



ANNUAL REPORT 1999

Fresenius. The Health Care Group.

Products and Services – to Enhance the Quality of Life.

Knowledge and Commitment – to Increase Value.

Fresenius is a health care group operating all over the world with products and services for dialysis, the hospital and the ambulatory medical care of patients. More than 43,700 Fresenius employees in around 100 countries are working with great dedication in the service of health.

On the double illustrated pages of this Annual Report, we describe competences which have made Fresenius a global company over the past years. We wish to preserve these competences - to continue this success in the future.

FRESENIUS MEDICAL CARE

	1998 ¹⁾	1999 ²⁾	Change
in million US\$			
Sales	3,506	3,840	10%
Operating profit (EBIT)	489	560	15%
Net income	132	170	30%
Operating cash flow	268	355	32%
Capital expenditure/ acquisitions	378	271	-28%
R&D expenses	31	32	3%
Employees (31.12.)	28,739	31,086	8%

FRESENIUS KABI

	1998*	1999	Change
in million €			
Sales	711	964	36%
Operating profit (EBIT)	73	79	8%
Net income ³⁾	-	37	-
Operating cash flow	65	44	-32%
Capital expenditure/ acquisitions	378	141	-63%
R&D expenses	28	51	82%
Employees (31.12.)	7,402	8,587	16%

* 1998: Pharma Division

FRESENIUS PROSERVE

	1998	1999	Change
in million €			
Sales	237	268	13%
Operating profit (EBIT)	10	13	30%
Net income ³⁾	-	10	-
Operating cash flow	12	30	150%
Capital expenditure/ acquisitions	12	14	17%
Orders received	292	309	6%
Orders on hand	292	276	-5%
Employees (31.12.)	1,620	1,719	6%

FRESENIUS HEMOCARE

	1998	1999	Change
in million €			
Sales	163	178	9%
Operating profit (EBIT)	-5	2	140%
Net income ³⁾	-	-2	-
Operating cash flow	-4	-2	50%
Capital expenditure/ acquisitions	33	20	-39%
R&D expenses	12	13	8%
Employees (31.12.)	1,759	2,033	16%

¹⁾ core business Dialysis Products and Dialysis Care (continuing operations)

²⁾ before extraordinary expenses

³⁾ figures given starting from 1999 financial year

FRESENIUS GROUP IN FIGURES

FRESENIUS GROUP IN FIGURES

in million €	1995	1996	1997	1998	1999
Earnings					
Sales	1,143	1,859	3,812	4,317	4,952
Operating profit (EBIT)	93	152	377	484	597
Net income	47	67	108	146	203
Depreciation and amortization	49	101	274	296	341
Cash flow ¹⁾	100	175	396	452	559
Cash flow ratio	8.7 %	9.4 %	10.4 %	10.5 %	11.3 %
Earnings per share after minority interests	2.50 €	3.27 €	2.85 €	4.25 €	5.35 €
Balance sheet					
Balance sheet total	821	3,765	4,548	4,959	5,714
Fixed assets	318	2,573	3,018	3,264	3,563
Equity	329	1,070	1,395	1,867	2,013
Equity ratio	40 %	28 %	31 %	38 %	35 %
Capital expenditure ²⁾	126	271	840	817	444
Profitability					
EBIT margin	8.1 %	8.2 %	9.9 %	11.2 %	12.1 %
Return on equity after taxes (ROE)	14.1 %	6.3 %	7.7 %	7.8 %	10.1 %
Return on operating assets (ROOA)	11.8 %	6.8 %	9.2 %	10.0 %	11.2 %
Return on invested capital (ROIC)	10.9 %	7.4 %	10.2 %	10.1 %	10.5 %
Employees (31.12.)					
	9,064	32,521	35,543	39,923	43,783

¹⁾ net income + depreciation and amortization +/- change in pension provisions

²⁾ investments in tangible and intangible assets, acquisitions

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Jean Morelwhiter,

In the numerous investors' meetings held during the year 1999, I was often asked by fund managers and analysts about the advantage of the new structure of the Group with its four legally-independent companies and Fresenius AG as an operating holding. I should like to explain once again the philosophy behind this structure:

The new legal structure which you approved at the Annual General Meeting in June 1999 is based on our division-oriented, regional organisational structure which we created many years ago. This was the basis of our success over the past years since it has enabled us to operate flexibly and in accordance with the demands of the markets. Therefore, to convert this decentralised organisational and management structure to a corresponding legal structure was the logical consequence; and at the same time it was an important step towards strengthening the entrepreneurial activities of our managerial staff and the employees' identification with the new companies.

The individual divisions are represented in the Managing Board of the operating holding, Fresenius AG, combining the many years of experience and competence of these divisions. Within the operating holding, strategies are developed, and trends in the health care systems are discussed as well as ways of exploiting synergy potentials and market opportunities. The fact that the divisions belong to the operating holding gives them strong support, and offers especially the new divisions the necessary scope to expand and further develop their businesses.

At the same time, within the network of the Group we can bundle the competences of the individual divisions for the benefit of the company as a whole. Constant inter-divisional communication means that we are able to exploit more opportunities than would be possible for a company outside this Group. I shall illustrate this by giving three examples:

- Leading-edge production processes which have been developed by one division are also available to the other divisions by means of know-how transfer. Remember, for example, that in the manufacture of infusion solutions we use highly-automated filling and sterilisation processes similar to those in peritoneal dialysis.
- We use developments for primary packaging of solutions, e.g. our Biofine® foil, both for products of Fresenius Medical Care and for Fresenius Kabi's infusion solutions.
- Our service networks also open up opportunities for the individual divisions to work together: For instance, patients with rheumatoid arthritis in the United States who use the products of Fresenius HemoCare are treated in the clinics of Fresenius Medical Care.

This structure, which offers numerous opportunities to the divisions as individual units and to the Group as a whole, was and is one of the prerequisites for us to develop successfully. 1999 was another excellent financial year – the best in the company's history: Consolidated sales increased by 15% to around 5 billion euros – a remarkable achievement in view of the absolute sales figure already achieved. Net income registered an even stronger gain: 39% to 203 million euros. This means that we reached our target of increasing sales by more than 10%, and profit at an even higher rate than sales – a target which we have achieved every financial year over the past ten years, with a compounded annual growth rate (CAGR) in sales of 28% and profit of 50%.

The legal independence of the four divisions means that the financial transparency has also increased. In this Annual Report you will find a report on the segments which contains all important financial data of the individual divisions, right up to net income as well as the management key data, on which we place great importance. Thus, we are making available substantially more information than in the past years in order to enable you to assess the individual divisions more exactly.

We are very satisfied with the development of our divisions in the 1999 financial year: The operating figures presented by Fresenius Medical Care were convincing. Fresenius Kabi successfully integrated the acquired Kabi business. Fresenius HemoCare has succeeded in generating a positive operating result for the first time. In the fields of immune therapy and adsorber technology, Fresenius HemoCare is working on very promising projects. The business development of Fresenius ProServe was also positive. This division has a magnificent opportunity to profit from the privatisation of the health care systems.

We want to increase the dividend for the seventh consecutive year: to 1.54 euros per ordinary share and 1.60 euros per preference share, which is a 20% rise per ordinary and preference share. We should like you to profit once again from the good business development of our Group.

At this point, I should like to give my sincere thanks to all our employees. They have achieved the excellent business results of the 1999 financial year with their inventiveness, willingness to work hard and striving towards success. I should also like to thank the representatives of the various employees' bodies for their positive and constructive support.

Fresenius has become a global company with its innovative products and services. Getting new products and services onto the markets more quickly than our competitors will continue to be a crucial factor in the future. Thinking and acting flexibly, quickly recognising the changes in the markets and setting the trends – these are the competences which we have to nurture and develop further. In future, we shall concentrate even more on our strategy of offering services in our core competences in addition to our products. In a few years, sales figures in the service sector will exceed those generated by products.

We have defined our task: We want to make Fresenius a leading company in the health care market

- with best products
- with excellent therapies
- with convincing services
- with a steadily increasing company value for our shareholders

We are looking optimistically into the future: For the current financial year 2000 we are planning another sales increase of around 10% – at constant exchange rates – with a growth rate in profit which is expected to substantially outperform that of sales.

We are confident that we can meet the challenge that we have set ourselves for the coming years: to continue to develop products and therapies with the best possible medical benefits for sick people, so that they can regain their health.

I thank you, our shareholders, for your confidence and look forward to your continued support in the future.

Yours sincerely

Dr. Gerd Krick
Chairman of the Managing Board

Dialogue between four independent divisions:

At Fresenius, group philosophy is put into practice.

Exchanging experience on specific topics means that the whole company can profit from our mutual resources. Ideas are born and implemented, innovations are created – for the benefit of the individual and of the whole Group.

Current topics which are relevant to all the divisions are discussed in the forum on health care systems. It is our aim to utilise our pool of knowledge in order to gain and implement new findings.





Fresenius Medical Care – Innovative products for dialysis


GROUP PHILOSOPHY

The knowledge and competence of the individual parts are combined in the Fresenius Group.



Fresenius Kabi – Infusion solutions in PVC-free bags

DIALYSIS PRODUCTS AND
DIALYSIS CARE



Fresenius Medical Care

SALES	US\$ 3,840 million
OPERATING PROFIT	US\$ 563 million
EMPLOYEES	31,086

The world’s leading provider of products and care for patients with chronic renal failure



Fresenius ProServe – Provides services in the hospital field and for the pharmaceutical industry

BUNDLED STRENGTHS IN THE FRESENIUS GROUP

Fresenius

NUTRITION AND
INFUSION THERAPY



SALES	€ 964 million
OPERATING PROFIT	€ 79 million
EMPLOYEES	8,587

Europe's leading company in the field of nutrition and infusion therapy

PLANNING AND CONSTRUCTION OF HOSPITALS,
PHARMACEUTICAL AND MEDICAL-TECHNICAL
PRODUCTION PLANTS; HOSPITAL MANAGEMENT



SALES	€ 268 million
OPERATING PROFIT	€ 13 million
EMPLOYEES	1,719

The specialist for the hospital, pharma engineering and hospital management



Fresenius HemoCare – Adsorber technology for extracorporeal blood treatment

HEMOTECHNOLOGY
AND INFUSION TECHNOLOGY



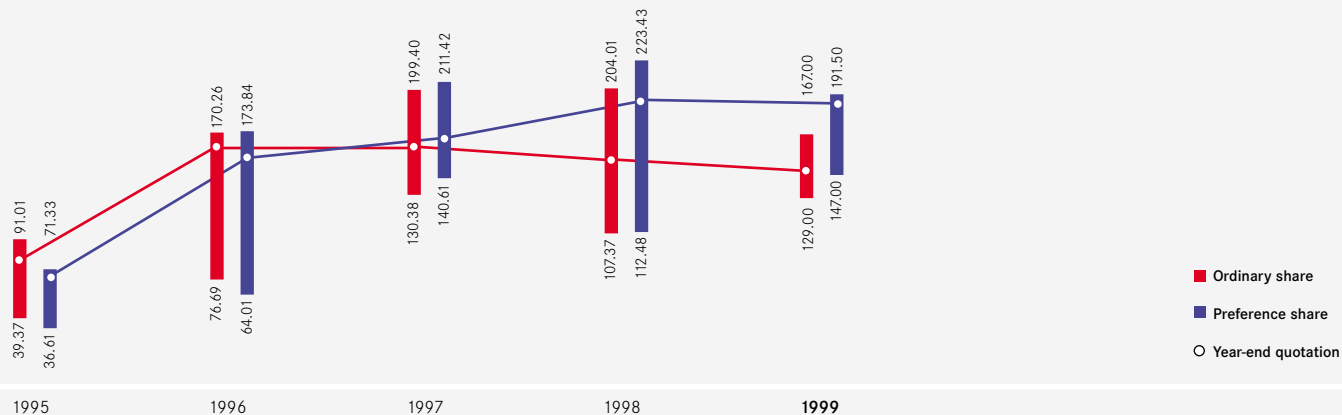
Fresenius HemoCare

SALES	€ 178 million
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OPERATING PROFIT	€ 2 million
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EMPLOYEES	2,033
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The competent partner in intensive care and hemo-
technology



Development of Fresenius ordinary and preference shares in €

THE FRESENIUS SHARES

Fresenius is one of the 50 largest publicly-quoted German companies with respect to the stock exchange turnover of its shares and its market capitalisation. The preference shares of Fresenius are contained in the MDAX and, since December 1999, have also been included in the stxx index which comprises the 600 largest European companies. In addition, the shares are represented in the CDAX sector index Pharma & Health.

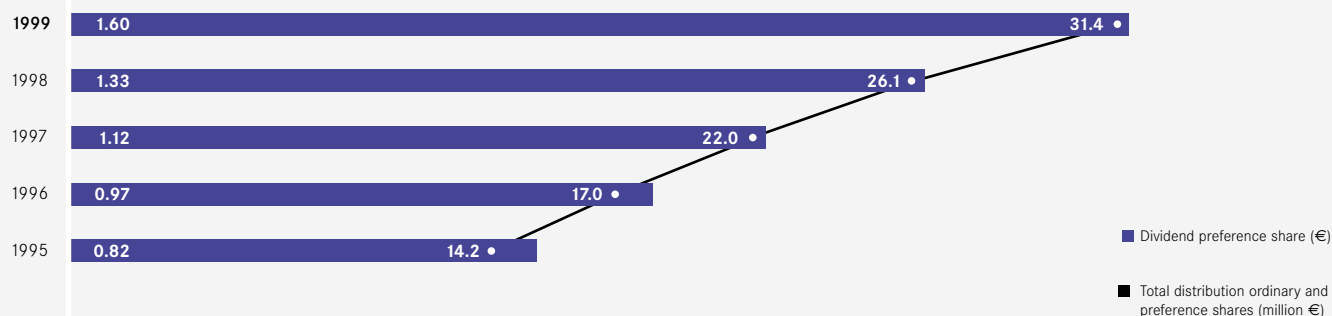
Late rally on the stock markets

Following the first upward movements of share prices at the beginning of the 1999 stock exchange year, the international stock markets on the whole were characterised by a long period of stagnation. The increases in key lending rates by the European Central Bank and the United States Central Bank in order to check inflationary trends were followed in October by increasing share prices, which lasted until the end of the year. Also, the German stock market did not show any clear trend until the middle of October 1999. The DAX ranged between 4,700 and 5,500 points most of the time. From the end of October there was an accelerated upward development which ended in a new annual record for the share prices at the end of the year. However, the MDAX did not profit from this rally.

The prices of the Fresenius shares initially developed in line with the international trend: The ordinary shares reached their highest price for the year, €167.00, on January 7, 1999 and the preference shares their highest price of €191.50 on January 4, 1999. Altogether, the development of both types of share lagged behind that of the general market – despite the company's sustained positive business development. Following some slight price increases in the fourth quarter, the cash quotation of the ordinary share on December 30, 1999, €145.00, was 5.5% lower than at the end of the previous year. On the other hand, the preference share registered an upswing after the figures for the first nine months were published, and reached a cash quotation of €188.00 at the end of the year – an increase of 5.1% over the previous year.

The MDAX grew comparatively slowly and closed with a gain of 4.6% on the last day of trading. The DAX rose by 39.0% during the course of the year.

In 1999, a Fresenius preference share holder achieved a return of 5.8% or 6.1% respectively, if the dividend for 1998 of €1.33, or €1.90 with tax credit, is included. Looking at the development in the value of our share over a period of 5 years, we can demonstrate an above-average return for the share: An investor who invested an amount of €10,000 in Fresenius preference shares on 31.12.1994 had a securities account amounting to €51,995 at the end of 1999. This calculation is based on the assumption that the dividend paid out (without tax credit) and the subscription rights were re-invested in Fresenius shares. The annual return amounted to 39.1%. In comparison, that of the MDAX was merely 10.5%.



Dividend, total distribution

Another dividend increase

Our shareholders will continue to participate in the good profit situation of Fresenius. We therefore intend to raise the dividend for 1999 from €1.28 to €1.54 per ordinary share and from €1.33 to €1.60 per preference share.

Those shareholders who are fully tax liable and eligible for tax deductions will receive a dividend, including tax credit, of €2.20 and €2.29 respectively.

Mainly buy recommendations

An important basis for decisions regarding investments made by both private shareholders and institutional investors is the opinion of the financial analysts: According to information from I/B/E/S and from our own surveys, the clear majority of the assessments of the Fresenius shares are recommendations to buy. Up to the end of February 2000, we registered 20 recommendations to buy, 4 to hold and 1 to sell. This reflects the positive expectations of the analysts regarding the sustained earnings power of the company and the potential of the shares.

Earnings per share

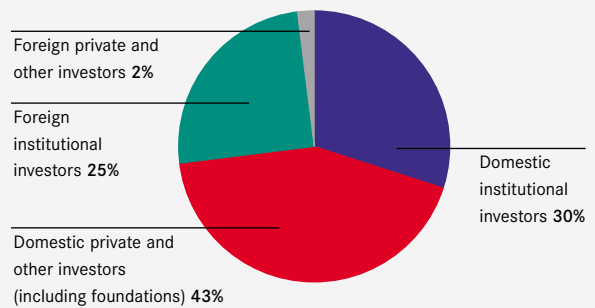
In the 1999 financial year we realised earnings per share after minority interests of €5.35, an increase of 26% (1998: €4.25). These earnings were calculated as follows:

	1998	1999
in million €		
Net income	146	203
Share of profits allocated to minority interest holders	-61	-96
Earnings after minority interests	85	107
Number of shares	20 million	20 million
Earnings per share	€ 4.25	€ 5.35

By showing earnings per share after minority interests, we have adapted to international practices and are thus orienting ourselves to US GAAP accounting methods.

Conversion of the subscribed capital to euros and introduction of non-par value shares

On June 10, 1999 the Annual General Meeting passed a resolution to convert the subscribed capital of Fresenius AG to euros and at the same time to divide it into non-par value shares. In order to even out the subscribed capital, the capital was increased from corporate funds without issuing new shares, so that each share with a nominal value of DM 5 was replaced by a non-par value share. The subscribed capital now amounts to €51,200,000. On September 13, 1999 the stock exchange quotations of the Fresenius ordinary and preference shares were converted to non-par value shares. The share certificates which are in circulation continue to be valid after the conversion.



Shareholder structure
Share ownership of capital reported

Shareholder structure

In November 1999, we conducted an analysis of the socio-logical structure of our shareholders, which identified 95% of the subscribed capital. Our shares are included in more than 20,600 securities accounts. 73% of the sub-scribed capital identified by the analysis is held by German, and 27% by foreign shareholders. Institutional shareholders make up 41% of the domestic share capital, the remaining 59% is divided between private shareholders and other investors, including the Else Kröner-Fresenius Foundation. 93% of the share capital held abroad is owned by institutional investors and 7% by private and other shareholders.

The largest holders of the voting capital are:

- Else Kröner-Fresenius Foundation,
Bad Homburg: 68%
- Neunte Herakles Beteiligungs-Gesellschaft mbH & Co. KG,
Bad Vilbel: 9.98%
- AW-Beteiligungs GmbH,
Ochsenfurt: 9%

More information for our shareholders

The increasing globalisation and expansion of the capital markets demand a high level of transparency from the company to create the basis for well-founded investment decisions. It is therefore our aim to give information to our shareholders, potential investors and financial ana-lysts openly, punctually and comprehensively. We want everyone to be able to assess the earnings power and strategic focus of the company realistically. Only thus can we succeed in strengthening confidence in the company and its potential, and achieving an appropriate evaluation of the Fresenius shares.

In order to give continuity to our reporting in 1999, we again published numerous news releases about current developments in the Fresenius Group, in addition to the Annual Report and the quarterly reports. Because the divisions have been restructured into legally-independent companies, the reports on the segments have been even more detailed since the beginning of the year 2000.

Our Internet pages, where financial information has been available since the beginning of 1999 at <http://www.fresenius-ag.com>, enjoyed great popularity. People have often taken the opportunity to send queries by e-mail and ask for printed information.

Financial analysts also had the opportunity to obtain information about the current development of the Frese-nius Group at conferences which take place three times a year. In addition, we offered a telephone conference on each of these conference days. The participants were able to follow the presentation on our Internet homepage.

Furthermore, contacts to financial analysts and insti-tutional investors were intensified through numerous individual meetings and company presentations. In the year under report, we made company presentations in Germany, Great Britain, Switzerland, France and in the United States.

KEY DATA OF THE FRESENIUS SHARES

	1995	1996	1997	1998	1999
Number of shares	1,800,000	18,000,000	20,000,000	20,000,000	20,000,000
Ordinary shares					
(securities identification no. 578 560)	1,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Preference shares					
(securities identification no. 578 563)	800,000	8,000,000	10,000,000	10,000,000	10,000,000
Dividend (in million €)	14.2	17.0	22.0	26.1	31.4 ¹⁾
Cash quotation of the ordinary share ²⁾ (€)					
High	91.01	170.26	199.40	204.01	167.00
Low	39.37	76.69	130.38	107.37	129.00
Last	83.60	158.50	155.18	153.39	145.00
Cash quotation of the preference share ²⁾ (€)					
High	71.33	173.84	211.42	223.43	191.50
Low	36.61	64.01	140.61	112.48	147.00
Last	69.94	163.36	167.19	178.95	188.00
Market capitalisation ³⁾ (million €)	1,395	2,892	3,224	3,323	3,330
per share in €					
Dividend ordinary share	0.77	0.92	1.07	1.28	1.54 ¹⁾
with tax credit	1.09	1.31	1.53	1.83	2.20 ¹⁾
Dividend preference share	0.82	0.97	1.12	1.33	1.60 ¹⁾
with tax credit	1.17	1.39	1.61	1.90	2.29 ¹⁾
Earnings after minority interests	2.50	3.27	2.85	4.25	5.35

¹⁾ proposal²⁾ cash quotation Frankfurt Stock Exchange³⁾ total number of ordinary and preference shares multiplied by the last cash quotation (Frankfurt Stock Exchange) of the year

INNOVATION AS A FACTOR FOR SUCCESS

Medical progress is experienced physically. Fresenius creates innovations in all fields. Inquiring minds, inventiveness, and the ability to implement ideas, represent both capital and perspective – in the development of medical products and technologies, therapies and in patient care.

Monika Malanin has been suffering from an auto-immune disease for 6 years – systemic lupus erythematosus. Following an adsorber treatment, the symptoms of the illness almost completely disappeared and the medication she had to take was able to be reduced, thus diminishing the side effects. This enabled Mrs. Malanin to have the child she wanted so much: In 1998 her son Stefan was born. He beams all over his face when she can devote all her attention to him free of care.

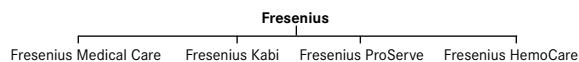
Fresenius HemoCare is the world's leader in absorber technology.



MANAGEMENT REPORT

We continued our growth in the 1999 financial year: With a 15 % increase in sales and a 39 % growth rate in net income. The return on operating assets (ROOA) and the equity ratio before taxes as further measures of value for our shareholders improved from 10 % to 11 % and from 15 % to 19 % respectively. For the year 2000, we are planning a sales growth of around 10 % at constant exchange rates, and a substantially higher rise in earnings.

We changed the legal structure of the Fresenius Group in the 1999 financial year with the approval of the Annual General Meeting. Three independent companies were created, which comprise the business activities of each of the former divisions Pharma, Projects & Services and Intensive Care & Hemotechnology of Fresenius AG – as with Fresenius Medical Care – and which act as management companies. All these new companies – Fresenius Kabi, Fresenius ProServe and Fresenius HemoCare – are 100 % subsidiaries of Fresenius AG, which now has the following structure:



A process has come to its logical conclusion in this new structure: The business fields which many years ago were structured into divisions which were independent from one another, have now been transferred to legally independent companies.

