FRESENIUS

2017

ANNUAL REPORT

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FRESENIUS

FRESENIUS GROUP IN FIGURES (IFRS)

€ in millions	2017	2016	2015	2014	2013
Sales and Earnings					
Sales	**33,886**	29,471	27,995	23,459	20,545
EBITDA [1]	**6,267**	5,517	5,125	4,114	3,902
EBIT [1]	**4,830**	4,302	4,001	3,159	3,000
Net income [2]	**1,816**	1,560	1,436	1,088	1,028
Depreciation and amortization	**1,437**	1,215	1,124	955	902
Earnings per share in € [2]	**3.28**	2.85	2.64	2.01	1.92
Cash flow and Balance sheet					
Operating cash flow	**3,937**	3,585	3,349	2,560	2,337
Operating cash flow in % of sales	**11.6%**	12.2%	12.0%	10.9%	11.4%
Total assets	**53,133**	46,697	43,233	39,955	32,859
Non-current assets	**40,529**	34,953	32,800	30,389	25,259
Equity [3]	**21,720**	20,849	18,453	15,860	13,595
Equity ratio [3]	**41%**	45%	43%	40%	41%
Net debt	**17,406**	13,201	13,725	14,173	11,852
Net debt/EBITDA [4, 5]	**2.84**	2.33	2.65	3.22	2.53
Investments [6]	**8,680**	2,559	2,051	3,770	3,843
Profitability					
EBIT margin [1]	**14.3%**	14.6%	14.3%	13.5%	14.6%
Return on equity after taxes (ROE) [2]	**13.3%**	12.3%	12.9%	11.4%	12.3%
Return on operating assets (ROOA) [4]	**9.4%**	10.0%	10.2%	9.0%	10.3%
Return on invested capital (ROIC) [4]	**8.0%**	8.5%	8.4%	7.5%	8.6%
Dividend per share in €	**0.75** [7]	0.62	0.55	0.44	0.42
Employees (December 31)	**273,249**	232,873	222,305	216,275	178,337

[1] 2013 – 2015, 2017 before special items
[2] Net income attributable to shareholders of Fresenius SE & Co. KGaA; 2013 – 2015, 2017 before special items
[3] Including noncontrolling interest
[4] 2013 – 2015, 2017 before special items; 2014, 2016, 2017 pro forma acquisitions; 2013 pro forma excluding advances made in the amount of €2.18 billion under a fiduciary agreement for the acquisition of hospitals of Rhön-Klinikum AG
[5] At LTM average exchange rates for both net debt and EBITDA
[6] Investments in property, plant and equipment, and intangible assets, acquisitions
[7] Proposal

For a detailed overview of special items and adjustments please see the reconciliation table on page 40.

Our interactive tool with additional key figures is available on www.fresenius.com/interactive-tool.

FRESENIUS MEDICAL CARE

HEALTH CARE SERVICES (DIALYSIS SERVICES AND CARE COORDINATION), AND HEALTH CARE PRODUCTS

	2017 € in millions	2016 € in millions	Change
Sales	**17,784**	16,570	7%
EBIT	**2,493**[1]	2,409	4%
Net income[3]	**1,204**[4]	1,144	5%
Operating cash flow	**2,192**	1,932	13%
Capital expenditure/ acquisitions	**1,627**	1,705	-5%
R & D expenses	**131**	147	-11%
Employees (December 31)	**121,245**	116,120	4%

FRESENIUS KABI

IV DRUGS, BIOSIMILARS, CLINICAL NUTRITION, INFUSION THERAPY, AND MEDICAL DEVICES/TRANSFUSION TECHNOLOGY

	2017 € in millions	2016 € in millions	Change
Sales	**6,358**	6,007	6%
EBIT	**1,177**[2]	1,171	1%
Net income[3]	**702**[2]	675	4%
Operating cash flow	**1,010**	1,004	1%
Capital expenditure/ acquisitions	**585**	449	30%
R & D expenses	**427**	381	12%
Employees (December 31)	**36,380**	34,917	4%

FRESENIUS HELIOS

HOSPITAL OPERATION

	2017 € in millions	2016 € in millions	Change
Sales	**8,668**	5,843	48%
EBIT	**1,052**	683	54%
Net income[3]	**728**	544	34%
Operating cash flow	**733**	622	18%
Capital expenditure/ acquisitions	**6,394**	390	--
Order intake	**n/a**	n/a	
Employees (December 31)	**105,927**	72,687	46%

FRESENIUS VAMED

PROJECTS AND SERVICES FOR HOSPITALS AND OTHER HEALTH CARE FACILITIES

	2017 € in millions	2016 € in millions	Change
Sales	**1,228**	1,160	6%
EBIT	**76**	69	10%
Net income[3]	**50**	45	11%
Operating cash flow	**42**	27	56%
Capital expenditure/ acquisitions	**49**	11	--
Order intake	**1,096**	1,017	8%
Employees (December 31)	**8,667**	8,198	6%

[1] Before effects of agreement with the United States Departments of Veterans Affairs and Justice (VA agreement), natural disaster costs, and FCPA provision
[2] Before special items
[3] Net income attributable to the parent company of the respective business segment
[4] Before U.S. tax effects, VA agreement, natural disaster costs, and FCPA provision

For a detailed overview of special items and adjustments please see the reconciliation table on page 40.

