FRESENIUS MEDICAL CARE CORP
Form 6-K
August 05, 2005

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 6-K
REPORT OF FOREIGN PRIVATE ISSUER
Pursuant to Rule 13a-16 or 15d-16 of the
Securities Exchange Act of 1934
For the month of August 2005
FRESENIUS MEDICAL CARE CORPORATION
(Translation of registrant s name into English)
Else-Kröner Strasse 1
61346 Bad Homburg
Germany
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ________________

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ________________

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82

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For the three months ended June 30, 2005 and 2004
(unaudited)
(in thousands, except per share data)

	2005	2004
Net revenue:		
Dialysis Care	1,200,647	1,127,398
Dialysis Products	473,040	424,904
	1,673,687	1,552,302
Costs of revenue:		
Dialysis Care	852,761	807,291
Dialysis Products	233,903	219,869
	1,086,664	1,027,160
Gross profit	587,023	525,142
Operating expenses:		
Selling, general and administrative	335,775	298,363
Research and development	13,143	14,101
Operating income	238,105	212,678
Other (income) expense:		
Interest income	(3,709)	(2,846)
Interest expense	46,349	48,165
Income before income taxes and minority interest	195,465	167,359
Income tax expense	78,874	66,565
Minority interest	587	227
Net income	116,004	100,567
Basic income per Ordinary share	1.20	1.04
Fully diluted income per Ordinary share	1.19	1.03
Basic income per Preference share	1.22	1.06
Fully diluted income per Preference share	1.21	1.05

See accompanying notes to unaudited consolidated financial statements

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FRESENIUS MEDICAL CARE AG
PART I
FINANCIAL INFORMATION
ITEM 1
Financial Statements
Consolidated Statements of Income
For the six months ended June 30, 2005 and 2004
(unaudited)
(in thousands, except per share data)

	2005	2004
Net revenue:		
Dialysis Care	2,363,108	2,185,148
Dialysis Products	919,582	826,210
	3,282,690	3,011,358
Costs of revenue:		
Dialysis Care	1,691,107	1,573,974
Dialysis Products	465,591	430,284
	2,156,698	2,004,258
Gross profit	1,125,992	1,007,100
Operating expenses:		
Selling, general and administrative	641,513	569,832
Research and development	26,391	26,402
Operating income	458,088	410,866
Other (income) expense:		
Interest income	(5,954)	(5,720)
Interest expense	90,881	97,742
Income before income taxes and minority interest	373,161	318,844
Income tax expense	148,517	126,262
Minority interest	1,169	906
Net income	223,475	191,676
Basic income per Ordinary share	2.31	1.98
Fully diluted income per Ordinary share	2.29	1.97
Basic income per Preference share	2.35	2.02
Fully diluted income per Preference share	2.33	2.01

See accompanying notes to unaudited consolidated financial statements

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FRESENIUS MEDICAL CARE AG
Consolidated Balance Sheets
At June 30, 2005 (unaudited) and December 31, 2004
(in thousands, except share and per share data)

	2005 (Unaudited)	2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 57,369	$ 58,966
Trade accounts receivable, less allowance for doubtful accounts of $182,140 in 2005 and $179,917 in 2004	1,452,808	1,462,847
Accounts receivable from related parties	53,158	51,760
Inventories	454,612	442,919
Prepaid expenses and other current assets	237,840	244,093
Deferred taxes	186,453	185,385
Total current assets	2,442,240	2,445,970
Property, plant and equipment, net	1,133,455	1,181,927
Intangible assets	594,588	602,048
Goodwill	3,437,251	3,445,152
Deferred taxes	26,654	58,123
Other assets	173,071	228,321
Total assets	$ 7,807,259	$ 7,961,541
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 170,035	$ 192,552
Accounts payable to related parties	119,504	113,444
Accrued expenses and other current liabilities	773,197	741,075
Short-term borrowings	417,126	419,148
Short-term borrowings from related parties	42,684	5,766
Current portion of long-term debt and capital lease obligations	255,529	230,179
Income tax payable	174,014	230,530
Deferred taxes	14,728	5,159
Total current liabilities	1,966,817	1,937,853
Long-term debt and capital lease obligations, less current portion	464,948	545,570
Other liabilities	101,089	156,122
Pension liabilities	99,109	108,125
Deferred taxes	300,401	282,261
Company-obligated mandatorily redeemable preferred securities of subsidiary Fresenius Medical Care Capital Trusts holding solely Company-guaranteed debentures of subsidiaries	1,208,004	1,278,760
Minority interest	18,306	18,034

Total liabilities	4,158,674	4,326,725
Shareholders equity:		
Preference shares, no par, 2.56 nominal value, 53,597,700 shares authorized, 26,454,805 issued and outstanding	70,400	69,878
Ordinary shares, no par, 2.56 nominal value, 70,000,000 shares authorized, issued and outstanding	229,494	229,494
Additional paid-in capital	2,754,825	2,746,473
Retained earnings	743,894	657,906
Accumulated other comprehensive loss	(150,028)	(68,935)
Total shareholders equity	3,648,585	3,634,816
Total liabilities and shareholders equity	$ 7,807,259	$ 7,961,541

See accompanying notes to unaudited consolidated financial statements

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FRESENIUS MEDICAL CARE AG
Consolidated Statements of Cash Flows
For the six months ended June 30, 2005 and 2004
(unaudited)
(in thousands)

	2005	2004
Operating Activities:		
Net income	$ 223,475	$ 191,676
Adjustments to reconcile net income to cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	121,328	113,827
Change in deferred taxes, net	20,546	16,029
Loss on sale of fixed assets	592	189
Compensation expense related to stock options	832	802
Cash inflow from Hedging		4,422
Changes in assets and liabilities, net of amounts from businesses acquired:		
Trade accounts receivable, net	(41,561)	(1,244)
Inventories	(29,743)	(6,428)
Prepaid expenses, other current and non-current assets	(26,504)	37,559
Accounts receivable from/ payable to related parties	2,339	(17,993)
Accounts payable, accrued expenses and other current and non-current liabilities	36,659	9,047
Income tax payable	(39,843)	2,986
Net cash provided by operating activities	268,120	350,872
Investing Activities:		
Purchases of property, plant and equipment	(104,577)	(100,759)
Proceeds from sale of property, plant and equipment	7,127	5,980
Acquisitions and investments, net of cash acquired	(51,714)	(51,946)
Net cash used in investing activities	(149,164)	(146,725)
Financing Activities:		
Proceeds from short-term borrowings	19,517	23,543
Repayments of short-term borrowings	(46,474)	(26,987)
Proceeds from short-term borrowings from related parties	39,572	50,000
Repayments of short-term borrowings from related parties		(80,000)
Proceeds from long-term debt	50,475	111,783
Principal payments of long-term debt and capital lease obligations	(78,267)	(205,969)
Increase of accounts receivable securitization program	27,235	68,002
Proceeds from exercise of stock options	8,042	1,067
Dividends paid	(137,487)	(122,106)
Change in minority interest	909	(113)
Net cash used in financing activities	(116,478)	(180,780)

Effect of exchange rate changes on cash and cash equivalents		(4,075)		(7,270)
Cash and Cash Equivalents:				
Net (decrease) increase in cash and cash equivalents		(1,597)		16,097
Cash and cash equivalents at beginning of period		58,966		48,427
Cash and cash equivalents at end of period	$	57,369	$	64,524