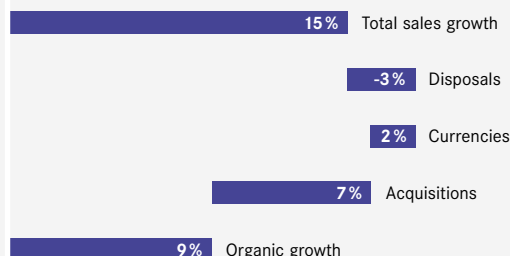
The course of business of the Fresenius Group in 1999 was influenced by the acquisition of dialysis clinics and of the international infusion business of Pharmacia & Upjohn (Kabi). Kabi was consolidated for the first full year in 1999, while in 1998 the acquisition was included in the consolidated financial statements for the month of December only.

A further important acquisition took place in China in August 1999: Fresenius Kabi signed an agreement to acquire 51 % of the shares of Pharmacia & Upjohn in the Chinese joint venture Sino Swede Pharmaceutical Company, Wuxi. Since the authorities had already given their approval, the acquisition was consolidated for the first time in the financial statements as of 31.12.1999. Thus, Fresenius Kabi has now become the market leader in nutrition therapy in China.

Economic environment and trends in the health care industry

The world economy showed strong recovery during the course of 1999 compared to the previous year, driven to a great extent by the stabilisation of the Japanese economy and the dynamic upswing in several developing countries of East Asia. At the same time, most of the Latin American countries succeeded in swiftly counteracting the decline in economic development. In the reforming countries of central Europe, the economy started to rally in the Spring of last year. Towards the end of the year, output in Russia also showed signs of recovery, following the strong slump in manufacturing. Furthermore, the continued strong expansion in the United States had a substantial impact on the recovery of the world economy. The German economy recovered in the second half of 1999, and GDP registered a moderate growth of 1.4%.

The market situation for medical products and health care services has scarcely changed compared to the 1998 financial year. Many segments of the hospital market in Europe are still marked by stagnation or are growing slowly. In Germany, some sectors are registering downward trends. In comparison, we expect continued high growth potential in the long term in the hospital sector of



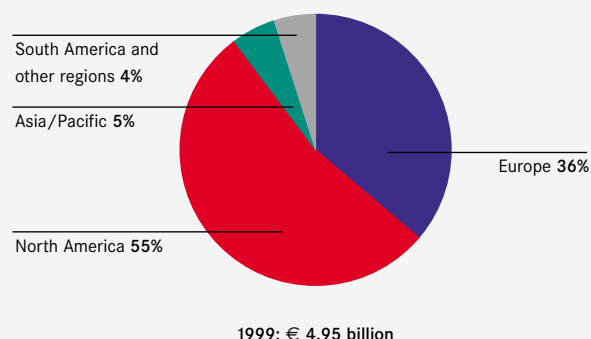
Impacts on sales

the developing markets of Asia, Latin America and Eastern Europe. If the GDPs in the countries of these regions rise, then the demand for health care services will also go up. Altogether, the rise in the world's population as well as the growing number of older people means that the demand for hospital services and thus for medical products will increase.

The field of ambulatory care presents considerable potential. Cost cuts and budget restrictions in the health systems are forcing hospitals in particular to implement cost-cutting measures, resulting in a reduction in the average length of time that patients stay in hospital. The market for patients who can be cared for outside the hospital and treated with numerous therapies is growing by more than 10% per year. Also, the number of patients who suffer from chronic kidney failure, requiring dialysis, increased in the year under report by 7%, a growth which we expect to continue over the coming years.

The change in the foreign exchange rates, especially of the US dollar to the euro, is of special importance to Fresenius due to the large share of business in North America. The 16% re-valuation of the us dollar over the euro compared to the end of 1998 had a positive impact on sales, and above all on earnings.

In the 1999 financial year we changed our accounting system to the euro. The conversion proceeded without any problems thanks to our careful preparations. We converted the accounts of 80 European subsidiaries in only 45 hours. The introduction of the euro as the new European currency did not have any significant impact on our business up to now, and we do not expect that in the foreseeable future it will have any effect on our price and cost structures.



Sales by region

Sales increased by 15 %

Consolidated sales rose by 15%, i.e. by €635 million to €4,952 million in the 1999 financial year. The acquisitions already mentioned – the purchase of dialysis clinics and of the international infusion business of Pharmacia & Upjohn (Kabi) – were the main driving force in this increase. The businesses sold in 1998 reduced the sales figure. The chart shows the influence of acquisitions, disposals and exchange rate changes on the development of our sales. Excluding these factors, the Fresenius Group achieved a high organic growth of 9%.

The largest share of sales, 55%, was achieved in North America. Europe's share of sales rose compared to the 1998 financial year from 34% to 36%, mainly due to the acquisition of Kabi. The sales shares in the region Asia/Pacific and the other regions of the world remained constant, at 5% and 4% respectively.

The sales shares of the divisions have shifted in favour of Fresenius Kabi as a result of the acquisition:

	1998	1999
Fresenius Medical Care	75%	72%
Fresenius Kabi	16%	19%
Fresenius ProServe	5%	5%
Fresenius HemoCare	4%	4%



Operating profit (EBIT) in million €

The individual divisions developed as follows:

Fresenius Medical Care:

Sales growth outperforms the market

In the 1999 financial year, Fresenius Medical Care achieved an 11 % increase in sales to €3,609 million (1998: €3,264 million). Organic growth amounted to 10%. Thus, the company once again grew more strongly than the market as a whole, which has an estimated patient growth rate of 7 % per year. The two segments of Fresenius Medical Care – Dialysis Care and Dialysis Products – developed very well, both in North America and internationally.

Fresenius Kabi:

Business expanded by one third

Fresenius Kabi achieved a substantial sales increase of 36 % in the 1999 financial year. Sales amounted to €964 million, following €711 million in 1998. Although this development was mainly due to the acquisition of Kabi, we were also able to achieve very good growth in the original business. Excluding the Kabi acquisition and the sale of the pharmaceutical specialities business in 1998, organic growth amounted to 7%.

Fresenius ProServe:

€309 million new orders

Fresenius ProServe registered a sales increase of 13 % to €268 million in the 1999 financial year (1998: €237 million). This is largely due to the strong development of business in the European countries. The order situation in Europe continued to be good, and also in the Asia/Pacific region, despite an economic environment

which was difficult in some of these countries. Orders received increased by 6 % to €309 million (1998: €292 million). Orders on hand amounting to €276 million were lower than the 1998 level of €292 million.

Fresenius HemoCare: Increase of 9 %

In the 1999 financial year, Fresenius HemoCare achieved sales of €178 million, a 9 % increase over the figure of 1998, €163 million. The business units Transfusion Technology and Adsorber Technology achieved strong sales increases.

Strong rise in profits

In 1999 we again achieved a significant improvement in our operating business: With a 23 % increase in consolidated EBIT to €597 million, we clearly exceeded the previous year's figure of €484 million by €113 million. The EBIT margin increased from 11.2 % to 12.1 %.

All divisions of the Fresenius Group contributed to this positive development:

- Fresenius Medical Care registered a rise in EBIT of 23 % to €526 million, as a result of the strong development of both Dialysis Products and Dialysis Care. In the currency conversion, the strength of the US dollar of course had a favourable effect.
- Fresenius Kabi achieved an EBIT of €79 million in the year under report, a gain of 8 % compared to the 1998 figure of €73 million. Profits in the financial year were influenced by the planned restructuring expenses in connection with the Kabi acquisition.
- Fresenius ProServe achieved an EBIT of €13 million and thus an increase in profit of 30%; the previous year's figure amounted to €10 million.

- Fresenius HemoCare, with an EBIT of €2 million, achieved a profit in 1999 for the first time and has thus reached the turning point towards a profitable future. All core businesses of Fresenius HemoCare contributed to this positive development.

Fresenius achieved consolidated net income before extraordinary expenses of €203 million, a strong gain of 39% (1998: €146 million). The consolidated profit on ordinary activities amounted to €377 million, a growth of 31% compared to €287 million in 1998. The change in the exchange rates, in particular of the us dollar to the euro, positively influenced the profits of the Group, as already explained: At constant exchange rates, net income would have increased by 21%.

Also, the return on the profit on ordinary activities and on the profit after taxes increased significantly. The sales return on ordinary activities increased from 6.6% to 7.6% in the year under report. The return on sales after taxes registered an increase to 4.1% (1998: 3.4%).

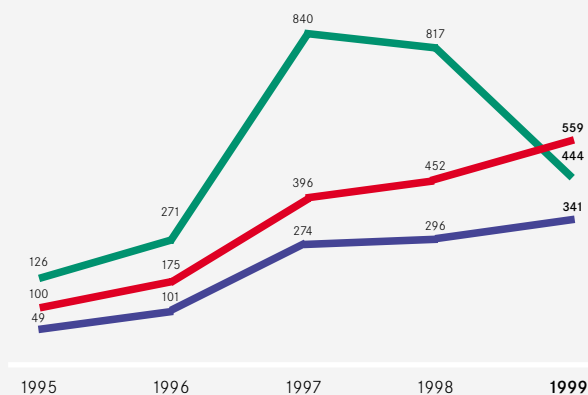
The balance of interest including interest for trust preferred securities increased from €-197 million to €-220 million. This increase is connected with the acquisition of Kabi which was financed for the first full year. In addition, the strength of the us dollar also had an impact, since the major part of the debt of Fresenius Medical Care was incurred in the dollar area.

Expenses for taxes on income and profit on the profit on ordinary activities amounted to €174 million. We were able to reduce the tax ratio compared to the 1998 financial year from 49.1% to 46.2% by means of further tax optimisation. In general, the 1999 tax reform in Germany had neither a positive nor a negative impact on the German companies. Due to the continuing discussions about further reform plans, no forecast can be made at present about the effects of future changes in legislation.

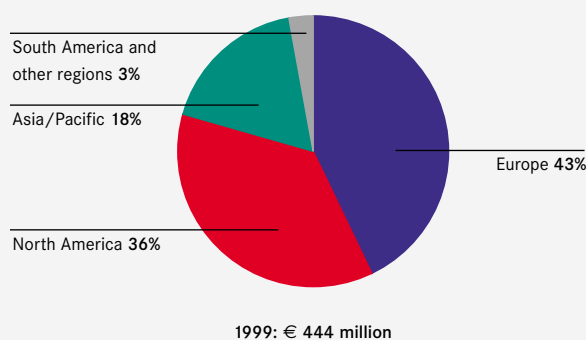
On January 18, 2000 a final settlement was reached in the investigations against National Medical Care by various us federal authorities and offices [Office of the Inspector General of the u.s. Department of Health and Human Services (OIG)] which had been ongoing since 1995, related to business practices during the period before the company was included in the Fresenius Group.

STATEMENT OF INCOME (SUMMARY)

in million €	1998	1999	Change
Sales	4,317	4,952	15%
Operating expenses/income	-3,833	-4,355	-14%
EBIT	484	597	23%
Balance of interest	-197	-220	-12%
Profit on ordinary activities	287	377	31%
Taxes on profit on ordinary activities	-141	-174	-23%
Net income before extraordinary profit	146	203	39%
Extraordinary income	0	106	-
Extraordinary expenses	0	106	-
Net income	146	203	39%



Capital expenditure [■] Cash flow [■] Depreciation and amortization [■]



Capital expenditure by region

As a result of the settlement, Fresenius Medical Care will make a payment to the government for which Fresenius Medical Care has made provisions for extraordinary expenses in its year-end financial statements.

The oig agreement did not have any impact on the profit of the Fresenius Group due to the provisions made in the previous years and the positive effect on profits from the capitalisation of deferred taxes for the first time, as shown in the table on the previous page.

We also refer to notes 3, 43 and 44 of the Notes to the Consolidated Financial Statements.

VALUE ADDED STATEMENT

in million €	1998	%	1999	%
Creation				
Sales	4,317	94	4,952	96
+ Change in finished goods and work in process	37	1	28	1
Output	4,354	95	4,980	97
+ Other operating income	240	5	171	3
Company output	4,594	100	5,151	100
- Materials and services purchased	2,526	55	2,736	53
+ Other income and expenses	24	0	23	0
Gross value added	2,092	45	2,438	47
- Depreciation and amortization	296	6	341	7
Net value added	1,796	39	2,097	35
Distribution				
Employees	1,270	71	1,445	69
Government	165	9	210	10
Lenders	215	12	239	11
Shareholders and minority interest holders	69	4	127	6
Earnings retention	77	4	76	4
Net value added	1,796	100%	2,097	100%

Value added growth of 17 %

The value added of the Fresenius Group on the basis of the net income before the extraordinary result increased by 17 % to €2,097 million in the 1999 financial year; this reflects the overall positive development of business. The employees received the largest share, 69 %, which amounted to €1,445 million. Governments received €210 million or 10 %. Interest expenses amounted to €239 million. The shareholders and minority interest holders received €127 million. The company retained €76 million for re-investment.

Dividend to be increased by 20 %

The Managing Board and Supervisory Board have proposed a dividend increase to the Annual General Meeting. We intend to distribute €1.54 per ordinary share and €1.60 per preference share from the retained earnings of Fresenius AG, a 20 % increase per ordinary and preference share over the 1998 dividend.

High capital expenditure volume

In the 1999 financial year we invested €444 million. In the previous year the amount was €817 million due to our strong acquisition activities. Of the total 1999 investments, 59 % (€264 million) concerned tangible and intangible assets and 41 % (€180 million) concerned acquisitions.

The major acquisitions included

- the purchase by Fresenius Medical Care of 36 dialysis clinics, in particular in Western Europe, South America and the United States, amounting to €93 million, and
- the 51 % share in the Chinese joint venture Sino Swede Pharmaceutical Company by Fresenius Kabi.

In tangible assets, important investment projects were

- the extension and optimisation of the production lines in our dialyser and peritoneal dialysis bag factory in St. Wendel
- the founding and equipping of 71 new dialysis clinics, 57 of which are in the United States as well as the extension of existing clinics; around €82 million was spent for this purpose.

- the building and commissioning of the production plant for parenteral nutrition products in Uppsala and for pvc-free infusion solution bags in Friedberg

If we look at the distribution of capital expenditure by region, Europe is at the top of the list with an investment volume of €189 million, 43 % of the total amount, as can be seen in the diagram. North America is in second place with €161 million, 36 %. In the previous year, 64 % of total capital expenditure was invested in Europe and 30 % in North America.

All capital expenditure in tangible and intangible assets financed from the cash flow

The consolidated cash flow increased in the year under report by 24 % to €559 million (1998: €452 million). €162 million had to be spent on the increase in working capital. This results in an operating cash flow of €397 million, from which the investments in tangible and intangible assets amounting to €264 million were fully financed in the year under report. In addition, 100 % of the financing requirements for acquisitions were financed from the cash flow. The free cash flow before acquisitions and dividends amounted to €147 million.

Cash used for financing activities amounted to €111 million. Liquid assets dropped by €66 million to €115 million at the end of the year 1999.

Currency and interest rate risk management

The use of derivative financing instruments is one of the ways in which the Fresenius Group reduces or eliminates foreign currency risks and interest rate exposures arising from its international operations. These derivative instruments are restricted to marketable instruments traded outside the stock exchange (so-called *orc* instruments) which are only used to hedge underlying transactions, but not for trading or speculation purposes.

The Fresenius Group uses currency risk management and interest rate risk management on the basis of a strategy approved by the Managing Board that defines the targets, organisation and handling of the risk management processes as well as the clear responsibility for the determination of the risks, for closing hedging transactions and for the regular reporting on the risk manage-

ment. These responsibilities are co-ordinated with the decision structures in the other business processes of the company. Transactions with derivative financing instruments are subject to stringent internal controls, with a strict separation between trading, accounting and risk control. The Corporate Treasury Department has sole responsibility for all transactions. This ensures that the Managing Board is always informed in detail about all major risks and about the hedging transactions executed.

The nominal volume of all foreign currency hedging contracts amounted to €565 million on December 31, 1999. These contracts had a market value of €-17 million. The nominal volume of the interest hedging contracts amounted to €1,776 million and their market value to €-1million. To determine market value, the price on the balance sheet date at which one party would take over the rights and/or obligations of the respective contract from the other party is applied. Contrary value developments from underlying business to be hedged are not taken into account when determining the market values.

Asset and equity structure:

Equity ratio 35 %

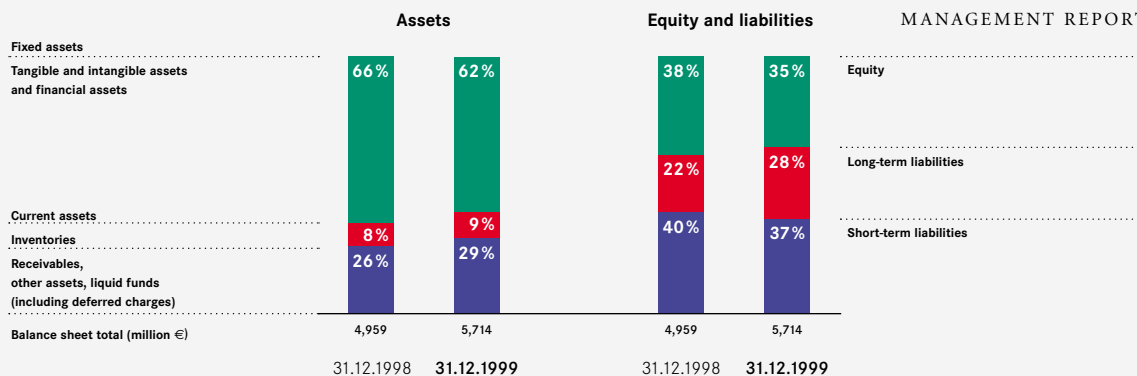
The financial and asset situation of the Group is very solid. The balance sheet total increased as at 31.12.1999 by 15% to €5,714 million (1998: €4,959 million). Nearly half of this increase resulted from foreign currency conversion, in particular due to the strong US dollar. 4% came from the one-off impact of the capitalisation of deferred taxes for the first time, and another 4% from the ongoing expansion of business.

Fixed assets increased by 9% to €3,563 million (1998: €3,264 million). Capital expenditure and acquisitions amounted to €444 million, while depreciation and amortization amounted to €341 million. At constant exchange rates, the increase over 31.12.1998 would have amounted to only 3%. Current assets increased in the reporting year by 14% to €1,902 million (1998: €1,667 million). 7% of this increase is due to currency effects and 7% to the increased business volume.

CASH FLOW STATEMENT (SUMMARY)

in million €	1998	1999
Cash flow	452	559
Change in working capital	-168	-162
Operating cash flow	284	397
Capital expenditure	-215	-264
Disposal of assets	21	14
Free cash flow before acquisitions and dividends	90	147
Cash used for acquisitions	-602	-104
Cash provided from disposals	122	0
Cash provided from/used for financing activities	449	-111
Currency-adjusted change in liquid assets	-4	2
Change in liquid assets	55	-66

The detailed cash flow statement is shown in the Notes to the Consolidated Financial Statements.



Balance sheet structure

On the liabilities side of the balance sheet, the good consolidated profit as well as the favourable currency effects resulted in an increase in equity to €2,013 million, a growth of 8% compared to the figure on 31.12.1998. The equity ratio amounted to 35.2% (1998: 37.6%). The drop compared to the previous year is mainly due to foreign currency. At constant exchange rates, the equity ratio would have amounted to 37.4%.

Long-term liabilities increased by €440 million to €1,583 million. This rise was largely due to currency effects amounting to €104 million, and the issuance of bonds amounting to €600 million, while at the same time bank loans decreased. Bonds with this total amount were issued in the year under report and mainly used to refinance the Kabi acquisition.

Short-term liabilities rose in the year under report to €2,118 million (1998: €1,949 million). The increase resulted from currency effects in the amount of €242 million and the rise in the other liabilities due to the org agreement, while at the same time short-term liabilities were reduced and the profit-sharing rights and commercial papers totalling €86 million, which were included in the balance sheet of the previous year, were fully repaid.

In the year under report, we were able to achieve another strong increase in the return on equity. This key figure before taxes increased from 15.4% in 1998 to 18.7% in 1999. The return on equity after taxes rose from 7.8% on 31.12.1998 to 10.1% on 31.12.1999.

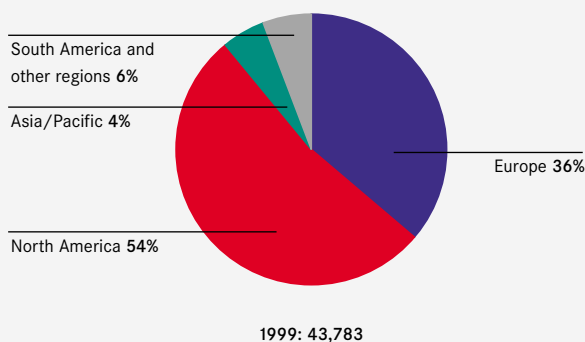
Employees: A growth of 10%

On 31.12.1999, 43,783 people were employed in the Fresenius Group all over the world – 3,860 more than at the end of 1998 (+10%). The increase in the workforce can be assigned to the divisions as follows:

Employees	31.12.1998	31.12.1999	Change
Fresenius Medical Care	28,739	31,086	8%
Fresenius Kabi	7,402	8,587	16%
Fresenius ProServe	1,620	1,719	6%
Fresenius HemoCare	1,759	2,033	16%
Corporate/services	403	358	-11%

The following diagram shows in which regions of the world our employees are located: According to this, 54% are working in North America and 36% in Europe; these percentages correspond to the sales shares.

Personnel expenditure in the Fresenius Group amounted to €1,445 million in the year under report. The increase of 14% over the 1998 financial year (€1,270 million) resulted mainly from the rise in the number of employees as well as from the currency conversion, in particular as a result of the strong us dollar.



Employees by region

106 million euros for research and development

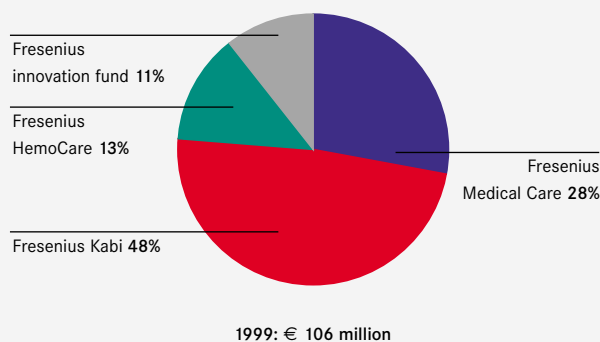
The research and development activities of the Group are focused on the core competences of the respective divisions; these are

- Dialysis
- Nutrition and infusion therapy
- Blood treatment in the fields of transfusion technology, adsorber technology and immune therapy, and
- Infusion technology

They are related not only to products but also to completely new or improved therapies and treatment processes. The research and development projects of the Fresenius Group were successfully continued in the year under report. A number of products was completed and ready to be launched onto the market.

Once again, we increased expenditure on research and development in the 1999 financial year and invested €106 million. The previous year's figure of €78 million was exceeded by 36%. Of the 1999 figure, €30 million was spent on the dialysis business, €51 million on nutrition and infusion therapy in the Fresenius Kabi division, and €13 million on Fresenius HemoCare. A total amount of €12 million was used from an innovation fund established by Fresenius to support promising research and development projects in the divisions Fresenius Kabi and Fresenius HemoCare.

Altogether, 629 employees are involved in research and development tasks, a substantial increase over the previous year's figure of 570.



Research and development expenses by division

As in the previous year, we shall continue to work intensively and unswervingly on strengthening our product portfolio with new, innovative products and services.

A detailed report on our research and development projects can be found in the chapter "Research and Development" of our Annual Report.

