

**Fresenius SE & Co. KGaA**

**Bad Homburg v.d.H.**

**2017**

- ▶ Financial Statements
- ▶ Management Report
- ▶ Report of the Supervisory Board

# Fresenius SE & Co. KGaA, Bad Homburg v. d. Höhe

## Balance Sheet as of December 31, 2017

### Assets

	Note	Dec 31, 2017		Dec 31, 2016	
		kEUR	kEUR	kEUR	kEUR
<b>A. Fixed Assets</b>	(4)				
<b>I. Intangible assets</b>			3,487		1,584
<b>II. Tangible assets</b>			61,396		51,818
<b>III. Financial assets</b>			10,611,074		8,171,510
			10,675,957		8,224,912
<b>B. Current assets</b>					
<b>I. Accounts receivable and other assets</b>	(5)				
1. Trade accounts receivable			2		1
2. Accounts receivable from related parties		2,916,042		2,843,681	
3. Other assets		139,878	3,055,922	57,706	2,901,388
<b>II. Cash and cash equivalents</b>	(6)		43,249		306,665
			3,099,171		3,208,053
<b>C. Deferred expense</b>	(7)		72,987		29,282
			13,848,115		11,462,247

## Liabilities and shareholder' equity

	Note	Dec 31, 2017	Dec 31, 2016
		kEUR	kEUR
<b>A. Shareholders' equity</b>			
<b>I. Subscribed capital</b>	(8, 9, 10, 11, 12)		
Ordinary shares		554,710	547,208
<b>II. Capital reserves</b>	(13)	3,234,846	2,808,965
<b>III. Other reserves</b>	(14)	2,471,395	2,339,395
<b>IV. Retained earnings</b>	(15)	416,396	343,649
		<u>6,677,347</u>	<u>6,039,217</u>
<b>B. Special reserve for government investment grants</b>			
	(16)	6	7
<b>C. Accruals</b>			
	(17)		
1. Pensions and similar obligations		61,274	54,757
2. Accruals for income taxes		96,993	101,524
3. Other accruals		45,620	49,730
		<u>203,887</u>	<u>206,011</u>
<b>D. Liabilities</b>			
	(18)		
1. Senior notes		2,200,000	2,200,000
2. Convertible bonds		1,000,000	500,008
3. Bank loans		1,745,867	987,316
4. Trade accounts payable		5,284	4,062
5. Accounts payable to related parties		1,855,557	1,437,647
6. Other liabilities		153,995	85,852
		<u>6,960,703</u>	<u>5,214,885</u>
<b>E. Deferred income</b>			
	(19)	6,172	2,127
		<u>13,848,115</u>	<u>11,462,247</u>

# Fresenius SE & Co. KGaA, Bad Homburg v. d. Höhe

## Profit and Loss Statement January 1 to December 31, 2017

	Note	2017 kEUR	2016 kEUR
1. Income from participations	(22)	732,903	718,839
2. Sales	(23)	58,291	57,829
3. Other operating income	(24)	152,687	177,685
4. Cost of materials	(25)	-13,909	-12,652
5. Personnel expenses	(26)	-42,093	-37,236
6. Depreciation and amortization on intangible assets and on property, plant and equipment	(27)	-5,124	-4,706
7. Other operating expenses	(28)	-182,099	-207,820
8. Net interest	(29)	-86,682	-45,747
9. Income taxes	(30)	-65,703	-69,921
10. After tax profit		548,271	576,271
11. Other taxes		-468	-670
12. Net income		547,803	575,601
13. Retained earnings brought forward		593	48
14. Increase of other reserves		-132,000	-232,000
15. Retained earnings		416,396	343,649

## **Notes Fresenius SE & Co. KGaA**

### **(1) General information**

Fresenius SE & Co. KGaA, registered in Bad Homburg v.d.H. is listed under number B 11852 in the Commercial Register in Bad Homburg v.d.H.

The reporting currency of Fresenius SE & Co. KGaA is the euro. In order to make the presentation clearer, amounts are shown in € thousand. Amounts under €1,000.00 after rounding are marked with „-“.

The preparation of the financial statements has been done according to the rules of the German Commercial Code (HGB) as amended by the 2013/34/EU Directive Implementation Act (BilRUG). The financial statements include the balance sheet, the profit and loss statement as well as the Notes. The profit and loss statement follows the nature of expense method (Gesamtkostenverfahren).

### **(2) Structure**

The Fresenius Group is as of December 31, 2016, divided into four legally independent business segments:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius Helios
- Fresenius Vamed.

Fresenius SE & Co. KGaA owns the stakes in the management companies and functions as an operating holding.

The list of investments of Fresenius SE & Co. KGaA is to be found in the enclosure to the Notes.

### **(3) Accounting principles and standards of valuation**

Acquired **intangible assets** are valued at purchase cost less regular amortization. The useful life is normally between 2 and 5 years, for personal computer auxiliary programs the useful life is 2 years, and for know-how up to 5 years.

The value of **investments in property, plant and equipment** is stated at the cost of the assets less regular linear depreciation.

The following useful lives were used for calculating depreciation:

Office and factory buildings	10 - 40 years
Technical equipment and machinery	5 - 10 years

Other fixtures and fittings, tools and equipment 3 - 10 years.

Assets with purchase cost of up to €150.00 are fully written off in the year of addition.

Depreciable movable non-current assets with a value of more than €150.00 and less than €1,000.00 are grouped into a collective item which is dissolved through profit and loss by one fifth in the year of capitalization and the following four years each.

Extraordinary depreciation is carried out, provided that the carrying book value is other than temporarily impaired.

**Financial assets** are valued at purchase price or, if the asset is other than temporarily impaired the lower market value.

The lower value of non-current assets resulting from write-downs to fair value has to be reversed if the reasons for the extraordinary write-down no longer apply (Section 253 (5) HGB).

**Accounts receivable and other assets** are stated at nominal value reduced by individual allowance if necessary.

No **deferred tax** is to be recognized for temporary differences in valuations in the tax and financial reporting balance sheets as long as the net difference would result in an asset.

The **subscribed capital** is carried at its nominal amount.

The **special reserve with equity portion** that was built according to Section 247 (3) HGB in previous years can be retained according to the option in Art. 67 (3) sentence 1 EGHGB.

The **pension obligation** is determined according to actuarial principles on the basis of biometric probabilities as in the reference tables by Dr. Klaus Heubeck 2005 (RT 2005 G) using the Projected Unit Credit-Method. Future expected remuneration and pension increases are taken into account in calculating the obligation. Remuneration is currently adjusted depending on age by between 3% and 4% and pensions by 1.50%. The company specific fluctuation rate that is also taken into consideration for the calculation has been between 0% and 18%. The actuarial interest rate applicable to the pension obligation was 3.68%. This interest rate is based on the last-ten-year-average interest rate for an estimated remaining life of 15 years as determined and published by the German Federal Bank (Deutsche Bundesbank). Until December 31, 2015 the actuarial interest rate was based on the last seven year-average discount rate. According to Section 253 (6) HGB the difference from this legal change amounts to €10,428,922. Pursuant to Section 253 (1) sentence 3 HGB (security-based pension obligations), the value of the provisions for the employee financed life work time account (Demografiefonds) is based on the performance of the asset value of the corresponding plan reinsurance.

The asset values used to offset the provisions are calculated at their fair values.

**Tax accruals and other accruals** are accounted for recognizable risks and uncertain liabilities at the amounts to be paid and calculated on the basis of a reasonable

commercial assessment. Long term accruals are accounted for taking into account future price and cost increases and are discounted with the last-seven-year-average discount rate that corresponds to the remaining life of the accrual.

**Liabilities** are valued at their settlement amounts.

**Foreign currency items** are translated with the foreign exchange rate at the time of origin or the hedging rate for hedging transactions.

Assets and liabilities with a remaining life of up to a year and carried at foreign currencies are translated at the average closing spot rate according to section 256a HGB.

Assets and liabilities with a remaining expected life of over one year and carried at foreign currencies are translated at inception at the foreign currency exchange rate, while at the balance sheet date the lowest closing spot rate is used for translating assets and the highest closing spot rate is used for translating liabilities. If the conditions to apply hedge accounting are met, the hedging financial instruments and the underlying transactions are combined in a hedge and valued either using the 'Durchbuchungsmethode' or the 'Einfrierungsmethode'. In the first case changes in value are recognized in the income statement. In the second case the transaction is recognized at inception only and changes in value resulting from the hedged risk are not subsequently recorded in the balance sheet or statement of income.

Gains and losses from translation to euro of items carried at foreign currencies are recognized in the statement of income under "Other operating income" or "Other operating expenses".

**Derivative financial instruments** are contracted for hedging purposes only. Both interest rate and foreign currency derivatives are contracted for hedging.

Besides hedging instruments for cash pool balances and loans in foreign currencies that Group Companies have borrowed from Fresenius SE & Co. KGaA or that Fresenius SE & Co. KGaA has borrowed from Group Companies or banks, Fresenius SE & Co. KGaA acquires hedging instruments from banks, that are mirrored by agreements between Fresenius SE & Co. KGaA and its affiliated companies at nearly the same conditions. The affiliated companies use these agreements to hedge their operating businesses against foreign currency risks.

Derivative financial instruments are measured at fair value at balance sheet date. According to German Commercial Law accounting principles and standards of valuation any remeasurement losses are recognized in earnings while remeasurement gains are not taken into account. When the conditions for hedge accounting are met, the underlying asset and the hedging instrument are considered together so that effects of the hedge are only recognized in earnings when the underlying transaction takes place ('Einfrierungsmethode').

Income and expense from profit transfer agreements is recorded in the same reporting period in which it arises given that earnings from affiliated companies are precise enough at the time of preparing the financial statements and is assured according to reasonable commercial assessment.

Income from affiliates is recorded at the date when the distribution of earnings is decided.



## Notes on balance sheet

### (4) Fixed assets

The following is a breakdown of fixed assets and their development:

	<b>Acquisition costs</b>				
	As of Jan. 01, 2017	Additions	Disposals	Reclassifications	As of Dec. 31, 2017
<i>€ in thousands</i>					
<u>Intangible Assets</u>					
Concessions, industrial and similar rights and assets as well as licenses acquired for consideration	3,425	2,468	0	0	5,893
	<u>3,425</u>	2,468	<u>0</u>	<u>0</u>	5,893
<u>Tangible Assets</u>					
Land, leasehold and buildings including buildings on third party property	113,416	5,662	0	50	119,128
Plant and machinery	871	212	0	126	1,209
Other fixtures and fittings, tools and equipment	13,571	1,513	847	1	14,238
Payments on account and tangible assets in course of construction	860	6,751	0	-177	7,434
	<u>128,718</u>	<u>14,138</u>	<u>847</u>	<u>0</u>	<u>142,009</u>
<u>Financial assets</u>					
Shares in related parties	7,402,245	1,051,357	2,000	0	8,451,602
Loans to related parties	769,452	1,390,561	354	0	2,159,659
	<u>8,171,697</u>	<u>2,441,918</u>	<u>2,354</u>	<u>0</u>	<u>10,611,261</u>
Fixed assets	<u>8,303,840</u>	<u>2,458,524</u>	<u>3,201</u>	<u>0</u>	<u>10,759,163</u>

	Write-ups/Depreciation			Carrying amount		
	Cumulated write-ups and depreciation as of Jan. 01, 2017	Additions (depreciation)	Disposals (Write-ups / depreciation)	Cumulated write-ups and depreciation as of Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2016
<i>€ in thousands</i>						
<u>Intangible Assets</u>						
Concessions, industrial and similar rights and assets as well as licenses acquired for consideration	1,841	565	0	2,406	3,487	1,584
	<u>1,841</u>	<u>565</u>	<u>0</u>	<u>2,406</u>	<u>3,487</u>	<u>1,584</u>
<u>Tangible Assets</u>						
Land, leasehold and buildings including buildings on third party property	65,860	3,080	0	68,940	50,188	47,556
Plant and machinery	557	84	0	641	568	314
Other fixtures and fittings, tools and equipment	10,483	1,395	846	11,032	3,206	3,088
Payments on account and tangible assets in course of construction	0	0	0	0	7,434	860
	<u>76,900</u>	<u>4,559</u>	<u>846</u>	<u>80,613</u>	<u>61,396</u>	<u>51,818</u>
<u>Financial assets</u>						
Shares in related parties	187	0	0	187	8,451,415	7,402,058
Loans to related parties	0	0	0	0	2,159,659	769,452
	<u>187</u>	<u>0</u>	<u>0</u>	<u>187</u>	<u>10,611,074</u>	<u>8,171,510</u>
Fixed assets	<u>78,928</u>	<u>5,124</u>	<u>846</u>	<u>83,206</u>	<u>10,675,957</u>	<u>8,224,912</u>

## Financial assets

As of December 31, 2017, Fresenius SE & Co. KGaA owns stakes in the following domestic management companies for business segments:

- Fresenius Medical Care AG & Co. KGaA, Hof an der Saale
- Fresenius Kabi AG, Bad Homburg v.d.H.
- Fresenius ProServe GmbH, Bad Homburg v.d.H.

The percentage of Fresenius Medical Care AG & Co. KGaA's ("FMC-AG & Co. KGaA") subscribed capital held by Fresenius SE & Co. KGaA at the end of fiscal year 2017 was 30.80% (previous year 30.82%). Fresenius SE & Co. KGaA continued to hold 100% of the management companies of the business segments Fresenius Kabi (Fresenius Kabi AG) as well as Fresenius Helios and Fresenius Vamed (both held through Fresenius ProServe GmbH) on December 31, 2017. Through Fresenius ProServe GmbH, Fresenius SE & Co. KGaA holds 100% in HELIOS Kliniken GmbH and in Helios International Holding GmbH as well as a 77% stake in VAMED AG.

Fresenius SE & Co. KGaA holds all of the stakes of the following domestic property management and service companies as well as foreign finance companies:

- Fresenius Biotech Beteiligungs GmbH
- Fresenius Immobilien-Verwaltungs-GmbH
- Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt Schweinfurt KG
- Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt St. Wendel KG
- Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt Friedberg KG
- Hyginus Publisher GmbH
- Fresenius Versicherungsvermittlungs GmbH
- Fresenius Medical Care Management AG
- Fresenius US Finance I, Inc.
- Fresenius US Finance II, Inc.
- Fresenius Finance Holdings Ltd.

All of the subscribed capital of Fresenius Netcare GmbH is indirectly held via Fresenius Versicherungsvermittlungs GmbH.

Through Fresenius Finance Holdings Ltd. Fresenius SE & Co. KGaA indirectly wholly owns Fresenius Finance Ireland PLC and Fresenius Finance Ireland II PLC. In the fiscal year 2017 Fresenius SE & Co. KGaA contributed €1,051,356 thousand to the additional paid-in capital of Fresenius Finance Holdings Ltd.

Fresenius Finance II B. V. was liquidated in December 2017.

Additions to loans to related parties of €959,000 thousand are loans in connection with the acquisition of IDCSalud Holding S.L.U (Quirónsalud) –granted to Fresenius ProServe GmbH which later contributed to the additional paid-in capital of Helios International Holding GmbH. Helios International Holding GmbH was further granted a loan of €431,561 thousand. Moreover loans to related parties

include mainly US-Dollar loans to American affiliated companies..

#### (5) Accounts receivable and other assets

	Dec. 31, 2017	Dec. 31, 2016
<i>€ in thousands</i>		
Trade accounts receivable	2	1
(amount with a remaining term of more than one year)	(0)	(0)
Accounts receivable from related parties	2,916,042	2,843,681
(amount with a remaining term of more than one year)	(13,481)	(16,597)
Other assets	139,878	57,706
(amount with a remaining term of more than one year)	(107,900)	(46,000)
	3,055,922	2,901,388

Accounts receivables from related parties include €5,621 thousand of trade accounts receivables (previous year €2,472 thousand) as well as €2,910,421 thousand mainly consisting of loans and financing related accounts in the context of inhouse banking (cash pool) (previous year €2,841,209 thousand).

Other assets mainly contain stock options (call options) with a value of €107,900 thousand held for hedging market price fluctuations of the derivatives embedded in the convertible bond as well as 5,988 thousand VAT receivable €, and social security related receivables of €8 thousand (previous year €7 thousand). Also included are receivables from corporation tax law (Körperschaftsteuer) and solidarity surcharge (Solidaritätszuschlag) of €22,450 thousand which are the expected amount of outstanding tax assessments for the current and previous years; mainly for the years 2013 to 2014.

#### (6) Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks of €43,249 thousand (previous year €306,665 thousand).

#### (7) Deferred expense

The deferred expenses of €72,987 thousand (previous year €29,282 thousand) mainly consist of discounts with a net book value of €71,117 thousand as of December 31, 2017 (previous year: €26,694 thousand).

The placement of a convertible bond in March 2014 resulted in a discount of €46,000 thousand that will be released on a straight line basis over the lifetime of the

convertible bond. As of December 31, 2017 it is included in deferred expenses with a value of €14,636 thousand.

On January 31, 2017, Fresenius SE & Co. KGaA issued € 500 million of equity-neutral convertible bonds due 2024. This placement resulted in a discount of €61,900 thousand that will be released on a straight line basis over the lifetime of the convertible bond. As of December 31, 2017 it is included in deferred expenses with a value of €53,794 thousand.

Moreover discounts of €4,114 thousand from Fresenius Finance B.V. Senior Notes were assumed in the previous year and are included in deferred expenses with a value of €2,687 thousand as of December 31, 2017 and will be released on a straight line basis over the lifetime of the Senior Notes.

Furthermore it includes the prepayment of the Directors&Officers-Insurance (D&O-Insurance) and the accidental and product liability insurance.

#### **(8) Subscribed capital**

In the course of the acquisition of Quirónsalud, on January 31, 2017, 6,108,176 new shares of Fresenius SE & Co. KGaA were issued from Authorized Capital excluding subscription rights. These new shares already had full dividend entitlement for the fiscal year 2016.

During the fiscal year 2017, 1,393,926 stock options were exercised.

Consequently, as of December 31, 2017 the subscribed capital of Fresenius SE & Co. KGaA consisted of 554,710,473 bearer ordinary shares. The shares are issued as non-par value shares. The proportionate amount of the subscribed capital is €1.00 per share.

The subscribed capital developed as follows:

	2017	2016
<i>€ in thousands</i>		
As of January 1	547,208	545,728
Increase due to issuance from Authorized Capital (capital increase by means of contributions in kind)	6,108	0
Increase due to exercise of stock options	1,394	1,480
<b>As of December 31</b>	<b>554,710</b>	<b>547,208</b>

#### **(9) Own shares**

Fresenius SE & Co. KGaA purchased own ordinary shares during the year for distribution to employees entitled to the profit-sharing program.

The basis for distributing the shares is an agreement negotiated between the Works Council and the Management Board in February 2016. The agreement awards €2,200 of profit-sharing to each full-time employee for 2016 as well as the employer contribution for social security payments. Half of the profit-sharing payment was settled in shares and half in cash which covers the tax and social contributions. The price to determine the number of shares to be allocated under the profit-sharing program was set on June 9, 2017.

To be eligible for the program, employees must have had three years of continuous employment at Fresenius SE & Co. KGaA on December 31, 2016, its direct affiliated companies or affiliated companies of Fresenius Kabi and certain other affiliated companies as identified in the Works Council agreement. At that time, eligible employees must have not been under notice or in an executive position, as defined by Fresenius. Intercompany transfers are counted in full.

As part of the Fresenius SE & Co. KGaA profit-sharing program for 2016, the following ordinary shares were purchased and distributed to employees, and the remaining, not distributed, shares re-sold:

	Date	Number	Price in € per share
Purchase	June 6, 2017	33,700	75.96
Disbursement	June 12, 2017	33,431	77,76
Sale	June 13, 2017	216	76.70
Sale	December 7, 2017	53	64.46

Purchased shares with a nominal value of €33,700 and committed shares with a nominal value of €33,431 represented 0.0061% and 0.0060% of the subscribed capital respectively.

The proceeds from the sales on June 13, and December 7, 2017 have increased corporate funding.

As of December 31, 2017, no own shares were held.

### (10) Notification by shareholders

The following table shows the notifications disclosed in 2017 in accordance with Section 26 (1) of the German Securities Trading Act (WpHG). In cases where holdings reached, exceeded or fell below the thresholds on several occasions, only the most recent notification is mentioned.

Notifying party	Registered office	Date of exceeding or falling below	Reporting threshold	Percentage of voting rights	Number of voting rights	Attribution pursuant to WpHG
BlackRock, Inc.	Wilmington, DE, United States	August 23, 2017	Falling below 5%	4.99	27,428,587	Sections 21,22
					64,746	Section 25 (1) No. 1
					178,690	Section 25 (1) No. 2
Allianz Global Investors GmbH	Frankfurt/Main, Germany	December 5, 2017	Exceeding 5%	5.06	27,745,150	Sections 21,22 Section 25 (1) No. 2
Allianz SE	Munich, Germany	January 25, 2017	Falling below 5%	2.98	16.326.511	Sections 21,22

The Else Kröner-Fresenius-Stiftung as major shareholder informed Fresenius SE & Co. KGaA on December 11, 2017, that it holds 145,858,594 ordinary shares of Fresenius SE & Co. KGaA representing 26.29% of the subscribed capital on December 31, 2017.

All WpHG-notifications by shareholders in 2017 are published on the website of the Company [www.fresenius.com/Shareholder](http://www.fresenius.com/Shareholder) Structure.

### (11) Authorized capital

As of December 31, 2016, the general partner, Fresenius Management SE, was authorized, with the approval of the Supervisory Board, until May 15, 2019, to increase Fresenius SE & Co. KGaA's subscribed capital by a total amount of up to €120,960,000 through a single or multiple issues of new bearer ordinary shares against cash contributions and / or contributions in kind (**Authorized Capital I**). Thereof, on January 31, 2017, €6,108,176 was utilized through the issuance of 6,108,176 shares, thereby reducing the Authorized Capital I to €114,851,824. Therefor the authorization on December 31, 2017 is for €114,851,824.

A subscription right must be granted to the shareholders in principle. In defined cases, the general partner is authorized, with the consent of the Supervisory Board, to decide on the exclusion of the shareholders' subscription right (e. g. to eliminate fractional amounts). For cash contributions, the authorization can only be exercised if the issue price is not significantly below the stock exchange price of the already listed shares at the time the issue price is fixed with final effect by the general partner. Furthermore, in case of a capital increase against cash contributions, the proportionate amount of the shares issued with exclusion of subscription rights may not exceed 10% of the subscribed capital. An exclusion of subscription rights in the context of the use of other authorizations concerning the issuance or the sale of the shares of Fresenius SE & Co. KGaA or the issuance of rights which authorize or bind to the subscription of shares of Fresenius SE & Co. KGaA has to be taken into consideration during the duration of the Authorized Capital until its utilization. In the case of a subscription in kind, the subscription right can be excluded only in order to acquire a company, parts of a company or a participation in a company.

The authorizations granted concerning the exclusion of subscription rights can be used by Fresenius Management SE only to such extent that the proportional amount of the total number of shares issued with exclusion of the subscription rights does not exceed 20% of the subscribed capital. An exclusion of subscription rights in the context of the use of other authorizations concerning the issuance or the sale of the shares of Fresenius SE & Co. KGaA or the issuance of rights which authorize or bind to the subscription of shares of Fresenius SE & Co. KGaA has to be taken into consideration during the duration of the Authorized Capital until its utilization.



The **Authorized Capital I** developed as follows:

	2017	2016
<i>€ in thousands</i>		
Brought forward from previous Authorized Capital I at January 1	120,960	120,960
Reduction due to issuance of bearer ordinary shares	-6,108	0
As of December 31	114,852	120,960

### (12) Conditional Capital

The following Conditional Capitals exist in order to fulfill the subscription rights under the stock option plans of Fresenius SE & Co. KGaA: **Conditional Capital I** (Stock Option Plan 2003), **Conditional Capital II** (Stock Option Plan 2008) and **Conditional Capital IV** (Stock Option Plan 2013).

Another **Conditional Capital III** exists for the authorization to issue option bearer bonds and / or convertible bonds. Accordingly, the general partner is authorized, with the approval of the Supervisory Board, until May 15, 2019, to issue option bearer bonds and/or convertible bearer bonds, once or several times, for a total nominal amount of up to €2.5 billion. To fulfill the granted subscription rights, the subscribed capital of Fresenius SE & Co. KGaA is increased conditionally by up to €48,971,202 through issuing of up to 48,971,202 new bearer ordinary shares. The conditional capital increase shall only be implemented to the extent that the holders of cash issued convertible bonds or of cash issued warrants from option bonds exercise their conversion or option rights and as long as no other forms of settlement are used. The new bearer ordinary shares shall participate in the profits from the start of the fiscal year in which they are issued.

The **Conditional Capital I** for the Fresenius AG Stock Option Plan 2003 developed as follows:

	Ordinary shares
<i>in €</i>	
As of January 1, 2017	5,017,585
Decrease due to exercise of stock options	-282,502
As of December 31, 2017	4,735,083

The **Conditional Capital II** for the Fresenius SE Stock Option Plan 2008 developed as follows:

	Ordinary shares
<i>in €</i>	
As of January 1, 2017	5,980,888
Decrease due to exercise of stock options	-839,624
As of December 31, 2017	5,141,264

The **Conditional Capital III**, approved May 16, 2014, developed as follows:

	Ordinary shares
<i>in €</i>	
As of January 1, 2017	48,971,202
As of December 31, 2017	48,971,202

The **Conditional Capital IV** for the Fresenius SE & Co. KGaA Stock Option Plan 2013 developed as follows:

	Ordinary shares
<i>in €</i>	
As of January 1, 2017	25,200,000
Decrease due to exercise of stock options	-271,800
As of December 31, 2017	24,928,200

### Description of the Fresenius SE & Co. KGaA share-based compensation plans in place

As of December 31, 2017, Fresenius SE & Co. KGaA had two share-based compensation plans in place: the stock option based Fresenius SE Stock Option Plan 2008 (**2008 Plan**) and the Fresenius SE & Co. KGaA Long Term Incentive Program 2013 (**2013 LTIP**) which is based on stock options and phantom stocks. On June 30, 2017, the term of the options granted under the Fresenius AG Stock Option Plan 2003 expired. In 2017, stock options and phantom stocks were solely granted under the 2013 LTIP.

### 2013 LTIP

The 2013 LTIP comprises the Fresenius SE & Co. KGaA Stock Option Plan 2013 (**2013 SOP**) and the Fresenius SE & Co. KGaA Phantom Stock Plan 2013 (**2013 PSP**). It combines the granting of stock options with the granting of phantom stock awards which entitle the holder to receive cash payments upon exercising the phantom stock. Each of the 2013 SOP and 2013 PSP making up the 2013 LTIP have been established under a stand-alone legal documentation.

### 2013 SOP

Under the 2013 SOP, which was approved by the Annual General Meeting of Fresenius SE & Co. KGaA on May 17, 2013, Fresenius Management SE was originally authorized to issue up to 8.4 million subscription rights for an amount of 8.4 million non-par value ordinary bearer shares of Fresenius SE & Co. KGaA until May 16, 2018.

Of the up to 8.4 million options, up to 1.6 million options were designated for members of the Management Board of Fresenius Management SE; up to 4.4 million options were designated for members of the management of directly or indirectly affiliated companies (except for Fresenius Medical Care) and up to 2.4 million options were designated for executive employees of Fresenius SE & Co. KGaA and its affiliated companies (except for Fresenius Medical Care).

