FRESENIUS

Fresenius SE & Co. KGaA

Bad Homburg v.d.H.

2018

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

- Convenience Translation -
The German version of these Financial Statements is legally binding

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

Balance Sheet as of December 31, 2018

Assets

		Note	Dec 31, 2018		Dec 31, 2017	
			kEUR	kEUR	kEUR	kEUR
A.	**Fixed Assets**	(4)				
I.	**Intangible assets**			7,402		3,487
II.	**Tangible assets**			90,513		61,396
III.	**Fiinancial assets**			11,172,337		10,611,074
				11,270,252		10,675,957
B.	**Current assets**					
I.	**Accounts receivable and other assets**	(5)				
	1. Trade accounts receivable		2		2	
	2. Accounts receivable from related parties		2,756,986		2,916,042	
	3. Other assets		202,548	2,959,536	139,878	3,055,922
II.	**Cash and cash equivalents**	(6)		49,025		43,249
				3,008,561		3,099,171
C.	**Deferred expense**	(7)		55,257		72,987
				14,334,070		13,848,115

Liabilities and shareholders' equity

		Note	Dec 31, 2018	Dec 31, 2017
			kEUR	kEUR
A.	**Shareholders' equity**			
I.	**Subscribed capital**	(8, 9, 10, 11, 12)		
	Ordinary shares		556,225	554,710
II.	**Capital reserves**	(13)	3,277,432	3,234,846
III.	**Other reserves**	(14)	2,514,395	2,471,395
IV.	**Retained earnings**	(15)	445,916	416,396
			6,793,968	6,677,347
B.	**Special reserve for government investment grants**	(16)	5	6
C.	**Accruals**	(17)		
1.	Pensions and similar obligations		72,986	61,274
2.	Accruals for income taxes		135,156	96,993
3.	Other accruals		36,496	45,620
			244,638	203,887
D.	**Liabilities**	(18)		
1.	Senior notes		2,200,000	2,200,000
2.	Convertible bonds		1,000,000	1,000,000
3.	Bank loans		1,410,022	1,745,867
4.	Trade accounts payable		5,271	5,284
5.	Accounts payable to related parties		2,526,902	1,855,557
6.	Other liabilities		148,106	153,995
			7,290,301	6,960,703
E.	**Deferred income**	(19)	5,158	6,172
			14,334,070	13,848,115

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

Profit and Loss Statement
January 1 to December 31, 2018

		Note	2018	2017
			kEUR	kEUR
1.	Income from participations	(22)	507,881	732,903
2.	Sales	(23)	63,739	58,291
3.	Other operating income	(24)	304,407	152,687
4.	Cost of materials	(25)	-15,316	-13,909
5.	Personnel expenses	(26)	-45,151	-42,093
6.	Depreciation and amortization on intangible assets and on property, plant and equipment	(27)	-6,098	-5,124
7.	Other operating expenses	(28)	-196,337	-182,099
8.	Net interest	(29)	-48,751	-86,682
9.	Income taxes	(30)	-75,757	-65,703
10.	After tax profit		488,617	548,271
11.	Other taxes		-64	-468
12.	Net income		488,553	547,803
13.	Retained earnings brought forward		363	593
14.	Increase of other reserves		-43,000	-132,000
15.	Retained earnings		445,916	416,396

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) and the rules of the German Stock Corporation Act (AktG – Aktiengesetz). 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, 2018, 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 €250.00 are fully written off in the year of addition.

Depreciable movable non-current assets with a value of more than €250.00 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 (Richttafeln Heubeck 2018 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 1.75%. The company specific fluctuation rate that is also taken into consideration for the calculation has been between 0% and 18%

depending on age cohort. The actuarial interest rate applicable to the pension obligation was 3.21%. 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 €13,290,092.

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.

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:

	Acquisition costs				
€in thousands	As of Jan. 01, 2018	Additions	Disposals	Reclassifications	As of Dec. 31, 2018
Intangible Assets					
Concessions, industrial and similar rights and assets as well as licenses acquired for consideration	5,893	4,912	0	114	10,919
	5,893	4,912	0	114	10,919
Tangible Assets					
Land, leasehold and buildings including buildings on third party property	119,128	256	0	0	119,384
Plant and machinery	1,209	87	0	95	1,391
Other fixtures and fittings, tools and equipment	14,238	2,098	764	385	15,957
Payments on account and tangible assets in course of construction	7,434	31,777	0	-594	38,617
	142,009	34,218	764	-114	175,349
Financial assets					
Shares in related parties	8,451,602	1,062,178	0	0	9,513,780
Loans to related parties	2,159,659	223,842	724,757	0	1,658,744
	10,611,261	1,286,020	724,757	0	11,172,524
Fixed assets	10,759,163	1,325,150	725,521	0	11,358,792

€in thousands	Write-ups/Depreciation: Cumulated write-ups and depreciation as of Jan. 01, 2018	Additions (depreciation)	Disposals (Write-ups / depreciation)	Cumulated write-ups and depreciation as of Dec. 31, 2018	Carrying amount: Dec. 31, 2018	Dec. 31, 2017
Intangible Assets						
Concessions, industrial and similar rights and assets as well as licenses acquired for consideration	2,406	1,111	0	3,517	7,402	3,487
	2,406	1,111	0	3,517	7,402	3,487
Tangible Assets						
Land, leasehold and buildings including buildings on third party property	68,940	3,329	0	72,269	47,115	50,188
Plant and machinery	641	95	0	736	655	568
Other fixtures and fittings, tools and equipment	11,032	1,563	764	11,831	4,126	3,206
Payments on account and tangible assets in course of construction	0	0	0	0	38,617	7,434
	80,613	4,987	764	84,836	90,513	61,396
Financial assets						
Shares in related parties	187	0	0	187	9,513,593	8,451,415
Loans to related parties	0	0	0	0	1,658,744	2,159,659
	187	0	0	187	11,172,337	10,611,074
Fixed assets	83,206	6,098	764	88,540	11,270,252	10,675,957

Tangible assets

Increase in tangible assets and tangible assets in course of construction is mainly due to the expansion of the corporate headquarters in Bad Homburg v.d.H.

Financial assets

As of December 31, 2018, 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 2018 was 30.75% (previous year 30.80%). 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, 2018. Through Fresenius ProServe GmbH, Fresenius SE & Co. KGaA holds 100% in HELIOS Kliniken GmbH and in Helios Health GmbH (100% stakeholder of the Quirónsalud Group) 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, LLC.
- Fresenius US Finance II, Inc.
- Fresenius Finance Holdings Ltd.
- Fresenius Vamed GmbH

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 2018 Fresenius SE & Co. KGaA contributed €200,000 thousand to the additional paid-in capital of Fresenius Finance Holdings Ltd.

Disposals of loans of €709,086 thousand related to US Dollar loans granted by the Company to U.S. based affiliated companies. These loans were transferred and subsequently contributed in kind to the additional paid-in capital of Fresenius Kabi AG at its fair value of €862,143 thousand. This resulted in foreign exchange gains of €153,057 thousand for the Company that are included in other operating income in the profit and loss statement.

Moreover Vamed Gesundheit Holding Deutschland GmbH, an indirect affiliated company of Vamed AG, was granted a loan of €200,000 thousand.

(5) Accounts receivable and other assets

	Dec. 31, 2018	Dec. 31, 2017
€in thousands		
Trade accounts receivable	2	2
(amount with a remaining term of more than one year)	(0)	(0)
Accounts receivable from related parties	2,756,986	2,916,042
(amount with a remaining term of more than one year)	(10,330)	(13,481)
Other assets	202,548	139,878
(amount with a remaining term of more than one year)	(107,900)	(107,900)
	2,959,536	3,055,922

Accounts receivables from related parties include €7,356 thousand of trade accounts receivables (previous year €5,621 thousand) as well as €2,749,630 thousand mainly consisting of loans and financing related accounts in the context of inhouse banking (cash pool) (previous year €2,910,421 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 €6,134 thousand VAT receivable, and social security related receivables of €5 thousand (previous year €8 thousand). Also included are receivables from corporation tax law (Körperschaftsteuer) and solidarity surcharge (Solidaritätszuschlag) of €85,786 thousand (previous year €22,450 thousand) which is the expected amount of outstanding tax assessments for the current and previous years whereby the year 2018 is particularly affected.

(6) Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks of €49,025 thousand (previous year €43,249 thousand).

(7) Deferred expense

The deferred expenses of €55,257 thousand (previous year €72,987 thousand) mainly consist of discounts with a net book value of €52,903 thousand as of December 31, 2018 (previous year: €71,117 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, 2018 it is included in deferred expenses with a value of €6,273 thousand.

Moreover equity-neutral convertible bonds issued on January 31, 2017, 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, 2018 it is included in deferred expenses with a value of €44,951 thousand.

Moreover discounts of €1,679 thousand from Senior Notes that were taken over from Fresenius Finance B.V. in 2016 are included in deferred expenses as of December 31, 2018 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

During the fiscal year 2018, 1,514,681 stock options were exercised.

Consequently, as of December 31, 2018 the subscribed capital of Fresenius SE & Co. KGaA consisted of 556,225,154 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:

	2018	2017
€in thousands		
As of January 1	554,710	547,208
Increase due to issuance from Authorized Capital (capital increase by means of contributions in kind)	0	6,108
Increase due to exercise of stock options	1,515	1,394
As of December 31	556,225	554,710

(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 2017 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 8, 2018.

To be eligible for the program, employees must have had three years of continuous employment at Fresenius SE & Co. KGaA on December 31, 2017, 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 2017, 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 7, 2018	36,500	69.18
Purchase	June 11, 2018	1,910	68.56
Disbursement	June 14, 2018	38,298	67.76
Sale	June 28, 2018	84	68.42
Sale	August 23, 2018	28	67.26

Purchased shares with a nominal value of €38,410 and committed shares with a nominal value of €38,298 represesented 0.0069% of the subscribed capital.

The proceeds from the sales on June 28, 2018 and August 23, 2018 have increased corporate funding.

As of December 31, 2018, no own shares were held.

(10) Notification by shareholders

The following table shows the notifications disclosed in 2018 in accordance with Section 40 (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	Mai 7, 2018	Voluntary Group Notification	5.15	28,573,296	Section 34
					1,191,484	Section 38 (1) No. 1
					153,874	Section 38 (1) No. 2
Allianz Global Investors GmbH	Frankfurt/Main, Germany	Mai 14, 2018	Exceeding 5%	5.002	27,754,946	Section 34
					361,606	Section 38 (1) No. 2

The Else Kröner-Fresenius-Stiftung as major shareholder informed Fresenius SE & Co. KGaA on December 18, 2018, that it holds 146,261,594 ordinary shares of Fresenius SE & Co. KGaA representing 26.3% of the subscribed capital on December 31, 2018.

All WpHG-notifications by shareholders in 2018 are published on the website of the Company www.fresenius.com/shareholder-structure.

(11) Authorized capital

By resolution of the Annual General Meeting on May 18, 2018, the previous Authorized Capital I was revoked and a new Authorized Capital I was created.

Accordingly, the general partner, Fresenius Management SE, is authorized, with the approval of the Supervisory Board, until May 17, 2023, to increase Fresenius SE & Co. KGaA's share capital (subscribed capital) by a total amount of up to €125,000,000 through a single or multiple issues of new bearer ordinary shares against cash contributions and / or contributions in kind (Authorized Capital I).

The number of shares must increase in the same proportion as the subscribed capital. 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 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.

The changes to the Authorized Capital I became effective upon registration with the commercial register on June 18, 2018.The **Authorized Capital I** developed as follows:

	2018	2017
€in thousands		
Brought forward from previous Authorized Capital I at January 1	114,852	120,960
Revocation of previous Authorized Capital I due to resolution of the Annual General meeting	-114,852	
Creation of a new Authorized Capital I due to resolution of the Annual General meeting	125,000	
Reduction due to issuance of bearer ordinary shares	0	-6,108
As of December 31	125,000	114,852

(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 II** (Stock Option Plan 2008) and **Conditional Capital IV** (Stock Option Plan 2013).

The previous authorization to issue option bearer bonds and / or convertible bonds (**Conditional Capital III**) dated May 16, 2014 was revoked by resolution of the Annual General Meeting of Fresenius SE & Co. KGaA on May 18, 2018. Simultaneously, a new Conditional Capital III with a five-year term was approved.

Accordingly, the general partner is authorized, with the approval of the Supervisory Board, until May 17, 2023, 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 new Conditional Capital III became effective upon registration with the commercial register on June 18, 2018.

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

	Ordinary shares
in €	
As of January 1, 2018	4,735,083
As of December 31, 2018	4,735,083

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

	Ordinary shares
in €	
As of January 1, 2018	5,141,264
Decrease due to exercise of stock options	-844,450
As of December 31, 2018	4,296,814

The **Conditional Capital III**, for option bearer bonds and / or convertible bonds, developed as follows:

	Ordinary shares
in €	
As of January 1, 2018	48,971,202
As of December 31, 2018	48,971,202

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

	Ordinary shares
in €	
As of January 1, 2018	24,928,200
Decrease due to exercise of stock options	-670,231
As of December 31, 2018	24,257,969

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

As of December 31, 2018, Fresenius SE & Co. KGaA had three share-based compensation plans in place: the stock option based Fresenius SE Stock Option Plan 2008 (2008 Plan), the Fresenius SE & Co. KGaA Long Term Incentive Program 2013 (2013 LTIP) which is based on stock options and phantom stocks and the Long Term Incentive Plan 2018 (LTIP 2018) which is solely based on performance shares. On June 30, 2017, the term of the options granted under the Fresenius AG Stock Option Plan 2003 expired. Currently, solely LTIP 2018 can be used to grant performance shares.

2018 LTIP

On April 12, 2018 and March 15, 2018, respectively, the Management Board and Supervisory Board of the general partner, Fresenius Management SE, resolved the Long Term Incentive Plan 2018 (LTIP 2018).

The LTIP 2018 is based solely on virtual stocks (**performance shares**). The performance shares issued through the plan are non-equity-backed, virtual compensation instruments. When performance targets are reached and other prerequisites are met, they guarantee the entitlement to a cash payment by Fresenius SE & Co. KGaA or one of its affiliated companies.

The new plan is available both for members of the Management Board (with the exception of Mr. Rice Powell, who receives his compensation from Fresenius Medical Care Management AG) and other executives. Performance shares may be granted once annually over a period of five years. The grant to the members of the Management Board is made by the Supervisory Board of the general partner, Fresenius Management SE, the grant to the other executives is made by the Management Board of Fresenius Management SE, in each case on the basis of a grant value determined at its reasonable discretion. The grant value is determined in consideration of the personal performance and the responsibilities of the concerned plan participant. The number of performance shares granted is calculated through applying the grant value and the average stock market price of the Fresenius share over the period of 60 stock exchange trading days prior to the grant date.