Fresenius and the environment

Fresenius, with its innovative medical products and services, is committed to people and their well-being. We work in the service of health. It is our mutual understanding that we strive to maintain nature as the basis of life for the present generations and those to come. Everything we do is with this aim in mind. As a member of the Association of the Chemical Industry, we follow the guidelines "Responsible Care" to which the companies in the international chemical industry have committed themselves. We have firmly integrated health, safety and environmental protection targets into all stages of our products, from their development to their disposal. The certifications in accordance with ISO 14001 and the EU Eco-Audit carried out in various plants of the Fresenius Group document this. We are working on steadily reducing the dangers and risks involved in the manufacture, storage, transport, utilisation and disposal of our products – for the benefit of our customers, neighbours and employees. Some measures we have implemented may explain this:

In our St. Wendel plant, we have introduced an extensive environmental protection programme. For instance, a production line for CAPD systems was adapted so that PVC-free bags can be used instead of bags containing PVC. In the manufacture of dialysers, the consumption of raw materials and auxiliary materials was reduced by 10%. We achieved further improvements in waste disposal: The recycling ratio in the Friedberg plant increased to 86% in 1999; in 1998 it was only 80%.

Our Schweinfurt plant, together with the French factory SMAD, has developed a dry-concentrate option for the 4008 dialysis machines, whereby the dialysate is prepared during the dialysis treatment. This not only saves materials, but, because of its significantly lower weight, the emission of toxic substances during transport is reduced. The sort-clean, recyclable materials mean that there is a lower volume of waste in the dialysis clinics. In the production, a change in the test run of the hydraulic components of the dialysis machines resulted in a 75 % lower electricity consumption together with a significantly lower consumption of water.

Risk management

The determination, analysis and management of risks has been an important management element in the Fresenius Group for many years. This means that the legal regulations in the “Law on Control and Transparency in Companies” (KonTraG) have not made any basically new demands on the Group.

The Fresenius risk management system is a part of the corporate strategy and is based on its regulations for handling risks. Together with the internal monitoring system, risk controlling and an early-warning system, it enables those risks which could endanger the continued existence of the company to be identified and avoided at an early stage. We have identified the actual and potential risks in the individual divisions and defined the responsibilities. Regular reports on the risk situation are made; the risk situation is compared with the current regulations in order to take counter-measures quickly and thus counteract negative trends. The responsible managers of the company are also obliged to inform the Managing Board about any relevant changes in the risk profile immediately. We can react swiftly to changes in our business environment by continuously observing the market and by maintaining close contacts to our customers, suppliers and other institutions. The risk management system was included in the audit of the 1999 financial statements for the first time.

As well as risk management, a monitoring system has been established comprising organisational safety measures as well as internal controls and audits:

For instance, the measures relating to quality management are exactly documented in company guidelines – such as quality manuals and procedure regulations – and are regularly checked by the quality management officials. They are essential to obtain certification in accordance with international standards, which is obligatory for medical products. At the same time, we ensure strict compliance with legal regulations regarding clinical and chemical-pharmaceutical research and development. The production companies of the Fresenius Group manufacture in accordance with the Good Manufacturing Practice (GMP) rules. Our Business Practices and Compliance Program is the basis for the treatment of the patients and the invoicing of the services. The programme is aimed at ensuring that our high ethical standards and the official regulations are adhered to throughout the company. This is regularly checked by internal and external audits, both of our products and in the clinics.

The risk management measures in the form of a management information system are supported by our risk controlling both at a corporate level and in the divisions. Deviations in the profit and asset situation compared to budgeted figures are identified and analysed in detailed monthly reports.

However, our risk management is not an inflexible system; it is subject to active change so that we can react quickly to the demands of the market.

Risks related to future development

Due to its worldwide business activities, the Fresenius Group is exposed to all sorts of risks as a matter of course. These risks are immediately linked to entrepreneurial activities. It is only possible to seize opportunities presented if managers are willing to take risks.

In particular, these risks include possible legal and economic changes in the general environment and market conditions, such as revolutionary developments of new products and therapies by competitors, the financing of the health care systems and reimbursement in the health care sector. Due to the large sales share in the United States, especially changes in the us reimbursement system could have a significant impact on our business.

We counteract possible interest and currency risks by appropriate risk management. At present, we cannot deduce any trends from the aforementioned risks which could have a significant impact on our business.

The Fresenius Group is involved in various legal issues which result from our operations. Although it is not possible to forecast the outcomes of this litigation, we do not expect any major negative effects on the assets and liabilities, financial position and results of operations.

The company may be subject to certain liabilities with respect to the period before the acquisition of National Medical Care (NMC) which do not have any connection with the business practices of National Medical Care. W.R. Grace & Co., Connecticut, (Grace Chemicals) has agreed to indemnify Fresenius Medical Care against these liabilities.

If any events should occur which would violate the tax-free nature of the merger between NMC and Fresenius Medical Care, Fresenius Medical Care would be obliged to pay the resulting taxes. After negotiations between Grace Chemicals and Fresenius Medical Care and Fresenius AG, Grace Chemicals has agreed to indemnify Fresenius Medical Care for such tax liabilities. In the event that Fresenius Medical Care would not be able to collect the outstanding amounts on the indemnity, this could have a material adverse effect on the assets and liabilities, financial position and results of operations of Fresenius Medical Care.

Fresenius Medical Care is of the opinion that the risk of significant loss from these liabilities is remote.

At the present time there are no recognisable risks regarding the future development which could lead to lasting and significant damage to the assets and liabilities, financial position and results of operations of the Fresenius Group.

Events after the close of the financial year

In January 2000, Fresenius Medical Care reached a final settlement with the United States government; the investigations of the Office of the Inspector General of the us Department of Health and Human Services (OIG) relating to National Medical Care and its subsidiaries have now been settled. The payments to be made by Fresenius Medical Care to the us authorities will result in additional interest expenses of approximately us\$30 million in 2000 and some us\$20 million in the following years.

Fresenius Medical Care is continuing its international expansion. At the beginning of the year 2000, the company signed an agreement with Total Renal Care Holdings, Inc., California, to acquire 86 dialysis clinics outside North America with altogether 5,100 patients. The total costs of the transaction amounted to around us\$161 million. The acquisition of dialysis clinics in key international markets such as Argentina, Italy and Great Britain means that Fresenius Medical Care has considerably strengthened its leading position in dialysis care outside North America. The validity of the agreement depends on various conditions; the approval of the respective anti-trust authorities is expected in the second quarter of 2000.

In March 2000, Fresenius Medical Care acquired Franconia Acquisition LLC, Delaware/USA. Fresenius Medical Care acquired 100 % of the shares of the company by issuing 8.97 million non-voting preference shares of Fresenius Medical Care AG contributed in kind by utilising its authorised capital II. Franconia is specialised in the acquisition of dialysis clinics as well as production and distribution companies serving the renal business, and at the time of the acquisition had liquid funds amounting to US\$ 350 million. Fresenius Medical Care will utilise these funds for acquisitions. The above-mentioned acquisition of 86 clinics is the first project which is being handled and financed by Franconia.

The economic situation and our market environment have not changed significantly since the end of the 1999 financial year. We are still able to profit from the increasing demand for health care products and services.

Outlook

We do not expect that in the foreseeable future the economic environment in our markets will significantly change. In the industrial countries, this environment is marked above all by two factors: Cost-cutting measures in the health care systems because of legislative restrictions, a downward trend in prices as a result of strong competition, as well as increased purchasing management by the hospitals. Now that the macroeconomic situation in Asia and also in Latin America has recovered, we foresee great growth potential in the markets of this region. The demand for health care services will grow in step with the increase in prosperity, even if political and economic setbacks in some countries can never be excluded.

We have set ourselves the task in 2000 of continuing the good development of the previous years, and of growing profitably. We have all the prerequisites. For the 2000 financial year we are planning a sales increase of around 10% on the basis of the currency exchange rates prevailing at the end of the year under report. We expect profits of the Fresenius Group to increase at a substantially higher rate than sales in the year 2000.

Our investment activity will be continued at the same level: We are planning capital expenditure in tangible assets amounting to around € 260 million in 2000. The main investments will be in the equipping of new dialysis clinics, the expansion of our production capacities and the optimisation of the production processes. About 50% of the amount will be spent in Europe and more than 30% in the United States. The remaining funds are to be invested in Latin America and in the Asia-Pacific region. Furthermore, our planning includes new acquisitions, especially of dialysis clinics.

We intend to continue to increase the free cash flow of the Group before acquisitions and dividends in the current financial year.

We shall continue to work hard on strengthening our product portfolio with new, innovative products and services. We shall expand our research and development activities in our core competences, and further increase our expenditure in this sector compared to the 1999 financial year.

We are planning to convert our accounting systems to US GAAP in the 2001 financial year. This will mean that we will have uniform accounting standards within the Group, and furthermore our annual financial statements will be easier to compare with those of other international companies in future. In doing so, we will adapt to international practices. This will be for the benefit of our shareholders, in particular of the institutional investors abroad.

INITIATIVE AS OPPORTUNITY

Success for Fresenius is also success at Fresenius. Dedicated employees assume responsibility, develop and realise ideas, identify themselves with what they do. Their dedication and achievements are for the benefit of all: the patients' quality of life, the growth of the company, their own careers.

Markus Löffler and Dr. Angelo Mößlang work in Hong Kong. There, they are taking an active part in the expansion of our business in the Asia-Pacific region. A special challenge for them: to adjust to other mentalities, and get to know customs and habits in other countries.



OUR EMPLOYEES: THE GUARANTEES FOR A SUCCESSFUL FUTURE

In only a few years, Fresenius has developed from a company with its main focus in Germany to become an internationally-operating Group. One of the main driving forces behind this success was our corporate culture – that of the “entrepreneur within the enterprise”. In order to achieve our ambitious goals, we are committed to the professional and personal advancement of our employees: Recognising potential as well as implementing modern management systems – these are only two of the measures with which we support our processes of change. We have established a new definition of responsibility, for both employees and superiors – as a constant learning and communication process. Only thus can we master the challenges of a successful future.

The profile for success

Since the beginning of the 1990s, Fresenius has had a decentralized organisational structure which is expressed in the profile of the “entrepreneur within the enterprise”. The main aim is that the managerial staff assume full profit and cost responsibility for their respective business units. But this alone is not yet sufficient for us: We do not restrict this profile to our managerial staff, but pass it on to all our employees. For only if everybody considers the company to be his own, is an environment created in which talents can unfold and motivation thrives, as employees start to take pleasure in their own achievements.

Personnel evaluation meetings

The personnel evaluation meeting creates a fruitful climate for new ideas, since superiors and their employees develop their targets together. The results of the meeting are set down in writing and serve as the basis for the employee to work successfully in the future. The success of the meeting depends to a large extent on its preparation. We therefore offer special training courses which give the necessary know-how. In the meantime, more than one thousand managerial staff members and salaried employees have attended these courses, in which to date around € 500,000 has been invested.

Group working

Four years ago we introduced group working in various production facilities. As in the personnel evaluation meeting, the target is to promote entrepreneurial thinking and actions. Group working offers considerable potential: Everybody has the chance to organise his workplace more independently and to make suggestions for improvement. The group itself determines more flexible working times. More responsibility has many advantages both for the employee and for the company: Short communication paths save time, equality in the group promotes motivation, and responsibility for one's own work creates the opportunity for innovative ideas. When the group itself decides how the work is to be distributed, and when the breaks are to be taken, productivity and process quality increases; and finally, constant communication and co-operation lead to a steady increase in specialised knowledge.

Profit sharing and stock option plan

The high expectations which we place in all employees also demand new directions in our remuneration policy. To identify oneself with the company means to participate in success – with all the opportunities and risks which result from entrepreneurial activities. Fresenius has therefore introduced the following two models:

- **Profit sharing for our employees in Germany**
Our non-managerial employees received a share in the 1998 profits amounting to DM 1,220 for 1998. Of this amount, two thirds was paid as preference shares of Fresenius AG or Fresenius Medical Care AG. The employees could choose to either have the remaining third paid out in cash or use it to finance additional preference shares.
- **Stock option plan**
Since 1998, the total remuneration of the managerial employees in the Group has been more strongly linked to the development of the share price through a stock option plan. The number of options given depends on the individual achievements and the degree of responsibility of the particular employee in the company. The target: EBIT must have risen during the first 2 years' vesting period after the options were issued by a defined percentage before the first options can be exercised.

With the introduction of these trend-setting measures, we are promoting the entrepreneurial focus of our employees on the sustained increase in the value of the company and at the same time we are acting in accordance with the interests of the shareholders.

Further education

We can only succeed in being ahead of our competitors if we have the best-trained employees.

In 1998 we initiated the "Graduate Development Programme" which addresses university graduates. The participants pass through all the departments which are relevant to their future work in order to get practical experience. In this way, they get the necessary general overview of the whole company. Special executive programmes and leadership seminars are a firm part of the training of the managerial staff. Our managerial staff attended these training courses again in 1999, which we ran in co-operation with INSEAD, Fontainebleau.

Contrary to the general trend, we increased the number of our apprentices by 38% to 117.

RESEARCH AND DEVELOPMENT

For us, innovation means maintaining life. Innovations are essential for us to effectively help our patients, who are often seriously ill. They are indispensable for continuing progress in medicine. Innovations are the cornerstones of our corporate strategy – the basis of our economic success. Our research and development activities are therefore of crucial importance. We utilise the knowledge and experience we have gained over many years for the development of new, innovative products, therapies, treatment processes and services which result in optimum care for the patients, an improvement in the treatment and enhanced quality of life.

Dialysis – Setting new standards

Our research and development activities in dialysis – at Fresenius Medical Care – are aimed at setting new standards in the treatment of patients with chronic renal failure: with innovative products and technologies, improved quality and leading-edge therapies adapted to the individual patient.

In the field of haemodialysis, we successfully established our new *ONLINEplus*TM system for haemofiltration and haemodiafiltration treatments in the market in 1999. The *ONLINEplus*TM system prepares the substitution solution from the dialysate during the treatment in a cost-effective way.

Another new market introduction was *AutoPRIME*TM, an optional feature for our 4008 haemodialysis machine. With *AutoPRIME*TM, the extracorporeal blood circuit can be filled and rinsed on-line. In addition, a bolus infusion, i.e. the infusion of a defined amount of sterile fluid obtained by filtration of the dialysate, can be administered and monitored.

In the year under report we completed the development of our new dialyser generation with exceptional performance characteristics, which is based on new materials and production technologies. With these new dialysers, clearances are significantly improved. The dialyser was tested in various clinical trials and will be launched in the second quarter of 2000.

In the United States, we are planning to introduce the new 2008 K dialysis machine in the year 2000. As well as the optimised heparin and blood pump and an improved level detector, the machine has a new, extremely user-friendly touch-screen system. Thus, our Online Clearance System makes it possible for doctors and nurses to assess the dialysis dose even more effectively.

Following the successful introduction of the Online Clearance Monitor for our 2008 H dialysis machine series in the United States, we received the European CE certification for an optimised version of this monitor. Our 4008 H/S dialysis machines can be equipped with this feature. It enables parameters which are decisive for the success of the treatment to be monitored during the dialysis treatment. This means that the care of the patients can be improved considerably. The new Online Clearance Monitor will be launched in Europe in the year 2000.

In peritoneal dialysis (PD) our development activities are mainly focused on improving the following parameters: Monitoring and securing patient data, the best possible patient care on the basis of biocompatible products, peritoneal membrane longevity, the environmentally-friendly use of our products as well as their simple and safe handling.

After the successful conclusion of clinical trials, in the 2nd half of 1999 we introduced onto the market a new cycler, *sleep-safe*TM, for peritoneal dialysis during the night, with the new software PatientOnLine. This machine controls automated PD treatment. Peritoneal dialysis patients treat themselves independently in their own homes. The *sleep-safe*TM offers the advantage that the

therapy can be monitored by the dialysis team due to the integrated data feed-back system. We are planning to register the product for the Asia-Pacific region, and to conduct further clinical trials.

The reason why patients can often undergo peritoneal dialysis treatment for only a limited period of time is because the peritoneum becomes damaged due to the currently low biocompatibility of the peritoneal dialysis solutions. The peritoneum is used as a membrane – as a filter – to cleanse the blood. In this field, Fresenius Medical Care has taken a significant step forward with a new development: Our *stay-safe*® balance is a solution which is considerably more biocompatible. The solution is supplied in a bag with two chambers, which means that the glucose solution is separated from the chamber with the lactate and electrolyte solution. The glucose solution has a very low pH value which reduces significantly the development of glucose degradation products during sterilisation. After mixing the two solutions, the patient obtains a neutral PD fluid which is almost free from glucose degradation products. This ensures low peritoneal membrane wear right from the start. In the meantime, market approval has been received in Germany and Portugal.

New product generations in lipid emulsions and in blood replacement

In the field of parenteral nutrition, Fresenius Kabi completed the development work on the new 3-chamber infusion solution bags Compleven® and Kabiven®, and received the product registration. The first market launches in Europe have taken place for both products, which offer special handling advantages to the customer: They contain in one bag all nutrients in the required concentrations for total parenteral nutrition.

Another new product is our fat emulsion Intralipid® in bags. The advantages over the previous glass bottles are obvious: 30% less weight, no risk of breakage, simple storage, and the packaging can be recycled. We received the approval to manufacture this new packaging form in our new production facility in Uppsala at the end of 1999. The same applies to the new generation of lipid emulsions, Structolipid®, for which we have also been given manufacturing approval. The product will be launched in various European countries during the course of 2000. Structolipid® combines modern demands on lipid emulsions: to provide critically-ill people with quickly-available energy by means of medium-chain triglycerides (MCT), while at the same time providing essential fatty acids by means of long-chain triglycerides (LCT). Thanks to a special process we have succeeded in producing triglycerides which contain both medium and long-chain fatty acids. Because of this modified structure of the triglyceride molecule, Structolipid® is unique in the world.

LEAD² (Lipid Emulsions Applied to Drug Delivery) is another field of application for our manufacturing technology for fat emulsions. These innovative lipid technologies enable the production of fat-soluble drugs for administration to the patients by intravenous infusion. In the past, numerous development projects were abandoned by drug manufacturers due to the problem that many drug substances are not soluble in water; many existing medications could be used more effectively with that technology. Using our innovative LEAD² technologies we can produce such drug substances in a soluble form for infusion. It is therefore our aim to pursue developments in this field in co-operation with other pharma companies.

A core competence of Fresenius Kabi is blood replacement, i.e. volume substitution solutions which are used in anaesthesia, surgery and in emergency cases. Our intensive research in this field resulted in a new generation of hydroxyethyl starch (HES). This infusion solution, which is sold under the name Voluven®, was launched in Germany in the year under report; the European approval has been applied for. Voluven®, with a unique HES specification, offers a high degree of safety for the patient: The new solution does not accumulate in the plasma, and the potential storage in tissue is significantly reduced. Of particular importance is the considerably reduced effect on the coagulation of blood in the comparative clinical trials, which led to lower blood losses in the groups of patients treated with Voluven®. The new substance also has economic advantages. We manufacture the raw material for Voluven® ourselves using our own patented production process.

We terminated our co-operation with the Canadian company Hemosol regarding the development of an oxygen-carrying haemoglobin solution to compensate high blood losses in the year under report, as it became clear that the product Hemolink® will not be developed for this indication. Fresenius Kabi will continue the search for a new oxygen-carrying blood substitution solution for use in cases of severe blood loss.

Our latest development in the EasyBag range, the 1.5 litre bag, is a product which will set the trend for enteral tube nutrition. It enables the patient to receive a sufficient amount of calories over the whole day, without needing to change the bag which is still the normal prac-

tice today. Thus, on the one hand the nursing of the patient is made easier, and on the other hand the danger of bacterial contamination during the bag change is eliminated. This results in a higher degree of safety for the patient and time savings for the nursing staff. The first product to be introduced onto the market in the new 1.5 litre EasyBag is Fresubin 1200 complete, which has been specially developed for the important target group of patients in nursing homes who are confined to their beds.

In the field of biotechnology we are co-operating with the American company Genzyme Transgenics on a project to develop human albumin which is obtained from the milk of transgenic cows. The aim of the project is to replace human albumin, which at present is obtained by means of plasma fractioning, with a product which is produced by a method not dependent on human blood. The number of cows which have the genes for human albumin was increased in the year under report according to plan. A transgenic bull ensures that a herd of transgenic animals will be built up. Further advances in the project were achieved in the optimising and scale-up of the cleansing process.

Promising new therapies at Fresenius HemoCare

Our adsorber therapy development projects were successfully continued with the following aims:

- to develop adsorbers for new indications
- to prove the medical benefit of existing systems
- to improve safety, effectiveness and user-friendliness
- to reduce manufacturing costs

The main focus of the work was on conducting clinical trials for the MIRO® system and the endotoxin adsorber. A controlled clinical trial on patients with systemic lupus

erythematosus, a disease of the immune system, commenced with the MIRO® system. We were able to prove the excellent tolerance of the endotoxin adsorber in the treatment of sepsis patients, and that endotoxins are removed effectively. We have also started a controlled trial in several European countries for this adsorber.

A clinical trial was carried out with the DALI® system, which is used for the treatment of patients with familial hypercholesterolaemia, with the aim of reducing treatment time by means of higher blood flow. Since many patients are normally treated once a week for the whole of their lives, and continue in employment, a short treatment time is important. We were able to show that our system is extremely well tolerated and effective even at high blood flow rates. We have achieved average treatment times of one hour, half as long as those of our competitors.

In the field of immune therapy, we are in co-operation with a young biotechnology company – Trion Pharma – regarding a method of fighting cancer cells. This co-operation concerns new intact bispecific antibodies which recruit two specific defence cells of the immune system – cytotoxic T-cells and macrophages – resulting in excellent tumour cell destruction. The bispecific antibodies can therefore combat tumour cells which remain in the body following surgical resection of the primary tumour, thus preventing the development of metastases. They are intended for the treatment of epithelial tumours, such as cancer of the breast, lung, bowel, head and neck, ovaries and pancreas.

The results of tests on animal models are convincing; mice with aggressive tumours have been treated and survived. The bispecific antibodies have also been successfully used on patients in attempts to heal breast cancer as well as tumours in the neck, nose and ears. The aim of the controlled clinical trials which will begin in the year 2000 is to prove the effectiveness and the success of the treatment.

In the field of transfusion technology we shall be able to bring to a conclusion an important development project in the first quarter of 2000: The new cell separator COM.TEC, which has been considerably improved with regard to its efficiency, will then be ready to go into full-scale production. The aim of the development was to obtain reliably leukocyte-depleted blood platelets which are produced in as short a time as possible. We extended our pre-, intra- and post-operative autotransfusion range through the introduction of products such as a paediatric haemoconcentrator and a post-operation set.

In infusion technology, our research and development activities were focused on completing the development of an infusion data management software and developing a highly-efficient infusion pump for our flexible infusion workstation Orchestra. For the field of enteral nutrition, the infusion technology team is developing a feeding pump which will be the technological platform for additional products in this area.

COMPETENCE AS THE BASIS FOR TRUST

The experience of many decades forms a sound basis for thinking and acting with the patient in mind – today and in the future. Specialised know-how and its practical implementation, and innovation from research and development, are the decisive factors in our successful dedication for the benefit of the patient.

Irene Stengel has been dependent on enteral nutrition for 13 years. For several weeks a year she uses a mobile tube system to feed herself at home. Thus, Mrs. Stengel can lead a normal life in her home environment. Fresenius Kabi has been offering enteral nutrition products since 1973.



FRESENIUS MEDICAL CARE

Fresenius Medical Care is the world's leading provider of products and therapies for the treatment of patients with chronic renal failure. Our employees are caring for and treating about 80,000 patients with the life-saving dialysis therapy in 1,090 dialysis clinics. Highly-qualified research and development teams are working on extending and optimising the range of services and products in accordance with the latest medical and technical findings – with the aim of enhancing the quality of life of the dialysis patients and systematically extending the technical advantage of Fresenius Medical Care, in order to further strengthen the company's leading position in the world's markets.

