OVERALL ASSESSMENT OF THE BUSINESS SITUATION

At the time this Group Management Report was prepared, the Management Board continued to assess the development of the Fresenius Group as positive. Demand for our products and services continues to grow steadily around the world.

OUTLOOK

This Group Management Report contains forward-looking statements, including statements on future sales, expenses, and investments, as well as potential changes in the health care sector, our competitive environment, and our financial situation. These statements were made on the basis of the expectations and assessments of the Management Board regarding events that could affect the Company in the future, and on the basis of our mid-term planning. Such forward-looking statements are subject, as a matter of course, to risks, uncertainties, assumptions, and other factors, so that the actual results, including the financial position and profitability of Fresenius, could therefore differ materially – positively or negatively – from those expressly or implicitly assumed or described in these statements. For further information, please see our Opportunities and Risk Report on pages 77 ff.

GENERAL AND MID-TERM OUTLOOK

The outlook for the Fresenius Group for the coming years continues to be positive. We are able to treat patients and supply customers reliably, continuously striving to optimize our costs, to adjust our capacities, and to improve our product mix, as well as to expand our products and services business. We expect these efforts to increase our earnings in the coming years. In addition, good growth opportunities for Fresenius are, above all, presented by the following factors:

- The sustained **growth of the markets** in which we operate: Fresenius still sees very good opportunities to benefit from the growing health care needs arising from aging populations, with their growing demand for comprehensive care, and technical advances, but driven also by the still insufficient access to health care in the developing and emerging countries. There are above-average growth opportunities for us not only in the markets of Asia-Pacific and Latin America, but also in Africa. Efficient health care systems with appropriate reimbursement structures will evolve over time in these countries, as economic conditions improve. We will strengthen our activities in these regions and introduce further products from our portfolio into these markets successively.
- The **expansion of our regional presence**: The fast-growing markets in Asia-Pacific, Latin America, and Africa especially offer further potential to strengthen our market position. China, for instance, offers excellent growth opportunities over the long-term, not only in infusion and nutrition therapies, IV drugs, and medical devices for Fresenius Kabi, but also for Fresenius Medical Care in dialysis. We plan to further roll out additional products and therapies from our existing portfolio in countries where we do not yet offer a comprehensive range. The successful acquisition of the largest private hospital operator in Spain in 2017 gives Fresenius Helios a presence outside Germany. Fresenius Helios sees, beyond that, good opportunities for further international growth.
- The **broadening of our services business**: For Fresenius Medical Care, opportunities to extend into new markets or to expand its market share arise if a country opens up to private dialysis providers or allows cooperation between public and private providers through public-private partnerships. Whether or not private companies can offer dialysis treatment, and in what form, depends on the health care system of the country in which they operate and its legal framework. Fresenius Helios has an extensive nationwide hospital network in Germany and Spain. Based on this platform, Fresenius Helios aims to develop and offer innovative, integrated care offerings. In addition, Helios Germany is expanding outpatient services in a separate division. Patient care should be further improved through the exchange of knowledge and experience (best practice) between Helios Germany and Quirónsalud.

Growth opportunities in Spain arise from exploiting synergies, the expansion and construction of hospitals, and further consolidation potential in the highly fragmented Spanish private hospital market, in particular. The cross-selling of Quirónsalud's facilities for Occupational Risk Prevention within the Spanish hospital network offers additional growth opportunities. Helios Spain announced the acquisition of Clínica Medellín in 2018. Fresenius Helios was thus entering the attractive private hospital market in Colombia.