The number of performance shares may change over a period of four years, depending on the level of achievement of the performance targets described in more detail below. This could entail the entire loss of all performance shares or also – at maximum – the doubling of their number. The resulting number of performance shares, which is determined after a performance period of four years and based on the respective level of target achievement, is deemed finally earned four years after the date of the respective grant. The number of vested performance shares is then multiplied by the average stock exchange price of Fresenius SE & Co. KGaA's share over a period of 60 stock exchange trading days prior to the lapse of this vesting period plus the total of the dividends per share of Fresenius SE & Co. KGaA paid by Fresenius SE & Co. KGaA between the grant date and the vesting date. The resulting amount will be paid to the respective plan participant in cash. The potential disbursement entitlement of each member of the Management Board is limited to a maximum value of 250% of the grant value, the entitlement of all other plan participants is limited to a maximum value of 400%.

The LTIP 2018 has two equally weighted performance targets: firstly, the growth rate of the adjusted net income (adjusted for currency effects) and, secondly, the relative Total Shareholder Return based on the STOXX Europe 600 Health Care Index. Disbursement entitlement requires that at least one of the two performance targets must be reached or surpassed over the four-year performance period.

For the performance target "Net Income Growth Rate" a level of target achievement of 100% is reached when the same is at least 8% over the four-year performance period. If the growth rate falls below or corresponds to only 5%, the level of target achievement is 0%. If the growth rate is between 5% and 8%, the level of target achievement is between 0% and 100%, while, where the growth rate is between 8% and 20%, the level of target achievement will be between 100% and 200%. Intermediate values are calculated through linear interpolation. The net income is the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA reported in the consolidated financial statements of Fresenius SE & Co. KGaA prepared in accordance with IFRS, adjusted for extraordinary effects.

The determination of the adjusted net income (adjusted for currency effects) and the change in comparison with the adjusted net income (not adjusted for currency effects) of the previous Fresenius Group fiscal year will be verified in a binding manner by the auditors of Fresenius SE & Co. KGaA on the basis of the audited consolidated financial statements. For the ascertainment of the currency translation effects, all line items of the income statements of the companies that are included in the consolidated financial statements and which have a functional currency other than the reporting currency (Euro) of the Fresenius Group are translated with the average exchange rates of the Fresenius Group fiscal year of the consolidated financial statements that are the basis for the comparison.

For the "Total Shareholder Return" performance target, a target achievement of 100% is met when the Total Shareholder Return of Fresenius SE & Co. KGaA in comparison with the Total Shareholder Return of the other companies of the STOXX Europe 600 Health Care Index achieves an average ranking within the benchmark companies, i.e. exactly in the middle (50th percentile), over the four-year performance period. If the ranking corresponds to the 25th percentile or less, the level of target achievement is 0%. Where the ranking is between the 25th percentile and the 50th percentile, the level of target achievement is between 0% and 100%; and, for a ranking between the 50th percentile and the 75th percentile, between 100% and 200%. Intermediate values will also be calculated through linear interpolation. Total Shareholder Return denotes the percentage change in the stock market price within the performance period including re-invested dividends and all capital measures, whereby capital measures are to be calculated through rounding down to the fourth decimal place.

The ranking values are determined using the composition of STOXX Europe 600 Health Care on the grant date. For equalization purposes, the relevant market price is the average market price in the period of 60 stock exchange trading days prior to the beginning and end of a performance period; the relevant currency is that of the main stock exchange of a company, which was listed in STOXX Europe 600 Health Care on the grant date.

A level of target achievement in excess of 200% is not possible for both performance targets.

To calculate the level of overall target achievement, the level of target achievement of the two performance targets are given equal weighting. The total number of performance shares vested on each plan participant is calculated through multiplying the number of performance shares granted by the overall target achievement.

In the event of violation of compliance rules, the Supervisory Board of Fresenius Management SE, in due exercise of its discretion, is entitled to reduce the number of performance shares vested on a member of the Management Board to zero. Regarding all other plan participants, such decision is made by the Management Board of Fresenius Management SE. Furthermore, Fresenius SE & Co. KGaA is entitled to a complete or partial reimbursement in the event of violation of compliance rules in the period of three years following disbursement.

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.

<u>2013 SOP</u>

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, 2017 and 2018 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.

The last options were granted in 2017.

<u>2013 PSP</u>

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, 2017 and 2018 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).

The last phantom stocks were granted in 2017.

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.

Transactions during 2018

In 2018, Fresenius SE & Co. KGaA awarded 554,416 performance shares under the LTIP 2018, the total fair value at the grant date being €37 million, including 133,434 performance shares or €9 million awarded to the members of the Management Board of Fresenius Management SE. The fair value per performance share at the grant date was €67.45. During the fiscal year 2018, Fresenius SE & Co. KGaA received cash of €44 million from the exercise of 1,514,681 stock options. The average stock price of the ordinary share at the exercise date was €67.72.

At December 31, 2018, out of 849,127 outstanding and exercisable stock options issued under the 2008 Plan, 85,140 were held by the members of the Fresenius Management SE Management Board. Out of 9,083,216 outstanding stock options issued under the 2013 LTIP, 2,685,854 were exercisable at December 31, 2018. The members of the Fresenius Management SE Management Board held 1,434,375 stock options. 930,998 phantom stocks issued under the 2013 LTIP were outstanding at December 31, 2018. The members of the Fresenius Management SE Management Board held 173,052 phantom stocks and the enployees of Fresenius SE & Co. KGaA 97,384 phantom stocks. At December 31, 2018, the Management Board members of Fresenius Management SE held 133,434 performance shares and employees of Fresenius SE & Co. KGaA held 417,347 performance shares under the LTIP 2018.

Stock option transactions are summarized as follows:

	Stock options
	Number
Number as of December 31, 2017	11,763,149
less forfeited options	-316,125
less exercises	-1,514,681
Number as of December 31, 2018	9,932,343

(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:

	2018	2017
€in thousands		
As of January 1	3,234,846	2,808,965
Increase due to capital increase by means of contributions in kind	0	393,892
Increase due to exercise of stock options	42,586	31,989
As of December 31	3,277,432	3,234,846

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:

	2018	2017
€in thousands		
As of January 1	2,471,395	2,339,395
Additions to other reserves from net income of the period	43,000	132,000
As of December 31	2,514,395	2,471,395

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. €13,290 thousand are restricted and shall not be distributed according to Section 253 (6) HGB.

(15) Retained earnings

Accumulated profits from the prior year of €363 thousand are included in retained earnings in accordance with the decision taken at the Annual General Meeting on May 18, 2018.

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 €21,201 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, 2018
€in thousands	
Amount to be paid for partial retirement agreements	616
Fair value of matching securities	393
Funded status (surplus of obligations over assets)	223
Acquisition cost of securities	366

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, 2018
€in thousands	
Amount to be paid for obligations from the demography fund	2,451
Fair value of matching insurance	2,451
Funded status (surplus of assets over obligations)	0
Acquisition cost of insurance	2,208

The statement of income includes €46 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 €21,404 thousand (previous year: €27,489 thousand) as well as accruals to cover foreign currency risks of €4,376 thousand (previous year: €7,111 thousand) and for invoices outstanding of €3,997 thousand (previous year: €4,655 thousand).

(18) Liabilities

Dec. 31, 2018

		Thereof with a remaining term of		
	Total	up to 1 year	1 year to 5 years	over 5 years
€in thousands				
Senior notes	2,200,000	800,000	950,000	450,000
Convertible bonds	1,000,000	500,000	0	500,000
Bank loans	1,410,022	78,537	679,243	652,242
Trade accounts payable	5,271	5,271	0	0
Accounts payable to related parties	2,526,902	2,148,014	270,009	108,879
Other liabilities	148,106	40,105	46,101	61,900
	7,290,301	3,571,927	1,945,353	1,773,021

Dec. 31, 2017

		Thereof with a remaining term of		
	Total	up to 1 year	1 year to 5 years	over 5 years
€in thousands				
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

Senior Notes

The following table shows the liabilities from the Senior Notes as of December 31, 2018.

Issuer	Nominal Value	Maturity Date	Interest Rate
Fresenius SE & Co. KGaA 2014/2019	€300 million	Feb. 1, 19	2.375%
Fresenius SE & Co. KGaA 2012/2019	€500 million	Apr. 15, 19	4.25%
Fresenius SE & Co. KGaA 2013/2020	€500 million	July 15, 20	2.875%
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%

Mainly to refinance these bonds, on January 21, 2019, Fresenius SE & Co. KGaA issued bonds with an aggregate volume of €1.0 billion. The bonds consist of 2 tranches with maturities of 6 and 10 years. The coupon of the 6-year tranche of €500 million is 1.875% and was issued at a price of 99.257%. The €500 million tranche with a 10-year maturity has a coupon of 2.875% and was issued at a price of 99.164%. The proceeds will be used for general corporate purposes including refinancing of maturing notes.

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, 2018 the conversion price was €49.0848.

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. The proceeds were used to fund the acquisition of IDCSalud Holding S.L.U. (Quirónsalud) and for general corporate purposes. The coupon was fixed at 0%. On December 31, 2018 the conversion price was €106.8947.

At December 31, 2018, the negative fair value of the derivatives embedded in the convertible bonds was €39 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, 2018 was €39 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.

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. In October 2018 the bridge financing was adjusted and extended until April 2019. On December 10, 2018 Fresenius SE & Co. KGaA prematurely cancelled the bridge facility without having utilized it.

Schuldschein Loans

At December 31, 2018 Fresenius SE & Co. KGaA had €1,283 Million (previous year: €1,543 Million) liabilities from Schuldschein Loans.

Schuldschein Loans of €97 million, of €72 million, of €91 million, due on April and October 2018 were repaid as scheduled.

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, 2018, the commercial paper program was utilized by Fresenius SE & Co. KGaA in the amount of €5 million (previous year: €140 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 €2,522,334 thousand (previous year €1,855,554 thousand).

Included in this item are liabilities of €3,908 thousand (previous year €3,744 thousand) in favor of the general partner Fresenius Management SE. Moreover, liabilities of €34,451 thousand (previous year €35,989 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 €107,900 thousand) as well as interest liabilities, and tax liabilities.

Tax liabilities amount to €663 thousand (previous year €721 thousand).

(19) Deferred income

Deferred income of €5,158 thousand (previous year €6,172 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, 2018 it is included in deferred income with a value of €3,631 thousand.

Moreover a premium of €2,253 thousand resulted from a senior note tand shall be released on a straight line basis over the term of the senior note. As of December 31, 2018 it is included in deferred income with a value of €1,527 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.

	2018	2017
€in thousands		
Contingencies from indemnity agreements and guarantees	6,698,943	6,381,649
(thereof amount in favor of and from affiliated companies)	(6,695,969)	(6,379,227)
Commitments from retirement provisions	16,265	15,432
(thereof amount to affiliated companies)	(16,265)	(15,432)
	6,715,208	6,397,081

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.

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, 2018, the commercial paper program was utilized by Fresenius Finance Ireland PLC in the amount of €968 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, 2018.

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%

All bonds 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. The holders have the right to request that the issuers repurchase the bonds 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 bonds.

Fresenius SE & Co. KGaA has agreed to a number of covenants to provide protection to the holders of bonds issued before 2017, which partly restrict the scope of action of Fresenius SE & Co. KGaA and its subsidiaries (excluding Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) and its subsidiaries). These covenants include 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 and consolidations with other companies. Some of these restrictions were suspended automatically as the rating of the respective bonds reached investment grade status. As of December 31, 2018, 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.

In August 2017, the Credit Agreement was refinanced and replaced with new facilities resulting in a total credit facility of approximately €3,800 million. Fresenius SE & Co. KGaA is now the sole guarantor.

As of December 31, 2018, 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 cann be used by Fresenius US Finance I, LLC., 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, 2018.

- A term loan of US$ 575 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 €875 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

	2018	2017
€in thousands		
Commitments from building leases, and leasing commitments		
due 2019 (prior year 2018)	10,922	10,280
due 2020-2023 (prior year 2019-2022)	26,591	29,054
due after 2023 (prior year after 2022)	8,678	14,160
	46,191	53,494
Commitments from ongoing capital expenditures	24,994	18,395
	71,185	71,889

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

	2018	2017
€in thousands		
Income from profit transfer agreements	398,837	632,419
Income from participations	109,044	100,484
(thereof amount from affiliated companies)	(109,044)	(100,484)
	507,881	732,903

(23) Sales

	2018	2017
€in thousands		
Sales from personnel services	46,901	41,697
(thereof amount from affiliated companies)	16,838	16,594
	63,739	58,291

(24) Other operating income

Other operating income of €304,407 thousand in total (previous year €152,687 thousand) is comprised primarily of foreign currency gains of €282,756 thousand (previous year €116,480 thousand), cost transfers to group companies excluding own services of €19,606 thousand (previous year €34,407 thousand), as well as other income from other accounting periods mainly income from the dissolution of short-term accruals of €1,429 thousand (previous year €776 thousand). The total income from other accounting periods was €1,846 thousand in the fiscal year (previous year €1,201 thousand).

The main reason for the increase in other operating income is an increase in foreign currency gains. The main part of them with an amount of €153,057 thousand results from the contribution to the capital reserve of Kabi AG of US Dollar loans to a U.S. based affiliated company at their the fair value.

(25) Cost of materials

Cost of materials of €15,316 thousand (previous year €13,909 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

	2018	2017
€in thousands		
Salaries and wages	32,449	33,696
Social security and costs of retirement pensions and social assistance	12,702	8,397
(thereof amount of retirement pensions)	(7,892)	(3,993)
	45,151	42,093

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

	2018	2017
Wage earners	19	20
Salaried employees	327	309
Apprentices	157	140
	503	469

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

Depreciation of intangible assets and property, plant and equipment of €6,098 thousand (previous year €5,124 thousand) is regular depreciation.

(28) Other operating expenses

Other operating expenses of €196,337 thousand in total (previous year €182,099 thousand) were primarily foreign currency losses of €125,222 thousand (previous year €110,310 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 €11,972 thousand (previous year €9,758 thousand) that are passed on. Total expenses from other accounting periods were €849 thousand in the fiscal year (previous year €745 thousand).