FRESENIUS

FRESENIUS MEDICAL CARE

FRESENIUS KABI

FRESENIUS HELIOS

FRESENIUS VAMED

Fresenius is a global health care group providing 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. More than 270,000 employees have dedicated themselves to the service of health in over 100 countries worldwide.

Stephan Sturm
Chairman of the Management Board

Dear shareholders,

Success must be earned – especially long-term success. I am happy and proud to tell you: In 2017 Fresenius continued to perform very strongly and once again accomplished a tremendous amount. Our sales and earnings increased significantly – for the 14th consecutive year. We had set ourselves ambitious targets for the year and we reached all of them, as our sales crossed the €30 billion mark for the first time.

Yet we have been focused on more than just our current business. We have been thinking ahead. Again we worked hard to strengthen the foundations of our company's continued growth. We worked hard to make Fresenius fit for the future. Even fitter, in fact.

Here are a few examples of this:
Early in 2017 we acquired Quirónsalud. With this acquisition of Spain's largest hospital group, we welcomed 35,000 new colleagues to Fresenius. And Fresenius Helios became international – it now operates about 150 hospitals in Spain and Germany. The Quirónsalud integration is in full swing, and is opening up new possibilities for cooperation, cost synergies and even higher medical quality. We are working toward joint quality management while pursuing initiatives in digitalization and, of course, cross-border knowledge exchange between doctors and nursing staff. We have already initiated joint purchasing of medical products.

Last year we also invested heavily, once again, in the renewal and modernization of our hospitals. This keeps them attractive to patients and makes an important contribution to health care provision for entire regions. In the German cities of Duisburg and Nordenham we opened completely new hospital buildings. And in Madrid we are building Spain's first proton beam therapy center for the treatment of cancer patients. We are also undertaking a major expansion of the university hospital in the Spanish capital, and building a brand new hospital in nearby Alcalá de Henares. Altogether, projects now underway at Fresenius Helios have an investment volume of well over €1 billion.

Fresenius Medical Care, meanwhile, announced it will acquire the U.S.-based medical technology and services company NxStage. This, we believe, will substantially strengthen our position in home dialysis. We want to be a world leader also in this increasingly important type of dialysis treatment. And are keen to offer our patients the broadest possible range of treatment options. We expect to close the NxStage transaction this year.

Fresenius Kabi pursued two strategic acquisitions last year: One was the biosimilars business of Germany's Merck KGaA, which we were able to close during the third quarter. Biosimilars are drugs that are "similar" to an already approved biologic drug and resemble generics, in which we have already built a leading position. Because biosimilars can provide very effective treatments for serious illnesses, they will become steadily more important in modern medicine. At the same time, a biosimilar – like a generic – tends to be significantly less expensive than the respective original product, which makes new biosimilar treatments accessible for more patients. By the end of 2017 we had already filed our first marketing authorization application for a biosimilar to the European Medicines Agency.

» We worked hard to make Fresenius even fitter for the future. «

We also announced the acquisition of the U.S. generics manufacturer Akorn, in order to further expand Fresenius Kabi's already very comprehensive offering of generic drugs. Acquiring Akorn would also help us enter new treatment areas such as ophthalmology and dermatology. Unfortunately, however, we have received specific, anonymous information alleging deficiencies and misconduct in the product development process for new drugs at Akorn. Before we can close this acquisition, we are obligated to investigate these allegations thoroughly. I hope that we can clarify the issues in question soon. Based on the findings of our investigation, we will act in the best interests of Fresenius and our shareholders. The strategic rationale to broaden our product portfolio in North America was, and remains, valid. We will continue to pursue this strategy.

Last year, we again invested heavily in the renewal and modernization of our hospitals.

Beyond acquisitions, we again invested heavily in our company's manufacturing facilities. Through expansions and modernizations of our plants around the world, we are making targeted investments to assure the continued quality and accessibility of our products.

Fresenius Vamed also successfully expanded – in its traditional business areas and in newer ones. With the acquisition of a rehabilitation clinic in Seewis, Switzerland, the company boosted its position in an increasingly important therapy field, also beyond its home market of Austria. And in cooperation with the Medical University of Vienna, Fresenius Vamed established an Institute for Gender Medicine: The institute's research findings will be used to develop tailored treatment offerings in areas such as prevention and rehabilitation.