See accompanying notes to unaudited consolidated financial statements

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FRESENIUS MEDICAL CARE AG
Consolidated Statement of Shareholders Equity
For the six months ended June 30, 2005 (unaudited) and year ended December 31, 2004
(in thousands, except share data)

	Preference Shares		Ordinary Shares				Accumulated Other Comprehensive Income (Loss)			
	Number of Shares	No Par Value	Number of Shares	No Par Value	Additional Paid in Capital	Retained Earnings	Foreign Currency Translation	Cash Flow Hedges	Minimum Pension Liability	Total
lance at ecember 31, 03	26,213,979	$ 69,616	70,000,000	$ 229,494	$ 2,741,362	$ 378,014	$ (146,246)	$ 4,847	$ (33,407)	$ 3,243,68
oceeds om ercise of tions	82,107	262			3,360					3,62
mpensation pense ated to ock options					1,751					1,75
vidends id						(122,106)				(122,10
mprehensive come ss)										
et income						401,998				401,99
ther mprehensive come oss) lated to:										
Cash flow hedges								(29,011)		(29,01
Foreign urrency ranslation djustment							144,784			144,78
Minimum ension iability									(9,902)	(9,90
mprehensive come										507,86

lance at ecember 31, 04	26,296,086	$ 69,878	70,000,000	$ 229,494	$ 2,746,473	$ 657,906	$ (1,462)	$ (24,164)	$ (43,309)	$ 3,634,81
oceeds om ercise of tions	158,719	522			7,520					8,04
ompensation pense ated to ock options					832					83
vidends id						(137,487)				(137,48
omprehensive come ss)										
et income						223,475				223,47
ther omprehensive come oss) lated to:										
Cash flow hedges								4,568		4,56
Foreign urrency ranslation djustment							(85,661)			(85,66
omprehensive come										142,38
lance at ne 30, 05	26,454,805	$ 70,400	70,000,000	$ 229,494	$ 2,754,825	$ 743,894	$ (87,123)	$ (19,596)	$ (43,309)	$ 3,648,58

See accompanying notes to unaudited consolidated financial statements

FRESENIUS MEDICAL CARE AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except share and per share data)

1. The Company and Basis of Presentation

The Company

Fresenius Medical Care AG (FMC-AG or the Company), a German stock corporation *(Aktiengesellschaft)*, is the world s largest integrated provider of kidney dialysis services and manufacturer and distributor of products and equipment for the treatment of end-stage renal disease. In the United States, the Company also performs clinical laboratory testing and provides perfusion, therapeutic apheresis and autotransfusion services.

The Company announced that it intends to change the Company s current legal form as an Aktiengesellschaft (AG) to a KGaA, which is a German partnership limited by shares (the Transformation of Legal Form). The Company as a KGaA will be the same legal entity under German law, rather than a successor to the AG. Fresenius Medical Care Management AG, a subsidiary of Fresenius AG, the ultimate parent of FMC-AG, will be the general partner of the Company. The Transformation of Legal Form is subject to approval by the Company s ordinary shareholders which will be voted upon by the ordinary shareholders at the Extraordinary General Meeting (EGM) to be held on August 30, 2005.

The Company also announced that it intends to offer its preference shareholders the opportunity to convert their preference shares into ordinary shares on a one-to-one basis pursuant to a conversion offer to be conducted after the EGM. Preference shareholders who decide to convert their shares will be required to pay a premium and will lose their preferential dividend rights. The conversion is subject to approval of the ordinary shareholders at the EGM and also subject to approval by a separate vote of the Company s preference shareholders which will be voted upon at a separate meeting of the preference shareholders immediately following the EGM on August 30, 2005 or, if necessary, on August 31, 2005.

Basis of Presentation

a) Basis of Consolidation

The consolidated financial statements at June 30, 2005 and for the three-and six-month periods ended June 30, 2005 and 2004 in this report are unaudited and should be read in conjunction with the consolidated financial statements in the Company s 2004 Annual Report on Form 20-F. Such financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments are of a normal recurring nature.

The results of operations for the three- and six-month periods ended June 30, 2005 are not necessarily indicative of the results of operations for the year ending December 31, 2005.

b) Classifications

Certain items in the prior year s comparative consolidated financial statements have been reclassified to conform with the current year s presentation.

2. Proposed acquisitions

On May 4th, 2005, the Company entered into a definitive merger agreement for the acquisition of Renal Care Group, Inc. (RCG) for an all cash purchase price of approximately $3.5 billion. At March 31, 2005, RCG provided dialysis and ancillary services to over 30,400 patients through more than 425 owned outpatient dialysis centers in 34 states within the United States, in addition to providing acute dialysis services to more than 210 hospitals. Completion of the acquisition is subject to governmental approvals (including termination or expiration of the waiting period under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as

FRESENIUS MEDICAL CARE AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(in thousands, except share and per share data)

amended, the Act), third-party consents, and approval by RCG s stockholders in a vote currently scheduled for August 24, 2005. On June 15, 2005, the Company announced it had received a second request from the U.S. Federal Trade Commission (FTC) for additional information in connection with this proposed acquisition. The effect of this request, which was anticipated when the acquisition was announced, is to extend the waiting period imposed by the Act until 30 days after the Company and RCG have substantially complied with the request, unless that period is voluntarily extended by the parties or is terminated by the FTC.

In connection with the proposed acquisition, the Company has entered into a commitment letter pursuant to which Bank of America, N.A. (BofA) and Deutsche Bank AG (DB) have agreed, subject to certain conditions, to underwrite an aggregate $5.0 billion in principal amount of term and revolving loans to be syndicated to other financial institutions. BofA and DB also must approve any material modification to the merger agreement and any waiver of any material conditions precedent under that agreement. The financing will be available to the Company, among other uses, to pay the purchase price and related expenses for the proposed acquisition of RCG, to refinance outstanding indebtedness under our existing senior credit facility (see Note 4) and certain indebtedness of RCG, and to utilize for general corporate purposes. In conjunction with the proposed acquisition of Renal Care Group, Inc. and the forecasted variable rate interest payments for its financing, the Company entered into forward starting interest rate swaps in the notional amount of $1,500,000 in June and July 2005. These instruments, designated as cash flow hedges, effectively convert forecasted variable rate interest payments into fixed rate interest payments with an average fixed rate of 4.185% plus an applicable margin. These swaps are denominated in U.S. dollars and expire at various dates in 2010 and 2011.

3. Inventories

As of June 30, 2005 and December 31, 2004, inventories consisted of the following:

	June 30, 2005	December 31, 2004
Raw materials and purchased components	$ 98,240	$ 90,268
Work in process	32,932	36,586
Finished goods	243,777	240,296
Health care supplies	79,663	75,769
Inventories	$ 454,612	$ 442,919

4. Short-term Borrowings, Long-term Debt and Capital Lease Obligations

As of June 30, 2005 and December 31, 2004, short-term borrowings consisted of the following:

	June 30, 2005	December 31, 2004
Borrowings under lines of credit	$ 54,126	$ 83,383
Accounts receivable facility	363,000	335,765
	$ 417,126	$ 419,148

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FRESENIUS MEDICAL CARE AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(in thousands, except share and per share data)

At June 30, 2005 and December 31, 2004, long-term debt and capital lease obligations consisted of the following:

	June 30, 2005	December 31, 2004
Senior Credit Agreement	478,100	484,500
Euro Notes	155,382	175,030
Capital lease obligations	4,710	6,987
Other	82,285	109,232
	720,477	775,749
Less current maturities	(255,529)	(230,179)
	464,948	545,570

5. Stock Options

The Company accounts for its stock option plans using the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, as allowed by SFAS No. 123, *Accounting for Stock-Based Compensation*, subject to complying with the additional disclosure requirements of SFAS No. 123 as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123*. As such, compensation expense is recorded only if the current market price of the underlying stock exceeds the exercise price on the measurement date. For stock incentive plans which are performance based, the Company recognizes compensation expense over the vesting periods, based on the then current market values of the underlying stock.