In connection with the stock split in 2014, the total volume of not yet granted subscription rights increased in the same proportion as the subscribed capital (factor 3) as far as options have not yet been granted under the 2013 SOP. The same applies to the subsets of the subscription rights that are attributable to individual groups of participants. For stock options that were granted before the stock split 2014 came into effect, the entitlement of the participants to receive new shares through the exercise of stock options increased in the same proportion as the subscribed capital (factor 3). The participants are now entitled to receive three bearer ordinary shares of Fresenius SE & Co. KGaA. The exercise price was reduced proportionally.

The granting of the options shall occur in five annual tranches, each to the last Monday in July or the first Monday in December. With respect to new options, the Supervisory Board of Fresenius Management SE determines the stock options granted to members of Fresenius Management SE's Management Board, whereas the Management Board of Fresenius Management SE determines the other participants in the 2013 SOP and the stock options granted to them.

The exercise price of an option shall equal the volume-weighted average stock market price (closing price) of the nonpar value ordinary bearer share of Fresenius SE & Co. KGaA in the electronic Xetra trading of Deutsche Börse AG in Frankfurt am Main, or a comparable successor system, on the last 30 calendar days prior to the respective grant date.

Options granted have an eight-year term but can be exercised only after a four-year vesting period. The exercise of options is subject to the condition precedent, in each case, that the annual success target within a four-year waiting period is achieved. The success target is achieved in each case if, after the granting of the options to the respective entitled person, either (i) the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, has increased by at least 8% per annum in comparison to the previous year in each case within the waiting period, or (ii) – if this is not the case – the compounded annual growth rate of the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, during the four years of the waiting period amounts to at least 8%. In the event that the success target within the four-year waiting period is not achieved for the individual years or for the compounded annual growth rate, the options issued in each case are forfeited in proportion to the non-achievement of the success target within the waiting period, i. e. by one quarter,

two quarters, three quarters, or completely. The performance targets for 2013, 2014, 2015, 2016 and 2017 were met.

The adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS (currency adjusted) and changes thereto compared to the adjusted net income according to IFRS (without currency adjustment) of the relevant comparison year shall be verified with binding effect in each case by the auditors of Fresenius SE & Co. KGaA on the basis of the audited consolidated financial statements. Upon exercise of vested options, Fresenius SE & Co. KGaA has the right to grant treasury shares in lieu of increasing capital by the issuance of new shares.

After the expiration of the waiting period, all options in respect of which the success target has been achieved may be exercised at any time outside the designated blackout periods.

#### 2013 PSP

Fresenius SE & Co. KGaA's 2013 PSP was established in May 2013, together with the 2013 SOP in line with the 2013 LTIP. Awards of phantom stock can be granted on each stock option grant date. Phantom stock awarded under the 2013 PSP may be granted to the members of Fresenius Management SE's Management Board, the members of the management of directly or indirectly affiliated companies (except for Fresenius Medical Care) and to executive employees of Fresenius SE & Co. KGaA and its affiliated companies (except for Fresenius Medical Care).

The holders of phantom stocks, that were issued before the stock split 2014 came into effect, were granted an economic compensation through retroactively tripling the number of phantom stocks granted before the stock split 2014 came into effect.

As under the 2013 SOP, the Supervisory Board of Fresenius Management SE determines the phantom stock granted to members of Fresenius Management SE's Management Board, whereas the Management Board of Fresenius Management SE determines the other participants in the 2013 PSP and the phantom stock granted to them.

Phantom stock awards under the 2013 PSP entitle the holder to receive a cash payment. Each phantom stock award shall entitle the holder to receive the volume-weighted average stock market price (closing price) of the non-par value ordinary bearer share of Fresenius SE & Co. KGaA in the electronic Xetra trading of Deutsche Börse AG in Frankfurt am Main, or a comparable successor system, during the last three months prior to the date the phantom stock is exercised.

The exercise of phantom stock is subject to the condition precedent, in each case, that the annual success target within a four-year waiting period is achieved. The success target is achieved in each case if, after the granting of the subscription rights to the respective entitled person, either (i) the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, has increased by at least 8% per annum in comparison to the previous year in each case within the waiting period, or (ii) – if this is not the case – the compounded annual growth rate of the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, during the four years of the waiting period amounts to at least 8%. In the event that the success target within the

four-year waiting period is not achieved for the individual years or for the compounded annual growth rate, the phantom stock awards issued in each case are forfeited in proportion to the non-achievement of the success target within the waiting-period, i.e. by one quarter, two quarters, three quarters, or completely. The performance targets for 2013, 2014, 2015, 2016 and 2017 were met.

The adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS (currency adjusted) and changes thereto compared to the adjusted net income according to IFRS (without currency adjustment) of the relevant comparison year shall be verified with binding effect in each case by the auditors of Fresenius SE & Co. KGaA on the basis of the audited consolidated financial statements.

After the expiration of the waiting period, all exercisable phantom stock will be deemed to be exercised and cashed out on March 1 following the end of the waiting period (or the following banking day).

### **Stock Option Plan 2008**

During 2008, Fresenius SE adopted the 2008 Plan to grant subscription rights to members of the Management Board and executive employees of the Company and affiliated companies. Under the 2008 Plan, originally, up to 6.2 million options could be issued, which carried the entitlement to exclusively obtain 6.2 million ordinary shares.

For stock options that were granted before the stock split 2014 came into effect, the entitlement of the participants to receive new shares through the exercise of stock options increased in the same proportion as the subscribed capital (factor 3). The participants are now entitled to receive three bearer ordinary shares of Fresenius SE & Co. KGaA. The maximum number of ordinary shares to be issued increased accordingly. The exercise price was reduced proportionally.

The options granted have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is mandatorily subject to the condition, in each case, that the annual success target within the three year vesting period is achieved. For each such year, the success target is achieved if the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA, adjusted for extraordinary effects, has increased by at least 8% compared to the respective adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA of the previous fiscal year. For each year in which the success target has not been met, one-third of the options granted shall forfeit. The adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA shall be calculated on the basis of the calculation method of the accounting principles according to IFRS. For the purposes of the 2008 Plan, the adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA is determined and will be verified with binding effect by Fresenius SE & Co. KGaA's auditor during the audit of the consolidated financial statements. The performance targets were met in all years. If all conditions are fulfilled, stock options may be exercised throughout the year with the exception of certain pre-determined blackout periods.

This stock incentive plan was replaced by the 2013 SOP. The last options were granted in 2012.

### Stock Option Plan 2003

During 2003, Fresenius AG adopted the 2003 Plan for members of the Management Board and executive employees. This incentive plan which is based on convertible bonds was replaced by the 2008 Plan. The last convertible bonds were granted in 2007. Under the 2003 Plan, eligible employees have the right to acquire ordinary shares of Fresenius SE & Co. KGaA. The bonds expire in 10 years and one third of them can be exercised beginning after two, three and four years after the grant date, respectively. On June 30, 2017, the term of the options granted under the Fresenius AG Stock Option Plan 2003 expired.

### Transactions during 2017

In 2017, Fresenius SE & Co. KGaA awarded 2,401,984 stock options under the 2013 LTIP, including 433,125 options to members of the Management Board of Fresenius Management SE, at a weighted-average exercise price of € 74.64, a weighted-average fair value of € 12.56 each and a total fair value of € 30 million, which will be amortized over the four-year vesting period. Fresenius SE & Co. KGaA also awarded 198,738 phantom stocks under the 2013 LTIP, including 29,437 phantom stocks granted to members of the Management Board of Fresenius Management SE and 20,670 granted to employees of Fresenius SE & Co. KGaA, at a measurement date (December 31, 2017) fair value of € 61.93 each and a total fair value of € 12 million, which will be revalued if the fair value changes, and amortized over the four-year vesting period.

During the fiscal year 2017, Fresenius SE & Co. KGaA received cash of € 33 million from the exercise of 1,393,926 stock options. The average stock price of the ordinary share at the exercise date was € 74.50. The intrinsic value of convertible bonds and stock options exercised in 2017 was € 67 million.

At December 31, 2017, out of 1,697,327 outstanding and exercisable stock options issued under the 2008 Plan, 133,140 were held by the members of the Fresenius Management SE Management Board. Out of 10,065,822 outstanding stock options issued under the 2013 LTIP, 1,488,912 were exercisable at December 31, 2017. The members of the Fresenius Management SE Management Board held 1,479,375 stock options. 1,238,959 phantom stocks issued under the 2013 LTIP were outstanding at December 31, 2017. The members of the Fresenius Management SE Management Board held 231,492 phantom stocks and employees of Fresenius SE & Co. KGaA 120,725 phantom stocks. Stock option transactions are summarized as follows:

	Stock options
	Number
Number as of December 31, 2016	10,900,276
plus new issues	2,401,984
less forfeited options	-145,185
less exercises	-1,393,926
<u>Number as of December 31, 2017</u>	<u>11,763,149</u>

### (13) Capital reserves

Capital reserves comprise the premium paid on the issue of shares and the exercise of stock options (additional paid-in capital).

The capital reserves have developed during the fiscal year as follows:

	2017	2016
<i>€ in thousands</i>		
As of January 1	2,808,965	2,779,211
Increase due to capital increase by means of contributions in kind	393,892	0
Increase due to exercise of stock options	31,989	29,754
<u>As of December 31</u>	<u>3,234,846</u>	<u>2,808,965</u>

The capital reserve exceeds 10% of the subscribed capital and therewith conforms with the legal reserve as in section 150 (1) and (2) of the German Stock Corporation Act (AktG).

### (14) Other reserves

Other reserves developed as follows:

	2017	2016
<i>€ in thousands</i>		
As of January 1	2,339,395	2,107,395
Additions to other reserves from net income of the period	132,000	232,000
<u>As of December 31</u>	<u>2,471,395</u>	<u>2,339,395</u>

According to the restrictions in Section 268 (8) HGB, €26.9 thousand shall not be distributed. This amount relates exclusively to the fair value of the securities held to cover partial retirement agreement obligations in case of insolvency. €10,429 thousand are restricted and shall not be distributed according to Section 253 (6) HGB.

### (15) Retained earnings

Accumulated profits from the prior year of €593 thousand are included in retained earnings in accordance with the decision taken at the Annual General Meeting on May 12, 2017.

Given that the amount of capital that shall not be distributed is sensibly higher than retained earnings, there is no distribution restriction for this amount.

### (16) Special reserve for government investment grants

Special reserves primarily comprise government investment grants and subsidies according to sections 1, 4 and 4b of the German Investment Subsidy Code (InvZulG). Dissolution of grants and subsidies is spread over the useful life of the subsidized assets. The yearly dissolution (€1 thousand) is included in the profit and loss statement under "Other operating income".

### (17) Accrued expenses

The **pension obligation** has been determined according to the method described under Note (3) "Accounting principles and standards of valuation". Included in accrued expenses is an obligation of €17,786 thousand in favor of Fresenius Management SE for pension obligations related to its Management Board members.

In accordance with legal regulations the employee credit balances of **partial retirement agreements** are secured against insolvency. To fulfill this purpose the company buys shares of a money-market-similar investment fund in the amount of the cumulated credit balances. The securitization is done via pledging the investment fund shares to a trustee, hence the securities have the sole purpose of fulfilling the obligations derived from the partial retirement agreements and are not available to other creditors. They have been netted with their matching obligations following Section 246 (2) sentence 2 HGB. The fair value of these securities has been derived from the stock exchange price at the balance sheet date.

Dec. 31, 2017

*€ in thousands*

Amount to be paid for partial retirement agreements	586
Fair value of matching securities	340
<u>Funded status (surplus of obligations over assets)</u>	<u>246</u>
Acquisition cost of securities	313



In the statement of income, net interest includes netted expense and income from the valuation of the securities and the provision in an immaterial amount.

On the basis of a Works Council Agreement from 2009 and starting on January 1, 2010, employees can participate in a demography fund (**Demografiefonds**) by contributing part of their compensation or working time to an account run by Fresenius SE & Co. KGaA in exchange of time-off in the future. The credit balances of the employees are invested in an insurance product via a trust agreement so that Fresenius SE & Co. KGaA and its creditors do not have access to the funds. This construction is a security-based pension obligation in the sense of Section 253 (1) sentence 3 HGB. The amount provisioned for the time balances of the employees corresponds to the fair value of the insurance product. The fair value results from the forecasted actuarial reserves of the insurance company plus the present profit sharing on the surplus.

	Dec 31, 2017
<i>€ in thousands</i>	
Amount to be paid for obligations from the demography fund	2,083
Fair value of matching insurance	2,083
<u>Funded status (surplus of assets over obligations)</u>	<u>0</u>
Acquisition cost of insurance	1,886

The statement of income includes €34 thousand of netted expense and income, respectively, from the valuation of the insurance product and the provision.

**Accruals for income taxes** include estimated amounts of outstanding tax payments from current year as well as prior years.

**Other accruals** mainly include accruals for personnel expenses of €27,489 thousand (previous year: €24,471 thousand) as well as accruals to cover contingent losses from interest rate swaps and foreign currency risks of €7,111 thousand (previous year: €16,459 thousand) and for invoices outstanding of €4,655 thousand (previous year: €3,615 thousand).

**(18) Liabilities**

Dec. 31, 2017

	Thereof with a remaining term of			
	Total	up to 1 year	1 year to 5 years	over 5 years
<i>€ in thousands</i>				
Senior notes	2,200,000	0	1,750,000	450,000
Convertible bonds	1,000,000	0	500,000	500,000
Bank loans	1,745,867	462,867	655,000	628,000
Trade accounts payable	5,284	5,284	0	0
Accounts payable to related parties	1,855,557	1,517,340	258,146	80,071
Other liabilities	153,995	45,943	46,152	61,900
	6,960,703	2,031,434	3,209,298	1,719,971

Dec. 31, 2016

	Thereof with a remaining term of			
	Total	up to 1 year	1 year to 5 years	over 5 years
<i>€ in thousands</i>				
Senior notes	2,200,000	0	1,750,000	450,000
Convertible bonds	500,008	8	500,000	0
Bank loans	987,316	303,316	684,000	0
Trade accounts payable	4,062	4,062	0	0
Accounts payable to related parties	1,437,647	764,484	624,435	48,728
Other liabilities	85,852	39,750	46,102	0
	5,214,885	1,111,620	3,604,537	498,728

## Senior Notes

The following table shows the liabilities from the Senior Notes as of December 31, 2017.

<u>Issuer</u>	<u>Nominal Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Fresenius SE & Co. KGaA 2013/2020	€500 million	July 15, 20	2.875%
Fresenius SE & Co. KGaA 2012/2019	€500 million	Apr. 15, 19	4.25%
Fresenius SE & Co. KGaA 2014/2019	€300 million	Feb. 1, 19	2.375%
Fresenius SE & Co. KGaA 2014/2021	€450 million	Feb. 1, 21	3.00%
Fresenius SE & Co. KGaA 2014/2024	€450 million	Feb. 1, 24	4.00%

## Convertible bonds, equity-neutral

On March 18, 2014, Fresenius SE & Co. KGaA placed €500 million equity-neutral convertible bonds due 2019. The bonds were issued at par. The coupon was fixed at 0%. On December 31, 2017 the conversion price was €49.3599.

Moreover, on January 31, 2017, Fresenius SE & Co. KGaA issued € 500 million of equity-neutral convertible bonds due 2024. The convertible bonds will not bear any interest. The issue price was fixed at 101% of the nominal value, corresponding to an annual yield to maturity of - 0.142%. The initial conversion price is € 107.0979. This represents a 45% premium over the reference share price of the Fresenius share of € 73.8606. The proceeds were used to fund the acquisition of IDC Salud Holding S.L.U. (Quirónsalud) and for general corporate purposes. The coupon was fixed at 0%. On December 31, 2017 the conversion price was €107.0979.

At December 31, 2017, the negative fair value of the derivatives embedded in the convertible bonds was €206 million. Fresenius SE & Co. KGaA has purchased stock options (call options) to secure against future fair value fluctuations of these derivatives. The positive fair value of the call options at December 31, 2017 was €206 million as well. The embedded derivative and the call options build a hedge relationship and are accounted for in other assets and other liabilities at a book value of €108 million each following the "Einfrierungsmethode".

The conversions will be cash-settled. Any increase of Fresenius' share price above the conversion price would be offset by a corresponding value increase of the call options.

## Convertible bonds within the Stock Option Plan

Liabilities from the issuance of convertible bonds worth €8 thousand as part of the Fresenius AG 2003 Stock Option Plan were repaid in Juli 2017.

## Bank loans

### Bridge Financing Facility

On April 25, 2017, Fresenius SE & Co. KGaA entered into a Bridge Financing Facility in the amount of US\$ 4,200 million with a tenor of 18 months for the purpose of the acquisition of Akorn, Inc. which has not been utilized at December 31, 2017. It is planned to replace or refinance the facility with a broad mix of euro and U.S. dollar denominated long-term debt instruments.

The Bridge Financing Facility in the original amount of € 3,750 million, which Fresenius SE & Co. KGaA entered into in September 2016 for the purpose of the acquisition of IDC Salud Holding S.L.U. (Quirónsalud), was cancelled prematurely in January 2017 without having been utilized.

### **Schuldschein Loans**

At December 31, 2017 Fresenius SE & Co. KGaA had €1,543 Million (previous year: €809 Million) liabilities from Schuldschein Loans.

In order to optimize the capital structure and to further reduce financing costs, two floating rate tranches of Schuldschein Loans due originally on April 2, 2018 in the amount of € 76 million and € 65 million have been terminated and prepaid as per April 2017.

The Schuldschein Loans issued by Fresenius SE & Co. KGaA in the total amount of € 125 million which were due on August 2017 were repaid as scheduled.

On December 19, 2016, Fresenius SE & Co. KGaA issued €1,000 million of Schuldschein Loans in tranches of five, seven and ten years with fixed and variable interest rates. The transaction was closed on January 31, 2017. Proceeds were used for general corporate purposes and to finance the acquisition of IDC Salud Holding S.L.U. (Quirónsalud) by Fresenius Helios.

The Schuldschein Loans of Fresenius SE & Co. KGaA are guaranteed by Fresenius Kabi AG and Fresenius ProServe GmbH.

### **Commercial-Paper-Program**

Fresenius SE & Co. KGaA has a commercial paper program under which Fresenius SE & Co. KGaA and Fresenius Finance Ireland PLC can issue up to €1,000 million in short-term notes. As of December 31, 2017, the commercial paper program was utilized by Fresenius SE & Co. KGaA in the amount of €140 million (previous year: €178 Million).

### **Accounts payable to related parties**

Accounts payable to related parties comprise loans and financing accounts with affiliated companies in the context of inhouse banking (cash pool) in an amount of €1,855,554 thousand (previous year €1,437,629 thousand).

Included in this item are liabilities of €3,744 thousand (previous year €5,826 thousand) in favor of the general partner Fresenius Management SE. Moreover, liabilities of €35,989 thousand (previous year €32,409 thousand) in favor of Fresenius Management SE are included in pension liability and other liabilities.

### **Other liabilities**

Other liabilities primarily include €107,900 thousand liabilities from the derivatives embedded in the convertible bonds (previous year €46,000 thousand) as well as tax liabilities, interest liabilities and payroll liabilities.

Tax liabilities amount to €721 thousand (previous year €1,337 thousand).

### (19) Deferred income

Deferred income of €6,172 thousand (previous year €2,127 thousand) refers to premiums.

The placement of the convertible bond in January 2017 resulted in a premium of €5,000 thousand that will be released on a straight line basis over the lifetime of the convertible bond. As of December 31, 2017 it is included in deferred income with a value of €4,345 thousand.

Moreover a premium of €2,253 thousand arising from a senior note was taken over from Fresenius Finance B.V. in the previous year and shall be released on a straight line basis over the term of the senior note. As of December 31, 2017 it is included in deferred income with a value of €1,827 thousand.

### (20) Contingent liabilities

According to our judgment the affected companies can meet the underlying obligations in any case and assertion of the claim is, taking into account the positive earnings situation of the affiliated companies, currently not expected.

	2017	2016
<i>€ in thousands</i>		
Contingencies from indemnity agreements and guarantees	6,381,649	5,289,296
(thereof amount in favor of and from affiliated companies)	(6,379,227)	(5,287,240)
Commitments from retirement provisions	15,432	15,214
(thereof amount to affiliated companies)	(15,432)	(15,214)
	<u>6,397,081</u>	<u>5,304,510</u>

Commitments from retirement provisions comprise liabilities for joint commitments from the transfer of pension obligations to operating divisions of the business segments.

Fresenius SE & Co. KGaA has committed itself to exempt on certain preconditions various members of the managing boards of foreign affiliates from claims, in case such claims were made due to their function as members of the managing board of the affiliates concerned, and these claims were based on the law of the respective country.

Fresenius SE & Co. KGaA has committed itself, to the extent legally admissible, to indemnify the members of the Management Board of Fresenius Management SE against claims against them arising from their work for the Company and its affiliates, if such

claims exceed their responsibilities under German law. To secure such obligations, the Company concluded a 'Directors & Officers' insurance with an excess, in compliance with stock corporation requirements. The indemnity applies for the time in which each member of the Management Board is in office and for claims in this connection after the ending of the membership of the Management Board in each case.

### Bridge Financing Facility

Fresenius SE & Co. KGaA guarantees a Bridge Financing Facility in the amount of US\$ 4,200 million that it has entered together with Fresenius US Finance II, Inc. Fresenius Finance Ireland PLC and Fresenius Finance Ireland II PLC, all of them directly or indirectly wholly-owned subsidiaries of Fresenius SE & Co. KGaA. These financing facility has not been utilized at December 31, 2017

### Commercial-Paper-Programm

Fresenius SE & Co. KGaA guarantees the commercial paper issued by Fresenius Finance Ireland PLC under the Commercial-Paper-Programm. As of December 31, 2017, the commercial paper program was utilized by Fresenius Finance Ireland PLC in the amount of €575 million.

### Senior Notes

Fresenius SE & Co. KGaA guarantees the Senior Notes of Fresenius US Finance II, Inc. and Fresenius Finance Ireland PLC, all of them directly or indirectly wholly-owned subsidiaries of Fresenius SE & Co. KGaA. The following table shows these liabilities of these subsidiaries as of December 31, 2017.

Issuer	Nominal Value	Maturity Date	Interest Rate
Fresenius US Finance II, Inc. 2014/2021	US\$300 million	Feb. 1, 21	4.25%
Fresenius US Finance II, Inc. 2015/2023	US\$300 million	Jan. 15, 23	4.50%
Fresenius Finance Ireland PLC 2017/2022	€700 million	Jan. 31, 22	0,875%
Fresenius Finance Ireland PLC 2017/2024	€700 million	Jan. 30, 24	1,5%
Fresenius Finance Ireland PLC 2017/2027	€700 million	Feb. 1, 27	2,125%
Fresenius Finance Ireland PLC 2017/2032	€500 million	Jan. 30, 32	3,00%

On January 30, 2017 Fresenius Finance Ireland PLC, an indirectly wholly owned subsidiary of Fresenius SE & Co. KGaA, issued Senior Notes with an aggregate volume of €2.6 billion. They consist of four tranches with maturities of five, seven, ten and fifteen years. The proceeds were used to fund the acquisition of IDCSalud Holding S.L.U. (Quirónsalud) and for general corporate purposes.

The Senior Notes of Fresenius US Finance II, Inc. and Fresenius Finance Ireland PLC are guaranteed by Fresenius SE & Co. KGaA. The holders have the right to request that the issuers repurchase the Senior Notes at 101% of principal plus accrued interest upon the occurrence of a change of control followed by a decline in the rating of the respective Senior Notes. The Senior Notes of Fresenius US Finance II, Inc. and Fresenius Finance Ireland PLC may be redeemed prior to their maturity at the option of the issuers at a

price of 100% plus accrued interest and a premium calculated pursuant to the terms of the indentures under observance of certain notice periods.

Fresenius SE & Co. KGaA has agreed to a number of covenants which restrict the scope of action of Fresenius SE & Co. KGaA and its subsidiaries (excluding Fresenius Medical Care AG & Co. KGaA and its subsidiaries) to provide protection to the bondholders. These covenants consist of restrictions on further debt that can be raised, the mortgaging or sale of assets, the entering into sale and leaseback transactions as well as mergers or consolidations with other companies. Some of these restrictions were lifted automatically as the rating of the respective Senior Notes reached investment grade. In the event of non-compliance with certain terms of the Senior Notes, the bondholders (owning in aggregate more than 25% of the outstanding Senior Notes) are entitled to call the Senior Notes and demand immediate repayment plus interest. As of December 31, 2017, the Fresenius Group was in compliance with all of its covenants.

### **2013 Credit Agreement**

On December 20, 2012, Fresenius SE & Co. KGaA and various subsidiaries entered into a delayed draw syndicated credit agreement (2013 Senior Credit Agreement) in the original amount of US\$1,300 million and €1,250 million.

Since the initial funding of the 2013 Senior Credit Agreement in June 2013, additional tranches were added. Furthermore, scheduled amortization payments as well as voluntary repayments have been made.

On October 14, 2016, the Senior Credit Agreement 2013 was increased by an incremental term loan of €900 million and an incremental revolving facility of €300 million. The incremental facilities are used to fund the acquisition of IDCSalud Holding S.L.U. (Quirónsalud) by Fresenius Helios. The incremental facilities were funded on January 31, 2017.

On August 22, 2017, the 2013 Credit Agreement was refinanced. The existing senior secured facilities were replaced with unsecured facilities resulting in a total credit facility of approximately € 3,800 million with maturities in 2021 and 2022. Concurrently, the guarantor structure was aligned, with Fresenius SE & Co. KGaA now being sole guarantor.

As of December 31, 2017, the 2013 Senior Credit Agreement consisted of:

- Revolving credit facilities of US\$ 500 million and € 1,000 million which will be due on September 28, 2022. The US-Dollar facility can be used by Fresenius US Finance I, Inc., Fresenius Finance Ireland II PLC and Fresenius SE & Co. KGaA. The Euro facilities are available to Fresenius Ireland PLC and Fresenius SE & Co. KGaA. The revolving credit facilities were not utilized at December 31, 2017.
- A term loan of US\$ 635 million, borrowed by Fresenius Finance Ireland II PLC and scheduled to mature on September 28, 2022. Quarterly repayments of US\$ 15 million began on December 28, 2017 with the remaining balance outstanding due on the maturity date.
- A term loan of € 975 million, borrowed by Fresenius Finance Ireland PLC and also scheduled to mature on September 28, 2022. Quarterly repayments of € 25 million

began on December 28, 2017 with the remaining balance outstanding due on the maturity date.

- A non-amortizing term loan of € 750 million which is scheduled to mature on September 28, 2021. This loan was borrowed by Fresenius Finance Ireland PLC

### (21) Other financial commitments

	2017	2016
<i>€ in thousands</i>		
Commitments from building leases, and leasing commitments		
due 2018 (prior year 2017)	10,280	8,594
due 2019-2022 (prior year 2018-2021)	29,054	20,789
due after 2022 (prior year after 2021)	14,160	4,556
	53,494	33,939
Commitments from ongoing capital expenditures	18,395	8,603
	71,889	42,542

Other financial commitments in their entirety are against third parties.