Those are just a few examples that show how we are working to stay successful in the future. We are making targeted investments in growth areas, broadening and expanding our offering – the basis of our future success – at a time when our company is doing well and prospering. Because what we are doing today is not for the next quarter, but for the next decade. From a position of strength we are preparing for the challenges of tomorrow and the day after tomorrow, so that we are ready to seize the resulting opportunities.

One of our biggest opportunities will be in the area covered by the term "value-based health care." This represents no less than a complete paradigm change. Practically all the world's health care systems still use a "fee-for-service" system, under which every procedure and treatment is paid for separately, at a set rate, within fixed cost parameters. But the treatment outcome for the patient is generally not a factor in reimbursement.

A value-based health care system, on the other hand, takes both cost and treatment outcomes into account. In this way, the reimbursement for services is linked to their verified quality. We are convinced this is the future of health care – a system in which every treatment and procedure is focused on improving the outcome for the patient, while maintaining control over costs. We are preparing intensively for this development, not least through the measures mentioned above.

Value-based health care promises to deliver better patient outcomes while lowering costs. It is a major opportunity for Fresenius.

In Madrid, for example, Quirónsalud is caring for the population of an entire city district for a fixed fee. There, we are now responsible for the medical care of about 800,000 people. And only when they are satisfied with the quality of treatment, will it be commercially successful for us. In the United States, Fresenius Medical Care is taking part in a large-scale pilot project for the integrated treatment of dialysis patients. Here, too, we are responsible for providing comprehensive care to patients that encompasses far more than just dialysis treatment. During the project's first year, the rate of hospitalization declined significantly for the patients under our care. And this was a particularly important driver of reduced treatment costs. Value-based health care has a very clear meaning here: better outcomes for patients combined with lower costs for the health care system.

Successfully implementing the value-based health care concept requires many different skills and capabilities. We already have these, and we are expanding them further. We possess massive amounts of data that we can analyze and use to develop optimized medical treatments. We are leaders in

measuring and ensuring medical quality. We are highly experienced in different areas of health care, from building and equipping hospitals to employing the latest treatment methods. We not only manufacture drugs and medicinal products, but also administer them ourselves. And, not least due to the size of our company, we benefit from substantial cost efficiencies and can ensure the continued high quality and availability of our products. All of these factors make us the ideal partner for the provision of outcome-oriented and affordable health care.

» Because what we are doing today is not for the next quarter, but for the next decade. «

As you can see, Fresenius is excellently positioned. Unfortunately, over the past year this has not been reflected in our share price, which at year-end stood 12 percent below its year-earlier level. In the second half of 2017 it was weighed down, in particular, by concerns about a decline in generics prices. But at least in relation to our business, there is no basis for these concerns. In fact, we achieved new record results in this segment, in which we expect to achieve profitable growth also going forward. Soon, I hope, the company's profitability will be reflected again in the share price.

The major ratings agencies are bullish on Fresenius. All three have rated us as "investment grade," and just a few weeks ago Standard & Poor's raised our outlook from stable to positive.

At the Annual General Meeting in May, we will be proposing the 25th consecutive increase in the dividend. We will continue doing everything in our power to ensure that Fresenius remains an attractive investment for you.

I am highly confident that we will succeed. We expect 2018 to be another record year, with sales increasing by 5 to 8 percent and net income by 6 to 9 percent. Our forecast is also for continued strong medium- to long-term growth: Through 2020 we expect average annual sales growth of 7 to 10 percent, with even stronger increases in net income averaging 8 to 12 percent annually.

Fresenius has been successful for many years. Fresenius will also be very successful in the coming years. Because we are continuously working to keep our company fit for the future. Because we are not satisfied with the tried and true, but always want to make it even better. And because we consistently strive to live up to our commitment: ever better medicine for ever more people. I will be delighted if you continue down this path with us.

With warm regards,

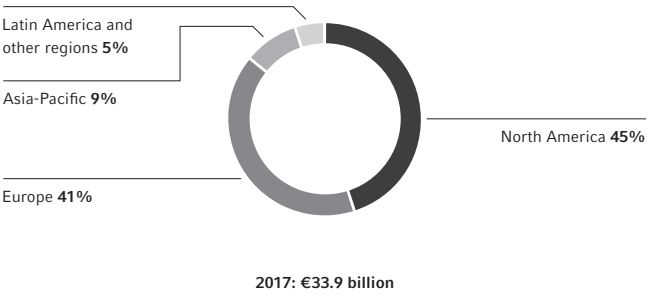
Stephan Sturm
Chairman of the Management Board

SUMMARY OF THE FISCAL YEAR

SALES. Group sales increased by 15% to €33,886 million. Organic sales growth was 6%. Acquisitions contributed 10%. Divestitures had no impact on sales growth. Currency translation had a negative effect of 1%.