(29) Net interest

	2018	2017
€in thousands		
Interest income from long-term loans	49,868	54,265
(thereof amount from affiliated companies)	(49,821)	(53,973)
Other interest and similar income	65,186	38,153
(thereof amount from affiliated companies)	(50,610)	(29,129)
Interest and similar expenses	-163,805	-179,100
(thereof amount from affiliated companies)	(-23,359)	(-20,476)
(thereof expense from interest accrued for provisions)	(-2,219)	(-2,164)
	-48,751	-86,682

(30) Income Taxes

Income taxes in the amount of €75,757 thousand (previous year €65,703 thousand) resulted from current income tax of €52,888 thousand for the year 2018 (previous year €48,472 thousand) as well as tax expense from other accounting periods in the amount of €22,869 thousand (previous year tax income from other accounting periods of €17,231 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 €961,863 thousand and a negative fair value of €3,517 thousand with a maximum maturity of 18 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 revaluate 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, 2018, the notional amount of these transactions totaled €100,076 thousand. The offsetting cash flows will level after 18 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 €262,009 thousand (liability). External foreign currency hedging contracts for the individual loans receivables and payment obligations with a nominal value of €258,535 on December 31, 2018 had a negative fair value of €84 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 6 months the latest.

The rest of the currency derivative contracts can have positive and negative fair values. Positive fair values of €221 thousand were not recognized for financial reporting purposes. Negative fair values amounting to €3,654 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 €174,672 thousand and a positive fair value on the balance sheet date of €5,189 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 €5,189 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 matured on March 28, 2018.

Standards of valuation

The fair values of derivative financial instruments are valuated 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 compensation of the Management Board is, as a whole, performance-based and geared towards promoting sustainable corporate development. It is composed of three elements:

- non-performance-based compensation (fixed compensation and fringe benefits)
- short-term performance-based compensation (one-year variable compensation)
- components with long-term incentive effects (multi-year variable compensation comprising performance shares and postponed payments of the one-year variable compensation/of the bonus).

The cash compensation paid to the Management Board for the performance of its responsibilities was €15,760 thousand (2017: €14,378 thousand). Thereof, €6,051 thousand (2017: €5,407 thousand) is not performance-based and €9,709 thousand (2017: €8,971 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 performance shares in the equivalent value of €11,391 thousand.

The total compensation of the Management Board was €27,322 thousand (2017: € 24,664 thousand).

The total compensation paid to the Supervisory Boards of Fresenius SE & Co. KGaA and Fresenius Management SE and their committees was € 5,185 thousand in 2018 (2017: €5,365 thousand). Of this amount, €2,775 thousand was fixed compensation (2017: €226 thousand), € 160 thousand was compensation for committees services (2017: €100 thousand), and € 2,250 thousand was variable compensation (2017: €5,039 thousand).

In 2018, based on pension commitments to former members of the Management Board, € 1,101 thousand (2017: € 1,099 thousand) was paid. The pension obligation for these persons amounted to € 22,319 thousand in 2018 (2017: € 21,848 thousand).

In the fiscal years 2018 and 2017, 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 2018 until February 19, 2019. 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) and of Fresenius Medical Care AG & Co. KGaA (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 2018 of Fresenius SE & Co. KGaA be distributed as follows:

Payment of a dividend of €0,80 per ordinary share on the 556,225,154 ordinary shares entitled to dividend	€444,980,123.20
Balance to be carried forward	€936,346.29
Retained earnings	€445,916,469.49

(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 19, 2019

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

Chair

Statutory supervisory boards
Fresenius Group mandate
Fresenius Management SE (Chair)
Fresenius Medical Care AG & Co. KGaA [1]
(until May 17, 2018; Chair)
Fresenius Medical Care Management AG

Comparable German or foreign supervisory bodies
Fresenius Group mandate
VAMED AG, Austria (Chair)

Prof. Dr. med. D. Michael Albrecht

Medical Director and Spokesman of the Management Board of the Universitätsklinikum Carl Gustav Carus Dresden

Statutory supervisory boards
Dresden International University (DIU)
GÖK Consulting AG
Universitätsklinikum Aachen

Bernd Behlert (since Sept. 1, 2018)

Full-time Works Council Member
Helios Vogtland-Klinikum Plauen GmbH

Statutory supervisory boards
Fresenius Group mandate
Helios Vogtland-Klinikum Plauen GmbH

Michael Diekmann

Member of various Supervisory Boards

Deputy Chair

Statutory supervisory boards
Allianz SE [1] (Chair)
BASF SE [1] (Deputy Chair)
Fresenius Management SE (Fresenius Group mandate)
Siemens AG [1]

Konrad Kölbl

Full-time Works Council Member
VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H.

Comparable German or foreign supervisory bodies
Fresenius Group mandate
VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H., Austria

Stefanie Lang

Full-time Works Council Member
Fresenius Medical Care Deutschland GmbH

Frauke Lehmann

Full-time Works Council Member
Helios Kliniken Schwerin GmbH

Statutory supervisory boards
Fresenius Group mandate
Helios Kliniken Schwerin GmbH (Deputy Chair)

Prof. Dr. med. Iris Löw-Friedrich

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

Statutory supervisory boards
Evotec AG [1]

Klaus-Peter Müller

Honorary Chairman of the Supervisory Board of Commerzbank AG

Statutory supervisory boards
Commerzbank AG (until May 8, 2018; Chair)
Fresenius Management SE (Fresenius Group mandate)

Comparable German or foreign supervisory bodies
Parker Hannifin Corporation, USA [1]
(until October 24, 2018)

Oscar Romero de Paco

Production staff member
Fresenius Kabi España S.A.U.

[1] Stock listed company

SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

Hauke Stars

Member of the Executive Board
Deutsche Börse AG

Statutory supervisory boards
Eurex Frankfurt AG (Deutsche Börse AG Group mandate)

Comparable German or foreign supervisory bodies
Clearstream International S.A. (Deutsche Börse AG Group mandate)
Eurex Zürich AG (Deutsche Börse AG Group mandate)
Kühne + Nagel International AG [1]

Rainer Stein (until August 31, 2018)

Full-time Works Council Member
Helios Klinikum Berlin-Buch GmbH
(until August 31, 2018)

Statutory supervisory boards
Fresenius Group mandate
Helios Klinikum Berlin-Buch GmbH (until August 31, 2018)

Niko Stumpfögger

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

Deputy Chair

COMMITTEES OF THE SUPERVISORY BOARD

Nomination Committee

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

Audit Committee

Klaus-Peter Müller (Chair)
Konrad Kölbl
Dr. Gerd Krick
Hauke Stars
Rainer Stein (until Aug. 31, 2018)
Niko Stumpfögger (as of Sept. 1, 2018)

Joint Committee [2]

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

[1] Stock listed company
[2] 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

Statutory supervisory boards
Deutsche Lufthansa AG[1]

Fresenius Group mandate
Fresenius Kabi AG (Chair)
Fresenius Medical Care Management AG (Chair)

Comparable German or foreign supervisory bodies
Fresenius Group mandate
VAMED AG, Austria (Deputy Chair)

Dr. Francesco De Meo

Business Segment Fresenius Helios

Statutory supervisory boards
Fresenius Group mandate
Helios Beteiligungs AG (until June 15, 2018; Chair)
Helios Kliniken Schwerin GmbH
(until May 8, 2018; Chair)

Rachel Empey

Chief Financial Officer

Statutory supervisory boards
Fresenius Group mandate
Fresenius Kabi AG (Deputy Chair)
Fresenius Medical Care Management AG

Comparable German or foreign supervisory bodies
Inchcape plc[1] (Non-Executive Director)

Dr. Jürgen Götz

Chief Legal and Compliance Officer, and Labor Relations Director

Mats Henriksson

Business Segment Fresenius Kabi

Comparable German or foreign supervisory bodies
Fresenius Group mandate
Fenwal, Inc., USA
FHC (Holdings) Ltd., Great Britain
Fresenius Kabi, LLC, USA
Fresenius Kabi Austria GmbH, Austria (Chair)
Fresenius Kabi España S.A.U., Spain
Fresenius Kabi Pharmaceuticals Holding, Inc., USA
Fresenius Kabi Sino-Swed Pharmaceutical Corp. Ltd., China (until November 1, 2018)
Fresenius Kabi USA, Inc., USA
Labesfal – Laboratórios Almiro, S.A., Portugal
Quercus Acquisition, Inc., USA

Rice Powell

Business Segment Fresenius Medical Care

Comparable German or foreign supervisory bodies
Fresenius Group mandate
Fresenius Medical Care Holdings, Inc., USA (Chair)
Vifor Fresenius Medical Care Renal Pharma Ltd., Switzerland[1] (Vice Chair)

Dr. Ernst Wastler

Business Segment Fresenius Vamed

Statutory supervisory boards
Fresenius Group mandate
Charité CFM Facility Management GmbH (Deputy Chair)

Comparable German or foreign supervisory bodies
Fresenius Group mandate
VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H., Austria (Chair)

[1] Stock listed company

SUPERVISORY BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

Dr. Gerd Krick

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

Chair

Statutory supervisory boards
Fresenius Group mandate
Fresenius SE & Co. KGaA [1] (Chair)
Fresenius Medical Care AG & Co. KGaA [1]
(until May 17, 2018; Chair)
Fresenius Medical Care Management AG

Comparable German or foreign supervisory bodies
Fresenius Group mandate
VAMED AG, Austria (Chair)

Dr. Kurt Bock

Former Chief Executive Officer BASF SE

Statutory supervisory boards
BMW Group [1] (since May 17, 2018)
Münchener Rückversicherungs-Gesellschaft [1]
(since April 25, 2018)

Michael Diekmann

Member of various Supervisory Boards

Statutory supervisory boards
Supervisory Board
Allianz SE [1] (Chair)
BASF SE [1] (Deputy Chair)
Fresenius SE & Co. KGaA [1]
(Deputy Chair; Fresenius Group mandate)
Siemens AG [1]

Klaus-Peter Müller

Honorary Chairman of the Supervisory Board of Commerzbank AG

Statutory supervisory boards
Commerzbank AG (until May 8, 2018; Chair)
Fresenius SE & Co. KGaA [1] (Fresenius Group mandate)

Comparable German or foreign supervisory bodies
Parker Hannifin Corporation, USA [1]
(until October 24, 2018)

Dr. Dieter Schenk

Lawyer and Tax Consultant

Deputy Chair

Statutory supervisory boards
Bank Schilling & Co. AG (Chair)
Fresenius Medical Care AG & Co. KGaA [1] (Chair; Deputy Chair until May 17, 2018; Fresenius Group mandate)
Fresenius Medical Care Management AG (Deputy Chair; (Fresenius Group mandate)
Gabor Shoes AG (Chair)
TOPTICA Photonics AG (Chair)

Foundation Board
Else Kröner-Fresenius-Stiftung (Chair)

Dr. Karl Schneider

Former Spokesman of Südzucker AG

Foundation Board
Else Kröner-Fresenius-Stiftung (Deputy Chair)

[1] Stock listed company

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, 2018, Fresenius Medical Care treated 333,331 patients at 3,928 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, Fresenius Kabi is 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); both are part of the holding company Helios Health. At the end of 2018, Helios Germany operated a total of 86 hospitals, around 125 outpatient clinics, and 10 prevention centers. Quirónsalud operated 47 hospitals, 57 outpatient centers, and around 300 occupational risk prevention centers at the end of 2018.

- **Fresenius Vamed** manages projects and provides services for hospitals as well as other health care facilities worldwide and is a leading post-acute care provider in Central Europe. 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 43% and 42% of sales, respectively.

Fresenius Medical Care holds the leading position worldwide 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 leading market positions in Europe for large parts of its product portfolio 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 private hospital operator, and Helios Spain, 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 in 2018. 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. Preparatory measures for upcoming regulatory changes in the German hospital business already had a negative impact on earnings in the 2018 fiscal year.

Furthermore, the diversification across four business segments and our global reach provide additional stability for the Group.

In 2018, the Fresenius Group was 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.

We carefully monitor and evaluate country-specific, political, legal, and financial conditions. This applies in particular to the potential impact on our business of the United Kingdom's decision to leave the European Union and the ongoing uncertainty about the conditions of withdrawal. We do not expect this to have a material impact on our business at this time. The share of sales generated in the United Kingdom is not material in relation to Group sales. We do not expect any negative effects on our financing either, as only an immaterial portion of our credit lines is provided by banks domiciled in the United Kingdom. Project teams in all divisions concerned are identifying potential effects in terms of logistics, taxes, customs duties, and potential regulations, among other things, and initiating appropriate measures if necessary.

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 **Annual 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 also be found on the website 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 Group's Management Report.

Capital, shareholders, articles of association

The subscribed capital of Fresenius SE & Co. KGaA amounted to 556,225,154 ordinary shares as of December 31, 2018 (December 31, 2017: 554,710,473).

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 €125 million, until May 17, 2023, 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 €4,735,083.00 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 €5,141,264.00 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 17, 2023, 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 €24,928,200.00 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 17, 2023, 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, 2018.

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 18, 2018, that it held 146,261,594 ordinary shares of Fresenius SE & Co. KGaA. This corresponds to an equity interest of 26.3% as of December 31, 2018.

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 expansion in dialysis care and products worldwide, as well as the focused range in Care Coordination. In this area, Fresenius Medical Care offers additional services for the holistic care of patients and meets the increasing demand with this model.

  Fresenius Kabi is the market leader in infusion therapy and/or clinical nutrition in Europe and in the key markets in Asia-Pacific (including China) 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 86 hospitals, Fresenius Helios operates in nearly all of Germany. Building on this, Fresenius Helios is now in the position to develop new patient care models. To benefit from the trend towards outpatient treatment, Helios Germany has been expanding outpatient service offerings in a separate division since September 2018.

  Helios Spain has attractive growth opportunities through the expansion and construction of hospitals, and potential for further consolidation in the highly fragmented private hospital market in Spain. Helios Health exploits upcoming opportunities for cross-border synergies in areas such as laboratory services and joint purchasing. The cross-border exchange of experience and knowledge is gradually creating the economic prerequisites for the further internationalization of our hospital business. Helios Spain announced the acquisition of Clínica Medellín in 2018. Fresenius Helios is thus entering the attractive private hospital market in Colombia.

  Fresenius Vamed will further expand its position as a global specialist for projects and services for hospitals and other health care facilities. With the acquisition of Fresenius Helios' German inpatient rehabilitation business, Fresenius Vamed developed itself into one of the leading providers of private rehabilitation services in Europe. Moreover, the cooperation with Fresenius Helios is being intensified, for example in technical services and procurement, where Fresenius Helios and Fresenius Vamed are now jointly purchasing certain products.

