsibility to act locally. Companies such as Fresenius Medical Care can only be successful and fulfill their social responsibilities by acknowledging the unique attributes and cultural differences of each market. Fresenius Medical Care's belief in thinking globally but acting locally is not a theory but reality. We empower our colleagues to dedicate themselves and actively support their community. Our worldwide commitment runs the gamut including donations of money and goods for charitable organizations such as "Doctors Without Borders" and the Frankfurt foundation for children with cancer to dialysis machines for a children's hospital in Romania. We also supported facilities for socially disadvantaged children in Boston, the headquarters of our North American activities.

In addition, we combine many of our social activities with efforts to improve and maintain people's health. We continued the Huerta (gardening) project that we began in 2003 in Argentina and distributed more than 3,000 sets of seeds for vegetable plants. The advice of an agricultural specialist is also part of the program, which is vital because it helps provide the vitamins and minerals that are especially important for dialysis patients. The Fresenius Group last year also awarded research grants such as a grant for surgical intensive medicine and, for the eighth time, held the Fresenius Inventors' Conference (Erfindermesse) as part of Medica, one of the biggest medical conventions. The conference gives researchers the opportunity to present their innovations to a large audience at no cost and rewards the best ideas with the Fresenius Inventors' Award.

The tsunami disaster in December in Southeast Asia demanded swift assistance from around the world. The Fresenius Group supported the aid efforts at the beginning of the year with donations of money and goods of about $1.1 million. A major portion went to aid agencies and related efforts in various countries such as India, Indonesia, Sri Lanka and Thailand. In addition, vital medical products and services were delivered to the crisis region for the care of patients with kidney disease. Hospitals received infusion solutions and other necessary medical products at no charge. In addition, employees in many countries voluntarily collected donations from colleagues, including one initiative in India where employees agreed to donate a day's pay to regional victims.

Business since the Beginning of 2005

Economic and Business Environment

Since the beginning of 2005, there have been no fundamental changes in the economic and business environment in our area of activity. Dialysis is a medically indispensable and life-saving treatment for acute or chronic kidney failure. With the exception of a kidney transplant, no direct treatment alternative exists for dialysis therapy. This means that our company is active in a market which, unlike many other industries, is largely unaffected by economic fluctuations, and this is reflected in our stable revenue and earnings development. Our vertical integration, including a balance of dialysis products and services, coupled with a relatively continuous patient number growth worldwide, leads to this stability, even in economically difficult times. Our corporation cannot, however, completely free itself from the effects of long-term global economic downturns.

As this annual report goes to press, our expectations fundamentally match the current development of our business. No major changes in structure, administration, legal form or personnel are planned for our company that could lead to a significant impairment of our assets, earnings or financial situation.

On March 2, 2005, we announced that we would implement a new information technology (IT) system in our North American dialysis clinics. This investment will further advance our ability to provide leading clinical and financial health information solutions. In addition, we will also be making significant investments in enhancing our performance measurements, decision support, outcome analysis as well as clinical and physician-based point of care and Disease Management systems in North America. The combination of our UltraCare therapy concept with advanced IT systems will further expand our competitive advantage. This investment is part of our capital expenditure budget for 2005. Further information on investments and acquisition spending for 2005 can be found on page 71.

No additional significant events took place between the closing date of December 31, 2004 and the annual report's printing date of March 16, 2005.

Outlook 2005

Global Economy

Indicators point to global economic growth in 2005 as slightly below that of the previous year.

The global economy is expected to develop positively overall in 2005, albeit at a lower level compared to 2004. General global gross domestic product should climb 3.2% in the current year. Monetary conditions should remain positive and companies should be increasingly willing to invest. Inflation should remain at a moderate level in 2005 and a slight decrease in unemployment figures is expected.

With the end of stimulating incentives and a tightening of monetary policy, the economic expansion of the United States could slightly slow down. Europe is expected to see a slight flattening in its growth curve with a noticeable decrease in the growth of Great Britain and the new EU member countries. Production in Europe is expected to climb at nearly the same pace. Growth in Asia should be only slightly below that of 2004 as an increase in domestic demand in Japan helps offset slower growth in exports to China. Although demand for imports is only expected to increase slightly, China should once again provide noticeable support for the global economy. The growth dynamic in East Asia as well as in many raw-material-exporting developing nations, and especially in Latin America, should remain strong despite a slight slowdown. The economic drivers in these regions appear to have stabilized enough so that no downturn is expected despite an increase in oil prices and a decrease in assistance from monetary and fiscal policy.

A continued increase in oil prices and fluctuations in the currency exchange rates between the biggest economies are among the risks that could have a significant impact on the global economy in 2005. Another potential risk is an economic hard landing in China, which could set off a chain reaction in neighboring countries.

Dialysis Market

As in the previous year, we expect patient numbers to increase worldwide by between 5 and 7% in 2005 with significant regional variations. Patient growth in developing countries is expected to significantly outpace growth in more strongly saturated markets.

Worldwide, hemodialysis is the treatment of choice, accounting for nearly 90% of all dialysis therapies. We expect this treatment method to remain dominant in 2005. As in previous years, the severely limited number of donor organs alongside continually increasing patient numbers should lead to longer transplant waiting lists.

In the mid- to long-term we expect active dialysis companies to face a number of global, regional and local opportunities and challenges. In addition to the increasing privatization of the health care sector and the related growth opportunities for private companies, changes to payment systems such as the so-called Disease State Management will play a major role.

Revenue

In fiscal 2005 we currently expect an increase in constant currency revenue between 6 and 9%. Regional markets in our international business with relatively low saturation are expected to post significantly stronger revenue growth than our North American business activities.

Net Income

We are striving for an increase in net income in 2005 in the low double-digit range. Despite a sharp increase in 2004, profit growth should once again exceed revenue growth in 2005. These forecasts take into account all factors known at the time of the preparation of the financial statement that could affect the development of our business in 2005. Above all, the situation in some Asian markets as well as continued price pressure in select European countries could negatively impact the development of full-year net income. As in the previous year, in 2005 we will once again do everything within our power to attain or exceed our goals.

Dividend

Fresenius Medical Care has pursued a profit-oriented dividend policy since its founding in 1996, and since the inception of the company, it has increased the dividend eight times in a row. In 2005 we expect to be able to pay our shareholders an appropriate dividend that allows them to take part in the development of the company.

Investments

Some $350 to $400 million should be used for capital expenditures in 2005, an increase over the previous year. As in the past, the majority of this amount will be invested in the expansion of our global network of production sites and in the modernization of existing dialysis clinics. Additional funds will flow to the opening of new clinics to support the growth of our business. In North America we will invest in the introduction of an integrated treatment and billing system.

Acquisitions

Expenditures for acquisitions is expected to exceed the level of the previous year and amount to about $200 to $250 million. In addition to the further expansion of our global dialysis business, acquisitions should serve to broaden our core activities. Here we are looking at the ability to offer dialysis patients complete therapies, including drugs, or at the expansion of our activities treating blood outside the body.

Taxes

In 2005 we expect a stabilization of the tax rate. After an increase in the previous year, the tax rate for the current year should be between 39% and 40%.

Financing

An important long-term goal beyond the year 2004 was a Debt/EBITDA ratio of less than 2.5. This ratio compares the debt of our company to our Earnings Before Interest, Tax, Depreciation and Amortization. We have now met this goal: at the end of 2004, the Debt/EBITDA ratio was 2.26 after 2.76 at the end of the previous year. Despite a planned increase in spending on investments and acquisitions in 2005, we expect to continue to show a Debt/EBITDA ratio below 2.5.

Employees

At the current time we expect further growth in the number of employees in most of our business regions in 2005. Accordingly, we expect our company to employ about 48,000 people by the end of 2005. We also hope to once again train a high number of young people and exceed our own demands. This allows us to make a qualitative and quantitative contribution to the difficult training situation in Germany.

Research and Development

In 2005 we are planning on investing more than $55 million in research and development.

The research and development of new technologies, products and treatments are long-term projects. Therefore we are planning investments in this area of between $55 to $ 60 million in 2005, slightly above the figure for 2004. The emphasis in this area will continue to lie in the development of dialysis membranes as well as additional dialysis products and machines. This will improve biocompatibility, resulting in improvements in our patients' quality of life. Software development as well as extracorporeal procedures, such as therapies for liver diseases, will also play a role in our research and development activities. The number of Research and Development employees should remain largely unchanged at about 350 (Full-time equivalents).

Procurement

Decisively pooling procurement processes strengthens our negotiating position and lowers our purchasing costs.

We will continue to optimize our procurement processes in 2005 and improve the cooperation between individual Fresenius Medical Care locations as well as deepen purchasing alliances with different branches. The pooling of purchasing volumes improves our negotiating position. We expect this to lead to further mid- to long-term savings in the purchasing of high-quality goods for our company. These include injection-molding materials, plastic granulates and packaging materials. In 2005, we will also put special emphasis on strengthening a cooperation with our affiliate Fresenius Kabi AG. By joining the procurement processes for consistently high-quality materials, we hope to realize synergies, exploit economies of scale and reduce the number of suppliers.

In addition, we are striving to enter long-term contracts in 2005 with energy and communications suppliers, such as telephone companies, to simplify the long-term planning of these costs.

Quality and Environmental Management

A major indicator for successful quality management is the ability to quickly implement the demands of customers in the production process. In 2005 we will introduce an improved system to ensure the rapid flow of information between customers and the development activities of Fresenius Medical Care. We hope this will allow us to react more efficiently and exactly to the desires of our customers.

Until now, our Integrated Management System has been primarily used in our production activities. Beginning in 2005, we will integrate the IMS into 50 additional dialysis clinics. We will place special emphasis on Eastern European countries such as Hungary, the Czech Republic, Poland and Slovakia.

In 2005, we will also focus on adapting our environmental activities to the updated ISO-Norm 14001: 2004 standard. In addition we plan to certify select French dialysis clinics and our French production site according to current environmental standards.

Switching gears and gaining momentum.

Mr. Rakgosi from Lethlabile used to be a police officer. Now he runs a taxi company. He prepares the first of three daily dialysis treatments after waking up at five-thirty. Then it's breakfast time – first for his dog, then for his family. Afterwards, he drives to the post office with his wife, meets with his employees and then goes shopping. Back at home, it's time for lunch. During the afternoon he relaxes on the patio or visits with neighbors. Mr. Rakgosi draws the strength for such activities from his family. His son, Mr. Rakgosi says, is the motor of his drive and determination.

Peritoneal dialysis allows Mr. Rakgosi to organize his life from home. This eliminates the need for regular trips to the dialysis clinic. Fresenius Medical Care provides the specialized training and high-quality equipment needed.


THE PLATINUM PROVINCE
DZY 856 NW

365 DAYS OF GLOBAL CARE

Fresenius Medical Care is active around the world. More than 44,000 employees in over 100 countries continually work to improve the quality of life of more than 124,400 patients. Our commitment is evident in our global network of production sites and more than 1,610 dialysis clinics. Our activities set standards in the dialysis industry, define markets and create new growth opportunities – every day.

Content

Global Production

Fresenius Medical Care is the only vertically integrated company that offers its customers both dialysis products and dialysis services around the world. This global positioning also applies to our production – we manufacture around the world. Our network of production sites is primarily active in the euro and dollar regions where the demand for our products is particular strong.

Furthermore, with our decentralized structure we can significantly reduce transport costs. Many of our products sold in the U.S. are produced there: reducing our need for cost-intensive oversees shipping from European plants. Localizing the manufacturing base has another advantage: especially through our plants in the U.S., Japan and Europe, our exposure to fluctuations in currency exchange rates is reduced, minimizing our transaction risks.

The benefits of a global, diversified network of manufacturing sites are especially apparent in the production of dialyzers, the most important component of our product portfolio. With our plants in Ogden (Utah, U.S.), St. Wendel (Germany) and Inukai (Japan), where we operate as a joint venture with our local partner Kawasumi, we are active in the three largest dialysis markets not only as a provider of dialysis products but also as a manufacturer. In addition, we operate other dialyzer production sites in other key areas such as France. Overall we produced roughly 58 million dialyzers last year after production of 55 million units in 2003. With a total of some 140 million dialyzers produced in 2004, we accounted for more than 40% of the global production.

Increasing demand for dialyzers once again led to a historic high in production levels.

Our production growth mirrors an increase in demand. The two main reasons responsible for this increase are: First, Fresenius Medical Care uses its dialyzers to set new standards in dialysis treatment, thus wining over other dialysis providers. Second, the demand for Polysulfone dialyzers in the U.S. has grown parallel with the success of the UltraCare, which exclusively uses these dialyzers.

58 million dialyzers similar to the one shown on the cover page of this annual report represent the mastering of technically and highly precise serial production processes, which have a production output of approximately 160,000 units per day. The average dialyzer has about three kilometers of capillary fibers. These fibers form the membrane that is rinsed in dialysis solution with blood flowing through the middle. Metabolic waste products and excess water pass through this membrane. With a production of 58 million dialyzers, the length of the related capillary fibers is about 180 million kilometers, or enough to circle the globe 4,500 times – even the distance to the sun is significantly shorter. Alternatively, the produced surface of fibers would be long enough to circle a smaller, average dialyzer around the equator or build a 22-meter wide highway from New York to San Francisco.

Our dialyzers span the globe: laid end to end, annual fiber production would wrap around the earth 4,500 times.

At the same time, the capillary membranes are medical high tech: they are hollow and the walls are perforated with tiny pores. These pores have a diameter of just three nanometers and the walls are 40 micrometers thick. One nanometer is one-millionth of a millimeter; a micrometer is one-thousandth of a millimeter. These comparisons and sizes indicate the massive amount of chemical and technical know-how that is manufactured into each dialysis membrane.

Dialyzers with a Polysulfone membrane have become the global "Golden Standard" in dialysis treatment. This success is also reflected in numbers: in 1990 we produced about 2.5 million dialyzers. Ten years later we manufactured more than 30 million. In 2004, we achieved the new company record.

Machines for hemodialysis are primarily produced at two sites – in Schweinfurt (Germany) and in California's Walnut Creek. While Germany handles both parts and machine production, our American operation does primarily machine production. Schweinfurt can look back on a successful 2004. In our anniversary year – we have manufactured dialysis machines here for twenty-five years – we were able to increase production of dialysis machines for regions outside North America by nearly 20%. This proves that we continue to experience strong demand for our machines. More than 40% of all dialysis machines produced world-wide in 2004 were manufactured by Fresenius Medical Care, and we produced more than twice as many as our nearest competitor. We also enjoy consistently strong demand for our machines in the U.S. market. The numbers confirm that our customers value quality and service more than ever.

Recent successes in peritoneal dialysis have sparked an expansion in production capacity.

The increasing demand for Fresenius Medical Care's peritoneal dialysis products resulted in the expansion of production capacity for products of this treatment type. In 2004, the expansions included the construction of a new dialysis solution production line in St. Wendel that increased the manufacturing capacity for dialysis solutions, such as balance, by 25%.

In addition to dialyzers, dialysis machines and dialysis solutions, our product portfolio includes a broad selection of other dialysis-related items. Among these are systems for peritoneal dialysis, bloodlines and water preparation systems that are produced in our plants in North America, Europe, Latin America, Asia and Australia. Another important Mexican production site is in Reynosa. In 2004 we expanded our position as a vertically integrated company and began supplying the entire North American region with blood line systems from this factory without having to rely on cost-intensive suppliers, as in the past.

Increased Activities in Peritoneal Dialysis

Fresenius Medical Care is the world's largest provider of dialysis services and dialysis products. Our goal is to secure and further expand our market-leading positions. In addition to our research to further optimize treatment quality, we continuously analyze markets, trends and competitors. As the world's leading operator of dialysis clinics and manufacturer of dialyzers, dialysis machines and other equipment, we already have a strong market share in many countries in hemodialysis. A tremendous growth potential still exists in peritoneal dialysis, where we are already No. 2 after Baxter, but have until now held a weaker position than in hemodialysis.

A new record for Fresenius Medical Care: more than 30,000 peritoneal dialysis patients receive our products.

For this reason we began strengthening our peritoneal dialysis activities in 2002. Our mid-term goal was to outpace market growth while our long-term goal was to secure a global market share of more than 20%. At the end of 2003, we had a global market share in peritoneal dialysis of 18%. Just twelve months later our market share reached the targeted 20%. At the end of 2004, Fresenius Medical Care had supplied more than 30,000 patients worldwide with products for peritoneal dialysis – a new record for our company. This is the result of more than 50 global and regional projects that we completed last year. Colleagues from more than 70 countries contributed to the realization of our goals.

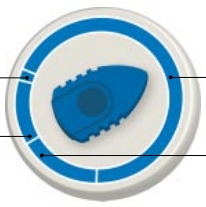
Our products for peritoneal dialysis played a key role in this success. stay·safe and balance were two excellent dialysis products that showed growing demand in 2004. By expanding related capacity in various countries, we were able to meet an increasing demand for our products. PatientOnline also had a part in the positive growth. Used in combination with our peritoneal dialysis systems, this software package simplifies the calculation of dialysis dose and gives doctors, nurses and, last but not least, patients the opportunity to improve treatment quality long-term and, thus increasing the quality of life.

Training programs designed specifically for peritoneal dialysis also received considerable attention last year. We developed a "Guide for Peritoneal Dialysis" to give new patients answers to their questions on types of treatment, vacation and travel services and training programs as well as nutritional tips and information about ordering and delivering products. The guide was published in 20 different languages and allows us to accompany our peritoneal patients down the successful and relatively complication-free path to dialysis treatment.

The success of recent years is our motivation to further increase our market share in peritoneal dialysis. We will further intensify our activities to boost our market share in home dialysis to more than 20%. Home dialysis includes peritoneal dialysis as well as home hemodialysis that currently play only a minor role in comparison to clinic-based hemodialysis. From our point of view, this treatment alternative has long-term potential for our business.

Fresenius Medical Care
Dialysis Patients by Region 2004

Total: 124,400



Asia-Pacific **2%**

Latin America **13%**

North America **69%**

Europe/Middle East/Africa **16%**

North America

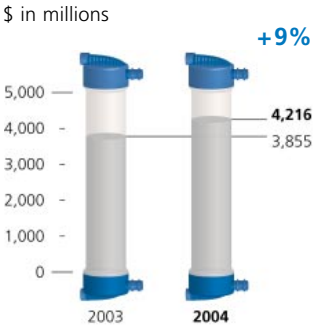
Remarkable revenue growth of 9% in our key market, the U.S.

North America is by far the most important market for Fresenius Medical Care. Last year we had revenue there of $4.22 billion, or about 68% of our total revenue, and an increase of 9% over 2003. We were able to slightly increase the operating margin from 13.8% to 14.0%. For further information on our revenue and earnings development, please refer to the "Fiscal Year 2004" section on page 39.

Dialysis Care

Revenue
North America

$ in millions



Dialysis care continues to be the major part of our activities in the U.S. and achieved revenue last year of $3.80 billion, an increase of 11% over 2003. With our strong organic growth of 7% we were able to outpace the growth of the market. Two additional dialysis days in the first quarter of 2004, the consolidation according to FIN 46R and acquisitions contributed 4% to the growth. The number of patients we treated also grew in 2004 by around 4% over a year earlier to 85,500 patients. Fresenius Medical Care operated 1,130 dialysis centers, or 2% more clinics last year than the previous twelve months.

Fresenius Medical Care is one of the leading providers of dialysis care in North America with a market share in the region of about 27% at the end of 2004. Our strategic decision to introduce our UltraCare Program to the U.S. proved to be the right choice.

The consolidation process of the dialysis industry continued further in 2004. DaVita announced it would acquire the American dialysis care business of Gambro. This move would push DaVita slightly ahead of Fresenius Medical Care as the largest provider of dialysis care in the North American market with around 96,000 patients. Fresenius Medical Care, however, easily remains No. 1 in the world market. Further information on the dialysis market can be found on page 32.

Our dialysis care activities were focused on our UltraCare treatment concept in 2004. UltraCare is based on single-use dialyzers and was introduced in the U.S. in 2002, dramatically changing the American dialysis market. UltraCare links our innovative technologies with our exemplary service for our patients with the goal of achieving high-quality clinical results and improving the quality of life. At the same time, we strive to strengthen and expand our market leadership.

To fulfill these objectives, we fully trained the personnel in our clinics. As intended, all employees in our North American dialysis clinics completed the UltraCare training program. By the end of the year, all 1,130 Fresenius Medical Care dialysis clinics in the U.S. had received a so-called UltraCare Certificate. This internal stamp of approval ensures a consistently high treatment quality, which makes a significant contribution to the quality of life of our patients.

With a marketing campaign we aim to strengthen the communication of our unique selling proposition.

In addition to the certification of our dialysis clinics, we launched a broad marketing campaign at the end of the year under the slogan "UltraCare. Experience Excellence" in order to further increase awareness of the UltraCare program. This campaign was aimed at those in direct contact with dialysis, including doctors, nurses and patients, as well as our partners in the dialysis industry. The message of the marketing offensive was clear: UltraCare and its comprehensive dialysis care are unique to Fresenius Medical Care and the combination of technologies and care personnel trained to use those technologies are only available through Fresenius Medical Care. This is what sets us apart. Fresenius Medical Care is the care provider of choice for dialysis patients. The marketing campaign will also be a key component of our activities in North America in 2005.

A key task for us in 2004 was to proove that the replacement of re-use dialyzers with single-use dialyzers was a step forward in the medical treatment of our patients. We had a broad base of data, which we could rely on and extensively analyze.

Our groundbreaking treatment concept, UltraCare, significantly increased the interest of patients.

A long-term analysis by a team of Fresenius Medical Care AG scientists, led by Dr. Edmund G. Lowrie, concluded that the abandonment of the re-use dialyzers might lead to a decrease in treatment risks for patients in the mid- to long-term. This is one sign of a lower mortality rate among patients receiving care under the UltraCare treatment concept. We were very pleased by the results that have already led to an increase in demand for treatment in our dialysis clinics. Last year we saw an increase in the number of dialysis patients interested in treatment in our dialysis clinics. The in-center hemodialysis treatment growth was 3.8% in 2004, significantly higher than the number of clinics opened for the year, and thus further improving our capacity utilization. A peer reviewed article, meaning evaluated by independent external specialists, was also published in the renowned "Nephrology Dialysis Transplantation" publication in November 2004, giving the public access to the results.

The use of high technology in dialysis care requires qualified personnel and patients. The UltraCare certification training in our dialysis clinics is a key component for the

www.kidneyoptions.com and www.pdserve.com have aroused increased user interest.

continued improvement of our dialysis care using the doctors and nurses in our clinics. Fresenius Medical Care also shares its knowledge and expertise with patients. Self-sufficient patients who actively cooperate play a significant role in the treatment success and, therefore, their quality of life. We further refined our patient training programs KidneyOptions and PDServe last year, and offer comprehensive dialysis information for patients on Web sites such as www.kidneyoptions.com or www.pdserve.com. Here patients and other interested individuals can find important information on various treatment alternatives including hemodialysis and peritoneal dialysis, nutrition tips and dialysis news. The continuous climb in user numbers is a noteworthy indication of the amount of demand for enjoyable and informative material. In 2004 we enjoyed about 2 million page hits on these Web sites.

In addition to patients, doctors and medical personnel, our communications efforts are also aimed at people who are facing a gradual decrease in kidney function. We offer an early look at subjects such as treatment concepts and nutrition, as well as additional information on illness and health related topics for patients and their families.

North America

	2004	2003
Market Data[1]		
Total number of patients	~340,000	
Patient growth	~4%	
Company Data		
Number of patients (year-end)	85,500	82,400
Number of clinics (year-end)	1,130	1,110
Number of treatments (in millions)	12.91	12.37

[1] Company estimates

The need for information is especially strong for those patients who are not yet undergoing regular dialysis treatment. They also deserve the attention of Fresenius Medical Care since they should be referred as early as possible by general practitioners to specialists. This can largely prevent hospital stays in the early stages, and reduce psychological and familiar stress as well as costs.

We increased our efforts in home hemodialysis and expanded our product portfolio.

In addition to clinic-based dialysis treatment, where patients regularly visit a clinic and sit through hours of dialysis treatment, there is another alternative available – so-called home dialysis. If patients meet certain criteria, they can undergo dialysis treatment in a familiar environment regardless of the dialysis clinic's opening hours. Although peritoneal dialysis is a good treatment option for home dialysis, we have recently witnessed a growing interest in home hemodialysis for some time. Hemodialysis at home, however, is only possible for a small – usually younger – segment of patients, since the demands on the patient are very high. Most older patients already have additional illnesses that could complicate home treatment. Our average hemodialysis patient is 61 years old. Plus, there must be enough space available for the treatment. Last year we put more emphasis on home hemodialysis and now offer our support for this treatment alternative across the U.S.

With the acquisition of three dialysis clinics in Tennessee we further strengthened our market position.

One of the biggest acquisitions last year was the purchase of three dialysis clinics in Memphis and elsewhere in Tennessee. The acquisition of these facilities added about 280 new patients for dialysis treatment through Fresenius Medical Care in this important region.

Offering our patients the best possible treatment quality is a demand we will once again place on ourselves in 2005. And although we continually orient ourselves using recognized quality guidelines for the dialysis industry, we endeavor to do even better. This includes, for example, the hemoglobin level. Hemoglobin is primarily used to transport oxygen from the lungs to tissues in the body. Our goal is to have more than 80% of our patients reach a hemoglobin count of at least 11 grams per deciliter of blood. The average healthy person has a slightly higher hemoglobin count. In the fourth quarter of 2004, 82% of our patients already had a hemoglobin count in the target range. Additional indicators used to evaluate treatment quality include phosphate levels and the so-called Kt/V-value, which measures the filtering ability of a dialysis treatment by comparing specific toxic molecules to each other.

Broad investments in our IT systems keep us up to date.

Information technology (IT) systems also play an increasingly key role in the health care industry. They help capture treatment data, and aid in the analysis of treatment quality. At the start of 2005, we will begin a process that will last several years to place a renewed emphasis on the modernization of our existing IT systems. The central goal is a paperless company where manual work is replaced by electronic processes. The new IT systems will make a significant contribution to an even lower error rate, quicken the adaptation of new billing models to our existing work flows and, above all, data analysis according to the newest standards that further refines individual dialysis treatments and has a direct affect on our patients' quality of life.

At the operational level, we expect an organic growth rate in our dialysis care business of about 4% in 2005, hoping once again to outpace the market growth.

Dialysis Products

Dialysis products also developed positively in 2004. Dialysis product revenue, including internal sales, rose last year to $793 million, an increase of 1%.

Our products business segment in North America has further evolved. Operationally, it is managed as the Products and Hospital Group (PHG), which includes all hemodialysis and peritoneal dialysis products, hospital services such as Extracorporeal Therapies, US Vascular, our Laboratory Services business and Hemocare. Fresenius Medical Care was able to maintain and partially expand its leading position in the most important hemodialysis products, such as dialysis machines, dialyzers and other single-use medical products. We now have a market share in these products of more than 70% in the net available external market. (See also pages 14 in the financial report)

A 70% market share in dialysis machines is a clear indication of our market and innovation leadership in North America.

The 2008K dialysis machine from Fresenius Medical Care continues to be the dominant system: about 70% of all dialysis machines sold in the U.S. in 2004 were from this series and therefore manufactured by us. 2004 was a record year for us when it comes to dialysis machines. In total we produced nearly 10,000 dialysis machines for the U.S. and North American market. We can also look back on the successful development of the DiaSafe Plus Filter and the Online Clearance System, which is used to safeguard the access to blood vessels, as well as the Twister. The DiaSafe Plus Filter is used to produce ultrapure dialysis solution during hemodialysis, and minimizes the risk of infection during dialysis for patients. Twister is a simple, time-saving device used to monitor blood flow during treatment.

Last year we continued to see an ongoing move toward Optiflux dialyzers from Fresenius Medical Care. To follow this trend, we increased production in the U.S., and now Optiflux dialyzers account for more than 85% of our dialyzer production. In 2004, more than 25 million dialyzers have been produced in our Ogden, Utah facility, nearly half of our total dialyzer production worldwide. Demand for these dialyzers is not only increasing in Fresenius Medical Care clinics but also in clinics from other dialysis providers. At the end of 2004 about half of all hemodialysis patients in the U.S. had received treatment with single-use dialyzers from Fresenius Medical Care. Our own clinics are already converted to 100% to single-use dialyzers. We continuously work on the biocompatibility of this successful generation of dialyzers to further increase treatment tolerance. We are now investigating a new method for the sterilization of dialyzers in the production process that we also hope to use for other products.

As mentioned in the “Dialysis Care” section, Fresenius Medical Care placed extra emphasis on home dialysis last year. This included the expansion of our product portfolio for peritoneal dialysis, which is the dominant treatment option for patients who prefer dialysis treatment at home. We have been very successful here: our increased activity expanded our market share in peritoneal dialysis in North America including Canada to about 27%. This is an increase over our 2003 market share in this segment of 26%.