- The **broadening of our products business**: At Fresenius Medical Care, we see the planned expansion of the core business with dialysis products as a growth driver. At Fresenius Kabi, we plan to expand our IV drugs product business. We develop generic drug formulations that are ready to launch at the time of market formation, directly after the patents of the branded products expire. We also develop new formulations for non-patented drugs. Furthermore, we develop ready-to-use products that are especially convenient and safe, including, for example, pre-filled syringes and ready-to-use solutions in our freeflex infusion bags.
- The **development of innovative products and therapies**: These will create the potential to further expand our market position in the regions. In addition to innovation, best-in-class quality, reliability, and the convenience of our products and therapies are key factors here. In our dialysis business, we expect home therapies to gain further importance, leading to growth potential for Fresenius Medical Care. In addition, Fresenius Kabi is developing new dosage forms for its products. In the area of biosimilars, Fresenius Kabi specializes in the development of products for the treatment of oncology and autoimmune diseases and has a pipeline of molecules at various stages of development. Helios Germany has been developing innovative business areas such as digital offerings in its own division.
- **Selective acquisitions**: Besides retaining organic sales growth as the basis for our business, we will continue to utilize opportunities to grow by making small and mid-sized acquisitions that expand our product portfolio and strengthen our regional presence.

We are also exploiting any opportunities for potential within our operations for **cost-management** and **efficiency-enhancement** measures. These include plans for cost-efficient production and a further-optimized procurement process.

The outlook takes account of all events known at the time the annual financial statements were prepared that could influence our operating performance in 2019 and beyond. Significant risks are discussed in the Opportunities and Risk Report. As in the past, we will do our utmost to achieve and – if possible – exceed our targets.

FUTURE MARKETS

We expect the consolidation process to continue among competitors in our markets in Europe, Asia-Pacific, and Latin America. Consequently, we expect that there will be opportunities for us to penetrate new markets, both by expanding our regional presence and by extending our product portfolio.

New markets will open up as **Fresenius Medical Care** successively rolls out its product and services portfolio, especially in emerging countries. Fresenius Medical Care is committed to preparing its business portfolio for further sustainable, profitable growth by investing in future growth markets in its product and service businesses, such as China.

Fresenius Kabi plans to introduce products already offered outside the United States into that country as well. It also aims to further roll out its product portfolio internationally, especially in the fast-growing markets of Asia-Pacific and Latin America. Market share is to be expanded further through the launch of new products in the field of IV drugs and medical devices for infusion therapy and clinical nutrition. In Fresenius Kabi's biosimilars business, we are developing products focusing on oncology and autoimmune diseases, which will be introduced to the market over the next few years.

With its broad hospital network across Germany, **Fresenius Helios** is able to develop new patient care models. In addition, Helios Germany is expanding outpatient services in a separate division. The increasing number of privately insured patients in Spain is opening up opportunities for private operators like Helios Spain.

Fresenius Vamed is expecting to grow in the life cycle and PPP project areas, both with regard to the project and the services business. Moreover, the company intends to further expand its position with follow-up orders, as well as to enter new target markets. Furthermore, with the transfer of the German inpatient post-acute care business from Fresenius Helios to Fresenius Vamed, the company has positioned itself as a leading provider in that segment in central Europe.

HEALTH CARE SECTOR AND MARKETS

The health care sector is considered to be widely independent of economic cycles. The demand, especially for life-saving and life-sustaining products and services, is expected to increase, given that they are medically needed and the population is aging. Moreover, medical advances and the large number of diseases that are still difficult to cure – or are incurable – are expected to remain growth drivers.

In the emerging countries, the availability of basic health care and the growing demand for high-quality medical treatment is increasing. As per-capita income increases, individuals increasingly have to cope with the illnesses associated with lifestyle diseases.

On the other hand, experts estimate that further financial constraints in the public sector could result in more pricing pressure and a slowdown in revenue for companies in the health care industry. Some countries are experiencing significant financing problems in the health care sector due to the strained public finance situation. Especially in the industrialized countries, increased pressure to encourage saving can be expected as health care costs constitute a large portion of the budget.

It will be increasingly important for companies in the health care sector to increase patient benefit, to improve treatment quality, and to offer preventive therapies. In addition, especially those products and therapies that are not only medically but also economically advantageous will be of increasing importance.