- **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. Fresenius Kabi, for example, 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. Since September 2018, Helios Germany has been developing innovative business areas such as digital offerings in its own division. 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 (before adoption of IFRS 16).

We report on our goals in detail in the Outlook section starting on page 20.

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[1]** were €669 million (2017: €558 million), approximately 6.9% of our product sales (2017: 5.9%). Research services provided by third parties are mainly used by Fresenius Kabi, especially in the field of biosimilars. Fresenius Kabi increased its R & D spending by 25%[1], Fresenius Medical Care increased its R & D spending by 2%.

As of December 31, 2018, there were 3,042 employees in research and development (2017: 2,772). Of that number, 970 were employed at Fresenius Medical Care (2017: 848) and 2,072 at Fresenius Kabi (2017: 1,924).

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 2018 was 521 (December 31, 2017: 492).

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, 2018, 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 Long Term Incentive Plan 2018 (LTIP 2018). 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

---

[1] Before revaluations of biosimilars contingent liabilities

Commercial Code (HGB) on our website, see www.fresenius.com/corporate-governance. You can visit our award-winning **careers portal** at 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.

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 **8** 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 8.9% of GDP in the OECD countries in 2017, 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 2017, above the average of 74% 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 2016, average life expectancy in the OECD countries was 80.8 years.

Source: OECD Health Data 2018

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 cost- and 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 2018, the global **dialysis market** (products and services) was worth approximately €71 billion. In constant currency, the global dialysis market grew by 4%.

Worldwide, approximately 4.1 million **patients with chronic renal failure** were treated in 2018. Of these patients, around 3.4 million received dialysis treatments and about 786,000 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 2018. 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 2018, the global **dialysis care market** (including renal pharmaceuticals) was worth approximately €58 billion.

10% of worldwide dialysis patients were treated by Fresenius Medical Care. With 3,928 dialysis clinics and 333,331 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 2018. 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 2018, 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, 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 the largest market for Fresenius Medical Care, 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 North America and Asia-Pacific. Our services in Care Coordination are adapted to the requirements of these markets. The expansion of our coordinated care services 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[1]

The global market for generic IV drugs, biopharmaceuticals, clinical nutrition, infusion therapy, and medical devices/ transfusion technology was worth about €86 billion in 2018.

---

[1] 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.

Thereof, the global **market for generic IV** drugs was worth about €33 billion[1]. 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 pre-filled syringes.

In Europe and the United States, the market for IV drugs grew by 4%. 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 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 biosimilar 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 worth about €32 billion.

In 2018, the global **market for clinical nutrition** was worth about €8 billion. In Europe, the market grew by about 3%. In Latin America, the clinical nutrition market saw growth of up to 10%. In Asia-Pacific, the market for enteral nutrition grew by about 10%. In the area of parenteral nutrition, Fresenius Kabi's important market for three-chamber bags grew by 6% to 8% in Asia-Pacific. In Africa, these two segments also showed positive growth. There is growth potential in clinical nutrition worldwide, because nutrition therapies are often not yet sufficiently used in patient care, although studies have proven their medical and economic benefits. 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, Latin America, and China. In parenteral nutrition, competitors include Baxter, B. Braun, and Shanxi Pude Pharmaceuticals. In the market for enteral nutrition, Fresenius Kabi competes with, among others, Danone, Nestlé, and Abbott.

In 2018, Fresenius Kabi considers its global **market for infusion therapy** to have been worth about €6 billion. The global market for infusion therapies grew by around 6%. Infusion therapies (e.g., electrolytes) are part of the medical standard in 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 B. Braun and Baxter.

In 2018, the global **market for medical devices/ transfusion technology** was worth more than €6 billion, including approximately €4 billion for medical devices and about €2 billion for transfusion technology. The market grew by approximately 4%. In the medical devices market, the main growth drivers are IT-based solutions that focus

[1] Market definition adjusted as in prior year: among other items, sales volume of non-patented branded drugs is included.

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[1]

In 2017, the market of acute care hospitals in **Germany** was about €102 billion[2], as defined by total costs of the German acute care hospitals (gross). Personnel expenses accounted for about 62% of hospital costs, and material costs for 38%. Personnel and material expenses rose by 5% and 3% respectively.

The admissions in the acute care hospital market decreased by 0.5% in 2017.

Although their economic situation has improved compared with previous years, almost a third (30%) of the German hospitals recorded losses in 2017. A further 11% broke even, and 59% were able to generate a profit for the year. The often difficult economic and financial situation of the hospitals is accompanied by significant **investment needs** driven by medical and technological advances, higher quality requirements, and necessary modernizations. Moreover, the federal states failed to meet their statutory obligation to provide sufficient financial resources in the past. This results into a continuously increasing investment backlog. The Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) estimates that the annual investment requirement at German hospitals (excluding university hospitals) is at least €5.8 billion. This is about twice the funding for investment currently being provided by the federal states.

Helios Germany is the country's leading hospital operator in terms of sales, with a share of about 5.4% (2016: 5.5%) 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.

---

[1] Most recent market data available: German Federal Statistical Office 2018; German Hospital Instititute (DKI), Krankenhausbarometer 2018; Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI); Krankenhaus Rating Report 2018

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

The change in value figure is redetermined each year for the following year. For 2018 it was 2.97% (2017: 2.50%).

The **private Spanish hospital market** volume was about € 14 billion[1] in 2017. 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 Spanish market is highly fragmented, it has consolidation potential.

Quirónsalud is the market leader in Spain, with a market share of approximately 12% 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.

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 addition to offering services for health care facilities world-wide, Fresenius Vamed itself is active as a post-acute care provider in several countries, including Germany, Austria, Switzerland, the Czech Republic, and the United Kingdom. By acquiring the post-acute care business of Fresenius Helios, Fresenius Vamed has become a leading provider in this field in Central Europe. 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 local providers.

---

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

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 2018. 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 advantages of our diversified Group structure were clearly evident in fiscal year 2018. We achieved our Group sales and earnings targets for fiscal year 2018. Hence, the Management Board is of the opinion that the Fresenius Group's performance in 2018 was successful overall.

Fresenius Medical Care sales on a comparable basis in constant currency increased by 4%[1] to € 16,547 million. On an adjusted basis[2], net income attributable to shareholders of Fresenius Medical Care increased by 2% (4% in constant currency) to € 1,185 million. On a comparable basis, net income increased by 11% (14% in constant currency) to € 1,377 million.

Fresenius Kabi achieved organic sales growth of 7%. EBIT[3] decreased by 3% (increased by 2% in constant currency) to € 1,139 million. EBIT[10] before expenses for the further development of the biosimilars business increased by 5% (increased by 10% in constant currency) to € 1,305 million. Organic sales growth of Fresenius Helios was 3%. EBIT was on the previous year's level at € 1,052 million (increased by 3%[4]). Fresenius Vamed achieved organic sales growth of 16%. EBIT grew by 45% (9%[11]) to € 110 million.

---

[1] 2017 adjusted for IFRS 15 adoption and divested Care Coordination activities

[2] Before special items and after adjustments

[3] Before special items

[4] Adjusted for German post-acute care business transferred from Fresenius Helios to Fresenius VAMED

Results of operations, financial position, assets and liabilities

Results of operations

Net income of Fresenius SE & Co. KGaA in the fiscal year 2018 was €489 million (previous year €548 million). The decrease in net income mainly results from lower income from participations and transfers of profits.

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 €353 million (previous year €415 million) to the net income from participations. The lower earnings mainly result from the termination of profit and loss transfer agreements for the purpose of using pre-tax-group tax loss carryforwards within the Helios Group and from lower operative earnings from Helios affiliated companies.

The profit and loss transfer agreement with Fresenius Kabi AG yielded earnings of €44 million (previous year €212 million). The decrease in relation to the previous year results from higher expenses for the development of the Biosimilars business acquired from Merck in 2017, that have been incurred for a whole year for the first time in 2018 and from lower dividend income from foreign Kabi affiliated companies.

Other significant income from participations came from a €100 million Fresenius Medical Care AG & Co. KGaA dividend (previous year €91 million).

In addition to earnings from dividends and from profit and loss transfer agreements, Fresenius SE & Co. KGaA receives €63 million of income from rents and from providing personnel services (previous year €58 million). Other operating income includes €283 million (previous year €116 million) of foreign currency gains while €125 million (previous year €110 million) of foreign currency losses are included in other operating expenses. The main part of the increase in foreign currency gains results from a gain of €153 million arising from the contribution to the capital reserve of Kabi AG of US Dollar loans to a U.S. based affiliated company at their the fair value.

The General Partner and Supervisory Board of Fresenius SE & Co. KGaA will propose a dividend increase to the Annual General Meeting. For 2018, a dividend of €0.80per ordinary share shall be paid to shareholders. This is an increase of about 7%. The total dividend distribution will increase by about 7% to €445.0 million (previous year €416.0 million).

Cash flow statement

	2018	2017
	million €	million €
Net Income	489	548
Depreciation and amortization of non-current assets and financial assets	6	5
Increase in pension liabilities	12	6
Interest result	49	87
Income from investments	-508	-733
Non-cash-effective foreign exchange gains from contributions in kind	-153	-
Cash flow	**-105**	**-87**
Increase/decrease in accruals for income taxes and other accrued expenses	29	-9
Decrease/increase in trade accounts payable	-	1
Decrease in other operating assets and liabilities	-52	-54
Decrease in working capital	**-23**	**-62**
Cash flows from operating activities	**-128**	**-149**
Payments for purchasing shares of subsidiaries, for contributions to equity of subsidiaries and for loans to subsidiaries	-424	-2,442
Proceeds from loans to subsidiaries	16	-
Proceeds from liquidation of affiliated companies	0	2
Payments for investments in intangible assets and property plant and equipment	-39	-17
Interest received	115	93
Dividends received	742	734
Cash flows from investing activities	**410**	**-1,630**
Proceeds from bank loans	127	1,703
Repayment of bank loans	-463	-444
Change in financing activities with related parties	596	745
Proceeds from the exercise of stock options	44	33
Interest paid	-164	-179
Dividends paid	-416	-343
Cash flows from financing activities	**-276**	**1,515**
Change of cash and cash equivalents	**6**	**-264**
Cash and cash equivalents at the beginning of the year	43	307
Cash and cash equivalents at the end of the year	49	43

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, 2018, Fresenius SE & Co. KGaA complied with the covenants under all the credit agreements.

Financial position

Total assets of Fresenius SE & Co. KGaA increased by €486 million to €14,334 million (previous year €13,848 million).

On the asset side, financial assets increased from €10,611 million to €11,172 million, due mainly to the changes described in the Investments, divestments and acquisitions chapter.

The liability bank loans have decreased from €1,746 million to €1,410 million mainly due to the repayment of €260 million Schuldschein Loans and an to a €135 million lower utilization of the Commercial-paper-Program.

Moreover, accounts payable to related parties have increased from €1,856 million to €2,527 million mainly due to following transactions:

- Fresenius SE & Co. KGaA received a loan of €968 million from Fresenius Finance Ireland PLC. (previous year €575 million).
- In addition loans and financing accounts with affiliated companies in the context of inhouse banking (cash pool) increased.

The equity ratio decreased from 48.2% to 47.4%.

Investments, divestments and acquisitions

Total investments in property, plant and equipment and intangible assets were €39 million in 2018.

Changes in the financial assets in the fiscal year 2018 mainly resulted from following transactions:

- In the fiscal year 2018 Fresenius SE & Co. KGaA contributed €200 million to the additional paid-in capital of Fresenius Finance Holdings Ltd.
- Disposals of loans of €709 million related to US Dollar loans granted by the Company to U.S. based affiliated companies. These loans were transferred and subsequently contributed in kind to the additional paid-in capital of Fresenius Kabi AG at its fair value of €862 million. This resulted in foreign exchange gains of €153 million for the Company.

- Moreover Vamed Gesundheit Holding Deutschland GmbH, an indirect affiliated company of Vamed AG, was granted a loan of €200 million.

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 Group Management Report contains forward-looking statements, including statements on future sales, expenses, and investments, as well as potential changes in the health care sector, our competitive environment, and our financial situation. These statements were made on the basis of the expectations and assessments of the Management Board regarding events that could affect the Company in the future, and on the basis of our mid-term planning. Such forward-looking statements are subject, as a matter of course, to risks, uncertainties, assumptions, and other factors, so that the actual results, including the financial position and profitability of Fresenius, could therefore differ materially – positively or negatively – from those expressly or implicitly assumed or described in these statements. For further information, please see our Opportunities and Risk Report on pages 26 ff.

General and mid-term outlook

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

- The sustained **growth of the markets** in which we operate: Fresenius still sees very good opportunities to benefit from the growing health care needs arising from aging populations, with their growing demand for comprehensive care, and technical advances, but driven also by the still insufficient access to health care in the developing and emerging countries. There are above-average growth opportunities for us not only in the markets of Asia-Pacific and Latin America, but also in Africa. Efficient health care systems with appropriate reimbursement structures will evolve over time in these countries, as economic conditions improve. We will strengthen our activities in these regions and introduce further products from our portfolio into these markets successively.

- The **expansion of our regional presence**: The fast growing markets in Asia-Pacific, Latin America, and Africa especially offer further potential to strengthen our market position. China, for instance, offers excellent growth opportunities over the long-term, not only in infusion and nutrition therapies, IV drugs, and medical devices for Fresenius Kabi, but also for Fresenius Medical Care in dialysis. We plan to further roll out additional products and therapies from our existing portfolio in countries where we do not yet offer a comprehensive range. The successful acquisition of the largest private hospital operator in Spain in 2017 gives Fresenius Helios a presence outside Germany. Fresenius Helios sees, beyond that, good opportunities for further international growth.

- The **broadening of our services business**: For Fresenius Medical Care, opportunities to extend into new markets or to expand its market share arise if a country opens up to private dialysis providers or allows cooperation between public and private providers through public-private partnerships. Whether or not private companies can offer dialysis treatment, and in what form, depends on the health care system of the country in which they operate and its legal framework. Fresenius Helios has an extensive nationwide hospital network in Germany and Spain. Based on this platform, Fresenius Helios aims to develop and offer innovative, integrated care offerings. In addition, Helios Germany is expanding outpatient services in a separate division. Patient care should be further improved through the exchange of knowledge and experience (best practice) between Helios Germany and Quirónsalud. Growth opportunities in Spain arise from exploiting synergies, the expansion and construction of hospitals, and further consolidation potential in the highly fragmented Spanish private hospital market, in particular. The cross-selling of Quirónsalud's facilities for Occupational Risk Prevention within the Spanish hospital network offers additional growth opportunities. Helios Spain announced the acquisition of Clínica Medellín in 2018. Fresenius Helios was thus entering the attractive private hospital market in Colombia.