The successful launch of stay·safe played a significant role. stay·safe is a biocompatible and especially user-friendly peritoneal dialysis system developed specifically for the U.S. market. Its specially designed PIN and DISC technologies, which are further explained on the bookmark, have significantly simplified the previously complex process of bloodline connection. Another decisive factor for our success was our KidneyOptions patient training initiative that assists patients with their choice of treatment options.

Product innovations for peritoneal dialysis find market acceptance.

After its introduction in 2003, another program, the Advanced Renal Education Program, also established itself last year. The Advanced Renal Education Program fills specialists' needs for information, and highlights our especially successful peritoneal dialysis treatments and supports clinical development. This program now serves as a central platform for dialysis experts at Fresenius Medical Care. After an introductory phase focusing on peritoneal dialysis, we aim to expand this platform to include the most important information about hemodialysis in 2005.

700 Canadian patients now receive dialysis products from Fresenius Medical Care.

We were also able to secure an important contract in the Canadian province of British Columbia covering hemodialysis products. There we will supply dialyzers, bloodlines and dialysis concentrates for the home and clinic-based dialysis for about 700 patients in the region. The delivery contract began January 1, 2005, and will initially run for two years with an option for an additional two years. This supply contract represents a large step forward in this important market.

Until recently, the market for home hemodialysis products was relatively small but it has reacted extraordinarily well to the 2008K@Home hemodialysis system that was developed specifically for this market. This system links the various components necessary for home hemodialysis: the 2008K@Home dialysis machine incorporates a simplified control panel and an Internet-based iCare monitoring system for nocturnal dialysis treatment. With iCare, a central monitoring station from Fresenius Medical Care compares prescribed data with actual information and contacts the patient with stored emergency information if variations are detected. A modern water preparation system is also integral to the system, which makes it much simpler for patients to prepare the quality of water necessary for home hemodialysis.

Internet-assisted home dialysis offers our patients high treatment safety.

To expand our market leadership in home hemodialysis, we introduced a comprehensive treatment concept in the U.S. last year, Fresenius WellCome. This concept goes far beyond providing high-quality products for dialysis treatment within a patient's own environs. Just like our UltraCare program, it combines products and services for the holistic care of this special group of dialysis patients. Fresenius WellCome links the technological advantages of Fresenius Medical Care products with a network of services that are tailored for home hemodialysis. Among these services is the previously mentioned iCare Monitoring System.

In addition to these dialysis-related products, we are also active in a neighboring business sector: extracorporeal blood treatment using therapeutic apheresis. This technology filters illness-causing substances and plasma out of a patient's blood. With

Prosorba, we now have regulatory approval for our first product in the North American market. Prosorba is used to treat patients with rheumatoid arthritis, an immune system reaction that causes inflamed joints. Currently, about 2.5 million Americans suffer from rheumatoid arthritis and are often treated with medicinal therapies that cause side effects and are not tolerated as well as Prosorba. Last year we began our first pilot study to empirically confirm the treatment advantages of Prosorba. The initial results were promising, and have encouraged us to expand the study in 2005.

Disease State Management (DSM)

For several years, Fresenius Medical Care has been an active partner in so-called Disease State Management, and developing innovative treatment models that link continued improvement in treatment quality with the demands of the health care market. This can be seen in the continuous cost pressure confronting the patients, public and private health insurers and dialysis care providers in the long term.

Fresenius Medical Care identified this trend early and offers Disease State Management via two partners, Optimal Renal Care and Renaissance Health Care. This effective, comprehensive treatment concept goes far beyond "simple" dialysis care, and is designed to lower costs and relieve public welfare systems. In case of dialysis, related services such as laboratory services such as blood tests and medical nutrition consultations for patients and family members as well as the surgically implanted vascular access on the lower arm for hemodialysis patients are closely linked.

In DSM reimbursement models, companies no longer bill for each individual service performed. Instead, they are reimbursed at an agreed-upon flat rate for each patient and their entire treatment. Dialysis companies receive this sum and are subsequently responsible for all costs related to the patient's illness – including cost-intensive hospital stays. These types of payment systems necessitate effective cost management, including hospital costs, and the shortening of hospital stays. We believe that this can be achieved in the long term through an improvement in treatment quality.

DSM equally benefits all those involved: the quality of life of dialysis patients can be lastingly improved, the reduction in costs relieves overburdened social systems and insurers, and dialysis companies win the structural freedom to more freely exploit cost savings opportunities without affecting the quality of their treatment.

Fresenius Medical Care operates programs for successful Disease State Management in co-operation with Optimal Renal Care and Renaissance Health Care. Nearly 4,000 patients had received care via these two partners by the end of 2004.

Optimal Renal Care is a joint venture with the Kaiser Permanente Medical Group in Southern California. Renaissance Health Care is the cooperation between Fresenius Medical Care and leading nephrologists in North America.

The certification of our DSM programs in 2003 through the National Committee of Quality Assurance (NCQA) was an important prelude to the further expansion of our DSM activities in North America last year. With the complete certification or our DSM programs, Renaissance Health Care and Optimal Renal Care can now adapt their programs for additional private insurers to further expand our leading position in the U.S. market.

Optimal Renal Care and Renaissance Health Care represent our effective Disease State Management initiatives.

Optimal Renal Care was able to increase the number of patients under its care in 2004, and began cooperating with the "Partnership HealthPlan of California" (PHC). PHC is a non-profit health care system with more than 85,000 members, including dialysis patients. Optimal Renal Care is active in 33 states, and through nation-wide or regional contracts with private health insurers, cares for nearly 2,000 patients.

Renaissance Health Care was also able to utilize its exceptional position as one of the leading provider of DSM services and won, for example, two new DSM contracts in New Hampshire and Ohio. Renaissance Health Care has now become active in nearly every state in the U.S. As of the end of 2004, Renaissance Health Care treated some 2,200 patients with chronic kidney failure that required regular dialysis treatment. In addition, about 800 patients who do not yet require dialysis treatment have signed on to the program. Referring patients from this group to a nephrologist at an early stage is vital: hospital stays can be largely avoided in the beginning and costs and personal stress for the patient can be kept to a minimum. Early care of patients before regular dialysis treatments will also be a key focus of our DSM programs in 2005.

As a vertically integrated provider of dialysis care and dialysis products, we feel we are well positioned overall to profit from the future development of the Disease State Management programs.

Renal Research Institute

The RRI is a recognized center for the research and development of new dialysis therapies and technologies.

The Renal Research Institute (RRI) is a recognized center in the U.S. for the research of dialysis-related topics. The institute was founded together with the Beth Israel Medical Center and combines academic research with product development for the dialysis industry, as well as experience from everyday dialysis activities to develop innovative treatments and technologies for dialysis. New developments discovered by RRI are examined for their practicality and necessity. With a wide variety of publications and research topics, such as the study to the outcome of abandonement of re-use-dialyzers described on page 82, the RRI has significant influence on the further development of dialysis technologies.

As reported last year, the RRI was contracted by the National Institute of Diabetes and Digestive and Kidney Disease (NIDDK) to investigate how medically advantageous daily hemodialysis treatments can be for patients with chronic kidney failure. A random study was launched last year with 150 patients who will undergo dialysis treatment six days a week rather than every second day. Random in this case means that patients were chosen by chance. The results will be evaluated based on various factors such as the size of the heart and other physical values as well as the patients' impressions of their quality of life.

In addition, the RRI maintains a close research relationship with the universities of North Carolina, Michigan and Rochester. The focus of these co-operations is the examination of patients with chronic kidney failure who have not yet received dialysis treatment. The broad analysis yields important information on the connection between high blood pressure and kidney disease as well as their effects on the cardiovascular system. Additional research projects co-financed by the RRI deal with, among other things, the interaction of drugs with each other, the genetic predisposition for certain illnesses and vascular access for dialysis patients.

Laboratory Services

Nephrologists use laboratory tests to decide the appropriate dialysis therapy for every patient. These test results make a significant contribution to the treatment quality and quality of life of our patients. Our Spectra Renal Management subsidiary provides these laboratory services for about 125,000 dialysis patients and is the largest clinical laboratory for dialysis-related services in North America. Spectra Renal Management also conducts additional laboratory tests for more than 38,000 patients from non-Fresenius Medical Care clinics, making it the provider of choice for independent clinics. Having performed more nearly 41 million laboratory tests, our Spectra Renal Management unit has a market share of approximately 40%.

Spectra Renal Management focused on two themes last year – improving customer satisfaction as well as verifying the high quality of the laboratory services performed.

Our laboratory test facilities are considered as first class by our own as well as external clinics.

With the implementation of new software, we are now better than ever equipped to meet the individual wishes and demands of our clients. We can now continuously follow the status of an order and immediately relay test results electronically. This time savings allows treating doctors to make more timely diagnoses and treatment decisions. In addition, the College of American Pathologies has evaluated our testing procedures as has the Joint Commission on Accreditation of Healthcare Organizations. Both organizations were given unrestricted access to our procedures for testing in our laboratories, which we consider a sign of the high quality of our laboratory services.

Extracorporeal Therapies

In addition to dialysis services in the U.S. market, we also offer so-called extracorporeal therapies. These are procedures where, like in dialysis, blood is treated outside the body and then reintroduced. In addition to cardiovascular perfusion, we also offer therapeutic apheresis, as already mentioned. We rely on our experience in dialysis to expand our product portfolio beyond our core business.

We count among the largest providers of cardiovascular perfusion. In this minimally invasive procedure, constricted blood vessels are expanded with the help of a balloon catheter, improving blood flow in the heart. Last year we used our expertise to support partner heart clinics that are facing increasing cost pressures along with new technological challenges. Chief among the latest advances is robot-supported surgery and the use of medicine that promotes a targeted growth of catheters without surgery. We also concentrated on intensive-care facilities where we can jointly offer acute dialysis and related treatments.

Our years of dialysis experience allows us to expand beyond our core business.

Fresenius Medical Care's cardiovascular services are used by about 15% of all U.S. heart clinics. About 300 additional clinics use our therapeutic apheresis therapy and similar services. Fresenius Medical Care's diverse experience in the extracorporeal field allows hospitals to quickly and cost-effectively implement the latest technologies.

As of the end of 2004, we were partners with 17 of the hospitals listed in the annual Solucient List of the Top 100 heart centers in the U.S. Solucient maintains the biggest medical database in the U.S., and is a major information source on more than 3,000 hospitals and most of the pharmaceutical manufacturers in the U.S. In addition, we were able to add VHA, Inc., one of the largest non-profit hospital alliances in the U.S., to our customer list.

Medicare Reform

One important topic in the United States in 2003 was the reform of Medicare, the public health insurance system for the elderly as well as of Medicaid, which provides medical assistance for those with low income (and without private insurance). In December of 2003 President Bush signed the Medicare Modernization Act 2003 (MMA) that provides for more coverage for more patients. Total cost of the comprehensive reform package is estimated at $400 billion and will have different effects on healthcare companies.

With this enactment the Center for Medicare and Medicaid Services (CMS) was charged with implementing the MMA reforms from an administrative point of view. To that extent CMS had several public forums in 2004 where CMS communicated proposed and eventually the final rule under Section 623 of the MMA for dialysis reimbursement. Below is a description of the summary of the changes impacting dialysis providers:

Active monitoring of legal initiatives and prospective laws allows us to create room to maneuver in the future.

Section 623 of the MMA includes major provisions, which affect the development of revised end-stage renal disease composite payment rates effective for services furnished on or after January 1, 2005:

– The statute mandates that the current composite payment rates be increased by 1.6 percent for dialysis treatments furnished on or after January 1, 2005.

– At the same time, a new reimbursement system was developed for separately billable dialysis drugs. The new regulation was based on the difference between the average actual cost of these drugs and the reimbursement rate for the dialysis medications. The new regulations reduced the discrepancy between the actual cost and the reimbursement rate. To keep the transition to the new guidelines for the dialysis provider as cost-neutral as possible, the new rate was simply added on top of the reimbursement for dialysis treatment.

– In addition, and in accordance with the MMA, the Secretary shall establish a basic case-mix adjusted prospective payment system for dialysis services furnished by providers of services and renal dialysis facilities in a year to individuals in a facility and to individuals at home. The case-mix under the system would be for a limited number of patient characteristics (e.g. age, Body Mass Index or diabetes). The use of a case-mix measure permits targeting of greater payments to facilities that treat more costly resource-intensive patients. The current composite payment rates will be adjusted for individual patient characteristics and budget neutrality for services furnished on or after April 1, 2005.

Since about two-thirds of our dialysis care revenues in the United States come from patients covered under the public insurance programs, Medicare and Medicaid, we see the 1.6% increase as a positive step for 2005.

These reimbursement changes support the efficient use of medication for dialysis patients. Fresenius Medical Care's modern dialysis machines with their technologically superior modules are already designed to do exactly that – deliver optimal patient therapy with a constant treatment quality. Further information on the MMA can be found on page 6 in the financial part.

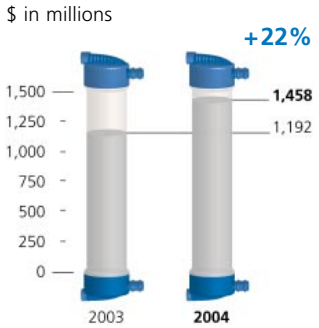
Europe

Fresenius Medical Care achieved overall positive growth in Europe in 2004 and was able to expand faster than the market in many countries. At the end of last year, we were treating for the first time more than 20,000 patients in Europe, making us the largest provider of dialysis products and dialysis care in the region.

With a revenue increase of 22% we can look back on a very successful year in Europe.

Revenue
Europe / Middle East / Africa

$ in millions



The success of our business is reflected in our revenue growth. In 2004 we achieved an increase of 22% to $1.46 billion. Because Fresenius Medical Care maintains its finances in dollars, the effects of currency exchange rates must be taken into account. Revenue growth was 11% in constant currencies. Dialysis care grew slightly faster with $477 million in revenue last year or 30% more than in 2003. In constant currency, revenue grew 18%. At the end of 2004 we treated about 20,250 patients in 285 dialysis centers, 8% more than in the previous twelve-month period. Dialysis product revenue achieved a growth rate of 19% to $981 million, a constant-currency increase of 8%.

Compared with North America, Europe is a more diverse market. We are active in more than 35 individual markets that differ widely in payment structures and access requirements. As an example, some countries – including Germany – currently prohibit private companies from operating dialysis clinics while Eastern Europe, on the other hand, has strong privatization tendencies that create additional growth opportunities for Fresenius Medical Care. Additional information on the development of the dialysis market can be found on page 32.

Europe / Middle East / Africa

	2004	2003
Market Data[1]		
Number of patients	~420,000	
Patient growth	~6%	
Company Data		
Number of patients (year-end)	20,250	18,700
Number of clinics (year-end)	285	260
Number of treatments (in millions)	3.07	2.75

[1] Company estimates

Because of these developments, we are primarily active in the dialysis products business in Central Europe. Although the price pressure of previous years continued in 2004, we were able to further expand our market share. Among the drivers for this growth was a contract to supply dialyzers, including FX-class dialyzers, to one of our biggest customers in Germany. The supply contract allows us to further expand our market share in Germany and calls for an annual volume in the single-digit (millions) range. Fresenius Medical Care will now supply more than half of all dialyzers used in Germany.

We also made clear advances in our acute dialysis business. The systems we designed specifically for the treatment of acute kidney failure have been met with strong acceptance in Central Europe and the Genius System in particular is enjoying increasing demand.

We mentioned last year that in the peritoneal dialysis products business we were placing a lot of hope in PatientOnLine (POL). In combination with our peritoneal dialysis systems, POL allows for an especially simple and safe calculation of individual dialysis doses. It assists doctors and nurses while creating another opportunity to increase the quality of treatment, and therefore the quality of life for our patients. This system further improves our position in peritoneal dialysis, and is also supported in the market by the already-established peritoneal dialysis solutions, bicaVera and balance. The good tolerance of these solutions in peritoneal dialysis was proven in 2003 by an open, controlled and randomized study. The results of this study were met with great interest from our customers, and resulted in an increase in sales in Central Europe.

Our increased commitment to new business areas, such as liver therapies, strongly appeals to the market.

In the longer term, we aim to expand into two new areas – therapeutic apheresis and liver therapy – using products and services similar to those used in dialysis. In 2004 we were already able to achieve some small successes. We introduced our liver-support system, Prometheus, in nearly all Central European countries and documented its excellent detoxifying performance through a clinical study. The clinical study will be followed by an Europe-wide, multi-center study proving its effectiveness. We are also finding strong market interest for the treatment of rheumatoid arthritis with therapeutic apheresis, an area we will focus more strongly on in the future.

In Western and Southwestern Europe, Fresenius Medical Care is active in both dialysis products as well as dialysis care. We were able to further expand our market share in dialysis products in some regions and increased the number of patients we treated. In Portugal, as of year-end, about 3,700 patients – an increase of 8% – had received dialysis care from Fresenius Medical Care. In France (1,350 patients / +30%) we also treated significantly more patients with chronic kidney failure than in the previous twelve-month period. The acquisition of one dialysis center in Lagny, in Northeastern France, alone brought us 230 new dialysis patients. In Spain, one of Fresenius Medical Care's fastest growing markets in recent years, we continued as the clear market leader in dialysis care with a market share of 22%. Still, we were not able to completely offset the loss of tender for the treatment of dialysis patients.

Spain is one of the countries in which we hold a high market share in our most important product, the dialyzer. In 2004 we reached a market share of over 40% there. In Western and Southwestern Europe, just like in Central Europe, we were able to grow particular well in our acute and peritoneal dialysis businesses. In France, the number of patients using peritoneal dialysis products from Fresenius Medical Care rose more than 10% to nearly 600 patients. By combining the high quality of our products, a consistently high treatment quality, as well as training programs customized to each market for doctors, patients and care personnel, we hope to continue to grow in the future and secure our market shares.

We continued to grow in Great Britain.

Positive developments continued to unfold in Great Britain in 2004, with the number of patients treated by Fresenius Medical Care rising by nearly 20% to around 1,850. We see further growth opportunities here for dialysis care in the near future, which will result in a tangible increase in patient numbers. Approximately 50% of all hemodialysis patients now receive their products from us, and we are the most important supply partner of the British health care system, the National Health Service. We expect additional growth – as in nearly all of Europe – from our products for acute dialysis that we introduced in the U.K. in 2004.

An early presence in the new EU member countries offers us new growth opportunities.

In 2004, the highest growth rates in Europe were achieved in the Eastern and Southeastern Europe. The ongoing trend toward the privatization of health services in these countries created above-average growth opportunities for private companies such as Fresenius Medical Care. We are already exploiting these opportunities and will seize upon similar chances in the future to expand our business.

Hungary was one of Fresenius Medical Care's first Eastern European markets and the construction of our first dialysis clinic there began in 1994. At the end of 2004 we operated 22 dialysis clinics, making Hungary one of our most important markets in the region. We treated roughly 40% of all hemodialysis patients. Significantly more than half of Hungary's peritoneal dialysis patients use our products. In addition to the quality of our products, which make a key contribution to our success on the market, we have also expanded our patient care activities: we employ social workers to provide our patients with psychological care as well as assistance with everyday activities that are not necessarily directly related to dialysis. This contribution to an increase in treatment quality and the quality of life of our patients has been met with very positive reactions.

We will further expand our activities in Eastern Europe, including entering the Russian dialysis care market in 2005.

Identifying and moving on opportunities early best describes our activities in a variety of other Eastern European countries. By acting early, we secured a leading position as a provider of dialysis products and care in countries such as Estonia, Slovenia, Slovakia, Romania and Poland. In Poland, for example, we treat nearly 450 patients in eight dialysis clinics. We hope to continue to investigate and decisively act upon the opportunities presented by the privatization of health care to significantly increase the number of patients we treat and clinics we operate in Poland. We are also planning to enter the Russian dialysis care market in 2005. We have one significant advantage – as a vertically integrated company, we are able to offer our patients both dialysis care and dialysis products. With this holistic approach, we distinguish ourselves – not only in Eastern Europe – as a provider of high-quality dialysis. These are decisive criteria for our patients and partners in the health care sector.

Turkey has become one of the most important markets in Southern Europe for Fresenius Medical Care. We were once again able to grow faster here than the market. As the leading company in Turkey, we now care for nearly 3,750 patients. Our commitment to the early education of dialysis patients pays off because our Turkish patients receive information on kidneys, kidney diseases and treatment possibilities. As an additional positive development, the reimbursement rate for dialysis treatment was increased by 30% at the beginning of the year 2004. We are also the clear No. 1 in this market with our products for hemodialysis and boast a 40% market share in dialyzers. In 2005 we again expect a significant increase in our patient numbers.

In the Middle East and Africa, which we include in our European business region, we are predominantly active in dialysis products. Although we were able to identify increasing interest in the Gulf region, especially in acute dialysis, the business in this region remains instable due to the political conditions. We hope to counteract these developments by adapting our operations and continuing consolidation measures.

In 2003 we celebrated our debut on the African continent as a dialysis care provider with the opening of three dialysis clinics in South Africa. With about 200 dialysis patients, the number of patients we care for more than doubled within twelve months. In dialysis products we are already the leading provider and have a market share of 60% in dialyzers. We hope to benefit from this strength in peritoneal dialysis. We first began offering products for this treatment mode in 2002, and already have a double-digit market share. With the start of the local production of peritoneal dialysis products in the summer of 2004, we hope to stabilize this trend in 2005.

In our previous annual report we went into great detail about EuCliD (the European Clinical Database). We use EuCliD to capture, gather and analyze data from about 19,000 dialysis patients in nearly 280 dialysis clinics. This quality assurance tool allows for the efficient comparison of treatment quality in individual clinics. Weaknesses are more readily identified and countermeasures, when urgent, can be immediately introduced. In addition, EuCliD is a key component of our Integrated Management System and, at the same time, assists nephrologists in patient care. South Africa was linked to this system in 2004, and at the beginning of 2005, Estonia will be among the countries added. EuCliD gives Fresenius Medical Care an important tool to broaden the foundation of our leading position in treatment quality.

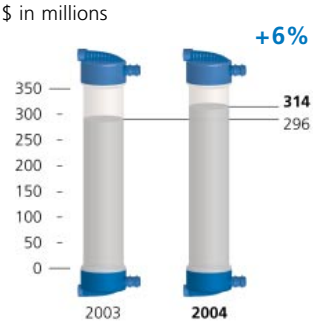
Adapting our global dialysis business to local market conditions pays off.

For Fresenius Medical Care, 2004 was an overall successful year in Europe. The fact that we can operate in this diverse market despite varying access qualifications and stages of development shows that Fresenius Medical Care can successfully implement its global strategy locally. At the same time we will further intensify our cooperation with Fresenius Kabi, a subsidiary of our parent company Fresenius AG. We are working toward finding synergies and realizing cost savings by merging the administration of our individual companies in each country. The first steps in that direction were accomplished in South Africa, where we operate from a single joint office. Switzerland was home to an additional first step, with joint logistics and warehouse operations.

Asia-Pacific

Revenue Asia-Pacific

$ in millions



In the Asia-Pacific Region we look back on a – from our point of view – mixed year. While on the one hand we were able to grow in most regions, the largest market for Fresenius Medical Care – Japan – remained the exception. Here we were unable to entirely compensate for continued price pressure resulting from a decrease in the reimbursement rate, which occurs every two years. This naturally had an effect on our revenue development. Overall revenue in the region grew 6% to $314 million. In constant currencies, revenue increased 1%. Dialysis care in particular contributed to this growth. Last year dialysis product revenue increased 5% to $237 million and remained stable in constant currency. In dialysis care, we grew 9% to $77 million, an increase of 2% in constant currency terms.

Japan is the biggest market in the region: about 250,000 dialysis patients live in Japan, or about one-fifth of all dialysis patients worldwide. Fresenius Medical Care is active in two main areas in Japan, dialysis products and, through NephroCare Japan, comprehensive consulting services for dialysis centers. Private companies are currently not allowed to run dialysis clinics in Japan.

Asia-Pacific

	2004	2003
Market Data[1]		
Number of patients	~445,000	
Patient growth	~7%	
Company Data		
Number of patients (year-end)	3,000	2,950
Number of patients (year-end)	35	30
Number of patients	460,000	440,000

[1] Company estimates

With the exception of Japan, we achieved positive results in the Asia-Pacific Region.

As previously mentioned, the decrease in reimbursement rates had an impact on our economic development in Japan. Because of ongoing price pressures and strong competition from international as well as Japanese product providers, revenue development failed to fulfill our expectations. We have adapted our administrative processes to the new market conditions and refined our sales activities. In addition, for the first time, a Japanese executive, with more than 20 years experience in the health care sector, is leading our Japanese division. We expect these changes to yield improved revenue and earnings development in the near future.

The completion of a new cooperation and delivery agreement with our Japanese partner, Kawasumi Laboratories, marked a significant step forward in 2004. This milestone ensures that the Fresenius Medical Care plant in Inukai can utilize its capacity and allows for further growth in hemodialysis in our most important Asian market.

We have also found broad acceptance for Fresenius Polysulfone dialyzers, which we produce locally. We were able to increase the market share for this important hemodialysis product group by one percentage point in 2004 to 16%. We also profited from the quality of our products in Japan which, because of their exceptional performance, allow for high quality dialysis and contribute to the quality of life of our patients.

http://www.kidneycommunity.com
http://www.pdserve.com

We were also able to make progress in products for peritoneal dialysis and further expand our market share. A long-term sales and marketing agreement completed at the end of 2004 with Fujisawa Pharmaceutical Co. Ltd., a leading Japanese drug maker, offers a good opportunity to further strengthen our position in peritoneal dialysis products. We expect to further expand our product business by offering our PDServe and kidneycommunity services here.

With the exception of Japan, we were able to post above-average growth in all other Asia-Pacific regions.

In China, Taiwan and Hong Kong, our dialysis care business grew especially well, dialysis products contributed roughly one fifth to revenue in this region. Overall revenue in this area rose 15% last year over a year earlier. In dialysis products, we grew more than 6% while dialysis care revenue rose more than 70%.

The opening of our dialysis centers in China reflects our dedication to the flourishing market of the future in Asia.

We already offer dialysis services in Shanghai and opened our first dialysis center in western China where we care for 120 patients. This debut further expands our leading position in hemodialysis, although the overall figures remain at a relatively low level. At the moment, the prevalence of chronic kidney failure remains below the average at 40 patients per million people but because of its large population, China will become a key Asian market in the long term. And we are already preparing ourselves today.

While we are just taking our first steps in China, our efforts in Taiwan and Hong Kong have extended well beyond learning to walk. Today we treat more than 1,000 peritoneal dialysis patients in Hong Kong. The acquisition of the hemodialysis business of a local supplier allowed us to expand the number of patients we treat in our centers in Taiwan to more than 1,300, an increase of 3% over 2003. In 2005 we are also expecting continued strong growth rates in both peritoneal dialysis and hemodialysis. In addition to dialysis care for patients with chronic kidney failure, we will expand our product portfolio to include items for acute dialysis.

Growth in South Korea continued at a high level in 2004. By the end of the year, we had cared for more than 1,900 peritoneal dialysis patients, once again growing faster than the market. Twelve months earlier we treated just 1,500 peritoneal dialysis patients. In the hemodialysis products business we can look back on a successful year and were able to further expand our market leadership with the introduction of our FX-class dialyzers.

Double-digit growth rates highlight the growth potential for dialysis providers in Asia.

The compounded annual growth rate of the past five years was more than 40% in South Korea. This makes clear how much potential exists in this country as well as other countries in the region. The compounded annual growth of the past five years in Thailand was nearly 30%. We are confident that we can continue our growth in the future and convince dialysis patients in India, Pakistan and other developing dialysis markets with our innovative products and services.

In our South Asia-Pacific region we were able to continue our growth and expanded significantly faster than the market. The region includes Australia, New Zealand, Malaysia, Indonesia, Singapore and Oceania. While we have always enjoyed a high market share here in dialysis care with products for hemodialysis, we posted a significant revenue increase in products for peritoneal dialysis.

We benefit from our position as a vertically integrated provider of dialysis products and services in this market: we are increasingly sought by health care authorities and private providers for the care of people with kidney failure. One example of this success: we won the bidding process for the complete care of all dialysis patients in and around the Australian capital of Canberra. The process included not only the planning and construction of the necessary infrastructure, but also the complete dialysis management for all patients in the region, regardless if they receive care at home or in a dialysis clinic, hemodialysis or peritoneal dialysis. Fresenius Medical Care now operates seven private dialysis clinics on the Australian continent and treats about 830 patients at home on behalf of the public health care agency.

The success of our expanded product activities in peritoneal dialysis has manifested itself in the growing number of patients. Across the South Asia-Pacific region, the number of peritoneal dialysis patients grew for the second year in a row at double-digit rates. Just two years after entering the Indonesian market we are already the leading provider. Through a cooperation signed in 2004 with a local provider, we now supply more than 100 patients in Singapore.