## Notes on the profit and loss statement

The structure of the profit and loss statement has been adapted to the holding character of Fresenius SE & Co. KGaA and starts with income from participations

### (22) Income from participations

	2017	2016
<i>€ in thousands</i>		
Income from profit transfer agreements	632,419	632,307
Income from participations (thereof amount from affiliated companies)	100,484 (100,484)	86,532 (86,532)
	<u>732,903</u>	<u>718,839</u>

### (23) Sales

	2017	2016
<i>€ in thousands</i>		
Sales from personnel services (thereof amount from affiliated companies)	41,697 16,594	40,819 17,010
	<u>58,291</u>	<u>57,829</u>

### (24) Other operating income

Other operating income of €152,687 thousand in total (previous year €177,685 thousand) is comprised primarily of foreign currency gains of €116,480 thousand (previous year €141,619 thousand), cost transfers to group companies excluding own services of € 34,407 thousand (previous year €17,231 thousand), and disposal gain of Fresenius Finance II B.V. of €414 thousand (previous year €15,738 of disposal gain of Fresenius Finance II B.V. ) as well as other income from other accounting periods mainly income from the dissolution of short-term accruals of €776 thousand (previous year €2,232 thousand). The main reason for the decrease in other operating income is a decrease in foreign currency gains.

The total income from other accounting periods was €1,201 thousand in the fiscal year (previous year €5,333 thousand).

### (25) Cost of materials

Cost of materials of €13,909 thousand (previous year €12,652 thousand) mainly consist of costs to attain sales from rentals and lease agreements such as rents and lease payments for buildings as well as repair, maintenance and cleaning costs for the mentioned buildings.

**(26) Personnel expenses**

	2017	2016
<i>€ in thousands</i>		
Salaries and wages	33,696	33,380
Social security and costs of retirement pensions and social assistance	8,397	3,856
(thereof amount of retirement pensions)	(3,993)	(-246)
	<u>42,093</u>	<u>37,236</u>

The annual average number of employees of Fresenius SE & Co. KGaA by function is divided into the following groups:

	2017	2016
Wage earners	20	18
Salaried employees	309	292
Apprentices	140	131
	<u>469</u>	<u>441</u>

**(27) Depreciation and amortization of intangible assets and property, plant and equipment**

Depreciation of intangible assets and property, plant and equipment of €5,124 thousand (previous year €4,706 thousand) is regular depreciation.

**(28) Other operating expenses**

Other operating expenses of €182,099 thousand in total (previous year €207,820 thousand) were primarily foreign currency losses of €110,310 thousand (previous year €144,097 thousand). Also included are IT-related expenses, insurance premiums and consulting expenses, as well as the costs of Fresenius Management SE for business management activities of €9,758 thousand that are passed on. Total expenses from other accounting periods were €745 thousand in the fiscal year (previous year €890 thousand).

**(29) Net interest**

	2017	2016
<i>€ in thousands</i>		
Interest income from long-term loans (thereof amount from affiliated companies)	54,265 (53,973)	70,501 (70,455)
Other interest and similar income (thereof amount from affiliated companies)	38,153 (29,129)	32,741 (30,246)
Interest and similar expenses (thereof amount from affiliated companies) (thereof expense from interest accrued for provisions)	-179,100 (-20,476) (-2,164)	-148,989 (-66,222) (-2,025)
	<u>-86,682</u>	<u>-45,747</u>

**(30) Income Taxes**

Income taxes in the amount of €65,703 thousand (previous year €69,921 thousand) resulted from current income tax of €48,472 thousand for the year 2017 (previous year €70,596 thousand) as well as tax expense from other accounting periods in the amount of €17,231 thousand (previous year tax income from other accounting periods of €675 thousand).

The deferred tax for the Tax Group is calculated with a tax rate of 30.5%, which is the tax rate expected to be applicable at the time the temporary differences reverse. Deferred tax liabilities arise from differences in the valuation of accounts receivables and from other assets not recognized for tax purposes. Differences in the valuation of pensions and other provisions generate deferred tax assets that exceed the amount of deferred tax liabilities.

**(31) Derivatives**

Fresenius SE & Co. KGaA uses derivative financial instruments, normally micro-hedges, to hedge against existing or highly probable future interest and currency risks. Derivative financial instruments are contracted exclusively for hedging purposes. As the critical terms of the underlying transactions basically match those of the derivative financial instruments it can be assumed that hedges are highly effective. Fresenius SE & Co. KGaA has approved guidelines for assessing risks and to control the use of financial instruments. The guidelines require a clear separation between the execution function on the one side and the clearing, accounting and control on the other side. Fresenius SE & Co. KGaA uses derivative financial instruments to reduce fluctuations in earnings and cash flows caused by changes in foreign currency exchange rates and interest rates. The high effectiveness of the derivative financial instruments leads to the expectation that, in general, the underlying transaction and the corresponding derivative will offset each other.

### Foreign exchange risk

The company uses foreign exchange forward contracts to hedge foreign exchange risk.

Fresenius SE & Co. KGaA entered into foreign exchange forward contracts with external partners to hedge foreign currency risks from accounts receivable and liabilities as well as highly probable forecasted transactions from the Company and its affiliates. On the balance sheet date, the Company had mainly US\$ and € currency derivatives with a nominal value of €741,860 thousand and a negative fair value of €5,598 thousand with a maximum maturity of 12 months.

For foreign exchange forward contracts contracted with banks that were closed to hedge the foreign exchange risk of Fresenius SE & Co. KGaA Group companies' and that were passed down to the affected Group companies via Group internal transactions, hedges were built for the forward contracts and the underlying transactions with an offsetting fair value. The Company does not revalue these hedges for financial reporting purposes until maturity ('Einfrierungsmethode'). The positive net fair value of internal and external hedges was €0 thousand. As of December 31, 2017, the notional amount of these transactions totaled €176,438 thousand. The offsetting cash flows will level after 11 months the latest.

Further hedges were built for loans in foreign currencies that Group Companies have borrowed from the Company or that the Company has borrowed from Group Companies, and their offsetting foreign exchange forward contracts closed for hedging purposes. The loan receivables and payment obligations hedged against currency risk had a net book value of €250,146 thousand (liability). External foreign currency hedging contracts for the individual loans receivables and payment obligations with a nominal value of €248,100 on December 31, 2017 had a negative fair value of €3,739 thousand. The changes in value of both the loan receivables and payment obligations and the foreign currency hedging contracts have been recognized as income ('Durchbuchungsmethode'). The offsetting cash flows will nearly level after 12 months the latest.

The rest of the currency derivative contracts can have positive and negative fair values. Positive fair values of €1,027 thousand were not recognized for financial reporting purposes. Negative fair values amounting to €2,886 thousand were recognized as provision for contingent losses.

### Interest rate risk

The Company entered into interest rate swap transactions with banks with a nominal value of US\$200,000 thousand or €166,764 thousand and a positive fair value on the balance sheet date of €4,834 thousand. These interest rate swap transactions are mirrored by hedge agreements with affiliated companies with the same nominal volume and a negative fair value of €4,834 thousand. These transactions build a hedge that is not revaluated for financial reporting purposes until maturity ('Einfrierungsmethode'). This interest rate swaps mature on March 10, 2021 the latest.

Interest rate caps with a nominal volume of €200,000 thousand have been entered into to further hedge variable interest rate payments from the syndicated credit agreement. No hedging relationship has been built for the interest rate caps, which have been

accounted for at a fair value of €0 thousand on the balance sheet date. This interest rate caps mature on March 28, 2018.

### Standards of valuation

The fair values of derivative financial instruments are valued according to customary standards that take market information (market values) on the balance sheet date into account. In detail following principles are used:

- The fair value is based on the market value of a derivative that could be reached in voluntary transactions by independent parties without taking forced or liquidation sales into account.
- To determine the market value of foreign exchange forward contracts, the contracted forward rate is compared to the current forward rate for the remaining term of the contract as of the date of the balance sheet. The result is then discounted on the basis of the market interest rates prevailing at the date of the statement of financial position for the respective currency.
- The value of interest rate swaps is calculated by discounting the future cash flows on the basis of the market interest rates applicable for the remaining term of the contract as of the date of the balance sheet.
- The premium paid for the caps was capitalized and is adjusted as of the respective balance sheet date. For this purpose, the internal option values of the caps are determined and discounted to the present value on the balance sheet date.

The effectiveness of hedging relationships is measured with the Critical Term Match-Method and the Dollar Offset-Method for foreign exchange forward contracts and with the Dollar Offset-Method for interest rate swaps.

### (32) Compensation of the Management Board and Supervisory Board

Individualized information regarding the compensation of the members of the Management Board and of the Supervisory Board is disclosed in the audited Compensation Report (see exhibit Compensation Report), which is part of the Management Report.

The Management Board's compensation is, as a whole, performance-oriented and was composed of three elements in the fiscal year 2016:

- non-performance-based compensation (fixed compensation and fringe benefits)
- short-term performance-based compensation (one-year variable compensation)
- components with long-term incentive effects (several-year variable compensation comprising stock options, share-based compensation with cash settlement (phantom stocks) and postponed payments of the one-year variable compensation).

The cash compensation paid to the Management Board for the performance of its responsibilities was € 14,378 thousand (previous year: € 14,573 thousand). Thereof, € 5,407 thousand (previous year: € 5,319 thousand) is not performance-based and € 8,971 thousand (previous year: € 9,254 thousand) is performance-based. The amount of the performance-based compensation depends on the achievement of targets relating to the net income of the Fresenius Group and business segments. As a long-term incentive component, the members of the Management Board received 433,125 stock options under the Fresenius SE & Co. KGaA Stock Option Plan 2013 and a share-based compensation with cash settlement in an amount of € 4,740 thousand.

The total compensation of the Management Board was € 24,664 thousand (previous year: € 25,051 thousand).

The total compensation paid to the Supervisory Boards of Fresenius SE & Co. KGaA and Fresenius Management SE and their committees was € 5,365 thousand in 2017 (previous year: € 4,388 thousand). Of this amount, € 226 thousand was fixed compensation (previous year: € 220 thousand), € 100 thousand was compensation for committees services (previous year: € 100 thousand), and € 5,039 thousand was variable compensation (previous year: € 4,068 thousand).

In 2017, based on pension commitments to former members of the Management Board, € 1,099 thousand (previous year: € 1,094 thousand) was paid. The pension obligation for these persons amounted to € 21,848 thousand in 2017 (previous year: € 23,183 thousand).

In the fiscal years 2017 and 2016, no loans or advance payments of future compensation components were made to members of the Management Board of Fresenius Management SE.

The members of the Management Board and Supervisory Board of Fresenius Management SE are displayed in the exhibit to the Notes.

### **(33) Subsequent events**

There have been no significant changes in the Fresenius Group's operating environment following the end of the fiscal year 2017 until February 26, 2018. No other events of material importance on the assets and liabilities, financial position, and results of operations of the Group have occurred following the end of the fiscal year.

### (34) Corporate Governance

For each consolidated stock exchange listed entity, the declaration pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz) has been issued and made available to shareholders on the website of Fresenius SE & Co. KGaA ([www.fresenius.com/corporate-governance](http://www.fresenius.com/corporate-governance)) and of Fresenius Medical Care AG & Co. KGaA ([www.freseniusmedicalcare.com](http://www.freseniusmedicalcare.com)).

### (35) Consolidated Financial Statements

As parent company Fresenius SE & Co. KGaA prepares and publishes consolidated financial statements and management report in accordance with the International Financial Reporting Standards (IFRS) which are binding to be applied in the EU applying Section 315e of the German Commercial Code (HGB) for the smallest group of consolidated companies. The consolidated financial statements are published in the electronic Bundesanzeiger (German Federal Gazette). Fresenius Management SE, Bad Homburg v.d.H. prepares and publishes the consolidated financial statements for the largest group of consolidated companies which is also published in the electronic Bundesanzeiger (German Federal Gazette).

#### Auditor's Fees

The fees for the auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, are disclosed in the company's consolidated financial statements. They contain audit-related fees and other fees mainly related to the review of quarterly financial statements, audit services in connection with financing activities as well as audits with respect to implementation activities in the IT.

### (36) Proposal for the distribution of earnings

The General Partner and the Supervisory Board of Fresenius SE & Co. KGaA propose to the Annual General Meeting that the earnings for 2017 of Fresenius SE & Co. KGaA be distributed as follows:

Payment of a dividend of € 0.75 per ordinary share on the 554,710,473 ordinary shares entitled to dividend	€416,032,854.75
Balance to be carried forward	€363,448.36
Retained earnings	€416,396,303.11

**(37) Responsibility Statement**

“To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the Company management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.”

Bad Homburg v.d.H., February 26, 2018

Fresenius SE & Co. KGaA,

represented by:

Fresenius Management SE, its General Partner

The Management Board

S. Sturm

Dr. F. De Meo

R. Empey

Dr. J. Götz

M. Henriksson

R. Powell

Dr. E. Wastler



# BOARDS

## SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

### Dr. Gerd Krick

Chairman of the Supervisory Board of  
Fresenius SE & Co. KGaA

Chairman

#### Offices

##### Supervisory Board

Fresenius Management SE (Chairman)  
Fresenius Medical Care AG & Co. KGaA (Chairman)  
Fresenius Medical Care Management AG  
VAMED AG, Austria (Chairman)

### Prof. Dr. med. D. Michael Albrecht

Medical Director and Spokesman of the  
Management Board of the Universitäts-  
klinikum Carl Gustav Carus Dresden

#### Offices

##### Supervisory Board

GÖK Consulting AG  
Universitätsklinikum Aachen

### Michael Diekmann

Member of various Supervisory Boards

Deputy Chairman

#### Offices

##### Supervisory Board

Allianz SE (Chairman; since May 7, 2017)  
BASF SE (Deputy Chairman)  
Fresenius Management SE  
Linde AG (until May 10, 2017; Second Deputy Chairman)  
Siemens AG

### Konrad Kölbl

Full-time Works Council Member

Member of the Manual Workers' Works  
Council of VAMED-KMB Krankenhaus-  
management und Betriebsführungs-  
ges. m.b.H.

Chairman of the Group Works Council  
of VAMED AG

Member of the European Works Council  
of Fresenius SE & Co. KGaA

#### Corporate Offices

##### Supervisory Board

VAMED-KMB Krankenhausmanagement und  
Betriebsführungsges. m.b.H., Austria

### Stefanie Lang

Full-time Works Council Member

Chairman of the Works Council of  
Fresenius Medical Care Deutschland  
GmbH

### Frauke Lehmann

Full-time Works Council Member

Chair of the Works Council of  
Helios Kliniken Schwerin GmbH

Member of the Group Works Council of  
Helios Kliniken GmbH

Member of the European Works Council  
of Fresenius SE & Co. KGaA

#### Corporate Offices

##### Supervisory Board

Helios Kliniken Schwerin GmbH (Deputy Chairman)

### Prof. Dr. med. Iris Löw-Friedrich

Chief Medical Officer and Executive  
Vice President, Head of Development  
and Medical Patient Value Practices,  
UCB S.A.

#### Offices

##### Supervisory Board

Evotec AG

### Klaus-Peter Müller

Chairman of the Supervisory Board of  
Commerzbank AG

#### Offices

##### Supervisory Board

Commerzbank AG (Chairman)  
Fresenius Management SE

#### Board of Directors

Parker Hannifin Corporation, USA

### Oscar Romero de Paco

Production staff member

Member of the Works Council of  
Fresenius Kabi España S.A.U.

Member of the European Works Coun-  
cil of Fresenius SE & Co. KGaA

## SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

### Hauke Stars

Member of the Executive Board  
Deutsche Börse AG

#### Offices

#### Supervisory Board

Clearstream International S.A. (since May 3, 2017;  
Deutsche Börse AG Group mandate)  
Eurex Frankfurt AG (Deutsche Börse AG Group mandate)

#### Administrative Board

Eurex Zürich AG (Deutsche Börse AG Group mandate)  
Kühne + Nagel International AG

### Rainer Stein

Full-time Works Council Member

Chairman of the Group Works Council  
of Helios Kliniken GmbH

Chairman of the European Works  
Council of Fresenius SE & Co. KGaA

#### Corporate Offices

#### Supervisory Board

Helios Klinikum Berlin-Buch GmbH

### Niko Stumpfögger

Secretary of the Trade Union ver.di,  
Head of Company and Industry Politics  
in Health Care and Social Affairs

Deputy Chairman

## COMMITTEES OF THE SUPERVISORY BOARD

### Audit Committee

Klaus-Peter Müller (Chairman)  
Konrad Kölbl  
Dr. Gerd Krick  
Hauke Stars  
Rainer Stein

### Nomination Committee

Dr. Gerd Krick (Chairman)  
Michael Diekmann  
Klaus-Peter Müller

### Joint Committee<sup>1</sup>

Dr. Dieter Schenk (Chairman)  
Michael Diekmann  
Dr. Gerd Krick  
Dr. Karl Schneider

<sup>1</sup> The committee consists equally of two members each of the Supervisory Board of Fresenius SE & Co. KGaA and of Fresenius Management SE.

## MANAGEMENT BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

### Stephan Sturm

Chairman  
Chief Financial Officer  
(until July 31, 2017)

#### Corporate Offices

#### Supervisory Board

Fresenius Kabi AG (Chairman)  
Fresenius Medical Care Management AG (Chairman)  
VAMED AG, Austria (Deputy Chairman)

#### Offices

#### Supervisory Board

Deutsche Lufthansa AG

### Dr. Francesco De Meo

Business Segment Fresenius Helios

#### Corporate Offices

#### Supervisory Board

Helios Beteiligungs AG (Chairman)  
Helios Kliniken Schwerin GmbH (Chairman)

### Rachel Empey

Chief Financial Officer  
(since August 1, 2017)

#### Corporate Offices

#### Supervisory Board

Fresenius Kabi AG (since October 1, 2017;  
Deputy Chair)  
Fresenius Medical Care Management AG (since September 1, 2017)

#### Offices

#### Board

Inchcape plc (Non-Executive Director)

### Dr. Jürgen Götz

Chief Legal and Compliance Officer,  
and Labor Relations Director

### Mats Henriksson

Business Segment Fresenius Kabi

#### Corporate Offices

#### Supervisory Board

Fresenius Kabi Austria GmbH, Austria (Chairman)  
Fresenius Kabi España S.A.U., Spain  
Labesfal – Laboratórios Almiro, S.A., Portugal

#### Administrative Board

Fresenius Kabi Italia S.p.A., Italy (Chairman)

#### Board of Directors

Fenwal, Inc., USA  
FHC (Holdings) Ltd., Great Britain  
Fresenius Kabi Pharmaceuticals Holding, Inc., USA  
Fresenius Kabi (Singapore) Pte Ltd., Singapore  
Fresenius Kabi USA, Inc., USA  
Quercus Acquisition, Inc., USA  
Sino-Swed Pharmaceutical Corp, Ltd., China

### Rice Powell

Business Segment  
Fresenius Medical Care

#### Corporate Offices

#### Administrative Board

Vifor Fresenius Medical Care Renal Pharma Ltd.,  
Switzerland (Vice Chairman)

#### Board of Directors

Fresenius Medical Care Holdings, Inc., USA  
(Chairman)

### Dr. Ernst Wastler

Business Segment Fresenius Vamed

#### Corporate Offices

#### Supervisory Board

Charité CFM Facility Management GmbH  
(Deputy Chairman)  
VAMED-KMB Krankenhausmanagement und  
Betriebsführungs-ges.m.b.H., Austria (Chairman)

## SUPERVISORY BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

**Dr. Gerd Krick**

Chairman

**Dr. Kurt Bock**

Chief Executive Officer BASF SE

**Michael Diekmann**

**Klaus-Peter Müller**

**Dr. Dieter Schenk**

Lawyer and Tax Consultant

Deputy Chairman

Offices

**Supervisory Board**

Bank Schilling & Co. AG (Chairman)  
Fresenius Medical Care AG & Co. KGaA (Deputy Chairman)  
Fresenius Medical Care Management AG  
(Deputy Chairman)  
Gabor Shoes AG (Chairman)  
Greiffenberger AG (until May 7, 2017; Deputy Chairman)  
TOPTICA Photonics AG (Chairman)

**Foundation Board**

Else Kröner-Fresenius-Stiftung (Chairman)

**Dr. Karl Schneider**

Former Spokesman of Südzucker AG

Offices

**Foundation Board**

Else Kröner-Fresenius-Stiftung (Deputy Chairman)

## MANAGEMENT REPORT FOR FRESENIUS SE & Co. KGAA

Fresenius SE & Co. KGaA acts as an operating holding that holds the shares of the Fresenius Group management companies. Fresenius SE & Co. KGaA collects income from service contracts, and in a higher amount, income from participations. The income from investments and with it, the result of operations, financial position and the assets and liabilities are highly dependent on the performance of the whole Group. Therefore the business development of the group is described in the following paragraphs.

### FUNDAMENTAL INFORMATION ABOUT THE GROUP

#### The group's business model

Fresenius is a global health care group in the legal form of an SE & Co. KGaA (a partnership limited by shares). We offer products and services for dialysis, hospitals, and outpatient medical care. In addition, Fresenius focuses on hospital operations. We also manage projects and provide services for hospitals and other health care facilities worldwide.

The operating business comprises four **business segments**, all of which are legally independent entities managed by the operating parent company Fresenius SE & Co. KGaA. The business segments have a regional and decentralized structure.

- **Fresenius Medical Care** offers services and products for patients with chronic kidney failure. As of December 31, 2017, Fresenius Medical Care treated 320,960 patients at 3,752 dialysis clinics. Dialyzers and dialysis machines are among the most important product lines. In addition, Fresenius Medical Care offers dialysis-related services, among others in the field of Care Coordination.
- **Fresenius Kabi** specializes in intravenously administered generic drugs (IV drugs), clinical nutrition, and infusion therapies. The company is also a supplier of medical devices and products of transfusion technology. In addition, we are developing products with a focus on oncology and autoimmune diseases within the biosimilars segment of Fresenius Kabi.
- **Fresenius Helios** is Europe's leading private hospital operator. The company comprises Helios Germany and Helios Spain (Quirónsalud). At the end of 2017, Helios Germany operated a total of 111 hospitals with around 35,000 beds in Germany. In addition to 88 acute care hospitals, including 7 maximum care hospitals in Berlin-Buch, Duisburg, Erfurt, Krefeld, Schwerin, Wiesbaden, and Wuppertal, Helios Germany has 23 post-acute care clinics. Quirónsalud operated 45 hospitals, 55 outpatient centers, and around 300 Occupational Risk Prevention centers at the end of 2017.

- **Fresenius Vamed** manages projects and provides services for hospitals and other health care facilities worldwide. The portfolio ranges along the entire value chain – from project development, planning, and turnkey construction, via maintenance and technical management, to total operational management.

Fresenius has an international sales network and maintains more than 90 production sites. Large production sites are located in the United States, China, Japan, Germany, and Sweden. Production plants are also located in other European countries and in Latin America, Asia-Pacific, and South Africa.

### Important markets and competitive position

Fresenius operates in about 90 countries through its subsidiaries. The **main markets** are North America and Europe with 45% and 41% of sales, respectively.

**Fresenius Medical Care** holds the leading position world-wide in dialysis care as it serves about 10% of all dialysis patients, as well as in dialysis products, with a market share of about 35%. **Fresenius Kabi** holds for large parts of its product portfolio leading market positions in Europe and has significant market shares in the growth markets of Asia-Pacific and Latin America. In the United States, Fresenius Kabi is one of the leading suppliers of generic IV drugs. **Fresenius Helios** is Europe's leading private hospital operator. The company comprises Helios Germany, the country's largest hospital operator, and Helios Spain (Quirónsalud), Spain's largest private hospital operator. **Fresenius Vamed** is one of the world's leading companies in its field.

### External factors

Overall, the legal and economic factors for the Fresenius Group were largely unchanged. The life-saving and life-sustaining products and therapies that the Group offers are of intrinsic importance for people worldwide. Therefore, the business development of our company is fundamentally stable and relatively independent of economic cycles.

There were no legal disputes that significantly affected business performance in 2017.

### Management and control

In the legal form of a KGaA, the Company's corporate bodies are the General Meeting, the Supervisory Board, and the general partner, Fresenius Management SE. Fresenius Management SE is wholly owned by Else Kröner-Fresenius-Stiftung. The KGaA has a **two-tier management system** – management and control are strictly separated.

The **general partner**, represented by its **Management Board**, conducts the business and represents the Company in dealings with third parties. The Management Board generally has seven members. According to the Management Board's rules of procedure, each member is accountable for his or her own area of responsibility. However, the members have joint responsibility for the management of the Group. In addition to the Supervisory Board of Fresenius SE & Co. KGaA, Fresenius Management SE has its own Supervisory Board. The Management Board is required to report to the

Supervisory Board of Fresenius Management SE regularly, in particular on its corporate policy and strategies, business profitability, current operations, and any other matters that could be of significance for the Company's profitability and liquidity. The Supervisory Board of Fresenius Management SE also advises and supervises the Management Board in its management of the Company. It is prohibited from managing the Company directly. However, the Management Board's rules of procedure require it to obtain the approval of the Supervisory Board of Fresenius Management SE for specific activities.

The members of the Management Board are appointed and dismissed by the Supervisory Board of Fresenius Management SE. Appointment and dismissal is in accordance with Article 39 of the SE Regulation. The articles of association of Fresenius Management SE also provide that deputy members of the Management Board may be appointed.

The **Supervisory Board of Fresenius SE & Co. KGaA** advises and supervises the management of the Company's business by the general partner, reviews the annual financial statements and the consolidated financial statements, and performs the other functions assigned to it by law and the Company's articles of association. It is involved in corporate planning and strategy, and in all matters of fundamental importance for the Company. The Supervisory Board of Fresenius SE & Co. KGaA has six shareholder representatives and six employee representatives. A Nomination Committee of the Supervisory Board of Fresenius SE & Co. KGaA has been instituted for election proposals for the shareholder representatives. Its activities are aligned with the provisions of law and the Corporate Governance Code. The shareholder representatives are elected by the **General Meeting of Fresenius SE & Co. KGaA**. The European works council elects the employee representatives to the Supervisory Board of Fresenius SE & Co. KGaA.

The Supervisory Board must meet at least twice per calendar half-year. The Supervisory Board of Fresenius SE & Co. KGaA has two permanent **committees**: the Audit Committee, consisting of five members, and the Nomination Committee, consisting of three members. The members of the committees are listed in the exhibit to the notes. The Company's annual corporate governance declaration describes the procedures of the Supervisory Board's committees. The declaration can be found on the website [www.Fresenius.com/corporate-governance](http://www.Fresenius.com/corporate-governance).

The description of both the **compensation system** and individual amounts paid to the Management Board and Supervisory Board of Fresenius Management SE, and the Supervisory Board of Fresenius SE & Co. KGaA, are included in the Compensation Report exhibit to the Management Report. The Compensation Report is part of the Management Report.

### **Capital, shareholders, articles of association**

The subscribed capital of Fresenius SE & Co. KGaA amounted to 554,710,473 ordinary shares as of December 31, 2017 (December 31, 2016: 547,208,371).

The shares of Fresenius SE & Co. KGaA are non-par-value bearer shares. Each share represents €1.00 of the capital stock. Shareholders' rights are regulated by the German Stock Corporation Act (AktG – Aktiengesetz).