- The **broadening of our products business**: At Fresenius Medical Care, we see the planned expansion of the core business with dialysis products as a growth driver. At Fresenius Kabi, we plan to expand our IV drugs product business. We develop generic drug formulations that are ready to launch at the time of market formation, directly after the patents of the branded products expire. We also develop new formulations for non-patented drugs. Furthermore, we develop ready-to-use products that are especially convenient and safe, including, for example, pre-filled syringes and ready-to-use solutions in our freeflex infusion bags.

- **The development of innovative products and therapies:** These will create the potential to further expand our market position in the regions. In addition to innovation, best-in-class quality, reliability, and the convenience of our products and therapies are key factors here. In our dialysis business, we expect home therapies to gain further importance, leading to growth potential for Fresenius Medical Care. In addition, Fresenius Kabi is developing new dosage forms for its products. In the area of biosimilars, Fresenius Kabi specializes in the development of products for the treatment of oncology and autoimmune diseases and has a pipeline of molecules at various stages of development. Helios Germany has been developing innovative business areas such as digital offerings in its own division.

- **Selective acquisitions**: Besides retaining organic sales growth as the basis for our business, we will continue to utilize opportunities to grow by making small and mid-sized acquisitions that expand our product portfolio and strengthen our regional presence.

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

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

Future Markets

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

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

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

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

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

Health Care sector and markets

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

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

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

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

The dialysis market

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

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

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

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

Source: Company research

The market for generic IV drugs, biopharmaceuticals, clinical nutrition, infusion therapy, and medical devices/ transfusion technology [1]

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

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

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

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

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

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

The hospital market

The number of hospital admissions in Germany declined slightly in 2017. No reliable figures are available yet for 2018. However, we assume that 2019 will see a further decline in inpatient hospital admissions and an increase in outpatient treatments as a result of the increasing provision of outpatient services. The development of the market up to and including 2017 shows that, contrary to the market trend, Helios was able to increase its share of inpatient hospital treatment compared with its competitors in percentage terms. On the basis of the measures adopted in 2018 and currently being

---

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

Source: Company research; Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RW), Krankenhaus Rating Report 2013 and 2017 implemented to consolidate hospital locations, the merging or centralizing of departments, joint management of several specialist departments by a responsible chief physician, the active handling of the issue of center formation, the consistent development of the outpatient sector, and the active handling of patient services, we expect Helios Germany to record an increase in inpatient hospital admissions in 2019.

The so-called change in value figure is relevant for the increase in the **reimbursement of hospital treatments** in Germany. For 2019 it was set at 2.65%. In addition, the hospital funding system provides for various increases and reductions for acute hospitals. For surplus services agreed in advance with the health insurance companies, hospitals have to accept the so-called fixed cost degression discount on surplus services of up to 35%. The exact amount of the discount is negotiated between the hospitals and the health insurance companies. Since 2017, the care supplement has replaced the extra charge on invoiced hospital treatments. This is intended to support care in hospitals and is granted based on the cost of care at the individual hospitals. The funding volume for 2019 is around €500 million. From 2020 onwards, the previous supplement will be used to provide funding of €200 million, which will be included in the state base rates.

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

In order to factor medical outcomes into the remuneration, the Federal Joint Committee defines quality indicators. The specific financial terms and details are currently being worked out in a consistent overall concept. However, we do not expect any adverse effects since the Helios Group is well prepared for quality-based remuneration thanks to its clear focus on quality and transparency of medical outcomes. The future expectations with respect to their economic situation vary among the German hospitals: according to the Krankenhaus-Barometer 2018 survey by the German Hospital Institute (DKI), only one sixth (18%) of the hospitals expect their economic situation to improve in 2019, whereas 37% expect it to worsen. Moreover, investment needs are growing while government support is declining. The Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) forecasts that more hospitals will respond to economic pressures by joining together into networks and bundling their services. Networks offer opportunities for individual hospitals to reduce costs, for example in purchasing.

We expect the private hospital market in **Spain** to continue to grow by 2% to 3%. The continuing increase in the number of privately insured patients should also open up opportunities for private operators in the future. Relevant indicators, for example nationwide health care spending and bed density, indicate the further market development potential in the Spanish health care system compared with other EU countries. This also provides opportunities for the establishment of new hospitals. In addition, the highly fragmented private Spanish hospital market offers further consolidation potential.

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

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

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

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

Economic outlook of Fresenius SE & Co. KGaA for the year 2019

For the fiscal year 2019 the company expects lower contribution to earnings mainly due to the one-time foreign exchange gains recorded in 2018. Retained earnings are expected to increase slightly.

Dividend

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

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 Supervisory Board 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 20.

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.

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.

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.

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

- The business areas and their operational business units are responsible for identifying, assessing, and managing risks.
- The managers responsible are required to report any relevant changes in the risk profile to the Management Board without delay.
- The Management Board of the Fresenius Group has overall responsibility for effective risk management and regularly discusses the current risk situation.
- The audit committee of the Supervisory Board monitors the quality and effectiveness of the risk management system every six months.

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 Audit Committee of the Supervisory Board, the Management Board and the Internal Audit 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 Audit 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 also 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 managed.

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, and
- 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 reviewed 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 with 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 2019, we 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 depends in particular on the development of its relevant 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 their debt burden, 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 the continuing uncertainty about the exit conditions. This further applies to Catalonia's quest for independence from Spain.

And 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 reimbursement of dialysis treatments, could have a considerable impact on our business. In 2018, approximately 33% 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.

Medicare has 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. Due to pressure to reduce health care costs, increases in the reimbursement rate by the U.S. government have been limited.

As part of the PPS, our dialysis clinics in the United States participate in the **Quality Improvement Program (QIP)**. Medicare reimbursement benefits can be reduced by up to 2% based on the previous year's benefits if clinics do not meet the quality standards of the QIP. 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.

In addition, Fresenius Medical Care participates in various value-oriented compensation programs under which we receive fixed compensation to cover all or a defined amount of treatment costs for a defined number of patients:

- Under CMS's Comprehensive ESRD Care Model, dialysis providers and physicians can form entities known as ESRD Seamless Care Organizations (ESCOs) as part of a new payment and care delivery model that seeks to deliver better health outcomes for Medicare ESRD patients while lowering CMS' costs. ESCOs that achieve the program's minimum quality thresholds and generate reductions in costs of care above certain thresholds for the ESRD patients covered by the ESCO will receive a share of the cost savings, which is adjusted based on the ESCO's performance on certain quality metrics. 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 if actual costs rise above set thresholds.

- Bundled Payment for Care Improvement ("BPCI") is a CMS pilot initiative, extended through September 30, 2018, with bundled payments for the individual services furnished to Medicare beneficiaries during a single episode of illness or course of treatment, including acute inpatient hospital services, physician services, and postacute services. We commenced participation in several markets under the BPCI in April 2015 through our majority-owned subsidiary, Sound Inpatient Physicians, Inc. ("Sound"). On June 28, 2018, we divested our controlling interest in Sound. Under the BPCI, we had the ability to receive additional payments if we were able to deliver quality care at a cost that was lower than certain established benchmarks, but also had the risk of incurring financial penalties if we were unsuccessful in doing so.

- Furthermore, Fresenius Medical Care provided Medicare Advantage Chronic Special Needs Plan (MA-CSNP) products until December 31, 2018. MA-CSNPs are Medicare health plans offered by private companies that contract with Medicare to provide Medicare benefits to special needs individuals with specific severe or disabling chronic conditions such as ESRD, with a focus on improving the coordination of care. As an MA-CSNP, Fresenius Medical Care provided health care services and received set payments from CMS for the complete care of ESRD patients who enrolled in our MA-CSNP.

- In addition, Fresenius Medical Care has entered into subcapitation and other risk-based and value-based arrangements with certain payers to provide care to Medicare Advantage ESRD patients.

Inadequate pricing of products or an unsuitable cost estimate for the service portfolio for beneficiaries and ineffective cost management may have a material adverse effect on our financial position, net assets, and operational results.

Fresenius Medical Care mitigated the impact of the referenced reimbursement models and other legislative initiatives by two broad measures:

- First, Fresenius Medical Care works with medical directors and treating physicians to generate options for efficiency increases consistent with QIP and good clinical practice and negotiates cost savings on the purchasing of pharmaceuticals;

- Second, Fresenius Medical Care introduces new initiatives in order to achieve efficiency increases and better patient outcomes by increasing patient care upon initiation of dialysis, increasing the percentage of patients using home therapies, and generating 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. 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. Because Medicare and Medicaid reimbursement rates are generally lower than the reimbursement rates paid by commercial insurers, a shift of commercially insured patients to Medicare and Medicaid could have a material adverse impact on the business, financial conditions, and result of operations of Fresenius Medical Care.

Further federal or state legislation or regulations may be enacted in the future through a public referendum process in the United States that could substantially modify or reduce the amounts paid for services and products offered by us and our subsidiaries and/ or implement new or alternative operating models and payment models that could present more risk to our health care service operations. For example, the ballot initiatives introduced at the state level could result in further regulation of clinic staffing requirements, state inspection requirements, and margins on commercial business. State regulation at this level would introduce an unprecedented level of oversight and additional expense at the clinic level that could have a material adverse effect on the business of Fresenius Medical Care in the impacted states.

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. As a result, payments from private health insurers contribute a significant portion to Fresenius Medical Care’s profits. In 2018, approximately 34% of Fresenius Medical Care’s sales from health care services were attributable to private health insurance companies in the North American segment. 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.

Changes in reimbursement from government and private insurers for our entire product and service portfolio in the United States could have a material adverse effect on our business and operating results.

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. Patients are largely assigned to hospitals by the public health and pension insurers. It is therefore important for Helios Germany 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 Act To Enhance Nurse Staffing Levels (PpSG), the nursing costs will be excluded from the DRG from 2020. Instead, the costs for patient-oriented nursing care will be fully reimbursed by the health insurance funds via separate nursing budgets. As early as 2019, each additional or increased care place at the bed will be completely refinanced by the cost bearers.

In the German market, Helios Germany sees a general trend towards outpatient treatment, which could lead to lower growth in the number of inpatient cases. To counter this trend, Helios Germany is expanding outpatient services offerings in a separate division. If Helios Germany does not succeed in sustainably adapting its business model through suitable measures, this could lead to a decline in the number of cases and have a material adverse effect on our business, financial condition, and result of operations.

Quirónsalud, our private chain of clinics in Spain, 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 and licensing of hospitals, other health care facilities, manufacturing facilities, and laboratories;
- the planning, construction, equipment, and management of pharmaceutical and medical-technological production facilities;
- the planning, construction, equipment, and management of health care facilities;

- permits from public authorities and monitoring of clinical and non-clinical research and development activities;
- product releases and approvals for new products and product modifications;
- the rate of, and accurate reporting and billing for, government and third-party reimbursement;
- he labeling and designation of pharmaceutical products and their marketing;
- attracting qualified personnel;
- compensation of medical directors and other financial arrangements with physicians and other referral sources;
- access to, collection, publication, use, and security of health information and other protected data.

If Fresenius fails to comply with laws or regulations, this may give rise to a number of 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 reputation, 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, inter alia, structured in accordance with the internationally recognized **quality standards ISO 9001** and **ISO 13485**, taking into account relevant 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 local public health authorities such as the U.S. Food and Drug Administration (FDA) or the European Medicines Agency (EMA) and other authorities. If an authority detects any deficiencies, Fresenius will immediately take appropriate rectifying measures, as, for example, following the inspections 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 business reputation and our ability to generate sales and result in significant expenses. In addition, **production** could be adversely affected by events such as natural disasters, infrastructure disruptions, regulatory rulings, or supply disruptions, e.g., of raw materials, or technical failures.

Potential risks 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. 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 or technical failures, involve risks for patients and the clinic. In addition, there are operational risks, for example regarding hygiene. 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. Risks are assessed even before accepting orders and are subsequently updated during regular project controlling. 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. This includes a structured qualification process, which comprises audits, document and advance sample inspections, as well as regular quality controls of deliveries. 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 reentry 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. If Fresenius Kabi does not succeed in fulfilling and maintaining its existing contracts or if new contracts are concluded on less favorable terms, this could have an adverse effect on our sales, financial position, and operational results.

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. We are countering this pricing development with efficiency improvements and cost reductions.

Referrals from Physicians

Our hospitals, rehabilitation clinics, and dialysis clinics are dependent on patients selecting them for their medical treatment. To a large extent, patients rely on the recommendation of their attending physician. Physicians make their recommendations based on various factors, including the quality of the medical treatment and the competence of the hospital staff, as well as the distance to the hospital, and the availability of appointments for treatment. If we are unable to meet these criteria, physicians may recommend fewer or no patients at all to our clinics. In addition, Fresenius Helios could receive fewer referrals from physicians because they increasingly perceive Fresenius Helios' outpatient services as competition or because they no longer take specialized hospitals with a certain medical focus into account when making their choice. These factors could result in lower sales and adversely affect our business, our financial position, and our operational results.

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 2018, we again worked on the status of our receivables, by taking measures such as factoring.

<u>Personnel</u>

The Company addresses **potential shortages of qualified personnel** through appropriate measures for employer branding, as well as recruitment, development, and retention of qualified staff.

In order to increase the awareness of the Fresenius Group, our employer branding relies on a mix of university marketing, company-internal events (such as the Fresenius Career Day "Meet the Board" involving our top management), and digital employer branding (e.g. by expanding our career website and our presence on social media channels).

To ensure a sustainable supply of qualified staff, we offer, for example, targeted programs for young academic talents with subsequent retention programs, as well as comprehensive apprenticeships for students.

With more than 4,000 apprentices and dual students, Fresenius is one of the biggest training companies in Germany. In order to meet the manifold demand for qualified personnel, we offer 1,300 apprenticeship places in more than 50 professions and dual study programs every year. We provide information about our apprenticeship and study program offers on our career website, as well as at our locations through various marketing activities and vocational orientation offers (e. g., vocational information days, Night of Apprenticeship, student internships, Apprentices' Navigation System).

Furthermore, we offer young academic talents the opportunity to gain initial practical experience and to establish contacts within our company in the context of internships before or during their studies or in the context of their final papers.

Depending on their customer and market structure, our business segments adopt different approaches and measures for personnel development. We strengthen employee loyalty to our company by offering our employees attractive development opportunities and fringe benefits and variable compensation and work time models. In addition, we promote international and interdisciplinary cooperation.