One important task of our management was to reach an agreement with the United States government in the year under report in order to conclude the investigations, ongoing since October 1995, of the Office of the Inspector General of the US Department of Health and Human Services (OIG). The investigations were related to business practices of National Medical Care and its subsidiaries before its acquisition by Fresenius and the founding of Fresenius Medical Care.

The 1999 financial year was extremely successful for Fresenius Medical Care:

We increased sales by US\$334 million to US\$3,840 million (1998: US\$3,506 million), a gain of 10%. 73% of sales were generated in the United States, 20% in Europe and 7% in the other regions of the world.

This good development was achieved by both core businesses of Fresenius Medical Care – Dialysis Products and Dialysis Care:

- Sales in the Dialysis Care segment increased by 10% to US\$2,600 million (1998: US\$2,359 million). This is mainly due to the fact that the number of patients we treated rose by 8%. In the year under report we performed a total of 11.4 million dialysis treatments, 9% more than in 1998.
- In Dialysis Products, sales increased by 8% to US\$1,241 million (1998: US\$1,147 million). Including product sales to our own dialysis clinics, sales growth after currency adjustments was 11% to US\$1,521 million. In the product groups, sales of haemodialysis machines and dialysers registered a strong development. Once again we considerably outperformed the market and thus strengthened our market shares in 1999.

The development of earnings of Fresenius Medical Care was affected in 1999 by the OIG settlement. According to this agreement, National Medical Care will make a payment of US\$486 million to settle civil claims and fines. At the same time, the company will be paid US\$59 million for IDPN (intradialytic parenteral nutrition) therapy for dialysis patients with malnutrition. Additional IDPN claims amounting to US\$94 million had to be written off. Furthermore, National Medical Care expects to have to pay for other costs totalling US\$21 million. The tax reductions on these expenses will amount to around US\$182 million. The net cash outflow will amount to US\$266 million. Including these extraordinary expenses, Fresenius Medical Care generated an operating loss (EBIT) of US\$41 million, as well as a loss after taxes of US\$249 million.

The operating profit (EBIT) of Fresenius Medical Care before extraordinary expenses increased by 15% over 1998 to us\$ 560 million (1998: us\$ 489 million), with an improvement in the EBIT margin from 13.9% in 1998 to 14.6% in the year under report. This very good increase was generated by both segments, Dialysis Care and Dialysis Products. Net income before extraordinary expenses reached a new record of us\$ 170 million in the year under report – a growth of some 30% compared to 1998.

North America with strong growth

In North America, we were able to further strengthen our leading position in dialysis with excellent services, new products and innovative technologies. Compared to the previous year (us\$ 2,563 million), sales rose by 10% to us\$ 2,807 million. The operating profit (EBIT) increased to us\$ 394 million (1998: us\$ 334 million), a substantial upswing of 18%.

We considerably strengthened our leading role in the treatment of dialysis patients through the founding and acquisition of another 67 dialysis clinics. In North America, we are now treating 62,000 patients with chronic renal failure in 849 dialysis clinics. This represents a 24% share of all patients treated in this region. Another growth indicator is the number of treatments provided: This figure rose substantially in 1999, to 8.9 million after 8.2 million in 1998.

In the year under report, we continued to work on various projects and started new initiatives which are aimed at further optimising dialysis treatment and thus achieving an enhanced quality of life for our patients:

- We are continuing to work intensively on establishing a new form of reimbursement – Disease State Management, also called capitated reimbursement. This means that the traditional reimbursement method will be replaced by a system whereby a fixed reimbursement is paid for all the medical services provided for the dialysis patient over a year. The aim is to reduce the hospital stays of a patient as far as possible by optimising the treatment quality, thus saving costs. At present, we are treating patients in pilot projects in our joint venture Optimal Renal Care, in cooperation with our partner Kaiser Permanente, the largest managed care insurance company in the United States.
- Together with Renaissance Health Care, our joint venture with nephrologists, we are developing a concept for Disease State Management, and already have two years' experience in fully-capitated risk-sharing arrangements.
- A further aim is to rehabilitate patients to such an extent that they are able to actively re-join the workforce. Our vertical integration and the numerous patient data from our data base (Patient Statistical Profile), provide us with valuable findings which we use to optimise therapies. This knowledge is reflected in new, improved and innovative products due to our constant exchange of knowledge between product research and treatment.

Laboratory services are an important part of our dialysis activities in the United States, since regular blood tests in a clinical laboratory, as well as general diagnostic measures, are absolutely essential to judge the health condition of the patients. In 1999, our subsidiary Spectra Renal Management carried out more than 37 million laboratory tests for 1,461 dialysis clinics. Spectra Renal Management holds a leading market share, 37%, in laboratory services for dialysis patients in the United States.

Our Product business in North America also developed successfully in the year under report. Again, the growth drivers were products of our haemodialysis product range: the 2008 H series of dialysis machines with the Blood Temperature Monitor and Online Clearance Monitor modules on the one hand, and on the other hand our dialysers which achieved strong sales growth of 16%, substantially more than the market growth as a whole. In the United States we are the leading provider of dialysers, with a market share of some 50%. In peritoneal dialysis (PD), we were able to gain market shares in automated PD with our APD machines. In the year under report, we received regulatory approval from the FDA (US Food and Drug Administration) for a new product, Premier™ Plus, a double-chamber bag for CAPD patients. The market launch of this product is planned for the first half of 2000.

Focused expansion of the International dialysis business

Fresenius Medical Care has also continued to expand its International business – the business outside the United States – in 1999. It is our declared aim in future to exploit even more the opportunities offered by our vertically-integrated company with products and services. For instance, we were able to increase the number of patients treated outside the United States in our 241 dialysis clinics from 15,600 to 18,000. The number of treatments also rose: from 2.3 million in 1998 to 2.5 million in the year under report. Expressed in financial terms, more than one quarter (US\$ 1,033 million) of total sales were generated in the International business in the financial year, a plus of 10 % (1998: US\$ 943 million). The operating profit (EBIT) also showed a strong gain: from US\$ 165 million to US\$ 179 million.

In Western Europe, the Product business represented the major part of our operations. We succeeded in further expanding our leading position in the year under report. Important products which considerably strengthened our haemodialysis business were the ONLINE^{plus}™ system, which due to its effective treatment modalities offers a substantial improvement in the quality of treatment, as well as the dialysers HF80S and HdF100S, and DIA-SAFE^{plus}. In peritoneal dialysis, we continued to be successful in the market with our CAPD system *stay-safe*®. The success of our peritoneal dialysis product range was further strengthened by the market launch of the pH neutral peritoneal dialysis solution *stay-safe*® balance and enabled us to further increase our market shares in a highly competitive market. The clinical trials with the PD cyclor *sleep-safe*™ for PD treatment during the night have commenced and are planned to be completed during the current financial year. The total market for dialysis

products increased by approximately 3% in Western Europe; we assume that this growth rate will also apply to the year 2000. Our good positioning makes us optimistic that we shall continue to grow in future at a higher rate than the market and achieve a further increase in our market shares.

Our Dialysis Care business has expanded considerably more strongly than the market. The reimbursement rates for the provision of dialysis care did not increase during the year under report due to budget restrictions in the health systems. We were able to counteract this by further optimising our business processes and utilising synergies from our vertically-integrated business and economies of scale. For instance, we were able to achieve cost savings by supplying our dialysis clinics directly from our factories or our central warehouses. In the field of Dialysis Care we achieved cost savings in France with our limited care centres – small, flexible units in which the patients are actively involved in the treatment process.

In Eastern Europe, we achieved good growth rates in the Product business. However, due to legal regulations, it is only possible to operate private dialysis clinics in Hungary and the Czech Republic. But we are convinced that privatisation will continue to make headway in Central and Eastern Europe, and that we shall be able to expand our Dialysis Care into other countries.

Acquisitions of dialysis clinics in Europe were largely in those markets in which we were already operating, such as in Italy, France and Turkey. This made it possible to utilise existing infrastructures for our new centres and to achieve synergies. We shall continue to expand our business in the future through further selective acquisitions.

We achieved our targets for 1999 in Africa and the Middle East. We consider the 20% sales increase in our product business to be a great success in view of the difficult market conditions and the often inadequate health systems. In total, we sold more than 1,500 haemodialysis machines and over 2 million dialysers in this growth region in the year under report.

In the Asia-Pacific region we achieved a great deal during the year under report and continued our growth. We further strengthened our very good market position in the Product business: the number of patients treated by Fresenius Medical Care amounted to approximately 700 at the end of 1999.

Japan has the second largest number of dialysis patients in the world; we also achieved good progress in this country. We were able to realise strong sales growth by increasing our shares in the joint venture with Kawasumi from 50% to 70% in October 1998, which thus enabled us to market our polysulfone dialysers directly via our own subsidiary, instead of only through our partner Kawasumi. We expect promising growth rates for the Japanese market in future. Fresenius Medical Care will therefore start to build a new production facility for dialysis products during the course of 2000, which will go into operation in the middle of the year 2001.

Korea is another interesting country for the expansion of our business. Only three years after its foundation, our subsidiary there has achieved sizeable market shares in the field of peritoneal dialysis and a leading position in haemodialysis, in a well-established, rapidly-growing market. This good development was supported in 1999 by the acquisition of the dialysis business of the South Korean company Kolon Pharmaceuticals, Inc.

We strengthened our activities in other Asia-Pacific countries in the year under report: In Thailand we now operate our own subsidiary. We have started product sales via distributors in India and the Philippines, and expect an increase in market shares in these countries in the future. We also sell our products in China through distributors, supported by our representative office in Shanghai; in Dialysis Care, we operate dialysis clinics together with joint venture partners.

A glance at Australia: Our strategy there is to offer to our customers our range of products and services – dialysis machines, disposables and services – on a price per treatment basis. Thus, we have succeeded in achieving a substantial share of the Australian dialysis market. The privatisation of dialysis care is also being discussed in Australia, so that the expansion of our business from products to services opens up growth potential for us in the future.

In Latin America, the year 1999 was a very successful one, with high growth rates both in Dialysis Care as well as in our Dialysis Products. At the end of 1999 we were treating around 7,700 patients altogether (1998: 6,400 patients). We substantially increased our business in Brazil and Argentina and strengthened our market shares. Although the market in Argentina was characterised by price pressure on the part of the Argentinean health systems, we were able to successfully counteract this development by increasing the number of treatments provided and through cost-saving measures. New perspectives are opening up in Brazil: Currently, initiatives are being developed which should enable dialysis treatment to be reimbursed not only by government authorities but also by health maintenance organizations. This offers us further growth potential both in Products and in Care. In Colombia and Venezuela, where we opened four new clinics, we confirmed our position as the leading provider of dialysis care. Our haemodialysis products are very successful in Mexico: we registered a market share of more than 50%, and we expect steady growth in haemodialysis at the cost of peritoneal dialysis. Import restrictions are preventing us from introducing our products for the treatment of peritoneal dialysis patients onto the market. At present, Fresenius Medical Care does not offer dialysis care in Mexico. The first steps towards developing this business will be taken during the current financial year.

Altogether, the markets of Latin America will continue to offer us good growth opportunities. The number of patients per million population is still considerably lower than in the developed North American and European markets. We intend to further expand our Product and Dialysis Care businesses. Projects for new dialysis clinics have been identified in Venezuela, Colombia and Mexico; selective acquisitions will support our growth strategy in Latin America.

FRESENIUS KABI

Effective January 1, 1999 the former Pharma Division of Fresenius AG and the international infusion business of Pharmacia & Upjohn (Kabi) which was acquired as of December 1, 1998 were combined. A new company was created from this merger: Fresenius Kabi – the leading European provider of nutrition and infusion therapy. Fresenius Kabi, with some 8,600 employees, operates in more than 30 countries of the world, including growing markets such as Asia, Central and South America, the Middle East and Africa. In Japan and North America, the company is represented by strong partners.

It is our aim to offer innovative products and comprehensive service concepts for the hospital and ambulatory field. Intensive research means that we measurably improve the therapeutic benefit for the patient, both in the field of clinical nutrition and infusion therapy, as well as in ambulatory care. Under the motto “Caring for Life”, Fresenius Kabi aims at protecting and maintaining life, and the quality of life, of patients all over the world.

1999 was the first full financial year of Fresenius Kabi. The focus of activities was therefore on the integration of the two businesses, Fresenius Pharma and Kabi. We fulfilled our target of completing this integration swiftly and efficiently. During the integration, the employees achieved a lot through their willingness to accept changes and actively enforce them:

- The new organisational structure with four operating divisions was implemented at the beginning of 1999 and put into action.
- The research and development departments were organised according to product groups. For instance, the competence centre for parenteral nutrition now operates from Uppsala, Sweden.

- Within the scope of our project to reduce the number of production facilities, we made significant progress when we obtained the manufacturing approval for the new production facility for parenteral nutrition in Uppsala. The factory for standard infusion solutions in Friedberg started the production of infusion solutions in *freeflex*® PVC-free bags. The production of standard infusion solutions was transferred from Great Britain to France, Germany and Norway resulting in the closure of the facility in Great Britain by the end of the first quarter of 2000.
- Significant changes and progress have also been made in the sales organisation. The merger of the Fresenius Pharma sales team with that of the sales employees taken over from Kabi has now been completed in all countries.

We have further expanded our international business: through the launch of new products, numerous registrations and the introduction of products from our current range into new markets, as well as through new services in the field of ambulatory care of patients, and by acquisitions.

Towards the end of the reporting year, after lengthy negotiations, we succeeded in acquiring the shares in the Chinese joint venture Sino Swede Pharmaceutical Company (SSPC) which were previously held by Pharmacia & Upjohn. Thus, Fresenius Kabi is now the leading provider of nutrition therapy in China and is one of the ten largest foreign companies operating in the health care market there. We have around 900 employees in China.

Fresenius Kabi achieved an above-average sales increase of 36% to €964 million in the 1999 financial year (1998: €711 million), as the Kabi acquisition was consolidated for the first full year; in 1998, it was only consolidated for the month of December. Organic growth amounted to 7%, realised in a market which is characterised by considerable price pressure. The international share of total sales increased due to the acquisition of the Kabi business in the markets outside Germany, from 54% to 67%. We therefore took a large step towards the further internationalisation of our business. The operating profit of the division (EBIT) rose from €73 million to €79 million. It registered an increase of 8% over the 1998 financial year; however, the profit was reduced by the expenses in connection with the restructuring and the commissioning of the production facility in Uppsala. As expected, the EBIT margin therefore dropped from 10.3% in 1998 to 8.2% in the year under report. We shall continue this restructuring project in the 2000 financial year.

In the year under report, we made significant progress in our product portfolio:

In Europe we concentrated on achieving a stronger market penetration for our products both in the area of blood substitution (colloids), i.e. hydroxyethyl starches (HES), and for our anaesthetic Propofol in the field of generic i.v. solutions. Introducing these products to new countries contributed to this growth. For instance, we gained market shares for colloids in all the major European

markets, and we achieved further sales increases for our hydroxyethyl starches, which are gaining acceptance as an alternative to human albumin and gelatine. We were particularly successful in new markets, e.g. in Spain and Portugal. Our new starch generation – Voluven® – will set new standards for the future in the field of blood replacement with respect to effectiveness and safety. The product has already been launched in Germany, and is expected to be launched in further European countries in the year 2000. Moreover, in September 1999 we successfully introduced our new *freeflex*® PVC-free bag for standard infusion solutions onto three major European markets: Germany, Great Britain and France. In the field of parenteral nutrition we succeeded in increasing our sales despite the fact that the European market as a whole is marked by stagnation. Especially the products Dipeptamin® and Omegaven® contributed to this development over the past years. The three-chamber bags Compleven® and Kabiven® were recently launched. These products make it possible to give the patient a whole day's requirement of amino acids, fat and glucose in just one bag.

We have expanded our international distribution network in order to strengthen our sales efforts in various countries. In the future, new products will continue to contribute towards maintaining and further increasing our market shares. These include the three-chamber bags Compleven® and Kabiven®; Intralipid®, our lipid emulsion which is now available not only in glass bottles but also in bags and is therefore far more easy to handle; Structolipid®, a new generation of lipid emulsions; as well as a series of generics for infusion. We expect good growth prospects for these products, especially in the markets of Latin America and Asia.

In enteral nutrition we have already reached a leading market position in Europe. This market offers continued good growth opportunities in the future: We expect that the current market growth of about 10% to 15% can be maintained. We expanded our sales activities again in the year under report. Being able to utilise the sales networks and infrastructure already established by Kabi helped us to increase our sales in regions where we were previously not, or scarcely, represented. We have now established our own sales organisation for enteral nutrition products in Uppsala for the Scandinavian countries; before that, we were only represented by a distributor. This meant that we could substantially increase our sales in this region during 1999. New products, such as Freka®-Button and the Frenta® IV pump, complemented our product range. We are the only European company which can offer a comprehensive portfolio within the two medical disciplines of parenteral and enteral nutrition.

Despite the successes which we achieved during the 1999 reporting year we should not forget that we are operating in an environment which is marked by continuous cost-cutting measures in the health care services and by constant political change with respect to the health systems, for instance through the introduction of all-inclusive budgets in Germany. In addition, an accelerated trend towards consolidation of hospitals to form purchasing consortia is making itself noticeable. In the medium to long term, we can only counteract this enormous price pressure through innovations.

We have also made good progress in the field of ambulatory care of patients, which we consider to be an important segment for our future development. Here, we are specialised in the organisation and provision of ambulatory therapies. Furthermore, we offer extended service concepts for ambulatory health care. The building up of ambulatory services is a subject of discussion in view of the rising hospital costs in many health systems. This opens up new growth potential for Kabi. We already care for and treat around 23,000 patients in their homes all over the world with clinical nutrition, with intravenous therapies for various diseases such as cancer, mucoviscidosis and HIV, and with respiratory therapies. Our service chain ranges from supplying the patient with products up to carrying out therapies by our own, specially-trained nursing staff. New, innovative services were added in the year under report. For instance, in some countries we were contracted by pharmaceutical manufacturers to provide therapy support services to their patients by offering training programmes and call-centre support. The aim of these services is to measurably increase the success of the therapy, as well as to inform the manufacturer quickly about possible side-effects or problems arising with the therapies. Through the use of new technologies such as telemedicine, we shall continuously improve the quality of our services. It is our aim to add new therapy fields to our range of services and to achieve sustained development of our international business.

INCREASE IN VALUE AS AN OBLIGATION

Strength of innovation, technological leadership, expansive corporate policies and far-sighted business management have made Fresenius successful. Long-term strategies will continue to secure future growth and returns, and increase the value of the company for shareholders and employees.

The launch of a boat is always a great event for Guido Koch and his son Max. But in “real” life, how the wind will blow and what storms will brew up cannot always be predicted. Mr. Koch is providing for the future in good time: He invests in healthy growth.



FRESENIUS PROSERVE

Fresenius ProServe offers a unique range of services in connection with the international health care market and its facilities. Our quality-oriented services and experienced project management set worldwide standards. The products offered by the Fresenius ProServe subsidiaries – hospitalia international, VAMED and Pharmaplan – range from the consulting, planning, construction and equipping of hospitals up to the management and operation of health facilities all over the world. They also include the planning, construction, services and management of technical installations of production plants for medical disposables and pharmaceutical products.

Fresenius ProServe has set itself the task of anticipating new developments in the health care market and adapting its portfolio of services accordingly: with innovative products and services in connection with the hospital and for the pharmaceutical industry.

Services closely related to the projects, i.e. orders for services as a result of projects completed, are gaining increasing significance. Contracts in Europe, Africa and Asia are the first important steps within the scope of this international service strategy. At the same time, we are actively preparing to enter the business of managing and operating health facilities, in particular for the fields of nursing, follow-up treatment and acute care. This will be another strategic focus for the coming years.

In the year under report, we were able to eliminate those political and economic factors which had an unfavourable impact on the sales and profit situation in 1998 by systematically changing the target markets. At the same time, we utilised to a greater extent the opportunities for project financing offered by institutions of various countries, which meant that we succeeded in realising more projects in developing countries.

Business development in 1999 was successful: Sales increased by 13% to €268 million after €237 million in the previous year. EBIT improved by 30% to €13 million (1998: €10 million).

Orders received, an important key figure for us, rose to €309 million (31.12.1998: €292 million), a 6% gain, and orders on hand reached €276 million (31.12.1998: €292 million). Thus, a good basis has been created for further development in the current financial year.

The Fresenius ProServe subsidiaries VAMED, hospitalia international and Pharmaplan developed as follows:

VAMED AG

VAMED and its subsidiaries operate in the following areas:

- Planning, construction and equipping of hospitals and health facilities
- Facility management and maintenance of medical-technical installations
- Project developments
- Management of health facilities

The positive business development of the VAMED Group continued in 1999. Sales increased 9% over the previous year (1998: €159 million) to €173 million. Net income amounting to €7 million was slightly below that of the previous year. Orders received totalled €183 million (31.12.1998: €176 million), an increase of 4%. Orders on hand increased to €153 million compared to the previous year's figure of €149 million.

In the international business, Asia was once again the focus of our order intake: A major contract for the upgrading and extension of two hospitals in Indonesia was acquired. From the Vietnamese Health Ministry, we received the contract to modernise the infectious waste disposal systems of 25 hospitals over the whole country. Furthermore, in Malaysia the company will carry out management consulting for 71 hospitals.

The Surgical Centre in Surabaya, the largest hospital of its kind in Indonesia with 22 operating theatres, was completed and inaugurated in June 1999. The Mother-Child Private Hospital in Oman with 70 beds, outpatient units and 3 operating theatres was also handed over to the customer. This project means that VAMED now has an excellent reference address in the Arabian region.

In Austria, VAMED was awarded the contract for the construction management of the accident hospital in Linz as well as for the turn-key realisation of the Althanstrasse Research Centre in Vienna, which we completed in only three months. Another new order was for the controlling of the reconstruction of a special hospital in Vienna. Feasibility studies and engineering services were carried out for thermal spa projects in Upper Austria and Tyrol as well as for hospital projects in Burgenland, Vienna, Styria and Carinthia.

The two major projects, reconstruction and a new building for the Wagner-Jauregg psychiatric hospital in Linz, and the turn-key construction of the Province Hospital Vöcklabruck, are progressing according to schedule.

The Province Hospital Hartberg in Styria, for which we carried out the planning of the medical and technical installations and site supervision, was completed and handed over. Also completed is the conversion of the former Kapfenberg Hospital to a special clinic for stroke and multiple sclerosis patients. VAMED holds the contract for the management of this hospital.

VAMED will realise major new projects for the General Hospital-University Clinics (AKH) in Vienna. These include two new buildings which will accommodate research laboratories, the department for bone marrow transplantation, the AIDS ward, the outpatients unit for endocrine dermatology, and the dialysis unit. These projects will be realised over the next seven years. For many years, VAMED has been responsible for the complete technical management of this hospital, one of the largest in Europe.

For the project business, the VAMED Group is planning further market penetration in South-East Asia in 2000, focusing on the Philippines, Vietnam and Malaysia. We are expanding our activities in the black African region which we expect will result in increased business. The Mediterranean countries and the countries of the Gulf continue to offer good potential for contracts. We are accelerating the expansion of the international service business, based on our activities in the project business. In Austria, we expect to expand in the field of innovative overall planning and general contractor projects, as well as project development. In the neighbouring countries Czech Republic, Slovenia, Slovakia, Croatia and Hungary we are expecting our first orders in this field.

hospitalia international gmbh

hospitalia international is a turn-key provider in the international hospital field. The range of services comprises design, planning, and turn-key construction as well as rehabilitation and modernisation of hospitals and other medical facilities. This includes planning and complete supply of medical and technical equipment of hospitals as well as management until the start-up of the facility. Furthermore, hospitalia international offers complete packages relating to the service and maintenance of medical and technical equipment, consultancy in connection with management and operation of health care facilities, and to human resources, as well as comprehensive training covering the technical, service and management field.