In Asia-Pacific, we once again expect growth rates in 2005 to exceed the overall growth in the dialysis products market. We will continue to expand our products business in the Asia-Pacific region and offer dialysis care in every country where it is legally possible. In Japan we are expecting the first positive signals from our optimization process to return us to the same revenue and unit sales figures of the past. As a vertically organized provider with a comprehensive portfolio of products and services, we expect good opportunities for growth in the future in Asia-Pacific.

Latin America

The Latin American continent enjoyed a generally positive economic environment in 2004. Fresenius Medical Care benefited from the economy even though the company is only indirectly affected by economic conditions. We achieved gains in both dialysis products and services in the region, while at the same time once again expanding our market share in the individual countries.

15,650 dialysis patients marks a new record in Latin America.

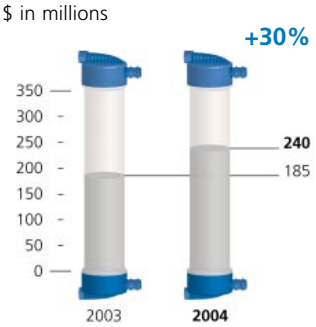
This is reflected in the revenue figures. Revenue last year rose 30% to $240 million with currency-adjusted revenues 27% higher than in 2003. Dialysis services, with $153 million in revenues, contributed about two-thirds of Latin American revenues, an increase of 35% over a year earlier (+31% currency-adjusted). Revenues with dialysis products rose 21% to $87 million (+20% currency-adjusted). At the end of 2004, Fresenius Medical Care treated about 15,650 patients in 160 clinics, approximately 3% more than in the previous twelve-month period. This is a new regional record for Fresenius Medical Care.

We are expanding our market presence in Argentina with two new DSM insurance partners.

Argentina is our most important Latin American market and we treated some 6,600 patients in 80 dialysis clinics there by the end of 2004. This is an increase in patients of about 6%. Our years of experience as a dialysis services provider allow us to set quality standards in Argentina, a key requirement for successful Disease State Management. Two private health insurance groups were convinced by our holistic approach to dialysis services and signed DSM agreements. Fresenius Medical Care has now established itself as the leading provider of integrated therapies in the Argentinean market.

Revenue Latin America

$ in millions



By expanding our production capacity in Buenos Aires, we were able to meet increased local demand for blood line systems and dry concentrate for hemodialysis, as well as strengthen exports to neighboring countries. We received an exceedingly positive market reaction to Genius Express, a new acute dialysis machine that debuted in Argentina in 2004, marking its introduction to the entire Latin American market.

Brazil also saw a slight economic recovery, though the conditions for the dialysis industry remained difficult as reimbursement rates for dialysis treatment stagnated at a low level. At the same time, our market share remained nearly unchanged with about 4,000 patients at our partner clinics – international companies are not allowed to run dialysis clinics. In dialysis products we can also look back on a successful 2004. About half of all dialyzers sold in Brazil were sold by Fresenius Medical Care. In the hemodialysis products segment we are the market leader with a market share of more than 30%. In 2005 we plan to introduce Genius for acute dialysis. In addition, we will promote our training program for care personnel, doctors and patients to make a significant advance in treatment quality.

Latin America

	2004	2003
Market Data[1]		
Number of patients	~170,000	
Patient growth	~9%	
Company Data		
Number of patients (year-end)	15,650	15,200
Number of clinics (year-end)	160	160
Number of treatments (in millions)	2.36	2.27

[1] Company estimates

Double-digit growth rates show that Mexico is a dynamic growth market.

Fresenius Medical Care's growth rates in Mexico continue to show promise. The market is unique in its high portion of peritoneal dialysis – around three quarters of all dialysis patients – and for several years we have successfully focused our products and services on this treatment method. Our peritoneal dialysis market share rose from to 7% to 12% last year. We now treat 2,800 patients with our peritoneal dialysis products in Mexico compared to just 1,500 patients a year earlier, allowing us to meet our goal of nearly doubling market share. A timely increase in production capacity ensured that we could easily meet the increased demand.

We can also look back on a successful year in hemodialysis in the region. By the end of 2004 we treated more than 800 patients, or about 30% more than in 2003. We are the leading hemodialysis provider with a market share of more than 40%. As in peritoneal dialysis, we expect a continued positive development in hemodialysis for Fresenius Medical Care. In the near future we expect patient growth of more than 20% in hemodialysis and peritoneal dialysis.

Our successful commitment in Latin America is also evident in the growth of our market share and patient numbers in additional countries. In 2004 we treated some 2,800 hemodialysis patients in Colombia, an increase of 10%. We were able to expand in peritoneal dialysis, with around 30% of all patients for this treatment option receiving products from Fresenius Medical Care. In addition to the Colombian peritoneal dialysis patients, our local production site also supplies other countries in the Andes region, such as Venezuela. Our Venezuelan market share gained significantly last year, especially in peritoneal dialysis. In 2004, we treated about 600 such patients, nearly double as many as a year earlier. In Peru and Chile we also saw high growth rates in dialysis products and were able to significantly expand our market share in peritoneal dialysis and grew faster than the market in hemodialysis.

Holiday Dialysis International

More information on HDI as well as current cruise offerings can be found at www.hdi-travel.com

The name HDI – Holiday Dialysis International – represents a special service we offer to dialysis patients worldwide. Generally seen as immobile, dialysis patients, and especially those regularly receiving hemodialysis, have little opportunity to travel abroad or take a business trip to another country. So Fresenius Medical Care uses its global presence to offer dialysis patients treatment support, either from its own network or from external providers, outside the patient's region. The program restores mobility by providing dialysis patients – and especially those receiving hemodialysis – life-saving dialysis treatment in nearly every corner of the globe. Cruises are an extra offer of Fresenius Medical Care. HDI ensures that the dialysis machines, dialyzers, water preparation systems and other related equipment used on ships meet our high quality standards to ensure that patients "on the go" receive the customary high-quality treatment.

In the past year, more than 640 patients used HDI's services, an increase of nearly 50% compared to 2003. In addition, HDI increased its offering to peritoneal dialysis patients and ensures, among other things, that the necessary amount and quality of dialysis fluids are on-hand. HDI allows Fresenius Medical Care to offer the high-quality treatment patients have come to expect as well as a bit of quality of life beyond the everyday.

Supervisory Board

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Chairman
Königstein (Germany)

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- Vamed AG (Chairman)

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- Danube University Krems (Board of Trustees)
- Dresdner Bank Luxembourg S.A. (Administrative Board)

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(since February 23, 2004)
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(until December 31, 2004)

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(until March 30, 2004)

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(since January 1, 2005)

John Gerhard Kringel
(since January 1, 2005)

Dr. Gerd Krick
(since January 1, 2005)

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- Méditerranéen S.A.S.
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- Fresenius Medical Care Magyarország Kft.
- Fresenius Medical Care Dializis Center Kft.

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Rice Powell
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Boston, Massachusetts (USA)

Mats Wahlstrom
Co-Chief Executive Officer, Fresenius Medical Care North America and President "Medical Services" (since January 1, 2004)
Boston, Massachusetts (USA)

Products and Services of Fresenius Medical Care

A.N.D.Y.·disc
A peritoneal dialysis double bag system (PD fluid bag and drainage bag) with lactate-buffered peritoneal dialysis fluid that is equipped with PIN and DISC technology to provide safety and ease of handling for the patient. It incorporates all the benefits of the stay·safe system except that the bag and tubing material are made out of PVC and not Biofine.

balance
Lactate-buffered peritoneal dialysis solution in a two-compartment bag with stay·safe technology. After mixing the two compartments, the ready-to-use solution has a neutral pH and a significantly reduced amount of glucose degradation products (GDPs).

bibag
On-line dry bicarbonate concentrate. The powder is used to produce liquid bicarbonate concentrate for bicarbonate hemodialysis.

bicaVera
Pure bicarbonate-buffered peritoneal dialysis solution in a two compartment bag with stay·safe technology. After mixing the two compartments, the ready-to-use solution has a physiological pH and a significantly reduced amount of glucose degradation products (GDPs).

BioAdequacy
Approach designed to give dialysis patients the best possible care based on biocompatible products and procedures. BioAdequacy aims to increase life expectancy and improve the quality of life of patients with kidney failure.

Biofine
Polyolefine material developed by Fresenius Medical Care that is used to produce foil, tubing and other components. It is a PVC-free, biocompatible foil without any plasticizers.

Blood Temperature Monitor (BTM)
Module for hemodialysis machines to measure the blood temperature and to actively track, for example, the body temperature of a dialysis patient.

Blood Volume Monitor (BVM)
Module for hemodialysis machines to measure relative blood volume and actively control fluid removal from the patient in order to limit severe complications during dialysis treatment.

DiaSafe
Filter for the purification of dialysis fluid during hemodialysis to obtain ultrapure dialysis fluid.

DISC
The DISC controls all functions of a bag exchange in peritoneal dialysis and offers safety and simplicity. Clamps and breaking cones are no longer necessary.

Fresenius Polysulfone dialyzer
Dialyzer containing the unique Fresenius Polysulfone membrane.

FX-class Dialyzer
A new class of dialyzers with increased performance and outstanding biocompatibility. Helixone capillaries, with their special three-dimensional microwave structure, are built into a specifically designed housing with a high density of capillaries. The housing leads to, among other benefits, optimized flow distribution within the dialyzer.

GENIUS
An innovative hemodialysis therapy system based on a single-pass batch system. The dialysate is individually prepared in one batch for each treatment.

Helixone
Advanced, high-flux dialyzer membrane for FX-class dialyzers developed on the basis of the Fresenius Polysulfone membrane. The size and distribution of pores in Helixone have been optimized to enable the removal of larger uremic toxins.

iCare Monitoring System
Web-based system for monitoring overnight dialysis treatment from a central location that compares actual with prescribed data while a patient sleeps. The system reacts to any deviations from the prescribed treatment by contacting the patient immediately and can provide emergency information if needed.

IQcard
IQcard is used with the Fresenius Freedom Cycler PD+ to monitor every minute of automated peritoneal dialysis therapy and provides integrated data for patient evaluation and research.

multiBic
A bicarbonate-buffered solution for hemofiltration.

multiFiltrate
Multifunctional acute dialysis machine used for therapy in intensive care environments as well as in intermittent short-time dialysis (hemofiltration).

On-line Clearance (OLC)/ On-line Clearance Monitor (OCM)
Optional quality assurance component for a hemodialysis machine that measures the effective in vivo dialyzer clearance online.

ONLINEplus System
A newly introduced system for our 4008 series hemodialysis machines to perform online hemodiafiltration and online hemofiltration. Infusion fluid is prepared from dialysate by filtration in a convenient and cost-effective way.

Optiflux
A dialyzer generation for the U.S. featuring improved clearances rates and outstanding biocompatibility.

PatientOnLine
– the PD Therapy Manager. A software tool to administer patient data and evaluate treatment outcomes to find the best therapy for peritoneal dialysis patients.

PIN
Automatic inline-closing procedure, minimizing the risk of contamination during bag disconnection.

Prometheus
Novel extracorporeal blood purification system used for patients with liver disease to support the liver in its detoxification function.

sleep·safe
New automated peritoneal dialysis system offering the full range of peritoneal dialysis options and a maximum of safety and comfort for the patient, physician and nurse.

stay·safe
Biocompatible, safe and environmentally-friendly peritoneal dialysis system using Biofine as well as PIN and DISC technology, which eliminates the need for clamps and breaking cones.

UltraCare
Innovative and integrative treatment concept in Fresenius Medical Care's North American dialysis clinics that combines, for example, the single-use of High-Flux-Polysulfon-Dialyzers, On-line Clearance Monitors and ultra-pure dialysis fluid.

Healthcare and Dialysis related Terms

Albumin
A measure of the level of proteins in the blood, used to monitor the level of nutrition..

Anemia
Reduced oxygen transport capacity of the blood, measured as reduced hemoglobin content of the blood.

Apheresis
Process of obtaining blood from a donor or patient to separate or remove certain components (thrombocytes, plasma) before re-infusing the remainder.

Arterio-venous (AV) fistula
Direct, surgically created communication between an artery and a vein of the patient. This communication forms a large blood vessel to continuously supply an increased blood flow for hemodialysis.

Automated Peritoneal Dialysis (APD)
Machine (cycler)-supported version of peritoneal dialysis treatment usually performed at night.

Bioimpedance
Procedure for measuring the water content of the body. Alternating-current electrodes measure the relationship between the alternating current and the alternating voltage flowing through the body.

Biocompatibility
Ability of a material, device or system to perform without an undesired, clinically significant host response.

Bloodlines
System of tubes connecting the patient's circulatory system with the device (e.g. dialyzer) during extra-corporeal dialysis treatment.

Catheter
A flexible tube through which fluids enter or leave the body. For peritoneal dialysis, a catheter is implanted in the abdomen.

CE certification
Badge which signifies compliance with medical-device directives from the European Union.

Clearance
A quantitative parameter to describe dialysis performance in terms of uremic toxin removal.

Composite rate
Medicare reimbursement rate for dialysis treatment.

Continuous Ambulatory Peritoneal Dialysis (CAPD)
A peritoneal dialysis treatment method. Peritoneal dialysis solution is exchanged manually, generally four times per day.

Dialysate
Fluid used in the process of dialysis.

Dialysis
Form of renal replacement therapy where a semi-permeable membrane – in peritoneal dialysis the peritoneum of the patient, in hemodialysis the membrane of the dialyzer – is used for selective solute removal.

Dialyzer
Special filter used in hemodialysis for removing toxic substances and excess water from the blood. The dialyzer is sometimes referred to as the 'artificial kidney'.

Diffusion
An exchange in the concentration of chemicals in two fluids that are separated by a semi-permeable membrane. The transfer of metabolic toxins through the membrane into the dialysate is based on this physical transport law.

Disease State Management (DSM)
Holistic patient-care concept that takes into account all medical aspects of an illness.

Dry Weight
Targeted, optimal body weight of the patient at the end of a dialysis.

End-Stage Renal Disease (ESRD)
Terminal kidney failure accompanied by long-term complications such as renal anemia, hypertension and other cardiovascular problems, bone disease, loss of appetite and malnutrition (see also Kidney failure, chronic).

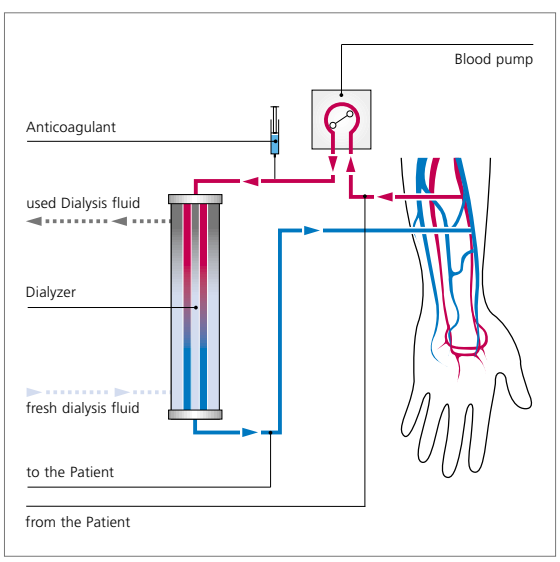
Erythropoietin (EPO)
Protein that stimulates red blood cell production. Recombinant human EPO is commonly prescribed to patients on dialysis who suffer from anemia.

FDA
U.S. Food and Drug Administration.

Health Maintenance Organization (HMO)
Special form of private health insurance in the U.S. where the insured persons are members, and the treatments are provided by contracted physicians (or member physicians) of the organization.

Hemodiafiltration (HDF)
Special mode of ESRD treatment, combining advantages of hemodialysis and hemofiltration, i.e. high elimination rates for small and large molecular weight substances via diffusive and convective mechanisms, respectively.

Hemodialysis (HD)
Treatment mode for ESRD where the blood of the patient flows outside the body through disposable bloodlines into a special filter, the dialyzer. Dialysis solution carries away waste products and excess water, and the filtered blood is returned to the patient. The process is controlled by a hemodialysis machine which pumps blood, adds anticoagulants, regulates the purification process and controls the mixing of the dialysis solution and its flow rate through the system. A patient typically receives three treatments per week, lasting from three to six hours each.



Hemofiltration (HF)
ESRD treatment mode where no dialysate is used. The solutes are removed following convective forces by filtering plasma water through a semi-permeable membrane. The volume removed by filtering is balanced by substitution fluid.

High-flux dialyzers
Dialyzers containing highly permeable membranes that allow an effective removal of water and large uremic toxins such as ß2-microglobulin.

Hypervolaemie
Increased blood volume.

Incidence
The incidence rate is the number of patients who are newly diagnosed with a specific disease during a certain time interval.

ISO
International Organization for Standardization.

Kidney failure, acute
Acute loss of renal function. There is a good chance for the recovery of renal function if the cause of acute kidney failure can be eliminated. Depending on the severity of renal function loss, intermittent or continuous dialysis treatment may be necessary.

Kidney failure, chronic
Chronic loss of renal function, also referred to as end-stage renal disease. The recovery of renal function is not possible, thus the patient has to be treated with renal replacement therapy, i.e. kidney transplantation or dialysis.

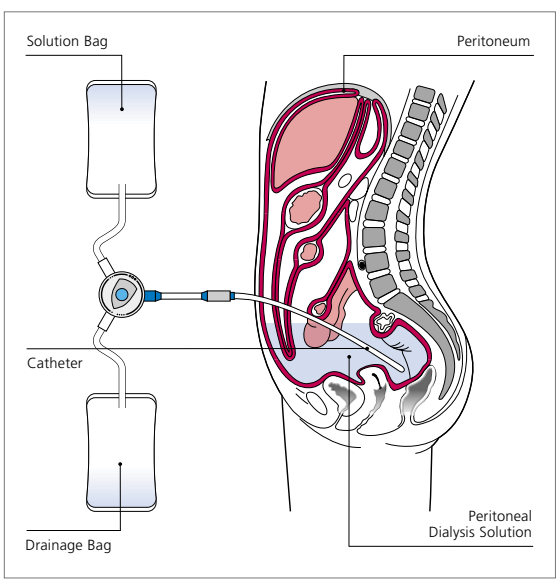
Kidney transplantation
The surgical procedure to implant a kidney from a donor.

Medicare / Medicaid
A program under the federal U.S. Social Security Administration that reimburses health plans and providers for medical care given to qualifying individuals over 65, those with ESRD and disabled / individuals in need.

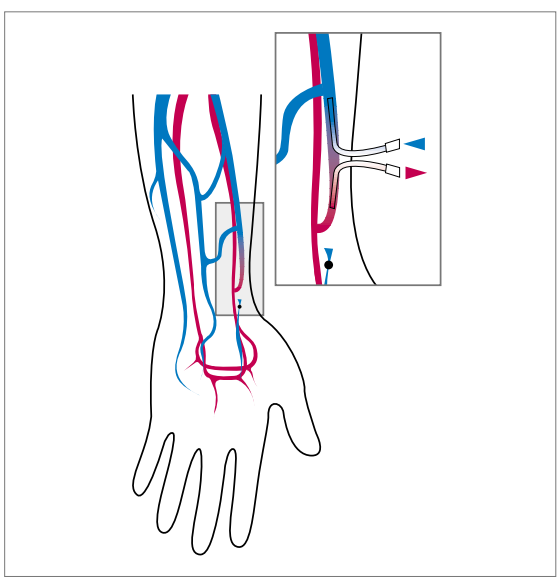
Medicare Modernization Act (MMA)
Reform of Medicare, the public health insurance system for the elderly as well as dialysis patients without private insurance. The reform influences the composite payment rates for the treatment of end stage renal disease patients and becomes effective from 2005.

Osmosis
Passage of water from the blood through a semi-permeable membrane. In osmosis, as opposed to diffusion, molecules move in only one direction.

Peritonealdialysis (PD)
Dialysis treatment method using the patient's peritoneum, the tissue which covers the inner surface of the abdominal cavity and the abdominal organs, as the dialyzing membrane for the purification of the blood. A sterile dialysis solution is introduced and removed through a surgically implanted catheter in the abdominal cavity of the patient to absorb toxins and excess water. Most treatments are self-administered by the patient at his home or workplace several times a day or during the night supported by a machine, the cycler.



Vascular access
Mode of connecting the patient's blood circulation to the dialyzer. The vascular access must allow sufficient blood flow and access as often as necessary, normally three times a week. An adequate vascular access is a prerequisite for hemodialysis. Compromised vascular access flow has been recognized as the single most sensitive indicator of pending access failure. The main cause of compromised access flow is blockage or stenosis at the venous anastomosis.



Polyolefins
Polymer materials containing only carbon and hydrogen.

Polysulfone
A polymer from which dialyzer membranes are produced. It is characterized by extreme thermal stability, chemical resistance and blood compatibility.

Prevalence
The prevalence rate is the number of all patients who have a specific disease during a certain time interval.

Ultrafiltration rate
Rate of fluid removal from the patient's blood circulation in milliliters per minute. This rate has to be chosen carefully. If the rate is too high, the cardiovascular stability of the patient is put at risk; if it is too low, the excess water cannot be removed from the patient.

Xenotransplants
Transplantation of tissues or organs between two different species.

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Calendar 2005

Report on First Quarter 2005	May 04, 2005
Annual General Meeting Frankfurt (Germany)	May 24, 2005
Payment of Dividend	May 25, 2005
Report on First Half 2005	August 04, 2005
Report on Nine Months 2005	November 03, 2005

Important fairs 2005

42nd ERA-EDTA Congress
(European Renal Association – European Dialysis and Transplant Association)
Istanbul, Turkey — June 04 – 07, 2005

3rd World Congress of Nephrology
Singapore — June 26 – 30, 2005

38th Annual Meeting of the American Society of Nephrology (ASN)
Philadelphia, U.S. — November 8 – 13, 2005

Please notice that these dates may be subject to change.

This annual report is also available in German and may be obtained from the Company upon request.

Dieser Geschäftsbericht liegt auch in deutscher Sprache vor.

Annual reports, interim reports and further information on the Company are also available on the Internet: **www.fmc-ag.com**

For printed material please contact Investor Relations.

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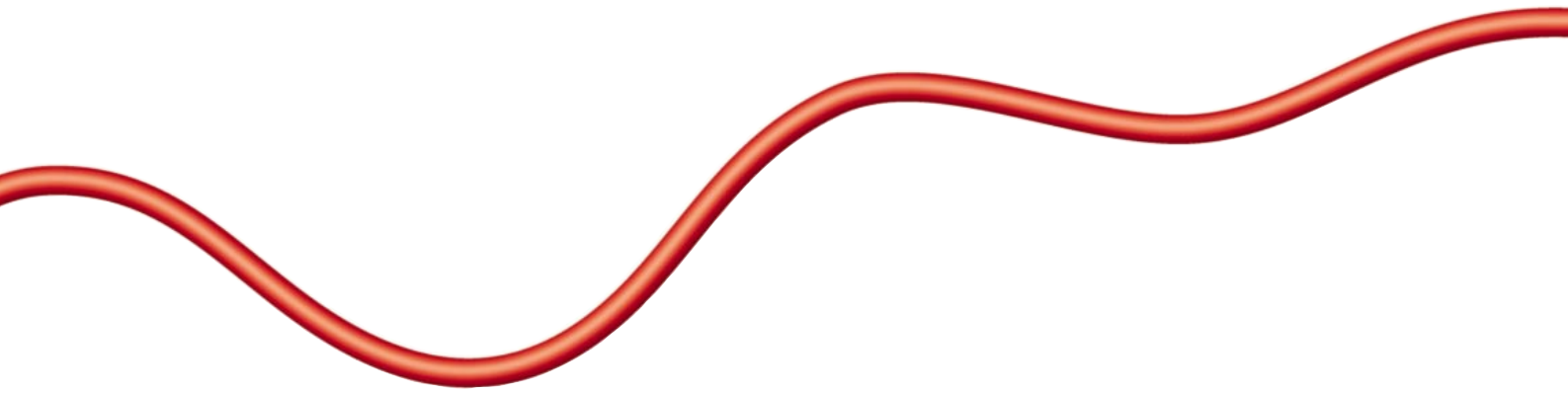
Production: colours ec gmbh, Osnabrück, www.colours.de

This report contains forward-looking statements that are subject to various risks and uncertainties. Actual results could differ materially from those described in these forward-looking statements due to certain factors. The risks and uncertainties are detailed in Fresenius Medical Care AG's reports filed with the U.S. Securities and Exchange Commission. We do not undertake any responsibility to update the forward-looking statements in this report.



365 DAYS OF FACTS AND FIGURES

Financial Report 2004

Content

Fresenius Medical Care filed an annual report under Form 20-F with the Securities and Exchange Commission (SEC) with additional information on the Company. Fresenius Medical Care's annual report on Form 20-F may be obtained from the Company or by shareholders in the United States by writing to: JPMorgan Chase Bank / P.O. Box 43013 / Providence, RI 02940-3013 / USA / Tel. (800) 990 1135 (toll-free number in the U.S.).

The audited financial statements of the Group's holding company, Fresenius Medical Care Aktiengesellschaft, will be published in the German Federal Gazette (Bundesanzeiger) and deposited at the local district court Hof a.d. Saale. These financial statements can be obtained from the Company.

The audited consolidated financial statements in accordance with §292a Commercial Code (HGB) will be published in the German Federal Gazette (Bundesanzeiger) and deposited at the local district court Hof a.d. Saale. These financial statements can be obtained from the Company.

Operating and Financial Review and Prospects

You should read the following discussion and analysis of the results of operations of Fresenius Medical Care AG and its subsidiaries in conjunction with our historical consolidated financial statements and related notes contained elsewhere in this report. Some of the statements contained below, including those concerning future revenue, costs and capital expenditures and possible changes in our industry and competitive and financial conditions include forward-looking statements. We made these forward-looking statements based on our management's expectations and beliefs concerning future events which may affect us, but we cannot assure that such events will occur or that the results will be as anticipated. Because such statements involve risks and uncertainties, actual results may differ materially from the results which the forward-looking statements express or imply.

Our business is also subject to other risks and uncertainties that we describe from time to time in our public filings. Developments in any of these areas could cause our results to differ materially from the results that we or others have projected or may project.

Critical Accounting Policies

The Company's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that are the basis for our financial statements. The critical accounting policies, the judgments made in the creation and application of these policies, and the sensitivities of reported results to changes in accounting policies, assumptions and estimates are factors to be considered along with the Company's financial statements, and the discussion in "Results of Operations".

Recoverability of Goodwill and Intangible Assets

The growth of our business through acquisitions has created a significant amount of intangible assets, including goodwill, trade names and management contracts. At December 31, 2004, the carrying amount of goodwill amounted to $3,445 million and non-amortizable intangible assets amounted to $441 million representing in total approximately 50% of our total assets.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142 *Goodwill and Other Intangible Assets*, we perform an annual impairment test of goodwill and non-amortizable intangible assets at least once a year for each reporting unit, or if events occur or circumstances change that would indicate the carrying value might be impaired (See also Note 1g) in our consolidated financial statements).

To comply with the provisions of SFAS No. 142, the fair value of the reporting unit is compared to the reporting unit's carrying amount. We estimate the fair value of each reporting unit using estimated future cash flows for the unit discounted by a weighted average cost of capital specific to that unit. Estimated cash flows are based on our

budgets for the next three years, and projections for the following years based on an expected growth rate. The growth rate is based on industry and internal projections. The discount rates reflect any inflation in local cash flows and risks inherent to each reporting unit.

If the fair value of the reporting unit is less than its carrying value, a second step is performed which compares the fair value of the reporting unit's goodwill to the carrying value of its goodwill. If the fair value of the goodwill is less than its carrying value, the difference is recorded as an impairment.

A prolonged downturn in the healthcare industry with lower than expected increases in reimbursement rates and/or higher than expected costs for providing healthcare services and for procuring and selling products could adversely affect our estimated future cashflows. Future adverse changes in a reporting unit's economic environment could affect the discount rate. A decrease in our estimated future cash flows and/or a decline in the reporting units economic environment could result in impairment charges to goodwill and other intangible assets which could materially and adversely affect our future financial position and operating results.

Legal Contingencies

We are party to litigation relating to a number of matters as described in Note 16 "Legal Proceedings" in our Consolidated Financial Statements. The outcome of these matters may have a material effect on our financial position, results of operations or cash flows.

We regularly analyze current information including, as applicable, our defenses and provide accruals for probable contingent losses including the estimated legal expenses to resolve the matters. We use the resources of our internal legal department as well as external lawyers for the assessment. In making the decision regarding the need for loss accrual, we consider the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of loss.

The filing of a suit or formal assertion of a claim or assessment, or the disclosure of any such suit or assertion, does not automatically indicate that accrual of a loss may be appropriate.