By using target-group-specific measures, Fresenius addresses the overall shortage of specialized hospital personnel. We thereby aim to recruit qualified and dedicated personnel, thus ensuring our high standard of treatment quality.

Effective January 1, 2019, the German hospital market will also be subject to the "Verordnung zur Festlegung von Personaluntergrenzen in pflegeintensiven Bereichen in Krankenhäusern" (PpUGV – Ordinance on the Minimum Requirements for Nursing Personnel in Hospitals). This ordinance stipulates minimum staffing levels for nursing personnel in certain areas of the hospital. Most of the hospitals of Helios Germany already meet these requirements. Further planned statutory regulations on minimum personnel levels in additional hospital departments with beds may further intensify competition for qualified nursing staff. Helios Germany is therefore working intensively on additional measures to make it particularly attractive as an employer for nursing staff. These include the compatibility of family and career (e.g., through childcare facilities at hospital sites or the possibility of part time work), attractive further and advanced training opportunities, occupational risk prevention, and career opportunities.

Financial risks

<u>Currency and interest-rate risks</u>

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. The major part of our 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 currency 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, 2018, approximately 64% of the Fresenius Group's debt was protected against increases in interest rates either by fixed-rate financing arrangements or by interest rate hedges; 36% was exposed to interest rate risks. A sensitivity analysis shows that a rise of 0.5 percentage points in the reference rates relevant for Fresenius would have an impact approximately 1.0% 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 €22 million on EBIT, and about €7 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, 2018, the Fresenius Group's cash flow at risk was €66 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 €66 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.

Taxes and duties

As a global corporation, Fresenius is subject to numerous **tax laws 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 and additional import duties could lead to higher tax payments.

Debt and liquidity

Fresenius' debt was €18,984 million as of December 31, 2018. 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. Some of our major 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 respective agreements. We counteract this risk by taking the relevant performance indicators into account in our Group planning and continuously monitoring their development. This enables us to take countermeasures at an early stage.

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

Inflation risk

As an international company, we are exposed to varying **inflation rates and price developments.** We are also active in high-inflation countries such as Argentina. Due to the development of inflation in Argentina, our subsidiaries operating there have applied IAS 29, Financial Reporting in Hyperinflationary Economies, since July 1, 2018. For the fiscal year 2018, this resulted in an effect on net income (net income attributable to the shareholders of Fresenius SE & Co. KGaA) of -€12 million. Furthermore, as of December 31, 2017, there was an effect on the equity of the shareholders of Fresenius SE & Co of €15 million.

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 the Fresenius Kabi biosimilar products. The development of biosimilar products entails additional risks, such as significant development costs and the still-developing regulatory and approval processes. 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 and has therefore been referred to the European Commission for a decision. In April 2018, the Standing Committee of the European Commission referred the matter back to the Pharmaco-vigilance Risk Assessment Committee (PRAC) of the EMA. The PRAC maintained its recommendation to suspend regulatory approvals. As a result, the CMDh of the EMA took the position in July 2018 that regulatory approvals would be maintained under the condition that risk-minimizing measures are implemented. These include controlled distribution to accredited hospitals/ centers, training and direct communication with health care professionals, and warnings on the packaging. In July 2018, the European Commission approved this position. Similar measures could also be taken by authorities in non-EU 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 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. Noncompliance with such closing conditions by either party to an acquisition could lead to litigation between the parties or with others and thus 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. 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 provide the appropriate technical and organizational measures and controls for the protection of personal data. Fresenius SE & Co. KGaA and all business areas maintain data protection organizations, including a data protection officer, based on their corporate structure. Data protection guidelines describe the binding requirements for data protection and data handling in all business areas.

In addition, the increased integration of IT systems and the use of new technologies such as cloud computing within our business processes means that **cyberattacks** 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.

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, data protection, money laundering, sanctions, and human rights 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 have implemented 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 has appointed 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 our reputation and on the assets and liabilities, financial position, and results of operations of the Group.

The Fresenius Group is routinely involved in claims, lawsuits, investigations and other legal matters arising, for the most part, in the ordinary course of its business of providing health care services and products. The outcome of litigation and other legal matters is always difficult to predict accurately. The Fresenius Group believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Thus, we do not expect any material adverse effect on our business, results of operations and fi nancial condition from the legal matters currently pending.

Other risks

Our international orientation also gives rise to the following risks, which could have an adverse effect on our business and thus on our financial position, and operational results.

- Political, social, or economic instability, especially in developing and emerging countries,
- civil unrest, armed conflict, outbreaks of disease,
- natural disasters, terrorist attacks, and other unforeseen events,
- different labor law conditions and difficulties in meeting the global demand for qualified personnel,
- different and less stable regulations protecting intellectual property,
- delays in the transport and delivery of our products.

Risks involving management and control systems, were, based on our established risk management and controlling processes, 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 countermeasures.

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 to the previous year, the risk in connection with the recruitment of qualified personnel, especially given the background of regulatory requirements on the minimum level of nursing staff in hospitals, and the risk of possible lower growth in the number of cases in the German hospital market, were also included. 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 U.S. 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.

Probability / Potential effects	low	medium	high
high	Currencies and interest rates		
medium	Global economic conditions and constitution of the financial markets	Regulatory environment Quality Reimbursement rates and prices Growth in the number of cases Personnel	
low	Procurement Litigations Tax	Information technology Natural disasters	

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	Significant negative impact on the one-year forecast
Medium	Moderate negative impact on the one-year forecast
Low	Insignificant 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 29),
- Risks arising from the regulatory environment and compliance with laws and regulations (General economic risks and risks in the general operating framework see page 29).

Bad Homburg v.d.H., February 19, 2019

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 2018, 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 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 which is also responsible for the tasks of a compensation committee. The personnel committee of Fresenius Management SE was composed of Dr. Gerd Krick, Dr. Dieter Schenk, and Dr. Karl Schneider.

The Annual General Meeting of Fresenius SE & Co. KGaA approved the compensation system for the members of the Management Board of the general partner on May 18, 2018 with an approval rate of approximately 63%. In this context, the shareholders' suggestions for changes related to the discretionary bonus and the structure of the short-term performance-based compensation (bonus). In response to this, the discretionary bonus – as described in this compensation report – was abolished as of the 2019 fiscal year. The short-term performance-based compensation (bonus) for each future service agreement to be extended or newly concluded for a member of the Management Board of the general partner will be subject to discussion in the Supervisory Board. The next Annual General Meeting vote on the compensation system is planned for the Annual General Meeting in 2020.

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 geared towards promoting sustainable corporate development. It is composed of three elements:

- 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 (multi-year variable compensation comprising performance shares (instead of stock options and share-based compensation with cash settlement (phantom stocks) granted hitherto), and postponed payments of the one-year variable compensation/of the bonus)

COMPENSATION ELEMENTS

Non-performance-based compensation	**Fixed compensation**	
	Fringe benefits	
Performance-based compensation	**Short-term**	**Bonus**
	Long-term	**Postponed payment of the bonus**
		Long Term Incentive Plan 2018

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 2018. 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 fringe benefits. These consisted 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 be granted for the fiscal year 2018 as a short-term cash component (one-year variable compensation) and as compensation components with long-term incentive effects (performance shares and postponed payments of the one-year variable compensation).

Mr. Stephan Sturm has agreed with the Supervisory Board of Fresenius Management SE to acquire shares of the company in the value of the net amount of the one-year variable compensation paid to him and to hold them for at least three years. Thereby, the orientation of his compensation towards sustainable corporate development is enhanced voluntarily.

In order to appropriately take into account the business development of Fresenius Medical Care during the fiscal year, Mr. Rice Powell has agreed to acquire shares in Fresenius Medical Care AG & Co. KGaA for a portion of the bonus and to hold them for at least three years.

PERFORMANCE-BASED COMPENSATION

Short-term	**Bonus**	▶ Annual cash payment after the end of the fiscal year ▶ Depending on the achievement of certain target parameters based on the net income attributable to Fresenius SE & Co. KGaA or the relevant business segments
Long-term	**Postponed payments of the bonus**	▶ The maturity of the one-year variable compensation can be postponed by two years. ▶ Payment only if (i) no subsequent adjustment is made to the relevant consolidated net income outside a tolerance range and (ii) the consolidated net income in the two relevant years is not significantly lower than the consolidated net income in the respective preceding years.
	LTIP 2018	▶ Performance Share Plan with a vesting period of four years and cash payment ▶ Two performance targets: growth rate of adjusted net income and relative total shareholder return based on the STOXX Europe 600 Health Care Index ▶ Overall target achievement: 0 – 200%

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 could grant members of the Management Board a discretionary bonus for extraordinary performance. Until fiscal year 2018, the service agreements of the Management Board members with Fresenius Management SE provided 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 multi-year variable compensation). During fiscal year 2018, no discretionary bonus was granted. Starting fiscal year 2019, the service agreements of the Management Board members with Fresenius Management SE no longer provide the granting of a discretionary bonus.

For the fiscal years 2018 and 2017, the amount of cash payment to the Management Board of the general partner of Fresenius SE & Co. KGaA consisted of the following:

	Non-performance-based compensation				Short-term performance-based compensation		Cash compensation (without long-term incentive components)	
	Fixed compensation		Fringe benefits[2]		Bonus			
€ in thousands	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Stephan Sturm	**1,100**	1,100	**102**	79	**1,868**[3]	1,866	**3,070**	3,045
Dr. Francesco De Meo	**630**	630	**25**	24	**1,415**	1,412	**2,070**	2,066
Rachel Empey (since August 1, 2017)	**600**	250	**231**	16	**812**	338	**1,643**	604
Dr. Jürgen Götz	**490**	490	**41**	41	**950**	950	**1,481**	1,481
Mats Henriksson	**660**	630	**107**	157	**1,356**	1,250	**2,123**	2,037
Rice Powell[1]	**1,270**	1,217	**195**	173	**2,376**[4]	2,297	**3,841**	3,687
Dr. Ernst Wastler	**525**	525	**75**	75	**932**	858	**1,532**	1,458
Total	**5,275**	4,842	**776**	565	**9,709**	8,971	**15,760**	14,378

[1] Mr. Rice Powell received his compensation only from Fresenius Medical Care, of which Fresenius SE & Co. KGaA held around 30.75% 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.
[2] Includes insurance premiums, private use of a company car, contributions to pension and health insurance, as well as other benefits. As compensation for long-term incentives from her former employer that were forfeited due to her change to Fresenius, Ms. Rachel Empey receives a fixed, additional special payment of € 166,667 for each full year of service, limited to three such payments.
[3] Mr. Stephan Sturm has agreed with the Supervisory Board of Fresenius Management SE to acquire shares of the company in the value of the net amount of the one-year variable compensation paid to him and to hold them for at least three years. Thereby, the orientation of his compensation towards sustainable corporate development is enhanced voluntarily.
[4] In order to appropriately take into account the business development of Fresenius Medical Care during the fiscal year, Mr. Rice Powell has agreed to acquire shares in Fresenius Medical Care AG & Co. KGaA for a portion of the bonus and to hold them for at least three years.

In the fiscal year 2018, the one-year variable compensation, excluding the payment to Mr. Rice Powell, amounted to €7,333 thousand. This equals 98% of the total one-year variable compensation. The remaining part in an amount of €171 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 performance 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 noncontrolling 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 performance period.

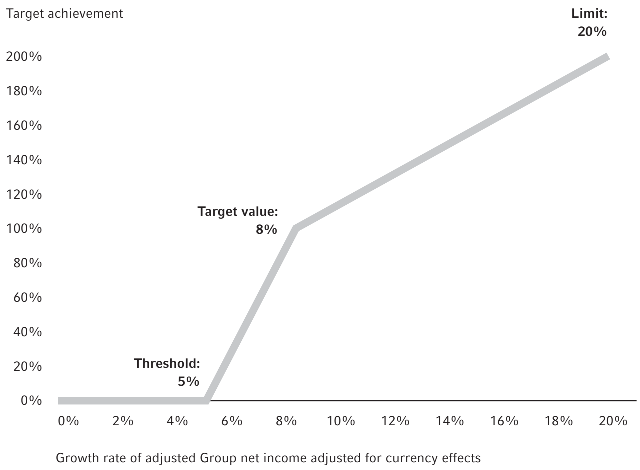
In the fiscal year 2018, as a further component with long-term incentive effect, the Management Board members were granted performance shares under the new Fresenius SE & Co. KGaA Long Term Incentive Plan 2018 (LTIP 2018). Mr. Rice Powell was granted performance shares under the Long Term Incentive Plan 2016 (LTIP 2016) of Fresenius Medical Care AG & Co. KGaA. Based on the LTIP 2018, both members of the Management Board and other executives were granted performance shares. 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 performance shares 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 performance shares, with the exception of the Chairman of the Management Board, who received approximately double the respective amount of performance shares.

The vesting of the performance shares granted under the LTIP 2018 is subject to several conditions, such as the expiration of a four-year performance period, the absence of a compliance violation, the achievement or exceeding of two performance targets and the continuation of the service or employment relationship. The number of performance shares may change over a period of four years, depending on the level of achievement of the performance targets. This could entail the entire loss of all performance shares or also – at maximum – the doubling of their number.

The LTIP 2018 has two equally weighted performance targets: firstly, the growth rate of the adjusted net income (adjusted for currency effects) and, secondly, the relative Total Shareholder Return based on the STOXX Europe 600 Health Care Index. Disbursement entitlement requires that at least one of the two performance targets must be reached or surpassed over the four-year performance period.

For the performance target "Net Income Growth Rate", a level of target achievement of 100% is reached when the same is at least 8% p. a. over the four-year performance period. If the growth rate falls below or corresponds to only 5% p. a., the level of target achievement is 0%. If the growth rate is between 5% p. a. and 8% p. a., the level of target achievement is between 0% and 100%, while, where the growth rate is between 8% p. a. and 20% p. a., the level of target achievement will be between 100% and 200%. Intermediate values are calculated through linear interpolation. The following table shows the degree of target achievement between the threshold of 5% p. a. and the limit of 20% p. a.