In the 1999 financial year, hospitalia international realised a substantial growth in sales of 33% to €32 million (31.12.1998: €24 million). Orders received amounting to €59 million were 13% up on the previous year's figure of €52 million. Orders on hand totalled €77 million (31.12.1998: €86 million).

We expanded our business activities in Germany and abroad. At the same time we were able to largely compensate the cancelled projects in Russia through a diversification strategy, focusing on specific markets and products.

In the Turn-key business unit, i.e. construction and equipping of complete hospitals, we have been awarded the order to equip a new, three-storey building for the Dominikus Hospital in Berlin-Reinikendorf with 102 rooms. Work on the Federal Armed Forces Hospital in Leipzig was completed.

Our business unit cosy rooming, which offers customer-oriented planning, modernisation and high-quality furnishing and equipment for hospital wards together with a tailor-made service and financing concept, started operations successfully. This field of activity is especially focused on the German market.

The project business in Greece continues to expand through our own sales and service company; at the end of 1999 we signed more new orders. We have systematically strengthened our activities in Turkey. For instance, an order was acquired regarding the medical-technical planning and equipping of the private transplantation centre of the Turkish Kidney foundation in Istanbul, including concepts for the start-up, service and maintenance.

In the Republic of Yemen we received the contract via the German Federal Armed Forces to supply part of the equipment for the military hospital in Sana'a. Numerous project orders in Central Asia are in the acquisition phase. We are expecting new orders shortly, in particular from Uzbekistan and Turkmenistan.

A new target market of hospitalia international is South Africa, which presents a great demand in the field of modernisation, in particular of public health care facilities. Some preparatory work has already been completed. For the current year we expect orders mainly from the public sector, in particular for modernisation and maintenance.

The systematic expansion of the regional structure is the main focus of the strategic development of hospitalia international in the next years. Our aim is to further develop the business, in particular by offering an innovative range of services in the hospital field, while at the same time utilising to an even greater extent its extensive experience and its inter-cultural abilities and knowledge.

Pharmaplan GmbH

Pharmaplan is the partner of the pharmaceutical and medical-technical industry for the consulting, engineering, construction and supervision of production plants all over the world.

The focus of the past financial year was on expanding the business in the United States, the world's largest market for pharmaceutical engineering. Following the foundation of the joint venture Pharmaplan Hatch in 1998, we acquired ValiCor in 1999. ValiCor is specialised in validation services, which is also a growing service segment for the pharmaceutical industry in Europe.

The new subsidiaries in Brazil, Great Britain and Switzerland have developed very positively. All companies achieved their targets or even exceeded them. For the future, we expect high growth rates, especially in the European market, where we are already carrying out numerous projects for several European pharmaceutical companies.

For the first time, Pharmaplan supplied a turn-key production plant in modules, which was produced in Germany, to Turkmenistan, where it was able to start operation within a short period of time. Production plants in modules have special advantages when the realisation time for a project is short, or it is difficult to do the work locally.

As well as the project business, we are also strengthening our focus on services in the new field of facility management. Within the framework of extending our service portfolio, we obtained our first order for the facility management of a vaccine factory in England.

In the year under report, Pharmaplan was awarded major orders from Hoechst Marion Roussel, AstraZeneca, Boehringer Ingelheim and Centocor.

Sales increased by 15% to €63 million in 1999 (1998: €55 million). Net income amounted to €2 million, the same as the previous years' figure. Orders received totalled €67 million, an increase of 6% (31.12.1998: €63 million). Orders on hand reached €47 million (31.12.1998: €57 million).

The subsidiary Pharmatec, which produces complete process and highest-purity water systems for the pharmaceutical industry, moved to new premises in Dresden, in order to even better meet the increased order volume and the high customer demands. In the next years, we expect that Pharmatec will continue to increase its business as a result of our internationally oriented expansion strategy.

FRESENIUS HEMOCARE

Fresenius HemoCare is one of the leading providers in Europe in the field of blood treatment and infusion technology. The products and services of this division are applied in blood transfusion and cell separation, as well as in the infusion of solutions and drugs. Core competences of Fresenius HemoCare are innovative immune therapy processes, and adsorber processes for extracorporeal blood treatment.

1999 was a very significant and successful financial year for Fresenius HemoCare: For the first time we achieved an operating profit and therefore reached the turning point towards a profitable future.

We are positioned very promisingly. We have already achieved a leading market position in many fields of activity: we shall increase our international expansion, focusing on the markets in Europe and the United States. Our product programme, which is acknowledged by our customers, and a series of research and development innovations, are the right growth drivers for future success.

The economic development of the division in the 1999 financial year was as follows: The operating profit (EBIT) of Fresenius HemoCare rose to €2 million, a significant improvement of €7 million and €13 million respectively after losses of €5 million in the 1998 financial year and €11 million in 1997. We achieved this turnaround by concentrating on products generating good profits in our business units Infusion, Transfusion and Adsorber Technology, and Immune Therapy. We continued to invest heavily in our research and development, in the market launch of new products and in the expansion of the international business. All four business units achieved a profit in the year under report.

Sales of Fresenius HemoCare increased in the 1999 financial year to €178 million. The previous year's figure of €163 million was therefore surpassed by 9%.

The following report gives the most important developments of the four business units in the 1999 financial year:

Transfusion Technology

The business unit Transfusion Technology developed extremely positively in the 1999 reporting year. Sales rose substantially; we again expanded our market position significantly, and for the first time we achieved a profit.

The very positive development of our in-line filter blood bag systems, i.e. systems for leukocyte filtration, made a major contribution to this very positive development. In important markets such as Great Britain, their market share rose to around 20%. This product will be launched in other countries in the current financial year. The clinical trials relating to their registration and validation in France are progressing very successfully, so that we will also introduce the in-line filter blood bag systems into the market there during 2000. While several European countries specify that leukocyte filtration has to take place during the production of blood products, up to now the supervisory authorities in Germany have not issued any regulations regarding the use of this product. However, we expect that the blood donation services will change their production processes around the middle of 2000. This will mean that in-line filter blood bag systems will also become standard in the largest European market and offer us further potential for growth.

An important new product was introduced to the customers in October 1999: The next generation of cell separators. The new device COM.TEC will be launched onto the market in the first quarter of 2000. As well as unsurpassed safety for the blood donor and its easy handling, two things in particular were of supreme importance in its development: Firstly, platelet produc-

tion had to be as effective as possible, and secondly contamination with leukocytes reduced. With this product, the business unit Transfusion Technology will continue to expand its market position.

Infusion Technology

Cost control, organisational optimisation throughout the division, and the successful restructuring of the German business resulted in a substantial increase in the result of the business unit Infusion Technology.

As far as the markets are concerned, we achieved substantial sales increases outside the main markets of Germany and France – particularly in the Netherlands, Greece and Portugal, where our new distribution organisation is beginning to bear fruit. As a result of this positive development, we were able to offset the drop in volumes and prices in our main markets to a large extent. In Germany, the development was characterised by increased purchasing management on the part of the hospitals, as well as by reduced investment activity, and in France by a return to normal investment levels to renew equipment. Despite these changes, combined with continuing strong competition, we were able to maintain our market position thanks to innovative products, consistent quality and excellent service. In addition, we have obtained business in market niches in anaesthesia.

A very important product launch in 1999 was that of the MVP Volumetric Infusion Pump Module for the new infusion workstation Orchestra. We can now make available to our customers a combination of syringe pumps and volumetric pumps in a centralised, compact unit, enabling more efficient infusion management in the intensive care unit. The composition of the modules making up the workstation is easily adaptable to the daily therapy requirements of the patient. The infusion workstation Orchestra is planned to be enhanced in the current year by the addition of a data management module – Orchestra Intensive Base. It will be the first integrated infusion data management system without additional external software and hardware components.

The new products, Orchestra Intensive Base and MVP Module, mark important steps towards achieving our target – to become one of the world's leading suppliers of infusion management.

Adsorber Technology

In the area of adsorber technology we considerably strengthened our market position in 1999 by extending the product programme, developing new adsorber systems and through further internationalisation.

Adsorber systems for extracorporeal blood treatment are mostly used for patients whose diseases can no longer be treated successfully by conventional methods. Fresenius HemoCare is focused on three indication areas with its current product range:

- familial hypercholesterolaemia (a lipometabolic disorder)
- immunological diseases (e.g. rheumatoid arthritis, systemic lupus erythematosus) and
- therapy of sepsis (bacterial blood poisoning)

The major proportion of sales in 1999 was again achieved with the DALI® system (LDL apheresis) for the treatment of patients with familial hypercholesterolaemia. This is a hereditary lipometabolic disorder, in some cases with an extremely high risk of developing coronary heart disease. In 1999 we achieved our goal of becoming the market leader in Europe in LDL apheresis.

Two further important steps towards building up the business unit for the treatment of immunological diseases were taken in 1999, which meant that we became the world's market leader in the extracorporeal treatment of these diseases:

- the acquisition of the production facilities and exclusive distribution rights for the Prosorba® adsorber, and
- the acquisition from Gambro of the adsorber business Excorim with the Immunosorba® system

With these two adsorber systems and our own development, the MIRO® system, we can now offer three products for the treatment of a variety of immunological diseases. The three systems, which have different effects and methods of operation, enable the doctor to select the system which is most suited to each indication.

The Prosorba® and the Immunosorba® are also the only adsorber systems which are currently registered for the extracorporeal therapy of immunological diseases in the United States. The largest controlled clinical trial which has ever been done for an adsorber system was carried out on the Prosorba®, proving its efficiency in the treatment of patients with severe rheumatoid arthritis. In April 1999 the adsorber received regulatory approval from the American Food and Drug Administration (FDA). The registration for Europe has now been received. Also, the Immunosorba® is registered in Europe, and has regulatory approval in the United States for haemophilia. In 1999 a controlled clinical trial with the MIRO® system started on patients with systemic lupus erythematosus.

Our task for this year is to achieve a substantial sales increase with the Prosorba® in the United States and introduce it successfully onto the market in Europe. Furthermore, our medium-term goal is to show the effectiveness and medical benefit of the MIRO® and Immunosorba® systems by means of additional clinical trials.

We have reached an important milestone in the development of the endotoxin adsorber MATISSE for the therapy of sepsis. The first clinical trial on sepsis patients was concluded successfully in the middle of 1999. We were able to show that the treatment is extremely well tolerated by the patients and that endotoxins are removed efficiently. At the same time, the patients treated showed a significant improvement in the sepsis symptoms. On this basis, a controlled trial started in several European countries in November 1999. Our aim is to prove that the additional adsorber treatment is clinically much more effective than the present standard therapy.

Immune Therapy

The main product of the business unit Immune Therapy, ATG-Fresenius (anti T-lymphocyte globulin) developed well in the year under report. ATG is used in organ transplantations to suppress the immune system of the recipient, and in stem cell transplantation. The number of organ transplantations where ATG was used did not increase due to the improved treatment methods and the corresponding reduction in the amount of organ rejections, as well as new products from other manufacturers. On the other hand, the number of allogeneic stem cell transplantations is increasing from year to year. In stem cell transplantations from the bone marrow or from peripheral blood, ATG-Fresenius suppresses both the rejection by the recipient of the cells of the donor and the rejection by the donor cells of the organism of the recipient. We foresee an interesting growth potential for ATG-Fresenius in this field. Therefore, we are conducting a clinical trial at seven hospitals with the aim of proving the medical benefit of ATG-Fresenius in allogeneic stem cell transplantations. This trial will be concluded during the year 2000.

On the basis of our many years' experience in the field of immunology, we are co-operating with the biotechnological company Trion Pharma which was created from GSF-Munich (Research Centre for Environment and Health). Trion Pharma is involved in the development and manufacture of a new class of so-called intact bispecific antibodies which are especially effective in destroying cancer cells. Within the scope of a co-operation, marketing and licence agreement, Trion Pharma is responsible for the development, manufacture and quality control of the products, and Fresenius HemoCare, which holds the exclusive worldwide distribution rights, is taking care of the registration. We are carrying out the clinical research jointly.

There are two ways of using the bispecific antibodies:

■ Ex-vivo purging of stem cell concentrates

In breast cancer, tumours are normally removed surgically. In order to destroy cancer cells, patients with a high risk of relapse are treated with high-dose chemotherapy and/or radiation. However, this results in destruction of the bone marrow where blood cells are formed. Stem cells are therefore removed before the treatment and subsequently returned to the patient. The stem cells then start to grow in the bone marrow and begin to produce blood cells. But there is a danger that this stem cell concentrate is contaminated with tumour cells which can result in a new tumour or metastases after the re-infusion. The stem cells are therefore mixed with the new antibodies in order to destroy these tumour cells before they are returned to the body. In this way, tumour cells are destroyed until they are no longer detectable.

■ In-vivo treatment

Tumour cells which are still in the blood circulation can be recognised, bound and killed through the intravenous infusion of the antibodies. The antibody could even be administered during the surgical resection of the tumour, because this is when the risk of the tumour cells being released is highest.

Following convincing results from tests on animals, and initial successful therapy trials on patients, we will start clinical trials of the products in the year 2000. The business unit Immune Therapy will examine more projects based on innovative immunological treatment methods in order to further expand business in this field.

STRUCTURES AS A BASIS FOR EXPANSION

Exchange of experience creates topicality, short decision paths mean flexibility, and responsibility gives freedom to act – decentralised structures enable us to take a pro-active approach in our world-wide operations. In many quickly-changing markets, Fresenius has reached its leading position thanks to this principle.

Boston, Massachusetts, 4 o'clock in the morning: Information flows around the globe. Direct, rapid exchange of information is essential for work to be successful. For us, it goes without saying that we use the latest communication technology to achieve this.



KEY FIGURES OF AFFILIATED COMPANIES

Company	Held by Fresenius %	Sales 1999 million US\$	Profit/Loss ⁽¹⁾ 1999 million US\$	Equity 31.12.1999 million US\$	Employees 31.12.1999
Affiliated companies Germany					
1 Fresenius Medical Care AG Hof an der Saale (sub-group/US GAAP)	44.6 share of equity 50.3 share of voting rights	3,840.4	-249.5	2,002.3	31,086

Company	Held by Fresenius %	Sales 1999 million €	Profit/Loss ⁽¹⁾ 1999 million €	Equity 31.12.1999 million €	Employees 31.12.1999
Affiliated companies Germany					
2 Pharmaplan Group Bad Homburg v. d. H.	100	62.7	1.9	5.3	176
3 hospitalia international gmbh Bad Homburg v. d. H. (with profit transfer agreement)	100	32.1	-	2.9	62
4 MC Medizintechnik GmbH Alzenau	100	12.9	0.3	0.7	55
5 Caremark Deutschland GmbH Neufahrn	100	38.8	3.1	5.7	173
6 Fresenius Kabi Deutschland GmbH Frankfurt a. M. (with profit transfer agreement)	100	359.0	-	38.7	1,261
7 Fresenius HemoCare Deutschland GmbH Bad Homburg v.d.H. (with profit transfer agreement)	100	57.5	-	15.2	358

KEY FIGURES OF AFFILIATED COMPANIES

Company	Held by Fresenius %	Sales 1999 million €	Profit/Loss ¹⁾ 1999 million €	Equity 31.12.1999 million €	Employees 31.12.1999
Affiliated foreign companies					
8 Fresenius Kabi France S.A. Sèvres, France	100	122.6	2.6	33.8	708
9 Fresenius Techniques Médicales S.A. L'Arbresle, France	100	6.6	1.3	12.9	31
10 Fresenius Vial S.A. Brézins, France	100	25.3	2.1	16.6	139
11 Biofil S.r.l. Medolla/Modena, Italy	100	16.8	1.1	3.6	99
12 Fresenius Kabi Italia S.p.A. Verona, Italy	100	70.6	-1.8	10.3	353
13 Fresenius Kabi España S.A. Vilassar de Dalt, Spain	100	25.8	2.5	7.2	182
14 Fresenius Kabi İlaç Sanayi ve Ticaret Limited Şirketi Istanbul, Turkey	100	8.1	0.4	1.0	79
15 Fresenius Kabi Ltd. Basingstoke/Hampshire, Great Britain	100	75.3	2.4	11.8	249
16 Fresenius Kabi Austria GmbH Graz, Austria	100	97.9	11.3	49.0	485
17 VAMED Group Vienna, Austria	77	173.0	7.3	52.7	1,477
18 Fresenius Kabi (Schweiz) AG Stans, Switzerland	100	12.5	1.3	2.7	27
19 Fresenius Kabi B.V. 's-Hertogenbosch, Netherlands	100	10.7	0.9	1.9	30
20 NPBI International B.V. Emmen, Netherlands	96	86.2	2.9	14.7	1,292
21 Fresenius Kabi N.V. Wilrijk (Antwerp), Belgium	100	22.0	-0.1	1.7	47
22 Fresenius Kabi Norge A.S. Oslo, Norway	100	31.5	1.5	10.5	589
23 Fresenius Kabi AB Stockholm, Sweden	100	158.4	1.3	66.0	966
24 Fresenius Hemotechnology, Inc. Wilmington, Delaware, USA	100	7.9	-2.6	0.0	45
25 Fresenius Kabi Clayton L.P. Wilmington, Delaware, USA	100	24.7	0.2	7.0	156
26 Caremark Group Ontario, Canada	100	24.2	0.5	4.4	157
27 Grupo Fresenius México S.A. de C.V. Guadalajara, Mexico	100	35.7	8.7	33.8	696
28 Fresenius Kabi Brasil Ltda. Campinas/São Paulo, Brazil	100	14.6	1.7	14.8	615
29 Endomed Laboratório Farmacêutico Ltda. Aquiraz/Ceará, Brazil	100	5.5	-0.1	1.9	342
30 Beijing Fresenius Pharmaceutical Co., Ltd. Beijing, China	75	13.5	-0.4	14.8	262
31 Fresenius Kabi India Ltd. Pune, India	100	7.7	-1.3	8.4	295

¹⁾ net income/loss

The complete list of investment holdings will be submitted to the Commercial Register of the District Court of Bad Homburg v.d.H.

CONSOLIDATED BALANCE SHEET AS AT 31.12.1999

ASSETS

in million €	Note	31.12.1998	31.12.1999
Intangible assets		2,097	2,168
Tangible assets		1,085	1,298
Financial assets		82	97
Fixed assets	(8)	3,264	3,563
Inventories	(9)	413	492
Trade accounts receivable	(10)	810	1,002
Other accounts receivable and other assets	(11)	259	288
Marketable securities	(12)	4	5
Liquid assets	(13)	181	115
Current assets		1,667	1,902
Deferred charges	(15)	28	249
		4,959	5,714

EQUITY AND LIABILITIES

in million €	Note	31.12.1998	31.12.1999
Subscribed capital	(16)	51	51
Capital reserve	(19)	374	376
Other reserves	(20)	0	246
Retained earnings	(21)	27	32
Trust preferred securities (maturity: 1.2.2008 at the latest)	(22)	846	960
Minority interests	(23)	569	348
Equity		1,867	2,013
Special account for investment allowances and investment grants on fixed assets	(24)	5	4
Provisions for pensions and similar obligations		123	146
Provisions for taxes		196	196
Other provisions		673	486
Provisions	(25)	992	828
Profit-sharing rights		41	0
Commercial papers		45	0
Eurobonds		0	600
Bank loans		1,447	1,033
Trade accounts payable		231	318
Other liabilities		328	917
Liabilities	(26)	2,092	2,868
Deferred income		3	1
		4,959	5,714

CONSOLIDATED STATEMENT OF INCOME

in million €	Note	1998	1999
Sales	(30)	4,317	4,952
Changes in finished goods inventories and work in process, own work capitalised	(31)	37	28
Other operating income	(32)	240	171
Cost of materials	(33)	-1,482	-1,700
Personnel expenses	(34)	-1,270	-1,445
Depreciation and amortization of intangible and tangible fixed assets	(35)	-296	-341
Other operating expenses	(36)	-1,066	-1,072
Income from participations	(37)	3	2
Other financial results	(38)	1	2
Earnings before interest, interest for trust preferred securities, and taxes on income and profit (EBIT)	(39)	484	597
Net interest and interest for trust preferred securities	(40)	-197	-220
Profit on ordinary activities		287	377
Income and profit taxes on profit on ordinary activities	(41)	-141	-174
Net income before extraordinary result	(42)	146	203
Extraordinary expenses (after taxes)	(43)	0	-106
Extraordinary income	(44)	0	106
Net income		146	203
Profit carried forward from the previous year		1	0
Allocation to other reserves		-77	-75
Share of profits allocated to minority interest holders	(45)	-43	-96
Retained earnings		27	32

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) GENERAL REMARKS

Following the resolution of the Annual General Meeting of Fresenius AG of June 10, 1999, the Fresenius Group has created a new structure with four legally-independent divisions:

■ Fresenius Medical Care ■ Fresenius Kabi ■ Fresenius HemoCare ■ Fresenius ProServe

All the German activities of Fresenius AG in the Pharma Division were contributed to Fresenius Kabi Deutschland GmbH, all German activities of the Intensive Care & Hemotechnology Division were contributed to Fresenius HemoCare Deutschland GmbH in exchange for ownership in the company.

The shares held by Fresenius AG in all the subsidiaries assigned to the Pharma, Intensive Care & Hemotechnology and Projects & Services divisions were contributed to the three management companies Fresenius Kabi AG, Fresenius HemoCare GmbH and Fresenius ProServe GmbH.

Fresenius AG now acts in the capacity of an operating holding.

The reporting currency was converted to euros effective January 1, 1999. The previous year's figures in DM were converted at the fixed rate of 1.95583 DM/euro. In order to make the presentation clearer, the amounts are given in million euros. Amounts which are lower than one million euros after they have been rounded off are marked with “-”.

The “Law on Control and Transparency in Companies” (KonTraG) which has taken effect requires substantial changes in the statements for the financial years beginning after December 31, 1998. The cash flow statement required by the law from publicly-quoted parent companies, and which was already included in the Notes by Fresenius in 1998, separates the flow of payments into operating, investing and financing activities. The cash flow statement is shown in note (14). The report on the segments has been included in the notes (note 47). It gives information about the earnings and financial power of the individual divisions and regions.

(2) ENTITIES TO BE CONSOLIDATED

The 1999 consolidated financial statements include, besides Fresenius AG, 31 German and 415 foreign companies; these are all under the control of Fresenius AG.

Change in entities to be consolidated

	Germany	Abroad	Total
31.12.1998	25	381	406
Additions	6	43	49
Disposals	0	9	9
31.12.1999	31	415	446

49 companies have been consolidated for the first time. Of these, 27 companies were founded due to the new corporate structure, and 22 companies were acquired.

The main acquisitions concern the majority shareholding of Fresenius Kabi in Sino Swede Pharmaceutical Corporation Ltd., China, as well as the purchase of dialysis centres by Fresenius Medical Care.

9 companies are no longer included in the consolidated entities. 3 companies have been merged with other companies which are included in the consolidated financial statements, 6 companies were not included due to their negligible importance.

The acquisitions made in the 1999 financial year, and/or those which were included for the first full financial year, contributed to the sales and earnings development of the Fresenius Group compared to the previous year as follows:

Sales	€ 299 million
EBIT	€ 8 million
Net income	€ -7 million

The acquisitions did not have any significant impact on the balance sheet total of the Fresenius Group.

74 companies were not included in the consolidated financial statements due to their negligible importance regarding the assets and liabilities, financial position and results of operations. One company was valued in accordance with the regulations for associated companies.

20 associated companies were not valued in accordance with these regulations regarding their assets and liabilities, financial position and results of operations in the Group.

The important domestic and foreign affiliated and related companies are listed separately in the Annual Report. The complete list of the investment holdings of Fresenius AG will be submitted to the Commercial Register of the District Court of Bad Homburg v.d.H. under the number HR B 2617.