THE DIALYSIS MARKET

The **global dialysis market** is expected to grow by about 4% at constant exchange rates in 2019.

The number of dialysis patients worldwide is expected to rise by approximately 6% in 2019, although significant regional differences will remain. For the United States, Japan, and the countries of Central and Western Europe, where prevalence is already relatively high, we forecast patient growth in the region by up to 4%. In economically weaker regions, the growth rates are even higher.

Driven by the development of infrastructure, the establishment of health care reimbursement systems and the growing number of chronically ill patients, over-proportional growth is expected in some regions.

Overall, factors such as aging populations and the growing number of people suffering from diabetes and hypertension, which are ailments often preceding terminal kidney failure, are contributing toward continued growth of the dialysis markets. The life expectancy of dialysis patients is also rising thanks to ongoing advances in treatment quality and the rising standard of living, especially in the emerging countries.

Further information is provided on pages 49 f. of the Group Management Report.

THE MARKET FOR GENERIC IV DRUGS, BIOPHARMACEUTICALS, CLINICAL NUTRITION, INFUSION THERAPY, AND MEDICAL DEVICES/TRANSFUSION TECHNOLOGY [1]

We expect the global market for generic IV drugs, biopharmaceuticals, clinical nutrition, infusion therapy, and medical devices/transfusion technology to grow by around 7% in 2019.

In 2019, the **market for generic IV drugs** in Europe and the United States is expected to grow by approximately 2% to 3%. The demand for generic drugs is likely to grow because of their significantly lower price in comparison to the originator drugs' price. The growth dynamic will continue to be driven by originator drugs going off-patent, as well as by original off-patent products that are offered at steady prices due to a unique selling proposition. A factor working in the opposite direction is the price erosion for original off-patent drugs and generic drugs that are already on the market.

We expect Fresenius Kabi's relevant **market for biopharmaceuticals** to grow by around 13% in 2019.

[1] Market data refers to Fresenius Kabi's addressable markets. Those are subject to annual volatility due to currency fluctuations and patent expiries of original drugs in the IV drug market, among other things. Market data for clinical nutrition refers to Fresenius Kabi's addressable markets, excluding Japan. Percentage increase based on market value (price × volume).

Source: Company research

In 2019, growth of about 3% is expected for the **clinical nutrition market** in Europe. However, given the financial constraints in many countries, the efforts to contain costs in the health care sector are being pursued undiminished. Continued high growth potential is projected in Asia-Pacific, Latin America, and Africa. We assume a growth of up to 10% in individual countries.

We expect the **market for infusion therapy** in Europe to remain at the prior year's level in 2019. Besides a slightly decreasing blood volume substitutes market due to restrictions imposed on the use of these products, continuous price pressure in the tender-driven standard-solutions business is expected to affect growth. Outside Europe, we also estimate the market for infusion therapy to remain at the prior year's level in 2019, whereby Latin America is expected to grow by up to 4%.

The worldwide **market for medical devices/transfusion technology** is expected to grow by up to 4% in 2019.

THE HOSPITAL MARKET

The number of hospital admissions in Germany declined slightly in 2017. No reliable figures are available yet for 2018. However, we assume that 2019 will see a further decline in inpatient hospital admissions and an increase in outpatient treatments as a result of the increasing provision of outpatient services. The development of the market up to and including 2017 shows that, contrary to the market trend, Helios was able to increase its share of inpatient hospital treatment compared with its competitors in percentage terms. On the basis of the measures adopted in 2018 and currently being implemented to consolidate hospital locations, the merging or centralizing of departments, joint management of several specialist departments by a responsible chief physician, the active handling of the issue of center formation, the consistent development of the outpatient sector, and the active handling of patient services, we expect Helios Germany to record an increase in inpatient hospital admissions in 2019.