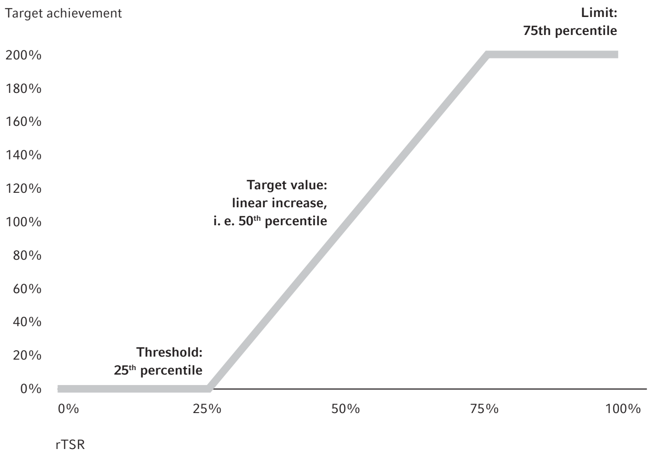
GROWTH RATE OF
ADJUSTED GROUP NET INCOME
ADJUSTED FOR CURRENCY EFFECTS



For the "Total Shareholder Return" performance target, a target achievement of 100% is met when the Total Shareholder Return of Fresenius SE & Co. KGaA in comparison with the Total Shareholder Return of the other companies of the STOXX Europe 600 Health Care Index achieves an average ranking within the benchmark companies, i. e. exactly in the middle (50^{th} percentile), over the four-year performance period. If the ranking corresponds to the 25^{th} percentile or less, the level of target achievement is 0%. Where the ranking is between the 25^{th} percentile and the 50^{th} percentile, the level of target achievement is between 0% and 100%; and, for a ranking between the 50^{th} percentile and the 75^{th} percentile, between 100% and 200%. Intermediate values will also be calculated through linear interpolation.

The degree of target achievement between the threshold at the 25^{th} percentile and the limit at the 75^{th} percentile is presented in the following table.

RELATIVE TOTAL SHAREHOLDER RETURN
(STOXX EUROPE 600 HEALTH CARE)



Total Shareholder Return denotes the percentage change in the stock market price within the performance period including reinvested dividends and all capital measures, whereby capital measures are to be calculated through rounding down to the fourth decimal place.

To calculate the level of overall target achievement, the level of target achievement of the two performance targets are given equal weighting. The total number of performance shares vested on each plan participant is calculated through multiplying the number of performance shares granted by the overall target achievement. Four years after the grant, the vested performance shares will be paid out in cash. The number of vested performance shares is then multiplied by the average stock exchange price of Fresenius SE & Co. KGaA's share over a period of 60 stock exchange trading days prior to the lapse of this vesting period plus the total of the dividends per share of Fresenius SE & Co. KGaA paid by Fresenius SE & Co. KGaA between the grant date and the vesting date. The possible disbursement entitlement of a Management Board member is limited to a maximum of 250% of the grant value (cap).

In the event of violation of compliance rules, the Supervisory Board, in due exercise of its discretion, is entitled to reduce the number of performance shares vested on a member of the Management Board to zero. Furthermore, Fresenius SE & Co. KGaA is entitled to a complete or partial reimbursement in the event of violation of compliance rules in the period of three years following disbursement.

If a member of the Management Board leaves the company, the performance shares are forfeited as a matter of principle.

Until the end of the fiscal year 2017, benefits under LTIP 2013 of Fresenius SE & Co. KGaA were granted as another component with long-term incentive effect, which resulted in an inflow in the 2018 fiscal year and may result in an inflow in the future. The 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. 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 blackout 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. If a member of the Management Board leaves the company, the stock options and phantom stocks are forfeited as a matter of principle.

The principles of the LTIP 2018 and the LTIP 2013 of Fresenius SE & Co. KGaA and of the 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.

Furthermore, through fiscal year 2017, 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. 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 2018 and 2017, the value of performance shares issued, i.e. for the year 2017 the value of stock options and phantom stocks issued and the value of the postponed performance-based compensation, is shown in the following table.

The stated values for the year 2018 correspond to the fair value of the performance shares at the time of grant, namely a value of €67.45 per performance share of Fresenius SE & Co. KGaA and a value of US$ 94.11 per performance share of Fresenius Medical Care AG & Co. KGaA (2017: €12.59 per stock option of Fresenius SE & Co. KGaA and €10.61 per stock option granted to Ms. Rachel Empey[1]; exercise price of the granted stock options of Fresenius SE & Co. KGaA was €74.77 and €64.69 for stock options granted to Ms. Rachel Empey; fair value of phantom stocks granted to members of the Management Board in the fiscal year 2017: €68.21, €59.37 with regard to phantom stocks granted to Ms. Rachel Empey, and US$86.39 per performance share of Fresenius Medical Care AG & Co. KGaA).

LONG-TERM INCENTIVE COMPONENTS

	Performance shares[1]		Phantom stocks[2]		Postponed payment of the one-year variable compensation		Stock options[3]		Total	
	Value, € in thousands				Value, € in thousands		Value, € in thousands		Value, € in thousands	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Stephan Sturm	**2,500**	n. a.	**n. a.**	728	**0**	0	**n. a.**	1,700	**2,500**	2,428
Dr. Francesco De Meo	**1,300**	n. a.	**n. a.**	414	**115**	148	**n. a.**	850	**1,415**	1,412
Rachel Empey (since August 1, 2017)	**1,300**	n. a.	**n. a.**	109	**0**	0	**n. a.**	298	**1,300**	407
Dr. Jürgen Götz	**1,300**	n. a.	**n. a.**	414	**0**	0	**n. a.**	850	**1,300**	1,264
Mats Henriksson	**1,300**	n. a.	**n. a.**	414	**56**	0	**n. a.**	850	**1,356**	1,264
Rice Powell	**2,391**	n. a.	**n. a.**	2,247	**0**	0	**n. a.**	0	**2,391**	2,247
Dr. Ernst Wastler	**1,300**	n. a.	**n. a.**	414	**0**	0	**n. a.**	850	**1,300**	1,264
Total	**11,391**	n. a.	**n. a.**	4,740	**171**	148	**n. a.**	5,398	**11,562**	10,286

[1] The amounts comprise all performance shares including performance shares of Fresenius Medical Care AG & Co. KGaA that were granted in 2018.
[2] The amounts comprise all phantom stocks including performance shares of Fresenius Medical Care AG & Co. KGaA that were granted in 2017.
[3] Stock options that were granted in 2017 under the Fresenius SE & Co. KGaA stock option plan.

At the end of the fiscal year 2018, the members of the Management Board held a total of 133,434 performance shares (2017: 0) and 211,302 phantom stocks (2017: 285,057) of Fresenius SE & Co. KGaA and 55,463 performance shares (2017: 37,915) and 15,586 (2017: 16,888) phantom stocks of Fresenius Medical Care AG & Co. KGaA. Furthermore, they held a total of 1,519,515 (2017: 1,612,515) stock options of Fresenius SE & Co. KGaA as well as 256,781 stock options (2017: 284,793) of Fresenius Medical Care AG & Co. KGaA.

[1] As Ms. Rachel Empey was only appointed as Management Board member of Fresenius Management SE effective August 1, 2017, she was granted stock options and phantom stocks only in December 2017 and not in July 2017 like the other Management Board members. The different amounts result from this fact.

The development and the status of the stock options of the Management Board in the fiscal year 2018 are shown in the following table:

	Stephan Sturm	Dr. Francesco De Meo	Rachel Empey	Dr. Jürgen Götz	Mats Henriksson	Rice Powell [1]	Dr. Ernst Wastler	**Total [2]**
Options outstanding on January 1, 2018								
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**
Options exercised during the fiscal year								
Number	0	45,000	0	0	48,000	28,012	0	**93,000**
Average exercise price in €		33.10			26.11	52.48		**29.49**
Average stock price in €		68.22			68.07	90.53		**68.14**
Options outstanding on December 31, 2018								
Number	456,390	247,500	28,125	270,000	247,500	256,781	270,000	**1,519,515**
Average exercise price in €	54.52	61.65	64.69	56.97	56.15	66.06	56.97	**57.01**
Average remaining life in years	4.4	5.2	6.9	4.9	4.8	4.0	4.9	**4.8**
Range of exercise prices in €	26.11 to 74.77	36.92 to 74.77	64.69	33.10 to 74.77	33.10 to 74.77	49.76 to 76.99	33.10 to 74.77	**26.11 to 74.77**
Exercisable options on December 31, 2018								
Number	175,140	45,000	0	90,000	90,000	107,381	90,000	**490,140**
Average exercise price in €	30.68	36.92		35.01	35.01	50.86	35.01	**33.64**

[1] Mr. Rice Powell holds stock options under the Fresenius Medical Care Stock Option Plan 2011.
[2] 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 2018 and 2017:

	Cash compensation (without long-term incentive components)		Long-term incentive components		Total compensation (including long-term incentive components)	
€ in thousands	**2018**	2017	**2018**	2017	**2018**	2017
Stephan Sturm	**3,070**	3,045	**2,500**	2,428	**5,570**	5,473
Dr. Francesco De Meo	**2,070**	2,066	**1,415**	1,412	**3,485**	3,478
Rachel Empey (since August 1, 2017)	**1,643**	604	**1,300**	407	**2,943**	1,011
Dr. Jürgen Götz	**1,481**	1,481	**1,300**	1,264	**2,781**	2,745
Mats Henriksson	**2,123**	2,037	**1,356**	1,264	**3,479**	3,301
Rice Powell	**3,841**	3,687	**2,391**	2,247	**6,232**	5,934
Dr. Ernst Wastler	**1,532**	1,458	**1,300**	1,264	**2,832**	2,722
Total	**15,760**	14,378	**11,562**	10,286	**27,322**	24,664

The entitlement to cash payment of a share-based compensation (performance shares and phantom stocks) only arises after the expiry of a four-year vesting period, just as stock options can only be exercised after a vesting period of four years. Their value is recognized over the vesting period as expense in the respective fiscal year. The expenses attributable to the fiscal years 2018 and 2017 are stated in the following table.

EXPENSES FOR LONG-TERM INCENTIVE COMPONENTS

€ in thousands	Performance shares/ Phantom stocks 2018	Performance shares/ Phantom stocks 2017	Stock options 2018	Stock options 2017	Total expenses for share-based compensation 2018	Total expenses for share-based compensation 2017
Stephan Sturm	**-46**	659	**1,033**	917	**987**	1,576
Dr. Francesco De Meo	**-101**	540	**774**	783	**673**	1,323
Rachel Empey (since August 1, 2017)	**52**	2	**75**	6	**127**	8
Dr. Jürgen Götz	**-117**	613	**691**	700	**574**	1,313
Mats Henriksson	**-134**	697	**605**	614	**471**	1,311
Rice Powell	**391** [1]	1,960 [1]	**659**	957	**1,050**	2,917
Dr. Ernst Wastler	**-117**	613	**691**	700	**574**	1,313
Total	**-72**	5,084	**4,528**	4,677	**4,456**	9,761

[1] 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, 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 2018, 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 €36,882 thousand as of December 31, 2018 (2017: €31,942 thousand). The additions to pension liability in the fiscal year 2018 amounted to €4,940 thousand (2017: €762 thousand).

The pension commitments are as follows:

€ in thousands	As of January 1, 2018	Additions	**As of December 31, 2018**
Stephan Sturm	5,866	652	**6,518**
Dr. Francesco De Meo	3,271	442	**3,713**
Rachel Empey (since August 1, 2017)	0	0	**0**
Dr. Jürgen Götz	2,796	462	**3,258**
Mats Henriksson	5,048	368	**5,416**
Rice Powell	10,004	2,936	**12,940**
Dr. Ernst Wastler	4,957	80	**5,037**
Total	31,942	4,940	**36,882**

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. In deviation from this, Mr. Rice Powell has this entitlement already upon reaching the age of 63 if he has been a member of the Management Board of Fresenius Medical Care Management AG for at least ten years at the time of his final retirement from active employment; in this case, the benefits are reduced by 0.5% per calendar month that he leaves active employment before reaching the age of 65.

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.

Payments in the event of premature termination of a member's services for the Management Board, including fringe benefits, are limited to two years' compensation, at maximum no more than the compensation due for the remaining term of the respective service agreement (severance payment cap).

No severance payments will be due in the event of termination of the service agreement for cause on grounds attributable to the relevant member of the Management Board. The calculation of the severance payment cap is based on the total compensation within the meaning of Section 285 (1) No. 9a of the German Commercial Code (HGB) for the past fiscal year as well as the anticipated total compensation for the fiscal year in which the termination occurs (or for Mr. Rice Powell on the non-performance-based compensation components).

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 6 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 2018, 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.

Based on pension commitments to former members of the Management Board, €1,101 thousand were paid in the fiscal year 2018 (2017: €1,099 thousand) and €522 thousand (2017: €580 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 €22,319 thousand (2017: €21,848 thousand).

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 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.

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			
	2018	2018 min.	2018 max.	2017	**2018**	2018 min.	2018 max.	2017	**2018**	2018 min.	2018 max.	2017
Fixed compensation	**1,100**	1,100	1,100	1,100	**630**	630	630	630	**600**	600	600	250
Fringe benefits	**102**	102	102	79	**25**	25	25	24	**231**	231	231	16
Total non-performance-based compensation	**1,202**	1,202	1,202	1,179	**655**	655	655	654	**831**	831	831	266
One-year variable compensation [1]	**1,868** [2]	1,750	2,300	1,866	**1,415**	1,050	1,750	1,412	**812**	760	1,000	338
Multi-year variable compensation / components with long-term incentive effect	**2,500**	0	6,250	2,428	**1,415**	0	3,250	1,412	**1,300**	0	3,250	407
Thereof postponed one-year variable compensation	**0**	0	n. a.	0	**115**	0	n. a.	148	**0**	0	n. a.	0
Thereof Stock Option Plan 2013 (part of LTIP 2013) (five-year term)	**n. a.**	n. a.	n. a.	1,700	**n. a.**	n. a.	n. a.	850	**n. a.**	n. a.	n. a.	298
Thereof phantom stocks (part of LTIP 2013) (five-year term)	**n. a.**	n. a.	n. a.	628	**n. a.**	n. a.	n. a.	314	**n. a.**	n. a.	n. a.	109
Thereof further phantom stocks	**n. a.**	n. a.	n. a.	100	**n. a.**	n. a.	n. a.	100	**n. a.**	n. a.	n. a.	0
Thereof performance shares (LTIP 2018) (five-year term)	**2,500**	0	6,250	n. a.	**1,300**	0	3,250	n. a.	**1,300**	0	3,250	n. a.
Total non-performance-based and performance-based compensation	**5,570**	2,952	9,752	5,473	**3,485**	1,705	5,655	3,478	**2,943**	1,591	5,081	1,011
Service cost	**455**	455	455	455	**325**	325	325	325	**0**	0	0	0
Value of benefits granted [5]	**6,025**	3,407	10,207	5,928	**3,810**	2,030	5,980	3,803	**2,943**	1,591	5,081	1,011

[1] 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 2018 and 2017.