Allowance for Doubtful Accounts

Trade accounts receivable are a significant asset of ours and the allowance for doubtful accounts is a significant estimate made by management. Trade accounts receivable were $1,463 million and $1,230 million at December 31, 2004 and 2003, respectively, net of allowances. The allowance for doubtful accounts was $180 million and $166 million at December 31, 2004 and 2003, respectively. The majority of our receivables relates to our dialysis service business in North America.

Dialysis care revenues are recognized and billed at amounts estimated to be receivable under reimbursement arrangements with third party payors. Medicare and Medicaid

programs are billed at pre-determined net realizable rates per treatment that are established by statute or regulation. Most non-governmental payors are billed at our standard rates for services net of contractual allowances to reflect the estimated amounts to be received under reimbursement arrangements with these payors.

Estimates for the allowances for doubtful accounts receivable from the dialysis service business are mainly based on past collection history. Specifically, the allowances for the North American operations are based on an analysis of collection experience, recognizing the differences between payors and aging of accounts receivable. From time to time, accounts receivable are reviewed for changes from the historic collection experience to ensure the appropriateness of the allowances. The allowances in the international segment and the products business are also based on estimates and consider various factors, including aging, creditor and past collection history. A significant change in our collection experience, a deterioration in the aging of receivables and collection difficulties could require that we increase our estimate of the allowance for doubtful accounts. Any such additional bad debt charges could materially and adversely affect our future operating results.

Self-Insurance Programs

Fresenius Medical Care Holdings, Inc. (FMCH), our largest subsidiary, is partially self-insured for professional, product and general liability, auto liability and worker's compensation claims under which we assume responsibility for incurred claims up to predetermined amounts above which third party insurance applies. Reported balances for the year include estimates of the anticipated expense for claims incurred (both reported and incurred but not reported) based on historical experience and existing claim activity. This experience includes both the rate of claims incidence (number) and claim severity (cost) and is combined with individual claim expectations to estimate the reported amounts.

Financial Condition and Results of Operations

Overview

We are engaged primarily in providing dialysis services and manufacturing and distributing products and equipment for the treatment of end-stage renal disease. In the U.S., we also perform clinical laboratory testing and provide perfusion, autotransfusion and therapeutic apheresis services. Perfusion maintains human heart and lung function during cardiovascular surgery. Autotransfusion is used during surgery to collect, filter and reinfuse a patient's own blood as an alternative to using donor blood. Therapeutic apheresis is the process of separating or removing illness-causing substances from patient's blood or blood plasma. Dialysis is a lifesaving treatment for irreversible, lifelong end stage renal disease, and necessitates multiple treatments per week for the remainder of a patient's life. We estimate that providing dialysis services and distributing dialysis products and equipment represents an over $40 billion worldwide market with expected annual patient growth of 6%. Patient growth results from factors such as the aging population; increasing incidence of diabetes and hypertension, which frequently precedes the onset of ESRD; improvements in treatment quality, which prolong patient life; and improving standards of living in developing countries, which make life saving dialysis treatment available. Key to continued growth in revenue is our ability to attract new patients in order to increase the number of treatments performed each year. For that reason, we believe the number of treatments performed each year is a strong indicator of continued revenue growth and success. In addition, the reimbursement and ancillary services utilization environment significantly influences our business. In the past we experienced and also expect in the future generally stable reimbursements for dialysis services. This includes the balancing of unfavorable reimbursement changes in certain countries with favorable changes in other countries. The majority of treatments are paid for by governmental institutions such as Medicare in the United States. As a consequence of the pressure to decrease health care costs, reimbursement rate increases have been limited. Our ability to influence the pricing of our services is limited. Profitability depends on our ability to manage rising labor, drug and supply costs.

On December 8, 2003, the Medicare Prescription Drug, Modernization and Improvement Act of 2003 was enacted (the "Medicare Modernization Act"). This law makes several significant changes to U.S. government payment for dialysis services and pharmaceuticals. First, it increased the composite rate for renal dialysis facilities by 1.6% on January 1, 2005. Second, effective January 1, 2005, payments for ten separately billable dialysis-related medications will be based on average acquisition cost (as determined by the Office of the Inspector General ("OIG") and updated by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services ("CMS"), and payments for the remaining separately billable dialysis-related medications will be based on average sales price ("ASP") plus 6% (ASP is defined in the law as a manufacturer's ASP to all purchasers in a calendar quarter per unit of each drug and biological sold in that same calendar quarter, excluding sales exempt from best price and nominal price sales and including all discounts,

chargebacks and rebates). Third, the difference between the determined acquisition cost-based reimbursement and what would have been received under the current average wholesale price-based ("AWP-based") reimbursement methodology will be added to the composite rate. This add-back amount has been determined to be 8.7% of the composite rate and will be subject to an annual update based on the growth in drug spending. Fourth, effective April 1, 2005, providers will receive higher composite rate payments for certain patients based on their age, body mass index and body surface area. Fifth, beginning in 2006, the Secretary of the Department of Health and Human Services (the "Secretary") is authorized to set payment for all separately billed drugs and biologicals at either acquisition cost or average sales price. Lastly, the Secretary is required to establish a three-year demonstration project to test the use of a fully case-mix adjusted payment system for ESRD services, beginning January 1, 2006. Under this project, separately billable drugs and biologicals and related clinical laboratory tests would be bundled into the facility composite rate. Participating facilities would receive an additional 1.6% composite rate increase. For a discussion of the composite rate for reimbursement of dialysis treatments, see Item 4B, "Business Overview – Regulatory and Legal Matters – Reimbursement" in the annual report under Form 20-F the Company filed with the SEC. We expect that the final regulations could have a non-material negative impact on our revenue from Medicare.

In July 2004, CMS proposed certain changes with respect to its EPO reimbursement and utilization guidelines. Its proposal reflects the agency's conclusion that the appropriate utilization of EPO should be monitored by considering both the patient's hemoglobin/hematocrit level and the dosage. Specifically, it proposed a pre-payment claims review process in which claims for EPO with hemoglobin levels below 13 (or hematocrit of 39) would not be targeted for review, but claims for EPO with hemoglobin levels above 13 would be reviewed based on the hemoglobin value and related EPO doses, and with payment limited to a fixed amount of EPO unless there is medical justification for the hemoglobin levels. The comment period on this policy draft was extended and ended on October 7, 2004. CMS has not yet finalized the new guidelines. If the EPO reimbursement / utilization changes are adopted, this could have an adverse impact on our operating results.

Our operations are geographically organized and accordingly we have identified three operating segments, North America, International, and Asia Pacific. For reporting purposes, we have aggregated the International and Asia Pacific segments as "International." We aggregated these segments due to their similar economic characteristics. These characteristics include same services provided and same products sold, same type patient population, similar methods of distribution of products and services and similar economic environments. Our Management Board member responsible for the profitability and cash flow of each segment's various businesses supervises the management of each operating segment. The accounting policies of the operating segments are the same as those we apply in preparing our consolidated financial statements under accounting principles generally accepted in the United States ("U.S. GAAP"). Our management evaluates each segment using a measure that reflects all of the segment's controllable revenues and expenses.

Our management believes the most appropriate measure in this regard is operating income, referred to in previous filings as earnings before interest and taxes, or EBIT, which measures our source of earnings. Financing is a corporate function which segments do not control. Therefore, we do not include interest expense relating to financing as a segment measurement. We also regard income taxes to be outside the segments' control. In addition to operating income, our management also believes that earnings before interest, taxes, depreciation and amortization, or EBITDA, is helpful for investors as a measurement of our segments' ability to generate cash and to service our financing obligations. EBITDA is also the basis for determining compliance with certain covenants contained in our 2003 Senior Credit Agreement, our Euro Notes and the indentures relating to our outstanding trust preferred securities. You should not consider segment EBITDA to be an alternative to net earnings determined in accordance with U.S. GAAP or to cash flow from operations, investing activities or financing activities. We believe that operating income is the GAAP financial measure most directly comparable to our computation of EBITDA by segment, and the information in the table below under "Results of Operations" reconciles EBITDA for each of our reporting segments to operating income calculated in accordance with U.S. GAAP. See also Note 19 of the Notes to Consolidated Financial Statements.

Results of Operations

The following tables summarize our financial performance and certain operating results by principal business segment for the periods indicated. Inter-segment sales primarily reflect sales of medical equipment and supplies from the International segment to the North America segment. We prepared the information using a management approach, consistent with the basis and manner in which our management internally disaggregates financial information to assist in making internal operating decisions and evaluating management performance.

Segment Data

$ in millions	2004	2003
Total revenue		
North America	4,218	3,857
International	2,051	1,709
Totals	**6,269**	**5,566**
Inter-segment revenue		
North America	2	2
International	39	36
Totals	**41**	**38**
Total net revenue		
North America	4,216	3,855
International	2,012	1,673
Totals	**6,228**	**5,528**

Segment Data		
$ in millions	2004	2003
EBITDA		
North America	716	652
International	403	349
Corporate	(34)	(27)
Totals	**1,085**	**974**
Amortization and depreciation		
North America	126	120
International	105	95
Corporate	2	2
Totals	**233**	**217**
Operating Income		
North America	590	532
International	298	254
Corporate	(36)	(29)
Totals	**852**	**757**
Interest income	14	19
Interest expense	(197)	(230)
Income tax expense	(266)	(213)
Minority interest	(1)	(2)
Net income	**402**	**331**

Highlights

Like 2003, the earnings increase in 2004 is characterized by improving margins in the North American segment partially offset by a decline of margins in Asia Pacific. Cash flow provided from operations reached $828 million and exceeded the prior year's cash flow from operations by $74 million. This favorable development is a result of our increased net income and focus on working capital management partially offset by a lower impact of liquidity provided by hedging of intercompany financings.

Consolidated Financials

Key Indicators for Consolidated Financials

	2004	2003	Change in % as reported	Change in % at constant exchange rates
Number of treatments	18,794,109	17,821,185	5%	
Same store treatment growth in %	3.6%	4.9%		
Revenue in $ million	6,228	5,528	13%	10%
Gross profit in % of revenue	33.5%	33.1%		
Selling, general and administrative costs in % of revenue	19.0%	18.5%		
Net income in $ million	402	331	21%	

Net revenue increased for the year ended December 31, 2004 over the comparable period in 2003 due to growth in revenue in both dialysis care and dialysis products.

Dialysis care revenue grew by 13% to $4,501 million (12% at constant exchange rates) mainly due to higher treatment rates, acquisitions, as a result of an accounting change (implementation of Financial Accounting Standards Board Interpretation 46R ("FIN 46R") issued December 2003 and effective March 31, 2004), and the effect of two additional treatment days in 2004. Same store treatment growth in 2004 declined from 2003 as a result of the loss of tenders in the International segment and the general market growth slow down in the North American segment. Dialysis product revenue increased by 11% to $1,727 million (5% at constant exchange rates) in the same period.

Gross profit margin improved in 2004 to 33.5% from 33.1% for 2003. The increase is primarily a result of higher treatment rates, higher margins for ancillary services in North America, higher number of treatments as a result of two additional treatment days in North America, operating improvements in Latin America and growth in regions which have higher gross margins offset by higher personnel and recruiting costs due to the nursing shortage in North America, a one time discount provided to a distributor in Japan, and reimbursement related price pressure in Japan. Depreciation and amortization expense for the period was $233 million compared to $217 million for the same period in the prior year.

Approximately 38% of the Company's 2004 worldwide revenues, as compared to 40% in 2003, are paid by and subject to regulations under governmental health care programs, primarily Medicare and Medicaid, administered by the United States government.

Selling, general and administrative costs increased from $1,022 million in 2003 to $1,182 million in 2004. Selling, general and administrative costs as a percentage of

sales increased from 18.5% in 2003 to 19.0% in 2004. The increase is mainly due to increased personnel expenses in North America and growth in regions which have higher selling, general and administrative costs partially offset by receipt of a one time indemnification payment related to a clinic in the Asia Pacific region and reduced expenses due to cost efficiency control in Latin America. Net income for the period was $402 million compared to $331 million in 2003.

In 2004, 18.79 million treatments were provided. This represents an increase of 5.4% over 2003. Same store treatment growth was 3.6% with additional growth of 1.8% from acquisitions.

At December 31, 2004 we owned, operated or managed 1,610 clinics compared to 1,560 clinics at the end of 2003. During 2004, we acquired 29 clinics, opened 52 clinics and consolidated 31 clinics. The number of patients treated in clinics that we own, operate or manage increased to 124,400 at December 31, 2004 from approximately 119,250 at December 31, 2003. Average revenue per treatment for worldwide dialysis services increased to $240 from $223 mainly due to worldwide improved reimbursement rates and favorable currency developments.

The following discussions pertain to our business segments and the measures we use to manage these segments.

North America Segment

Key Indicators for North America Segment

	2004	2003	Change in %
Number of treatments	12,908,788	12,366,028	4%
Same store treatment growth in %	3.1%	3.8%	
Revenue in $ million	4,216	3,855	9%
EBITDA in $ million	716	652	10%
EBITDA margin in %	17.0%	16.9%	
Depreciation and amortization in $ million	126	120	6%
Operating income in $ million	590	532	11%
Operating income margin in %	14.0%	13.8%	

Revenue. Net revenue for the North America segment for 2004 increased because dialysis care revenue increased by 11% from $3,429 million to $3,795 million. This was partially offset by a 1% decrease in product sales.

The 11% increase in dialysis care revenue in 2004, was driven by organic revenue growth of 7%, 1% increase attributable to two extra dialysis days in 2004, 2% resulting from implementation of FIN 46R and 1% resulting from acquisitions. Organic revenue growth is a result of 3% growth in number of treatments and a 4% revenue per treatment growth. Same store treatment growth in 2004 declined from 2003 as a result of the general market growth slow down in the North America segment. For 2004, the administration of EPO represented approximately 23% of total North America revenue.

At the end of 2004, approximately 85,500 patients were being treated in the 1,130 clinics that we own, operate or manage in the North America segment, compared to approximately 82,400 patients treated in 1,110 clinics at the end of 2003. The average revenue per treatment, excluding laboratory-testing revenue, increased from $267 in 2003 to $278 in 2004. Including laboratory testing, the average revenue per treatment increased from $278 in 2003 to $289 during 2004.

Dialysis product sales in both 2004 and 2003 include the sales of machines to third-party leasing companies which are leased back by our dialysis services division and sales to other vertically integrated dialysis companies. The volume of both these type transactions has been reduced in 2004 compared to 2003. In addition, the Company decided to focus sales efforts more on its internally produced products while decreasing emphasis on relatively low margin ancillary products manufactured by third-parties. These two factors resulted in a 1% decrease in dialysis product revenue from $426 million in 2003 to $421 million in 2004. Our dialysis products division measures

its external sales performance based on its sales to the "net available external market".

The net available external market sales exclude machine sales to third parties, i.e., leasing companies, for machines utilized in our services division as well as sales to other vertically integrated dialysis companies and sales related to our adsorber business. Net available external market sales were flat in 2004 over the comparable period for 2003. The detail is as follows:

Net Available External Market Sales

$ in millions	2004	2003
Dialysis product sales	421	426
less sales to other vertically integrated dialysis companies and to leasing company of dialysis machines leased back	(28)	(34)
less sales related to adsorber business	(5)	(3)
Net available external market sales	**388**	**389**

EBITDA. EBITDA margin increased 10 basis points from 16.9% in 2003 to 17.0% in 2004. The primary drivers of this margin improvement during 2004 are increases in commercial payor rates, improved ancillary margins, and incremental profits provided by two additional dialysis days in 2004 partially offset by the effect of the implementation of FIN 46R (0.2%). Cost per treatment increased from $242 in 2003 to $251 in 2004, primarily due to increased personnel and benefit costs, higher ancillary costs, and other miscellaneous costs partially offset by improvements in medical supply costs.

Operating income. The increase in operating margin was caused by the factors listed under EBITDA and reduced depreciation and amortization expense, as a percentage of revenue, mainly as a result of completing the depreciation and amortization of patient relationships acquired in 1997.

International Segment

Key Indicators for International Segment

	2004	2003	Change in % as reported	Change in % at constant exchange rates
Number of treatments	5,885,321	5,455,157	8%	
Same store treatment growth in %	4.6%	7.7%		
Revenue in $ million	2,012	1,673	20%	11%
EBITDA in $ million	403	349	15%	
EBITDA margin in %	20.0%	20.8%		
Depreciation and amortization in $ million	105	95	10%	
Operating income in $ million	298	254	17%	
Operating income margin in %	14.8%	15.2%		

Revenue. The increase in net revenues for the International segment resulted from increases in both dialysis care and dialysis product revenues. Acquisitions contributed approximately 3% while consolidations resulting from initial consolidation of entities as a result of an accounting change (implementation of FIN 46R) contributed approximately 1%. Organic growth during the period was 7% at constant exchange rates. Same store treatment growth in 2004 declined from 2003 as a result of the loss of tenders. The revenue increase was also attributable to a 9% exchange rate effect due to the continued strengthening of various local currencies against the dollar in 2004 and 2003.

Total dialysis care revenue increased during 2004 by 28% (19% at constant exchange rates) to $706 million in 2004 from $550 million for 2003. This increase is a result of organic growth of 6%, a 7% increase in contributions from acquisitions, a 6% contribution from consolidations resulting from implementation of FIN 46R and approximately 9% due to exchange rate fluctuations.

As of December 31, 2004, approximately 38,900 patients were being treated at 480 clinics that we own, operate or manage in the International segment compared to 36,850 patients treated at 450 clinics at December 31, 2003. In 2004, the average revenue per treatment increased from $101 to $120 ($111 at constant exchange rates) due to the strengthening of the local currencies against the U.S. dollar and increased reimbursement rates partially offset by higher growth in countries with reimbursement rates below the average.

Total dialysis product revenue for 2004 increased by 16% (7% at constant exchange rates) to $1,306 million mainly driven by organic growth.

Including the effects of the acquisitions, European region revenue increased 22% (11% at constant exchange rates), Latin America region revenue increased 30% (27% at constant exchange rates), and Asia Pacific region revenue increased 6% (1% at constant exchange rates).

EBITDA. Our EBITDA margin decreased from 20.8% to 20.0%. The main cause for the margin decrease consisted of the price pressure in Japan as a result of biannual reimbursement rate reductions, a one-time discount provided to a distributor in Japan, the unfavorable foreign currency transaction effects related to the purchase of products from our European production sites coupled with the appreciation of the euro against local currencies and the effect of the implementation of FIN 46R (0.2%) partially offset by receipt of a one-time indemnification payment related to a clinic in the Asia Pacific region, operating improvements in Latin America such as a reimbursement rate increase in Venezuela and cost control improvements throughout Latin America.

Operating income. Our operating income margin decreased from 15.2% during 2003 to 14.8% in 2004 due to the factors responsible for the decrease of EBITDA margin described above coupled with lower depreciation expense as a percentage of revenue.

Latin America. Our subsidiaries in Latin America contributed approximately 4% of our worldwide revenue and approximately 3% of our operating income in 2004. Our operations in Latin America were affected by the financial crisis and currency devaluations in some currencies in Latin America. Because of these issues, we continue to experience lower than anticipated reimbursement rates, margin pressure and foreign currency exchange losses.

In 2004, sales in Latin America increased 30% (27% at constant exchange rates) and operating income increased 175% (161% at constant exchange rates) compared to 2003. The consolidation of dialysis clinics in accordance with FIN46R contributed 13% of the revenue growth and had no significant impact on operating income. A worsening of the economic situation in Latin America, a further devaluation of the Latin American currencies against the U.S. dollar or other unfavorable economic developments in Latin America, could result in an impairment of long-lived assets and goodwill.

Corporate

We do not allocate "corporate costs" to our segments in calculating segment operating income and EBITDA as we believe that these costs are not within the control of the individual segments. These corporate costs primarily relate to certain head-quarters overhead charges including accounting and finance, professional services, etc. Total corporate operating loss was $36 million in 2004 compared to $29 million in the same period of 2003.

The following discussions pertain to our total Company costs:

Interest. Interest expense for 2004 decreased 15% compared to the same period in 2003 due to a lower debt level resulting from the use of positive cash flows, lower interest rates, and the conversion of a portion of debt from fixed into variable interest rates.

Income Taxes. The effective tax rate for 2004 was 39.7% compared to 39.0% in 2003.

Liquidity and Capital Ressources

Liquidity

Our primary sources of liquidity have historically been cash from operations, cash from short-term borrowings as well as from long-term debt from third parties and from related parties and cash from issuance of Preference shares and trust preferred securities. Cash from operations is impacted by the profitability of our business and the development of our working capital, principally receivables. The profitability of our business depends significantly on reimbursement rates. Approximately 72% of our revenues are generated by providing dialysis treatment, a major portion of which is reimbursed by either public health care organizations or private insurers. For the year ended December 31, 2004, approximately 38% of our consolidated revenues resulted from U.S. federal health care benefit programs, such as Medicare and Medicaid reimbursement. Legislative changes could affect all Medicare reimbursement rates for the services we provide, as well as the scope of Medicare coverage. A decrease in reimbursement rates could have a material adverse effect on our business, financial condition and results of operations and thus on our capacity to generate cash flow. See "Overview", above, for a discussion of recent Medicare reimbursement rate changes. Furthermore cash from operations depends on the collection of accounts receivable. We could face difficulties in enforcing and collecting accounts receivable under some countries' legal systems. Some customers and governments may have longer payment cycles. This could have a material adverse effect on our capacity to generate cash flow.

Cash from short-term borrowings can be generated by selling interests in accounts receivable (accounts receivable facility) and by borrowing from our parent Fresenius AG. Long-term financing is provided by the revolving portion and the term loan under our 2003 amended and restated bank agreement ("2003 Senior Credit Agreement") and has been provided through the issuance of our euro notes and trust preferred securities. We believe that our existing credit facilities, cash generated from operations and other current sources of financing are sufficient to meet our foreseeable needs.

At December 31, 2004 and 2003, we had approximately $635 million and $463 million, respectively, of unused borrowing capacity available under the revolving portion of our 2003 Senior Credit Agreement.

Our amended 2003 Senior Credit Agreement and the indentures relating to our trust preferred securities include covenants that require us to maintain certain financial ratios or meet other financial tests. Under our 2003 Senior Credit Agreement, we are obligated to maintain a minimum consolidated net worth, a minimum consolidated interest coverage ratio (ratio of consolidated EBITDA to consolidated net interest expense as defined in the 2003 Senior Credit Agreement) and a certain consolidated leverage ratio (ratio of consolidated funded debt to consolidated EBITDA as defined in the 2003 Senior Credit Agreement).

Our amended 2003 Senior Credit Agreement and our indentures include other covenants which, among other things, restrict or have the effect of restricting our ability to dispose of assets, incur debt, pay dividends (limited to $180 million in 2005, dividends paid in 2004 were $122 million) and other restricted payments, create liens or make capital expenditures, investments or acquisitions. The breach of any of the covenants could result in a default under the 2003 Senior Credit Agreement or the notes underlying our trust preferred securities, which could, in turn, create additional defaults under the agreements relating to our other long-term indebtedness. In default, the outstanding balance under the amended 2003 Senior Credit Agreement becomes due at the option of the Lenders. As of December 31, 2004, we are in compliance with all financial covenants under the 2003 Senior Credit Agreement.

The Company has an accounts receivable facility whereby certain receivables are sold to NMC Funding, a special purpose entity and a wholly-owned subsidiary. NMC Funding then sells and assigns undivided ownership interests in the accounts receivable to certain bank investors. Effective January 1, 2004 the accounts receivable facility was amended whereby NMC Funding now retains the right to repurchase all transferred interests in the accounts receivable sold to the banks under the facility. As we now have the right at any time to repurchase the then outstanding interests, the receivables remain on our Consolidated Balance Sheet and the proceeds from the sale of undivided interests are recorded as short-term borrowings. The repurchase of all transferred interests in the accounts receivable would result in the termination of the accounts receivable facility under the terms of the facility agreement. On October 21, 2004 the Company amended the accounts receivable facility to extend the maturity date to October 20, 2005.

Our capacity to generate cash from the accounts receivable facility depends on the availability of sufficient accounts receivable that meet certain criteria defined in the agreement with the third party funding corporation. A lack of availability of such accounts receivable could have a material impact on our capacity to utilize the facility for our financial needs.

The settlement agreement with the asbestos creditors committees on behalf of the W.R. Grace & Co. bankruptcy estate (see Note 16) provides for payment by the Company of $115 million upon approval of the settlement agreement by the U.S. District Court, which has occurred, and confirmation of a W.R. Grace & Co.

bankruptcy reorganization plan that includes the settlement. The $115 million obligation is included in the special charge we recorded in 2001 to address 1996 merger-related legal matters.

We are subject to ongoing tax audits in the U.S., Germany and other jurisdictions. We have received notices of unfavorable adjustments and disallowances in connection with certain of the audits. We are contesting, including appealing certain of these unfavorable determinations. We may be subject to additional unfavorable adjustments and disallowances in connection with ongoing audits. If our objections and any final audit appeals are unsuccessful, we could be required to make additional tax payments. With respect to adjustments and disallowances currently on appeal, we do not anticipate that an unfavorable ruling would have a material impact on our results of operations. We are not currently able to determine the timing of these potential additional tax payments. If all potential additional tax payments and the Grace Chapter 11 Proceedings settlement payment were to occur contemporaneously, there could be a material adverse impact on our operating cash flow in the relevant reporting period. Nonetheless, we anticipate that cash from operations and, if required, our available liquidity will be sufficient to satisfy all such obligations if and when they come due.

Dividends. Consistent with prior years, we will continue to follow an earnings-driven dividend policy. The Management Board and the Supervisory Board will propose to the shareholders at the Annual General Meeting a dividend, with respect to 2004 and payable in 2005, of €1.12 per ordinary share (2003: €1.02) and €1.18 per preference share (2003: €1.08) for shareholder approval at the Annual General Meeting on May 24, 2005. The total expected dividend payment is approximately €109 million and we paid approximately $122 million in 2004 for dividends with respect to 2003. Our 2003 Senior Credit Agreement limits disbursements for dividends and certain other transactions relating to our own equity type instruments during 2005 to $180 million in total.

Analysis of Cash Flow

Operations. We generated cash from operating activities of $828 million in the year ended December 31, 2004 and $754 million in the comparable period in 2003, an increase of about 10% over the prior year. Cash flows were primarily generated by increase in net income and working capital improvements.

Investing. Cash used in investing activities decreased from $369 million to $365 million mainly because of decreased capital expenditures but this decrease was offset by increased cash acquisition payments. In 2004, we paid approximately $104 million ($65 million for the North American segment and $39 million for the International segment) cash for acquisitions consisting primarily of dialysis clinics. In the same period in 2003, we paid approximately $92 million ($40 million for the North American segment and $52 million for the International segment) cash for acquisitions consisting primarily of dialysis clinics and the adsorber business acquired from Fresenius AG.

In addition, capital expenditures for property, plant and equipment net of disposals were $261 million in 2004 and $276 million in 2003. In 2004, capital expenditures were $157 million in the North America segment and $104 million for the International segment. In 2003, capital expenditures were $170 million in the North America segment and $106 million for the International segment. The majority of our capital expenditures was used for the maintenance of existing clinics, equipping new clinics, distribution activities in our products business and the expansion of production facilities in Germany, France, Italy and North America. Capital expenditures were approximately 4% of total revenue.

Financing. Net cash used in financing was $452 million in 2004 compared to cash used in financing of $416 million in 2003. Although we increased our Accounts Receivable Facility, our total external financing needs decreased due to higher cash from operating activities partially offset by higher dividend payments. Cash on hand was $59 million at December 31, 2004 compared to $48 million at December 31, 2003.

On February 21, 2003, we entered into an amended and restated bank agreement with Bank of America N.A., Credit Suisse First Boston, Dresdner Bank AG New York, JPMorgan Chase Bank, The Bank of Nova Scotia and certain other lenders (collectively, the "Lenders"), pursuant to which the Lenders made available to the Company and certain subsidiaries and affiliates an aggregate amount of up to $1.5 billion through three credit facilities.

Through a series of amendments in 2003 and 2004, we voluntarily reduced the aggregate amount available to $1.2 billion while increasing the available amounts under the revolving credit portion and reducing the amounts available under the term loan portion. In addition, the amendments reduced the term loan interest rates by 25 basis points in 2003 and an additional 75 basis points in 2004 and the revolving credit interest rates by 62.5 basis points in 2004. The termination date was extended until February 28, 2010. Under the 2004 amendments, we can increase the amount of revolving credit by up to $200 million during the life of the 2003 Senior Credit Agreement.

The Company has approximately $6 million in financing outstanding at December 31, 2004, from Fresenius AG including $3 million in loans and approximately $3 million due May 2005 representing the balance due on the Company's purchase of the adsorber business from Fresenius AG in 2003. At December 31, 2003, the balance outstanding was $30 million from Fresenius AG.

On March 28, 2003, FMCH redeemed all of its outstanding shares of Class D Special Dividend Preferred Stock ("Class D Shares") at a total cash outflow of approximately $9 million.