The so-called change in value figure is relevant for the increase in the **reimbursement of hospital treatments** in Germany. For 2019 it was set at 2.65%. In addition, the hospital funding system provides for various increases and reductions for acute hospitals. For surplus services agreed in advance with the health insurance companies, hospitals have to accept the so-called fixed cost degression discount on surplus services of up to 35%. The exact amount of the discount is negotiated between the hospitals and the health insurance companies.

Since 2017, the care supplement has replaced the extra charge on invoiced hospital treatments. This is intended to support care in hospitals and is granted based on the cost of care at the individual hospitals. The funding volume for 2019 is around €500 million. From 2020 onwards, the previous supplement will be used to provide funding of €200 million, which will be included in the state base rates.

As a result of the Act To Enhance Nurse Staffing Levels (PpSG), the nursing costs will be excluded from the DRG from 2020; instead, the costs for patient-oriented nursing care will be fully reimbursed by the health insurance funds via separate nursing budgets. As early as 2019, each additional or increased care place at the bed will be completely refinanced by the cost bearers. Unlike in the past, there is no upper limit for the additional funds. Measures to relieve the burden on nursing care are also to be financially supported to a certain extent from 2020.

In order to factor medical outcomes into the remuneration, the Federal Joint Committee defines quality indicators. The specific financial terms and details are currently being worked out in a consistent overall concept. However, we do not expect any adverse effects since the Helios Group is well prepared for quality-based remuneration thanks to its clear focus on quality and transparency of medical outcomes.

The future expectations with respect to their **economic situation** vary among the German hospitals: according to the Krankenhaus-Barometer 2018 survey by the German Hospital Institute (DKI), only one sixth (18%) of the hospitals expect their economic situation to improve in 2019, whereas 37% expect it to worsen. Moreover, investment needs are growing while government support is declining. The Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) forecasts that more hospitals will respond to economic pressures by joining together into networks and bundling their services. Networks offer opportunities for individual hospitals to reduce costs, for example in purchasing.

We expect the private hospital market in **Spain** to continue to grow by 2% to 3%. The continuing increase in the number of privately insured patients should also open up opportunities for private operators in the future. Relevant indicators, for example nationwide health care spending and bed density,

Source: Company research; Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI), Krankenhaus Rating Report indicate the further market development potential in the Spanish health care system compared with other EU countries. This also provides opportunities for the establishment of new hospitals. In addition, the highly fragmented private Spanish hospital market offers further consolidation potential.

THE MARKET FOR PROJECTS AND SERVICES FOR HOSPITALS AND OTHER HEALTH CARE FACILITIES

For 2019, we expect the worldwide demand for projects and services for hospitals and other health care facilities to grow at a low single-digit rate.

In the Central European **markets with established health care systems**, we expect solid growth. The demand for projects and services for hospitals and other health care facilities will continue to grow due to demographic changes and the rising investment and modernization needs of public health facilities. The focus is on services ranging from the maintenance and repair of medical and hospital equipment, facility management, and technical operation, through to total operational management and infrastructure process optimization – especially within the framework of public-private partnership (PPP) models. Additional growth opportunities are presented by an increasing number of non-medical services, which are outsourced from public facilities to private service providers. In addition, an expansion of the range of post-acute care services in Europe is expected.

In the **emerging markets,** we anticipate an overall dynamic development. Growth in markets such as Africa, Latin America, and southeast Asia will initially be driven by the demand for efficient, needs-oriented medical care. In China and the Middle East, growth will be driven by the development of infrastructure and the creation of new care services, as well as research and training facilities.

GROUP SALES AND EARNINGS

Based on the expected financial results for 2019, Group sales are projected to grow organically with a compounded annual growth rate (CAGR) of 4% to 7% in 2020 to 2023. Group net income [1,2] is projected to increase organically with a CAGR of 5% to 9% in 2020 to 2023. Small and medium-sized acquisitions are expected to contribute an incremental CAGR of approx. 1%-point to both sales and net income growth.