[2] Mr. Stephan Sturm has agreed with the Supervisory Board of Fresenius Management SE to acquire shares of the company in the value of the net amount of the one-year variable compensation paid to him and to hold them for at least three years. Thereby, the orientation of his compensation towards sustainable corporate development is enhanced voluntarily.

[3] In order to appropriately take into account the business development of Fresenius Medical Care during the fiscal year, Mr. Rice Powell has agreed to acquire shares in Fresenius Medical Care AG & Co. KGaA for a portion of the bonus and to hold them for at least three years.

[4] Mr. Rice Powell was granted stock options, phantom stocks, and performance shares from the program of Fresenius Medical Care as follows:
in 2018: €977 thousand from the Share Based Award – New Incentive Bonus Plan 2010 and €1,413 thousand from the Long Term Incentive Program 2016 – Performance Share Plan 2016,
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.

[5] Furthermore, 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 applies.

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			
2018	2018 min.	2018 max.	2017	**2018**	2018 min.	2018 max.	2017	**2018**	2018 min.	2018 max.	2017	**2018**	2018 min.	2018 max.	2017
490	490	490	490	**660**	660	660	630	**1,270**	1,270	1,270	1,217	**525**	525	525	525
41	41	41	41	**107**	107	107	157	**195**	195	195	173	**75**	75	75	75
531	531	531	531	**767**	767	767	787	**1,465**	1,465	1,465	1,390	**600**	600	600	600
950	700	950	950	**1,356**	1,300	1,800	1,250	**2,096** [3]	191	2,515	2,008	**932**	650	950	858
1,300	0	3,250	1,264	**1,356**	0	3,250	1,264	**2,390** [4]	0	n. a.	2,247 [4]	**1,300**	0	3,250	1,264
0	0	n. a.	0	**56**	0	n. a.	0					**0**	0	n. a.	0
n. a.	n. a.	n. a.	850	**n. a.**	n. a.	n. a.	850					**n. a.**	n. a.	n. a.	850
n. a.	n. a.	n. a.	314	**n. a.**	n. a.	n. a.	314					**n. a.**	n. a.	n. a.	314
n. a.	n. a.	n. a.	100	**n. a.**	n. a.	n. a.	100					**n. a.**	n. a.	n. a.	100
1,300	0	3,250	n. a.	**1,300**	0	3,250	n. a.					**1,300**	0	3,250	n. a.
2,781	1,231	4,731	2,745	**3,479**	2,067	5,817	3,301	**5,951**	1,656	n. a.	5,645	**2,832**	1,250	4,800	2,722
234	234	234	234	**210**	210	210	210	**674**	674	674	773	**153**	153	153	160
3,015	1,465	4,965	2,979	**3,689**	2,277	6,027	3,511	**6,625**	2,330	n. a.	6,418	**2,985**	1,403	4,953	2,882

Allocations 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	
	2018	2017	**2018**	2017	**2018**	2017
Fixed compensation	**1,100**	1,100	**630**	630	**600**	250
Fringe benefits	**102**	79	**25**	24	**231**	16
Total non-performance-based compensation	**1,202**	1,179	**655**	654	**831**	266
One-year variable compensation	**1,868**	1,866	**1,415**	1,412	**812**	338
Multi-year variable compensation/components with long-term incentive effect	**965**	317	**2,545**	4,806	**0**	0
Thereof postponed one-year variable compensation	**0**	57	**0**	143	**0**	0
Thereof Stock Option Plan 2008 (five-year term)						
Issue 2011						
Issue 2012				4,403		
Thereof Stock Option Plan 2013 (five-year term)						
Issue 2013			**1,580**			
Thereof Phantom Stock Plan 2013 (five-year term)						
Issue 2013	**765**		**765**			
Thereof further phantom stocks						
Issue 2012		260		260		
Issue 2013	**200**		**200**			
Other	**0**	0	**0**	0	**0**	0
Total non-performance-based and performance-based compensation	**4,035**	3,362	**4,615**	6,872	**1,643**	604
Service cost	**455**	455	**325**	325	**0**	0
Allocation including multi-year variable compensation/components with long-term incentive effect	**4,490**	3,817	**4,940**	7,197	**1,643**	604
Allocation for the year under review (not including multi-year variable compensation/components with long-term incentive effect)	**3,525**	3,500	**2,395**	2,391	**1,643**	604

[1] Mr. Rice Powell had this allocation from stock options from the Fresenius Medical Care Stock Option Program:
in 2018: €131 thousand from the Share Based Award – New Incentive Bonus Plan 2010 issue 2014, €2,536 thousand from the Long Term Incentive Program 2011 – Stock Option Plan 2011 issue 2011, and €110 thousand from the Long Term Incentive Program 2011 – Phantom Stock Plan 2011 issue 2013,
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.

	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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	490	490	**660**	630	**1,270**	1,217	**525**	525
	41	41	**107**	157	**195**	173	**75**	75
	531	531	**767**	787	**1,465**	1,390	**600**	600
	950	950	**1,356**	1,250	**2,376**	2,297	**932**	858
	965	260	**2,979**	1,659	**2,777** [1]	2,787 [1]	**965**	260
	0	0	**0**	71			**0**	0
				1,588				
			2,014					
	765		**765**				**765**	
		260						260
	200		**200**				**200**	
	0	0	**0**	0	**0**	0	**0**	0
	2,446	1,741	**5,102**	3,696	**6,618**	6,474	**2,497**	1,718
	234	234	**210**	210	**674**	773	**153**	160
	2,680	1,975	**5,312**	3,906	**7,292**	7,247	**2,650**	1,878
	1,715	1,715	**2,333**	2,247	**4,515**	4,460	**1,685**	1,618

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.

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 and 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 Fresenius SE & Co. KGaA 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.

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 €1.2 thousand.

Up to the end of the fiscal year 2017, the compensation of the Supervisory Board was calculated according to the then 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) exceeded 3.6% of the amount equal to the subscribed capital divided by the number of non-par value shares; residual amounts were 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. 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 of 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 2018 and 2017, 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:

	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			
€ in thousands	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017 [1]	**2018**	2017 [1]	**2018**	2017
Dr. Gerd Krick	**225**	13	**225**	13	**20**	10	**20**	20	**75**	288	**75**	288	**640**	632
Michael Diekmann	**150**	13	**75**	6	**0**	0	**0**	0	**75**	288	**75**	144	**375**	451
Dr. Dieter Schenk	**0**	0	**225**	19	**0**	0	**10**	10	**0**	0	**150**	432	**385**	461
Niko Stumpfögger	**225**	19	**0**	0	**7**	0	**0**	0	**150**	432	**0**	0	**382**	451
Prof. Dr. med. D. Michael Albrecht	**150**	13	**0**	0	**0**	0	**0**	0	**150**	288	**0**	0	**300**	301
Bernd Behlert (since September 1, 2018)	**50**	0	**0**	0	**0**	0	**0**	0	**50**	0	**0**	0	**100**	0
Dr. Kurt Bock	**0**	0	**150**	13	**0**	0	**0**	0	**0**	0	**150**	288	**300**	301
Konrad Kölbl	**150**	13	**0**	0	**20**	10	**0**	0	**150**	288	**0**	0	**320**	311
Stefanie Lang	**150**	13	**0**	0	**0**	0	**0**	0	**150**	288	**0**	0	**300**	301
Frauke Lehmann	**150**	13	**0**	0	**0**	0	**0**	0	**150**	288	**0**	0	**300**	301
Prof. Dr. med. Iris Löw-Friedrich	**150**	13	**0**	0	**0**	0	**0**	0	**150**	288	**0**	0	**300**	301
Klaus-Peter Müller	**75**	7	**75**	6	**40**	20	**0**	0	**75**	143	**75**	144	**340**	320
Oscar Romero de Paco	**150**	13	**0**	0	**0**	0	**0**	0	**150**	288	**0**	0	**300**	301
Dr. Karl Schneider	**0**	0	**150**	13	**0**	0	**10**	10	**0**	0	**150**	288	**310**	311
Hauke Stars	**150**	13	**0**	0	**20**	10	**0**	0	**150**	288	**0**	0	**320**	311
Rainer Stein (up to August 31, 2018)	**100**	13	**0**	0	**13**	10	**0**	0	**100**	288	**0**	0	**213**	311
Total	**1,875**	156	**900**	70	**120**	60	**40**	40	**1,575**	3,455	**675**	1,584	**5,185**	5,365

[1] Based on the proposed dividend

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 2019. 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[1]

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

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

[1] Integral part of Management Report

Financial terms [1]

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

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: (EBIT - taxes) / 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: (Inventories / Costs of goods sold) × 365 days.

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

[1] Integral part of Management Report

REPORT OF THE SUPERVISORY BOARD

In 2018, 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 Supervisory Board was regularly kept informed by the management in a timely and comprehensive oral and written manner – about, among other things:

- 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 both the Audit Committee and in its 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 2018 – in March, May, October, and December. 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 all of the Supervisory Board Meetings in 2018.

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 2018, 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 the intended acquisition of Akorn, Inc., USA (Akorn) by Fresenius Kabi and the related litigation, and investments in the expansion of existing production facilities of Fresenius Kabi. The Supervisory Board also dealt with the following items:

- 2019 budget
- medium-term strategy of the Fresenius Group
- business segment strategies (particularly the business outlook for Fresenius Helios and Fresenius Medical Care)
- auditor rotation (scheduled for the annual financial statements for 2020)

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 16, 2018, the Supervisory Board dealt intensively with the audit and approval of the financial statements, the consolidated financial statements (IFRS), as well as the management report and consolidated management report of Fresenius SE & Co. KGaA. The results for 2017 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, and the Group Non-financial Report for 2017.

In addition, the business segments reported in detail on the course of business in the first two months of the fiscal year. The focus was on Fresenius Medical Care. Furthermore, the Supervisory Board was informed by Fresenius Kabi about the status of the Akorn transaction and the plans to expand the Fresenius Kabi plants in Melrose Park, United States, and Haina, Dominican Republic. Another item discussed was the agenda of the Annual General Meeting of Fresenius SE & Co. KGaA on May 18, 2018. The Supervisory Board also dealt with IT security ("cybersecurity"). Finally, the Supervisory Board conducted its annual efficiency review at this meeting.

At its meeting on May 18, 2018, 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 2018. In addition, the Management Board reported on business performance for the months January through April 2018. Furthermore, the Supervisory Board was informed about the status of the Akorn transaction and the litigation related to it.

At the Supervisory Board meeting on October 19, 2018, the members of the Supervisory Board were informed in detail about business performance from January through September 2018. The focus was on the Fresenius Helios business segment. The Management Board of the general partner reported on the biosimilars business of Fresenius Kabi, the Akorn litigation, and the effects of the withdrawal of the United Kingdom from the European Union on the Fresenius Group.

The meeting of the Supervisory Board on December 7, 2018, focused on the development of business in 2018. Plans for the years 2019 to 2021 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. Additional focal points were the deliberations on the rotation of the auditor planned for 2020 and the resolution on the recommendation of the Audit Committee on the proposal for the selection of the auditor for 2020. In addition, resolutions were passed on the Declaration of Conformity with the German Corporate Governance Code and on the commissioning of the auditor of the Group Non-financial Report of Fresenius SE & Co. KGaA for 2018. In addition, the members of the Supervisory Board dealt with compliance, regulatory issues, and legal risks, as well as the Akorn litigation.

CORPORATE GOVERNANCE

On December 20, 2018, 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 bestow unjustified benefits on others. Any secondary activities or dealings with the Company by members of the corporate bodies must immediately 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 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. Mr. 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 was also Chairman of the Supervisory Board of Commerzbank AG until May 8, 2018. The Fresenius Group maintains business relations with Commerzbank under normal market conditions. Mr. Michael Diekmann is Deputy Chairman of the Supervisory Board and a member of the Supervisory Board of Fresenius Management SE. He is also a member of the Supervisory Board of Allianz SE. In 2018, 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.

There are regular separate preliminary meetings of the employee representatives and consultations among the shareholder representatives.

For more information on Corporate Governance at Fresenius, please refer to the Corporate Governance Declaration and Report on pages 131 to 162 of the Annual Report. Fresenius has disclosed the information on related parties in its quarterly reports and on page 258 of the Annual Report.

GROUP NON-FINANCIAL REPORT

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, audited the Group Non-financial Report for 2018. This was done in accordance with a resolution of the Supervisory Board of December 7, 2018, and the subsequent appointment.

The Group Non-financial 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 13 and 14, 2019, the Audit Committee and then the Supervisory Board discussed all the documents in detail.

The auditor 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 Non-financial Report. At its meeting on March 14, 2019, the Supervisory Board approved the Group Non-financial Report presented by the general partner.

The Group Non-financial Report is published on pages 92 to 130 of the Annual Report and the auditor's findings are published on page 129 f. of the Annual Report.

WORK OF THE COMMITTEES

The Audit Committee held three meetings and four conference calls in 2018. 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 2017 and discussions with the auditor 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 as auditor for the annual financial statements of Fresenius SE & Co. KGaA and the Group for 2018. The Supervisory Board's proposal to the Annual General Meeting in 2018 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 2018 quarterly reports,
- monitoring reports on progress of acquisitions,
- compliance,
- review of the risk management system, the internal control system, and the internal auditing system,
- preparation of the selection of the auditor for the annual financial statements for 2020 (auditor rotation), 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 Chairman of the Audit Committee maintains a regular dialog between the Supervisory Board and the Audit Committee on the one hand, and auditors on the other, even outside of meetings.

The Company's Nomination Committee did not meet in 2018.

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 2018, there were no transactions conducted that required its approval. For this reason, it did not meet in 2018.

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 135 and 136 and page 271 of the Annual Report.

PERSONNEL

Mr. Rainer Stein retired from the Supervisory Board of Fresenius SE & Co. KGaA on August 31, 2018. He was succeeded on the Board by Mr. Bernd Behlert with effect from September 1, 2018. At its meeting on May 18, 2018, the Supervisory Board elected Mr. Niko Stumpfögger as a member of the Audit Committee with effect from the date of Mr. Rainer Stein's resignation.

In 2018, there were no changes in the composition of the Management Board of the general partner Fresenius Management SE.

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 2018. The firm was elected as auditor in accordance with a resolution passed at the Annual General Meeting of Fresenius SE & Co. KGaA on May 18, 2018, 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 such 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 13 and 14, 2019, 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. The auditor 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 14, 2019, 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 2018 profit distribution.

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

Bad Homburg v. d. H., March 14, 2019

The Supervisory Board of Fresenius SE & Co. KGaA

Dr. Gerd Krick
Chairman