Obligations

The following table summarizes, as of December 31, 2004, our obligations and commitments to make future payments under our long-term debt, trust preferred securities and other long-term obligations, and our commitments and obligations under lines of credit and letters of credit.

Contractual Cash Obligations

$ in millions	Total	Payments due by period of		
		1 Year	2 – 5 Years	Over 5 Years
Trust Preferred Securities	1,279	–	650	629
Long Term Debt	769	227	466	76
Capital Lease Obligations	7	3	3	1
Operating Leases	1,048	239	542	267
Unconditional Purchase Obligations	151	87	64	–
Other Long-term Obligations	2	2	–	–
Letters of Credit	80	80	–	–
	3,336	**638**	**1,725**	**973**

Available Sources of Liquidity

$ in millions	Total	Expiration due by period of		
		1 Year	2 – 5 Years	Over 5 Years
Unused Senior Credit Lines	635	–	–	635
Other Unused Lines of Credit	128	128	–	–
	763	**128**	**–**	**635**

The amount of guarantees and other commercial commitments at December 31, 2004 is not significant.

Borrowings

Short-term borrowings of $83 million and $89 million at December 31, 2004, and 2003, respectively, represent amounts borrowed by certain of our subsidiaries under lines of credit with commercial banks. The average interest rates on these borrowings at December 31, 2004, and 2003 was 4.69% and 3.38%, respectively. For information regarding short-term borrowings from affiliates see Note 2b) in our Consolidated Financial Statements.

Excluding amounts available under the 2003 Senior Credit Agreement (as described under "Financing" above), at December 31, 2004, we had $128 million available under such commercial bank agreements. Some of these lines of credit are secured by the individual borrowers' accounts receivable and contain various covenants including, but not limited to, requirements for maintaining defined levels of working capital, net worth, capital expenditures and certain financial ratios.

In January 2004, we amended our accounts receivable securitization program which provides borrowings up to a maximum of $460 million on an ongoing basis. Under the terms of the amendment, we now retain the rights to repurchase all transferred interests in the accounts receivable sold to the banks under the facility. As a result, the receivables remain on the Consolidated Balance Sheet with the proceeds from the sale of the undivided interests recorded as short-term borrowings. Prior to the amendment, the receivables sold were removed from the Consolidated Balance Sheet. At December 31, 2004, we had outstanding borrowings under the facility of $336 million with effective interest rates ranging from 1.00%-2.23% during the year. At December 31, 2003, $158 million had been received and were reflected as reductions to accounts receivables. On October 21, 2004, we amended the facility to extend the maturity date to October 21, 2005.

On February 21, 2003, we entered into an amended and restated senior credit agreement with Bank of America N.A, Credit Suisse First Boston, Dresdner Bank AG New York, JPMorgan Chase Bank, The Bank of Nova Scotia, and certain other financial institutions. Pursuant to the agreement, the Lenders made available to the Company and certain subsidiaries and affiliates a credit facility comprising revolving and term loan facilities, currently a revolving facility of $750 million and a term loan facility of $450 million (Loan A-1). (See "Financing" above.)

In 2001, we issued four tranches of senior notes ("Euro Notes") totaling €129 million. The first tranche was for €80 million with a fixed interest rate of 6.16% and the second and third tranches for €29 million and €15 million, respectively, with variable interest rates which averaged 3.51% in 2004 and 3.84% in 2003. The final tranche was for €5 million at a fixed rate of 5.33%. All four tranches have a maturity date of July 13, 2005. Both floating rates are tied to the EURIBOR rate.

Recently Issued Accounting Standards

In November, 2004, the Financial Accounting Standards Board issued SFAS No. 151, *Inventory Costs – an amendment of ARB No. 43, Chapter 4* (FAS 151), which is the result of its efforts to converge U.S. accounting standards for inventories with International Financial Reporting Standards. This statement requires abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We are in the process of determining the impact on our consolidated financial statements.

In December, 2004, the Financial Accounting Standards Board issued its final standard on accounting for share-based payments (SBP), SFAS No. 123R (revised 2004), *Share-Based Payment* (FAS 123R), that requires companies to expense the cost of employee stock options and similar awards. SFAS 123R requires determining the cost that will be measured at fair value on the date of the SBP awards based upon an estimate of the number of awards expected to vest. There will be no right of reversal of cost if the awards expire without being exercised. 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 as they vest. Such cost is not deductible under German tax law. We will have three alternative transition methods, each having a different reporting implication. The effective date is for interim and annual periods beginning after June 15, 2005. We are in the process of determining the transition method we are going to adopt and the potential impact on our consolidated financial statements.

Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Our businesses operate in highly competitive markets and are subject to changes in business, economic and competitive conditions. Our business is subject to:

- changes in reimbursement rates;
- intense competition;
- foreign exchange rate fluctuations;
- varying degrees of acceptance of new product introductions;
- technological developments in our industry;
- uncertainties in litigation or investigative proceedings and regulatory developments in the health care sector; and
- the availability of financing.

Our business is also subject to other risks and uncertainties that we describe from time to time in our public filings. Developments in any of these areas could cause our results to differ materially from the results that we or others have projected or may project.

Reimbursement Rates

We obtained approximately 38% of our worldwide revenue for 2004 from sources subject to regulations under U.S. government health care programs. In the past, U.S. budget deficit reduction and health care reform measures have changed the reimbursement rates under these programs, including the Medicare composite rate, the reimbursement rate for EPO, and the reimbursement rates for other dialysis and non-dialysis related services and products, as well as other material aspects of these programs, and they may change in the future.

We also obtain a significant portion of our net revenues from reimbursement by non-government payors. Historically, these payors' reimbursement rates generally have been higher than government program rates in their respective countries. However, non-governmental payors are imposing cost containment measures that are creating significant downward pressure on reimbursement levels that we receive for our services and products.

Inflation

The effects of inflation during the periods covered by the consolidated financial statements have not been significant to our results of operations. However, most of our net revenues from dialysis care are subject to reimbursement rates regulated by governmental authorities, and a significant portion of other revenues, especially revenues from the U.S., is received from customers whose revenues are subject to these regulated reimbursement rates. Non-governmental payors are also exerting downward pressure on reimbursement rates. Increased operation costs that are subject to inflation, such as labor and supply costs, may not be recoverable through price increases in the absence of a compensating increase in reimbursement rates payable to

us and our customers, and could materially adversely affect our business, financial condition and results of operations.

Management of Currency and Interest Rate Risks

We are primarily exposed to market risk from changes in foreign exchange rates and changes in interest rates. In order to manage the risks from these foreign exchange rate and interest rate fluctuations, we enter into various hedging transactions with highly rated financial institutions as authorized by the Management Board. We do not contract for financial instruments for trading or other speculative purposes.

We conduct our financial instrument activity under the control of a single centralized department. We have established guidelines for risk assessment procedures and controls for the use of financial instruments. They include a clear segregation of duties with regard to execution on one side and administration, accounting and controlling on the other.

Foreign Currency Exposure

We conduct our business on a global basis in several major international currencies, although our operations are located principally in the United States and Germany. For financial reporting purposes, we have chosen the U.S. dollar as our reporting currency. Therefore, changes in the rate of exchange between the U.S. dollar, the euro and the local currencies in which the financial statements of our international operations are maintained, affect our results of operations and financial position as reported in our consolidated financial statements. We have consolidated the balance sheets of our non-U.S. dollar denominated operations into U.S. dollars at the exchange rates prevailing at the balance sheet date. Revenues and expenses are translated at the average exchange rates for the period.

Our exposure to market risk for changes in foreign exchange rates relates to transactions such as sales and purchases, and lendings and borrowings, including intercompany borrowings. We have significant amounts of sales of products invoiced in euro from our European manufacturing facilities to our other international operations. This exposes our subsidiaries to fluctuations in the rate of exchange between the euro and the currency in which their local operations are conducted. We employ, to a limited extent, forward contracts including options to hedge our currency exposures. Our policy, which has been consistently followed, is that forward contracts including options be used only for purposes of hedging foreign currency exposures. We have not used such instruments for purposes other than hedging.

Our foreign exchange contracts contain credit risk, in that our bank counterparties may be unable to meet the terms of the agreements. We monitor the potential risk of loss with any one party from this type of risk. Our management does not expect any material losses as a result of default by the other parties. The table below provides information about our foreign exchange forward contracts at December 31, 2004. The information is provided in U.S. dollar equivalent amounts. The table presents the notional amounts by year of maturity, the fair values of the contracts, which show the

unrealized net gain (loss) on existing contracts as of December 31, 2004, and the credit risk inherent to those contracts with positive market values as of December 31, 2004. All contracts expire within 24 months after the reporting date.

Foreign Currency Risk Management

December 31, 2004	Nominal Amount			Fair Value	Credit Risk
$ in thousands	**2005**	**2006**	**Total**		
Purchase of EUR against USD	173,899	393,672	567,571	57,292	57,292
Sale of EUR against USD	11,764	391,056	402,820	(41,669)	1
Purchase of EUR against others	241,986	11,620	253,606	2,557	5,796
Sale of EUR against others	33,939	–	33,939	(4)	75
Others	60,970	19,118	80,088	(1,196)	1,932
Total	**522,558**	**815,466**	**1,338,024**	**16,980**	**65,096**

A summary of the high and low exchange rates for the euro to U.S. dollars and the average exchange rates for the last five years is set forth below.

December 31,	Year's High	Year's Low	Year's Average	Year's Close
2000 $ per €	1.0388	0.8252	0.9236	0.9305
2001 $ per €	0.9545	0.8384	0.8956	0.8813
2002 $ per €	1.0487	0.8578	0.9454	1.0487
2003 $ per €	1.2630	1.0377	1.1312	1.2630
2004 $ per €	1.3633	1.1802	1.2439	1.3621

Interest Rate Exposure

We are exposed to changes in interest rates that affect our variable-rate based borrowings and the fair value of parts of our fixed rate borrowings. We enter into debt obligations and into accounts receivable financings to support our general corporate purposes including capital expenditures and working capital needs. Consequently, we enter into derivatives, particularly interest rate swaps, to (a) protect interest rate exposures arising from long-term and short-term borrowings and our accounts receivable securitization programs at floating rates by effectively swapping them into fixed rates and (b) hedge the fair value of our fixed interest rate borrowing. Under interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

Our subsidiary, National Medical Care, Inc., ("NMC") has entered into dollar interest rate swaps with various commercial banks for notional amounts totaling $800 million as of December 31, 2004. NMC entered into all of these agreements for purposes other than trading.

The dollar interest rate swaps effectively fix NMC's interest rate exposure on the majority of its variable interest rate exposure of its mainly U.S. dollar-denominated revolving loans and outstanding obligations under the accounts receivable securitization program at an average interest rate of 5.26%.

These dollar interest rate swaps expire at various dates between December 2008 and December 2009. At December 31, 2004, the fair value of these agreements is $(39.1) million.

Our subsidiary, Fresenius Medical Care Trust Finance has entered into interest rate swaps to hedge the risk of changes in the fair value of fixed interest rate borrowings effectively converting the fixed interest payments on Fresenius Medical Care Capital Trust II preferred securities denominated in U.S. dollars into variable interest rate payments. The reported amount of the hedged portion of fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. These interest rate swaps expire in February 2008 and their fair value at December 31, 2004, is $(9.0) million.

The table below presents principal amounts and related weighted average interest rates by year of maturity for the various dollar interest rate swaps and for our significant fixed-rate long-term debt obligations.

Dollar Interest Rate Exposure

$ in millions	2005	2006	2007	2008	2009	Thereafter	Totals	Fair Value Dec. 31, 2004
Principal payments on Senior Credit Agreement								
Variable interest rate = 3.47%	25	100	100	100	100	60	485	485
Accounts receivable facility								
Variable interest rate = 2.27%	336						336	336
Interest rate swap agreements								
Notional amount	–	250	200	100	250	–	800	(39)
Average fixed pay rate = 5.26%		4.60%	6.61%	4.86%	4.99%		5.26%	
Receive rate = 3-month US-$-LIBOR								
Company obligated mandatorily redeemable preferred securities of Fresenius Medical Care Capital Trusts								
Fixed interest rate = 7.875% / issued in 1998				441			441	497
Fixed interest rate = 7.375% / issued in 1998 (denominated in DM)				209			209	229
Fixed interest rate = 7.875% / issued in 2001						223	223	251
Fixed interest rate = 7.375% / issued in 2001 (denominated in euro)						406	406	468
Interest rate swap agreements								
Notional amount				450			450	(9)
Average fixed pay rate = 3.50%				3.50%			3.50%	
Pay rate = 6-month US-$-LIBOR								

Compensation of Our Management Board and Our Supervisory Board

For the year ended December 31, 2004, we paid aggregate compensation to all members of the Management Board of approximately $9.2 million, $4.1 million in fixed compensation and $5.1 million in variable compensation.

The aggregate compensation fees to all members of the Supervisory Board was $0.41 million including compensation to Dr. Krick for his duties as Chairman of the Supervisory Board. We pay an annual retainer fee to each member of the Supervisory Board, with the Chairman paid twice that amount and the Deputy Chairman paid 150% of that amount. We reimburse Supervisory Board members for their reasonable travel and accommodation expenses incurred with respect to their duties as Supervisory Board members. The aggregate compensation reported above does not include amounts paid as fees for services rendered by certain business or professional entities with which some of the Supervisory Board members are associated.

During 2004 we awarded 235,800 options with or without stock price targets to members of the Management Board to purchase our preference shares under the FMC International 2001 Plan. At December 31, 2004 Management Board members held options to acquire 91,600 Preference shares, all of which were exercisable at a weighted average exercise price of €36.85 under FMC 98 Plan 2 and 479,397 options, of which 110,108 are exercisable at a weighted average exercise price of €50.65 under the FMC 2001 stock incentive plan. A Board member exercised 8,000 options at an exercise price of €32.41 under FMC 98 Plan 2 during 2004.

During 1999, the Company granted to a member of the Management Board a five-year loan of $2 million with interest at 6.0% per annum. This loan was repaid in 2003.

Consolidated Statements of Income

$ in thousands, except share data	Note	2004	2003
Net revenue			
Dialysis Care	1j	4,501,197	3,978,344
Dialysis Products		1,726,805	1,549,165
	19	**6,228,002**	**5,527,509**
Costs of revenue			
Dialysis Care		3,232,185	2,871,592
Dialysis Products		909,932	827,014
		4,142,117	**3,698,606**
Gross profit		2,085,885	1,828,903
Operating expenses			
Selling, general and administrative		1,182,176	1,021,781
Research and development	1k	51,364	49,687
Operating income		**852,345**	**757,435**
Other (income) expense			
Interest income		(13,418)	(19,089)
Interest expense		197,164	230,848
Income before income taxes and minority interest		668,599	545,676
Income tax expense	1l, 14	265,415	212,714
Minority interest		1,186	1,782
Net income		**401,998**	**331,180**
Basic income per Ordinary share		**4.16**	**3.42**
Fully diluted income per Ordinary share		**4.14**	**3.42**
Basic income per Preference share		**4.23**	**3.49**
Fully diluted income per Preference share		**4.21**	**3.49**

See accompanying notes to Consolidated Financial Statements.

Consolidated Balance Sheets

$ in thousands, except share data at December 31	Note	2004	2003
Assets			
Current assets			
Cash and cash equivalents	1c	58,966	48,427
Trade accounts receivable, less allowance for doubtful accounts of $179,917 in 2004 and $166,385 in 2003	7	1,462,847	1,229,503
Accounts receivable from related parties	2	51,760	50,456
Inventories	3	442,919	444,738
Prepaid expenses and other current assets		244,093	253,365
Deferred taxes	1l, 14	185,385	179,639
Total current assets		**2,445,970**	**2,206,128**
Property, plant and equipment, net	1f, 4	1,181,927	1,089,146
Intangible assets	1g, 5	602,048	582,103
Goodwill	1g, 5	3,445,152	3,288,348
Deferred taxes	1l, 14	58,123	35,541
Other assets		228,321	302,054
Total assets		**7,961,541**	**7,503,320**

See accompanying notes to Consolidated Financial Statements.

Consolidated Balance Sheets

$ in thousands, except share data at December 31	Note	2004	2003
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		192,552	177,824
Accounts payable to related parties	2	113,444	128,703
Accrued expenses and other current liabilities	6	741,075	691,984
Short-term borrowings	7	419,148	89,417
Short-term borrowings from related parties	2b	5,766	30,000
Current portion of long-term debt and capital lease obligations	7	230,179	90,365
Income tax payable	1l, 14	230,530	178,111
Deferred taxes	1l, 14	5,159	26,077
Total current liabilities		**1,937,853**	**1,412,481**
Long-term debt and capital lease obligations, less current portion	7	545,570	1,111,624
Other liabilities		156,122	128,615
Pension liabilities	8	108,125	100,052
Deferred taxes	1l, 14	282,261	250,446
Company-obligated mandatorily redeemable preferred securities of subsidiary Fresenius Medical Care Capital Trusts holding solely Company-guaranteed debentures of subsidiaries	9	1,278,760	1,242,317
Minority interest	10	18,034	14,105
Total liabilities		**4,326,725**	**4,259,640**
Shareholders' equity			
Preference shares, no par, € 2.56 nominal value, 53,597,700 shares authorized, 26,296,086 issued and outstanding		69,878	69,616
Ordinary shares, no par, € 2.56 nominal value, 70,000,000 shares authorized, issued and outstanding		229,494	229,494
Additional paid-in capital		2,746,473	2,741,362
Retained earnings		657,906	378,014
Accumulated other comprehensive loss	18	(68,935)	(174,806)
Total shareholders' equity	11	**3,634,816**	**3,243,680**
Total liabilities and shareholders' equity		**7,961,541**	**7,503,320**

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

$ in thousands	Note	2004	2003
Operating Activities			
Net income		401,998	331,180
Adjustments to reconcile net income to cash and cash equivalents provided by (used in) operating activities:			
Depreciation and amortization	19	232,585	216,377
Change in deferred taxes, net		34,281	91,312
Loss (gain) on sale of fixed assets		735	(50)
Compensation expense related to stock options	1s, 13	1,751	1,456
Cash inflow from Hedging		14,514	131,654
Changes in assets and liabilities, net of amounts from businesses acquired:			
Trade accounts receivable, net	7	(7,886)	53,563
Inventories	3	27,245	(22,993)
Prepaid expenses, other current and non-current assets		70,033	60,155
Accounts receivable from/ payable to related parties		(22,686)	7,199
Accounts payable, accrued expenses and other current and non-current liabilities		36,157	(92,316)
Income tax payable	1l, 14	39,116	(23,518)
Net cash provided by operating activities		**827,843**	**754,019**

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

$ in thousands	Note	2004	2003
Investing Activities			
Purchases of property, plant and equipment	1f, 4, 19	(278,732)	(291,260)
Proceeds from sale of property, plant and equipment	1f, 4, 19	18,358	14,826
Acquisitions and investments, net of cash acquired	19, 20	(104,493)	(92,190)
Net cash used in investing activities		**(364,867)**	**(368,624)**
Financing Activities			
Proceeds from short-term borrowings	7	70,484	102,678
Repayments of short-term borrowings	7	(86,850)	(153,911)
Proceeds from short-term borrowings from related parties	2b	55,539	94,787
Repayments of short-term borrowings from related parties	2b	(80,000)	(70,787)
Proceeds from long-term debt	7	369,369	982,825
Principal payments of long-term debt and capital lease obligations	7	(840,131)	(968,888)
Increase (decrease) of accounts receivable securitization program		177,767	(287,251)
Proceeds from exercise of stock options	13	3,622	1,600
Dividends paid	11	(122,106)	(107,761)
Redemption of Series D Preferred Stock of subsidiary		–	(8,906)
Change in minority interest		389	(266)
Net cash used in financing activities		**(451,917)**	**(415,880)**
Effect of exchange rate changes on cash and cash equivalents		**(520)**	**14,119**
Cash and Cash Equivalents			
Net increase (decrease) in cash and cash equivalents		10,539	(16,366)
Cash and cash equivalents at beginning of period		48,427	64,793
Cash and cash equivalents at end of period		**58,966**	**48,427**

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders´ Equity

$ in thousands, except share data	Note	Preference Shares		Ordinary Shares	
		Number of shares	No par value	Number of shares	No par value
Balance at December 31, 2002		**26,188,575**	**69,540**	**70,000,000**	**229,494**
Proceeds from exercise of options	13	25,404	76		
Compensation expense related to stock options	13				
Dividends paid	11				
Transaction under common control with Fresenius AG	2d				
Comprehensive income (loss)					
Net income					
Other comprehensive income (loss) related to:					
Cash flow hedges	18				
Foreign currency translation adjustment	18				
Minimum pension liability	8, 18				
Comprehensive income					
Balance at December 31, 2003		**26,213,979**	**69,616**	**70,000,000**	**229,494**
Proceeds from exercise of options	13	82,107	262		
Compensation expense related to stock options	13				
Dividends paid	11				
Comprehensive income (loss)					
Net income					
Other comprehensive income (loss) related to:					
Cash flow hedges	18				
Foreign currency translation adjustment	18				
Minimum pension liability	8, 18				
Comprehensive income					
Balance at December 31, 2004		**26,296,086**	**69,878**	**70,000,000**	**229,494**

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders´ Equity

$ in thousands, except share data	Note		Accumulated other comprehensive income (loss)				
		Additional paid in capital	Retained earnings (deficit)	Foreign currency translation	Cash Flow Hedges	Minimum Pension Liability	Total
Balance at December 31, 2002		**2,736,913**	**154,595**	**(346,824)**	**(17,182)**	**(19,357)**	**2,807,179**
Proceeds from exercise of options	13	1,524					1,600
Compensation expense related to stock options	13	1,456					1,456
Dividends paid	11		(107,761)				(107,761)
Transaction under common control with Fresenius AG	2d	1,469					1,469
Comprehensive income (loss)							
Net income			331,180				331,180
Other comprehensive income (loss) related to:							
Cash flow hedges	18				22,029		22,029
Foreign currency translation adjustment	18			200,578			200,578
Minimum pension liability	8, 18					(14,050)	(14,050)
Comprehensive income							539,737
Balance at December 31, 2003		**2,741,362**	**378,014**	**(146,246)**	**4,847**	**(33,407)**	**3,243,680**
Proceeds from exercise of options	13	3,360					3,622
Compensation expense related to stock options	13	1,751					1,751
Dividends paid	11		(122,106)				(122,106)
Comprehensive income (loss)							
Net income			401,998				401,998
Other comprehensive income (loss) related to:							
Cash flow hedges	18				(29,011)		(29,011)
Foreign currency translation adjustment	18			144,784			144,784
Minimum pension liability	8, 18					(9,902)	(9,902)
Comprehensive income							507,869
Balance at December 31, 2004		**2,746,473**	**657,906**	**(1,462)**	**(24,164)**	**(43,309)**	**3,634,816**

See accompanying notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

($ in thousands, except share data)

1 The Company and Summary of Significant Accounting Policies

Fresenius Medical Care AG and subsidiaries ("FMS" or the "Company"), is the world's largest integrated provider of kidney dialysis services and manufacturer and distributor of products and equipment for the treatment of end-stage renal disease. In the U.S., the Company also performs clinical laboratory testing and provides perfusion, therapeutic apheresis and autotransfusion services.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Summary of Significant Accounting Policies

a) Principles of Consolidation

The consolidated financial statements include all material companies in which the Company has legal or effective control. In addition, the Company consolidates variable interest entities ("VIEs") for which it is deemed the primary beneficiary. The equity method of accounting is used for investments in associated companies (20% to 50% owned). All significant intercompany transactions and balances have been eliminated.

The Company enters into various arrangements with certain dialysis clinics to provide management services, financing and product supply. Some of these clinics are variable interest entities. Under FIN 46R these clinics are consolidated if the Company is determined to be the primary beneficiary. The Company also participates in a joint venture which is engaged in the perfusion industry. The arrangements with the joint venture partner are such that it qualifies as a variable interest entity and the Company is the primary beneficiary. These variable interest entities in which the Company is the primary beneficiary, generate approximately $146,693 in annual revenue.

In accordance with FIN 46R, the Company fully consolidates the VIEs. The interest held by the minority shareholders in these consolidated VIEs is reported as minority interest in the consolidated balance sheet at December 31, 2004.

The Company also has relationships with variable interest entities where it is not the primary beneficiary. These variable interest entities consist of a number of dialysis facilities whose operations are not material in the aggregate and a management company with which the Company has had a relationship with since 1998. The management company has approximately $10,000 in sales and the Company has no potential losses as a result of its relationship.

b) Classifications

Certain items in prior years' consolidated financial statements may have been reclassified to conform with the current year's presentation. Net operating results have not been affected by the reclassifications.

c) Cash and Cash Equivalents

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

d) Allowance for Doubtful Accounts

Estimates for the allowances for accounts receivable from the dialysis service business are mainly based on past collection history. Specifically, the allowances for the North American services division are based on an analysis of collection experience, recognizing the differences between payors and aging of accounts receivable. From time to time, accounts receivable are reviewed for changes from the historic collection experience to ensure the appropriateness of the allowances. The allowances in the international segment and the products business are based on estimates and consider various factors, including aging, creditor and past collection history.

e) Inventories

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

f) Property, Plant and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation. Significant improvements are capitalized; repairs and maintenance costs that do not extend the useful lives of the assets are charged to expense as incurred. Property and equipment under capital leases are stated at the present value of future minimum lease payments at the inception of the lease, less accumulated depreciation. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years for buildings and improvements with a weighted average life of 12 years and 3 to 15 years for machinery and equipment with a weighted average life of 8 years. Equipment held under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. The Company capitalizes interest on borrowed funds during construction periods. Interest capitalized during 2004 and 2003 was $1,611 and $920, respectively.

g) Goodwill and Other Intangible Assets

Intangible assets such as tradenames, management contracts, patient relationships, patents, distribution rights, software, and licenses acquired in a purchase method business combination are recognized and reported apart from goodwill, pursuant to the criteria specified by SFAS No.141.

Goodwill and identifiable intangibles with indefinite lives are not amortized, but tested annually for impairment. The Company identified trade names and management

contracts as intangible assets with indefinite useful lives. Intangible assets with finite useful lives are amortized over their respective estimated useful lives to their estimated residual values.

To evaluate the recoverability of goodwill, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. At least once a year the Company compares the fair value of each reporting unit to the reporting unit's carrying amount. Fair value is determined using a discounted cash flow approach. In the case that the fair value of the reporting unit is less than its book value, a second step is performed which compares the fair value of the reporting unit's goodwill to the carrying value of its goodwill. If the fair value of the goodwill is less than the book value, the difference is recorded as an impairment.

To evaluate the recoverability of intangible assets with indefinite useful lives, the Company compares the fair values of intangible assets with their carrying values. An intangible asset's fair value is determined using a discounted cash flow approach and other appropriate methods.

h) Derivative Financial Instruments

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, derivative financial instruments which primarily include foreign currency forward contracts and interest rate swaps are recognized as assets or liabilities at fair value in the balance sheet. Changes in fair value of derivative financial instruments are recognized periodically either in earnings or, in the case of cash flow hedges, as other comprehensive income (loss) in shareholders' equity.

Amounts due from and payable to the counterparties of interest rate swaps are recorded on an accrual basis at each reporting date at amounts computed by reference to the respective interest rate swap contract. Realized gains and losses that occur from the early termination or expiration of contracts are deferred and recorded in income over the remaining period of the original swap agreement if the corresponding debt is still outstanding. Gains and losses arising from interest differential on contracts that hedge specific borrowings are recorded as a component of interest expense over the life of the contract. In the event the hedged asset is sold, or otherwise disposed of, or liability is terminated, the gain or loss on the interest rate swap would be matched with the offsetting gain or loss of the related item (see Note 17).

i) Foreign Currency Translation

For purposes of these consolidated financial statements, the U.S. dollar is the reporting currency. The Company follows the provisions of SFAS No. 52, *Foreign Currency Translation*. Substantially all assets and liabilities of the parent company and all non-U.S. subsidiaries are translated at year-end exchange rates, while revenues and expenses are translated at exchange rates prevailing during the year. Adjustments for foreign currency translation fluctuations are excluded from net earnings and are

reported in accumulated other comprehensive income (loss). In addition, the translation adjustments of certain intercompany borrowings, which are considered foreign equity investments, are reported in accumulated other comprehensive income (loss).

j) Revenue Recognition Policy

Dialysis care revenues are recognized on the date services and related products are provided and the payor is obligated to pay at amounts estimated to be received under reimbursement arrangements with third party payors. Medicare and Medicaid in North America and programs involving other government payors in the international segment are billed at pre-determined rates per treatment that are established by statute or regulation. Most non-governmental payors are billed at our standard rates for services net of contractual allowances to reflect the estimated amounts to be received under reimbursement arrangements with these payors.