In 2019, we expect to increase **Group sales[3]** by 3% to 6% in constant currency. We project **Group net income[1,4]** to increase by ~0% in constant currency.

GROUP FINANCIAL MEDIUM-TERM TARGETS

	CAGR 2020 – 2023[1]
Organic sales growth	4% – 7%
Organic net income growth[2]	5% – 9%

[1] Before special items
[2] Net income attributable to shareholders of Fresenius SE & Co. KGaA

GROUP FINANCIAL TARGETS 2019

	Targets 2019	Fiscal year 2018[1]
Sales growth (in constant currency)	3% – 6%[2]	€33,009 m
Net income[3] growth (in constant currency)	~0%[4]	€1,872 m
Dividend	Further increase intended	Proposal +7% per share

[1] Before special items and after adjustments (see table on page 75)
[2] Adjusted for effects of IFRS 16, excluding effects from pending acquisition of NxStage by FMC
[3] Net income attributable to shareholders of Fresenius SE & Co. KGaA
[4] Before special items (before transaction-related expenses, expenses associated with the cost optimization program at FMC, revaluations of biosimilars contingent liabilities), adjusted for IFRS 16 effects, excluding effects from pending acquisition of NxStage by FMC

[1] Net income attributable to shareholders of Fresenius SE & Co. KGaA
[2] Before special items
[3] Base 2018: €33,009 million; 2018 adjusted for divestitures of Care Coordination activities at FMC (H1/18); 2019 adjusted for IFRS 16 effects, excluding effects from pending acquisition of NxStage by FMC
[4] Base 2018: €1,872 million; 2018 before special items and adjusted for divestitures of Care Coordination activities at FMC (H1/18); 2019 before special items (before transaction-related expenses, expenses associated with the cost optimization program at FMC, revaluations of biosimilars contingent liabilities), adjusted for IFRS 16 effects, excluding effects from pending acquisition of NxStage by FMC

FINANCIAL TARGETS BY BUSINESS SEGMENT 2019

	Targets 2019[1]	Fiscal year 2018[2]
Fresenius Medical Care		
Sales growth (in constant currency)	3% – 7%	€16,026 m
Net income[3] growth (in constant currency)	-2% – +2%	€1,341 m
Fresenius Kabi		
Sales growth (organic)	3% – 6%	€6,544 m
EBIT growth (in constant currency)	3% – 6%	€1,139 m
Fresenius Helios		
Sales growth (organic)	2% – 5%	€8,993 m
EBIT growth	-5% – -2%	€1,052 m
Fresenius Vamed		
Sales growth (organic)	~ 10%	€1,688 m
EBIT growth	15% – 20%	€110 m

[1] Before special items (before transaction-related expenses, expenses associated with the cost optimization program at FMC, revaluations of biosimilars contingent liabilities), adjusted for IFRS 16 effects, excluding effects from pending acquisition of NxStage by FMC
[2] Before special items and after adjustments (see table on page 75)
[3] Net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA

SALES AND EARNINGS BY BUSINESS SEGMENT

In 2019, we expect sales and earnings development in our business segments as shown below:

For 2019, **Fresenius Medical Care** expects adjusted sales to grow by 3% to 7%[1,2] in constant currency. Adjusted net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA is expected to develop in the range of -2% to +2%[1,2] in constant currency.

For 2019, **Fresenius Kabi** expects organic sales growth of 3% to 6%[1] and EBIT growth in constant currency of 3% to 6%[1,3].

For 2019, **Fresenius Helios** expects organic sales growth of 2% to 5%, and EBIT decline of -5% to -2%.

For 2019, **Fresenius Vamed** expects to achieve organic sales growth of ~10% and EBIT growth of 15% to 20%.