Fresenius Management SE, as general partner, is authorized, subject to the consent of the Supervisory Board of Fresenius SE & Co. KGaA:

- to increase the subscribed capital of Fresenius SE & Co. KGaA by a total amount of up to €114.85 million, until May 15, 2019, through a single or multiple issuance of new bearer ordinary shares against cash contributions and / or contributions in kind (**Authorized Capital I**). Shareholders' pre-emptive rights of subscription can be excluded.

In addition, there are the following **Conditional Capitals**:

- The subscribed capital is conditionally increased by up to €5,017,585.00 through the issuance of new bearer ordinary shares (**Conditional Capital I**). The conditional capital increase will only be executed to the extent that convertible bonds for ordinary shares have been issued under the 2003 Stock Option Plan and the holders of these convertible bonds exercise their conversion rights.
- The subscribed capital is conditionally increased by up to €5,980,888.00 through the issuance of new bearer ordinary shares (**Conditional Capital II**). The conditional capital increase will only be executed to the extent that subscription rights have been issued under the 2008 Stock Option Plan, the holders of these subscription rights exercise their rights, and the Company does not use its own shares to service the subscription rights or does not exercise its right to make payment in cash.
- The general partner is authorized, with the approval of the Supervisory Board, until May 15, 2019, to issue option bearer bonds and / or convertible bearer bonds, once or several times, for a total nominal amount of up to €2.5 billion. To fulfill the granted subscription rights, the subscribed capital of Fresenius SE & Co. KGaA was increased conditionally by up to €48,971,202.00 through issuance of new bearer ordinary shares (**Conditional Capital III**). The conditional capital increase shall only be implemented to the extent that the holders of convertible bonds issued for cash, or of warrants from option bonds issued for cash, exercise their conversion or option rights and as long as no other forms of settlement are used.
- The share capital is conditionally increased by up to €25,200,000.00 by the issuance of new ordinary bearer shares (**Conditional Capital IV**). The conditional capital increase will only be implemented to the extent that subscription rights have been, or will be, issued in accordance with the Stock Option Program 2013 and the holders of subscription rights exercise their rights, and the Company does not grant own shares to satisfy the subscription rights.

The Company is authorized, until May 15, 2019, to purchase and use its **own shares** up to a maximum amount of 10% of the subscribed capital. In addition, when



purchasing own shares, the Company is authorized to use equity derivatives with possible exclusion of any tender right. The Company had not utilized these authorizations as of December 31, 2017.

**Direct and indirect ownership interests** in Fresenius SE Co. KGaA are listed in Note 10 of the Notes. As the **largest shareholder**, Else Kröner-Fresenius-Stiftung, Bad Homburg, Germany, informed the Company on December 11, 2017, that it held 145,858,594 ordinary shares of Fresenius SE & Co. KGaA. This corresponds to an equity interest of 26.29% as of December 31, 2017.

**Amendments to the articles of association** are made in accordance with Section 278 (3) and Section 179 (2) of the German Stock Corporation Act (AktG) in conjunction with Article 17 (3) of the articles of association of Fresenius SE & Co. KGaA. Unless mandatory legal provisions require otherwise, amendments to the articles of association require a simple majority of the subscribed capital represented in the resolution. If the voting results in a tie, a motion is deemed rejected. Furthermore, in accordance with Section 285 (2) sentence 1 of the German Stock Corporation Act (AktG), amendments to the articles of association require the consent of the general partner, Fresenius Management SE. The Supervisory Board is entitled to make such amendments to the articles of association that only concern their wording without a resolution of the General Meeting.

Under certain circumstances, a **change of control** as the result of a takeover bid would impact our major long-term financing agreements, which contain customary change of control provisions that grant creditors the right to request early repayments of outstanding amounts in case of a change of control. The majority of our financing arrangements, in particular our bonds placed in the capital markets, however, require that the change of control is followed by a decline or a withdrawal of the Company's rating or that of the respective financing instruments.

### **Goals and strategy**

Our goal is to strengthen the position of Fresenius as a leading global provider of products and therapies for critically and chronically ill people. With our four business segments, we are concentrating on a limited number of health care areas. As a result of this clear focus, we have developed unique competencies. We are following our long-term strategies consistently and are seizing our opportunities.

The key elements of Fresenius Group's strategy and goals are to:

- **Expand market position and worldwide presence:** Fresenius' goal is to ensure and expand its long-term position as a leading international provider of products and services in the health care industry. To this end, and to geographically expand our business, we plan to grow organically as well as through selective small to medium-sized acquisitions, complementing our existing portfolio. We focus on markets with strong growth rates.

Fresenius Medical Care is the worldwide leader in dialysis, with a strong market position in the United States. Future opportunities in dialysis will arise from further international expansion in dialysis care and products, as well as the expansion of Care Coordination.

In this area, Fresenius Medical Care offers additional services for patients. These include, e.g., vascular care services, as well as intensivist and hospitalist physician services. By expanding its business, the company addresses a growing need for integrated patient care.

Fresenius Kabi is the market leader in infusion therapy and clinical nutrition in Europe and in the key markets in Asia-Pacific and Latin America. In the United States, Fresenius Kabi is one of the leading players in the market for generic IV drugs. In addition, Fresenius Kabi is one of the most important providers of transfusion technology. Fresenius Kabi plans to roll out products from its existing portfolio to the growth markets and to launch existing products in the United States. Market share is to be expanded further through the launch of new products in the field of IV drugs, infusion therapy, clinical nutrition, and medical devices/transfusion technology. With the acquisition of the biosimilars business of Merck KGaA in the 2017 fiscal year, the company now develops highly similar products of biotechnologically produced drugs called biopharmaceuticals, with a focus on oncology and autoimmune diseases.

With 111 hospitals, Fresenius Helios operates in nearly the whole of Germany. Building on this, Fresenius Helios is now in the position to develop new patient care models. Moreover, the company can take advantage of an intermittent selective consolidation in the German hospital market, in which it selectively participates. In January 2017, Fresenius Helios acquired Quirónsalud, Spain's largest operator of private hospitals. This opens up opportunities for exploiting synergies, the expansion and construction of hospitals, and potential for further consolidation in the highly fragmented private hospital market in Spain.

Fresenius Vamed will further expand its position as a global specialist for projects and services for hospitals and other health care facilities.

- **Strengthen innovation:** Fresenius' strategy is to continue building on its strength in technology, its competence and quality in patient care, and its ability to manufacture cost-effectively. We want to develop products and systems that provide a high level of safety and user-friendliness and enable tailoring to individual patient needs. We intend to continue to meet our requirements of best-in-class medical standards by offering more effective products and treatment methods for the critically and chronically ill. For example, with the acquisition of the biosimilars business of Merck KGaA, Fresenius Kabi now develops imitation products of biotechnologically produced drugs called biopharmaceuticals, with a focus on oncology and autoimmune diseases. Fresenius Helios' goal is to foster knowledge sharing across its international hospital network and use innovation to develop the best health care services and therapies for its patients. Fresenius Vamed's goal is to realize further projects in integrated health care services and to support patient-oriented health care systems more efficiently.

- **Enhance profitability:** Our goal is to continue to improve Group profitability. To contain costs, we are concentrating particularly on making our production plants more efficient, exploiting economies of scale, leveraging the existing marketing and distribution infrastructure more intensively, and practicing strict cost control. By focusing on our operating cash flow and employing efficient working capital management, we will increase our investment flexibility and improve our balance sheet ratios. Another goal is to optimize our weighted average cost of capital (WACC) by deliberately employing a balanced mix of equity and debt funding. In the present capital market conditions, we believe we optimize our cost of capital if we hold the net debt / EBITDA ratio within a range of 2.5 to 3.0.

We report on our goals in detail in the Outlook section starting on page 21

Corporate performance criteria

The key performance indicator for Fresenius SE & Co. KGaA as group parent company is retained earnings. The goal is to implement our long-term, earnings-driven dividend policy by means of profit transfers and distributions from affiliates.

### **Research and development**

Product and process development and the improvement of therapies are at the core of our growth strategy. Fresenius focuses its R&D efforts on its core competencies in the following areas:

- Dialysis
- Generic IV drugs
- Biosimilars
- Infusion and nutrition therapies
- Medical devices

Apart from new products, we are concentrating on developing optimized or completely new therapies, treatment methods, and services.

Research and development **expenses** were €558 million (2016: €528 million)<sup>1</sup>, approximately 5.9% of our product sales (2016: 5.6%). Fresenius Medical Care decreased its R & D spending by 11%, Fresenius Kabi increased its R & D spending by 12%.

As of December 31, 2017, there were 2,772 employees in research and development (2016: 2,770). Of that number, 848 were employed at Fresenius Medical Care (2016: 816) and 1,924 at Fresenius Kabi (2016: 1,954).

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<sup>1</sup> 2016 includes impairment losses from acquired in-process R&D of €26 million.

Our main research sites are in Europe, the United States, and India. Product-related development activities are also carried out in China

### Employees

The knowledge, experience, and commitment of our employees are critical to our success. For this reason, Fresenius values a culture of diversity. The interplay of a wide range of views, opinions, cultural backgrounds, experiences, and values helps us to achieve our full potential and contributes to our success.

The number of employees of Fresenius SE & Co. KGaA at the end of 2017 was 492 (December 31, 2016: 456).

### Human resources management

We are constantly adapting our human resources tools to meet new requirements arising from demographics, the transformation to a service economy, skills shortages, and the compatibility of job and family life. For example, we offer **flexible working hours** and a long-term account for long-term professional planning.

### Employee recruitment and personnel development

In order to ensure that our long-term needs for highly qualified employees are met, and to recruit new employees, we make use of online personnel marketing, regularly participate in recruiting events and careers fairs, and organize our own recruiting events. In addition, we encourage long-term retention with attractive development programs.

At Fresenius, qualifications are the only thing that matters in the selection of personnel. Consequently, at Fresenius women and men with comparable qualifications will continue to have the same career opportunities. As of December 31, 2017, the proportion of female employees within the Fresenius Group was 68%. Women also held 30% of senior management positions, based on the number of worldwide participants in the stock option plans. Detailed information on the statutory targets for the participation of women and men in management positions is available within the Corporate Governance Declaration pursuant to Section 289 f of the German Commercial Code (HGB) on our website, see [www.fresenius.com/corporate-governance](http://www.fresenius.com/corporate-governance).

You can visit our award-winning **careers portal** at [www.career.fresenius.com](http://www.career.fresenius.com).

### Profit-sharing

The high expectations we place on our employees require equivalent compensation. To identify with the Company, employees must take part in its successes and understand the opportunities and risks of entrepreneurial thinking. Fresenius uses the following models:

- Profit-sharing for our employees in Germany
- Share-based compensation plans

These programs support the entrepreneurial focus of our employees to continually increase the value of the company and safeguard the interests of our shareholders.

### **Changes to the Management Board**

On July 21, 2017, Fresenius SE & Co. KGaA announced that the Supervisory Board of Fresenius Management SE has unanimously appointed Rachel Empey as Chief Financial Officer (CFO) of Fresenius, as of August 1, 2017. She succeeded Stephan Sturm, who has continued to serve as CFO since his appointment as Chief Executive Officer of Fresenius in July 2016, in this position.

### **Responsibility, environmental management, sustainability**

We orient our activities within the Fresenius Group to long term goals, and thus ensure that our work is aligned to the needs of patients and employees, as well as shareholders and business partners, in a sustainable manner. Our **responsibility as a health care group** goes beyond our business operations. We are committed to protecting nature as the basis of life and using its resources responsibly. It is our mission to constantly improve our performance in the areas of environmental protection, occupational health and technical safety, and product responsibility and logistics, and to comply with legal requirements.

## ECONOMIC REPORT

### Health care industry

The health care sector is one of the world's largest industries and shows excellent growth opportunities.

The main **growth factors** are:

- rising medical needs deriving from aging populations
- the growing number of chronically ill and multimorbid patients
- stronger demand for innovative products and therapies
- advances in medical technology
- the growing health consciousness, which increases the demand for health care services and facilities.

In the **emerging countries**, additional drivers are:

- expanding availability and correspondingly greater demand for basic health care
- increasing national incomes and hence higher spending on health care.

At the same time, the **cost of health care** is rising and claiming an ever-increasing share of national income. Health care spending averaged 9.0% of GDP in the OECD countries in 2016, with an average of US\$4,003 spent per capita.

As in previous years, the United States had the highest per capita spending (US\$9,892). Germany ranked fifth among the OECD countries with per capita spending of US\$ 5,551.

In Germany, 85% of **health spending** was funded by public sources in 2016, above the average of 73% in the OECD countries.

Most of the OECD countries have enjoyed large gains in **life expectancy** over the past decades, thanks to improved living standards, public health interventions, and progress in medical care. In 2015, average life expectancy in the OECD countries was 80.6 years.

Health care structures are being reviewed and cost-cutting potential identified in order to contain the steadily rising **health care expenditures**. However, such measures cannot compensate for the cost pressure. Market-based elements are increasingly being introduced into the health care system to create incentives for constant quality-conscious behavior. Overall treatment costs will be reduced through improved quality standards. In addition, ever-greater importance is being placed on disease prevention and innovative reimbursement models linked to treatment quality standards.

Our most important **markets** developed as follows:

### The dialysis Market

In 2017, the global **dialysis market** (products and services) was worth approximately €70 billion. In constant currency, the global dialysis market grew by 4%.

Worldwide, approximately 3.9 million **patients with chronic renal failure** were treated in 2017. Of these patients, around 3.2 million received dialysis treatments and about 760,000 were living with a transplanted kidney. About 89% were treated with hemodialysis and 11% with peritoneal dialysis. The major growth driver is the growing number of patients suffering from diabetes and high blood pressure, two diseases that often precede the onset of chronic kidney failure.

The **number of dialysis patients** worldwide increased by 6% in 2017. In the United States, Japan, and Western and Central Europe, patient growth was slower than in economically weaker regions where growth is mostly above 6%.

The **prevalence rate**, which is the number of people with terminal kidney failure treated per million population, differs widely from region to region. The significant divergence in prevalence rates is due, on the one hand, to differences in age demographics, incidence of renal risk factors, genetic predisposition, and cultural habit, such as nutrition. On the other hand, access to dialysis treatment is still limited in many countries. A great many individuals with terminal kidney failure do not receive treatment and are therefore not included in the prevalence statistics.

### Dialysis care

In 2017, the global **dialysis care market** (including renal pharmaceuticals) was worth approximately € 57 billion.

10% of worldwide dialysis patients were treated by Fresenius Medical Care. With 3,752 dialysis clinics and 320,960 dialysis patients in approximately 50 countries, Fresenius Medical Care operates by far the largest and most international network of clinics. In the United States, Fresenius Medical Care treated approximately 38% of dialysis patients in 2017. The market for dialysis care in the United States is already highly consolidated.

Outside the United States, the market for dialysis care is much more fragmented. Here, Fresenius Medical Care **competes** mainly with clinic chains, independent clinics, and with clinics that are affiliated with hospitals.

Dialysis **reimbursement systems** differ from country to country and often vary even within individual countries. The public health care programs, the Centers for Medicare & Medicaid Services (CMS), cover the medical services for the majority of all dialysis patients in the United States.

#### Dialysis products

In 2017, the global **dialysis products market** was worth approximately €13 billion.

Fresenius Medical Care is the leading provider of dialysis products in the world, with a **market share** of about 35%.

Fresenius Medical Care is the leading supplier worldwide of hemodialysis products, with a market share of 39% and has a market share of approximately 17% in the worldwide market of products for peritoneal dialysis.

#### Care Coordination

The field of **Care Coordination** currently includes services relating to vascular, cardiovascular, and endovascular surgery, non-dialysis laboratory testing and physician practice services, as well as coordinating hospitalist and intensivist services by specialist physicians, health plan services, coordinated delivery of pharmacy services, and care services, for example.

Chronic diseases such as diabetes or cardiovascular diseases are steadily increasing. Nearly two-thirds of all people worldwide die of those diseases. In many countries, the majority of the health expenditure is spent on the treatment of chronic diseases. To counteract the increasing cost pressure that results from this, more and more health care systems – such as that in our largest market, the United States – are no longer compensating for individual services, but rather for a holistic and coordinated care.

A reasonable estimate of the market volume of coordinated care is not possible due to the large number of different services. We currently offer coordinated care services mainly in our largest market, the United States, and in the Asia-Pacific region. Our services in Care Coordination are adapted to the requirements of these markets. The expansion of our coordinated care services outside the United States may vary across countries and regions, depending on the particular reimbursement system or market specifics.



### The market for generic IV drugs, clinical nutrition, infusion therapy, and medical devices/ transfusion technology<sup>1</sup>

The global market for generic IV drugs, biopharmaceuticals, clinical nutrition, infusion therapy, and medical devices / transfusion technology was worth about €81 billion in 2017.

Thereof, the global **market for generic IV drugs** was worth about €33 billion<sup>2</sup>. Fresenius Kabi was able to enter additional market segments of the global addressable market due to targeted investments and the expansion of our product portfolio, among others, in the area of complex formulations, liposomal solutions, and prefilled syringes.

In Europe and the United States, the market for IV drugs grew by 14%. Growth is mainly achieved through products that are brought to market when the original drug goes off-patent, as well as through original off-patent products that are offered at steady prices due to a unique selling proposition. Additionally, market growth is based on sharp price increases for single molecules by individual competitors. In the United States, the most important **generic IV drug** market for Fresenius Kabi, the company is one of the leading suppliers. Competitors include Pfizer, Sanofi, Sandoz, and Teva Pharmaceutical Industries.

In 2017 Fresenius Kabi successfully completed the acquisition of the biosimilars business of Merck KGaA. The transaction comprised the complete product pipeline, focusing on oncology and autoimmune diseases. The relevant **market for the original biopharmaceuticals** is currently worth about €30 billion.

The global **market for clinical nutrition** was worth about €8 billion in 2017. In Europe, the market grew by about 3%. In the emerging markets of Asia-Pacific, Latin America, and Africa, the clinical nutrition market saw growth of up to 10% in individual countries. Growth potential is offered by the often insufficient administration of nutrition therapies within patient care – although studies have demonstrated the medical and economical benefit. In cases of health- or age-induced nutritional deficiencies, for example, the administration of clinical nutrition can reduce hospital costs through shorter stays and less nursing care. In the market for clinical nutrition, Fresenius Kabi is one of the leading companies worldwide. In parenteral nutrition, the company is the leading supplier worldwide. In the market for enteral nutrition, Fresenius Kabi is one of the leading suppliers in Europe. In parenteral nutrition, competitors include Baxter, B. Braun, and Kelun Pharmaceuticals. In the market for enteral nutrition, Fresenius Kabi competes with, among others, Danone, Nestlé, and Abbott.

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<sup>1</sup> Market data based on company research and refers to Fresenius Kabi's addressable markets. This is 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.

<sup>2</sup> Market definition adjusted compared to prior year: among others, sales volume of non-patented branded drugs is now included.

Fresenius Kabi considers its global **market for infusion therapy** to have been worth about €5 billion in 2017. There was no growth in the European market due to restrictions imposed on the use of blood volume substitutes. In the regions Asia-Pacific, Latin America, and Africa, the market for infusion therapy grew by 8% in selected markets. Infusion therapies, such as electrolytes, are standard medical products to hospitals worldwide. Market growth is mainly driven by increasing product demand in emerging markets. Fresenius Kabi is the market leader in infusion therapy in Europe. Competitors include Baxter and B. Braun.

The global **market for medical devices / transfusion technology** was worth about €6 billion in 2017, including approximately €4 billion for medical devices and about €2 billion for transfusion technology. The market grew by approximately 4% in 2017. In the medical devices market, the main growth drivers are IT-based solutions that focus on application safety and therapy efficiency. In the transfusion technology market, growth is driven by generally increased demand for blood products in emerging markets. The decline in the demand for blood bags triggered by new treatment methods in Europe and the United States in recent years is coming to an end. The areas of plasma collection and therapeutic apheresis are also experiencing positive growth.

In the medical devices segment, Fresenius Kabi ranks among the leading suppliers worldwide. International competitors include Baxter, B. Braun, and Becton, Dickinson and Company, as well as ICU Medical. In transfusion technology, Fresenius Kabi is one of the world's leading companies. Competitors include Haemonetics, Macopharma, and Terumo.

### The hospital market<sup>1</sup>

In 2016, the market of acute care hospitals in **Germany** was about €98 billion<sup>2</sup>. Personnel costs accounted for about 62% of hospital costs, and material costs for 38%. Personnel and material costs rose by 4% and 5% respectively.

Through the increase in admissions, the organic growth of the acute care hospital market was around 1%.

Although their economic situation has improved compared with previous years, almost a third (29%) of the German hospitals recorded losses in 2016. A further 10% broke even, and 61% were able to generate a profit for the year. The difficult economic and financial situation is often accompanied by significant **investment needs**. This is due, in large part, to an investment backlog that has accumulated because, in the past, the federal states failed to meet their statutory obligation to finance necessary investments and major maintenance measures sufficiently due to budget constraints.

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<sup>1</sup> Most recent market data available: German Federal Statistical Office 2017; German Hospital Institute (DKI), Krankenhausbarometer 2017; Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI); Krankenhaus Rating Report 2017

<sup>2</sup> The market is defined by the total costs of the German hospitals (gross), less academic research and teaching.

Moreover, investment needs are driven by technological advances, higher quality requirements, and necessary modernizations. The Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) estimates that the annual investment requirement at German hospitals (excluding university hospitals) is at least €5.4 billion. This is about twice the funding for investment currently being provided by the federal states.

The **number of hospitals** in Germany in 2016 was 1,951 and the **number of beds** was 498,718.

Helios Germany is the country's leading hospital operator in terms of sales, with a share of about 6% in the acute care market. The hospitals of Helios Germany compete mainly with individual hospitals or local and regional hospital associations. Among private hospital chains, our main competitors are Asklepios, Rhön-Klinikum, and Sana Kliniken.

The so-called change in value figure is relevant for the increase in the **reimbursement of hospital treatments**. It is used to compensate for rising costs in the hospital market, particularly with regard to personnel and material costs. The change in value figure is redetermined each year for the following year. For 2017 it was 2.50% (2016: 2.95%).

The **post-acute care market** in Germany comprised 1,149 **clinics** with a total of 165,223 **beds**. Of these, two-thirds (66%) were in private preventive or post-acute care clinics, 16% were in independent non-profit clinics, and 18% in public clinics. The number of treated patients nationwide remained nearly unchanged at 1.98 million. The average length of stay was 25.3 days.

With the acquisition of Spain's largest private hospital group, Quirónsalud, the **private Spanish hospital market** has become relevant. The market was about €14 billion<sup>1</sup> in 2016.

In particular, the increasing number of privately insured patients is opening up growth opportunities for private operators. Private supplemental insurance in Spain is relatively inexpensive. It is required in order to make use of services in private hospitals. Among other factors, the comparatively short waiting times for scheduled treatments make private hospitals attractive.

The opportunity for private hospital operators to expand their networks by building additional new hospitals opens up further potential. Since the market is highly fragmented, it has consolidation potential.

Quirónsalud is the market leader in Spain, with a market share of approximately 11% in the private hospital market in terms of sales. Quirónsalud competes with a large number of stand-alone private hospitals, as well as with smaller regional hospital chains such as Asisa, HM Hospitales, Hospiten, Ribera, Salud Sanitas, and Vithas.

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<sup>1</sup> Market data based on company research and refers to the addressable market of Quirónsalud. Market definition includes neither Public Private Partnerships (PPP) nor Occupational Risk Prevention centers (ORP). The market definition may differ from the definition in other contexts (e.g., regulatory definitions).

### **The market for Projects and services for hospitals and other health care facilities**

The **market for projects and services for hospitals and other health care facilities** is very fragmented. Therefore, an overall market size cannot be determined. The market is country- specific and depends, to a large extent, on factors such as public health care policies, government regulation, and levels of privatization, as well as demographics and economic and political conditions. In **markets with established health care systems** and mounting cost pressure, the challenge for hospitals and other health care facilities is to increase their efficiency. Here, demand is especially high for sustainable planning and energy-efficient construction, optimized hospital processes, and the outsourcing of medical-technical support services to external specialists. This enables hospitals to concentrate on their core competency – treating patients. In **emerging markets**, the focus is on building and developing infrastructure and improving the level of health care. Fresenius Vamed is one of the world's leading companies in its market. The company has no **competitors** that cover its comprehensive portfolio of services across the entire life cycle worldwide. Competitors offer only parts of Fresenius Vamed's service portfolio. Depending on the service, the company competes with international companies and consortia, as well as with smaller local providers.

### **Overall business development**

#### **The Management Board's assessment of the effect of general economic developments and those in the health care sector for Fresenius**

Overall, the development of the world economy had an only negligible impact on our industry in 2017. On the whole, the health care sector, both in mature and growth markets, developed positively, with continued increasing demand for health services. This had a positive effect on our business development.

#### **The Management Board's assessment of the effect of the business results and significant factors affecting operating performance**

The Management Board is of the opinion that the Fresenius Group's performance in 2017 was excellent – with sales and earnings growth across all business segments.

Fresenius Medical Care sales increased by 7% (9% in constant currency) to €17,784 million. The increase is mainly due to the good development of health care services. Net income<sup>1</sup> attributable to shareholders of Fresenius Medical Care increased by 9% (11% in constant currency) to €1,244 million. Consistent with the original scope of guidance, i.e., excluding the effects of the agreement with the United States Departments of Veterans Affairs and Justice (VA agreement), natural disaster costs, a book gain from U.S. tax reform and the FCPA (Foreign Corrupt Practices Act)- provision, net income increased by 7% in constant currency.

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<sup>1</sup> before special items

Fresenius Kabi achieved organic sales growth of 7% and increased adjusted EBIT<sup>1</sup> by 6% (8% in constant currency) to €1,237 million. Organic sales growth of Fresenius Helios was 4%. The company increased EBIT by 54% to €1,052 million. The strong increase is mainly driven by the consolidation of Quirónsalud since February 1, 2017. Fresenius Vamed achieved organic sales growth of 6%. EBIT grew by 10% to €76 million.

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<sup>1</sup> Consistent with scope of original guidance: before acquisition-related expenses; before expenditures for further development of biosimilars business

## **Results of operations, financial position, assets and liabilities**

### **Results of operations**

Net income of Fresenius SE & Co. KGaA in the fiscal year 2017 was €548 million (previous year €576 million). The decrease in net income mainly results from higher cost of interest in relation to the financing of the acquisition of IDCSalud Holding S.L.U. (Quirónsalud).

All the following companies have profit and loss transfer agreements with Fresenius SE & Co. KGaA: Fresenius Kabi AG, Fresenius ProServe GmbH, Fresenius Biotech Beteiligungs GmbH, Fresenius Versicherungsvermittlungs GmbH and Hyginus Publisher GmbH.

Fresenius ProServe GmbH contributed with earnings of €415 million (previous year €405 million) to the net income from participations. The higher earnings result from higher operative earnings of Helios affiliated companies as well as from newly concluded profit and loss transfer agreements within the Helios Group.

The profit and loss transfer agreement with Fresenius Kabi AG yielded earnings of €212 million (previous year €219 million). Dividend income from Kabi affiliated companies increased in comparison to previous year. This increase was overcompensated by expenses for the development of the Biosimilars business acquired from Merck in 2017.

Other significant income from participations came from a €91 million Fresenius Medical Care AG & Co. KGaA dividend (previous year €76 million).