Dialysis product revenues are recognized when title to the product passes to the customers either at the time of shipment, upon receipt by the customer or upon any other terms that clearly define passage of title. As product returns are not typical, no return allowances are established. In the event a return is required, the appropriate reductions to sales, accounts receivables and cost of sales are made.

A minor portion of International product revenue are generated from arrangements which give the customer, typically a health care provider, the right to use dialysis machines. In the same contract the customer agrees to purchase the related treatment disposables at a price marked up from the standard price list. FMS does not recognize revenue upon delivery of the dialysis machine but recognizes revenue, including the mark-up on the sale of disposables.

k) Research and Development expenses

Research and development expenses are expensed as incurred.

l) Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, deferred tax assets and liabilities are recognized for the future consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded to reduce the carrying amount of the deferred tax assets unless it is more likely than not that such assets will be realized (see Note 14).

m) Impairment

The Company reviews the carrying value of its long-lived assets or asset groups with definite useful lives to be held and used for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or*

Disposal of Long-Lived Assets. Recoverability of these assets is measured by a comparison of the carrying value of an asset to the future net cash flow directly associated with the asset. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value exceeds the fair value of the asset. The Company uses various valuation factors, including market prices and present value techniques to assess fair value.

In accordance with SFAS No. 144, long-lived assets to be disposed of by sale are reported at the lower of carrying value or fair value less cost to sell and depreciation is ceased. Long-lived assets to be disposed of other than by sale are considered to be held and used until disposal.

n) Debt Issuance Costs

Costs related to the issuance of debt are amortized over the term of the related obligation.

o) Self-Insurance Programs

The Company's largest subsidiary is partially self-insured for professional, product and general liability, auto liability and worker's compensation claims under which the Company assumes responsibility for incurred claims up to predetermined amounts above which third party insurance applies. Reported balances for the year include estimates of the anticipated expense for claims incurred (both reported and incurred but not reported) based on historical experience and existing claim activity. This experience includes both the rate of claims incidence (number) and claim severity (cost) and is combined with individual claim expectations to estimate the reported amounts.

p) Use of Estimates

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

q) Concentration of Risk

The Company is engaged in the manufacture and sale of products for all forms of kidney dialysis, principally to health care providers throughout the world, and in providing kidney dialysis treatment, clinical laboratory testing, perfusion, therapeutic apheresis and autotransfusion services and other medical ancillary services. The Company performs ongoing evaluations of its customers' financial condition and, generally, requires no collateral.

Approximately 38% and 40% of the Company's worldwide revenues were paid by and subject to regulations under governmental health care programs, primarily

Medicare and Medicaid, administered by the United States government in 2004 and 2003, respectively.

r) Earnings per Ordinary share and Preference share

Basic income per Ordinary share and basic income per Preference share for all years presented have been calculated using the two-class method required under U.S. GAAP based upon the weighted average number of Ordinary and Preference shares outstanding. Basic earnings per share are computed by dividing net income less preference amounts by the weighted average number of Ordinary shares and Preference shares outstanding during the year. Diluted earnings per share include the effect of all potentially dilutive instruments on Ordinary shares and Preference shares that would have been outstanding during the year.

The awards granted under the Company's stock incentive plans (see Note 13), are potentially dilutive equity instruments.

s) Stock Option Plans

The Company accounts for its stock option plans using the intrinsic value method in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. As such, compensation expense is recorded only if the current market price of the underlying stock exceeds the exercise price on the measurement date. For stock incentive plans which are performance based, the Company recognizes compensation expense over the vesting periods, based on the then current market values of the underlying stock.

Fair Value of Stock Options

In electing to continue to follow APB Opinion No. 25 for expense recognition purposes, the Company is obliged to provide the expanded disclosures required under SFAS No. 148 for stock-based compensation granted, including, if materially different from reported results, disclosure of proforma net earnings and earnings per share had compensation expense relating to grants been measured under the fair value recognition provisions of SFAS No. 123.

The per share weighted-average fair value of stock options granted during 2004 and 2003 was $15.76 and $14.26, respectively, on the date of the grant using the Black-Scholes option-pricing model with the weighted-average assumptions presented below.

Weighted-average Assumptions

	2004	2003
Expected divident yield	2.87%	2.60%
Risk-free interest rate	3.50%	3.80%
Expected volatility	40.00%	40.00%
Expected life of options	5.3 years	5.3 years

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock based employee compensation.

Stock Option Plans		
$ in thousands, except share data	**2004**	2003
Net income		
As reported:	401,998	331,180
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1,751	1,456
Deduct: Total stock-based employee compenstion expense determined under fair value method for all awards, net of related tax effects	(8,835)	(9,583)
Pro forma	**394,914**	**323,053**
Basic income per:		
Ordinary share		
As reported	4.16	3.42
Pro forma	4.08	3.34
Preference share		
As reported	4.23	3.49
Pro forma	4.16	3.41
Fully diluted income per:		
Ordinary share		
As reported	4.14	3.42
Pro forma	4.06	3.34
Preference share		
As reported	4.21	3.49
Pro forma	4.14	3.41

t) Recent Pronouncements and Accounting Changes

In November, 2004, the Financial Accounting Standards Board issued SFAS No. 151, *Inventory Costs – an amendment of ARB No. 43, Chapter 4* (FAS 151), which is the result of its efforts to converge U.S. accounting standards for inventories with International Financial Reporting Standards. This statement requires abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is in the process of determining the impact on the Company's consolidated financial statements.

In December, 2004, the Financial Accounting Standards Board issued its final standard on accounting for share-based payments (SBP), SFAS No. 123R (revised 2004), *Share-Based Payment* (FAS 123R), that requires companies to expense the cost of employee stock options and similar awards. SFAS 123R requires determining the cost that will be

measured at fair value on the date of the SBP awards based upon an estimate of the number of awards expected to vest. There will be no right of reversal of cost if the awards expire without being exercised. 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 as they vest. Such cost is not deductible under German tax law. The Company will have three alternative transition methods, each having a different reporting implication. The effective date is for interim and annual periods beginning after June 15, 2005. The Company is in the process of determining the transition method it is going to adopt and the potential impact on the Company's consolidated financial statements.

2 Related Party Transactions

a) Service Agreements

The Company is party to service agreements with Fresenius AG, its majority shareholder, and certain affiliates of Fresenius AG to receive services, including, but not limited to: administrative services, management information services, employee benefit administration, insurance, IT services, tax services and treasury services. For the years 2004 and 2003, amounts charged by Fresenius AG to FMS under the terms of the agreements are $25,597 and $26,172, respectively. FMS also provides certain services to Fresenius AG and certain affiliates of Fresenius AG, including research and development, central purchasing, patent administration and warehousing. FMS charged $10,766 and $11,669 for services rendered to Fresenius AG in 2004 and 2003, respectively.

Under operating lease agreements for real estate entered into with Fresenius AG, FMS paid Fresenius AG $14,835 and $13,307 during 2004 and 2003, respectively. The majority of the leases expire in 2006 with options for renewal.

b) Financing Provided by Fresenius AG

The Company has approximately $6,000 in financing outstanding at December 31, 2004, from Fresenius AG including $3,000 in loans and approximately $3,000 due May 2005 representing the balance due on the Company's purchase of the Adsorber business from Fresenius AG in 2003. In January 2004, the Company retired short-term loans with an outstanding balance of $30,000 at December 31, 2003 and bore interest at an average rate of 1.0875% while they were outstanding during 2004. At December 31, 2003, the Company had short-term loans outstanding of $30,000, which bore interest at an average rate of 1.165%. Interest expense on these borrowings was $22 and $59 for 2004 and 2003, respectively.

c) Products

During the years ended December 31, 2004 and 2003, the Company recognized sales of $35,085 and $27,306, respectively, to Fresenius AG and affiliates. During 2004 and 2003, the Company made purchases from Fresenius AG and affiliates in the amount of $36,122 and $27,228, respectively.

d) Acquisitions

During the second quarter of 2003 the Company acquired Fresenius AG's adsorber business for a purchase price of $23,735, net of cash acquired. The adsorber business manufactures products used in the field of therapeutic apheresis. These therapies are similar to kidney dialysis treatment in that they consist of extracorporeal blood treatments. The acquisition was accounted for as a transaction of a company under common control.

e) Other

The Chairman of the Company's Supervisory Board is also the Chairman of the Supervisory Board of Fresenius AG, the majority holder of FMS's Ordinary shares.

The Vice Chairman of the Company's Supervisory Board is a member of the Supervisory Board of Fresenius AG, the majority holder of FMS's Ordinary shares. He is also a partner in a law firm which provided services to the Company. The Company paid the law firm approximately $1,383 and $483, in 2004 and 2003, respectively.

In May of 2003, the Chief Financial Officer of the Company resigned to assume the position of Chairman of the Management Board and CEO of Fresenius AG. In May 2004, he was elected as a member of the Company's Supervisory Board.

During 1999, the Company granted to a member of the Management Board a five-year unsecured loan of $2,000 with interest at 6.0% per annum. This loan was repaid in 2003.

3 Inventories

As of December 31, 2004 and 2003, inventories consisted of the following:

Inventories

$ in thousands	2004	2003
Raw materials and purchased components	90,268	86,653
Work in process	36,586	33,778
Finished goods	240,296	244,355
Health care supplies	75,769	79,952
Inventories	**442,919**	**444,738**

Under the terms of certain unconditional purchase agreements, the Company is obligated to purchase approximately $150,619 of materials, of which $87,026 is committed at December 31, 2004 for 2005. The terms of these agreements run 1 to 6 years. Inventories as of December 31, 2004 include $21,776 of Erythropoietin ("EPO"), which is supplied by a single source supplier in the United States. Delays, stoppages, or interruptions in the supply of EPO could adversely affect the operating results of the Company. Revenues from EPO accounted for approximately 23% of total revenue in the North America segment for both 2004 and 2003.

4 Property, Plant and Equipment

As of December 31, 2004 and 2003, property, plant and equipment consisted of the following:

Acquisition or Manufacturing Cost

$ in thousands	January 1, 2004	Currency change	Changes in Consolidation Group	Additions	Reclassifications	Disposals	December 31, 2004
Land	28,109	1,621	209	1,120	83	(1,884)	29,258
Buildings	694,327	16,274	6,945	52,245	17,189	(16,877)	770,103
Machinery	1,191,708	61,179	17,978	138,807	16,917	(77,216)	1,349,373
Capital Lease	54,101	4,513	1,257	7,516	(2,891)	(5,313)	59,183
Construction in progress	58,509	3,007	366	69,676	(37,677)	(2,654)	91,227
Total	**2,026,754**	**86,594**	**26,755**	**269,364**	**(6,379)**	**(103,944)**	**2,299,144**

Depreciation expense for property, plant and equipment amounted to $199,732 and $180,952 for the years ended December 31, 2004 and 2003, respectively.

Depreciation / Amortization

$ in thousands	January 1, 2004	Currency change	Changes in Consolidation Group	Additions	Reclassifications	Disposals	December 31, 2004
Land	309	(1)	–	1	(87)	(89)	133
Buildings	250,256	5,435	3,732	59,422	6	(13,112)	305,739
Machinery	657,389	43,308	3,211	132,738	7,515	(67,622)	776,539
Capital Lease	29,654	2,680	562	7,571	(1,269)	(4,392)	34,806
Construction in progress	–	–	–	–	–	–	–
Total	**937,608**	**51,423**	**7,505**	**199,732**	**6,165**	**(85,214)**	**1,117,217**

Net Book Value

$ in thousands	December 31, 2004	December 31, 2003
Land	29,125	27,800
Buildings	464,364	444,071
Machinery	572,834	534,319
Capital Lease	24,377	24,447
Construction in progress	91,227	58,509
Total	**1,181,927**	**1,089,146**

Included in property, plant and equipment as of December 31, 2004 and 2003 were $126,021 and $98,243, respectively, of peritoneal dialysis cycler machines which the Company leases to customers with end-stage renal disease on a month-to-month basis and hemodialysis machines which the Company leases to physicians under operating leases. Accumulated depreciation related to machinery, equipment and rental equipment under capital leases was $34,806 and $29,654 at December 31, 2004 and 2003, respectively.

5 Goodwill and other Intangible Assets

As of December 31, 2004 and 2003, the carrying value and accumulated amortization of intangible assets other than goodwill consisted of the following:

Acquisition or Manufacturing Costs

$ in thousands	January 01, 2004	Currency change	Changes in Consolidation Group	Additions	Reclassifications	Disposals	December 31, 2004	Average Useful Life
Amortizable Intangible Assets								
Patient relationships	258,408	1,832	16,423	11	(1)	–	276,673	17
Patents	18,178	1,445	580	5,701	4,000	(1,396)	28,508	18
Distribution Rights	23,919	1,884	584	91	–	(1,172)	25,306	20
Other	170,321	5,621	6,008	4,332	(787)	(2,419)	183,076	12
	470,826	**10,782**	**23,595**	**10,135**	**3,212**	**(4,987)**	**513,563**	**15**
Non-Amortizable Intangible Assets								
Tradename	254,938	1,049	–	–	–	(382)	255,605	
Management contracts	231,277	–	6,804	159	2,167	–	240,407	
	486,215	**1,049**	**6,804**	**159**	**2,167**	**(382)**	**496,012**	
Total Intangible Assets	**957,041**	**11,831**	**30,399**	**10,294**	**5,379**	**(5,369)**	**1,009,575**	
Goodwill	**3,798,677**	**33,198**	**122,877**	**77**	**4,402**	**(113)**	**3,959,118**	

Depreciation / Amortization

$ in thousands	January 01, 2004	Currency change	Changes in Consolidation Group	Additions	Reclassifications	Disposals	December 31, 2004
Amortizable Intangible Assets							
Patient relationships	208,890	553	–	16,090	12	–	225,545
Patents	15,056	822	111	1,327	300	(1,377)	16,239
Distribution Rights	9,548	790	–	1,224	–	(1,172)	10,390
Other	86,318	3,072	54	14,212	(1,617)	(1,910)	100,129
	319,812	**5,237**	**165**	**32,853**	**(1,305)**	**(4,459)**	**352,303**
Non-Amortizable Intangible Assets							
Tradename	33,218	148	–	–	–	(50)	33,316
Management contracts	21,908	–	–	–	–	–	21,908
	55,126	**148**	**–**	**–**	**–**	**(50)**	**55,224**
Total Intangible Assets	**374,938**	**5,385**	**165**	**32,853**	**(1,305)**	**(4,509)**	**407,527**
Goodwill	**510,329**	**2,728**	**–**	**–**	**225**	**684**	**513,966**

Net Book Value

$ in thousands	December 31, 2004	December 31, 2003
Amortizable Intangible Assets		
Patient relationships	51,128	49,518
Patents	12,269	3,122
Distribution rights	14,916	14,371
Other	82,947	84,003
	161,260	**151,014**
Non-Amortizable Intangible Assets		
Tradename	222,289	221,720
Management contracts	218,499	209,369
	440,788	**431,088**
Total Intangible Assets	**602,048**	**582,103**
Goodwill	**3,445,152**	**3,288,348**

The related amortization expenses in 2004 and 2003 were at $32,853 and $34,317, respectively.

The related estimated amortization expenses are as follows:

Estimated Amortization Expenses

$ in thousands

2005	2006	2007	2008	2009
30,250	25,919	16,479	11,227	7,978

Goodwill

Changes in the carrying amount of goodwill are mainly a result of acquisitions and the impact of foreign currency translations. During the year ended December 31, 2004, the Company's acquisitions principally involved the acquisition of dialysis clinics providing dialysis therapy. During the year ended December 31, 2003, the Company acquired certain health care and distribution facilities, including the adsorber business of Fresenius AG. The segment detail is as follows:

Goodwill

$ in thousands	North America	International	Total
Balance as of January 1, 2003	2,940,326	252,325	3,192,651
Goodwill acquired	24,925	35,813	60,738
Reclassifications	(14,398)	(865)	(15,263)
Currency Translation	–	50,222	50,222
Balance as of December 31, 2003	**2,950,853**	**337,495**	**3,288,348**
Goodwill acquired	69,172	53,782	122,954
Reclassifications	501	2,879	3,380
Currency Translation	–	30,470	30,470
Balance as of December 31, 2004	**3,020,526**	**424,626**	**3,445,152**

6 Accrued Expenses and Other Current Liabilities

As at December 31, 2004 and 2003 accrued expenses and other current liabilities consisted of the following:

Accrued Expenses

$ in thousands	2004	2003
Accrued salaries and wages	193,469	143,747
Special charge for legal matters	122,085	138,154
Unapplied cash and receivable credits	66,591	65,624
Accrued insurance	56,584	45,015
Accrued interest	49,820	39,448
Accrued operating expenses	47,306	41,236
Withholding tax and VAT	37,124	25,818
Accrued physician compensation	21,112	19,844
Commissions	21,050	17,568
Derivatives	13,532	51,446
Bonuses and Rebates	10,728	10,122
Deferred income	10,031	10,336
Accrued legal and compliance costs	8,732	7,767
Other	82,911	75,859
Total accrued expenses and other current liabilities	**741,075**	**691,984**

In 2001, the Company recorded a $258,159 special charge to address 1996 merger-related legal matters, estimated liabilities and legal expenses arising in connection with the W.R. Grace & Co. Chapter 11 proceedings (the "Grace Chapter 11 Proceedings") and the cost of resolving pending litigation and other disputes with certain commercial insurers (see Note 16).

The Company accrued $172,034 principally representing a provision for income taxes payable for the years prior to the 1996 merger for which W.R. Grace & Co. had agreed to indemnify the Company, but which the Company may ultimately be obligated to pay as a result of Grace's Chapter 11 Proceedings. In addition, that amount included the costs of defending the Company in litigation arising out of the Grace Chapter 11 Proceedings (see Note 16).

The Company included $55,489 in the special charge to provide for settlement obligations, legal expenses and the resolution of disputed accounts receivable relating to various insurance companies.

The remaining amount of the special charge of $30,636 was accrued mainly for (i) assets and receivables that are impaired in connection with other legal matters and (ii) anticipated expenses associated with the continued defense and resolution of the legal matters.

During the second quarter of 2003, the court supervising the Grace Chapter 11 Proceedings approved the definitive settlement agreement entered into among the Company, the committee representing the asbestos creditors and W.R. Grace & Co (see Note 16). Under the settlement agreement, the Company will pay $115,000 upon plan confirmation. Based on these developments, the Company reduced its estimate in 2003 for the settlement and related costs of the Grace Chapter 11 Proceedings by $39,000. This reduction of the provision for the W.R. Grace & Co. matter has been applied to the other components of the special charge (i.e. reserves for settlement obligations and disputed accounts receivable from commercial insurers and other merger-related legal matters described in this note).

At December 31, 2004, there is a remaining balance of $122,085, including the aforementioned $115,000 settlement payment, for the accrual for the special charge for legal matters. The Company believes that these reserves are adequate for the settlement of the matters described above. During 2004, $16,069 in charges were applied against the accrued special charge for legal matters.

7 Short-term Borrowings, Long-term Debt and Capital Lease Obligations

As of December 31, 2004 and 2003, short-term borrowings consisted of the following:

Short-term Borrowings

$ in thousands	2004	2003
Borrowings under lines of credit	83,383	89,417
Accounts receivable facility	335,765	–
	419,148	**89,417**

As of December 31, 2004 and 2003, long-term debt and capital lease obligations consisted of the following:

Long-term Debt and Capital Lease Obligations

$ in thousands	2004	2003
Senior Credit Agreement	484,500	912,300
Capital lease obligations	6,987	9,919
Euro Notes	175,030	162,296
Other	109,232	117,474
	775,749	**1,201,989**
Less current maturities	(230,179)	(90,365)
	545,570	**1,111,624**

Short-term Borrowings

For information regarding short-term borrowings from affiliates see Note 2b).

Lines of Credit. Short-term borrowings of $83,383 and $89,417 at December 31, 2004, and 2003, respectively, represent amounts borrowed by certain of the Company's subsidiaries under lines of credit with commercial banks. The average interest rates on these borrowings during 2004 and 2003 were 4.69% and 3.38%, respectively.

Excluding amounts available under the 2003 Senior Credit Agreement (as described below), at December 31, 2004, FMS had $128,062 available under such commercial bank agreements. In some instances, lines of credit are secured by assets of the FMS subsidiary that is party to the agreement.

Accounts Receivable Facility. The Company has an asset securitization facility (the "accounts receivable facility"), which provides borrowings up to a maximum of $460,000. Under the facility, certain receivables are sold to NMC Funding Corporation ("NMC Funding"), a wholly-owned subsidiary. NMC Funding then assigns undivided

ownership interests in the accounts receivable to certain bank investors. In 2004, the Company amended the accounts receivable facility. Under the terms of the amendment, NMC Funding retains the right to repurchase all transferred interests in the accounts receivable sold to the banks under the facility. As the Company now has the right at any time to repurchase the then outstanding interests, the receivables remain on the Consolidated Balance Sheet and the proceeds from the sale of undivided interests are recorded as short-term borrowings.

Prior to the amendment, the receivables sold were removed from the Consolidated Balance Sheet. At December 31, 2003, $157,998 had been received pursuant to such sales and were reflected as reductions to accounts receivable.

At December 31, 2004 there are outstanding short-term borrowings under the facility of $335,765. NMC Funding pays interest to the bank investors, calculated based on the commercial paper rates for the particular tranches selected. The effective interest rate ranged from 1.00%-2.23% during the twelve months ended December 31, 2004. Under the terms of the facility agreement, new interests in accounts receivable are sold as collections reduce previously sold accounts receivable. The costs are expensed as incurred and recorded as interest expense and related financing costs. On October 21, 2004 the Company amended the accounts receivable facility to extend the maturity date to October 20, 2005.

Long-term Debt

Euro Notes. In 2001, the Company issued four tranches of senior notes ("Euro Notes") totaling €128,500 in aggregate principal amount. The first tranche was for €80,000 with a fixed interest rate of 6.16% and the second and third tranches were for €28,500 and €15,000, respectively, with variable interest rates that averaged 3.51% in 2004 and 3.84% in 2003. The final tranche was for €5,000 at a fixed rate of 5.33%. All four tranches have a maturity date of July 13, 2005. Both floating rates are tied to the 3-month EURIBOR rate.

2003 Senior Credit Agreement. On February 21, 2003, the Company entered into an amended and restated bank agreement (hereafter, the "2003 Senior Credit Agreement") with Bank of America N.A, Credit Suisse First Boston, Dresdner Bank AG New York, JPMorgan Chase Bank, The Bank of Nova Scotia and certain other lenders (collectively, the "Lenders"), replacing the 1996 Senior Credit Agreement that was scheduled to expire at September 30, 2003. Under the terms of the 2003 Senior Credit Agreement, the Lenders made available to the Company and certain subsidiaries and affiliates an aggregate amount of up to $1,500,000. Under the 2003 Credit Agreement, all principal payments made on term loans permanently reduce the total amounts available.

Through a series of amendments in 2003 and 2004, the Company has voluntarily reduced the aggregate amount available to $1,200,000 and has achieved a reduction of the applicable interest rates. The 2003 amendment voluntarily reduced the aggregate amount available to $1,400,000 while reducing interest rates for certain tranches of the term loan portion by 25 basis points. The 2004 amendments further reduced the aggregate amount available to $1,200,000 while increasing the available amounts under the revolving loan portion and reducing the amounts available under the term loan portion. In the 2004 amendments, the Company also reduced the interest rates on the Revolving Credit by 62.5 basis points and the interest rates on certain of the term loan tranches by 62.5 and 75 basis points while extending the termination date of the facility until February 28, 2010. In addition, under the 2004 amendments, the Company can increase the amount of the revolving credit facility by up to $200,000 during the extended life of the 2003 Senior Credit Agreement.

The following table shows the available and outstanding credit under the 2003 Senior Credit Agreement:

2003 Senior Credit Agreement – Available and Outstanding Credit

$ in thousands	2004	2003
Maximum Amount Available		
Revolving Credit	750,000	500,000
Term Loan A	–	500,000
Term Loan A-1	450,000	–
Term Loan C	–	398,000
	1,200,000	**1,398,000**
Balance Outstanding		
Revolving Credit	34,500	14,300
Term Loan A	–	500,000
Term Loan A-1	450,000	–
Term Loan C	–	398,000
	484,500	**912,300**

The terms of the credit facilities available at December 31, 2004 are:

- a **revolving credit facility** of up to $750,000 (of which up to $250,000 is available for letters of credit, up to $300,000 is available for borrowings in certain non-U.S. currencies, up to $75,000 is available as swing line in U.S. dollars, up to $250,000 is available as a competitive loan facility and up to $50,000 is available as swing line in certain non-U.S. currencies, the total of which cannot exceed $750,000) which will be due and payable on February 28, 2010.
- a **term loan facility ("Loan A-1")** of $450,000, also maturing on February 28, 2010. The terms of the 2003 Senior Credit Agreement require payments that permanently reduce the term loan facility. The repayment begins in the fourth quarter of 2005 and amounts to $25,000 per quarter. The remaining amount outstanding is due on February 28, 2010.

The revolving credit facility and Loan A-1 interest rates are equal to LIBOR plus an applicable margin, or base rate, defined as the higher of the Bank of America prime rate or the Federal Funds rate plus 0.5% plus the applicable margin. The applicable margin is variable and depends on the ratio of the Company's funded debt to EBITDA as defined in the 2003 Senior Credit Agreement. In addition to scheduled principal payments, indebtedness outstanding under the 2003 Senior Credit Agreement will be reduced by portions of the net cash proceeds from certain sales of assets, securitization transactions other than the Company's existing accounts receivable financing facility and the issuance of subordinated debt.

The 2003 Senior Credit Agreement contains affirmative and negative covenants with respect to the Company and its subsidiaries and other payment restrictions. Some of the covenants limit indebtedness of the Company and investments by the Company, and require the Company to maintain certain ratios defined in the agreement. Additionally, the 2003 Senior Credit Agreement provides for a dividend restriction, which is $180,000 for dividends paid in 2005, and increases in subsequent years. The Company paid dividends of $122,106 in 2004. In default, the outstanding balance under the 2003 Senior Credit Facility becomes immediately due and payable at the option of the Lenders. As of December 31, 2004, the Company is in compliance with all financial covenants under the 2003 Senior Credit Agreement.

Annual Payments. Aggregate annual payments applicable to the 2003 Senior Credit Agreement, Euro Notes, capital leases and other borrowings (excluding the Company's trust preferred securities) for the five years subsequent to December 31, 2004 are:

$ in thousands

2005	2006	2007	2008	2009	Thereafter	**Total**
230,179	120,911	128,566	112,290	106,784	77,019	**775,749**

8 Employee Benefit Plans

Defined Benefit Pension Plans

The Company currently has two principal pension plans, one for German employees, and the other covering employees in the United States. Plan benefits are generally based on years of service and final salary. Consistent with predominant practice in Germany, FMS's pension obligations in Germany are unfunded. During the first quarter of 2002, the Company's subsidiary, Fresenius Medical Care Holdings, Inc. ("FMCH") curtailed its defined benefit and supplemental executive retirement plans. Under the curtailment amendment, no additional defined benefits for future services will be earned by substantially all employees eligible to participate in the plan. The Company has retained all employee pension obligations as of the curtailment date for the fully-vested and frozen benefits for all employees. Each year FMCH contributes at least the minimum required by the Employee Retirement Income Security Act of 1974, as mended. There was no minimum funding requirement for FMCH for the defined benefit plan in 2004. FMCH voluntarily contributed $25,633 during 2004. The following tables provide a reconciliation of benefit obligations, plan assets, and funded status of the plans. Benefits paid as shown in the reconciliation of plan assets include only benefit payments from the Company's funded benefit plans.

Employee Benefit Plans

$ in thousands	2004	2003
Change in benefit obligation		
Benefit obligation at beginning of year	241,240	184,468
Translation loss	4,939	8,870
Service cost	4,269	3,486
Interest cost	14,816	13,419
Transfer of plan participants	(261)	1,356
Actuarial loss	28,165	33,563
Benefits paid	(4,306)	(3,922)
Benefit obligation at end of year	**288,862**	**241,240**
Change on plan assets		
Fair value of plan assets at beginning of year	135,247	83,191
Actual return on plan assets	9,642	13,898
Employer contributions	25,633	41,481
Benefits paid	(3,570)	(3,323)
Fair value of plan assets at end of year	**166,952**	**135,247**
Funded status:	121,910	105,994
Unrecognized net loss	(85,945)	(61,595)
Net amount recognized	**35,965**	**44,399**
Amounts recognized in statement of financial position consist of:		
Accrued benefit costs	108,125	100,052
Accumulated other comprehensive income	(72,160)	(55,653)
Net amount recognized	**35,965**	**44,399**
Calculation of Additional Minimum Liability*		
Fair Value of plan assets	166,952	135,247
Accumulated benefit obligation (ABO)	213,995	184,489
Minimum Liability	**47,043**	**49,242**
Accrued benefit costs	(25,117)	(6,411)
Additional Minimum Liability	**72,160**	**55,653**
Thereof accumulated other comprehensive income	72,160	55,653
Total pension liability (at December 31)	**108,125**	**100,052**

* This calculation refers only to companies with ABO in excess of plan assets.