(3) "OIG AGREEMENT"

Since 1995, various US federal authorities and offices (OIG: Office of the Inspector General) had been conducting investigations against National Medical Care, Inc., Delaware (USA), a subsidiary of Fresenius Medical Care Holdings, Inc., New York (USA). These investigations concerned the period before inclusion in the Fresenius Group. The investigations mainly concerned contracts and remuneration of medical directors of dialysis clinics, the laboratory business of the business unit LifeChem™, over-payments from the Medicare programme and the administration of intradialytic parenteral nutrition (IDPN).

In order to settle these investigations, a definitive agreement was reached on January 18, 2000 between Fresenius Medical Care Holdings, Inc., National Medical Care, Inc., and other companies of the Group and the "Office of the Inspector General". According to this agreement, payments are to be made to settle civil claims and fines in the amount of €484 million (US\$ 486 million) to the US Government. These payments will be made in varying instalments over a period of 18 months; a substantial portion was paid in February 2000.

The US Government will pay €59 million (US\$59 million) for outstanding IDPN claims totalling €153 million (US\$ 153 million). The remaining amount of €94 million (US\$94 million) was not settled and therefore written off in the year under report.

Furthermore, National Medical Care, Inc., expects to have to pay for costs which directly relate to the agreement, such as lawyers' costs, amounting to €20 million (US\$20 million).

Because of the tax-deductibility of the largest portion of these expenses both in the year under report and in the subsequent years, the expected tax deductions on these expenses amount to € 181 million (US\$ 182 million), of which € 54 million reduced the taxes on the profit on ordinary activities in the 1999 financial year. The effects on profits as a result of the agreement are combined in the consolidated financial statements and shown in “Extraordinary expenses” in note (43).

The net cash outflow resulting from the agreement will amount to around € 265 million (US\$ 266 million).

(4) DEFERRED TAX ASSETS

In the 1999 consolidated financial statements, deferred taxes were capitalized for the first time. This change in the accounting methods effective 1.1.1999 means that Fresenius Group has adapted to internationally-recognised accounting principles.

At the same time, the tax deduction resulting from the agreement with the “Office of the Inspector General” in the year under report is thus shown in the expected amount, so that no significant consequences are to be expected in the subsequent financial years.

(5) PRINCIPLES OF CONSOLIDATION

Capital consolidation is carried out according to the book value method by setting off purchasing costs including incidental acquisition costs of the shares in the affiliates against the net book value which these shares represent as part of the equity at the time they were founded or purchased. For historical purchases, of which the purchase price exceeded the book value of the equity acquired, the difference on 31.12.1999 was € 2,239 million (previous year: € 2,179 million). This difference is allocated to the assets and liabilities to the extent that the fair market value differs from the book value. Any remaining difference was always deducted as goodwill from other reserves or capital reserves up to 1998; one exception was the goodwill which arose in 1996 of Fresenius Medical Care Holdings, Inc., New York (USA), in the amount of € 1,700 million. This amount was capitalized and is amortized over 20 years. For those historical purchases of which the book value of equity acquired exceeded the purchase price, the difference in 1999 was € 10 million (previous year: € 10 million). This amount is recorded in reserves in accordance with its equity nature.

Starting in the 1999 financial year, all new goodwill arising is capitalized and amortized over 20 years. As at 31.12.1999, goodwill amounting to € 395 million was set off against Group equity. The book value of all capitalized goodwill in the fixed assets amounts to € 2,019 million, of which the main portion concerns the goodwill of Fresenius Medical Care Holdings, Inc., New York (USA), in the amount of € 1,403 million.

The procedure for calculating the minority interest holders' shares of Group equity described in note (23) was changed in the year under report. The basis for the calculation is no longer – as in the previous years – the financial statements of individual companies according to local regulations and pre-consolidated statements, but the consolidated equity of the respective division.

The same procedure was used for the profit allocated to minority shareholders shown in note (45).

The same procedure used for consolidation is used for the participations valued in accordance with the equity method. The valuation methods are not adapted to the valuation methods effective in the consolidated financial statements.

Receivables and liabilities, expenses and income, profit and loss transfers between the consolidated companies and inter-company provisions are eliminated.

Differences arising from the consolidation of inter-company liabilities due to currency differences, and differences from inter-company provisions, are always balanced out with effect on profit. Differences arising from the conversion of hedged foreign currency items on the other hand are balanced out with no effect on profit.

The values of fixed assets and inventories are adjusted in the consolidated financial statements to eliminate unrealised results of the inter-company transactions and are thus valued at Group purchasing or Group production costs.

Tax deferrals are made on the consolidated procedures affecting profit in accordance with § 306 Commercial Code (HGB) if these deferrals are likely to reverse in later financial years. Deferred tax assets are set off against deferred tax liabilities.

The changes in items to be consolidated which do not affect profit as well as the profits or losses made by the affiliates after the date of the first consolidation are shown in the reserves or set off against them. The retained earnings of the Group correspond with those of Fresenius AG after allocation of €75 million to reserves from consolidated net income.

(6) ACCOUNTING PRINCIPLES AND STANDARDS OF VALUATION

The annual financial statements of the Group companies included in the consolidated financial statements are in accordance with uniform accounting principles and standards of valuation.

Valuations which are only admissible according to tax laws have not been included in the consolidated financial statements. This concerns mainly the depreciation and amortization made in the domestic companies of the Group in accordance with § 254 Commercial Code (HGB).

The result of the Group for 1999 is thus not affected by the depreciation carried out in accordance with § 254 Commercial Code (HGB), or by maintaining lower valuations in accordance with § 280 Section 2 Commercial Code (HGB) due to tax regulations, or by the creation of special items with an equity portion according to § 273 Commercial Code (HGB); likewise, no charges due to these measures will therefore occur in future.

In the year under report, deferred taxes are capitalized for the first time. Deferred tax assets are always set off against deferred tax liabilities, both in the individual and in the consolidated financial statements. The amount resulting in the 1999 financial year from this change in accounting principles is shown separately in the balance sheet in note (15) "Deferred charges". In the statement of income, the effect on profit from this accounting change is shown in extraordinary profit in note (43) "Extraordinary expenses (after taxes)" and note (44) "Extraordinary income".

Deferred taxes derive from timing differences between results under commercial and under tax regulations. Because the deferred taxes are capitalized, the tax charge is shown in the statement of income in the amount which would arise if the commercial results were used as a basis for tax assessment. For the calculation, the profit tax rate of the respective country is taken as a basis; the tax deferral for consolidation measures is assessed at the average German tax rate.

Acquired intangible assets are valued at purchase cost and depreciated according to plan. The useful life is normally between 2 and 15 years, for personal computer auxiliary programmes the useful life is 1 year, and for know-how up to 15 years. The probable useful life of the goodwill is between 5 and 20 years.

Tangible assets are valued at Group purchase or Group production costs. Group production costs include individual costs and appropriate portions of the respective overheads. Investment grants and allowances received do not reduce the purchase costs, but are shown as a special account for fixed assets on the liabilities side.

Scheduled depreciation is carried out in the consolidated financial statements by the straight-line method. To determine depreciation, the relevant useful life periods are mainly as follows:

Office and factory buildings	10 – 50 years
Technical equipment and machinery	5 – 15 years
Other fixtures and fittings, tools and equipment	3 – 10 years

Fixed assets of low value are fully written off in the year of their purchase. Extraordinary depreciation is carried out, provided that a lower value has to be assigned to the assets on the balance sheet date. If the reasons for the extraordinary depreciation no longer apply, they are cancelled by appropriate value adjustments.

Financial assets are valued at purchase price or the lower assigned value.

As far as inventories are concerned, raw materials and supplies as well as purchased parts are valued at average acquisition costs or the lower replacement price on the balance sheet date. Warehousing risks are taken into account by appropriate depreciation. Work in process and finished goods are valued at Group production cost. These include material costs plus material overheads and manufacturing wages plus indirect production costs. Not included are cost of sales, administrative costs, costs of research and development, and financing costs. Deductions for inventory risks which result from reduced usability, and for market price risks, are made in sufficient scope.

Receivables and other assets are valued at the nominal amount reduced by individual allowances where necessary. The general credit risk is taken into account by means of global allowances.

A discount on loans is capitalized and written off by the straight-line method according to the maturity of the loan.

Pension provisions have been determined in accordance with the normal actuarial regulations and calculation principles in each country.

Other provisions have been set up to cover all recognisable risks and uncertain liabilities. Provisions for employees' anniversaries have been valued in accordance with the normal actuarial principles and calculation methods of each country; for the domestic companies the actuarially computed part value is applied taking into account an interest rate of 5.5% p.a. Provisions are made for repairs and maintenance expenses not incurred in the financial year but within the first three months of the following financial year.

Liabilities are valued at the repayment amount.

(7) FOREIGN CURRENCY TRANSLATION

Foreign currency items are translated at the exchange rate at the time of origin, in the case of receivables at the lower buying rate, and in the case of payables at the higher selling rate on the balance sheet date or the rate of the currency exchange contract.

The balance sheets of foreign Group companies are converted at the mean rate on the balance sheet date. Differences to translations of the previous year are allocated to reserves without any effect on profit.

Adjustments for inflation were made in the individual financial statements of Grupo Fresenius México S.A. de C.V., Guadalajara (Mexico), and its subsidiaries, Fresenius Medical Care de México S.A. de C.V., Guadalajara (Mexico), Fresenius Kabi İlaç Sanayi ve Ticaret Limited Şirketi, Istanbul (Turkey), and Fresenius Medical Care Colombia Ltda., Santafé de Bogotá (Colombia), and its subsidiaries.

The statements of income of the foreign subsidiaries are converted as follows:

Depreciation and amortization of intangible and tangible fixed assets, financial assets and receivables as well as changes in inventories of work in process and finished goods, are converted at the mean rate on the balance sheet date; other charges and income at the average rate for the year; the result for the year at the mean rate on the balance sheet date.

The exchange rate differences resulting from using varying exchange rates in the statement of income are shown in other operating income (in the previous year under other operating expenses).

With the implementation of the European Currency Union, the exchange rates to the euro of the currencies of the member countries were fixed.

The exchange rates of important currencies for the Fresenius Group outside the Currency Union developed as follows:

	Exchange rate* on balance sheet date 31.12.1998	1998 Average exchange rate	Exchange rate* on balance sheet date 31.12.1999	1999 Average exchange rate
1 US dollar	0.8554	0.8993	0.9954	0.9383
100 Swedish kronas	10.5863	11.3111	11.6788	11.3539
1 Pound sterling	1.4306	1.4898	1.6085	1.5181
100 Brazilian reals	71.3513	76.1289	54.5405	51.6684
100 Mexican peso	8.6608	9.5709	10.4822	9.8628
100 Yen	0.7416	0.6896	0.9734	0.8243

* Mean rate on balance sheet date

BALANCE SHEET NOTES

(8) FIXED ASSETS

The breakdown of the combined positions of the fixed assets and their development is found in the following tables:

Purchasing and manufacturing costs

in million €	As at 1.1.1999	Exchange rate differences	Changes in entities to be con- solidated	Additions	Book transfers +/-	Disposals	As at 31.12.1999
Intangible assets							
Concessions, industrial and similar rights							
and assets, licences	150	8	0	7	46	4	207
Goodwill	2,218	79	1	150	-45	13	2,390
Payments on account	9	-	-	1	-6	1	3
	2,377	87	1	158	-5	18	2,600
Tangible assets							
Land, leasehold and buildings including							
buildings on third party property	495	19	11	22	62	6	603
Plant and machinery	470	8	43	75	117	24	689
Other fixtures and fittings, tools and equipment	624	62	6	106	-53	22	723
Payments on account and tangible assets in course of construction	146	21	4	70	-121	11	109
	1,735	110	64	273	5	63	2,124
Financial assets							
Shares in affiliated companies	21	-	-8	9	-	-	22
Loans to affiliated companies	1	-	-	2	-	1	2
Participations	12	-	-	4	-	1	15
Shares in associated companies	5	-	-	1	-	-	6
Loans to related companies	10	-	-	-	-	1	9
Long-term investments	29	-	-	2	-	-	31
Other loans	9	-	-	7	-	-	16
	87	-	-8	25	-	3	101
Fixed assets	4,199	197	57	456	-	84	4,825

Intangible assets

The additions in the financial year amounting to €158 million are mainly due to the goodwill arising from acquisitions.

Tangible assets

The investments of the year under report were mainly made in the construction and extension of production facilities, the equipping of new dialysis clinics, and the extension of dialysis clinics.

Financial assets

The additions in financial assets mainly concern shares in related companies not consolidated in the year under report, shareholdings and other loans.

Depreciation and amortization

in million €	Depre- ciation (accumu- lated) as at 1.1.1999	Exchange rate differ- ences	Changes in entities to be con- solidated	Additions	Book transfers +/-	Disposals	Depre- ciation (accumu- lated) as at 31.12.1999	Book values as at 31.12.1999	Book values as at 31.12.1998
Intangible assets									
Concessions, industrial and similar rights and assets, licences	39	2	-	26	-1	5	61	146	111
Goodwill	237	8	-	125	1	-	371	2,019	1,980
Payments on account	4	-	-	-	-2	2	0	3	6
	280	10	-	151	-2	7	432	2,168	2,097
Tangible assets									
Land, leasehold and buildings including buildings on third party property	130	2	2	24	4	5	157	446	365
Plant and machinery	290	9	6	62	17	16	368	321	180
Other fixtures and fittings, tools and equipment	230	10	3	102	-19	28	298	425	394
Payments on account and tangible assets in course of construction	-	0	1	2	-	0	3	106	146
	650	21	12	190	2	49	826	1,298	1,085
Financial assets									
Shares in affiliated companies	2	0	-1	-	0	0	1	21	19
Loans to affiliated companies	-	0	-	0	0	-	-	2	1
Participations	2	0	-	0	0	0	2	13	10
Shares in associated companies	0	0	0	0	0	0	0	6	5
Loans to related companies	0	0	0	0	0	0	0	9	10
Long-term investments	1	0	-	-	0	-	1	30	28
Other loans	-	0	-	0	0	-	-	16	9
	5	0	-1	-	0	-	4	97	82
Fixed assets	935	31	11	341	-	56	1,262	3,563	3,264

The analysis of the depreciation and amortization is explained in note (35) "Depreciation and amortization of intangible and tangible fixed assets", and its breakdown by division and region in note (47) "Segment reporting".

(9) INVENTORIES

in million €	1998	1999
Raw materials and supplies	88	102
Work in process	57	55
Finished goods	215	252
Goods for sale	51	77
Payments on account	4	10
minus payments received on account	-2	-4
	413	492

(10) TRADE ACCOUNTS RECEIVABLE

in million €	1998	1999
Trade accounts receivable	810	1,002
(amount with a remaining term of more than 1 year)	(13)	(16)

Fresenius Medical Care in North America has an accounts receivable securitisation programme, the volume of which increased in 1999 by us\$29 million to us\$335 million.

(11) OTHER ACCOUNTS RECEIVABLE AND OTHER ASSETS

in million €	1998	1999
Accounts receivable from affiliated companies	21	27
Accounts receivable from related companies	8	8
Other assets	230	253
(amount with a remaining term of more than 1 year)	(17)	(15)
	259	288

Other assets include mainly accounts receivable from tax rebates and deposits, as well as advance payments.

(12) MARKETABLE SECURITIES

Securities mainly consist of fixed-interest bearing securities.

(13) LIQUID ASSETS

Liquid assets comprise cheques, cash on hand and cash at banks. The cash flow statement in note (14) gives details on the change in liquid assets in the year under report.

(14) CONSOLIDATED CASH FLOW STATEMENT

in million €	1998	1999
Consolidated net income	146	203
Depreciation and amortization	296	341
Change in pension provisions	10	15
Cash flow	452	559
Gain from sale of fixed assets, shareholdings and businesses	66	3
Change in inventories	-51	-39
Change in trade accounts receivable	-166	-239
Change in provisions for taxes and other provisions	10	39
Change in trade accounts payable	10	90
Change in other operating assets and liabilities	-37	-16
Change in working capital	-168	-162
Operating cash flow (cash provided by operating activities)	284	397
Intangible and tangible fixed assets	-215	-264
Acquisitions	-602	-115
Other changes ¹⁾	143	25
Cash used for investing activities	-674	-354
Proceeds from exercising stock options	1	2
Proceeds from the issuance of trust preferred securities	485	0
Dividend payments	-46	-52
Proceeds from receivables securitisation programme	91	29
Change in financial liabilities ²⁾	-82	-690
Proceeds from the issuance of Eurobonds	0	600
Cash used for financing activities		
(previous year: cash provided from financing activities)	449	-111
Change in cash flows from operating, investing and financing activities	59	-68
Effect of exchange rate changes on liquid assets	-4	2
Liquid assets at beginning of year	126	181
Liquid assets at end of year	181	115

¹⁾ Other changes mainly comprise liquid funds from acquisitions (in 1999 €11 million) and the proceeds from the sale of fixed assets (in 1999 €14 million), participations and businesses.

²⁾ Financial liabilities include bank loans, profit sharing rights and commercial papers.

In comparison to the additions stated in the fixed assets, the acquisitions and investments shown in the consolidated cash flow statement represent the whole cash used in the Group.

The term acquisition includes both the purchase of legally independent companies (share deals) and of company divisions (asset deals).

The free cash flow before acquisitions and dividends is a major management instrument in the Group. It is calculated as follows:

in million €	1998	1999
Cash flow	452	559
Change in working capital	-168	-162
Operating cash flow	284	397
Investments in intangible and tangible assets	-215	-264
Cash provided by sale of assets	21	14
Free cash flow before acquisitions and dividends	90	147

(15) DEFERRED CHARGES

The breakdown of deferred charges is as follows:

in million €	1998	1999
Deferred taxes	-	215
Discount on loans	-	2
Other deferred charges	28	32
	28	249

After the deferred taxes of €17 million from consolidation measures in accordance with § 306 Commercial Code (HGB) were set off, the remaining deferred taxes amount to €215 million.

(16) SUBSCRIBED CAPITAL

In the Ordinary Annual General Meeting of June 10, 1999 the nominal capital was split into non-par value shares. Each share with a nominal value of DM 5.- became a non-par value share. At the same time, the nominal capital was converted to €51,129,188.12. In order to even out the respective amount per share to the nearest cent amount, giving an amount of €2.56, a capital increase of €70,811.88 was carried out using corporate funds without new shares being issued.

The nominal capital of Fresenius AG therefore amounts to €51,200,000 and is divided into 10,000,000 bearer ordinary shares and 10,000,000 non-voting bearer preference shares.

The Else Kröner-Fresenius Foundation has informed us that it does not own a majority shareholding in Fresenius AG. It continues to hold the majority of the ordinary share capital.

(17) APPROVED CAPITAL

Following a resolution of the Annual General Meeting of June 10, 1999, the approved capital was converted to euros. In connection with the resolution of June 12, 1997, the Managing Board of Fresenius AG is authorised, with the approval of the Supervisory Board, to increase by June 11, 2002

- the nominal capital of Fresenius AG by a maximum nominal value of €10,225,837.62 by issuing new bearer ordinary shares and/or non-voting bearer preference shares for cash (approved capital I),
- the nominal capital of Fresenius AG by a maximum nominal value of €5,112,918.81 by issuing new bearer ordinary shares and/or non-voting bearer preference shares for cash (approved capital II). The Managing Board is authorised to preclude the subscription rights of the shareholders as a whole (§§ 203 Section 2, 186 Section 3 phrase 4 Stock Corporation Law [AktG]).

(18) CONDITIONAL CAPITAL

Following a resolution of the Annual General Meeting of June 10, 1999, the conditional capital resolved by the Annual General Meeting of June 18, 1998, was converted to the corresponding amount of €1,152,000 through the issuance of 450,000 bearer ordinary shares, and a nominal amount of €1,152,000 through the issuance of 450,000 non-voting bearer preference shares. This conditional capital increase will only be carried out to the extent that, in accordance with the stock option plan resolved by the Annual General Meeting on June 18, 1998, subscription rights for bearer ordinary shares and/or bearer preference shares are issued and the holders of these subscription rights exercise them.

Stock option plan

The stock option plan resolved by the Annual General Meeting of June 18, 1998, authorises the Managing Board of Fresenius AG, with the approval of the Supervisory Board, to issue subscription rights to members of the Managing Board and/or managerial staff of Fresenius AG and its affiliated companies (with the exception of Fresenius Medical Care AG and companies affiliated with it other than through the company) once or several times over a period of 5 years. Altogether, these subscription rights entitle their holders to purchase up to 450,000 bearer ordinary shares and up to 450,000 bearer preference shares. The entitlement to exercise the rights in one group of shares excludes the entitlement to exercise the rights in another group of shares.

The options may only be exercised under the following conditions:

An option has a duration of 10 years from the date they were granted (duration).

One third of the options can be exercised at the earliest two years after the date they were granted, another third at the earliest three years and the last third of the options at the earliest four years after the date they were granted (vesting period). Regardless of the other conditions, this meant that on the balance sheet date no options had been able to be exercised.

Within the two-year vesting period, EBIT must have increased by at least 15% (hurdle rate). The Managing Board has availed itself of its entitlement to increase this percentage to 30% for the stock options granted in 1998.

The person entitled to options must be in an unterminated employment or service relationship on the date he/she exercises the options (employment relationship).

The options can only be exercised within a maximum period of fifteen working days after the results of the respective past quarter have been announced (exercise period).

Within the scope of the stock option programme, 157,088 options were granted in the 1999 financial year. The total number of options granted as at 31.12.1999 amounts to 275,776 options.

One third of the options granted in 1998 can be exercised in the 2000 financial year, since the hurdle rate fixed in the plan for the stock options granted in 1998 was achieved in the 1999 financial year, with a rise in EBIT over 1997 of 58%.

In addition, in the Group, Fresenius Medical Care AG has a stock option scheme which corresponds to that of Fresenius AG as well as separate stock option programmes for employees in the United States.

Repurchase of own shares

In connection with the profit-sharing scheme of the employees of Fresenius AG and its affiliated German companies (with the exception of the employees of Fresenius Medical Care AG and its German subsidiaries) for 1998, the following transactions were carried out in 1999 relating to the preference shares of Fresenius AG:

Transaction	Date	Number	Price (€)
Purchase	27.05.1999	3,000	151.28
Purchase	02.06.1999	2,000	148.45
Purchase	03.12.1999	627	184.76
Committed to employees	11.06.1999	5,624	154.00
Sale	27.12.1999	3	182.00

The non-par value shares purchased in 1999 represented 0.0281 % of the subscribed capital of Fresenius AG.

(19) CAPITAL RESERVE

The capital reserve developed as follows:

in million €	1998	1999
Carried forward to 1.1.	379	374
Cash received from the exercise of stock options of Fresenius Medical Care AG	1	2
Settlement of goodwill from capital consolidation	-6	0
As of 31.12.	374	376

(20) OTHER RESERVES

Other reserves have developed as follows:

in million €	1998	1999
Carried forward to 1.1.	0	0
Differences due to foreign currency translation	78	-167
Settlement of goodwill from capital consolidation	-139	0
Change in shareholding ratios and other changes (including disposal from entities to be consolidated)	-16	19
Effect from the change in the method of calculating minority interests and the allocation of profits to minority interest holders	0	319
Allocation from net income	77	75
As of 31.12.	0	246

The effect from the conversion of the methods for calculating the minority interests and the allocation of profit to minority interest holders amounting to €319 million within the other reserves results from the change described in note (5) “Principles of consolidation”.

(21) RETAINED EARNINGS

The retained earnings include profit carried forward from the previous year of €0.4 million.