In addition to earnings from dividends and from profit and loss transfer agreements, Fresenius SE & Co. KGaA receives €58 million of income from rents and from providing personnel services (previous year €58 million). Other operating income includes €116 million (previous year €142 million) of foreign currency gains while €110 million (previous year €144 million) of foreign currency losses are included in other operating expenses.

The General Partner and Supervisory Board of Fresenius SE & Co. KGaA will propose a dividend increase to the Annual General Meeting. For 2017, a dividend of €0.75 per ordinary share shall be paid to shareholders. This is an increase of 21%. The total dividend distribution will increase by 21% to €416.0million (previous year €343.1 million).

**Cash flow statement**

	2017	2015
	million €	million €
Net Income	548	576
Depreciation and amortization of non-current assets and financial assets	5	5
Increase in pension liabilities	6	2
Interest result	87	46
Income from investments	-733	-719
Earnings from the liquidation of affiliated companies	-	-16
<b>Cash flow</b>	<b>-87</b>	<b>-106</b>
Decrease/increase in accruals for income taxes and other accrued expenses	-9	48
Increase/decrease in trade accounts payable	1	-
Decrease in other operating assets and liabilities	-54	26
<b>Decrease in working capital</b>	<b>-62</b>	<b>74</b>
<b>Cash flows from operating activities</b>	<b>-149</b>	<b>-32</b>
Payments for purchasing shares of subsidiaries, for contributions to equity of subsidiaries and for loans to subsidiaries	-2,442	-
Proceeds from liquidation of affiliated companies	2	18
Payments for investments in intangible assets and property plant and equipment	-17	-2
Interest received	93	103
Dividends received	734	550
<b>Cash flows from investing activities</b>	<b>-1,630</b>	<b>669</b>
Proceeds from bank loans	1,703	178
Repayment of bank loans	-444	-108
Change in financing activities with related parties	745	-126
Proceeds from the exercise of stock options	33	31
Interest paid	-179	-149
Dividends paid	-343	-300
<b>Cash flows from financing activities</b>	<b>1,515</b>	<b>-474</b>
<b>Change of cash and cash equivalents</b>	<b>-264</b>	<b>163</b>
Cash and cash equivalents at the beginning of the year	307	144
Cash and cash equivalents at the end of the year	43	307

The following paragraphs “financial position” and “investments, divestments and acquisitions” describe material positions of the cash flow statements in more detail.

Fresenius believes that its existing credit facilities, as well as the operating cash flows, income from transfer agreements and additional sources of short-term funding, are sufficient to meet the company’s foreseeable liquidity needs. More information on credit facilities can be found in the notes to the financial statements.

As of December 31, 2017, Fresenius SE & Co. KGaA complied with the covenants under all the credit agreements.

### **Financial position**

Total assets of Fresenius SE & Co. KGaA increased by €2,386 million to €13,848 million (previous year €11,462 million).

On the asset side, financial assets increased from €8,172 million to €10,611 million, due mainly to the changes described in the Investments, divestments and acquisitions chapter.

The liability bank loans and convertible bonds have increased from €987 million to €1,746 million and €500 million to €1,000 million respectively. To partly finance the acquisition of IDCSalud Holding S.L.U. (Quirónsalud) through Fresenius Helios as well as for general business purposes, Fresenius SE Co. KGaA issued €1,000 million Schuldschein Loans and €500 million equity-neutral convertible bonds.

Moreover, accounts payable to related parties have increased from €1,438 million to €1,856 million mainly due to following transactions:

Fresenius SE & Co. KGaA received a loan of €575 million from Fresenius Finance Ireland PLC.

A decrease in the balance of the Cash Pool and loans to other group companies had a compensating effect.

The equity ratio decreased from 52.7% to 48.2%.

### **Investments, divestments and acquisitions**

Total investments in property, plant and equipment and intangible assets were €17 million in 2017.

Changes in the financial assets in the fiscal year 2017 mainly resulted from following transactions:

- In the fiscal year 2017 Fresenius SE Co. KGaA contributed €1,051 million to the additional paid-in capital of Fresenius Finance Holdings Ltd.



- In December 2017 Fresenius Finance II B.V. was liquidated resulting in a disposal of the participation with a book value of €2 million and gains of €0.4 million.

Additions to loans to related parties of €959 million are loans in connection with the acquisition of IDCSalud Holding S.L.U. (Quirónsalud) granted to Fresenius ProServe GmbH which the later contributed to the additional paid-in capital of Helios International Holding GmbH. Helios International Holding GmbH was further granted a new loan of €432 million. Moreover loans to related parties mainly include US-Dollar loans to American affiliated companies.

#### **OVERALL ASSESSMENT OF THE BUSINESS SITUATION**

At the time this 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 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 27 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 acquisition of the largest private hospital operator in Spain, Quirónsalud, gives Fresenius Helios a presence outside Germany.
- 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. In addition to dialysis products and the treatment of dialysis patients, Fresenius Medical Care sees significant growth potential in the future in medical services related to dialysis and in further developing services for the coordination of care. Fresenius Helios has an extensive nationwide hospital network. Based on this platform, Fresenius Helios aims to develop and offer innovative, integrated care offerings. 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.
- 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 biosimilars business of Fresenius Kabi, we develop products with a focus on oncology and autoimmune diseases.
- **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 2018 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. In addition, Fresenius Medical Care continues to expand its Care Coordination business with services related to dialysis.

**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, as well as in trans-fusion technology. 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, the company anticipates that it can continue to take advantage of an intermittent selective consolidation in the German hospital market, in which it selectively participates. The increasing number of privately insured patients in Spain is opening up opportunities for private operators like Quirónsalud.

**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.

### **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 2018.

The number of dialysis patients worldwide is expected to rise by approximately 6% in 2018, 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 of 0% to 4%. In economically weaker regions, the growth rates are even higher. Driven by the development of infrastructure, the establishment of health care systems, and the growing number of chronically ill patients, overproportional growth is expected in Asia, Latin America, Eastern Europe, the Middle East, and Africa.

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.

The market for care coordination opens up additional growth opportunities for Fresenius Medical Care.

### **The market for generic IV drugs, clinical nutrition, infusion therapy, and medical devices / transfusion technology<sup>1</sup>**

We expect the global market for generic IV drugs, biopharmaceuticals, clinical nutrition, infusion therapy, and medical devices / transfusion technology to grow by around 7% to 8% in 2018.

The **market for generic IV drugs** in Europe and the United States is expected to grow by approximately 6% to 8% in 2018. 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 11% to 12% in 2018.

Growth of about 3% is expected for the **clinical nutrition market** in Europe in 2018. However, given the financial constraints in these 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 expect 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 2018. 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 expect the market for infusion therapy to remain at the prior year's level in 2018, whereby Latin America is expected to grow by up to 8%.

The worldwide **market for medical devices / transfusion technology** is expected to grow by up to 4% in 2018.

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<sup>1</sup> 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.

### The hospital market

We expect the acute care hospital market in **Germany** to grow slightly in 2018. Admissions are forecast to increase by approximately 1%.

The so-called change in value figure is relevant for the increase in the **reimbursement of hospital treatments** in Germany. For 2018 it was set at 2.97%. 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 35% to 50%. The exact amount of the discount is negotiated between the hospitals and the health insurance companies.

Since 2017, the care supplement replaces 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 2018 is around €500 million.

With regard to requirements for specific nursing staff levels in the German hospitals currently it is entirely open, in which framework conditions these could be implemented. Therefore, the impact from the propositions on Helios Germany can currently not be assessed.

In order to factor medical outcomes into the remuneration, the Federal Joint Committee defines quality indicators. The specific financial terms and details are to be defined in a consistent overall concept by the end of 2018. 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 2017 survey by the German Hospital Institute (DKI), only one fifth (22%) of the hospitals expect their economic situation to improve in 2018, 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 anticipate that we can continue to take advantage of an intermittent selective consolidation in the **German hospital market**, in which we selectively participate.

We expect the private hospital market in **Spain** to grow by 2% to 3% in 2018. 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 nation-wide health care spending and bed density, indicates 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 fragmented private hospital market is expected to see further consolidation.

### **The market for projects and services for hospitals and other health care facilities**

For 2018, 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 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.

### **Economic outlook of Fresenius SE & Co. KGaA for the year 2018**

For the fiscal year 2018 the company expects slightly lower contribution to earnings from dividends and profit and loss transfers mainly due to higher research and development expenditure for biosimilarss at Fresenius Kabi. Retained earnings are expected to increase slightly.

### **Dividend**

The dividend increases provided by Fresenius in the last 24 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%. Based on our positive earnings forecast, we expect to offer our shareholders an earnings-linked dividend.

### **OPPORTUNITIES AND RISK REPORT**

The Fresenius Group is exposed to a number of risks due to the complexity and the dynamics of its business. These risks are inevitable consequences of entrepreneurial

activities. **Opportunities can only be exploited when there is a willingness to take risks.**

As a provider of products and services for the severely and chronically ill, we are relatively independent of economic cycles. The diversification into four business segments, which operate in different segments of the health care market, and the global footprint further minimize the Group's risk profile. Our experience, as well as our strong market position, serve as a solid basis for a reliable assessment of risks. At the same time, we will continue to take advantage of the wide-ranging opportunities for sustainable growth and expansion that the health care market offers to the Fresenius Group.

### **Opportunities management**

**Managing opportunities** is an ongoing, integral part of corporate activity aimed at securing the Company's long-term success. In this way, we can explore new prospects and consolidate and improve on what we have already achieved.

The organization and management of the Fresenius Group have a decentralized, regional structure. This enables us to recognize and analyze trends, requirements, and opportunities in the often fragmented markets and to focus our actions accordingly. We maintain regular contact and dialogue with research groups and scientific institutions, and keep a close watch on markets and competitors in order to identify opportunities. Within the Group, opportunities and synergies can be exploited through continuous communication involving the exchange of information and know-how between the business segments. Anticipated future opportunities for the Fresenius Group are discussed in the Outlook starting on page 21.

### **Risk management**

#### **Fresenius risk management system**

Risk management is a continuous process. Identifying, controlling, and managing risks are key tools of solid corporate governance. The **Fresenius risk management system** is closely linked to its corporate strategy. Opportunities are not recognized in the risk management system.

Responsibilities for the **risk management processes** and the **monitoring of risks** in the business segments have been assigned as follows:

- Using standardized processes, risk situations are evaluated regularly and compared with specified requirements. If negative developments emerge, responses can be initiated at an early stage.
- The managers responsible are required to report any relevant changes in the risk profile to the Management Board without delay.
- Markets are kept under constant observation and close contact is maintained with customers, suppliers, and institutions. These policies allow us to swiftly identify and react to changes in our business environment.



The risk management system is supported both at Group level and in the business segments by our **risk controlling measures** and our **management information system**. Detailed monthly and quarterly reports are used to identify and analyze deviations of actual versus planned business development. In addition, the risk management system includes a **control system** that consists of organizational safeguarding measures, as well as internal controls and audits, with which we can identify significant risks at an early stage and counteract each one individually.

The functionality and effectiveness of our risk management system is reviewed regularly by the Management Board and the internal auditing department. Conclusions arising from the audits are taken into account in the ongoing refinement of the system, to allow prompt reaction to changes in our environment. This system has thus far proved effective. The control system is also regularly reviewed by the Management Board and the internal auditing department. Moreover, the external auditor reviews whether the control system set up by the Management Board is suitable for the early identification of risks that would put the continued existence of the Company in danger. The insights gained from the audit regarding the internal financial reporting controls are taken into account in the continued development of the system.

Fresenius has ensured that the scope and focus of the organizational structure and systems for identifying, assessing, and controlling risks, and for developing countermeasures and for the avoidance of risks, are aligned suitably with the Company-specific requirements and that they are properly functional. However, there can be no absolute certainty that this will enable all risks to be fully identified and controlled.

### Internal financial reporting controls

Numerous measures and internal controls assure the correctness and reliability of accounting processes and financial reporting, and thus preparation of annual financial statements, consolidated financial statements, and management reports in compliance with applicable principles. Our **four-tier reporting process** especially promotes intensive discussion and ensures control of the financial results. At each reporting level, i.e.

- the local entity
- the region
- the business segment
- the Group

financial data and key figures are reported, discussed, and compared on a regular monthly basis with the prior-year figures, budget, and latest forecast. In addition, all parameters, assumptions, and estimates that are of relevance for the externally reported Group and segment results are discussed intensively with the department responsible for preparing the Group's consolidated financial statements. These matters are also re-viewed and discussed quarterly by the Supervisory Board's Audit Committee.

**Control mechanisms**, such as automated and manual reconciliation procedures, are further precautions put in place to assure that financial reporting is reliable and that transactions are correctly accounted for. All consolidated entities report according to Group-wide standards, which are determined at the head office. These are regularly adjusted to allow for changes made to the accounting regulations. The consolidation proposals are supported by the IT system. In this context, reference is made to the comprehensive consolidation of internal Group balances. To prevent abuse, we take care to maintain a strict separation of functions. **Management control and evaluations** also help to ensure that risks having a direct impact on financial reporting are identified and that controls are in place to minimize them. Moreover, changes in accounting principles are monitored and employees involved in financial reporting are instructed regularly and comprehensively. External experts and specialists are engaged if necessary. The Treasury, Tax, Controlling, and Legal departments are involved in supporting the preparation of the financial statements. Finally, the information provided is verified once again by the department responsible for preparing the consolidated financial statements.

Fresenius Medical Care is subject to the controls of Section 404 of the **Sarbanes-Oxley Act**.

### **Risk areas**

#### **General economic risks and risks in the general operating framework**

At present, the **development of the global economy** presents no significant risk to the Fresenius Group. In 2018, we largely expect overall economic growth to continue. Moreover, Fresenius is affected only to a small extent by general economic fluctuations. We expect demand for our life-saving and life-sustaining products and services to continue to grow. Furthermore, Fresenius is striving for the firm balance of its business in the main regions and between established and emerging markets.

The risk situation for each business segment also depends on the development of its markets. **Country-specific political, legal, and financial conditions** are therefore monitored and evaluated carefully, particularly in the current macroeconomic environment. This applies, for example, to countries with budget problems as a result of the sovereign debt crisis, in particular with regard to our accounts receivable. This also applies to the possible impact on our business activities resulting from the decision by the United Kingdom to leave the European Union and Catalonia's quest for independence from Spain.

It applies in particular to any initiatives by the U.S. administration with regard to potential changes to the current health care programs.

#### **Risks in the healthcare sector**

Risks related to changes in the health care market are of major importance to the Fresenius Group. The main risks are the financing of health care systems and the corresponding reimbursement systems, as well as the development of new products and therapies.

### Financing of health care and reimbursement systems

In our largely regulated business environment, **changes in the law** – also with respect to reimbursement – can have a major impact on our business success. This applies especially in the United States, where a large portion of our sales are generated, and where changes in the government **reimbursement system**, in particular, for example in the re-imbursement of dialysis treatments, could have a considerable impact on our business. In 2017, approximately 34% of Fresenius Medical Care’s sales in the United States were attributable to U.S. federal health care benefit programs, such as **Medicare and Medicaid (CMS)**. A reduction in reimbursement rates or reimbursed services could result in significantly lower sales and operational results.

Effective 2011, Medicare implemented an end-stage renal disease (ESRD) **prospective payment** system (ESRD PPS), which expanded the scope of the products and services covered by a bundled rate and resulted in lower reimbursement per treatment than under the previous system. Due to pressure to reduce health care costs, increases in the reimbursement rate by the U.S. government have been limited in the past.

The ESRD PPS’s **quality improvement program** (QIP) affects Medicare payments based on the performance of each facility on a set of quality measures. Dialysis facilities that fail to achieve the established quality standards will have payments for a particular year reduced by up to 2% based on performance in a previous year. Underlying quality measures are reviewed, extended, and amended annually by the CMS. A material failure by Fresenius Medical Care to achieve the minimum client quality standards under the QIP could materially and adversely affect its business, financial condition, and results of operations.

Under CMS’s Comprehensive ESRD Care Model, dialysis providers and physicians can form entities known as ESRD Seamless Care Organizations (ESCOs). The aim is to improve the health of patients, while at the same time reducing the costs of CMS. ESCOs that achieve the program’s minimum quality requirements and generate reductions in treatment costs for CMS will receive a share of the cost savings. However, ESCOs that include dialysis chains with more than 200 facilities are required to share in the risk of cost increases and reimburse CMS a share of any such increases.

In addition, Fresenius Medical Care currently takes part in value-oriented pro-grams, such as the Bundled Payments for Care Improvement (BPCI) Program and the so called Medicare Advantage Chronic Special Needs Plans (MA-CSNP), as well as claim payments negotiations with insurers. Under the BPCI initiative, Fresenius Medical Care can receive additional payments if it is able to deliver quality health care at a cost that is lower than certain established benchmarks, but at the same time, it also bears the risk of incurring financial penalties if it is not successful in doing so. Failure to adequately price products or estimate the costs of providing benefits to beneficiaries, or effectively manage operating expenses, may result in a material adverse effect on the results of operations, financial position, and cash flows.

Fresenius Medical Care mitigated the impact of the ESRD PPS and the other legislative initiatives referenced above by two broad measures. First, it works with medical directors and treating physicians to make clinical protocol changes used in treating patients consistent with the QIP and good clinical practice, and it negotiates pharmaceutical acquisition cost savings. In addition, Fresenius Medical Care achieved

greater efficiencies and better patient outcomes by introducing new initiatives to improve patient care upon initiation of dialysis, increasing the percentage of patients using home therapies, and achieving additional cost reductions in its clinics.

The U.S. administration has publicly announced its intention to pursue significant changes to existing health care insurance programs, especially programs in connection with the Affordable Care Act. In addition, options to restructure the Medicare program in the direction of a defined-contribution, "premium support" model and to shift Medicaid funding to a block grant or per capita arrangement, with greater flexibility for the states, are also likely to be considered.

The U.S. administration also announced its decision to end subsidies, known as cost-sharing reduction (CSR) payments, to health insurance companies to help pay out-of-pocket costs of low-income Americans. Some commercial insurers have stated that they will need much higher premiums and may withdraw from the insurance exchanges created under the Affordable Care Act if the subsidies were eliminated. However, in February 2018, the U.S. administration appears to have altered course and requested US\$ 1.2 billion to fund insurance exchanges, including CSR payments, as part of the administration's 2019 budget. A portion of this requested funding is expected to also fund the dismantling of the insurance exchanges. We cannot predict whether the inclusion of this funding in the budget for 2019 will come to pass. As a result, significant increases in insurance premiums and a reduction in the availability of insurance through such exchanges could reduce the number of Fresenius Medical Care's commercially insured patients and shift such patients to Medicare and Medicaid.

Changes of this nature could have significant effects on the businesses of Fresenius Medical Care, both positive and negative, but the outcomes are impossible to predict.

In addition, a portion of dialysis treatment in the United States is reimbursed by **private health insurance companies** and **integrated care organizations**, with reimbursements generally higher than the reimbursements provided by the government health care program. In 2017, approximately 35% of Fresenius Medical Care's sales from health care services were attributable to private health insurance companies in the United States. If these organizations in the United States manage to push through a reduction in the reimbursement, or the share of reimbursements by private health insurers, it would significantly reduce the revenues and operating earnings for the products and services of Fresenius Medical Care.

A portion of Fresenius Medical Care's patients who are currently covered by private insurers may elect to transition to government funded reimbursement programs that reimburse us at lower rates for our services if efforts to restrict or eliminate the charitable funding of patient insurance premiums are successful.

The same applies to the hospital market in Germany, where the **DRG system** (Diagnosis-Related Groups) is intended to increase the efficiency of hospitals while reducing health care spending. The Company constantly monitors legislative developments. Patients are largely assigned to hospitals by the public health and pension insurers. It is therefore important for Fresenius Helios that the contracts between its hospitals and the insurers and health care institutions are maintained. We not only monitor legislative changes intensively, but also work together with governmental health care institutions.

As a result of the acquisition of the Spanish private hospital chain **Quirónsalud**, Fresenius Helios has had operations outside Germany for the first time. Quirónsalud operates hospitals among others through **PPP contracts (Public-Private Partnership)**. These are part of the public health system in Spain. The Company has thus been given responsibility in certain areas of health care for the citizens of Spain with statutory health insurance. Quirónsalud receives compensation for its services in the form of a per capita lump sum or remuneration for the specific service rendered. If Quirónsalud were to lose the concession to operate hospitals with PPP contracts or renegotiations with public or private insurance companies resulted in worse conditions for doing so, or if hospitals are not able to compensate for lower reimbursement rates by cutting costs, this could have a material adverse effect on our net assets, financial position, and results of operations.

Reductions in health care spending could also negatively affect the pricing of Fresenius Kabi products.

Changes in the law, the reimbursement method and the health care program could affect the scope of payments for services, as well as for insurance coverage and the product business. This could have a significant adverse impact on the assets and liabilities, financial position, and results of operations. Generally, our aim is to counter such possible regulatory risks through enhanced performance and cost reductions.

#### Development of new products and therapies

The **introduction of new products and services**, or the development of new technologies by competitors, could render one or more of our products and services less competitive or even obsolete, and thus have a significant negative impact on future sales, the prices of products, and our range of services. This includes the introduction of generic or patented drugs by competitors, which may have an impact on sales and operational results.

**Cooperation with medical doctors and scientists** allows us to identify and support relevant technological innovations and to keep abreast of developments in alternative treatment methods. These enable us to evaluate and adjust our corporate strategy if necessary.

#### **Operating risks**

Our business and operations around the world are exposed to a number of **risks** and to extensive **regulation**, which include, among others:

- the quality, safety, and efficacy of medical and pharmaceutical products, supplies, and therapies;
- the operation of hospitals, manufacturing facilities, and laboratories;
- Product releases and approvals;
- the planning, construction, equipping, and management of health care facilities;

- the rate of, and accurate reporting and billing for, government and third-party reimbursement;
- the labeling and designation of pharmaceutical products and their marketing;
- compensation of medical directors and other financial arrangements with physicians and other referral sources.

If Fresenius fails to comply with laws or regulations, this may give rise to a number of legal consequences, including monetary and administrative penalties, increased compliance costs, exclusion from governmental programs, or a complete or partial curtailment of our authorization to conduct business, any of which could have a material adverse effect on our business, financial condition, or results of operations.

Significant risks of operations for the Fresenius Group are described in the following sections.

#### Production, products, and services

Compliance with **product and manufacturing regulations** is ensured by our quality management systems, which are structured in accordance with the internationally recognized quality standard ISO 9001, taking into account a large number of national and international regulations. These are implemented by internal standards such as quality and work procedure manuals. Regular internal and external audits are carried out at the Group's production sites, distribution companies, and dialysis clinics. These audits test compliance with regulations in all areas – from management and administration to production and clinical services and patient satisfaction.

Our production facilities comply with the Good Manufacturing Practice (GMP) of the markets they supply. Our facilities are audited by the FDA and other public authorities. If deficiencies are detected and complaints are filed, the Company is required to remedy them, as it was, for example, following inspections in prior years of our production facilities in India in 2017.

**Non-compliance with the requirements of these authorities** in our production facilities or at our suppliers could lead to regulatory actions, such as warnings, product recalls, production interruptions, monetary sanctions, or delays in new product approvals. Any of these regulatory actions could adversely affect our ability to generate sales and result in significant expenses.

Potential risks, such as those arising from the **start-up of new production sites or the introduction of new technologies**, are countered through careful planning, regular analysis, and continual progress reviews. **Production capacities** at some of our manufacturing plants could be adversely affected by events such as technical failures, natural disasters, regulatory rulings, or supply disruptions, e.g., of raw materials.

Performing **medical treatments** on patients in our hospitals, rehabilitation clinics, and dialysis clinics is subject to inherent risks. For example, disruptions to processes, also due to causes such as natural disasters, involve risks for patients and the clinic. In

addition, there are operational risks, for example regarding hygiene and sterile conditions. We counteract these risks with strict operating procedures, continual personnel training, and patient-oriented working procedures. Furthermore, we are constantly striving to improve the standard of patient treatment through our quality management systems.

Performance risks associated with Fresenius Vamed's **project business** are countered through professional project management and control, and with a proven system tailored to each business activity for identifying, evaluating, and minimizing these risks. This system consists of organizational measures, such as standards for pricing-in risks when preparing quotations, risk assessment before accepting orders, regular project controlling, and continual risk assessment updates. To avert the risk of default, financial measures are taken, such as checking creditworthiness and, as a rule, safeguarding through prepayments, letters of credit, and secured credits.

### Procurement

On the **procurement side**, we counter risks – which mainly involve possible price increases and the availability of raw materials and goods – by appropriately selecting and working together with our suppliers through long-term framework agreements in certain purchasing segments and by bundling volumes within the Group.

We counter the risk of poor-quality purchased raw materials, semi-finished products, and components mainly by requiring our suppliers to meet strict quality standards. In addition to certification by external institutes and regular supplier audits, this includes an exhaustive evaluation of advance samples and regular quality controls. We only purchase high-quality products with proven safety and suitability from qualified suppliers that conform to our specifications and standards.

### Competition

Growing **competition**, among other things induced by the re-entry of competitors into the U.S. market for generic IV drugs after production halts, could materially affect the future pricing and sale of our products and services adversely. The introduction of generic or patented drugs by competitors may have an impact on the sales and operational results of our products.

Generally, the health care markets are characterized by price pressure (including from tenders), competition, and efforts to contain costs. These factors could result in lower sales and adversely affect our business, our financial position, and our operational results.

In the United States, almost all Fresenius Kabi injectable pharmaceutical products are sold to customers through arrangements with **group purchasing organizations (GPOs)** and distributors. The majority of hospitals undertake contracts with GPOs of their choice for their purchasing needs. Currently, three GPOs control the large majority of sales in the United States to hospital customers. Fresenius Kabi derives a large percentage of its revenue in the United States through a small number of GPOs and has purchasing agreements with the most important of them. To maintain these business relationships, Fresenius Kabi needs to be a reliable supplier of a comprehensive and

high-quality product line, remain price-competitive, and comply with the regulations of the U.S. Food and Drug Administration (FDA). The GPOs also have purchasing agreements with other manufacturers and the bidding process for products is highly competitive. Most of the agreements Fresenius has with GPOs in the United States can be terminated at short or medium notice. The main customers in the area of transfusion technology are plasma companies and blood centers. There are four major plasma companies serving the United States. Blood centers in the United States are consolidating in response to blood-saving efforts at hospitals, which is having an effect on pricing.

#### Payment default

As a rule, we assess the creditworthiness of new customers in order to limit the risk of **late payment and defaults** by customers. We also conduct follow-up assessments and review credit lines on an ongoing basis. We monitor receivables outstanding from existing customers, and assess the risk of default. This particularly applies to countries with budgetary problems and countries exposed to political risks. In 2017, we again worked on the status of our receivables, by taking measures such as factoring.

#### Personnel

The Company addresses **potential shortages of qualified personnel** both externally, by utilizing personnel marketing measures, and internally by offering comprehensive personnel development programs. We also seek to retain our employees by introducing life-work time accounts in various areas. Furthermore, employees are entitled to attractive fringe benefits and, in part, bonuses. By using target-group-specific measures, Fresenius addresses the overall shortage of specialized hospital personnel. We thereby recruit qualified, dedicated, and specialized personnel, thus ensuring our high standard of treatment quality. At the same time, by supporting the training of young employees, we seek their commitment to Fresenius. As a result of these measures, risks in personnel are not considered to be significant.