Employee Benefit Plans

$ in thousands	2004	2003
Weighted – average assumptions for benefit obligation as of December 31		
Discount rate	5.62%	6.14%
Rate of compensation increase	4.25%	4.27%
Components of net period benefit cost		
Service cost	4,269	3,486
Interest cost	14,816	13,419
Expected return on plan assets	(10,219)	(7,688)
Amortization of transition obligation	–	92
Amortization unrealized losses	4,712	3,971
Net periodic benefit costs	**13,578**	**13,280**
Weighted – average assumptions for net periodic benefit cost for the year ended December 31		
Discount rate	6.00%	6.52%
Expected return of plan assets	7.50%	8.50%
Rate of compensation increase	4.25%	4.27%

Plan Investment Policy and Strategy

The investment strategy for the FMCH pension plan is to earn a long-term rate of return on assets of at least 7.5% compounded annually while utilizing a target investment allocation of 50% equity and 50% debt securities.

The investment policy considers that there will be a time horizon for invested funds of more than 5 years. The total portfolio will be measured against a policy index that reflects the asset class benchmarks and the target asset allocation. The Plan policy does not allow investments in securities of the Company or other related party stock. The performance benchmarks for the separate asset classes include: S&P 500 Index, Russell 2000 Growth Index, MSCI EAFE Index, Lehman U.S. Long Government/Credit bond Index and the HFRI Fund of Funds Index. The following schedule describes FMCH's allocation for its plans:

Categories of Plan Assets

in %	Allocation 2004	Allocation 2003	Target allocation
Equity securities	52%	52%	50%
Debt securities	48%	48%	50%
Total	**100%**	**100%**	**100%**

The overall expected long-term return rate is 7.5%. The expected total contribution to plan assets for 2005 is $20,000.

Expected benefit payments for the next five years and in the aggregate for the five years thereafter are as follows:

$ in thousands

2005	2006	2007	2008	2009	2010 through 2014
4,797	5,631	6,309	7,440	9,186	62,417

The measurement date used to determine pension benefit measurements is December 31 for the plans in the United States and September 30 for the non-U.S. plans.

Defined Contribution Plans
FMCH's employees are eligible to join a 401(k) savings plan. The Company's total expense under this plan for the years ended December 31, 2004 and 2003 was $15,528 and $14,754, respectively.

9 Mandatorily Redeemable Trust Preferred Securities

The Company originally issued Trust Preferred Securities through five Fresenius Medical Care Capital Trusts, statutory business trusts organized under the laws of the State of Delaware. FMS owns all of the common securities of these trusts. The sole asset of each trust is a senior subordinated note of FMS or a wholly-owned subsidiary of FMS and related guarantees by FMS, Fresenius Medical Care Deutschland GmbH ("D-GmbH") and FMCH; D-GmbH and FMCH being the "Guarantor Subsidiaries". The Trust Preferred Securities are guaranteed by FMS through a series of undertakings by the Company and the Subsidiary Guarantors.

The Trust Preferred Securities agreements give the Company the right to substitute borrowers within each of the agreements. On December 23, 2004, the Company exercised that right for two of the Trusts, Fresenius Medical Care Capital Trust III and Fresenius Medical Care Capital Trust V, assuming the obligations of its wholly owned subsidiary as issuer of the senior subordinated notes held by each Trust. D-GmbH and FMCH remained guarantors on these borrowings.

The Trust Preferred Securities entitle the holders to distributions at a fixed annual rate of the stated amount and are mandatorily redeemable after 10 years. Earlier redemption may also occur upon a change of control followed by a rating decline or defined events of default including a failure to pay interest. Upon liquidation of the trusts, the holders of Trust Preferred Securities are entitled to a distribution equal to the stated amount. The Trust Preferred Securities do not hold voting rights in the trust except under limited circumstances.

The Trust Preferred Securities Agreements contain affirmative and negative covenants with respect to the Company and its subsidiaries and other payment restrictions. Some

of the covenants limit indebtedness of the Company and investments by the Company, and require the Company to maintain certain ratios defined in the agreement. Some of these covenants are subordinated to the 2003 Senior Credit Agreement covenants. As of December 31, 2004, the Company is in compliance with all financial covenants under all Trust Preferred Securities Agreements.

The Trust Preferred Securities outstanding as of December 31, 2004 and 2003 are as follows:

Trust Preferred Securities

In thousands and except stated amounts in $	Year Issued	Stated Amount	Interest Rate	Mandatory Redemption Date	2004	2003
Fresenius Medical Care Capital Trust II	1998	$ 450,000	7 7/8%	Feb. 1, 2008	440,965	450,000
Fresenius Medical Care Capital Trust III	1998	DM 300,000	7 3/8%	Feb. 1, 2008	208,929	193,728
Fresenius Medical Care Capital Trust IV	2001	$ 225,000	7 7/8%	June 15, 2011	222,533	222,150
Fresenius Medical Care Capital Trust V	2001	€ 300,000	7 3/8%	June 15, 2011	406,333	376,439
					1,278,760	**1,242,317**

10 Minority Interests

At December 31, 2004 and 2003, minority interests were as follows:

Minority Interests

$ in thousands, except share data	2004	2003
FMCH Preferred Stock:		
Preferred Stock, $100 par value		
- 6% Cumulative;		
40,000 shares authorized; 36,460 issued and outstanding	3,646	3,646
- 8% Cumulative Class A;		
50,000 shares authorized; 16,176 issued and outstanding	1,618	1,618
- 8% Noncumulative Class B;		
40,000 shares authorized; 21,483 issued and outstanding	2,148	2,148
Sub-total FMCH minority interest	**7,412**	**7,412**
Other minority interest	**10,622**	**6,693**
Total minority interest	**18,034**	**14,105**

On February 4, 2003, the Company and FMCH announced FMCH was exercising its right to redeem all of the outstanding shares of the Class D Preferred Stock ("Class D Shares") of FMCH. The Class D Shares were issued to the common shareholders of W.R. Grace & Co. in connection with the 1996 combination of the worldwide dialysis business of Fresenius AG with the dialysis business of W.R. Grace to form the Company.

Commencing on March 28, 2003, Class D Shares that were properly transferred to and received by the redemption agent were redeemed at a redemption price of $0.10 per share. FMCH redeemed the 89 million outstanding Class D Shares at a total cash outflow of approximately $8,900. This transaction had no earnings impact for the Company. After March 28, 2003 the Class D Shares ceased to be issued and outstanding shares of FMCH's capital stock.

The increase for 2004 was mostly a result of the implementation of FIN46R (see Note 1a).

11 Shareholders' Equity

Capital Stock

As of December 31, 2004, the Company's capital stock consisted of 26,296,086 Preference shares (53,597,700 shares authorized) without par value and with a nominal amount of €2.56 per share totaling $69,878 and of 70,000,000 Ordinary shares without par value with a nominal amount of €2.56 per share totaling $229,494.

As of December 31, 2003 the Company's capital stock consisted of 26,213,979 Preference shares (53,597,700 shares authorized) totaling $69,616 and 70,000,000 Ordinary shares without par value with a nominal amount of €2.56 per share totaling $229,494.

Under the German Stock Corporation Act, the shareholders of a stock corporation may empower the Management Board to issue shares in a specified aggregate nominal value not exceeding 50% of the issued share capital at the time of the passing of the resolution, in the form of Conditional Capital (bedingtes Kapital) or Approved Capital (genehmigtes Kapital). The authorization for the issuance of Approved Capital is limited for a period not exceeding five years from the date the shareholders' resolution becomes effective.

Approved Capital

The Company has been authorized to increase nominal share capital by the maximum amount of €30,720, corresponding to 12,000,000 Preference shares, by issuing new non-voting Preference shares for cash, Approved Capital I. As of December 31, 2004, 12,000,000 Preference shares are available for issuance under Approved Capital I. The authorization for Approved Capital I is effective until May 29, 2005.

In addition, the Company has been authorized to increase nominal share capital by the maximum amount of €20,480, corresponding to 8,000,000 Preference shares, by issuing new non-voting Preference shares for cash or against contributions in kind, Approved Capital II. As of December 31, 2004, 8,000,000 Preference shares are available for issuance under Approved Capital II. The authorization for Approved Capital II is effective until May 22, 2006.

The Management Board may exclude statutory preemptive rights in connection with the issuance of Preference shares using Approved Capital II if the shares are issued against a contribution in kind to acquire a company or an interest in a company or if the shares are issued for cash and the issue price is not materially lower than the price of such shares on the stock exchange.

Conditional Capital

By resolution of the general meeting on May 23, 2001, FMS's share capital was conditionally increased by up to €10,240, divided into a maximum of 4,000,000 new non-voting Preference shares. This conditional capital increase may be issued only upon exercise of grants by employees under the FMC 2001 International Stock Incentive Plan. As of December 31, 2004, 9,699 options had been exercised and $419 remitted to the Company.

In addition, conditional capital of a nominal amount of up to €8,477 is available for employees exercising rights granted under other stock-based compensation plans. At December 31, 2004 options representing 1,765,748 non-voting Preference shares are outstanding from these plans. No further options may be issued under these plans.

Dividends

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

If no dividends are declared for two consecutive years after the year for which the Preference shares are entitled to dividends, then the holders of such Preference shares would be entitled to the same voting rights as holders of Ordinary shares until all arrearages are paid. In addition, the payment of dividends by FMS is subject to limitations under the 2003 Senior Credit Agreement (see Note 7).

Cash dividends of $122,106 for 2003 in the amount of €1.08 per Preference share and €1.02 per Ordinary share were paid on May 28, 2004.

Cash dividends of $107,761 for 2002 in the amount of €1.00 per Preference share and €0.94 per Ordinary share were paid on May 23, 2003.

12 Earnings Per Share

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

Reconciliation of Basic and Diluted Earnings per Share

$ in thousands, except share data	2004	2003
Numerators		
Net income	401,998	331,180
less:		
Preference on Preference shares	1,959	1,778
Income available to all class of shares	400,039	329,402
Denominators		
Weighted average number of:		
Ordinary shares outstanding	70,000,000	70,000,000
Preference shares outstanding	26,243,059	26,191,011
Total weighted average shares outstanding	96,243,059	96,191,011
Potentially dilutive Preference shares	421,908	145,861
Total weighted average shares outstanding assuming dilution	96,664,967	96,336,872
Total weighted average Preference shares outstanding assuming dilution	26,664,967	26,336,872
Basic income per Ordinary share	4.16	3.42
Plus preference per Preference share	0.07	0.07
Basic income per Preference Share	4.23	3.49
Fully diluted income per Ordinary share	4.14	3.42
Plus preference per Preference share assuming dilution	0.07	0.07
Fully diluted income per Preference share	4.21	3.49

13 Stock Options

At December 31, 2004, FMS has awards outstanding under the terms of various stock-based compensation plans, including the 2001 plan, which is the only plan with stock option awards currently available for grant. Under the 2001 plan, convertible bonds with a principal of up to €10,240 may be issued to the members of the Management Board and other employees of the Company representing grants for up to 4 million non-voting Preference shares. The convertible bonds have a par value of €2.56 and bear interest at a rate of 5.5%. Except for the members of the Management Board, eligible employees may purchase the bonds by issuing a non-recourse note with terms corresponding to the terms of and secured by the bond. The Company has the right to offset its obligation on a bond against the employee's obligation on the related note; therefore, the convertible bond obligations and employee note receivables represent stock options issued by the Company and are not reflected in the consolidated

financial statements. The options expire in ten years and can be exercised beginning after two, three or four years. Bonds issued to Board members who did not issue a note to the Company are recognized as a liability on the Company's balance sheet.

Upon issuance of the option, the employees have the right to choose options with or without a stock price target. The conversion price of options subject to a stock price target becomes the stock exchange quoted price of the Preference shares upon the first time the stock exchange quoted price exceeds the Initial Value by at least 25%. The Initial Value is the average price of the Preference shares during the last 30 trading days prior to the date of grant. In the case of options not subject to a stock price target, the number of convertible bonds awarded to the eligible employee would be 15% less than if the employee elected options subject to the stock price target. The conversion price of the options without a stock price target is the Initial Value. Each option entitles the holder thereof, upon payment the respective conversion price, to acquire one Preference share. Up to 20% of the total amount available for the issuance of awards under the 2001 plan may be issued each year through May 22, 2006. At December 31, 2004, options for up to 1,094,612 Preference shares are available for grant in future periods under the 2001 Plan.

During 1998, the Company adopted two stock incentive plans ("FMC98 Plan 1" and "FMC98 Plan 2") for FMS's key management and executive employees. These stock incentive plans were replaced by the 2001 plan and no options have been granted since 2001. Under these plans eligible employees had the right to acquire Preference shares of the Company. Options granted under these plans have a ten-year term, and one third of them vest on each of the second, third and fourth anniversaries of the award date. Each Option can be exercised for one Preference share.

Stock option transactions are summarized as follows (average exercise price in € and $):

	Options (in thousands)	Weighted Average Exercise Price in €	Weighted Average Exercise Price in $	Options Exercisable (in thousands)
Balance at December 31, 2002	3,615	45.51	47.72	1,769
Granted	622	33.16	41.88	
Exercised	25	32.58	41.14	
Forfeited	223	48.91	61.77	
Balance at December 31, 2003	3,989	43.34	54.74	2,147
Granted	1,021	44.81	61.03	
Exercised	83	33.92	46.20	
Forfeited	266	46.74	63.66	
Balance at December 31, 2004	**4,661**	**43.60**	**59.39**	**2,393**

The following table provides information with respect to stock options outstanding and exercisable at December 31, 2004:

		Outstanding options				Exercisable options		
Range of exercise prices in €	Range of exercise prices in $	Number of Options	Weighted average remaining contractual life	Weighted average exercise price in €	Weighted average exercise price in $	Number of Options	Weighted average exercise price in €	Weighted average exercise price in $
25.01 – 35.00	34.01 – 48.00	1,703,099	7.10	31.37	42.73	703,460	31.91	43.47
35.01 – 40.00	48.01 – 55.00	111,446	8.65	39.20	53.39	–	–	–
40.01 – 45.00	55.01 – 62.00	1,145,660	7.77	43.65	59.63	363,083	43.00	59.02
45.01 – 50.00	62.01 – 69.00	432,314	5.62	48.96	66.68	432,314	48.96	66.68
50.01 – 55.00	69.01 – 75.00	31,421	6.91	52.81	71.93	24,045	52.60	71.64
55.01 – 60.00	75.01 – 82.00	1,126,708	4.25	57.19	77.90	795,774	57.33	78.08
70.01 – 75.00	95.01 – 103.00	110,789	6.60	73.72	100.41	73,868	73.72	100.41
		4,661,437	**6.82**	**43.60**	**59.39**	**2,392,544**	**46.63**	**63.51**

The Company applies APB Opinion No. 25 in accounting for stock compensation and, accordingly, recognized compensation expense of $1,751 and $1,456 in 2004 and 2003.

14 Income Taxes

Income before income taxes and minority interest is attributable to the following geographic locations:

Income before Income Taxes

$ in thousands	2004	2003
Germany	146,070	78,124
United States	447,197	368,382
Other	75,332	99,170
	668,599	**545,676**

Income tax expense (benefit) for the years ended December 31, 2004 and 2003, consisted of the following:

Expense (Benefit) for Income Taxes

$ in thousands	2004	2003
Current		
Germany	55,034	51,849
United States	129,445	22,346
Other	40,316	35,505
	224,796	**109,700**
Latente Steuern		
Germany	5,147	(1,280)
United States	34,958	102,142
Other	513	2,152
	40,619	**103,014**
Total	**265,415**	**212,714**

The Company is subject to German federal corporation income tax at a base rate of 25% plus a solidarity surcharge of 5.5% on federal corporation taxes payable.

The German government enacted the Flood Victim Solidarity Law in September 2002 resulting in an increase of the base rate of German federal corporation income tax from 25% to 26.5% for 2003 only. The tax rate returned to 25% on January 1, 2004.

The difference in income tax expense from the expected corporate income tax expense computed by applying the German federal corporation income tax rate, including the solidarity surcharge, on income before income taxes and minority interest (26.38% for fiscal year 2004 and 27.96% for fiscal year 2003) is as follows:

Reconciliation of Income Taxes

$ in thousands	2004	2003
Expected corporate income tax expense	176,376	152,571
Trade income taxes, net of German federal corporation income tax benefit	20,623	15,486
U.S. State income taxes, net of federal tax benefit	16,067	13,535
Tax free income	(11,796)	(12,155)
Foreign tax rate differential	55,596	29,904
Non-deductible expenses	7,933	6,993
Other	617	6,380
Actual income tax expense	265,415	212.714
Effective tax rate	**39.7%**	**39.0%**

The tax effects of the temporary differences that give rise to deferred tax assets and liabilities at December 31 are presented below:

Deferred Income Tax Assets and Liabilities

$ in thousands	2004	2003
Deferred tax assets		
Accounts receivable, primarily due to allowance for doubtful accounts	26,289	30,939
Inventory, primarily due to additional costs capitalized for tax purposes, and inventory reserve accounts	30,547	28,126
Accrued expenses and other liabilities for financial accounting purposes, not currently tax deductible	181,080	159,120
Net operating loss carryforwards	48,170	40,237
Derivatives	53,521	27,685
Other	1,378	5,327
Total deferred tax assets	**340,985**	**291,432**
Less: valuation allowance	(44,564)	(28,084)
Net deferred tax assets	**296,421**	**263,348**
Deferred tax liabilities		
Accounts receivable, primarily due to allowance for doubtful accounts	10,872	32,003
Inventory, primarily due to inventory reserve accounts for tax purposes	8,148	8,706
Accrued expenses and other liabilities deductible for tax prior to financial accounting recognition	38,009	19,212
Plant and equipment, principally due to differences in depreciation	250,035	213,907
Derivatives	18,696	36,612
Other	14,573	14,251
Total deferred tax liabilities	**340,334**	**324,691**
Net deferred tax liabilities	**43,913**	**61,343**

During 2004, the valuation allowance increased by $16,480, mainly attributable to net operating losses in Asia Pacific. During 2003, the valuation allowance increased by $4,856.

The expiration of net operating losses is as follows:

Net Operating Loss Carryforwards

$ in thousands

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Thereafter	**Total**
12,458	7,347	7,711	8,768	22,992	8,368	16,335	1,757	–	6,671	40,715	**133,123**

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2004.

Provision has not been made for additional taxes on approximately $200,020 undistributed earnings of foreign subsidiaries. These earnings have been, and will continue to be, permanently reinvested. The earnings could become subject to additional tax if remitted or deemed remitted as dividends; however, calculation of such additional tax is not practical.

For fiscal years ending in 2004 and afterwards, dividends from German subsidiaries are 95% tax-exempt, i.e. 5% of dividend income is taxable for corporate tax purposes after recent German tax law changes. The effects of this new rule are estimated by management as insignificant, as the majority of German subsidiaries are consolidated for tax purposes.

Effective January 2004, German corporations are subject to a tax of 5% of capital gains from the disposal of foreign and domestic shareholdings. Losses from a share disposal or expenses from write-downs in a shareholding are non-deductible. Reverse write-downs, however, are also subject to the 5% add-back taxation. Management does not anticipate significant additional income taxation.

15 Operating Leases

The Company leases buildings and machinery and equipment under various lease agreements expiring on dates through 2013. Rental expense recorded for operating leases for the years ended December 31, 2004 and 2003 was $322,939 and $303,060, respectively.

At December 31, 2004, the Company acquired dialysis machines that were previously sold in sale-lease back transactions. The machines were acquired for approximately $29,000 and are included in capital expenditures in the accompanying consolidated statement of cash flows.

In December 2003, the Company exercised an option to terminate an operating lease for certain manufacturing equipment in its Ogden, Utah, North American facility. The equipment was purchased for approximately $66,000 and is reflected as a capital expenditure in the accompanying consolidated statement of cash flows.

Future minimum rental payments under noncancelable operating leases for the five years succeeding December 31, 2004 and thereafter are:

$ in thousands

2005	2006	2007	2008	2009	Thereafter	**Total**
238,728	201,884	145,003	110,527	85,076	266,725	**1,047,943**

16 Legal Proceedings

Commercial Litigation

The Company was 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 potential liabilities arising out of product-liability related litigation, pre-Merger tax claims and other claims unrelated to 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 the Company, 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.

Pre-Merger tax claims or tax claims that would arise if events were to violate the tax-free nature of the Merger, could ultimately be the Company's obligation. In particular, W. R. Grace & Co. has disclosed in its filings with the Securities and Exchange Commission that: its tax returns for the 1993 to 1996 tax years are under audit by the

Internal Revenue Service (the "Service"); W. R. Grace & Co. has received the Service's examination report on tax periods 1993 to 1996; that during those years W.R. Grace & Co. deducted approximately $122,100 in interest attributable to corporate owned life insurance ("COLI") policy loans; that W.R. Grace & Co. has paid $21,200 of tax and interest related to COLI deductions taken in tax years prior to 1993; that a U.S. District Court ruling has denied interest deductions of a taxpayer in a similar situation. In October 2004, W.R. Grace & Co. obtained bankruptcy court approval to settle its COLI claims with the Service. In January 2005, W.R. Grace and Co., FMCH and Sealed Air Corporation executed a settlement agreement with respect to the Service's COLI-related claims and other tax claims. W.R. Grace and Co. has filed a motion with the US District Court seeking approval to satisfy its payment obligations to the Service under the settlement agreement. Subject to certain representations made by W.R. Grace & Co., the Company and Fresenius AG, W.R. Grace & Co. and certain of its affiliates agreed to indemnify the Company against this and other pre-Merger and Merger-related tax liabilities.

Prior to and after the commencement of the Grace Chapter 11 Proceedings, class action complaints were filed against W.R. Grace & Co. and 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, the Company 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 the Company 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 the Company 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. bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, the Company will pay a total of $115,000 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.). The Company is engaged in litigation with Sealed Air to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by the Company relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon

confirmation of a plan that satisfies the conditions of the Company's payment obligation, this litigation will be dismissed with prejudice.

On April 4, 2003, FMCH filed a suit in the United States District Court for the Northern District of California, *Fresenius USA, Inc., et al., v. Baxter International Inc., et al.*, Case No. C 03-1431, seeking a declaratory 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 has filed counterclaims against FMCH seeking monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter's patents. FMCH believes its claims are meritorious, although the ultimate outcome of any such proceedings cannot be predicted at this time and an adverse result could have a material adverse effect on the Company's business, financial condition, and results of operations.

Other Litigation and Potential Exposures

In October 2004, FMCH and its Spectra Renal Management subsidiary 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 the Company's operations, with specific attention to documents relating to laboratory testing for parathyroid hormone ("PTH") levels and vitamin D therapies. The Company is cooperating with the government's requests for information. While the Company 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 the Company's business, financial condition, and results of operations.

From time to time, the Company is a party to or may be threatened with other litigation, claims or assessments arising in the ordinary course of its business. Management regularly analyzes current information including, as applicable, the Company's defenses and insurance coverage and, as necessary, provides accruals for probable liabilities for the eventual disposition of these matters.

The Company, like other health care providers, conducts its operations under intense government regulation and scrutiny. It must comply with regulations which relate to or govern the safety and efficacy of medical products and supplies, the operation of manufacturing facilities, laboratories and dialysis clinics, and environmental and occupational health and safety. The Company must also comply with the Anti-Kickback Statute, the False Claims Act, the Stark Statute, and other federal and state fraud and abuse laws. Applicable laws or regulations may be amended, or enforcement agencies or courts may make interpretations that differ from the Company's or the manner in which it conducts its business. Enforcement has become a high priority for the federal government and some states. In addition, the provisions

of the False Claims Act authorizing payment of a portion of any recovery to the party bringing the suit encourage private plaintiffs to commence "whistle blower" actions. By virtue of this regulatory environment, as well as our corporate integrity agreement with the U.S. federal government, the Company's business activities and practices are subject to extensive review by regulatory authorities and private parties, and continuing audits, investigative demands, subpoenas, other inquiries, claims and litigation relating to our compliance with applicable laws and regulations. The Company may not always be aware that an inquiry or action has begun, particularly in the case of "whistle blower" actions, which are initially filed under court seal.

The Company operates many facilities throughout the U.S. In such a decentralized system, it is often difficult to maintain the desired level of oversight and control over the thousands of individuals employed by many affiliated companies. The Company relies upon its management structure, regulatory and legal resources, and the effective operation of its compliance program to direct, manage and monitor the activities of these employees. On occasion, the Company may identify instances where employees, deliberately or inadvertently, have submitted inadequate or false billings. The actions of such persons may subject the Company and its subsidiaries to liability under the Anti-Kickback Statute, the Stark Statute and the False Claims Act, among other laws.

Physicians, hospitals and other participants in the health care industry are also subject to a large number of lawsuits alleging professional negligence, malpractice, product liability, worker's compensation or related claims, many of which involve large claims and significant defense costs. The Company has been and is currently subject to these suits due to the nature of its business and expects that those types of lawsuits may continue. Although the Company maintains insurance at a level which it believes to be prudent, it cannot assure that the coverage limits will be adequate or that insurance will cover all asserted claims. A successful claim against the Company or any of its subsidiaries in excess of insurance coverage could have a material adverse effect upon it and the results of its operations. Any claims, regardless of their merit or eventual outcome, could have a material adverse effect on the Company's reputation and business.

The Company has also had claims asserted against it and has had lawsuits filed against it relating to businesses that it has acquired or divested. These claims and suits relate both to operation of the businesses and to the acquisition and divestiture transactions. The Company has, when appropriate, asserted its own claims, and claims for indemnification. A successful claim against the Company or any of its subsidiaries could have a material adverse effect upon it and the results of its operations. Any claims, regardless of their merit or eventual outcome, could have a material adverse effect on the Company's reputation and business.

Accrued Special Charge for Legal Matters

At December 31, 2001, the Company recorded a pre-tax special charge of $258,159 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 the Company 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.

17 Financial Instruments

Market Risk

The Company is exposed to market risk from changes in interest rates and foreign exchange rates. In order to manage the risk of interest rate and currency exchange rate fluctuations, the Company enters into various hedging transactions with highly rated financial institutions as authorized by the Company's Management Board. The Company does not use financial instruments for trading purposes.

The Company conducts its financial instrument activity under the control of a single centralized department. The Company established guidelines for risk assessment procedures and controls for the use of financial instruments. They include a clear segregation of duties with regard to execution on one side and administration, accounting and controlling on the other.

Foreign Exchange Risk Management

The Company conducts business on a global basis in various international currencies, though its operations are mainly in Germany and the United States. For financial reporting purposes, the Company has chosen the U.S. dollar as its reporting currency. Therefore, changes in the rate of exchange between the U.S. dollar, the euro and the local currencies in which the financial statements of the Company's international operations are maintained, affect its results of operations and financial position as reported in its consolidated financial statements.

The Company's exposure to market risk for changes in foreign exchange rates relates to transactions such as sales and purchases, and lending and borrowings, including intercompany borrowings. The Company has significant amounts of sales of products invoiced in euro from its European manufacturing facilities to its other international operations. This exposes the subsidiaries to fluctuations in the rate of exchange between the euro and the currency in which their local operations are conducted. The Company employs, to a limited extent, forward contracts including options to hedge its currency exposure. The Company's policy, which has been consistently followed, is that foreign exchange forward contracts including options be used only for the purpose of hedging foreign currency exposure.

Changes in the fair value of foreign currency forward contracts designated and qualifying as cash flow hedges of forecasted product purchases are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of cost of revenues, in the same period in which the hedged transaction affects earnings. After tax gains of $57 ($562 pretax)

for the year ended December 31, 2004 are deferred in accumulated other comprehensive income and will mainly be reclassified into earnings during 2005. During 2004, the Company reclassified after tax losses of $652 ($908 pretax) from accumulated other comprehensive income (loss) into the statement of operations. As of December 31, 2004, the Company had purchased derivative financial instruments with a maximum maturity of 18 months to hedge its exposure to the variability in future cash flows associated with forecasted product purchases.

Changes in the fair value of foreign currency forward contracts designated and qualifying as cash flow hedges associated with foreign currency denominated intercompany financing transactions are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of selling, general and administrative expenses and interest expense in the same period in which the hedged transactions affect earnings. During the year ended December 31, 2004, after tax gains of $2,301($3,834 pre-tax) were reclassified into earnings because the occurrence of the related hedged forecasted transactions was no longer probable. After tax losses of $739 ($1,231 pretax) for the year ended December 31, 2004 were deferred in accumulated other comprehensive loss.

The Company also entered into foreign exchange forward contracts with a fair value of approximately $15,000 as of December 31, 2004 to hedge its currency exposure from intercompany loans. No hedge accounting is applied to these forward contracts. Accordingly, the foreign currency forward contracts are recognized as assets and liabilities and changes in fair values are charged to earnings.