(22) TRUST PREFERRED SECURITIES

These comprise the trust preferred securities issued by the companies Fresenius Medical Care Capital Trust, Delaware (USA), in the nominal amount of US\$360 million, Fresenius Medical Care Capital Trust II, Delaware (USA), in the nominal amount of US\$450 million, and Fresenius Medical Care Capital Trust III, Delaware (USA), in the nominal amount of DM 300 million.

The remaining term of these trust preferred securities amounts to at least 2 and a maximum of 8 years. The owners of these securities are entitled to an interest of between 7 ³/₈ % and 9 % p.a. and to repayment after expiration of the maturity term in the amount of the nominal value of these securities.

	million €	Nominal value	Interest in %	Remaining term in years
Fresenius Medical Care Capital Trust, Delaware (USA)	358	US\$ 360 million	9	2 – 7
Fresenius Medical Care Capital Trust II, Delaware (USA)	448	US\$ 450 million	7 ⁷ / ₈	3 – 8
Fresenius Medical Care Capital Trust III, Delaware (USA)	154	DM 300 million	7 ³ / ₈	3 – 8

(23) MINORITY INTERESTS

The breakdown of the minority interests is as follows:

in million €	1998	1999
On the liabilities side	574	348
On the assets side	-5	0
As of 31.12.	569	348

The method of calculating the minority interests was changed in the year under report, as described in note (5) "Principles of consolidation". The comparative figure for the previous year is €344 million.

**(24) SPECIAL ACCOUNT FOR INVESTMENT ALLOWANCES
AND INVESTMENT GRANTS ON FIXED ASSETS**

The special account comprises investment allowances and investment grants to fixed assets, mainly granted to domestic companies, in accordance with §§ 1, 4 and 4b Investment Allowance Law (InvZuLG). These grants are reversed with effect on profit over the useful life of the fixed assets receiving the grants. In the statement of income, this reversal is shown in the item "Other operating income".

(25) PROVISIONS

Pension provisions are shown on the basis of the normal actuarial regulations and calculation principles in each country at their actuarially computed part value.

The pension provisions in Germany, which constitute 48% (€70 million) of total provisions amounting to €146 million, are calculated according to the 1998 mortality tables of Dr. Klaus Heubeck, taking into account an interest rate of 6%. The full amount of the additions of €3 million as a result of the new calculation based on the 1998 mortality tables was included in the 1998 financial statements with effect on profit.

Provisions for taxes include anticipated amounts from outstanding tax assessments for the 1999 financial year and preceding years.

The provisions which were included in the 1998 consolidated financial statements for risks relating to investigations of various us federal authorities and offices against National Medical Care, Inc., have been transferred to other liabilities as a result of the definitive "org agreement" described in note (3), which regulates the final payment modalities.

Other provisions relate mainly to provisions for personnel expenses – in particular provisions for holiday pay, overtime, employees' anniversaries and other deferred personnel costs – provisions for outstanding invoices, provisions for insurance premiums due but not yet paid, as well as other provisions such as provisions for guarantee commitments, sales discounts, bonus and commission claims and indemnity claims.

(26) LIABILITIES

in million €	1998		1999			
	Total	With a remaining term of up to 1 year	Total	With a remaining term of up to 1 year	With a remaining term of 1 to 5 years	With a remaining term of over 5 years
Profit sharing rights	41	5	0	0	0	0
Commercial papers	45	45	0	0	0	0
Eurobonds	0	0	600	0	600	0
Bank loans	1,447	482	1,033	308	663	62
(amount secured)	(880)	(1)	(758)			
Trade accounts payable	231	230	318	317	1	0
	1,764	762	1,951	625	1,264	62
(amount secured)	(880)	(1)	(758)			

Profit-sharing rights

In 1999, Fresenius Medical Care AG, Hof an der Saale (Germany), availed itself of its right to re-purchase all the profit-sharing rights which had been issued in 1997 in order to finance the acquisition of the sub-group of Fresenius Medical Care Holdings, Inc., New York, USA.

Commercial papers

In the 1999 financial year, the commercial papers issued in 1998 in the amount of €45 million were fully repaid.

Eurobonds

On 27.04.1999 Fresenius Finance B.V., 's-Hertogenbosch (Netherlands), a one hundred percent subsidiary of Fresenius AG, issued Eurobonds for a total of €600 million in two tranches, in order to repay short-term bank loans which were mainly used for the acquisition of the international infusion business of Pharmacia & Upjohn AB, Stockholm (Sweden). The fixed interest tranche in a total nominal amount of €400 million is divided into 400,000 certificates denominated at €1,000 each, which have an annual interest rate of 4.5%. The total maturity of the fixed-interest tranche amounts to five years; repayment will be made on 18.5.2004 at the nominal value. The tranche with a variable interest rate with a total nominal value of €200 million comprises 200,000 certificates denominated at €1,000 each, on which interest is paid quarterly at the prevailing EURIBOR rate for three months plus 0.90% p.a. The total maturity of the tranche amounts to three years; repayment will be made on 18.5.2002 at the nominal value.

Eurobonds

	million €	Number	Value in euros	Interest in % p.a.	Maturity in years
Fixed interest tranche	400	400,000	1,000	4.5	4
Variable tranche	200	200,000	1,000	EURIBOR rate +0.90%	2

Bank loans

Bank loans taken up by the Fresenius Medical Care division amount to €878 million. Of this amount, €756 million is secured by pledging the shares of affiliates of Fresenius Medical Care AG, Hof an der Saale (Germany). Bank loans taken up by the divisions Fresenius Kabi, Fresenius ProServe and Fresenius HemoCare amount to €93 million.

Collateral was given by mortgage liens in the divisions Fresenius Medical Care and Fresenius Kabi.

Other liabilities

in million €	1998		1999			
	Total	With a remaining term of up to 1 year	Total	With a remaining term of up to 1 year	With a remaining term of 1 to 5 years	With a remaining term of over 5 years
Payments received on account of orders	26	25	26	19	7	0
Notes accepted and payable	12	12	9	9	0	0
Accounts payable to affiliated companies	4	4	9	8	0	1
Accounts payable to related companies	5	5	6	6	0	0
Remaining other liabilities	281	269	867	768	96	3
Other liabilities	328	315	917	810	103	4

Remaining other liabilities

Remaining other liabilities include an amount of €470 million for the outstanding payments from the “orig agreement” described in note (3). Of the agreed sum of €484 million, €14 million had already been paid on the balance sheet date. The rest of the remaining other liabilities concern mainly tax liabilities, liabilities regarding social security, interest and leasing liabilities, liabilities from the purchase of participations and liabilities regarding wages and salaries.

Tax liabilities amount to €28 million (previous year: €25 million). Liabilities relating to social security amount to €21 million (previous year: €14 million).

(27) CONTINGENT LIABILITIES

in million €	1998	1999
Contingencies from guarantees	1	2
Contingencies from indemnity agreements	13	26
Contingencies from providing collateral for third party liabilities	4	1

Fresenius AG has undertaken to exempt on certain preconditions various members of the managing boards of foreign affiliates from claims, in case such claims should be made due to their function as members of the managing board of the affiliate concerned, and these claims are based on the law of the respective country. Two of these persons are also members of the Managing Board of Fresenius AG.

The companies Endomed Laboratório Farmacêutico Ltda., Aquiraz/Ceará (Brazil), and Fresenius Kabi Brasil Ltda. (formerly Fresenius Laboratórios Ltda.), Campinas/São Paulo (Brazil) have undertaken similar commitments regarding their managing boards.

Fresenius AG has undertaken to exempt the members of the Managing Board of Fresenius AG from claims, should claims be made due to their work for Fresenius Medical Care AG, Hof an der Saale (Germany), in particular in their capacity as members of the boards of directors of foreign related companies and/or as their officers, and should these claims be based on the law of the country concerned, exceed their responsibilities according to German law and not be covered by insurance.

Fresenius Medical Care AG, Hof an der Saale (Germany), has undertaken to exempt the members of the Managing Board and the Supervisory Board of Fresenius Medical Care AG, Hof an der Saale (Germany), from risks of claims outside the scope of the German stock corporation law under certain conditions.

(28) OTHER FINANCIAL COMMITMENTS

in million €	1998	1999
Commitments from building leases, rental and leasing commitments		
due 2000	84	123
due 2001 – 2004	216	345
due after 2005	124	106
	424	574
Commitments from ongoing investments	6	6
Other commitments	219	311
	649	891

Other commitments concern mainly commitments from orders.

(29) DERIVATIVE FINANCING INSTRUMENTS

In its ordinary course of business, the Fresenius Group is exposed to market risks from changes in foreign currency exchange rates and changes in interest rates. In order to reduce or eliminate those risks, we enter into various types of derivative instruments including foreign exchange forward contracts, interest rate swaps, cross-currency swaps and common option contracts. All of these derivatives are otc-traded instruments backed by sufficiently liquid market conditions. We do not contract for financial instruments for trading or other speculative purposes but in order to hedge commercial exposures derived from existing assets and liabilities as well as from firm commitments on future sales and purchases of goods and services and financing activities.

Combining commercial exposures with derivative instruments is the basis for efficient risk management, because changes in the fair value of the derivatives are balanced by opposite changes in the fair value of the hedged items. In case this high correlation does not exist, negative fair values of derivative contracts are recognized as expenses even if the loss will occur in a future period, whereas positive fair values are not recognized unless they are realized.

The table below presents the nominal amounts, the fair values, and the credit risk of derivative instruments contracted as of the balance sheet date.

in million €	Nominal amounts		Fair values		Credit risk	
	31.12.1998	31.12.1999	31.12.1998	31.12.1999	31.12.1998	31.12.1999
Foreign exchange forward contracts	248	555	4	-17	5	1
Foreign exchange option contracts	21	10	-	-	-	-
Interest rate swaps	1,240	1,444	-41	6	0	6
Cross-currency swaps	0	183	0	-10	-	0
Interest rate option contracts	129	149	-3	3	2	5
	1,638	2,341	-40	-18	7	12

The nominal amounts represent the unbalanced total of all contracted amounts.

The fair value of derivatives reflects the estimated amounts that the Fresenius Group would receive or pay to terminate the contracts on the reporting date, thereby taking into account the current unrealized gains or losses of open contracts. Offsetting changes in the fair value of the underlying assets and liabilities are not considered. The valuation is performed on the basis of dealer quotes. A negative fair value means that we would have to pay an amount equal to the fair value in order to terminate the respective contract on the reporting date.

The credit risk represents the cost to the Fresenius Group that would arise from replacing an existing contract because of non-performance by the counterparty. Only those contracts with a positive fair value involve a credit risk. When determining the credit risk, we do not consider any potential for offsetting contracts with a positive fair value against others with a negative fair value, which are concluded with the same counterparty.

Irrespective of the credit risk calculated as described above, management does not expect any material losses as a result of default by counterparties in derivative contracts, because we enter into those hedging transactions with investment-grade financial institutions only, based on specific counterparty limits as authorized by the Managing Board.

All foreign exchange forward contracts expire within 17 months after the reporting date. The increase in the nominal amount compared to the previous year is caused by the international expansion of the Group and the growing importance of international inter-company loan financings. Exchanges of US dollar against the euro or DM make up 67 % (31.12.1998: 59 %) of the total nominal amount of foreign exchange contracts.

The main purpose of the derivative interest rate hedging contracts is to protect the variable-rate bank loans of National Medical Care, Inc., Delaware (USA). US\$850 million of interest rate swaps mature in 2000, US\$500 million in 2003, and US\$100 million in 2004. The interest rate option contracts mature in 2005. The purpose of the cross-currency swaps is to hedge international inter-company loan financings. These contracts mature at various dates up to 2002.

As in 1998, negative fair values of the derivative contracts are offset by positive changes in the value of the underlying hedged items.

NOTES ON THE STATEMENT OF INCOME**(30) SALES**

in million €	1998	1999
	4,317	4,952

Please see “Segment reporting” in note (47) for the breakdown of sales by division and by region.

**(31) CHANGES IN FINISHED GOODS INVENTORIES AND WORK IN PROCESS,
OWN WORK CAPITALIZED**

in million €	1998	1999
Change in finished goods inventories and work in process	33	22
Other own work capitalized	4	6
	37	28

(32) OTHER OPERATING INCOME

Other operating income derives mainly from the release of provisions, from exchange rate profits, income from the sale of items of fixed assets, income from the release of individual and global value adjustments, and income from the release of special accounts for investment grants and investment allowances on fixed assets amounting to € 1 million (previous year: € 2 million).

(33) COST OF MATERIALS

in million €	1998	1999
Cost of raw materials and supplies, and purchased goods	1,244	1,419
Cost of purchased services	238	281
	1,482	1,700

(34) PERSONNEL EXPENSES

in million €	1998	1999
Wages and salaries	1,051	1,194
Social security and costs of retirement pensions and social assistance	219	251
(amount for retirement pensions)	(15)	(13)
	1,270	1,445

Average number of employees (average full-time equivalent)

	1998	1999
by group		
Wage earners	23,224	23,890
Salaried employees	14,833	17,831
Apprentices	85	117
	38,142	41,838

(35) DEPRECIATION AND AMORTIZATION OF INTANGIBLE AND TANGIBLE FIXED ASSETS

in million €	1998	1999
Scheduled depreciation	292	340
Extraordinary depreciation pursuant to § 253 Section 2 Phrase 3 HGB	4	1
	296	341

Please see “Segment reporting” in note (47) for the breakdown of depreciation and amortization by division and region.

(36) OTHER OPERATING EXPENSES

Other remaining operating expenses comprise other general and administrative expenses as well as other taxes amounting to €36 million (previous year: €24 million).

The breakdown of expenses for research and development is shown and explained in “Segment reporting” in note (47).

(37) INCOME FROM PARTICIPATIONS

in million €	1998	1999
Income from profit transfer agreements	-	-
Income from participations	2	1
(amount from affiliated companies)	(2)	(1)
Income from associated companies	1	1
Expenses from loss transfer agreements	-	0
	3	2

(38) OTHER FINANCIAL RESULTS

in million €	1998	1999
Income from other long-term investments and loans included in the financial assets	2	2
(amount derived from affiliated companies)	(-)	(-)
Depreciation of financial assets and of marketable securities	-1	-
	1	2

(39) EARNINGS BEFORE INTEREST, INTEREST FOR TRUST PREFERRED SECURITIES, AND TAXES ON INCOME AND PROFIT (EBIT)

in million €	1998	1999
	484	597

EBIT improved over the previous year by €113 million to €597 million, whereby the EBIT margin increased from 11 % to 12%.

Please see the “Segment reporting” in note (47) for the breakdown of EBIT by division and by region.

(40) NET INTEREST AND INTEREST FOR TRUST PREFERRED SECURITIES

in million €	1998	1999
Other interest and similar income	18	19
(amount derived from affiliated companies)	(1)	(1)
Interest and similar expenses	-144	-164
(amount paid to affiliated companies)	(-)	(-)
Interest for trust preferred securities	-71	-75
	-197	-220

(41) INCOME AND PROFIT TAXES ON PROFIT ON ORDINARY ACTIVITIES

Taxes on income and profit contain corporation and trade income tax for the domestic companies, comparable foreign taxes based on profit, and deferred taxes.

The effect from the capitalization of deferred taxes for the first time is shown separately in the extraordinary result.

The total amount of taxes on the profit on ordinary activities is divided up as follows:

in million €	1998	1999
Current taxes on income and profit	142	163
Deferred taxes	-1	11
	141	174

As explained in note (4) “Deferred tax assets”, effective 1.1.1999 deferred taxes in the Fresenius Group were capitalized for the first time. The deferred tax amount of € 11 million therefore represents the change in deferred taxes in the year under report from 1.1.1999 to 31.12.1999.

Current taxes on profit and income show the tax expenses amounting to € 163 million without the results of the “org agreement” with the Office of the Inspector General explained in note (3). This amount includes tax expenses of € 54 million which would have occurred if the org agreement had not taken place.

Tax income in the same amount is shown in note (43) “Extraordinary expenses (after taxes)”, which results from the fact that tax deductions could be made in the 1999 financial year on one portion of the expenses resulting from the org agreement.

Therefore, the balance of current taxes on income and profit amounts to € 109 million in the year under report.

(42) NET INCOME BEFORE EXTRAORDINARY RESULT

in million €	1998	1999
	146	203

Net income before extraordinary result improved by 39 % over the previous year to € 203 million.

(43) EXTRAORDINARY EXPENSES (AFTER TAXES)

In order to settle the investigations by various us federal authorities and offices (oig: Office of the Inspector General) against National Medical Care, which had been in progress since 1995 and which concerned the period before inclusion in the Fresenius Group, a definitive agreement was made on 18.1.2000 which resulted in extraordinary expenses.

These extraordinary expenses (after taxes) amounting to € 106 million are divided up as follows:

- an increased liability of € 193 million as a result of the amount determined in the agreement
- the write-off of the IDPN claims of € 94 million
- the tax deductions relating to the agreement amounting to € 181 million, which comprise € 54 million reduced current taxes on income and profit in the 1999 financial year and tax deductions expected in subsequent years amounting to € 127 million.

(44) EXTRAORDINARY INCOME

The extraordinary income is shown as the one-off impact from the capitalization of deferred taxes for the first time amounting to € 106 million.

(45) SHARE OF PROFITS ALLOCATED TO MINORITY INTEREST HOLDERS

The profits allocated to minority interest holders are as follows:

in million €	1998	1999
Share of profits allocated to minority interest holders	80	100
Share of losses allocated to minority interest holders	-37	-4
	43	96

The method of calculating the profits allocated to the minority interest holders was changed in the reporting year – as explained in note (5) “Principles of consolidation”. The comparative figure for the previous year is € 61 million.

(46) REMUNERATION OF THE MANAGING BOARD AND SUPERVISORY BOARD AS WELL AS ADVANCES AND LOANS GRANTED TO THE MANAGING BOARD

The total remuneration of the Managing Board for carrying out their duties in Fresenius AG and in the affiliates amounts to € 3,270,000. In 1999, 25,800 stock options were granted to the members of the Managing Board, as was the case in 1998. € 174,000 was paid to former members of the Managing Board. The pension provision for former members of the Managing Board amounts to € 1,044,000.

The total remuneration of the Supervisory Board of Fresenius AG amounts to € 527,000. One subsidiary has paid € 21,000 to the surviving dependants of a former Supervisory Board member. The pension provision of the subsidiary for this purpose amounts to € 73,000.

(47) SEGMENT REPORTING

The segmentation in the Fresenius Group with the divisions Fresenius Medical Care, Fresenius Kabi, Fresenius HemoCare and Fresenius ProServe corresponds to the internal organisation and reporting structures (“Management Approach”).

The key data which are presented in the segment reporting correspond to the key data of the internal reporting in the Fresenius Group. Internal and external reporting and corporate accounting correspond to each other; the same key data and definitions are used.

In addition, the segmentation by region of important key data is shown.

Sales and proceeds between the segments are always transacted at prices which would be agreed with third parties. Administrative services are settled via service agreements.

Division into segments

The segmentation into divisions was determined in accordance with the legal structure and the company’s internal management:

Fresenius Medical Care is the world’s leading provider of dialysis products and dialysis care for the life-saving treatment of patients with chronic renal failure. In its own dialysis clinics, Fresenius Medical Care treats around 80,000 patients.

The product and service portfolio of Fresenius Kabi includes infusion solutions for fluid and blood volume substitution, and for parenteral nutrition, and products for enteral nutrition. The Ambulatory Care division is focused on medical services for nutrition and infusion therapy and offers service concepts for ambulatory health care.

The companies of the Fresenius ProServe division are mainly involved in the consulting, planning, construction and equipping of hospitals and production plants for the pharmaceutical and medical-technical industry. Furthermore, ProServe offers services related to maintenance, service and technical management, as well as hospital management.

Fresenius HemoCare is one of Europe’s leading providers in the field of blood treatment and infusion technology. The products are used in blood transfusion and cell separation, as well as for the infusion of solutions and pharmaceuticals. Further core competences are innovative processes of immune therapy and adsorber processes for extracorporeal blood treatment.

The segment Corporate/Other mainly comprises the holding functions of Fresenius AG and the consolidation measures to be carried out between the segments.

Information on products and services of the division is given in the Annual Report.

The regional segmentation takes into account not only the geographical partition, but also the homogeneity of the markets regarding opportunities and risks. The regional allocation to the individual segments depends on the domicile of the customers.

Report on the segments by division

in million €	Fresenius Medical Care			Fresenius Kabi (in 1998: Pharma Division)		
	1998	1999	Change	1998	1999	Change
Sales	3,264	3,609	11%	711	964	36%
of which contribution to consolidated sales	3,241	3,582	11%	690	942	37%
of which internal sales	23	27	17%	21	22	5%
contribution to consolidated sales	75%	72%	–	16%	19%	–
EBITDA	662	784	18%	109	139	28%
Depreciation and amortization	235	258	10%	36	60	67%
EBIT	427	526	23%	73	79	8%
Balance of interest	-195	-204	-5%	-3	-16	-433%
Operating cash flow	241	332	38%	65	44	-32%
Financial liabilities ¹⁾	1,064	1,215	14%	480	476	-1%
Balance sheet total	3,566	4,112	15%	960	1,230	28%
Capital expenditure	143	155	8%	30	80	167%
Acquisitions	226	107	-53%	348	61	-82%
Research and development expenses	28	30	7%	28	51	82%
Employees (per capita on balance sheet date)	28,739	31,086	8%	7,402	8,587	16%
Key figures						
– EBITDA margin	20%	22%	–	15%	14%	–
– EBIT margin	13%	15%	–	10%	8%	–
– ROOA ²⁾	10%	11%	–	8%	8%	–

¹⁾ Financial liabilities comprise bank loans, profit sharing rights, Eurobonds and commercial papers as well as inter-company liabilities

²⁾ Return on operating assets (ROOA) is defined as a quotient from EBIT and operating assets

In 1999, Fresenius Medical Care generated approx. 40% (previous year: 38%) of its sales within the scope of governmental health care programmes in the United States (“Medicare”), which corresponds to 29% of total sales of the Fresenius Group in the reporting year. In the other divisions, due to the large number of customers and the diverse business activities, there are no customers with such a large business volume.