#### **Risks associated with research and development and product approval**

The **development of new products and therapies** always carries the risk that the ultimate goal might not be achieved, or it might take longer than planned. This is particularly true for our biosimilars products. Regulatory approval of new products requires comprehensive, cost-intensive preclinical and clinical studies. Furthermore, there is a risk that regulatory authorities either do not grant, or delay, product approval, or withdraw an existing approval. In addition, adverse effects of our products that may be discovered after regulatory approval or registration may lead to a partial or complete withdrawal from the market, either as a result of regulatory actions or our voluntary decision to stop marketing a product. In January 2018, for example, the Coordination Group for Mutual Recognition and Decentralized Procedures–human (CMDh) at the European Medicines Agency (EMA) recommended that drugs containing hydroxyethyl starch (HES) be withdrawn from the market. This position was not taken unanimously within the Coordination Group and has therefore been referred to the European Commission for a decision. The European Commission's recommendation could lead to the suspension or withdrawal of all or part of marketing authorizations in



EU Member States. Similar measures could also be taken by authorities in other countries. The Fresenius Group spreads its risk widely by conducting development activities in various product segments. We also counteract risks from research and development projects by regularly analyzing and assessing development trends and examining the progress of research projects. We also strictly comply with the legal regulations for clinical and chemical-pharmaceutical research and development. With IV drugs, it is also crucial that new products are continually brought to the market in a timely manner. Therefore, we monitor the development of new products on the basis of detailed project plans and focus on achieving specific milestones. In this way, we can take countermeasures if defined targets are called into question.

### **Risks from the integration of acquisitions**

The **acquisition and integration of companies** carries risks that can adversely affect the assets and liabilities, financial position, and results of operations of Fresenius. Acquisition processes often include closing conditions, including but not limited to antitrust clearance, fulfillment of representations and warranties and adherence to laws and regulations. Non-compliance with such closing conditions by either party to an acquisition could lead to litigation between the parties, with others and/or claims against Fresenius. Following an acquisition, the acquired company's structure must be integrated while clarifying legal questions and contractual obligations. Marketing, patient services, and logistics must also be unified. During the integration phase, key managers can leave the company and both the course of ongoing business processes and relationships with customers and employees can be harmed. In addition, change-of-control clauses may be claimed. The integration process may prove more difficult or require more time and resources than expected. Risks can arise from the operations of the newly acquired company that Fresenius regarded as insignificant or was unaware of. An acquisition may also prove to be less beneficial than initially expected. **Future acquisitions** may be a strain on the finances and management of our business. Moreover, as a consequence of an acquisition, Fresenius may become directly or indirectly liable towards third parties, or claims against third parties may turn out to be non-assertable.

These risks also apply to the planned acquisition of Akorn, Inc. by Fresenius Kabi. Fresenius is conducting an independent investigation, using external experts, into alleged breaches of FDA data integrity requirements relating to product development at Akorn, Inc. The Management and Supervisory Boards of Fresenius will assess the findings of that investigation. The consummation of the transaction may be affected if the closing conditions under the merger agreement are not met. Thus, the risks associated with potential non-fulfillment of closing conditions due to possible litigation and/or claims could have a material adverse impact on the financial position of Fresenius. Furthermore, increased competition in the U.S. could lead to a reduction in sales volumes and prices. Akorn distributes most of its products through a small number of pharmaceutical wholesalers. If Akorn loses its business relationship with one or more of the wholesalers, this could have a material adverse effect on the sales and earnings of Akorn.

We counter risks from acquisitions through detailed integration roadmaps and strict integration and project management, so that countermeasures can be initiated in good time if there are deviations from the expected development.

### Information technology risks

The Company's processes are growing ever more complex as a result of the Fresenius Group's steady growth and increasing internationalization. Correspondingly, the **dependence on information and communication technologies**, and on the systems used to structure procedures and – increasingly – harmonize them internationally, intensifies. A failure of these systems could temporarily lead to an interruption of other parts of our business and thus cause serious damage. Fresenius counters these risks with various security measures, controls, and audits. In addition, we counter these risks with constant investment in hardware and software, as well as by improving our system know-how. Potential risks are covered by a detailed contingency plan, which is regularly improved and tested. Redundant systems are maintained for all key systems, such as IT systems or communications infrastructure. The loss of sensitive data or the **non-compliance with data protection laws**, regulations, and standards could damage our competitive position, our reputation and the entire company. To comply with these requirements, we have implemented comprehensive data protection management systems, which also provide the appropriate technical and organizational measures for the protection of personal data.

In addition, the increased integration of IT systems and the use of new technologies like for example cloud computing within our business processes means that **cyber attacks** could penetrate our internal and external systems, and attackers could cause damage or gain sensitive information. The existing IT security architecture, with various security measures at different levels, protects the systems in our data centers. Access to sensitive or critical data from outside the protected data center network is prevented by the use of secure protocols and cryptographic measures. In addition, annual penetration tests are carried out for applications with critical data (for example, patient or personnel data).

A comprehensive access protection system, for example procedures to assign and monitor authorizations and password guidelines, is in place to minimize organizational risks, such as tampering or unauthorized access. In addition, there are Company guidelines regulating the granting of access authorization, and compliance with these rules is monitored. We also conduct operation- and security-related audits.

### Financial risks

#### Currency and interest-rate risks

The international operations of the Fresenius Group expose us to a variety of **currency risks**. In addition, the financing of the business exposes us to certain **interest rate risks**. We use derivative financial instruments as part of our risk management to avoid any possible negative impacts of these risks. However, we limit ourselves to non-exchange-traded, marketable instruments, used exclusively to hedge our operations and not for trading or speculative purposes. All transactions are conducted with banks that have a high rating.

The Fresenius Group's **foreign exchange risk management** is based on a policy approved by the Management Board that defines the targets, organization, and handling of the risk management processes. In particular, the guidelines assign

responsibilities for risk determination, the execution of hedging transactions, and the regular reporting of risk management. These responsibilities are coordinated with the management structures in the residual business processes of the Group. Decisions on the use of derivative financial instruments in **interest rate management** are taken in close consultation with the Management Board. Hedging transactions using derivatives are carried out by the Corporate Treasury department of the Fresenius Group – apart from a few exceptions in order to adhere to foreign currency regulations. These transactions are subject to stringent internal controls. This policy ensures that the Management Board is fully informed of all significant risks and current hedging activities.

The Fresenius Group is protected, to a large extent, against **currency and interest rate risks**. As of December 31, 2017, approximately 65% of the Fresenius Group's debt was protected against increases in interest rates either by fixed-rate financing arrangements or by interest rate hedges; 35% was exposed to interest rate risks. A sensitivity analysis shows that a rise of 0.5% in the reference rates relevant for Fresenius would have a less than 1.0% impact on Group net income.

As a global company, Fresenius is widely exposed to translation **effects due to foreign exchange rate fluctuations**. The exchange rate of the U.S. dollar to the euro is of particular importance because of our extensive operations in the United States. Translation risks are not hedged. A sensitivity analysis shows that a one cent change in the exchange rate of the U.S. dollar to the euro would have an annualized effect of about €120 million on Group sales, about €20 million on EBIT, and about €6 million on Group net income.

As a globally active company, we have production facilities in all the main currency areas. In the service businesses, our revenue and cost base largely coincide. The Fresenius Group uses a Cash-Flow-at-Risk (CFaR) model in order to estimate and quantify such **transaction risks** from foreign currencies. The foreign currency cash flows that are reasonably expected to arise within the following 12 months, less any hedges, form the basis for the analysis of the currency risk. As of December 31, 2017, the Fresenius Group's cash flow at risk was €79 million. Hence, with a probability of 95%, a potential loss in relation to the forecast foreign exchange cash flows of the next 12 months will not be higher than €79 million.

#### Recoverability of assets

Financial risks that could arise from acquisitions, investments in property, plant and equipment, and in intangible assets are assessed through careful and in-depth reviews assisted by external consultants. The amount of intangible assets, including goodwill, product rights, trade names, and management contracts, represents a considerable part of the total assets of the Fresenius Group. Goodwill and other intangible assets with an indefinite useful life carried in the Group's consolidated balance sheet are **tested for impairment** each year. A significant deterioration in our prospects for the future or in the general economic environment could result in additional depreciation being necessary. If assets have to be depreciated, this could have a significant adverse impact on the assets and liabilities, financial position, and results of operations.

### Taxes and duties

As a global corporation, Fresenius is subject to numerous **tax codes and regulations**. Risks arising therefrom are identified and evaluated on an ongoing basis. The Fresenius Group's companies are subject to regular tax audits. Any changes in tax regulations or resulting from tax audits could lead to higher tax payments.

### Debt and liquidity

Fresenius' debt was €19,042 million as of December 31, 2017. The **debt** could limit the Company's ability to pay dividends, arrange refinancing, be in compliance with its credit covenants, or implement the corporate strategy. If the conditions on the relevant financial markets deteriorate significantly, financing risks could arise for Fresenius. We reduce these risks through a high proportion of mid and long-term funding with a balanced maturity profile. Our financing agreements contain covenants requiring us to comply with certain financial ratios and additional financial criteria. Non-compliance with these covenants could result in a default and acceleration of the debt under the agreements.

Additional information on conditions and maturities can be found in Note 18 of the Notes.

## **Compliance and legal risks**

### Compliance Risks

Fresenius is subject to comprehensive government regulation and control in nearly all countries. In addition, Fresenius must comply with general rules of law, which differ from country to country. There could be far-reaching legal repercussions or reputation damage should Fresenius fail to comply with these laws or regulations.

We must comply with these rules and regulations, which particularly monitor the safety and effectiveness of our medical products and services. Corruption is a core risk area across all business segments. Antitrust law and data protection are further significant risk areas. Therefore, it is of special importance to us that our **compliance programs** and guidelines are adhered to. Through compliance, we aim to meet our own expectations and those of our partners, and to orient our business activities to generally accepted standards and local laws and regulations.

At Fresenius, we implement worldwide risk-oriented Compliance Management Systems in all business segments worldwide. These systems take into account the respective markets in which Fresenius operates. They are tailored to the specific requirements of each business segment. Furthermore, we at Fresenius assess compliance risks using a standardized methodology.

Each business segment appoints a Chief Compliance Officer to oversee the development, implementation and monitoring of the relevant business segment's Compliance Management System. Business segments have established compliance responsibilities in line with their organizational and corporate structure. The Corporate

Compliance department of Fresenius SE & Co. KGaA supports the compliance officers in each business segment with standardized instruments, processes and methods, and reports to the Chief Compliance Officer of Fresenius SE & Co. KGaA – the member of the Management Board for Legal Affairs, Compliance and Human Resources.

Our compliance programs set binding rules of conduct for our employees. We believe that we have taken adequate measures to ensure that national and international rules are observed and complied with.

#### Legal risks

Risks that arise from **legal disputes** are continually identified, analyzed, and communicated within the Company.

Companies in the health care industry are regularly exposed to actions for breach of their duties of due care, product liability, breach of warranty obligations, patent infringements, treatment errors, and other claims. This can result in high claims for damages and substantial costs for legal defense, regardless of whether a claim for damages is actually justified. Legal disputes can also result in an inability to insure against risks of this kind at acceptable terms in future. Products from the health care industry can also be subject to recall actions. This could have a negative effect on the assets and liabilities, financial position, and results of operations of the Group.

The Fresenius Group is also involved in various legal disputes resulting from business operations. Although it is not possible to predict the outcome of these disputes, none is expected to have a significant adverse impact on the assets and liabilities, financial position, and results of operations of the Group.

#### Other risks

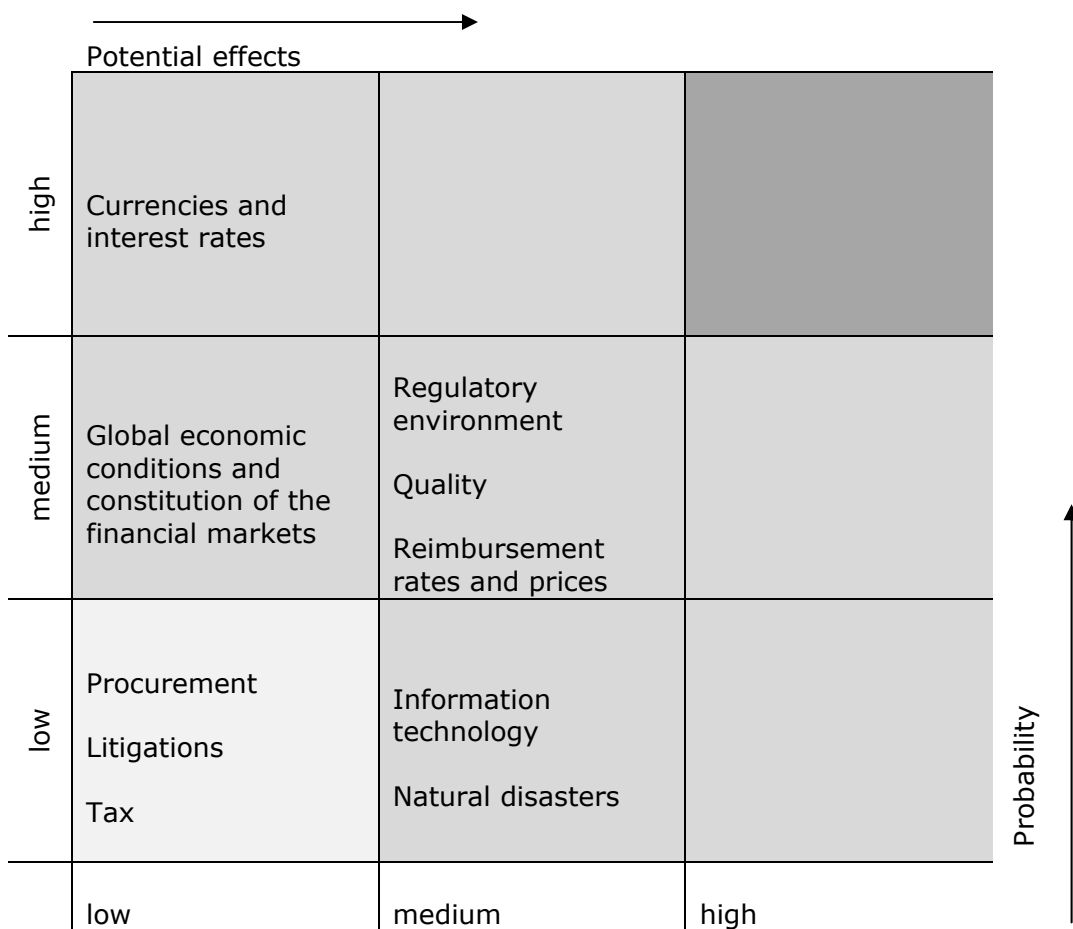
Other risks, such as environmental risks and **risks involving management and control systems**, were not considered to be significant.

#### **Assessment of overall risk**

The basis for evaluating overall risk is the risk management that is regularly audited by management. Potential risks for the Group include factors beyond its control, such as the evolution of economies, which are constantly monitored by Fresenius. Risks also include factors immediately within its control, such as operating risks, which the Company anticipates and reacts to appropriately, as required. There are currently no recognizable risks regarding future performance that appear to present a long-term and material threat to the Group's assets and liabilities, financial position, and results of operations. We have created organizational structures that provide all the conditions needed to rapidly alert us to possible risk situations and to be able to take suitable counter-measures.

**Risks affecting the one year forecast period**

The chart shows the significant risks that could lead to deviations from the expected business performance within the one-year forecast period. Compared with last year, the risk of natural disasters was incorporated. Apart from that, no changes have occurred in the grouping and the potential effects of risks. Within the regulatory environment, due to possible initiatives by the new US administration, we are exposed to risks relating to changes to the existing health care programs. With regard to reimbursement rates, possible changes to patient structures in the United States increase the risk with regard to reimbursements by private health insurance schemes.



In classifying risk, qualitative assessments are applied first of all, followed by quantitative factors. The scales for classification of potential impact and probabilities are shown in the following two tables:

Potential impact	Description of impact
High	Substantial negative impact on the one-year forecast
Medium	Moderate negative impact on the one-year forecast
Low	Small negative impact on the one-year forecast

Probability	Classification
High	≥ 66 % to 100 %
Medium	≥ 33 % to < 66 %
Low	0 % to < 33 %

### Effects on our medium term goal

Fundamentally, all the risk areas and risks listed in the risk report could lead to our failing to achieve our medium-term goal. We believe the following will be particularly important for this:

- Risks relating to the quality, safety and effectiveness of our products and services (Operating risks see page 33),
- Risks arising from the financing of health systems and potential changes in reimbursement systems (Risks in the healthcare sector see page 30),
- Risks arising from the regulatory environment and compliance with laws and regulations (General economic risks and risks in the general operating framework see page 30).

Bad Homburg v.d.H., February 26, 2018

## COMPENSATION REPORT

The compensation report summarizes the main elements of the compensation system for the members of the Management Board of Fresenius Management SE as the general partner of Fresenius SE & Co. KGaA, and in this regard notably explains the amounts and structure of the compensation paid to the Management Board as well as the principles for determining the compensation of the Supervisory Board and the amounts of the compensation. The compensation report is part of the Management Report of the annual financial statements and the annual consolidated financial statements of Fresenius SE & Co. KGaA. The compensation report is prepared on the basis of the recommendations of the German Corporate Governance Code as well as under consideration of the declaration of conformity of Fresenius SE & Co. KGaA of December 2017, and also includes the disclosures as required pursuant to the applicable statutory regulations, notably in accordance with the German Commercial Code.

### COMPENSATION OF THE MANAGEMENT BOARD

The entire Supervisory Board of Fresenius Management SE is responsible for determining the compensation of the Management Board. The Supervisory Board is assisted in this task by a personnel committee. The personnel committee was composed of Dr. Gerd Krick, Dr. Dieter Schenk, and Dr. Karl Schneider.

The objective of the compensation system is to enable the members of the Management Board to participate reasonably in the sustainable development of the company's business and to reward them based on their duties and performance as well as their successes in managing the company's economic and financial position, giving due regard to the peer environment.

The compensation of the Management Board is, as a whole, performance-based and was composed of three elements in the fiscal year 2017:

- ▶ Non-performance-based compensation (fixed compensation and fringe benefits)
- ▶ Short-term performance-based compensation (one-year variable compensation (bonus))
- ▶ Components with long-term incentive effects (several-year variable compensation comprising stock options, share-based compensation with cash settlement (phantom stocks), and postponed payments of the one-year variable compensation)

In addition, there are pension commitments for the members of the Management Board.

The design of the individual elements is based on the following criteria:

The fixed compensation was generally paid in monthly installments in the fiscal year 2017. Mr. Rice Powell was paid a part of his fixed compensation from Fresenius Medical Care North America in 24 installments. Moreover, the members of the Management Board received additional benefits consisting mainly of insurance premiums, the private use of a company car, special payments such as rent supplements and reimbursement of certain other charges, tuition fees, and costs for the operation of intrusion detection systems, as well as contributions to pension and health insurance.

The performance-based compensation will also be granted for the fiscal year 2017 as a short-term cash component (one-year variable compensation) and as compensation components with long-term incentive effects (stock options, share-based compensation with cash settlement (phantom stocks), and postponed payments of the one-year variable compensation). The amount of the one-year variable compensation in each case is dependent on certain target parameters oriented on the net income attributable to Fresenius SE & Co. KGaA and/or to the relevant business segments being achieved. In the case of the members of the Management Board with functional responsibility for the entire Group – such members being Mr. Stephan Sturm, Ms. Rachel Empey, and Dr. Jürgen Götz – the amount of the one-year variable compensation is based in its entirety on the respective net income attributable to Fresenius SE & Co. KGaA (after deduction of noncontrolling interest). For Mr. Mats Henriksson and Dr. Francesco De Meo, approximately half of the amount of the one-year variable compensation depends on the development of the net income attributable to Fresenius SE & Co. KGaA and for the remainder on the development of the net income of the business segment (in each case after deduction of noncontrolling interest) for which the respective member of the Management Board is responsible. Approximately half of the amount of the one-year variable compensation of Dr. Ernst Wastler is oriented on the net income attributable to Fresenius SE & Co. KGaA (after deduction of noncontrolling interest), as well as on the net income before tax and extraordinary income/expenditures of the VAMED group. Mr. Rice Powell receives his compensation exclusively from Fresenius Medical Care. Furthermore, the Supervisory Board may grant members of the Management Board a discretionary bonus for extraordinary performance. Starting fiscal year 2018, the service agreements of the Management Board members with Fresenius Management SE



## Exhibit Compensation Report

provide that the total compensation granted to a Management Board member including a possible discretionary bonus shall not exceed the sum of the fixed compensation

and the maximum amounts for the variable compensation components (one-year variable and several-year variable compensation).

For the fiscal years 2017 and 2016, the amount of cash payment to the Management Board of the general partner of Fresenius SE & Co. KGaA consisted of the following:

€ in thousands	Non-performance-based compensation				Short-term performance-based compensation		Cash compensation (without long-term incentive components)	
	Fixed compensation		Fringe benefits <sup>2</sup>		Bonus		2017	2016
	2017	2016	2017	2016	2017	2016		
Stephan Sturm	<b>1,100</b>	850	<b>79</b>	43	<b>1,866</b>	1,773	<b>3,045</b>	2,666
Dr. Ulf M. Schneider (up to June 30, 2016)	n. a.	550	n. a.	72	n. a.	875	n. a.	1,497
Dr. Francesco De Meo	<b>630</b>	600	<b>24</b>	23	<b>1,412</b>	1,250	<b>2,066</b>	1,873
Rachel Empey (since August 1, 2017)	<b>250</b>	n. a.	<b>16</b>	n. a.	<b>338</b>	n. a.	<b>604</b>	n. a.
Dr. Jürgen Götz	<b>490</b>	460	<b>41</b>	37	<b>950</b>	928	<b>1,481</b>	1,425
Mats Henriksson	<b>630</b>	600	<b>157</b>	149	<b>1,250</b>	1,250	<b>2,037</b>	1,999
Rice Powell <sup>1</sup>	<b>1,217</b>	1,242	<b>173</b>	121	<b>2,297</b>	2,403	<b>3,687</b>	3,766
Dr. Ernst Wastler	<b>525</b>	500	<b>75</b>	72	<b>858</b>	775	<b>1,458</b>	1,347
<b>Total</b>	<b>4,842</b>	4,802	<b>565</b>	517	<b>8,971</b>	9,254	<b>14,378</b>	14,573

<sup>1</sup> Mr. Rice Powell received his compensation only from Fresenius Medical Care, of which Fresenius SE & Co. KGaA held around 30.80% of the total subscribed capital. As a member of the Management Board of Fresenius Management SE, his compensation has to be included in the compensation report of the Fresenius Group.

<sup>2</sup> Includes insurance premiums, private use of a company car, contributions to pension and health insurance, as well as other benefits

In the fiscal year 2017, the one-year variable compensation, excluding the payment to Mr. Rice Powell, amounted to €6,674 thousand. This equals 98% of the total one-year variable compensation. The remaining part in an amount of €148 thousand was converted into a component based on a multi-year assessment and the payment was postponed by two years.

To ensure that the overall system of compensation of the members of the Management Board is oriented towards long-term and sustained corporate development, the compensation system provides that the share of long-term variable compensation components is at least equal in its amount to half of the total variable compensation components granted to the respective member of the Management Board. As a means of ensuring this minimum ratio in favor of the compensation components oriented towards the long term, it is expressly provided that the Supervisory Board may determine that the one-year variable compensation to be paid as a rule annually is converted (pro rata) into a variable compensation component

based on a multi-year assessment, in order to also take account of any negative developments within the assessment period. This is done in such a way that the maturity of the yearly one-year variable compensation earned on a variable basis is postponed at the discretion of the Supervisory Board, either on a pro rata basis or in its entirety, by two years. At the same time, it is ensured that any payment is made to the member of the Management Board after expiration of such multi-year period only if (i) no subsequent adjustment of the net income (adjusted for extraordinary effects) attributable to Fresenius SE & Co. KGaA (after deduction of noncontrolling interest) decisive for assessing the one-year variable compensation beyond an amount equal to a tolerance range of 10% is made, and (ii) the amount of net income attributable to Fresenius SE & Co. KGaA (adjusted for extraordinary effects) in the two relevant subsequent years is not substantially less than the net income attributable to Fresenius SE & Co. KGaA

(adjusted for extraordinary effects, after deduction of non-controlling interest) of the respective preceding fiscal years. In the event of the aforementioned conditions for payment being missed only to a minor and/or partial extent, the Supervisory Board may resolve on a corresponding pro rata payment of the converted portion of the one-year variable compensation. No interest is payable on the converted one-year variable compensation claim from the time when it first arises until the time of its effective payment. In this way, the one-year variable compensation can be converted pro rata or in its entirety into a genuine variable compensation component on a multi-year assessment basis, which also participates in any negative developments during the relevant assessment period.

In the fiscal year 2017, benefits under LTIP 2013 of Fresenius SE & Co. KGaA, and for Mr. Rice Powell, benefits under LTIP 2016 of Fresenius Medical Care AG & Co. KGaA, were granted as another component with long-term incentive effect. Such benefits consisted, on the one hand, of share-based compensation with cash settlement (phantom stocks) and on the other hand of stock options on the basis of the Stock Option Plan 2013 of Fresenius SE & Co. KGaA and, for Mr. Rice Powell, of performance shares on the basis of the LTIP 2016 of Fresenius Medical Care AG & Co. KGaA. Based on the LTIP 2013, both members of the Management Board and other executives were granted stock options and phantom stocks. In accordance with the division of powers under stock corporation law, grants to members of the Management Board were made by the Supervisory Board of Fresenius Management SE, and grants to other executives were made by the Management Board. The number of stock options and phantom stocks for Management Board members to be granted was determined by the Supervisory Board at the Supervisory Board's own due discretion, provided that generally all Management Board members received the same amount of stock options and phantom stocks, with the exception of the Chairman of the Management Board, who received double the respective amount of stock options and phantom stocks. At the time of the grant, the participants in LTIP 2013 had the right to elect whether they wished to receive stock options and phantom stocks in a ratio of 75:25, or in a ratio of 50:50.

Exercise of the stock options and the phantom stocks granted under LTIP 2013 of Fresenius SE & Co. KGaA is subject to several conditions, such as expiry of a four-year waiting period, observance of vesting periods, achievement of the

specified performance target, and continuance of the service or employment relationship. The vested stock options can be exercised within a period of four years. The vested phantom stocks are settled on March 1 of the year following the end of the waiting period.

The amount of the cash settlement pursuant to the Phantom Stock Plan 2013 is based on the volume-weighted average market price of the share of Fresenius SE & Co. KGaA during the three months preceding the exercise date.

The respective performance target has been reached if the adjusted consolidated net income of the company (net income attributable to the shareholders of the company) has increased by a minimum of 8% per year in comparison to the previous year within the waiting period, after adjustment for foreign currency effects. The performance target has also been achieved if the average annual growth rate of the adjusted consolidated net income of the company during the four-year waiting period is at least 8%, adjusted for foreign currency effects. If, with respect to one or more of the four reference periods within the waiting period, neither the adjusted consolidated net income of the company has increased by a minimum of 8% per year in comparison to the previous year, after adjustment for foreign currency effects, nor the average annual growth rate of the adjusted consolidated net income of the company during the four-year waiting period is at least 8%, adjusted for foreign currency effects, the respective granted stock options and phantom stocks are forfeited on a pro-rata basis according to the proportion of the performance target that has not been achieved within the waiting period, i. e., by one fourth, by two fourths, by three fourths, or completely.