As of June 30, 2005, the Company had 4,455,273 stock options outstanding.

FRESENIUS MEDICAL CARE AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(in thousands, except share and per share data)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Net income:				
As reported	$ 116,004	$ 100,567	$ 223,475	$ 191,676
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	408	426	832	802
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(2,506)	(1,992)	(5,013)	(4,001)
Pro forma	$ 113,906	$ 99,001	$ 219,294	$ 188,477
Basic net income per:				
Ordinary share				
As reported	$ 1.20	$ 1.04	$ 2.31	$ 1.98
Pro forma	$ 1.18	$ 1.02	$ 2.27	$ 1.95
Preference share				
As reported	$ 1.22	$ 1.06	$ 2.35	$ 2.02
Pro forma	$ 1.20	$ 1.04	$ 2.31	$ 1.99
Fully diluted net income per:				
Ordinary share				
As reported	$ 1.19	$ 1.03	$ 2.29	$ 1.97
Pro forma	$ 1.17	$ 1.01	$ 2.25	$ 1.94
Preference share				
As reported	$ 1.21	$ 1.05	$ 2.33	$ 2.01
Pro forma	$ 1.19	$ 1.03	$ 2.29	$ 1.98

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FRESENIUS MEDICAL CARE AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(in thousands, except share and per share data)

The following tables contain reconciliations of the numerators and denominators of the basic and diluted earnings per share computations for the three- and six-month periods ended June 30, 2005 and 2004.

	For the Three Months Ended June 30,	
	2005	**2004**
Numerators:		
Net income	$ 116,004	$ 100,567
less:		
Dividend preference on Preference shares	496	471
Income available to all classes of shares	$ 115,508	$ 100,096
Denominators:		
Weighted average number of:		
Ordinary shares outstanding	70,000,000	70,000,000
Preference shares outstanding	26,406,901	26,230,568
Total weighted average shares outstanding	96,406,901	96,230,568
Potentially dilutive Preference shares	763,580	516,958
Total weighted average shares outstanding assuming dilution	97,170,481	96,747,526
Total weighted average Preference shares outstanding assuming dilution	27,170,481	26,747,526
Basic income per Ordinary share	$ 1.20	$ 1.04
Plus preference per Preference shares	0.02	0.02
Basic income per Preference share	$ 1.22	$ 1.06
Fully diluted income per Ordinary share	$ 1.19	$ 1.03
Plus preference per Preference shares	0.02	0.02
Fully diluted income per Preference share	$ 1.21	$ 1.05

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FRESENIUS MEDICAL CARE AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(in thousands, except share and per share data)

	For the Six Months Ended June 30,	
	2005	**2004**
Numerators:		
Net income	$ 223,475	$ 191,676
less:		
Dividend preference on Preference shares	1,007	960
Income available to all classes of shares	$ 222,468	$ 190,716
Denominators:		
Weighted average number of:		
Ordinary shares outstanding	70,000,000	70,000,000
Preference shares outstanding	26,368,725	26,223,134
Total weighted average shares outstanding	96,368,725	96,223,134
Potentially dilutive Preference shares	657,368	409,882
Total weighted average shares outstanding assuming dilution	97,026,093	96,633,016
Total weighted average Preference shares outstanding assuming dilution	27,026,093	26,633,016
Basic income per Ordinary share	$ 2.31	$ 1.98
Plus preference per Preference shares	0.04	0.04
Basic income per Preference share	$ 2.35	$ 2.02
Fully diluted income per Ordinary share	$ 2.29	$ 1.97
Plus preference per Preference shares	0.04	0.04
Fully diluted income per Preference share	$ 2.33	$ 2.01

6. Employee Benefit Plans

The Company currently has two principal pension plans, one for German employees, the other covering employees in the United States. Plan benefits are generally based on years of service and final salary. Consistent with predominant practice in Germany, the Company s pension obligations in Germany are unfunded. Each year FMCH contributes at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended. There is no minimum funding requirement for FMCH for the defined benefit pension plan in 2005. FMCH made \$5,000 in contributions in the second quarter 2005 and \$10,000 cumulatively as of June 30, 2005 and at this time expects to voluntarily contribute \$20,000 in total during

FRESENIUS MEDICAL CARE AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(in thousands, except share and per share data)

2005. The following table provides the calculations of net periodic benefit cost for the three- and six-month periods ended June 30, 2005 and 2004.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Components of net period benefit cost:				
Service cost	$ 1,286	$ 1,008	$ 2,616	$ 2,048
Interest cost	3,982	3,653	8,000	7,333
Expected return on plan assets	(3,085)	(2,325)	(6,170)	(4,650)
Net amortization	1,600	1,175	3,200	2,350
Net periodic benefit cost	$ 3,783	$ 3,511	$ 7,646	$ 7,081

7. Commitments and Contingencies

Legal Proceedings

Commercial Litigation

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

Pre-Merger tax claims or tax claims that would arise if events were to violate the tax-free nature of the Merger, could ultimately be the Company s obligation. In particular, W. R. Grace & Co. has disclosed in its filings with the Securities and Exchange Commission that: its tax returns for the 1993 to 1996 tax years are under audit by the Internal Revenue Service (the Service); W. R. Grace & Co. has received the Service s examination report on tax periods 1993 to 1996; that during those years W.R. Grace & Co. deducted approximately $122,100 in interest attributable to corporate owned life insurance (COLI) policy loans; that W.R. Grace & Co. has paid $21,200 of tax and interest related to COLI deductions taken in tax years prior to 1993; that a U.S. District Court ruling has denied interest deductions of a taxpayer in a similar situation. In October 2004, W.R. Grace & Co. obtained bankruptcy court approval to settle its COLI claims with the Service. In January 2005, W.R. Grace & Co., FMCH and Sealed Air Corporation executed a settlement agreement with respect to the Service s COLI-related claims and other tax claims. On April 14, 2005, W.R. Grace & Co. paid the Service approximately $90 million in connection with taxes owed for the tax periods 1993 to 1996 pursuant to a bankruptcy court order directing W.R. Grace & Co. to make such payment. Subject to certain representations made by W.R. Grace & Co., the Company and Fresenius AG, W.R. Grace & Co. and certain of its affiliates had agreed to indemnify the Company against this and other pre-Merger and Merger-related tax liabilities.

Prior to and after the commencement of the Grace Chapter 11 Proceedings, class action complaints were filed against W.R. Grace & Co. and FMCH by plaintiffs claiming to be creditors of W.R. Grace & Co.-Conn.,

FRESENIUS MEDICAL CARE AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(in thousands, except share and per share data)

and by the asbestos creditors committees on behalf of the W.R. Grace & Co. bankruptcy estate in the Grace Chapter 11 Proceedings, alleging among other things that the Merger was a fraudulent conveyance, violated the uniform fraudulent transfer act and constituted a conspiracy. All such cases have been stayed and transferred to or are pending before the U.S. District Court as part of the Grace Chapter 11 Proceedings.