	Fresenius ProServe			Fresenius HemoCare			Corporate/Other			Total		
	1998	1999	Change	1998	1999	Change	1998	1999	Change	1998	1999	Change
	237	268	13%	163	178	9%	-58	-67	-16%	4,317	4,952	15%
	234	267	14%	152	161	6%	-	-	-	4,317	4,952	15%
	3	1	-67%	11	17	55%	-58	-67	-16%	0	0	-
	5%	5%	-	4%	4%	-	0%	0%	-	100%	100%	-
	14	17	21%	6	15	150%	-11	-17	-55%	780	938	20%
	4	4	0%	11	13	18%	10	6	-40%	296	341	15%
	10	13	30%	-5	2	140%	-21	-23	-10%	484	597	23%
	0	0	-	-2	-2	0%	3	2	-33%	-197	-220	-12%
	12	30	150%	-4	-2	50%	-30	-7	77%	284	397	40%
	13	10	-23%	55	45	-18%	-79	-113	-43%	1,533	1,633	7%
	188	230	22%	132	165	25%	113	-23	-120%	4,959	5,714	15%
	7	10	43%	10	12	20%	25	7	-72%	215	264	23%
	5	4	-20%	23	8	-65%	0	0	-	602	180	-70%
	0	0	-	12	13	8%	10	12	20%	78	106	36%
	1,620	1,719	6%	1,759	2,033	16%	403	358	-11%	39,923	43,783	10%
	6%	6%	-	4%	8%	-	-	-	-	18%	19%	-
	4%	5%	-	-3%	1%	-	-	-	-	11%	12%	-
	10%	11%	-	-4%	1%	-	-	-	-	10%	11%	-

Report on the segments by region

in million €	Europe			North America		
	1998	1999	Change	1998	1999	Change
Sales	1,476	1,741	18%	2,463	2,731	11%
in % of total sales	34%	36%	–	57%	55%	–
EBIT	151	173	15%	296	377	27%
Depreciation and amortization	90	116	29%	195	210	8%
Balance sheet total	1,849	2,041	10%	2,886	3,280	14%
Capital expenditure	121	157	30%	74	89	20%
Acquisitions	406	32	-92%	172	72	-58%
Employees (per capita on balance sheet date)	14,465	15,507	7%	22,281	23,810	7%

(48) PROPOSAL FOR THE DISTRIBUTION OF RETAINED EARNINGS

The Managing Board of Fresenius AG proposes to the Annual General Meeting that the earnings for 1999 be distributed as follows:

Payment of a dividend of €1.54 per ordinary share on the ordinary nominal capital of €25,600,000 entitled to dividend	€ 15,400,000
Payment of a dividend of €1.60 per preference share on the preference nominal capital of €25,600,000 entitled to dividend	€ 16,000,000
Balance to be carried forward	€ 441,643
	€ 31,841,643

Bad Homburg v.d.H., March 3, 2000

Dr. G. Krick

R. Baule

R. Hohmann

Dr. M. Schmidt

U. Werlé

	South America			Asia/Pacific			Africa			Total		
	1998	1999	Change	1998	1999	Change	1998	1999	Change	1998	1999	Change
	144	170	18%	198	261	32%	36	49	36%	4,317	4,952	15%
	3%	3%	–	5%	5%	–	1%	1%	–	100%	100%	–
	13	14	8%	21	28	33%	3	5	67%	484	597	23%
	5	7	40%	6	8	33%	0	0	–	296	341	15%
	134	160	19%	84	215	156%	6	18	200%	4,959	5,714	15%
	15	9	–40%	5	9	80%	0	0	–	215	264	23%
	14	5	–64%	10	70	600%	0	1	–	602	180	–70%
	2,165	2,634	22%	1,007	1,803	79%	5	29	480%	39,923	43,783	10%

AUDIT OPINION

We have audited the consolidated financial statements and the management report of Fresenius AG for the financial year January 1 to December 31, 1999. The preparation of the consolidated financial statements and the management report in accordance with German commercial law are the responsibility of the company's Managing Board. Our responsibility is to express an opinion on the consolidated financial statements and the management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 Commercial Code (HGB) and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit such that material misstatements affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German accounting principles and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the consolidated financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes the assessment of the annual financial statements and sub-group financial statements of the companies included in the consolidated financial statements, the assessment of the determination of the entities to be consolidated, the assessment of the accounting and consolidation principles used and significant estimates made by the Managing Board, as well as the evaluation of the overall presentation of the consolidated financial statements and the management report. We believe that our audit provides a reasonably secure basis for our opinion.

Our audit did not result in the need for any qualification of our opinion.

In our opinion, the consolidated financial statements present a true and fair view of the assets and liabilities, financial position and results of operations of the Fresenius Group, prepared in accordance with accounting principles generally accepted in Germany. The management report gives a suitable description of the Group's position and states suitably the risks arising from future developments.

Frankfurt am Main, March 3, 2000

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Böttcher
Auditor

Meurer
Auditor



REPORT OF THE SUPERVISORY BOARD

The Managing Board informed the Supervisory Board regularly both in writing and orally about the progress and planning of business, the situation of the company and important business transactions. The Supervisory Board dealt in detail with the development of business and the business policy on the basis of reports from the Managing Board in six joint meetings with the Managing Board. The main subjects of the meetings were the development of the operating business, as well as the discussion of transactions requiring approval which were reviewed and discussed in detail with the Managing Board. The auditor attended all the Supervisory Board Meetings. In addition, in a whole-day meeting at the St. Wendel facility, Germany, the research and development activities as well as the future strategies of the four divisions of Fresenius AG were presented in detail to the Supervisory Board and discussed by it.

In 1999, the Supervisory Board dealt above all with the restructuring of Fresenius Aktiengesellschaft. In this connection, the activities of the Pharma Division were spun off and contributed to Fresenius Kabi AG together with the international infusion business acquired from Pharmacia & Upjohn (Kabi). The Intensive Care & Hemotechnology Division was also transferred to an independent company, under the canopy of Fresenius Hemo-Care GmbH. Finally, the companies of the Projects & Services Division were combined under the management of the company Fresenius ProServe GmbH.

The Supervisory Board was also given detailed information by the Managing Board in the year under report about the progress of the integration of the acquired Kabi infusion business, and about the restructuring. In addition, the Supervisory Board was regularly informed about the progress of preparations in connection with the transition to the year 2000.

Moreover, the Supervisory Board dealt intensively with the acquisition of various companies and shareholdings and approved these acquisitions. For instance, Fresenius acquired a minority shareholding in the United States company Cypress Bioscience, Inc., and bought the adsorber business of the Swedish company Excorim AB. The Supervisory

Board was also given regular information about the progress of the negotiations of Fresenius Medical Care AG with the Office of the Inspector General of the US Department of Health and Human Services (OIG) and discussed the consequences in detail. Also, it approved the medium-term planning of the Fresenius Group after detailed discussions.

The committee stipulated by § 27 Section 3 of the Co-determination Law did not meet in the year under report. The decision-making personnel committee held three meetings in 1999.

The audit carried out by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, has confirmed that the accounting records, the financial statements and the consolidated financial statements as well as the management reports for the Fresenius Group and Fresenius AG for the 1999 financial year comply with German law and the company's statutes. The financial statements, consolidated financial statements and the management reports as well as the auditor's reports were submitted to the Supervisory Board. The Supervisory Board noted the auditor's findings with approval. The Supervisory Board's own examination also confirmed that there were no objections to the financial statements of Fresenius AG and the Fresenius Group. In its meeting of April 17, 2000 the Supervisory Board approved the financial statements of Fresenius AG for 1999, as submitted by the Managing Board, which thereby became final. The auditor reported during the meeting on the main results of the audit. The Supervisory Board concurs with the proposal of the Managing Board for the appropriation of the retained earnings for the 1999 financial year.

Effective December 31, 1999, the long-serving Deputy Chairman of the Supervisory Board, Mr. Ulrich Mattik, resigned from the Supervisory Board of Fresenius AG for professional and personal reasons. We thank Mr. Mattik for his valuable work and his special commitment for the benefit of the company.

The Supervisory Board expresses its thanks to the Managing Board and all employees for their achievements and commitment in the 1999 financial year.

Bad Homburg v.d.H., April 17, 2000

The Supervisory Board

Dr. Karl Schneider

Chairman

SUPERVISORY BOARD

HANS KRÖNER

Honorary Chairman
of the Supervisory Board
Bad Homburg v.d.H.

DR. KARL SCHNEIDER

Former Spokesman
of the Managing Board of
Südzucker AG
Chairman
Mannheim

GERD HOLTGREFE

Secretary of the trade union
IG Bergbau, Chemie, Energie
Deputy Chairman
Hanover
(since 1.1.2000)

OFFICES

Supervisory Board
Enka GmbH

ULRICH MATTIK

Full-time secretary
of the trade union
IG Bergbau, Chemie, Energie
Deputy Chairman
Hanover
(until 31.12.1999)

OFFICES

Supervisory Board
Wacker Siltronic AG (Deputy Chairman)

ARNOLD DANNECK

Chairman of the
General Works Council
Chairman of the
Works Council St. Wendel plant
Tholey

DR. GABRIELE KRÖNER

Doctor
Munich

FRIEDRICH MEYER

Executive Vice President
Parenteral Nutrition Central Europe
Wehrheim

CHRISTEL NEUMANN

Member of the Works Council
Schweinfurt plant
and of the General Works Council
Schweinfurt

ILONA OESTERLE

Deputy Chairlady
of the Works Council
Bad Homburg v.d.H.
Waldsolms

GERHARD ROGGMANN

Member of the Managing Board
Westdeutsche Landesbank
Girozentrale
Hanover

OFFICES

Supervisory Board
AXA Colonia Lebensversicherung AG
AXA Colonia Kapitalanlagegesellschaft mbH
Deutsche Börse AG
Hapag Lloyd AG
Solvay Deutschland GmbH
Veba Oel AG
WestLB Research GmbH (Chairman)
WestKA Westdeutsche Kapitalanlages. mbH
(Deputy Chairman)
WPS WertpapierService Bank AG
Board of Directors
West Merchant Bank Holdings Ltd., London, Great Britain
(Chairman)
Administrative Board
WestLB International S.A., Luxembourg (Chairman)
WestLB (Schweiz) AG, Zurich, Switzerland (Chairman)

DR. MANFRED SCHAUDWET

Executive Manager
Dresdner Bank AG
Frankfurt am Main

OFFICES

Supervisory Board
Aachener und Münchener Lebensversicherung AG
Deutscher Investment-Trust Gesellschaft
für Wertpapiieranlagen mbH
Deutsche Vermögensberatung AG
Hestia Insurance S.A., Zopot, Poland

DR. DIETER SCHENK

Lawyer and tax consultant
Munich

OFFICES

Supervisory Board
Fresenius Medical Care AG (Deputy Chairman)
Greiffenberger AG (Deputy Chairman)
SchmidtBank KGaA

VOLKER WEBER

Full-time secretary of the trade union
IG Bergbau, Chemie, Energie
Leun

DR. BERNHARD WUNDERLIN

Managing Director
Harald Quandt Holding GmbH
Bad Homburg v.d.H.

OFFICES

Supervisory Board
Carl Schenck AG
Equita Beteiligungen KGaA (Chairman)
Advisory Board
FERI Financial and Economic Research Intl.
Visolux Elektronik GmbH (Chairman)
Board of Directors
AUDA Management Inc., New York, USA
Managing Board
Hertie-Stiftung

MANAGING BOARD

DR. GERD KRICK

Königstein

Chairman

EXTERNAL OFFICES

Supervisory Board

Vereinigte Krankenversicherung AG

Advisory Board

HDI Haftpflichtverband der deutschen Industrie V.a.G.

Board of Directors

Adelphi Capital Europe Fund, Grand Cayman, Cayman Islands

Board of Trustees

Donau Universität Krems, Austria

Administrative Board

Dresdner Bank Luxembourg S.A., Luxembourg

CORPORATE OFFICES

Supervisory Board

Fresenius Kabi AG (Chairman)

Fresenius Kabi Austria GmbH, Graz, Austria

Fresenius Medical Care AG (Chairman)

VAMED AG, Vienna, Austria (Chairman)

RAINER BAULE

Ettlingen

Fresenius HemoCare Division

CORPORATE OFFICES

Supervisory Board

Fresenius Vial S.A., Brézins, France (Chairman)

NPBI International B.V., Emmen, Netherlands (Chairman)

Board of Directors

Fresenius Hemotechnology, Inc., Wilmington, Delaware, USA
(Chairman)

RAINER HOHMANN

Bochum

Fresenius ProServe Division

CORPORATE OFFICES

Supervisory Board

VAMED AG, Vienna, Austria

DR. MATTHIAS SCHMIDT

Königstein

Fresenius Kabi Division

CORPORATE OFFICES

Supervisory Board

Fresenius Kabi Austria GmbH, Graz, Austria

Fresenius Kabi France S.A., Sèvres, France (Chairman)

UDO WERLÉ

Lampertheim

Chief Financial Officer and

Labour Relations Director

until 30.4.1999:

Chairman of the Managing Board of

Fresenius Medical Care AG

CORPORATE OFFICES

Supervisory Board

Fresenius Kabi AG

Fresenius Vial S.A., Brézins, France

(Deputy Chairman)

GLOSSARY

HEALTH CARE TERMS

Allogeneic stem cell transplantation

Transplantation of donor stem cells

APD (Automated Peritoneal Dialysis)

Machine-supported version of peritoneal dialysis treatment, usually performed during the night.

Aterio-venous fistula

A direct, surgically-created communication between a dialysis patient's artery and a vein. This forms a large blood vessel to continuously supply an increased blood flow for performing haemodialysis.

Cell separator

A device to obtain blood components. Blood is donated by means of tube pumps and transported to a centrifuge. In the centrifuge, the desired components (e.g. red blood cells, plasma, thrombocytes) are enriched and collected. The components which are not required are returned to the donor.

Cytotoxic T-cells

Cells of the immune system which recognise diseased (e.g. due to viruses) cells and destroy them.

Dialyser

Special filter which is used in haemodialysis for removing toxic substances and excess water from the blood.

Dialysis

A type of renal replacement therapy where a semi-permeable membrane – in peritoneal dialysis the peritoneum of the patient, and in haemodialysis the membrane of the dialyser – is used for solute transport.

Dialysis machine

The haemodialysis process is controlled by a dialysis machine which pumps blood, adds anti-coagulants, regulates the cleansing process, and controls the mixture of dialysate and its flow rate through the system.

Endotoxin adsorber

Adsorber to treat sepsis

Enteral nutrition

Application of liquid nutrition as tube or sip feed via the gastro-intestinal tract

Epithelial tumours

Tumours which arise due to a malformation of surface cells.

Haemodialysis

Treatment mode for dialysis patients where the blood of the patient is purified using a dialyser. The solute exchange between blood and dialysate is dominated by diffusive processes.

Haemoglobin solution

Oxygen-carrying blood substitute on the basis of haemoglobin

Health Maintenance Organizations

A special form of private health insurance where the insured persons are members, and the treatments are provided by contracted physicians (or member physicians) of the organization.

Human albumin

Protein which occurs in the blood of humans

Hydroxyethyl starch

Infusion solution with the active ingredient hydroxyethyl starch. Fields of application: Treatment and prevention of blood volume deficiency and shock in connection with operations, injuries, infections, burns; therapeutic blood dilution; reducing the use of donor blood in surgery

Intact bispecific antibodies

Whole, non-fragmented antibodies which bind a variety of cells.

Leukocyte depletion

Removal (complete or partial) of leukocytes (white blood cells) from blood or blood components

Leukocyte filtration

Removal of white blood cells by means of filtration

Parenteral nutrition

Application of nutrients directly into the bloodstream of the patient (intravenously)

Peripheral blood

Blood from the peripheral systemic circulation

Peritoneal dialysis

Dialysis treatment method using the patient's peritoneum as a “filter” to cleanse his blood

Peritoneal dialysis solution

Solution introduced into the abdominal cavity of the patient to adsorb toxins and excess water

Polyolefines

Polymer materials, containing only carbon and hydrogen

Sepsis

Blood poisoning through bacteria, fungi or viruses

Stem cells of the bone marrow

Blood stem cells from which all blood particles develop

Thrombocytes

Blood platelets

Transgenic organisms

Organisms which carry artificially-introduced genes in their genotype

Validation

Validation proves that the production plants and processes used to manufacture medications ensure safe drugs of constant high quality.

Volume substitute

Infusion solution to compensate blood loss

FINANCIAL TERMS

CAGR

Compounded Annual Growth Rate

EBIT

Earnings before interest, interest for trust preferred securities, and taxes on income and profit

I/B/E/S

Institutional Broker Estimate Systems

ROOA (Return On Operating Assets)

Calculated by: $\text{EBIT} \times 100 : \text{operating assets (average)}$
 Operating assets = balance sheet total + goodwill set off against equity – deferred tax assets – trade accounts payable – payments received on account

ROIC (Return On Invested Capital)

Calculated by: $(\text{EBIT} - \text{taxes} + \text{depreciation and amortization of goodwill}) : \text{invested capital}$
 Invested capital = balance sheet total + goodwill set off against equity + depreciation and amortization of goodwill (accumulated) – liquid assets – trade accounts payable – provisions (without pension provisions) – other liabilities not bearing interest

US GAAP

United States Generally Accepted Accounting Principles

PRODUCTS AND SERVICES

ATG-Fresenius (anti T-lymphocyte globulin)

Protein which suppresses T-lymphocytes

AutoPRIME™

Optional feature for the 4008 haemodialysis machine enabling on-line filling and rinsing, and on-line bolus, i.e. the infusion of a defined volume, with sterile solution obtained by filtration of the dialysate.

Biofine®

Foil made of polyolefines developed by Fresenius. We manufacture bags, tubes and other product components from Biofine®.

Blood Volume Monitor

Module for the haemodialysis machine to measure the relative blood volume and to actively control fluid removal from the patient in order to reduce the occurrence of complications during dialysis.

cosy rooming

With cosy rooming, hospitalia international offers a high-quality product for the turn-key modernisation and equipping of hospital wards. cosy rooming offers patients all the comforts of a hotel. As discerning guests and clients, they can expect outstanding care and attention in a welcoming atmosphere.

DALI®

LDL apheresis system for the treatment of patients with familial hypercholesterolaemia.

DIASAFE®plus

Optimised fluid filter to obtain ultrapure dialysis fluid during dialysis

Dipeptamin®

Glutamine dipeptide concentrate to substitute glutamine as part of a parenteral nutrition regimen.

Fresenius Polysulfone® dialyser

Dialyser containing the unique Fresenius Polysulfone® membrane

Haemoconcentrator

Haemoconcentration is a technique which is used to separate plasma fluid from cellular blood components and plasma proteins. Fresenius haemoconcentrators are ultrafiltration devices. They are indicated to relieve or mitigate overhydration in patients undergoing cardiopulmonary procedures.

Immunosorba®

Adsorber system to treat various immunological diseases.

In-line filter blood bag systems

Blood bag systems with integrated filter for leukocyte filtration.

MATISSE

Adsorber system to treat patients with sepsis.

MIRO®

Apheresis system for the treatment of immunological diseases.

Omegaven®

Fat emulsion additive made from fish oil with a high percentage of omega-3 fatty acids to optimise parenteral nutrition.

Online Clearance Monitor

Optional component of a haemodialysis machines to measure on-line the effective in-vivo dialyser clearance for quality assurance purposes.

Onlineplus™ System

A system for Fresenius Medical Care's 4008 range of haemodialysis machines to perform on-line haemodiafiltration and on-line haemofiltration. Infusion fluid is prepared from dialysate by filtration in a convenient and cost-effective way.

PatientOnLine

An information management system for peritoneal dialysis to evaluate and define prescriptions as well as to organise, store and access patient information and images.

Prosorba®

Adsorber system to treat patients with rheumatoid arthritis.

Premier™ Plus

System of continuous ambulatory peritoneal dialysis in which the solution bag and the tubing are pre-attached, resulting in a simpler user interface for the patient.

sleep-safe®

Automated peritoneal dialysis (APD) system offering the full range of peritoneal dialysis options and a maximum of safety and comfort for the patient, physician and nurse.

stay-safe® balance

Lactate-buffered peritoneal dialysis solution in a two-compartment bag offered in the *stay-safe®* system. By mixing the two solutions, the patient obtains a neutral fluid with a lower proportion of glucose degradation products.

FINANCIAL CALENDAR

Press release 1 st quarter 2000	May 3, 2000
Annual General Meeting	June 8, 2000
Payment of dividend	June 9, 2000
Interim report on the first six months 2000	August 1, 2000
Press release 1 st – 3 rd quarters 2000	October 31, 2000

The German version of this annual report is legally binding.

On request, we shall be delighted to send to you the financial statements of Fresenius AG.

You will find further information and current news about our company on our Internet homepage at: <http://www.fresenius-ag.com>

Forward-looking statements:

This Annual Report contains forward-looking statements. These statements represent assessments which we have made on the basis of the information available to us at the time. Should the assumptions on which the statements are based not occur, or if risks should arise – as mentioned in the risk management report – the actual results could differ materially from the results currently expected.



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PRODUCTS AND SERVICES OF OUR DIVISIONS

FRESENIUS MEDICAL CARE

Haemodialysis

Machines for

- Haemodialysis
- Haemodiafiltration
- Haemofiltration
- Acute dialysis
- Plasmafiltration

Low-Flux dialysers

(Cuprophane®, Fresenius Polysulfone®, Hemophane®)

High-Flux dialysers (Fresenius Polysulfone®)

Haemofilters

Plasmafilters

Dialysis fluid filters

Blood lines

Dialysis fluids

Dialysis concentrates (liquid, dry)

Substitution solutions

Irrigation solutions

Analysis devices

Fistula needles

Coagulometers

Data management systems

Water treatment systems

Peritoneal dialysis

Peritoneal dialysis solutions

CAPD systems

CAPD double bag systems

Machines and tubing systems for Automated

Peritoneal Dialysis (APD)

Peritoneal dialysis catheters

Accessories

Dialysis care

Dialysis clinics for chronic haemodialysis treatment

Acute in-patient dialysis treatment

Training (haemodialysis and peritoneal dialysis)

Spectra Renal Management

Laboratory and diagnostic dialysis-related services

Data management

Managed care services for dialysis patients

FRESENIUS KABI

Infusion therapy

Infusion solutions for volume replacement and haemodilution therapy

- Osmotherapy
- Therapy with antibiotics and virustatic agents
- Catecholamine therapy
- Liver therapy
- Anaesthetics
- Electrolyte and standard solutions
- Carbohydrate solutions

Clinical medical products

- Irrigation solutions and application systems
- Technical equipment for irrigation systems
- Suprapubic drainage systems
- Infusion devices and accessories
- In-dwelling venous cannulae
- Central venous catheters
- Wound drainage systems
- Implantable port systems
- Portable drug pumps
- Disinfectants

Parenteral nutrition

Industrial All-In-One mixtures

(3 and 2 chamber bags, All-In-One bags)

Standard and special amino acid solutions

Lipid emulsions

Products for immunonutrition

Additives

Devices and support tools for mixing parenteral nutrition

Training and education

Enteral nutrition

Complete balanced diets

- Standard diets
- Disease-specific diets
- Nutritional supplements

Application systems

- Transnasal tubes
- Percutaneous tubes
- Transfer systems
- Feeding pumps

Accessories

Home enteral nutrition therapy

Ambulatory care

Management and provision of ambulatory therapies:

- Infusion therapies such as antiviral, antifungal, antibiotic and cytostatic drug therapies
- Enteral and parenteral nutrition therapies
- Respiratory therapies
- Ostomy care
- Wound care

FRESENIUS PROSERVE

VAMED

Worldwide services for health facilities

- Feasibility studies
- Project development
- Consulting
- Engineering
- Contracting
- Turn-key projects
- Project management
- Facility management and maintenance of medical-technical equipment and machines
- Management of health facilities such as hospitals, spa centres, thermal centres, senior citizens' and nursing homes

hospitalia international

Worldwide services and consulting on all aspects of the hospital, turn-key realisation and modernisation of hospitals

- Feasibility studies
- Consulting
- Project development
- Planning
- Turn-key projects
- Medical-technical equipment and machines
- Installation
- Staff training
- Maintenance services
- Management of health facilities
- Staff recruitment

Pharmaplan

Consulting, planning and realisation of production plants for pharmaceuticals and medical disposables

- Feasibility studies and personnel consulting
- Consulting and planning
- Turn-key plant engineering
- Validation and quality management
- Logistics and warehousing
- Services for pharmaceutical production
- Training
- Facility management for pharmaceutical companies

Pharmatec

Delivery, installation and maintenance of water systems/preparation systems for the pharmaceutical industry

FRESENIUS HEMOCARE

Infusion technology

Infusion and clinical fluid data management systems
Syringe pumps
I.V. anaesthesia and analgesia systems
Volumetric infusion pumps
Enteral feeding systems
Dedicated disposables and accessories

Transfusion technology

Blood cell separators
Autotransfusion - C.A.T.S®
Automatic blood component processing systems
Leukocyte filters
Blood bag systems with integrated leukocyte filters
Blood bags
Transfer bags
Stem cell bags
Mixing devices
Sterile docking devices
Sealing devices
Donor couches
Cryopreservation bags
Cooling and transport systems
Processing solutions
Thrombocyte storage bags

Immune therapy

Immunosuppressive agent ATG-Fresenius S
Solutions and disposables for organ perfusion and preservation

Adsober technology

LDL apheresis
■ DALI® system

Immunoabsorption

- MIRO® system
- Prosorba® system
- Immunosorba® system