The principles of LTIP 2013 of Fresenius SE & Co. KGaA and of LTIP 2016 of Fresenius Medical Care AG & Co. KGaA are described in more detail in note 34 of the notes of the Fresenius Group, Share-based compensation plans.

The members of the Management Board, with the exception of Ms. Rachel Empey and Mr. Rice Powell, were granted an entitlement to further share-based compensation with cash settlement (further phantom stocks) in the equivalent value of €100 thousand per Management Board member in the fiscal year 2017. With regard to the performance target and waiting period, the same conditions that pertain to the phantom stocks granted under LTIP 2013 apply to them.

For the fiscal years 2017 and 2016, the number and value of stock options issued, the value of the share-based compensation with cash settlement (phantom stocks and performance shares), and the value of the postponed performance-based compensation is shown in the following table.

The number of stock options granted to members of the Management Board under LTIP 2013 in the fiscal year 2017 is basically unchanged when compared with 2016. For the fiscal year 2016, Mr. Stephan Sturm received the regular number of stock options and phantom stocks pro rata for the period through June 30, 2016, when he was a regular member of the Management Board, and twice the number for the period from July 1, 2016, when he became Chairman of the Management Board. For the fiscal year 2017, as Chairman of the Management Board, he received twice the number of stock options and phantom stocks. Ms. Rachel Empey was granted

stock options and phantom stocks pro rata for the period starting August 1, 2017, when she was appointed as a Management Board member. The stated values correspond to their fair value at the time of grant, namely a value of €12.59 (2016: €15.31) per stock option of Fresenius SE & Co. KGaA and €10.61 for stock options granted to Ms. Rachel Empey. The exercise price of the granted stock options of Fresenius SE & Co. KGaA was €74.77 (2016: €66.02) and €64.69 for stock options granted to Ms. Rachel Empey.

The fair value of the phantom stocks granted to members of the Management Board in the fiscal year 2017 corresponds to a value at the time of grant of €68.21 (2016: €64.31) per phantom stock of Fresenius SE & Co. KGaA, €59.37 with regard to phantom stocks granted to Ms. Rachel Empey, and US\$86.39 (2016: US\$85.06) per performance share of Fresenius Medical Care AG & Co. KGaA.

#### LONG-TERM INCENTIVE COMPONENTS

	Stock options <sup>1</sup>				Postponed payment of the one-year variable compensation		Share-based compensation with cash settlement (phantom stocks <sup>2</sup> )		Total	
	Number		Value, € in thousands		Value, € in thousands		Value, € in thousands		Value, € in thousands	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Stephan Sturm	135,000	101,250	1,700	1,550	0	0	728	613	2,428	2,163
Dr. Ulf M. Schneider (up to June 30, 2016)	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Dr. Francesco De Meo	67,500	67,500	850	1,033	148	0	414	442	1,412	1,475
Rachel Empey (since August 1, 2017)	28,125	n. a.	298	n. a.	0	n. a.	109	n. a.	407	n. a.
Dr. Jürgen Götz	67,500	67,500	850	1,033	0	0	414	442	1,264	1,475
Mats Henriksson	67,500	45,000	850	689	0	0	414	786	1,264	1,475
Rice Powell	0	0	0	0	0	0	2,247	2,415	2,247	2,415
Dr. Ernst Wastler	67,500	67,500	850	1,033	0	0	414	442	1,264	1,475
<b>Total</b>	<b>433,125</b>	<b>348,750</b>	<b>5,398</b>	<b>5,338</b>	<b>148</b>	<b>0</b>	<b>4,740</b>	<b>5,140</b>	<b>10,286</b>	<b>10,478</b>

<sup>1</sup> Stock options that were granted in 2017 and 2016 under the Fresenius SE & Co. KGaA stock option plan.

<sup>2</sup> The amounts comprise all phantom stocks including performance shares of Fresenius Medical Care AG & Co. KGaA.

At the end of the fiscal year 2017, the members of the Management Board held a total of 1,612,515 (2016: 1,294,530) stock options of Fresenius SE & Co. KGaA and 284,793 (2016: 344,793) of Fresenius Medical Care AG & Co. KGaA.

Furthermore, they held a total of 285,057 (2016: 262,524) phantom stocks of Fresenius SE & Co. KGaA, as well as 37,915 performance shares (2016: 19,852) and 16,888 (2016: 17,853) phantom stocks of Fresenius Medical Care AG & Co. KGaA.

## Exhibit Compensation Report

The development and the status of the stock options of the Management Board in the fiscal year 2017 are shown in the following table:

	Stephan Sturm	Dr. Francesco De Meo	Rachel Empey (since August 1, 2017)	Dr. Jürgen Götz	Mats Henriksson	Rice Powell <sup>1</sup>	Dr. Ernst Wastler	Total <sup>2</sup>
<b>Options outstanding on January 1, 2017</b>								
Number	321,390	310,140	n. a.	202,500	258,000	344,793	202,500	1,294,530
Average exercise price in €	46.01	44.89	n. a.	51.04	41.93	60.89	51.04	46.50
<b>Options granted during fiscal year</b>								
Number	135,000	67,500	28,125	67,500	67,500	0	67,500	433,125
Exercise price in €	74.77	74.77	64.69	74.77	74.77	0	74.77	74.12
<b>Options exercised during the fiscal year</b>								
Number	0	85,140	0	0	30,000	60,000	0	115,140
Average exercise price in €	n. a.	26.11	n. a.	n. a.	23.76	42.68	n. a.	25.50
Average stock price in €	n. a.	77.82	n. a.	n. a.	76.68	84.45	n. a.	77.53
<b>Options forfeited in the fiscal year</b>								
Number	0	0	0	0	0	0	0	0
Average exercise price in €	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
<b>Options outstanding on December 31, 2017</b>								
Number	456,390	292,500	28,125	270,000	295,500	284,793	270,000	1,612,515
Average exercise price in €	54.52	57.26	64.69	56.97	51.27	64.73	56.97	55.42
Average remaining life in years	5.4	5.9	7.9	5.9	5.1	4.6	5.9	5.6
Range of exercise prices in €	26.11 to 74.77	33.10 to 74.77	64.69	33.10 to 74.77	26.11 to 74.77	49.76 to 76.99	33.10 to 74.77	26.11 to 74.77
<b>Exercisable options on December 31, 2017</b>								
Number	130,140	45,000	0	45,000	93,000	60,693	45,000	358,140
Average exercise price in €	28.53	33.10	n. a.	33.10	29.49	52.76	33.10	30.50

<sup>1</sup> Mr. Rice Powell holds stock options under the Fresenius Medical Care stock option plan.

<sup>2</sup> Only stock options of Fresenius SE & Co. KGaA, excluding stock options of Mr. Rice Powell

The following table shows the total compensation of the Management Board of the general partner of Fresenius SE & Co. KGaA for the years 2017 and 2016:

€ in thousands	Cash compensation (without long-term incentive components)		Long-term incentive components		Total compensation (including long-term incentive components)	
	2017	2016	2017	2016	2017	2016
Stephan Sturm	3,045	2,666	2,428	2,163	5,473	4,829
Dr. Ulf M. Schneider (up to June 30, 2016)	n. a.	1,497	n. a.	n. a.	n. a.	1,497
Dr. Francesco De Meo	2,066	1,873	1,412	1,475	3,478	3,348
Rachel Empey (since August 1, 2017)	604	n. a.	407	n. a.	1,011	n. a.
Dr. Jürgen Götz	1,481	1,425	1,264	1,475	2,745	2,900
Mats Henriksson	2,037	1,999	1,264	1,475	3,301	3,474
Rice Powell	3,687	3,766	2,247	2,415	5,934	6,181
Dr. Ernst Wastler	1,458	1,347	1,264	1,475	2,722	2,822
<b>Total</b>	<b>14,378</b>	<b>14,573</b>	<b>10,286</b>	<b>10,478</b>	<b>24,664</b>	<b>25,051</b>

The stock options and the entitlement to a share-based compensation (phantom stocks) can be exercised only after the expiry of minimum terms (vesting periods). Their value is recognized over the vesting period as expense in the respective fiscal year. The expenses attributable to the fiscal years

2017 and 2016 are stated in the following table. The values shown for the year 2016 for Dr. Ulf M. Schneider include corrections to expenses in prior years for stock options and phantom stocks that now expire due to his resignation.

## EXPENSES FOR LONG-TERM INCENTIVE COMPONENTS

€ in thousands	Stock options		Share-based compensation with cash settlement (phantom stocks)		Total expenses for share-based compensation	
	2017	2016	2017	2016	2017	2016
Stephan Sturm	917	523	659	1,047	1,576	1,570
Dr. Ulf M. Schneider (up to June 30, 2016)	n. a.	-826	n. a.	-1,850	n. a.	-2,676
Dr. Francesco De Meo	783	552	540	932	1,323	1,484
Rachel Empey (since August 1, 2017)	6	n. a.	2	n. a.	8	n. a.
Dr. Jürgen Götz	700	469	613	1,039	1,313	1,508
Mats Henriksson	614	433	697	986	1,311	1,419
Rice Powell	957	593	1,960 <sup>1</sup>	668 <sup>1</sup>	2,917	1,261
Dr. Ernst Wastler	700	469	613	1,039	1,313	1,508
<b>Total</b>	<b>4,677</b>	<b>2,213</b>	<b>5,084</b>	<b>3,861</b>	<b>9,761</b>	<b>6,074</b>

<sup>1</sup> Includes expenses for performance shares and share based awards of Fresenius Medical Care AG & Co. KGaA

The short-term performance-based compensation is limited in its amount. As regards stock options and phantom stocks, there are contractually agreed limitation possibilities. This makes it possible to adequately take account in particular of those extraordinary developments that are not in any relevant proportion to the performance of the Management Board.

With regard to the compensation granted to the members of the Management Board starting fiscal year 2018, the service agreements with Fresenius Management SE provide for a cap regarding both every single variable compensation amount and overall compensation. Furthermore, since 2018, they include an allocation cap in the amount of €6,000 thousand for Ms. Rachel Empey, Dr. Francesco De Meo, Dr. Jürgen Götz, Mr. Mats Henriksson, and Dr. Ernst Wastler and €9,000 thousand for Mr. Stephan Sturm.

Under the compensation system, the amount of the fixed and the total compensation of the members of the Management Board was, and will be, assessed giving particular regard to the relevant comparison values of other DAX companies and similar companies of comparable size and performance from the relevant industrial sector.

#### COMMITMENTS TO MEMBERS OF THE MANAGEMENT BOARD IN THE EVENT OF THE TERMINATION OF THEIR APPOINTMENT

There are individual contractual pension commitments for the Management Board members Mr. Stephan Sturm, Dr. Francesco De Meo, and Dr. Jürgen Götz based on their service agreements with the general partner of Fresenius SE & Co. KGaA. The Management Board member Dr. Ernst Wastler has a pension commitment from VAMED AG, Vienna; Fresenius SE & Co. KGaA has issued a guarantee for the commitments thereunder. The Management Board member Mr. Mats Henriksson has an individual contractual pension commitment from Fresenius Kabi AG. The Management Board member Mr. Rice Powell has received an individual contractual pension commitment from Fresenius Medical Care Management AG. Furthermore, he has acquired non-forfeitable entitlements from participating in pension plans for employees of Fresenius Medical Care North America, and during the fiscal year 2017, he participated in the U.S.-based 401(k) Savings Plan. This plan generally enables employees in the United States to invest part of their gross income into retirement plans. The Management Board member Ms. Rachel Empey does not have a pension commitment. With regard to the pension commitments for acting Management Board members as of December 31, the Fresenius Group had pension obligations of €31,942 thousand as of December 31, 2017 (2016: €31,180 thousand). The additions to pension liability in the fiscal year 2017 amounted to €762 thousand (2016: €6,069 thousand).

The pension commitments are as follows:

€ in thousands	As of January 1, 2017	Additions	As of December 31, 2017
Stephan Sturm	5,674	192	5,866
Dr. Francesco De Meo	2,954	317	3,271
Rachel Empey (since August 1, 2017)	0	0	0
Dr. Jürgen Götz	2,533	263	2,796
Mats Henriksson	4,694	354	5,048
Rice Powell	10,272	-268	10,004
Dr. Ernst Wastler	5,053	-96	4,957
<b>Total</b>	<b>31,180</b>	<b>762</b>	<b>31,942</b>

Each of the pension commitments provides for a pension and survivor benefit, depending on the amount of the most recent fixed compensation, from the 63rd year of life (or 65th year for Mr. Rice Powell), or, in the case of termination because of professional or occupational incapacity, from the time of ending active work.

The pension's starting percentage of 30% of the last fixed compensation increases with every full year of service as a Management Board member by 1.5 percentage points, 45% being the attainable maximum.

Current pensions increase according to legal requirements (Section 16 of the German law to improve company pension plans, BetrAVG).

30% of the gross amount of any post-retirement income from an occupation of the Management Board member is offset against the pension for professional or occupational incapacity.

In the event of the death of one of the Management Board members, the widow receives a pension equivalent to 60% of the pension entitlement accruing at the time of death. In addition, biological children of the deceased Management Board member and/or, in individual cases, biological children of the deceased Management Board member's wife who were adopted by the deceased Management Board member as children, receive an orphan's pension equivalent to 20% of the pension entitlement accruing at the time of death until completion of their vocational training, but at the most until the age of 25 years. However, all surviving dependents' pensions are capped at an aggregate 90% of the Management Board member's pension entitlement.

If a Management Board member's service as a member of the Management Board of Fresenius Management SE (or Mr. Rice Powell as a member of the Management Board of Fresenius Medical Care Management AG) ends before the age of 63 years (or 65 years for Mr. Rice Powell) for reasons other than professional or occupational incapacity, the rights to the said pension benefits vest, but the pension payable upon the occurrence of a pensionable event is reduced pro rata according to the actual length of service as a Management

Board member compared to the potential length of service until the age of 63 years (or 65 years for Mr. Rice Powell).

The pension commitment for Dr. Ernst Wastler provides for a normal pension, an early retirement pension, a professional incapacity pension, and a widow's and orphan's pension. The normal pension is payable at the earliest at the age of 60 years and the early retirement pension at the earliest at the age of 55 years. The pension benefits are equivalent to 1.2% per year of service based on the last fixed compensation, with a cap of 40%. The widow's pension (60%) and the orphan's pension (20% each) are capped in aggregate at not more than Dr. Ernst Wastler's pension entitlement at the time of death. Pensions, retirement, and other benefits from third parties are set off against the pension benefit if the credited periods of service overlap.

The Management Board member Mr. Mats Henriksson has solely a pension commitment from Fresenius Kabi AG from the period of his previous service. This pension commitment remained unaffected by the service agreement with Fresenius Management SE, beginning on January 1, 2013. It is based on the pension policy of the Fresenius companies, and provides for retirement, incapacity, and survivors' pensions. It does not set forth any deduction of other income or pension benefits. The widow's pension amounts to 60% of the incapacity or retirement pension to be granted at the time of death; the orphan's pension amounts to 10% (half-orphans) or 20% (orphans) of the incapacity or retirement pension to be granted at the time of death. The total entitlements of widows and orphans are limited to 100% of Mr. Mats Henriksson's pension entitlements.

A post-employment non-competition covenant was agreed upon for all Management Board members. If such a covenant becomes applicable, the Management Board members receive a waiting allowance that is generally equivalent to half of the respective annual fixed compensation for each year of respective application of the non-competition covenant, up to a maximum of two years.

The service agreements of the Management Board members do not contain any explicit provision for the event of a change of control.

### MISCELLANEOUS

All members of the Management Board have received individual contractual commitments for the continuation of their compensation in the event of sickness for a maximum period of 12 months, provided that, after six months of sickness-related absence, any insurance benefits that may be paid are to be deducted from such continued compensation. In the event of death of a member of the Management Board, the surviving dependents will receive three monthly payments after the month in which the death occurred, at maximum, however, until the expiry of the respective employment agreement.

During the fiscal year 2017, no loans or advance payment on future compensation components were granted to any member of the Management Board of Fresenius Management SE.

Fresenius SE & Co. KGaA undertook to indemnify the Management Board members, to the legally permitted extent, against any claims that may be asserted against them in the course of their service for the company and its affiliated Group companies to the extent that such claims exceed their liability under German law. To cover such obligations, the company purchased a directors & officers insurance, the deductible complying with the requirements of stock corporation law. The indemnification covers the period during which the respective member of the Management Board holds office, as well as any claim in this regard after termination of the service on the Management Board.

Benefits granted Value € thousands	Stephan Sturm Chairman of the Management Board (since July 1, 2016) Board member since January 1, 2005				Dr. Francesco De Meo CEO Fresenius Helios Board member since January 1, 2008				Rachel Empey Chief Financial Officer Board member since August 1, 2017			
	2017	2017 min.	2017 max.	2016	2017	2017 min.	2017 max.	2016	2017	2017 min.	2017 max.	2016
Fixed compensation	1,100	1,100	1,100	850	630	630	630	600	250	250	250	n. a.
Fringe benefits	79	79	79	43	24	24	24	23	16	16	16	n. a.
<b>Total non-performance-based compensation</b>	<b>1,179</b>	<b>1,179</b>	<b>1,179</b>	<b>893</b>	<b>654</b>	<b>654</b>	<b>654</b>	<b>623</b>	<b>266</b>	<b>266</b>	<b>266</b>	<b>n. a.</b>
One-year variable compensation <sup>1</sup>	1,866	1,750	2,300	1,773	1,412	1,050	1,750	1,250	338	317	417	n. a.
Multi-year variable compensation/components with long-term incentive effect	2,428	0	n. a.	2,163	1,412	0	n. a.	1,475	407	0	n. a.	n. a.
Thereof postponed one-year variable compensation	0	0	n. a.	0	148	0	n. a.	0	0	0	n. a.	n. a.
Thereof Stock Option Plan 2013 (part of LTIP 2013) (5-year term)	1,700	0	n. a.	1,550	850	0	n. a.	1,033	298	0	n. a.	n. a.
Thereof phantom stocks (part of LTIP 2013) (5-year term)	628	0	n. a.	513	314	0	n. a.	342	109	0	n. a.	n. a.
Thereof further phantom stocks	100	0	n. a.	100	100	0	n. a.	100	0	0	n. a.	n. a.
<b>Total non-performance-based and performance-based compensation</b>	<b>5,473</b>	<b>2,929</b>	<b>n. a.</b>	<b>4,829</b>	<b>3,478</b>	<b>1,704</b>	<b>n. a.</b>	<b>3,348</b>	<b>1,011</b>	<b>575</b>	<b>n. a.</b>	<b>n. a.</b>
Service cost	455	455	455	276	325	325	325	300	0	0	0	n. a.
<b>Value of benefits granted</b>	<b>5,928</b>	<b>3,384</b>	<b>n. a.</b>	<b>5,105</b>	<b>3,803</b>	<b>2,029</b>	<b>n. a.</b>	<b>3,648</b>	<b>1,011</b>	<b>575</b>	<b>n. a.</b>	<b>n. a.</b>

<sup>1</sup> For the one-year variable compensation, there are no target values or comparable values for Board members who receive their compensation from Fresenius Management SE. The one-year variable compensation is calculated on the basis of bonus curves that are valid for several years. For this reason, the allocation from the one-year variable compensation is stated for the years 2016 and 2017.

<sup>2</sup> Mr. Rice Powell was granted stock options, phantom stocks, and performance shares from the program of Fresenius Medical Care as follows: in 2017: €916 thousand from the Share Based Award – New Incentive Bonus Plan 2010 and €1,331 thousand from the Long Term Incentive Program 2016 – Performance Share Plan 2016 in 2016: €877 thousand from the Share Based Award – New Incentive Bonus Plan 2010 and €1,538 thousand from the Long Term Incentive Program 2016 – Performance Share Plan 2016.



Based on pension commitments to former members of the Management Board, €1,099 thousand were paid in the fiscal year 2017 (2016: €1,094 thousand) and €580 thousand (2016: €585 thousand) were paid to Dr. Ben Lipps as a result of a consultancy agreement entered into with Fresenius Medical Care Management AG. The benefit obligation for these persons amounted to €21,848 thousand (2016: €23,183 thousand). Furthermore, in the fiscal year 2017, Dr. Ulf M. Schneider received a reimbursement for tax advice expenses of previous years in the amount of €16 thousand in accordance with his service agreement.

### TABLES DISPLAYING THE VALUE OF BENEFITS GRANTED AND ALLOCATIONS

The German Corporate Governance Code stipulates that specific information shall be presented in the compensation report pertaining to the benefits granted for the year under

review as well as the allocations and service costs in/for the year under review. The model tables provided in the appendix of the German Corporate Governance Code shall be used to present the information.

The following tables contain disclosures on both the value of the benefits granted and on the allocations. They conform to the structure and, to a large degree, to the specification of the model tables of the German Corporate Governance Code. The table displaying allocations additionally shows the allocation for the fiscal year, that is, without multi-year variable compensation/components with long-term incentive effect. This illustrates clearly which allocation is to be attributed to the activity in the respective year under review and which allocation results from the compensation components that were granted in previous – or even several – reporting years. Through differentiation, the comparability of the respective development in compensation is also increased.

Dr. Jürgen Götz Chief Legal and Compliance Officer, and Labor Relations Director Board member since July 1, 2007				Mats Henriksson CEO Fresenius Kabi Board member since January 1, 2013				Rice Powell CEO Fresenius Medical Care Board member since January 1, 2013				Dr. Ernst Wastler CEO Fresenius Vamed Board member since January 1, 2008			
2017	2017 min.	2017 max.	2016	2017	2017 min.	2017 max.	2016	2017	2017 min.	2017 max.	2016	2017	2017 min.	2017 max.	2016
490	490	490	460	630	630	630	600	1,217	1,217	1,217	1,242	525	525	525	500
41	41	41	37	157	157	157	149	173	173	173	121	75	75	75	72
531	531	531	497	787	787	787	749	1,390	1,390	1,390	1,363	600	600	600	572
950	700	950	928	1,250	750	1,250	1,250	2,008	166	2,410	2,050	858	650	950	775
1,264	0	n. a.	1,475	1,264	0	n. a.	1,475	2,247 <sup>2</sup>	0	n. a.	2,415 <sup>2</sup>	1,264	0	n. a.	1,475
0	0	n. a.	0	0	0	n. a.	0					0	0	n. a.	0
850	0	n. a.	1,033	850	0	n. a.	689					850	0	n. a.	1,033
314	0	n. a.	342	314	0	n. a.	686					314	0	n. a.	342
100	0	n. a.	100	100	0	n. a.	100					100	0	n. a.	100
2,745	1,231	n. a.	2,900	3,301	1,537	n. a.	3,474	5,645	1,556	n. a.	5,828	2,722	1,250	n. a.	2,822
234	234	234	211	210	210	210	188	773	773	773	741	160	160	160	137
2,979	1,465	n. a.	3,111	3,511	1,747	n. a.	3,662	6,418	2,329	n. a.	6,569	2,882	1,410	n. a.	2,959



Exhibit Compensation Report

	Stephan Sturm Chairman of the Management Board (since July 1, 2016) Board member since January 1, 2005		Dr. Francesco De Meo CEO Fresenius Helios Board member since January 1, 2008		Rachel Empey Chief Financial Officer Board member since August 1, 2017	
	2017	2016	2017	2016	2017	2016
Allocations Value € thousands						
Fixed compensation	1,100	850	630	600	250	n. a.
Fringe benefits	79	43	24	23	16	n. a.
<b>Total non-performance-based compensation</b>	<b>1,179</b>	<b>893</b>	<b>654</b>	<b>623</b>	<b>266</b>	<b>n. a.</b>
One-year variable compensation	1,866	1,773	1,412	1,250	338	n. a.
Multi-year variable compensation / components with long-term incentive effect	317	4,234	4,806	375	0	n. a.
Thereof postponed one-year variable compensation	57	30	143	108	0	n. a.
Thereof Stock Option Plan 2003 (5-year term)						
Issue 2007						
Thereof Stock Option Plan 2008 (5-year term)						
Issue 2010						
Issue 2011		3,937				
Issue 2012			4,403			
Thereof further phantom stocks						
Issue 2011		267		267		
Issue 2012	260		260			
Other	0	0	0	0	0	n. a.
<b>Total non-performance-based and performance-based compensation</b>	<b>3,362</b>	<b>6,900</b>	<b>6,872</b>	<b>2,248</b>	<b>604</b>	<b>n. a.</b>
Service cost	455	276	325	300	0	n. a.
<b>Allocation including multi-year variable compensation / components with long-term incentive effect</b>	<b>3,817</b>	<b>7,176</b>	<b>7,197</b>	<b>2,548</b>	<b>604</b>	<b>n. a.</b>
<b>Allocation for the year under review (not including multi-year variable compensation / components with long-term incentive effect)</b>	<b>3,500</b>	<b>2,942</b>	<b>2,391</b>	<b>2,173</b>	<b>604</b>	<b>n. a.</b>

<sup>1</sup> Mr. Rice Powell had this allocation from stock options from the Fresenius Medical Care Stock Option Program:  
in 2017: €205 thousand from the Share Based Award – New Incentive Bonus Plan 2010 issue 2013, €2,506 thousand from the Stock Option Plan 2006 issue 2010, and €76 thousand from the Long Term Incentive Program 2011 – Phantom Stock Plan 2011 issue 2012  
in 2016: €598 thousand from the Share Based Award – New Incentive Bonus Plan 2010 issue 2012, €2,043 thousand from the Stock Option Plan 2006 issue 2009, €446 thousand from the Stock Option Plan 2006 issue 2010 and €186 thousand from the Long Term Incentive Program 2011 – Phantom Stock Plan 2011 issue 2011.

Exhibit Compensation Report

<b>Dr. Jürgen Götz</b> Chief Legal and Compliance Officer, and Labor Relations Director Board member since July 1, 2007		<b>Mats Henriksson</b> CEO Fresenius Kabi Board member since January 1, 2013		<b>Rice Powell</b> CEO Fresenius Medical Care Board member since January 1, 2013		<b>Dr. Ernst Wastler</b> CEO Fresenius Vamed Board member since January 1, 2008	
2017	2016	2017	2016	2017	2016	2017	2016
490	460	630	600	1,217	1,242	525	500
41	37	157	149	173	121	75	72
531	497	787	749	1,390	1,363	600	572
950	928	1,250	1,250	2,297	2,403	858	775
260	267	1,659	65	2,787 <sup>1</sup>	3,273 <sup>1</sup>	260	267
0	0	71	65			0	0
		1,588					
	267						267
260						260	
0	0	0	0	0	0	0	0
1,741	1,692	3,696	2,064	6,474	7,039	1,718	1,614
234	211	210	188	773	741	160	137
1,975	1,903	3,906	2,252	7,247	7,780	1,878	1,751
1,715	1,636	2,247	2,187	4,460	4,507	1,618	1,484

## COMPENSATION OF THE SUPERVISORY BOARD

The compensation of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in Section 13 of the articles of association of Fresenius SE & Co. KGaA.

According to the relevant version of the articles of association, each member of the Supervisory Board received a fixed compensation of €13 thousand for the full fiscal year 2017.