In 2003, the Company reached agreement with the asbestos creditors committees on behalf of the W.R. Grace & Co. bankruptcy estate and W.R. Grace & Co. in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance and tax claims against it and other claims related to the Company that arise out of the bankruptcy of W.R. Grace & Co. Under the terms of the settlement agreement as amended (the Settlement Agreement), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and the Company will receive protection against existing and potential future W.R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W.R. Grace & Co. consolidated tax group upon confirmation of a W.R. Grace & Co. bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, the Company will pay a total of $115,000 to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation. No admission of liability has been or will be made. The Settlement Agreement has been approved by the U.S. District Court. Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (Sealed Air , formerly known as Grace Holding, Inc.). The Company is engaged in litigation with Sealed Air to confirm its entitlement to indemnification from Sealed Air for all losses and expenses incurred by the Company relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions of the Company s payment obligation, this litigation will be dismissed with prejudice.

On April 4, 2003, FMCH filed a suit in the U.S. District Court for the Northern District of California, *Fresenius USA, Inc., et al., v. Baxter International Inc., et al.*, Case No. C 03-1431, seeking a declaratory judgment that FMCH does not infringe on patents held by Baxter International Inc. and its subsidiaries and affiliates (Baxter), that the patents are invalid, and that Baxter is without right or authority to threaten or maintain suit against FMCH for alleged infringement of Baxter s patents. In general, the alleged patents concern touch screens, conductivity alarms, power failure data storage, and balance chambers for hemodialysis machines. Baxter has filed counterclaims against FMCH seeking monetary damages and injunctive relief, and alleging that FMCH willfully infringed on Baxter s patents. FMCH believes its claims are meritorious, although the ultimate outcome of any such proceedings cannot be predicted at this time and an adverse result could have a material adverse effect on the Company s business, financial condition, and results of operations.

Other Litigation and Potential Exposures

In April 2005, FMCH received a subpoena from the U.S. Department of Justice, Eastern District of Missouri, in connection with a joint civil and criminal investigation. The subpoena requires production of a broad range of documents relating to the FMCH s operations, with specific attention to documents related to clinical quality programs, business development activities, medical director compensation and physician relations, joint ventures and anemia management programs. We are cooperating with the government s requests for information. An adverse determination in this investigation could have a material adverse effect on our business, financial condition and results of operations.

In October 2004, FMCH and its Spectra Renal Management subsidiary received subpoenas from the U.S. Department of Justice, Eastern District of New York in connection with a civil and criminal investigation, which requires production of a broad range of documents relating to the FMCH s operations, with specific attention to documents relating to laboratory testing for parathyroid hormone (PTH) levels

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and vitamin D therapies. The Company is cooperating with the government s requests for information. While the Company believes that it has complied with applicable laws relating to PTH testing and use of vitamin D therapies, an adverse determination in this investigation could have a material adverse effect on the Company s business, financial condition, and results of operations.

From time to time, the Company is a party to or may be threatened with other litigation, claims or assessments arising in the ordinary course of its business. Management regularly analyzes current information including, as applicable, the Company s defenses and insurance coverage and, as necessary, provides accruals for probable liabilities for the eventual disposition of these matters.

The Company, like other health care providers, conducts its operations under intense government regulation and scrutiny. It must comply with regulations which relate to or govern the safety and efficacy of medical products and supplies, the operation of manufacturing facilities, laboratories and dialysis clinics, and environmental and occupational health and safety. The Company must also comply with the Anti-Kickback Statute, the False Claims Act, the Stark Statute, and other federal and state fraud and abuse laws. Applicable laws or regulations may be amended, or enforcement agencies or courts may make interpretations that differ from the Company s or the manner in which it conducts its business. Enforcement has become a high priority for the federal government and some states. In addition, the provisions of the False Claims Act authorizing payment of a portion of any recovery to the party bringing the suit encourage private plaintiffs to commence whistle blower actions. By virtue of this regulatory environment, as well as our corporate integrity agreement with the U.S. federal government, the Company s business activities and practices are subject to extensive review by regulatory authorities and private parties, and continuing audits, investigative demands, subpoenas, other inquiries, claims and litigation relating to our compliance with applicable laws and regulations. The Company may not always be aware that an inquiry or action has begun, particularly in the case of whistle blower actions, which are initially filed under court seal.

The Company operates many facilities throughout the United States. In such a decentralized system, it is often difficult to maintain the desired level of oversight and control over the thousands of individuals employed by many affiliated companies. The Company relies upon its management structure, regulatory and legal resources, and the effective operation of its compliance program to direct, manage and monitor the activities of these employees. On occasion, the Company may identify instances where employees, deliberately or inadvertently, have submitted inadequate or false billings. The actions of such persons may subject the Company and its subsidiaries to liability under the Anti-Kickback Statute, the Stark Statute and the False Claims Act, among other laws.

Physicians, hospitals and other participants in the health care industry are also subject to a large number of lawsuits alleging professional negligence, malpractice, product liability, worker s compensation or related claims, many of which involve large claims and significant defense costs. The Company has been and is currently subject to these suits due to the nature of its business and expects that those types of lawsuits may continue. Although the Company maintains insurance at a level which it believes to be prudent, it cannot assure that the coverage limits will be adequate or that insurance will cover all asserted claims. A successful claim against the Company or any of its subsidiaries in excess of insurance coverage could have a material adverse effect upon it and the results of its operations. Any claims, regardless of their merit or eventual outcome, could have a material adverse effect on the Company s reputation and business.

The Company has also had claims asserted against it and has had lawsuits filed against it relating to businesses that it has acquired or divested. These claims and suits relate both to operation of the businesses and to the acquisition and divestiture transactions. The Company has, when appropriate, asserted its own claims, and claims for indemnification. A successful claim against the Company or any of its subsidiaries

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could have a material adverse effect upon it and the results of its operations. Any claims, regardless of their merit or eventual outcome, could have a material adverse effect on the Company s reputation and business.

Accrued Special Charge for Legal Matters

At December 31, 2001, the Company recorded a pre-tax special charge of $258,159 to reflect anticipated expenses associated with the defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlements with insurers have been charged against this accrual. While the Company believes that its remaining accruals reasonably estimate its currently anticipated costs related to the continued defense and resolution of the remaining matters, no assurances can be given that its actual costs incurred will not exceed the amount of this accrual.

8. Business Segment Information

The Company has identified three business segments, North America, International, and Asia Pacific, which were determined based upon how the Company manages its businesses. All segments are primarily engaged in providing dialysis services and manufacturing and distributing products and equipment for the treatment of end-stage renal disease. Additionally, the North America segment engages in performing clinical laboratory testing and providing perfusion, therapeutic apheresis and autotransfusion services. For management responsibility purposes, the Company transferred its Mexico operations from its International segment to its North American segment beginning January 1, 2005 and reclassified the Mexico operations and assets for the comparative interim periods of 2004. The Company has aggregated the International and Asia Pacific operating segments as International . The segments are aggregated due to their similar economic characteristics. These characteristics include the same products sold, the same type patient population, similar methods of distribution of products and services and similar economic environments.