The Company is exposed to potential losses in the event of nonperformance by counterparties to financial instruments but does not expect any counterparties to fail to meet their obligations. The current credit exposure of foreign exchange derivatives is represented by the fair value of those contracts with a positive fair value at the reporting date.

Interest Rate Risk Management

The Company enters into derivatives, particularly interest rate swaps, to (a) protect interest rate exposures arising from long-term and short-term borrowings and accounts receivable securitization programs at floating rates by effectively swapping them into fixed rates and (b) hedge the fair value of its fixed interest rate borrowings. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

Cash Flow Hedges of Variable Rate Debt. The Company enters into interest rate swap agreements that are designated as cash flow hedges effectively converting certain variable interest rate payments mainly denominated in U.S. dollars into fixed interest rate payments. Those swap agreements, which expire at various dates between 2006 and 2009, effectively fix the Company's variable interest rate exposure on the majority of its U.S. dollar-denominated revolving loans and outstanding

obligations under the accounts receivable securitization program at an average interest rate of 5.26%. After taxes losses of $23,260 ($38,767 pretax) for the year ended December 31, 2004, were deferred in accumulated other comprehensive loss. Interest payable and interest receivable under the swap agreements are accrued and recorded as an adjustment to interest expense at each reporting date. There is no material impact on earnings due to hedge ineffectiveness. At December 31, 2004, the notional amount of these swaps was $800,000.

Fair Value Hedges of Fixed Rate Debt. The Company enters into interest rate swap agreements that are designated as fair value hedges to hedge the risk of changes in the fair value of fixed interest rate borrowings effectively converting the fixed interest payments on Fresenius Medical Care Capital Trust II preferred securities (see Note 9) denominated in U.S. dollars into variable interest rate payments. Since the critical terms of the interest rate swap agreements are identical to the terms of Fresenius Medical Capital Trust II preferred securities, the hedging relationship is highly effective and no ineffectiveness is recognized in earnings. The interest rate swap agreements are reported at fair value in the balance sheet. The reported amount of the hedged portion of fixed rate trust preferred securities includes an adjustment representing the change in fair value attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts, and the offsetting changes in the adjusted carrying amount of the related portion of fixed rate trust preferred securities offset each other in the income statement. At December 31, 2004, the notional volume of these swaps was $450,000.

The Company is exposed to potential losses in the event of nonperformance by counterparties to financial instruments but does not expect any counterparties to fail to meet their obligations. The current credit exposure of interest rate derivatives is represented by the fair value of those contracts with a positive fair value at the reporting date.

Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Company's financial instruments at December 31, 2004 and 2003, FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Carrying Amount and Fair Value of Financial Instruments

$ in thousands	2004 Carrying Amount	2004 Fair Value	2003 Carrying Amount	2003 Fair Value
Non-derivatives				
Assets				
Cash and cash equivalents	58,966	58,966	48,427	48,427
Receivables	1,462,847	1,462,847	1,229,503	1,229,503
Liabilities				
Accounts payable	305,996	305,996	306,527	306,527
Income taxes payable	230,530	230,530	178,111	178,111
Long term debt, excluding Euro-notes	600,719	600,719	1,039,693	1,039,693
Trust Preferred Securities	1,278,760	1,436,306	1,242,317	1,324,736
Notes	175,030	176,090	162,296	165,730
Derivatives				
Foreign exchange contracts	16,980	16,980	102,184	102,184
Dollar interest rate hedges	(48,093)	(48,093)	(71,255)	(71,255)
Yen interest rate hedges	(381)	(381)	(469)	(469)

The carrying amounts in the table are included in the consolidated balance sheet under the indicated captions, except for derivatives, which are included in other assets or liabilities.

Estimation of Fair Values

The significant methods and assumptions used in estimating the fair values of financial instruments are as follows:

Short-term financial instruments are valued at their carrying amounts included in the consolidated balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash and cash equivalents, receivables, accounts payable and income taxes payable and short-term borrowings.

The long-term bank debt is valued at its carrying amount because the actual drawings under the facility carry interest at a variable rate which reflects actual money market conditions, plus specific margins which represent Company-related performance ratios

as well as the entire set of terms and conditions including covenants as determined in the 2003 Senior Credit Agreement.

The fair values of the Trust Preferred Securities and the Euro Notes are based upon market quotes.

Trader quotes are available for all of the Company's derivatives.

18 Other Comprehensive Income (Loss)

The changes in the components of other comprehensive income (loss) for the years ended December 31, 2004 and 2003 are as follows:

Other Comprehensive Income (Loss)

$ in thousands	2004 Pretax	2004 Tax Effect	2004 Net	2003 Pretax	2003 Tax Effect	2003 Net
Other comprehensive (loss) income relating to cash flow hedges:						
Changes in fair value of cash flow hedges during the period	(36,192)	13,638	(22,554)	28,237	(11,114)	17,123
Reclassification adjustments	(9,906)	3,449	(6,457)	8,091	(3,185)	4,906
Total other comprehensive (loss) income relating to cash flow hedges:	**(46,098)**	**17,087**	**(29,011)**	**36,328**	**(14,299)**	**22,029**
Foreign-currency translation adjustment	144,784	–	144,784	200,578	–	200,578
Minimum pension liability	(16,507)	6,605	(9,902)	(23,391)	9,341	(14,050)
Other comprehensive income (loss)	**82,179**	**23,692**	**105,871**	**213,515**	**(4,958)**	**208,557**

19 Business Segment Information

The Company has identified three business segments, North America, International, and Asia Pacific, which were determined based upon how the Company manages its businesses. All segments are primarily engaged in providing dialysis services and manufacturing and distributing products and equipment for the treatment of end-stage renal disease. Additionally, the North America segment engages in performing clinical laboratory testing and providing perfusion, therapeutic apheresis and autotransfusion services. The Company has aggregated the International and Asia Pacific operating segments as "International." The segments are aggregated due to their similar economic characteristics. These characteristics include the same products sold, the same type patient population, similar methods of distribution of products and services and similar economic environments.

Management evaluates each segment using a measure that reflects all of the segment's controllable revenues and expenses. Management believes that the most appropriate measure in this regard is operating income. In addition to operating income, management believes that earnings before interest, taxes, depreciation and amortization (EBITDA) is helpful for investors as a measurement of the segment's and the Company's ability to generate cash and to service its financing obligations. EBITDA is also the basis for determining compliance with certain covenants contained in the Company's 2003 Senior Credit Agreement, Euro Notes and indentures relating to the Company's trust preferred securities. The information in the table below reconciles EBITDA for each of our reporting segments to operating income, which the Company considers to be the most directly comparable financial measure, calculated in accordance with U.S. GAAP.

EBITDA should not be construed as an alternative to net earnings determined in accordance with generally accepted accounting principles or to cash flow from operations, investing activities or financing activities or as a measure of cash flows.

Information pertaining to the Company's business segments is set forth below:

Business Segment Information

$ in thousands	2004				2003			
	North America	Inter-national	Corporate	Total	North America	Inter-national	Corporate	Total
Net revenue external customers	4,216,017	2,011,985	–	6,228,002	3,854,606	1,672,903	–	5,527,509
Inter-segment revenue	1,749	38,872	(40,621)	–	1,630	36,258	(37,888)	–
Total net revenue	**4,217,766**	**2,050,857**	**(40,621)**	**6,228,002**	**3,856,236**	**1,709,161**	**(37,888)**	**5,527,509**
EBITDA	**715,656**	**402,704**	**(33,429)**	**1,084,931**	**651,729**	**348,712**	**(26,628)**	**973,813**
Depreciation and amortization	(126,048)	(104,621)	(1,917)	(232,586)	(119,467)	(94,922)	(1,989)	(216,378)
Operating Income	**589,608**	**298,083**	**(35,346)**	**852,345**	**532,262**	**253,790**	**(28,617)**	**757,435**
Segment assets	5,479,088	2,426,820	55,633	7,961,541	5,286,902	2,176,039	40,379	7,503,320
Capital expenditures and acquisitions[1, 2]	227,377	155,593	255	383,225	216,613	166,821	16	383,450

[1] International acquisitions exclude $15,479 of non-cash acquisitions for 2004.
[2] North America and International acquisitions exclude $3,995 and $5,065, respectively, of non-cash acquisitions for 2003.

Reconciliation of Measures to Consolidated Totals

$ in thousands	2004	2003
Total EBITDA of reporting segments	1,118,360	1,000,441
Total depreciation and amortization	(232,586)	(216,378)
Corporate expenses	(33,429)	(26,628)
Interest income	13,418	19,089
Interest expense	(197,164)	(230,848)
Total income before income taxes and minority interest	**668,599**	**545,676**
Total operating income of reporting segments	887,691	786,052
Corporate expenses	(35,346)	(28,617)
Interest income	13,418	19,089
Interest expense	(197,164)	(230,848)
Total income before income taxes and minority interest	**668,599**	**545,676**
Depreciation and amortization		
Total depreciation and amortization of reporting segments	(230,669)	(214,389)
Corporate depreciation and amortization	(1,917)	(1,989)
Total depreciation and amortization	**(232,586)**	**(216,378)**

For the geographic presentation, revenues are attributed to specific countries based on the end user's location for products and the country in which the service is provided. Information with respect to the Company's geographic operations is set forth in the table below:

Geographic Segments

$ in thousands	2004 Net revenue external customers	2004 Long-lived assets	2003 Net revenue external customers	2003 Long-lived assets
Germany	288,526	169,981	245,983	148,375
United States	4,216,017	4,241,987	3,854,606	4,145,453
Rest of the World	1,723,459	992,192	1,426,920	883,752
Total	**6,228,002**	**5,404,160**	**5,527,509**	**5,177,580**

20 Supplementary Cash Flow Information

The following additional information is provided with respect to the consolidated statements of cash flows:

Supplementary Cash Flow Information

$ in thousands	2004	2003
Supplementary cash flow information		
Cash paid for interest	201,380	208,429
Cash paid for income taxes	198,983	141,278
Supplemental disclosures of cash flow information		
Details for acquisitions:		
Assets acquired	148,324	152,570
Liabilities assumed	12,957	46,685
Transaction under common control with Fresenius AG	–	1,469
Notes assumed in connection with acquisition	15,479	9,060
Cash paid	119,888	95,356
Less cash acquired	15,395	3,166
Net cash paid for acquisitions	**104,493**	**92,190**

Report of Independent Registered Public Accounting Firm

To the Supervisory Board
Fresenius Medical Care Aktiengesellschaft
Hof an der Saale, Germany

We have audited the accompanying consolidated balance sheets of Fresenius Medical Care Aktiengesellschaft and subsidiaries (the "Company") as of December 31, 2004 and 2003 and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the two-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Frankfurt am Main, Germany
February 11, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Financial Glossary

American Depository Receipt (ADR)
Physical certificate evidencing ownership in one or several American Depositary Shares (ADS). The terms ADS and ADR are often used interchangeably. Fresenius Medical Care's ordinary and preference shares are listed on the New York Stock Exchange (NYSE) in the form of ADRs.

American Depository Share (ADS)
Share certificate traded at the New York Stock Exchange, representing (parts of) shares of a foreign company.

EBIT
Earnings before interest and taxes – corresponding to operating income.

EBITDA
Earnings before interest, taxes, depreciation and amortization – corresponding to cash flow before taxes.

Free Cash Flow
Net cash provided by operating activities less net capital expenditures (purchases of property, plants and equipment, less proceeds from sale of property, plants and equipment).

Gross Domestic Product (GDP)
Total final value of goods and services produced in a national economy over a particular period of time, usually one year.

Market Capitalization
Number of shares multiplied by the market share price.

Net Operating Profit Adjusted for Taxes (NOPAT)
Earnings before interest and taxes (EBIT) plus goodwill amortization less taxes.

No-par Share
Stock issued with no-par or nominal value.

Operating Margin
Earnings before interest and taxes (EBIT) divided by revenues.

Ordinary and Preference Shares
The capital stock of the company consists of ordinary and preference shares. Both are bearer shares. Preference shares are non-voting, but are entitled to a dividend that exceeds that for the ordinary shares, and the distribution of the minimum dividend on the preference shares has precedence over the distribution of a dividend on the ordinary shares.

Return On Operating Assets (ROOA)
EBIT divided by average operating assets. Operating assets consist of cash and cash equivalents, accounts receivable (including those due from related parties), inventories, prepaid expenses and other current assets, non-current assets, less non-current deferred tax assets and accounts payable (including those due to related parties).

Return On Invested Capital (ROIC)
NOPAT divided by average invested capital. Invested capital consists of current and non-current assets plus accumulated goodwill amortization less cash and cash equivalents, deferred tax assets, accounts payable (including those due to related parties), accrued expenses and current liabilities and income tax payable.

Sarbanes-Oxley-Act (SOX)
A law aimed at improving accounting standards for corporations and their auditors. The intention of SOX is to strengthen shareholder confidence by broadening financial reporting and internal monitoring systems. Furthermore, top management's liability for the accuracy and completeness of reported information has been increased.

Securities and Exchange Commission (SEC)
A federal agency that regulates the U.S. financial markets.

U.S. GAAP
United States Generally Accepted Accounting Principles.

Working Capital
Current assets minus current liabilities (excluding current debt).

For further explanations of financial terms please visit our website www.fmc-ag.com, where you can find a stock market dictionary in the Investor Relations section.

Regional Organization

Europe/Africa

Germany
100% FMC Deutschland GmbH
Bad Homburg v.d.H.

Austria
100% FMC Austria GmbH
Vienna

Belgium
100% FMC Belgium N.V.
Antwerp

The Netherlands
100% FMC Nederland B.V.
Nieuwkuijk

Switzerland
100% FMC (Schweiz) AG
Stans

France
100% FMC France S.A.
Fresnes

Italy
100% FMC Italia S.p.A.
Palazzo Pignano/Cremona

Portugal
100% FMC SGPS, S.A.
Moreira

Spain
100% NMC of Spain S.A.
Madrid

Great Britain
100% FMC (UK) Ltd.
Nottinghamshire

Czech Republic
100% FMC Česká Republica
spol. s.r.o., Prag

Estonia
100% Renculus OÜ
Tartu

Denmark
100% FMC Danmark A.S.
Albertslund

Finland
100% FMC Suomi OY
Helsinki

Hungary
100% FMC Dializis Center
Egészs. Kft., Budapest

Morocco
98% FMC Maroc S.A.
Casablanca

Poland
100% FMC Polska S.A.
Poznan

Turkey
100% Fresenius Medikal
Hizmetler A.S., Istanbul

Romania
100% FMC Romania S.r.l.
Bukarest

Slovakia
100% FMC Slovensko spol. s.r.o.
Piešťany

Slovenia
100% FMC Slovenija d.o.o.
Zrece

South Africa
100% FMC South Africa (Pty.) Ltd.
Johannesburg

Sweden
100% FMC Sverige AB
Sollentuna

North America

USA
100% Fresenius Medical Care
Holdings Inc., New York

100% National Medical Care Inc.
Lexington/Massachusetts

100% Fresenius USA Inc.
Walnut Creek/California

Latin America

Argentina
100% FMC Argentina S.A.
Buenos Aires

Brazil
100% FMC Ltda.
São Paulo

Chile
100% Pentafarma S.A.
Santiago de Chile

Colombia
100% FMC Colombia S.A.
Santa Fé de Bogotà

Mexico
100% FMC Mexico S.A. de C.V.
Zapopan Jalisco

Venezuela
100% FMC de Venezuela, C.A.
Valencia

Asia-Pacific

Australia
100% FMC Australia Pty. Ltd.
Sydney

China
100% FMC (Shanghai) Co. Ltd.
Shanghai

Hong Kong
100% FMC Hong Kong Ltd.
Hongkong

Japan
70% Fresenius-Kawasumi
Co. Ltd., Tokio

Malaysia
100% FMC Malaysia Sdn. Bhd.
Kuala Lumpur

Philippines
100% FMC Philippines, Inc.
Manila

Singapore
100% FMC Singapore Pte. Ltd.
Singapur

South Korea
100% FMC Korea Ltd.
Seoul

Taiwan
100% FMC Taiwan Co., Ltd.
Taipei

Thailand
100% FMC Thailand Ltd.
Bangkok

Simplified chart of Fresenius Medical Care's regional organization.

Line of business in 2004 in respective country.

- Production
- Selling
- Dialysis Care

Some percentage of subsidiaries represent direct and indirect shareholdings of Fresenius Medical Care AG.

Major Subsidiaries

$ in millions except employees		Ownership[1]	Revenue	Net income/ (-loss)	Equity	Employees (full-time equivalents)
Name and location		in %	2004[2]	2004[2]	31.12.2004[2]	31.12.2004
Europe						
Germany	FMC Deutschland GmbH, Bad Homburg v. d. H.	100	973.0	0.0	1,067.6	2,506
Austria	FMC Austria GmbH, Vienna	100	16.7	0.6	3.1	19
Hungary	FMC Hungary Ltd., Budapest	100	21.1	0.5	29.4	44
	FMC Dializis Center Egészs. Kft., Budapest	100	34.6	-0.4	0.2	643
Italy	FMC Italia S.p.A., Palazzo Pignano/Cremona	100	96.8	2.4	39.4	158
	SIS-TER S.p.A., Palazzo Pignano/Cremona	100	50.5	2.8	8.7	207
Great Britain	FMC (UK) Ltd., Huthwaite - Nottinghamshire	100	93.5	5.1	28.1	181
France	FMC France S.A., Fresnes	100	86.6	3.0	20.2	117
	SMAD S.A., L'Arbresle	100	76.3	5.6	30.1	329
Turkey	Fresenius Medikal Hitzmetler A.S., Istanbul	100	30.4	4.5	10.1	150
Portugal	FMC Portugal S.A., Moreira	100	32.1	1.2	28.4	31
	NMC Centro Medico Nacional, S.A., Lissabon	100	52.5	1.2	28.6	574
Finland	FMC Suomi OY, Helsinki	100	10.5	0.8	2.2	17
Denmark	FMC Danmark A.S., Albertslund	100	7.9	0.2	2.6	15
Spain	FMC Espana S.A., La Roca del Vallès	100	68.3	2.1	16.4	80
	NMC of Spain S.A., Madrid	100	13.9	-3.7	41.7	814
Russia	ZAO Fresenius S.P., Moskau	100	25.3	1.2	6.0	113
The Netherlands	FMC Nederland B.V., Nieuwkuijk	100	18.9	0.5	3.6	30
Belgium	FMC Belgium N.V., Antwerp	100	28.5	2.9	13.1	63
Czech Republic	FMC Česká Republika spol. s.r.o., Prag	100	19.7	3.6	10.5	38
Switzerland	FMC (Schweiz) AG, Stans	100	24.7	3.4	10.5	40
Poland	FMC Polska S.A., Poznan	100	16.8	0.6	3.5	57
Romania	FMC Romania S.r.l., Bukarest	100	22.0	0.8	4.6	48
Slovakia	FMC Slovensko spol s.r.o., Piešťany	100	9.5	1.5	3.3	17
Marocco	FMC Maroc S.A., Casablanca	98	10.7	0.5	1.2	33
South Africa	FMC South Africa (Pty.) Ltd., Johannesburg	100	10.2	1.6	2.4	77
Slovenia	FMC Slovenija d.o.o., Zrece	100	5.3	-0.3	1.4	10
	Nefrodial d.o.o., Zrece	100	7.3	-1.7	1.2	78
Sweden	FMC Sverige AB, Sollentuna	100	15.5	1.2	6.1	22

$ in millions except employees		Ownership[1]	Revenue	Net income/ (-loss)	Equity	Employees (full-time equivalents)
Name and location		in %	2004[2]	2004[2]	31.12.2004[2]	31.12.2004
North America						
USA	FMC Holdings Inc., New York	100	4,217.8	249.3	2,216.0	28,151
Latin America						
Brazil	FMC Ltda., São Paulo	100	33.2	4.7	30.4	356
Colombia	FMC Colombia S.A., Santa Fé de Bogotà	100	53.4	6.2	46.4	839
Venezuela	FMC de Venezuela C.A., Valencia	100	15.8	-0.2	6.8	403
Argentina	FMC Argentina S.A., Buenos Aires	100	70.7	2.1	41.0	1,928
Mexico	FMC Mexico S.A. de C.V., Zapopan, Jalisco	100	30.6	-2.7	18.4	464
Chile	Pentafarma S.A., Santiago de Chile	100	9.2	-0.1	0.3	60
Asia-Pacific						
Japan	FMC Japan K.K., Tokio	100	42.9	-13.7	1.8	632
	Fresenius-Kawasumi Co. Ltd., Tokio	70	38.5	-1.3	20.2	48
South Korea	FMC Korea Ltd., Seoul	100	51.2	3.1	28.1	103
Taiwan	FMC Taiwan Co., Ltd., Taipei	100	26.6	0.9	-0.7	78
Australia	FMC Australia Pty. Ltd., Sydney	100	46.4	1.9	12.9	141
Singapore	FMC Singapore Pte. Ltd., Singapur	100	7.4	-1.0	2.3	59
Hong Kong	FMC Hong Kong Ltd., Hongkong	100	23.7	3.7	7.9	39
China	FMC (Shanghai) Co. Ltd., Shanghai	100	11.2	-0.1	0.3	39
Philippines	FMC Philippines Inc., Makati City - Metro Manila	100	2.8	0.1	0.6	15
Malaysia	FMC Malaysia Sdn. Bhd., Kuala Lumpur	100	7.6	0.2	3.2	24
Thailand	FMC Thailand Ltd., Bangkok	100	5.8	0.3	3.6	45

[1] Direct and indirect interest

[2] These figures comply with the finacial statements prepared in accordance with the specific generally accepted accounting principles of each country and do not reflect the amounts included in the Consolidated Financial Statements. Shareholders` equity and earnings are translated at the year-end current rate, and sales are translated at the average rate of the year

5-Year Summary

$ in thousands, except share data	2004	2003	2002	2001	2000
Statements of Income[1]					
Net revenue	6,228,002	5,527,509	5,084,097	4,859,318	4,201,338
Cost of revenue	4,142,117	3,698,606	3,428,077	3,220,198	2,734,593
Gross profit	2,085,885	1,828,903	1,656,020	1,639,120	1,466,745
Selling, general and administrative expenses	1,182,176	1,021,781	913,620	966,044	813,997
Research and development expenses	51,364	49,687	47,433	35,700	31,935
Special charge[2]	–	–	–	258,159	–
Operating income (EBIT)	852,345	757,435	694,967	379,217	620,813
Interest expenses, net	183,746	211,759	226,517	222,929	216,105
Income before income taxes and minority interests	668,599	545,676	468,450	156,288	404,708
Income tax expense (benefit), net	265,415	212,714	175,074	91,202	189,772
Net income	**401,998**	**331,180**	**289,790**	**63,354**	**212,075**
Income per ordinary share	4.16	3.42	3.00	0.65	2.37
Income per preference share	4.23	3.49	3.06	0.70	2.43
Personnel expenses	2,011,890	1,755,981	1,551,874	1,451,116	1,215,856
Depreciation	199,732	180,952	158,126	147,945	130,278
Amortization[3]	32,853	35,425	52,429	175,558	162,576
thereof amortization of goodwill	–	–	–	94,732	84,983
Earnings before interest and taxes, depreciation and amortization (EBITDA)	1,084,931	973,813	905,522	702,720	913,667
Before special charge and related expenses[2]					
EBITDA	1,084,931	973,813	905,522	967,564	913,667
EBIT	852,345	757,435	694,967	644,061	620,813
Income	401,998	331,180	289,790	244,524	212,075
Income per ordinary share	4.16	3.42	3.00	2.53	2.37
Balance Sheet					
Current assets	2,445,970	2,206,128	1,821,700	1,779,129	1,581,411
Non-current assets	5,515,571	5,297,192	4,958,249	4,736,881	4,397,542
Total assets	**7,961,541**	**7,503,320**	**6,779,949**	**6,516,010**	**5,978,953**
Short-term debt	655,093	209,782	153,358	273,375	579,076
Other current liabilities	1,282,760	1,202,699	1,142,016	1,103,848	811,376
Current liabilities	1,937,853	1,412,481	1,295,374	1,377,223	1,390,452
Long-term debt	1,824,330	2,353,941	2,234,491	2,164,537	1,610,559
Other non-current liabilities	564,542	493,218	442,905	357,506	299,192
Non-current liabilities	2,388,872	2,847,159	2,677,396	2,522,043	1,909,751
Total liabilities	4,326,725	4,259,640	3,972,770	3,899,266	3,300,203
Shareholders' equity	3,634,816	3,243,680	2,807,179	2,616,744	2,678,750
Total liabilities and shareholders' equity	**7,961,541**	**7,503,320**	**6,779,949**	**6,516,010**	**5,978,953**
Total debt incl. accounts receivable securitization program	2,479,423	2,721,721	2,833,098	2,883,609	2,639,009
Working capital[4]	1,285,295	1,141,583	870,814	897,093	770,035
Credit Rating					
Standard & Poor's					
Corporate credit rating	BB+	BB+	BB+	BB	BB
Subordinated debt	BB-	BB-	BB-	B+	B+
Moody's					
Corporate credit rating	Ba1	Ba1	Ba1	Ba1	Ba1
Subordinated debt	Ba2	Ba2	Ba2	Ba2	Ba3

$ in thousands, except share data	2004	2003	2002	2001	2000
Cash Flow					
Net cash provided by operating activities	827,843	754,019	549,918	424,248	391,266
Capital expenditure, net	260,374	(276,434)	(201,377)	(251,030)	(207,313)
Free Cash Flow	567,469	477,585	348,541	173,218	183,953
Acquisitions and investments, net of cash acquired	104,493	(92,190)	(79,835)	(216,711)	(274,530)
Share data					
Year-end share price Frankfurt, XETRA (€)					
Ordinary shares	59.21	56.40	39.46	69.50	87.00
Preference shares	42.65	39.95	28.65	51.80	50.50
Year-end ADS share price New York ($)					
Ordinary shares	26.80	23.35	13.70	20.10	27.00
Preference shares	19.15	16.00	9.80	14.60	15.80
Average number of ordinary shares	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000
Average number of preference shares	26,243,059	26,191,011	26,185,178	26,035,330	19,002,118
Total dividend amount (€ in thousands)	109,437	99,585	91,989	83,321	76,435
Dividend per ordinary share (€)[5]	1.12	1.02	0.94	0.85	0.78
Dividend per preference share (€)[5]	1.18	1.08	1.00	0.91	0.84
Employees					
Full-time equivalents, December 31	44,526	41,097	39,264	37,331	33,316
Operational ratios (in%)					
before special charge and related expenses[2]					
EBITDA margin	17.4	17.6	17.8	19.9	21.7
EBIT margin	13.7	13.7	13.7	13.3	14.8
EPS growth[1]	21.0	14.0	18.6	6.8	10.2
Organic revenue growth (currency-adjusted)	6.3	3.4	5.1	8.8	8.0
Return on invested capital (ROIC)	7.5	7.2	7.3	7.8	7.9
Return on operating assets (ROOA)	11.8	11.4	11.4	11.2	11.6
Return on equity before taxes[1]	18.4	16.8	16.7	16.1	15.1
Return on equity after taxes[1]	11.1	10.2	10.3	9.3	7.9
Cash flow return on invested capital (CFROIC)	13.5	13.2	13.3	15.4	15.9
Leverage ratio (total debt/EBITDA)[6]	2.3	2.8	3.1	3.0	2.9
Gearing [(total debt - cash)/equity]	0.7	0.8	1.0	1.1	1.0
EBITDA/Interest expenses[1]	5.9	4.6	4.0	4.3	4.2
Cash from operating activities in percent of sales	13.3	13.6	10.8	8.7	9.3
Equity ratio (equity/total assets)	45.7	43.2	41.4	40.2	44.8
Dialysis Care Data					
Treatments (millions)	18.8	17.8	16.4	15.2	12.9
Patients treated (December 31)	124,400	119,250	112,200	105,830	91,900
Number of clinics (December 31)	1,610	1,560	1,480	1,400	1,270

[1] 2002: Loss from early redemption of trust preferred securities reclassified from extraordinary loss into interest expense and income tax expense as a result of adoption of SFAS No.145 (Extraordinary loss of $20 million, $12 million net of taxes).

[2] Special charge includes in 2001 special charge for 1996 merger-related legal matters of $258 million ($177 million, net of taxes) and related prior quarter expenses of $7 million ($4 million, net of taxes).

[3] In 2000 and 2001 the amortization includes amortization of goodwill, tradename and management contracts.

[4] Current assets less current liabilities (excluding current debt and accruals for special charge included in accrued expenses and other current liabilities in 2004 and 2003).

[5] 2004: Proposal for approval at the Annual General Meeting on May 24, 2005.

[6] Correction of non-cash charges of $12.7 million in 2004, $12.5 million in 2003 and $10 million for each year ending in or before 2002.

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Fresenius Medical Care