The members of the Audit Committee of Fresenius SE & Co. KGaA received an additional €10 thousand each and the Chairman of the committee a further €10 thousand. For the full fiscal year 2017, the compensation increases by 10% for each percentage point that three times the dividend paid on each ordinary share for that year (gross dividend according to the resolution of the Annual General Meeting) exceeds 3.6% of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts are interpolated. The Chairman received twice this amount and the deputies to the Chairman one and a half times the amount of a Supervisory Board member. All members of the Supervisory Board received appropriate compensation for costs of travel and accommodation incurred in connection with their duties as members of the Supervisory Board, including any applicable value-added tax. Additionally, in his capacity as Chairman of the Supervisory Board of Fresenius Management SE, Dr. Gerd Krick was reimbursed for the costs for the operation of an intrusion detection system in the amount of €1.4 thousand. Fresenius SE & Co. KGaA provided to the members of the Supervisory Board insurance coverage in an adequate amount (relating to their function) with an excess equal to those of the Management Board.

If a member of the Supervisory Board of Fresenius SE & Co. KGaA was, at the same time, a member of the Supervisory Board of the general partner Fresenius Management SE and received compensation for his service on the Supervisory Board for Fresenius Management SE, the compensation was reduced by half. The same applied with respect to the additional part of the compensation for the Chairman or one of his deputies if they were, at the same time, the Chairman or one of his deputies on the Supervisory Board of Fresenius Management SE. If the deputy of the Chairman of the Supervisory Board of Fresenius SE & Co. KGaA was, at the same time, the Chairman of the Supervisory Board of Fresenius Management SE, he did not receive compensation for his service as Deputy Chairman of the Supervisory Board of Fresenius SE & Co. KGaA. In accordance with Section 7 of the articles of association of Fresenius SE & Co. KGaA, the compensation of the Supervisory Board of Fresenius Management SE was charged to Fresenius SE & Co. KGaA.

For the fiscal years 2017 and 2016, the compensation for the members of the Supervisory Boards of Fresenius SE & Co. KGaA and Fresenius Management SE (excluding expenses and reimbursements), including compensation for committee services, was as follows:

Exhibit Compensation Report

€ in thousands	Fixed compensation				Compensation for committee services				Variable compensation				Total compensation	
	Fresenius SE & Co. KGaA		Fresenius Management SE		Fresenius SE & Co. KGaA		Fresenius Management SE		Fresenius SE & Co. KGaA		Fresenius Management SE		2017	2016
	2017	2016	2017	2016	2017	2016	2017	2016	2017 <sup>3</sup>	2016	2017 <sup>3</sup>	2016		
Dr. Gerd Krick	13	13	13	13	10	10	20	20	288	237	288	237	632	530
Michael Diekmann	13	13	6	6	0	0	0	0	288	237	144	119	451	375
Dr. Dieter Schenk	0	0	19	19	0	0	10	10	0	0	432	356	461	385
Niko Stumpfögger	19	19	0	0	0	0	0	0	432	356	0	0	451	375
Prof. Dr. med. D. Michael Albrecht	13	13	0	0	0	0	0	0	288	237	0	0	301	250
Prof. Dr. h. c. Roland Berger <sup>1</sup>	0	2	0	2	0	7	0	0	0	44	0	44	0	99
Dr. Kurt Bock <sup>2</sup>	0	0	13	8	0	0	0	0	0	0	288	151	301	159
Dario Ilossi <sup>1</sup>	0	5	0	0	0	0	0	0	0	87	0	0	0	92
Konrad Kölbl	13	13	0	0	10	10	0	0	288	237	0	0	311	260
Stefanie Lang <sup>2</sup>	13	8	0	0	0	0	0	0	288	151	0	0	301	159
Frauke Lehmann <sup>2</sup>	13	8	0	0	0	0	0	0	288	151	0	0	301	159
Prof. Dr. med. Iris Löw-Friedrich <sup>2</sup>	13	8	0	0	0	0	0	0	288	151	0	0	301	159
Klaus-Peter Müller	7	7	6	6	20	13	0	0	143	118	144	119	320	263
Dieter Reuß <sup>1</sup>	0	5	0	0	0	0	0	0	0	87	0	0	0	92
Gerhard Roggemann <sup>1</sup>	0	5	0	0	0	4	0	0	0	87	0	0	0	96
Oscar Romero de Paco <sup>2</sup>	13	8	0	0	0	0	0	0	288	151	0	0	301	159
Dr. Karl Schneider	0	0	13	13	0	0	10	10	0	0	288	237	311	260
Stefan Schubert <sup>1</sup>	0	5	0	0	0	0	0	0	0	87	0	0	0	92
Hauke Stars <sup>2</sup>	13	8	0	0	10	6	0	0	288	150	0	0	311	164
Rainer Stein	13	13	0	0	10	10	0	0	288	237	0	0	311	260
<b>Total</b>	<b>156</b>	<b>153</b>	<b>70</b>	<b>67</b>	<b>60</b>	<b>60</b>	<b>40</b>	<b>40</b>	<b>3,455</b>	<b>2,805</b>	<b>1,584</b>	<b>1,263</b>	<b>5,365</b>	<b>4,388</b>

<sup>1</sup> Up to May 13, 2016

<sup>2</sup> Since May 13, 2016

<sup>3</sup> Based on the proposed dividend

On May 12, 2017, the Annual General Meeting of Fresenius SE & Co. KGaA resolved the amendment of the compensation of the members of the Supervisory Board with effect from fiscal year 2018. The future compensation will be as follows:

Each member of the Supervisory Board shall receive an amount of €150 thousand annually for each full fiscal year as fixed compensation, payable after the end of the fiscal year. In addition, each member of the Supervisory Board shall

receive variable success-oriented compensation for each full fiscal year that is oriented on the respective average growth rate of the net income attributable to shareholders of Fresenius SE & Co. KGaA for the compensation year and the two preceding fiscal years (three-year average growth of the net income attributable to shareholders of Fresenius SE & Co. KGaA).

The calculation of the amount of this variable compensation shall be made in accordance with the following formula:

Three-year average growth of net income attributable to shareholders of Fresenius SE & Co. KGaA	Variable compensation
> 0 to 2.5%	€30,000
> 2.5 to 5%	€60,000
> 5 to 7.5%	€90,000
> 7.5 to 10%	€120,000
> 10%	€150,000

A claim to grant variable compensation shall only accrue from the achievement of three-year annual growth of the net income attributable to shareholders of Fresenius SE & Co. KGaA of more than 0%. On the achievement of the five percentage corridors described above, the amounts of variable compensation shall each be provided in full, i. e., no interpolation shall take place within these corridors. The net income attributable to shareholders of Fresenius SE & Co. KGaA disclosed in the consolidated annual financial statements shall be authoritative in each case. This variable compensation is limited to a maximum amount of €150 thousand p. a. The disbursement of variable compensation shall generally be made annually, provided targets have been reached and in each case at the end of the calendar quarter in which the annual financial statements of the company are approved by the Annual General Meeting. If the Annual General Meeting approves a resolution providing higher compensation, this shall apply.

The Chairman of the Supervisory Board receives three times, his deputies one and a half times the fixed compensation of a member of the Supervisory Board.

A member of the Audit Committee of the Supervisory Board shall for their membership receive additional fixed compensation of €20 thousand and the Chairman of the Audit Committee twice this amount.

If a fiscal year does not encompass a full calendar year or if a member of the Supervisory Board is on the Supervisory Board only for a part of the fiscal year, the compensation shall be paid on a pro rata temporis basis. This applies accordingly to membership of the Audit Committee of the Supervisory Board.

The members of the Supervisory Board shall be refunded expenses incurred when exercising their functions, which also includes applicable value-added tax due for payment. Fresenius SE & Co. KGaA shall provide members of the Supervisory Board with insurance coverage to an appropriate extent for exercising Supervisory Board activities.

If a member of the Supervisory Board of Fresenius SE & Co. KGaA is at the same time a member of the Supervisory Board of the general partner Fresenius Management SE and receives compensation for his services on the Supervisory Board of Fresenius Management SE, compensation shall be reduced by half. The same applies with respect to the additional part of compensation for the Chairman, provided he is simultaneously the Chairman of the Supervisory Board of Fresenius Management SE; this applies to his deputies accordingly, provided the deputies are at the same time the deputies of the Chairman of the Supervisory Board of Fresenius Management SE. If a deputy of the Chairman of the Supervisory Board of the company is at the same time the Chairman of the Supervisory Board of Fresenius Management SE, he shall not receive compensation for his service as Deputy Chairman of the Supervisory Board of Fresenius SE & Co. KGaA. According to Section 7 of the articles of association of Fresenius SE & Co. KGaA, the compensation of the Supervisory Board of Fresenius Management SE will be charged to Fresenius SE & Co. KGaA.

#### DIRECTORS & OFFICERS INSURANCE

Fresenius SE & Co. KGaA has taken out a consequential loss liability insurance policy (D & O insurance), on an excess amount basis, for the members of the Management Board and the Supervisory Board of the general partner of Fresenius SE & Co. KGaA and for the Supervisory Board of Fresenius SE & Co. KGaA as well as for all representative bodies of affiliates in Germany and elsewhere. The D & O policy applies throughout the world and runs until the end of June 2018. The policy covers the legal defense costs of a member of a representative body when a claim is made and, where relevant, any damages to be paid that are covered by the policy.

# GLOSSARY

## Financial terms<sup>1</sup>

### Before special items

In order to measure the operating performance extending over several periods, key performance measures are adjusted by special items, where applicable. Adjusted measures are labelled with "before special items". A reconciliation table is available within the respective quarterly or annual report and presents the composition of special items.

### Cash flow

Financial key figure that shows the net balance of incoming and outgoing payments during a reporting period.

### Operating cash flow

Operating cash flow is a financial measure showing cash inflows from operating activities during a period. Operating cash flow is calculated by subtracting non-cash income and adding non-cash expenses to net income.

### Cash flow from investing activities

Cash flow from investing activities is a financial measure opposing payments for the acquisition or purchase of property, plant and equipment and investments versus proceeds from the sale of property, plant and equipment and investments.

### Cash flow from financing activities

Cash flow from financing activities is a financial measure showing how the investments of the reporting period were financed.

Cash flow from financing activities is calculated from additions to equity plus proceeds from the exercise of stock options, less dividends paid, plus proceeds from debt increase (loans, bonds, etc.), less repayments of debt, plus the change in noncontrolling interest, plus proceeds from the hedge of exchange rate effects due to corporate financing.

### Cash flow before acquisitions and dividends

Fresenius uses the cash flow before acquisitions and dividends as the financial measure for free cash flow. Cash flow before acquisitions and dividends is calculated by operating cash flow less investments (net). Net investments are calculated by payments for the purchase of property, plant and equipment less proceeds from the sale of property, plant and equipment.

### Constant currencies

Constant currencies for income and expenses are calculated using prior-year average rates; constant currencies for assets and liabilities are calculated using the mid-closing rate on the date of the respective statement of financial position.

### CSR (Corporate Social Responsibility)

CSR refers to the social responsibility of companies. Their operations can affect economic, social, and environmental conditions all over the world.

### DSO (Days Sales Outstanding)

Indicates the average number of days it takes for a receivable to be paid.

### EBIT (Earnings before Interest and Taxes)

EBIT does include depreciation and write-ups on property, plant and equipment.

EBIT is calculated by subtracting cost of sales, selling, general and administrative expenses, and research and development expenses from sales.

### EBIT margin

EBIT margin is calculated as the ratio of EBIT to sales.

### EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)

EBITDA is calculated from EBIT by adding depreciations recognized in income and deducting write-ups recognized in income, both on intangible assets as well as property, plant and equipment.

### EBITDA margin

EBITDA margin is calculated as the ratio of EBITDA to sales.

### Net debt/EBITDA

Net debt/EBITDA is a financial measure reflecting the ability of Fresenius to fulfill its payment obligations. Net debt and EBITDA are calculated at LTM (last twelve month) average exchange rates respectively.

Calculation of net debt:

Short-term debt  
 + Short-term debt from related parties  
 + Current portion of long-term debt and capital lease obligations  
 + Current portion of Senior Notes  
 + Long-term debt and capital lease obligations, less current portion  
 + Senior Notes, less current portion  
 + Convertible bonds  
 = Debt  
 - less cash and cash equivalents  
 = Net debt

### NOPAT

Net Operating Profit After Taxes (NOPAT) is calculated from operating income (EBIT), as stated in the profit and loss statement, less income taxes.

<sup>1</sup> Integral part of Management Report

## Financial terms<sup>1</sup>

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### Organic growth

Growth that is generated by a company's existing businesses and not by acquisitions, divestitures, or foreign exchange impact.

### ROE (Return on Equity)

Measure of a corporation's profitability revealing how much profit a company generates with the money shareholders have invested. ROE is calculated by fiscal year's net income/total equity × 100.

### ROIC (Return on Invested Capital)

Calculated by:  $(\text{EBIT} - \text{taxes}) / \text{Invested capital}$ .

Invested capital = total assets + accumulated

amortization of goodwill - deferred tax assets - cash and cash equivalents - trade accounts payable - accruals (without pension accruals) - other liabilities not bearing interest.

### ROOA (Return on Operating Assets)

Calculated as the ratio of EBIT to operating assets (average).

Operating assets = total assets - deferred tax assets - trade accounts payable - cash held in trust - payments received on account - approved subsidies.

### SOI (Scope of Inventory)

Indicates the average number of days between receiving goods as inventory and the sale of the finished product.

Calculated by:  $(\text{Inventories} / \text{Costs of goods sold}) \times 365$  days.

### Working capital

Current assets (including deferred assets) - accruals - trade accounts payable - other liabilities - deferred charges.

<sup>1</sup> Integral part of Management Report



## REPORT OF THE SUPERVISORY BOARD

In 2017, the Supervisory Board of Fresenius SE & Co. KGaA fulfilled its obligations in accordance with the provisions of the law, the articles of association, and the rules of procedure. It regularly advised the Management Board of the general partner, Fresenius Management SE, regarding the management of the Company, and supervised the management in accordance with its Supervisory Board responsibilities.

### COOPERATION BETWEEN THE MANAGEMENT AND THE SUPERVISORY BOARD

Carrying out its monitoring and advisory activities, the management regularly kept the Supervisory Board informed – in a timely and comprehensive oral and written manner – about:

- ▶ all important matters relating to business policy,
- ▶ the course of business,
- ▶ profitability,
- ▶ the situation of the Company and of the Group,
- ▶ corporate strategy and planning,
- ▶ the risk situation,
- ▶ risk management and compliance, and
- ▶ important business events.

Based on the reports provided by the Management Board of the general partner, the Supervisory Board discussed all significant business transactions in its committees and plenary meetings. The Management Board



of the general partner discussed the Company's strategic direction with the Supervisory Board. The Supervisory Board passed resolutions within its legal and Company statutory authority.

The Supervisory Board of Fresenius SE & Co. KGaA convened for four regular meetings in 2017 – in March, May, October, and December. An extraordinary meeting was held in April. At this meeting, the members of the Supervisory Board were informed about the acquisition by Fresenius Kabi of Merck KGaA's substitute biopharmaceutical products business ("biosimilars") and the acquisition of Akorn Inc. by Fresenius Kabi and the financing of these transactions. Before the meetings, the Management Board of the general partner sent detailed reports and comprehensive approval documents to the members of the Supervisory Board. At the meetings, the Supervisory Board discussed in detail the sales and earnings growth, based on the reports provided by the general partner's Management Board. They also discussed significant Company decisions.

All matters requiring Supervisory Board approval were submitted with sufficient time for proper scrutiny. After reviewing the related approval documents and following detailed consultation with the Management Board of the general partner, the Supervisory Board approved all matters submitted to it.

The Supervisory Board was also informed about any important business events occurring between meetings. In addition, the Chairman of the general partner's Management Board regularly informed the Chairman of the Supervisory Board in separate meetings about the latest development of the business and forthcoming decisions and discussed them with him.

Every member of the Supervisory Board of Fresenius SE & Co. KGaA attended more than half of the Supervisory Board Meetings in 2017.

Participation in meetings of the Supervisory Board and the Audit Committee is reported individually for all members on the Company's website. Information on this can be found under "Supervisory Board".

#### **MAIN FOCUS OF THE SUPERVISORY BOARD'S ACTIVITIES**

In 2017, the Supervisory Board mostly focused its monitoring and consulting activities on business operations and investments by the business segments. The Supervisory Board thoroughly reviewed and discussed all business activities of significance to the Company with the Management Board. This related to acquisitions, in particular the acquisition of the biosimilars business of Merck KGaA and the acquisition of Akorn by Fresenius Kabi, and investments such as the construction of new production facilities and the expansion of

existing production facilities of Fresenius Kabi, as well as investments in the IT infrastructure of the business segments. The Supervisory Board also dealt with the following items:

- ▶ 2018 budget
- ▶ medium-term strategy of the Fresenius Group
- ▶ business segment strategies (particularly the business outlook for Fresenius Vamed and Fresenius Kabi)
- ▶ digitalization initiatives for all business segments

At its meetings and within the Audit Committee, the Supervisory Board also kept itself regularly informed about the Group's risk situation and risk management activities, as well as compliance.

At the meeting on March 10, 2017, the Supervisory Board dealt intensively with the audit and approval of the financial statements, the consolidated financial statements (IFRS and US GAAP), as well as the management report and consolidated management report of Fresenius SE & Co. KGaA. The results for 2016 were discussed on the basis of a detailed report provided by the Chairman of the Audit Committee and statements by the auditor. At the same meeting, a resolution was passed on profit distribution proposed by the general partner, Fresenius Management SE. In addition, the business segments reported in detail on the course of business in the first two months of the fiscal year. For Fresenius Vamed, these reports included discussions of the strategic orientation, the planned development of new markets and the competitive situation. In addition, the Supervisory Board was informed of Fresenius Kabi's plans to build a production plant for enteral nutrition at the Wuxi site in China. Another item discussed was the agenda of the Annual General Meeting of Fresenius SE & Co. KGaA on May 12, 2017, in particular the revision of the remuneration of the Supervisory Board. Finally, the Supervisory Board conducted its annual efficiency review at this meeting.

An extraordinary meeting was held by conference call on April 24, 2017. It covered in detail the acquisition of the biosimilars business of Merck KGaA and the acquisition of Akorn by Fresenius Kabi, as well as the financing of these transactions.

At its meeting on May 12, 2017, immediately following the Annual General Meeting, the Supervisory Board passed resolutions on the appointment of the auditor of the annual and consolidated financial statements for 2017. In addition, the Management Board reported on business performance for the months January through April 2017.

At the Supervisory Board meeting on October 11, 2017, the members of the Supervisory Board were informed in detail about business performance from January through September 2017. The focus was on the Fresenius Kabi business segment. The Management Board of the general partner provided information on the conclusion of the acquisition and the progress made in integrating Merck's biosimilars business and on the planned expansion of enteral nutrition production capacity in Bad Homburg. In addition, all four busi-

ness segments presented their digitalization initiatives and cross-segment IT projects at this meeting. The Management Board of the general partner also discussed the Group's personnel development strategy with the Supervisory Board.

The meeting of the Supervisory Board on December 8, 2017, focused on the development of business in 2017. Plans for the years 2018 to 2020 for the Group and separately for all four segments were also presented. The Chairman of the Audit Committee reported in detail on the status of preparation of financial statements. Other focal points were the deliberations and resolutions on diversity plans for the Management Board of Fresenius Management SE and the Supervisory Board, on the Supervisory Board's goals for its composition and competency profile, the Declaration of Compliance with the German Corporate Governance Code, and the Supervisory Board's information on compliance, regulatory issues, and legal risks. In addition, the members of the Supervisory Board dealt with nonfinancial reporting and resolved to commission the auditor of the Group nonfinancial report of Fresenius SE & Co. KGaA for 2017.

## CORPORATE GOVERNANCE

On December 20, 2017, the Supervisory Board and the Management Board of the general partner jointly issued a Declaration of Conformity in accordance with the German Corporate Governance Code under Section 161 of the German Stock Corporation Act (AktG).

The Management Board of the general partner and the Supervisory Board of Fresenius SE & Co. KGaA have a duty to act in the best interests of the Company. In performing their activities, they do not pursue personal interests or grant unfair benefits to others. Any secondary activities or dealings with the Company by members of the corporate bodies must be reported to, and approved by, the Supervisory Board.

Prof. Dr. med. D. Michael Albrecht is a member of the Supervisory Board of our Company and is medical director and spokesman for the management board of the University Hospital Carl Gustav Carus Dresden, as well as a member of the supervisory board of the University Hospital in Aachen. The Fresenius Group maintains regular business relationships with these hospitals in line with normal market conditions. Klaus-Peter Müller is a member of the Supervisory Board and chairman of the Audit Committee of our Company and a member of the Supervisory Board of Fresenius Management SE. He is also chairman of the supervisory board of Commerzbank AG. The Fresenius Group maintains business relations with Commerzbank under normal market conditions. Michael Diekmann is Deputy Chairman of the Supervisory Board and a member of the Supervisory Board of Fresenius SE. He is also a member of the Supervisory Board of Allianz SE. In 2017, the Fresenius Group paid insurance premiums to Allianz under normal market conditions.

There are no direct consultant or other service agreements between the Company and any member of the Supervisory Board.

Various companies of the Fresenius Group were advised by affiliated companies of the international law firm Noerr in 2017. Until December 31, 2017, Dr. Dieter Schenk, Deputy Chairman of the Supervisory Board of Fresenius Management SE and Deputy Chairman of the same, was also a partner of the law firm Noerr LLP. In 2017, the Fresenius Group paid a total of about €2.9 million to the law firm Noerr (2016: €0.9 million). This corresponds to less than 2% of the total amount paid by the Fresenius Group for legal and consulting services in 2017 (2016: less than 0.5%). This payment amount also includes payments for services provided in 2016, but which were not paid until 2017. Of the total amount for fiscal year 2017, approximately €0.1 million was attributable to services for Group companies not related to the Fresenius Medical Care business segment. The services provided for Group companies of the business segment Fresenius Medical Care require separate approval by the Supervisory Boards of Fresenius Medical Care Management AG and Fresenius Medical Care AG & Co. KGaA. The Supervisory Board of Fresenius Management SE, of which Dr. Schenk is a member, closely examined this mandate and approved it. Dr. Schenk abstained from voting. The Supervisory Board of Fresenius SE & Co. KGaA, of which Dr. Schenk is not a member, dealt with the amounts for legal services paid to the law firm Noerr in relation to the amounts paid to other law firms. The payments mentioned in this section are net amounts in euros. The appropriate amount of VAT was also paid.

For more information on corporate governance at Fresenius, please refer to the Corporate Governance Declaration and Report on pages 100 to 114 of the Annual Report. Fresenius has disclosed the information on related parties in its quarterly reports and on page 212 of the Annual Report.

#### **GROUP NONFINANCIAL REPORT**

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the Group nonfinancial report for 2017. This was done in accordance with a resolution of the Supervisory Board of December 8, 2017, and the subsequent appointment.

The Group nonfinancial report and the audit report of the appointed auditor were made available to each member of the Supervisory Board of the Company in good time. At their meetings on March 15 and 16, 2018, the Audit Committee and then the Supervisory Board discussed all the documents in detail.

The auditors delivered a detailed report on the results of the audit at each of these meetings. The Audit Committee and the Supervisory Board approved the auditor's findings. The Audit Committee's and the

Supervisory Board's own review also found no objections to the Group nonfinancial report. At its meeting on March 16, 2018, the Supervisory Board approved the Group nonfinancial report presented by the general partner.

The Group nonfinancial report is published on pages 68 to 97 of the Annual Report and the auditor's findings are published on page 98 f. of the Annual Report.

### WORK OF THE COMMITTEES

The Audit Committee held three meetings and four conference calls in 2017. The main focus of its monitoring activities was on the preliminary audit of the annual financial statements of Fresenius SE & Co. KGaA and the Group for 2016 and discussions with the auditors about their reports and the terms of reference of the audit. Another matter dealt with by the Audit Committee was its recommendation to the Supervisory Board regarding which auditing firm to propose to the Annual General Meeting for election as auditor for the annual financial statements of Fresenius SE & Co. KGaA and the Group for 2017. The Supervisory Board's proposal to the Annual General Meeting in 2017 to elect KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as auditor was based on a recommendation to this effect by the Audit Committee. The Audit Committee also dealt with the following items in detail:

- ▶ the 2017 quarterly reports,
- ▶ monitoring reports on progress of acquisitions,
- ▶ compliance,
- ▶ review of the risk management system, the internal control system, and the internal auditing system, and
- ▶ approval of non-auditing services provided by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin.

The Chairman of the Audit Committee reported regularly in subsequent Supervisory Board meetings on the work of the committee.

The Company's Nomination Committee met in December 2017. It prepared the Supervisory Board's resolution on diversity plans, the goals of the Supervisory Board for its composition, and the competency profile of the Supervisory Board.

The Joint Committee is responsible for approving certain important transactions of Fresenius SE & Co. KGaA and certain legal transactions between the Company and the Else Kröner-Fresenius Foundation. In 2017, there were no transactions conducted that required its approval. For this reason, it did not meet in 2017.

There is no Mediation Committee because the Supervisory Board of Fresenius SE & Co. KGaA does not appoint the Management Board members of Fresenius Management SE.

For more information about the committees, their composition, and their work methods, please refer to the Corporate Governance Declaration and Report on pages 104f. and 233 of the Annual Report.

## PERSONNEL

There were no changes in the composition of the Supervisory Board of Fresenius SE & Co. KGaA and its committees in 2017.

However, the composition of the Management Board of the general partner Fresenius Management SE has changed. Rachel Empey was appointed as a full member of the Management Board with effect from August 1, 2017. She took over the position of Chief Financial Officer from Stephan Sturm, who has served as Chief Executive Officer since July 1, 2016.

## FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the accounting records, the annual financial statements prepared in accordance with the accounting principles of the German Commercial Code (HGB), and the Company's management report for 2017. The firm was elected as auditor in accordance with a resolution passed at the Annual General Meeting of Fresenius SE & Co. KGaA on May 12, 2017, and was subsequently commissioned by the Supervisory Board. The Company's financial statements, management report, and the consolidated financial statements were prepared in accordance with IFRS accounting principles and with the regulations governing these statements under Section 315e of the German Commercial Code (HGB). The auditors of KPMG issued their unqualified audit opinion for these statements.

The financial statement, the consolidated financial statement, the Management Reports, and the auditor's reports were submitted to each member of the Company's Supervisory Board within the required time. At their meetings on March 15 and 16, 2018, the Audit Committee and then the Supervisory Board discussed all the documents in detail.

The auditor gave a detailed report on the results of the audit at each of these meetings. It found no weaknesses in the risk management system or the internal control system with regard to the accounting process. The auditor attended all meetings of the Supervisory Board and all meetings and conference calls of the Audit Committee.

The Audit Committee and the Supervisory Board approved the auditor's findings. Independent reviews by the Audit Committee and the Supervisory Board raised no objections to the Company's financial statements and Management Report or the consolidated financial statements and the Group Management Reports. At its meeting on March 16, 2018, the Supervisory Board approved the financial statements and Management Reports presented by the general partner and the statements contained therein with respect to future development.

The Supervisory Board concurs with the general partner's proposal on the 2017 profit distribution.

The Supervisory Board would like to thank the members of the Management Board of the general partner and all employees for their outstanding achievements.

Bad Homburg v. d. H., March 16, 2018

The Supervisory Board of Fresenius SE & Co. KGaA

Dr. Gerd Krick  
Chairman