Management evaluates each segment using a measure that reflects all of the segment s controllable revenues and expenses. Management believes that the most appropriate measure in this regard is operating income which measures the Company s source of earnings. Financing is a corporate function, which the Company s segments do not control. Therefore, the Company does not include interest expense relating to financing as a segment measure. The Company also regards income taxes to be outside the segment s control.

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Information pertaining to the Company s business segments for the three-and six-month periods ended June 30, 2005 and 2004 is set forth below:

	North America	International	Corporate	Total
Six months ended June 30, 2005				
Net revenue external customers	$ 2,215,137	$ 1,067,553	$	$ 3,282,690
Inter-segment revenue	605	25,975	(26,580)	
Total net revenue	2,215,742	1,093,528	(26,580)	3,282,690
Depreciation and amortization	(68,589)	(51,764)	(975)	(121,328)
Operating income (EBIT)	303,502	174,169	(19,583)	458,088
Segment assets	5,561,917	2,224,986	20,356	7,807,259
Capital expenditures and acquisitions	92,224	64,014	53	156,291
Six months ended June 30, 2004				
Net revenue external customers	$ 2,063,017	$ 948,341	$	$ 3,011,358
Inter-segment revenue	804	18,439	(19,244)	
Total net revenue	2,063,821	966,780	(19,244)	3,011,358
Depreciation and amortization	(63,827)	(49,037)	(963)	(113,827)
Operating income (EBIT)	282,901	145,929	(17,965)	410,866
Segment assets	5,501,977	2,123,392	43,967	7,669,336
Capital expenditures and acquisitions(1)	94,691	57,860	154	152,705
Three months ended June 30, 2005				
Net revenue external customers	$ 1,126,953	$ 546,734	$	$ 1,673,687
Inter-segment revenue	375	13,790	(14,165)	
Total net revenue	1,127,328	560,524	(14,165)	1,673,687
Depreciation and amortization	(34,804)	(26,336)	(477)	(61,617)
Operating income (EBIT)	157,217	92,019	(11,131)	238,105
Capital expenditures and acquisitions	53,804	36,951	24	90,779
Three months ended June 30, 2004				
Net revenue external customers	$ 1,060,416	$ 491,886	$	$ 1,552,302
Inter-segment revenue	618	9,243	(9,862)	
Total net revenue	1,061,034	501,130	(9,862)	1,552,302
Depreciation and amortization	(32,420)	(24,116)	(450)	(56,986)

Operating income (EBIT)	147,144	74,858	(9,324)	212,678
Capital expenditures and acquisitions	46,261	21,278		67,539

(1) International acquisitions exclude $8,224 of non-cash acquisitions in 2004

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Reconciliation of Measures to Consolidated Totals				
Total operating income of reporting segments	$ 249,236	$ 222,003	$ 477,671	$ 428,831
Corporate expenses	(11,131)	(9,325)	(19,583)	(17,965)
Interest expense	3,709	2,846	5,954	5,720
Interest income	(46,349)	(48,165)	(90,881)	(97,742)
Total income before income taxes and minority interest	$ 195,465	$ 167,359	$ 373,161	$ 318,844
Depreciation and amortization				
Total depreciation and amortization of reporting segments	(61,140)	(56,536)	(120,353)	(112,864)
Corporate depreciation and amortization	(477)	(450)	(975)	(963)
Total depreciation and amortization	$ (61,617)	$ (56,986)	$ (121,328)	$ (113,827)

9. Supplementary Cash Flow Information

The following additional information is provided with respect to the consolidated statements of cash flows:

	Six Months Ended June 30,	
	2005	**2004**
Supplementary cash flow information:		
Cash paid for interest	$ 91,062	$ 96,217
Cash paid for income taxes	$ 156,029	$ 102,917
Supplemental disclosures of cash flow information:		
Details for acquisitions:		
Assets acquired	$ 52,952	$ 83,764
Liabilities assumed	6,019	11,062
Minorities	(5,017)	
Notes assumed in connection with acquisition		8,224

Cash paid	51,950	64,478
Less cash acquired	236	12,532
Net cash paid for acquisitions	$ 51,714	$ 51,946

10. Supplemental Condensed Combining Information

FMC Trust Finance S.à.r.l. Luxembourg and FMC Trust Finance S.à.r.l. Luxembourg-III, each of which is a wholly-owned subsidiary of the Company, are the obligors on senior subordinated debt securities

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which are fully and unconditionally guaranteed, jointly and severally, on a senior subordinated basis, by the Company and by Fresenius Medical Care Deutschland GmbH (D-GmbH), a wholly-owned subsidiary of the Company, and by FMCH, a substantially wholly-owned subsidiary of the Company (D-GmbH and FMCH being Guarantor Subsidiaries). In December 2004, the Company assumed the obligations of its wholly owned subsidiaries as the issuer of senior subordinated indebtedness held by Fresenius Medical Care Capital Trust III and Fresenius Medical Care Capital Trust V, respectively. The following combining financial information for the Company is as of June 30, 2005 and December 31, 2004 and for the six-months ended June 30, 2005 and 2004, segregated between the Company, D-GmbH, FMCH and each of the Company s other businesses (the Non-Guarantor Subsidiaries). For purposes of the condensed combining information, the Company and the Guarantor Subsidiaries carry their investments under the equity method. Other (income) expense includes income (loss) related to investments in consolidated subsidiaries recorded under the equity method for purposes of the condensed combining information. In addition, other (income) expense includes income and losses from profit and loss transfer agreements as well as dividends received. Separate financial statements and other disclosures concerning D-GmbH and FMCH are not presented herein because management believes that they are not material to investors.

For the Six Months Period Ended June 30, 2005

		Guarantor Subsidiaries				
	FMC-AG	D-GmbH	FMCH	Non-Guarantor Subsidiaries	Combining Adjustment	Combined Total
Net revenue	$	$ 528,013	$	$ 3,393,768	$ (639,091)	$ 3,282,690
Cost of revenue		326,830		2,462,021	(632,153)	2,156,698
Gross profit		201,183		931,747	(6,938)	1,125,992
Operating expenses:						
Selling, general and administrative	28,278	68,004		481,786	63,445	641,513
Research and development	1,681	16,534		8,176		26,391
Operating (loss) income	(29,959)	116,645		441,785	(70,383)	458,088
Other (income) expense:						
Interest, net	16,246	7,060	25,760	53,784	(17,923)	84,927
Other, net	(293,469)	67,349	(148,325)		374,445	
Income before income taxes and minority interest	247,264	42,236	122,565	388,001	(426,905)	373,161
Income tax expense (benefit)	23,789	39,478	(10,304)	121,060	(25,506)	148,517
Income (loss) before minority interest	223,475	2,758	132,869	266,941	(401,399)	224,644

Minority interest					1,169	1,169
Net income (loss)	$ 223,475	$ 2,758	$ 132,869	$ 266,941	$ (402,568)	$ 223,475