FRESENIUS GROUP / FRESENIUS MEDICAL CARE / FRESENIUS KABI – 2018 BASE FOR GUIDANCE 2019

€ in millions	Fresenius Group	Fresenius Medical Care	Fresenius Kabi
Sales (as reported)	33,530	16,547	6,544
Divestitures of Care Coordination activities at FMC (H1/2018)	-521	-521	
Sales (adjusted = base for guidance)	**33,009**	**16,026**	**6,544**
Transaction costs Akorn, biosimilars			34
Revaluations of biosimilars contingent liabilities			7
EBIT (before special items = base for Kabi guidance)			**1,139**
Net income (as reported)	**2,027**	**1,982**	
Gain related to divestitures of Care Coordination activities	-207	-673	
Impact of FCPA-related charge	+9	+28	
Transaction Costs Akorn, biosimilars	+25		
Bridge Financing Costs Akorn	+12		
Revaluations of biosimilars contingent liabilities	+5		
Net income (before special items)	**1,871**	**1,337**	
Divestitures of Care Coordination activities at FMC (H1/2018)	+1	+4	
Net income (adjusted = base for FSE & FMC guidance)	**1,872**	**1,341**	

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[1] For details on the 2018 base please see table on page 75
[2] 2019 before special items (cost optimization program), adjusted for IFRS 16 effects, excluding effects from pending acquisition of NxStage by FMC
[3] 2019 before special items (before transaction-related expenses, revaluations of biosimilars contingent liabilities), adjusted for IFRS 16 effects

FINANCING

For 2019, we expect continued strong **cash flow** with a cash flow margin between 10% and 12%.

In addition, unused credit lines under syndicated or **bilateral credit facilities** from banks provide us with a sufficient **financial cushion**.

The bonds of Fresenius SE & Co. KGaA maturing due in 2019 were already successfully refinanced in January 2019. Bonds with a total volume of €1,000 million were issued. Furthermore, the financing activities in 2019 will mainly focus on the refinancing of Fresenius Medical Care bonds and the equity-neutral convertible bond of Fresenius SE & Co. KGaA.

Without acquisitions and adoption of IFRS 16 we expect **net debt/EBITDA**[1] by year-end 2019 to be broadly stable over the year-end 2018 figure.

INVESTMENTS

In 2019, we expect to invest about 7% of sales in property, plant and equipment. About 45% of the capital expenditure planned will be invested at Fresenius Medical Care, about 30% at Fresenius Kabi, and around 20% at Fresenius Helios. The remaining funds are intended for other investments and the expansion of the Group headquarters. At Fresenius Medical Care, investments will primarily be used for the expansion of production capacity, optimizing production costs, and the establishment of new dialysis clinics. Fresenius Kabi will primarily invest in expanding and maintaining production facilities, as well as in introducing new manufacturing technologies. At Fresenius Helios, we will primarily invest in the new buildings, in the modernizing and equipping of existing hospitals, and newly acquired hospitals.

The regional focus of the Group's investment spending will be on Europe and North America, which will account for about 55% and 35%, respectively. The remainder will be invested in Asia, Latin America, and Africa. About 30% of total funds will be invested in Germany.

We assume that the return on operating assets[2] (ROOA) and the return on invested capital[2] (ROIC) will be slightly below the level of 2018.

ORGANIZATION

In order to ensure future growth and to sharpen the profitability of Fresenius Kabi, we will explore and evaluate strategic options for Fresenius Kabi's transfusion and cell technologies business.

DIVIDEND

The dividend increases provided by Fresenius in the last 25 years show impressive continuity. Our dividend policy aims to align dividends with earnings per share growth (before special items) and thus broadly maintains a payout ratio of 20% to 25%. Fresenius intends to further increase its dividend for 2019.

[1] Calculated at expected annual average exchange rates, for both net debt and EBITDA; excluding effects from pending acquisition of NxStage by FMC; excluding further potential acquisitions; adjusted for IFRS 16 effects
[2] Excluding NxStage