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	For the Six Months Period Ended June 30, 2004					
		Guarantor Subsidiaries				
	FMC-AG	D-GmbH	FMCH	Non-Guarantor Subsidiaries	Combining Adjustment	Combined Total
Net revenue	$	$ 463,495	$	$ 3,081,566	$ (533,703)	$ 3,011,358
Cost of revenue		300,662		2,235,340	(531,744)	2,004,258
Gross profit		162,833		846,226	(1,959)	1,007,100
Operating expenses:						
Selling, general and administrative	14,600	72,183		482,863	186	569,832
Research and development	1,203	16,785		8,414		26,402
Operating (loss) income	(15,804)	73,865		354,950	(2,145)	410,866
Other (income) expense:						
Interest, net	15,805	7,033	31,162	52,668	(14,646)	92,022
Other, net	(240,830)	42,602	(135,410)		333,638	
Income before income taxes and minority interest	209,221	24,230	104,248	302,282	(321,137)	318,844
Income tax expense (benefit)	17,545	23,911	(12,465)	110,889	(13,619)	126,262
Income (loss) before minority interest	191,676	319	116,713	191,392	(307,518)	192,582
Minority interest					906	906
Net income (loss)	$ 191,676	$ 319	$ 116,713	$ 191,392	$ (308,424)	$ 191,676

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	At June 30, 2005					
		Guarantor Subsidiaries				
	FMC-AG	D-GmbH	FMCH	Non-Guarantor Subsidiaries	Combining Adjustment	Combined Total
Current assets:						
Cash and cash equivalents	$ 1	$ 47	$	$ 57,321	$	$ 57,369
Trade accounts receivable, less allowance for doubtful accounts		112,941		1,339,867		1,452,808
Accounts receivable from related parties	624,189	330,732	214,837	1,783,846	(2,900,446)	53,158
Inventories		127,126		386,045	(58,559)	454,612
Prepaid expenses and other current assets	2,427	19,192	66	215,249	906	237,840
Deferred taxes				169,086	17,367	186,453
Total current assets	626,617	590,038	214,903	3,951,414	(2,940,732)	2,442,240
Property, plant and equipment, net	200	85,198		1,085,550	(37,493)	1,133,455
Intangible assets	237	16,459		577,892		594,588
Goodwill		3,308		3,433,943		3,437,251
Deferred taxes				70,549	(43,895)	26,654
Other assets	4,988,366	833,327	3,680,734	(832,751)	(8,496,605)	173,071
Total assets	$ 5,615,420	$ 1,528,330	$ 3,895,637	$ 8,286,597	$ (11,518,725)	$ 7,807,259
Current liabilities:						
Accounts payable	$ 627	$ 21,328	$	$ 148,080	$	$ 170,035
Accounts payable to related parties	1,589,448	164,785	862,321	1,148,500	(3,645,550)	119,504
Accrued expenses and	5,503	93,910	911	668,018	4,855	773,197

other current liabilities						
Short-term borrowings	35			417,091		417,126
Short-term borrowings from related parties		1,802		40,882		42,684
Current portion of long-term debt and capital lease obligations	683	1,948	75,000	177,898		255,529
Income tax payable	112,179	804		60,383	648	174,014
Deferred taxes	1,125	5,002		35,820	(27,219)	14,728
Total current liabilities	1,709,600	289,579	938,232	2,696,672	(3,667,266)	1,966,817
Long term debt and capital lease obligations, less current portion	247,700	605	593,629	407,071	(784,057)	464,948
Long term borrowings from related parties	3,813	185,476		(185,477)	(3,812)	
Other liabilities	4,365	4,762		79,472	12,490	101,089
Pension liabilities	1,009	57,598		49,155	(8,653)	99,109
Deferred taxes	348	2,295		279,373	18,385	300,401
Company obligated mandatorily redeemable preferred securities of subsidiary Fresenius Medical Care Capital Trusts holding solely Company guaranteed debentures of subsidiary				1,208,004		1,208,004
Minority interest			7,412		10,894	18,306
Total liabilities	1,966,835	540,315	1,539,273	4,534,270	(4,422,019)	4,158,674
Shareholders equity:	3,648,585	988,015	2,356,364	3,752,327	(7,096,706)	3,648,585
Total liabilities and shareholders equity	$ 5,615,420	$ 1,528,330	$ 3,895,637	$ 8,286,597	$ (11,518,725)	$ 7,807,259

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At December 31, 2004

	Guarantor Subsidiaries					
	FMC-AG	D-GmbH	FMCH	Non-Guarantor Subsidiaries	Combining Adjustment	Combined Total
Current assets:						
Cash and cash equivalents	$ 2,152	$ 35	$	$ 56,779	$	$ 58,966
Trade accounts receivable, less allowance for doubtful accounts		110,204		1,353,422	(779)	1,462,847
Accounts receivable from related parties	763,089	325,731	213,337	1,792,810	(3,043,207)	51,760
Inventories		125,952		374,560	(57,593)	442,919
Prepaid expenses and other current assets	7,347	12,254	22	224,071	399	244,093
Deferred taxes				166,970	18,415	185,385
Total current assets	772,588	574,176	213,359	3,968,612	(3,082,765)	2,445,970
Property, plant and equipment, net	227	100,496		1,121,290	(40,086)	1,181,927
Intangible assets	333	16,384		585,331		602,048
Goodwill		3,726		3,441,426		3,445,152
Deferred taxes				32,613	25,510	58,123
Other assets	4,990,303	925,105	3,520,453	522,915	(9,730,455)	228,321
Total assets	$ 5,763,451	$ 1,619,887	$ 3,733,812	$ 9,672,187	$ (12,827,796)	$ 7,961,541
Current liabilities:						
Accounts payable	$ 205	$ 16,374	$	$ 175,973	$	$ 192,552
Accounts payable to related parties	1,682,729	359,869	842,204	1,290,323	(4,061,681)	113,444
Accrued expenses and other current liabilities	15,800	79,530	541	652,379	(7,175)	741,075
Short-term borrowings	38			419,110		419,148
Short-term borrowings from related parties				5,766		5,766

Current portion of long-term debt and capital lease obligations	770	1,145	25,000	203,264		230,179
Income tax payable	127,331			102,551	648	230,530
Deferred taxes	990	4,178		35,962	(35,971)	5,159
Total current liabilities	1,827,863	461,096	867,745	2,885,328	(4,104,179)	1,937,853
Long term debt and capital lease obligations, less current portion	248,427		650,029	507,847	(860,733)	545,570
Long term borrowings from related parties	4,295				(4,295)	
Other liabilities	41,111	5,834		93,839	15,338	156,122
Pension liabilities	1,049	60,084		58,333	(11,341)	108,125
Deferred taxes	5,890	2,376		239,162	34,833	282,261
Company obligated mandatorily redeemable preferred securities of subsidiary Fresenius Medical Care Capital Trusts holding solely Company guaranteed debentures of subsidiaries				1,278,760		1,278,760
Minority interest			7,412		10,622	18,034
Total liabilities	2,128,635	529,390	1,525,186	5,063,269	(4,919,755)	4,326,725
Shareholders equity:	3,634,816	1,090,497	2,208,626	4,608,918	(7,908,041)	3,634,816
Total liabilities and shareholders equity	$ 5,763,451	$ 1,619,887	$ 3,733,812	$ 9,672,187	$ (12,827,796)	$ 7,961,541

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		Guarantor Subsidiaries				
	FMC-AG	D-GmbH	FMCH	Non-Guarantor Subsidiaries	Combining Adjustment	Combined Total
Operating Activities:						
Net income (loss)	$ 223,475	$ 2,758	$ 132,869	$ 266,942	$ (402,569)	$ 223,475
Adjustments to reconcile net income to cash and cash equivalents provided by (used in) operating activities:						
Equity affiliate income	(177,183)		(148,325)		325,508	
Depreciation and amortization	975	14,733		113,081	(7,461)	121,328
Change in deferred taxes, net	(4,943)	1,571		13,035	10,883	20,546
(Gain) loss on sale of fixed assets		(224)		816		592
Compensation expense related to stock options	832					832
Cash (outflow) inflow from hedging		(460)		460		
Changes in assets and liabilities, net of amounts from businesses acquired:						
Trade accounts receivable, net		(16,052)		(25,509)		(41,561)
Inventories		(16,271)		(18,884)	5,412	(29,743)
Prepaid expenses and other current and non-current assets	12,334	(3,954)	1,779	(90,760)	54,097	(26,504)
Accounts receivable from/payable to related parties	(39,473)	(10,949)	18,618	39,883	(5,740)	2,339
Accounts payable, accrued expenses and other current and non-current liabilities	(1,035)	36,034	370	(7,507)	8,797	36,659
Income tax payable	(912)	854	(10,304)	(29,481)		(39,843)

Net cash provided by (used in) operating activities	14,070	8,040	(4,993)	262,076	(11,073)	268,120
Investing Activities:						
Purchases of property, plant and equipment	(53)	(9,562)		(102,923)	7,961	(104,577)
Proceeds from sale of property, plant and equipment		871		6,256		7,127
Disbursement of loans to related parties	89,912	64	11,653		(101,629)	
Acquisitions and investments, net of cash acquired	(15,727)			(51,636)	15,649	(51,714)
Net cash provided by (used in) investing activities	74,132	(8,627)	11,653	(148,303)	(78,019)	(149,164)
Financing Activities:						
Short-term borrowings, net	39,575	1,413		(28,373)		12,615
Long-term debt and capital lease obligations, net	(361)	(809)	(6,400)	(121,851)	101,629	(27,792)
Increase of accounts receivable securitization program				27,235		27,235
Proceeds from exercise of stock options	8,042					8,042
Dividends paid	(137,487)			(1,504)	1,504	(137,487)
Capital Increase of Non-Guarantor-Subsidiaries				15,650	(15,650)	
Change in minority interest			(260)		1,169	909
Net cash (used in) provided by financing activities	(90,231)	604	(6,660)	(108,843)	88,652	(116,478)
Effect of exchange rate changes on cash and cash equivalents	(122)	(2)		(4,391)	440	(4,075)
Cash and Cash Equivalents:						
Net (decrease) increase in cash and cash equivalents	(2,151)	15		539		(1,597)
Cash and cash equivalents at beginning of period	2,152	32		56,782		58,966

Cash and cash equivalents at end of period	$ 1	$ 47	$	$ 57,321	$	$ 57,369

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FRESENIUS MEDICAL CARE AG
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(in thousands, except share and per share data)

For the Six Months Period Ended June 30, 2004

		Guarantor Subsidiaries				
	FMC-AG	D-GmbH	FMCH	Non-Guarantor Subsidiaries	Combining Adjustment	Combined Total
Operating Activities:						
Net income (loss)	$ 191,676	$ 319	$ 116,713	$ 191,392	$ (308,424)	$ 191,676
Adjustments to reconcile net income to cash and cash equivalents provided by (used in) operating activities:						
Equity affiliate income	(138,993)		(135,410)		274,403	
Depreciation and amortization	963	12,753		105,823	(5,712)	113,827
Change in deferred taxes, net	(1,013)	(1,604)		5,745	12,901	16,029
(Gain) loss on sale of fixed assets		(402)		591		189
Compensation expense related to stock options	802					802
Cash Inflow from hedging				4,422		4,422
Changes in assets and liabilities, net of amounts from businesses acquired:						
Trade accounts receivable, net		(6,793)		5,549		(1,244)
Inventories		(4,277)		(3,769)	1,618	(6,428)
Prepaid expenses and other current and non-current assets	(6,201)	2,284	1,300	39,657	519	37,559
Accounts receivable	(2,913)	1,809	18,618	(46,461)	10,954	(17,993)

from/payable to related parties						
Accounts payable, accrued expenses and other current and non-current liabilities	808	9,686	(1,692)	(208)	453	9,047
Income tax payable	(6,229)		(12,465)	21,680		2,986
Net cash provided by (used in) operating activities	38,900	13,775	(12,937)	324,422	(13,288)	350,872
Investing Activities:						
Purchases of property, plant and equipment	(153)	(14,229)		(93,125)	6,748	(100,759)
Proceeds from sale of property, plant and equipment		873		5,107		5,980
Disbursement of loans to related parties	109,390		93,997	(623,756)	420,369	
Acquisitions and investments, net of cash acquired	(33,379)			(51,414)	32,847	(51,946)
Net cash provided by (used in) investing activities	75,858	(13,356)	93,997	(763,188)	459,964	(146,725)
Financing Activities:						
Short-term borrowings, net	(22)			(33,422)		(33,444)
Long-term debt and capital lease obligations, net	3,667	(660)	(80,800)	403,976	(420,369)	(94,186)
Decrease of accounts receivable securitization program				68,002		68,002
Proceeds from exercise of stock options	1,067					1,067
Dividends paid	(122,106)			(5,397)	5,397	(122,106)

Redemption of Series D Trust Preferred Stock of subsidiary						
Capital Increase of Non-Guarantor-Subsidiaries				32,849	(32,849)	
Change in minority interest			(260)	(759)	906	(113)
Net cash (used in) provided by financing activities	(117,393)	(660)	(81,060)	465,248	(446,915)	(180,780)
Effect of exchange rate changes on cash and cash equivalents	2,634	(7)		(10,136)	239	(7,270)
Cash and Cash Equivalents:						
Net increase (decrease) in cash and cash equivalents	(2)	(248)		16,346		16,097
Cash and cash equivalents at beginning of period	3	300		48,124		48,427
Cash and cash equivalents at end of period	$ 1	$ 52	$	$ 64,470	$	$ 64,524

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For the three and six months ended June 30, 2005 and 2004

The Company

Fresenius Medical Care AG (FMC-AG or the Company), a German stock corporation *(Aktiengesellschaft)*, is the world s largest integrated provider of kidney dialysis services and manufacturer and distributor of products and equipment for the treatment of end-stage renal disease. In the United States, the Company also performs clinical laboratory testing and provides perfusion, therapeutic apheresis and autotransfusion services.

We have announced that we intend to change our current legal form as an *Aktiengesellschaft* (AG) to a KGaA, which is a German partnership limited by shares (the Transformation of Legal Form). As a KGaA, we will be the same legal entity under German law, rather than a successor to the AG. Fresenius Medical Care Management AG, a subsidiary of Fresenius AG, the ultimate parent of FMC-AG, will be the general partner of the Company. The transformation of legal form is subject to approval by our ordinary shareholders which will be voted upon by the ordinary shareholders at the Extraordinary General Meeting (EGM) to be held on August 30, 2005.

We also announced that we intend to offer our preference shareholders the opportunity to convert their preference shares into ordinary shares on a one-to-one basis pursuant to a conversion offer to be conducted after the EGM. Preference shareholders who decide to convert their shares will be required to pay a premium and will lose their preferential dividend rights. The conversion is subject to approval of the ordinary shareholders at the EGM and also subject to approval by a separate vote of our preference shareholders which will be voted upon at a separate meeting of the preference shareholders immediately following the EGM on August 30, 2005 or, if necessary, on August 31, 2005.

You should read the following discussion and analysis of the results of our operations in conjunction with our unaudited consolidated financial statements and related notes contained elsewhere in this report. Some of the statements contained below, including those concerning future revenue, costs and capital expenditures and possible changes in our industry and competitive and financial conditions include forward-looking statements. Because such statements involve risks and uncertainties, actual results may differ materially from the results which the forward looking statements express or imply.

Financial Condition and Results of Operations

This report contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are based upon our current expectations, assumptions, estimates and projections about us and our industry that address, among other things:

- our business development, operating development and financial condition;
- our expectations of growth in the patient population regarding renal dialysis products and services;
- our ability to remain competitive in the markets for our products and services;
- the effects of regulatory developments, legal and tax proceedings and any resolution of government investigations into our business;
- changes in government reimbursement policies and those of private payors;
- changes in pharmaceutical administration patterns or reimbursement policies;
- our ability to develop and maintain additional sources of financing; and

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other statements of our expectations, beliefs, future plans and strategies, anticipated development and other matters that are not historical facts.

When used in this report, the words expects , anticipates , intends , plans , believes , seeks , estimates and expressions are generally intended to identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial and otherwise, could differ materially from those set forth in or contemplated by the forward-looking statements contained in this report. Important factors that could contribute to such differences are noted in the risk factors section of our Annual Report on Form 20-F, and in this report in Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 1, Legal Proceedings. These risks and uncertainties include: general economic, currency exchange and other market conditions, litigation and regulatory compliance risks, changes in government reimbursement for our dialysis care and pharmaceuticals, the investigations by the Department of Justice, Eastern District of New York, and the Department of Justice, Eastern District of Missouri, and changes to pharmaceutical utilization patterns.

This report should be read in conjunction with our disclosures and discussions contained in our Annual Report on Form 20-F for the year ended December 31, 2004.

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

Overview

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

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On December 8, 2003, the Medicare Prescription Drug, Modernization and Improvement Act of 2003 was enacted (the MMA). This law made several significant changes to U.S. government payment for dialysis services and pharmaceuticals. First, it increased the composite rate for renal dialysis facilities by 1.6% on January 1, 2005. Second, effective January 1, 2005, it based the payments for ten separately billable dialysis-related medications on average acquisition cost (as determined by the Office of the Inspector General (OIG) and updated by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services (CMS), and payments for the remaining separately billable dialysis-related medications will be based on average sales price (ASP) plus 6% (ASP is defined in the law as a manufacturer s ASP to all purchasers in a calendar quarter per unit of each drug and biological sold in that same calendar quarter, excluding sales exempt from best price and nominal price sales and including all discounts, chargebacks and rebates). Third, the difference between the determined acquisition cost-based reimbursement and what would have been received under the current average wholesale price-based (AWP-based) reimbursement methodology is added to the composite rate. This add-back amount has been determined to be 8.7% of the composite rate and will be subject to an annual update based on the growth in drug spending. Fourth, effective April 1, 2005, providers receive higher composite rate payments for certain patients based on their age, body mass index and body surface area. Fifth, beginning in 2006, the Secretary of the Department of Health and Human Services (the Secretary) is authorized to set payment for all separately billed drugs and biologicals at either acquisition cost or average sales price. Lastly, the Secretary is required to establish a three-year demonstration project to test the use of a fully case-mix adjusted payment system for ESRD services, beginning January 1, 2006. Under this project, separately billable drugs and biologicals and related clinical laboratory tests would be bundled into the facility composite rate. Participating facilities would receive an additional 1.6% composite rate increase. Under the final MMA regulations for 2005, we are experiencing and will continue to experience during 2005 a non-material negative impact, excluding the effects of the 1.6% composite rate increase, on our revenue from Medicare as compared to 2004.

On August 1, 2005, CMS announced proposed rules under MMA for 2006 that would: (i) modify the geographic and wage index adjustments applied to the composite rate, (ii) change the drug payment methodology for all separately billed dialysis-related drugs and biologicals from average acquisition cost pricing to ASP plus 6%, and (iii) increase the composite rate drug add-on adjustment from 8.7% to 8.9%. Comments on the proposed rules will be accepted until September 30, 2005. We are in the process of analyzing the proposed rules and any potential impact they may have on our operating results.

In July 2004, CMS proposed certain changes with respect to its EPO reimbursement and utilization guidelines. Its proposal reflects the agency s conclusion that the appropriate utilization of EPO should be monitored by considering both the patient s hemoglobin/hematocrit level and the dosage. Specifically, it proposed a pre-payment claims review process in which claims for EPO with hemoglobin levels below 13 (or hematocrit of 39) would not be targeted for review, but claims for EPO with hemoglobin levels above 13 would be reviewed based on the hemoglobin value and related EPO doses, and with payment limited to a fixed amount of EPO unless there is medical justification for the hemoglobin levels. The comment period on this policy draft ended on October 7, 2004. CMS has not yet finalized the new guidelines. Administration of EPO accounted for approximately 23% of dialysis care revenue in our North America segment in 2004. If the proposed revision to CMS s EPO reimbursement/utilization guidelines is adopted, this could have an adverse impact on our operating results.

Our operations are organized geographically and accordingly we have identified three operating segments, North America, International, and Asia Pacific. For management purposes, the Company reclassified its Mexico operations from its International segment to its North American segment beginning January 1, 2005 and reclassified the operations and assets for the comparative interim periods of 2004. For reporting purposes,

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

With respect to the performance of our business operations, our management believes the most appropriate measure in this regard is operating income, which measures our source of earnings. Financing is a corporate function which segments do not control. Therefore, we do not include interest expense relating to financing as a segment measurement. We also regard income taxes to be outside the segments control.

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Results of Operations

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

	For the Three Months Ended June 30,	
	2005	**2004**
	(Unaudited) (In millions)	
Total revenue		
North America	$ 1,127	$ 1,061
International	561	501
Totals	1,688	1,562
Inter-segment revenue		
North America		1
International	14	9
Totals	14	10
Total net revenue		
North America	1,127	1,060
International	547	492
Totals	1,674	1,552
Amortization and depreciation		
North America	35	32
International	26	25
Corporate		
Totals	61	57
Operating income (EBIT)		
North America	157	147
International	92	75
Corporate	(11)	(9)

Totals		238		213
Interest income		4		3
Interest expense		(47)		(48)
Income tax expense		(79)		(67)
Minority interest				
Net income	$	116	$	101

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	For the Six Months Ended June 30,	
	2005	2004
	(Unaudited) (In millions)	
Total revenue		
North America	$ 2,216	$ 2,064
International	1,094	966
Totals	3,310	3,030
Inter-segment revenue		
North America	1	1
International	26	18
Totals	27	19
Total net revenue		
North America	2,215	2,063
International	1,068	948
Totals	3,283	3,011
Amortization and depreciation		
North America	69	64
International	52	49
Corporate		1
Totals	121	114
Operating income (EBIT)		
North America	304	283
International	174	146
Corporate	(20)	(18)
Totals	458	411
Interest income	6	6
Interest expense	(91)	(98)
Income tax expense	(149)	(126)
Minority interest	(1)	(1)

Net income	$	223	$	192

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Three months ended June 30, 2005 compared to three months ended June 30, 2004

Key Indicators for Consolidated Financial Statements

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Change in % As Reported	Change in % At Constant Exchange Rates
Number of treatments	4,884,892	4,672,151	5%	
Same store treatment growth in %	4.7%			