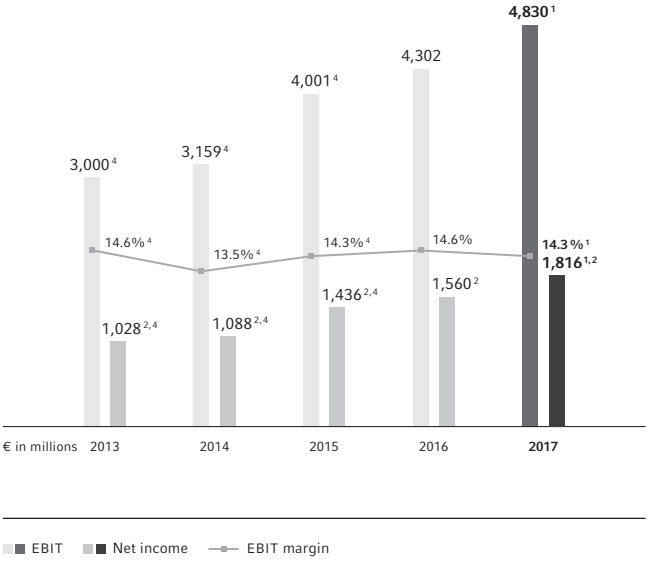
EARNINGS. Group EBIT[1] increased to €4,830 million. The EBIT margin[1] was 14.3%. Group net income[1,2] increased by 16% (18% in constant currency) to €1,816 million. Adjusted Group net income[2,3] according to guidance 2017 increased by 19% (21% in constant currency) to €1,859 million.

SALES BY REGION



2017: €33.9 billion

EARNINGS DEVELOPMENT



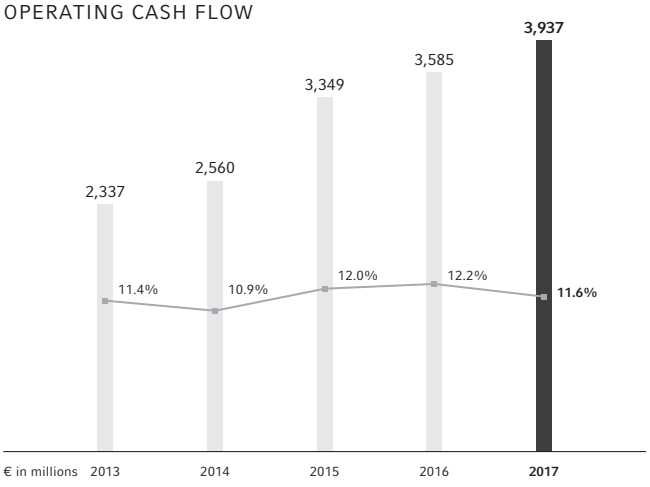
[1] 2017 before special items
[2] Net income attributable to the shareholders of Fresenius SE & Co. KGaA
[3] Consistent with scope of original guidance: before acquisition-related expenses; before expenditures for further development of biosimilars business; before book gain from U.S. tax reform; before FCPA provision
[4] 2013–2015 before special items

For a detailed overview of special items and adjustments please see the reconciliation table on page 40.

CASH FLOW. Operating cash flow increased by 10% to €3,937 million. The cash flow margin was 11.6%. Cash flow before acquisitions and dividends increased by 13% to €2,232 million.

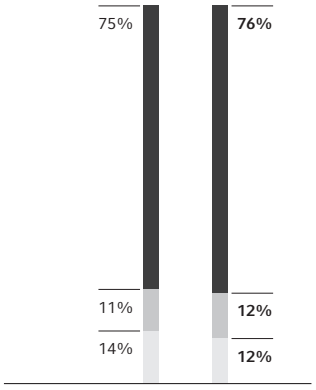
BALANCE SHEET. Total assets increased by 14% to €53,133 million, mainly due to the acquisition of Quirónsalud. Total shareholders' equity, including noncontrolling interest, increased by 4% to €21,720 million. As of December 31, 2017, the net debt/EBITDA ratio was 2.84[5,6,7] (December 31, 2016: 2.33[5,7]).

OPERATING CASH FLOW

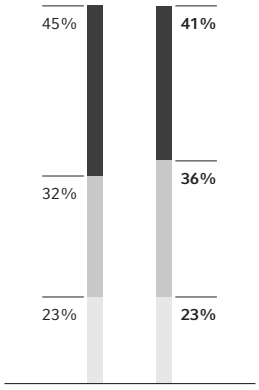


■ Operating cash flow — Operating cash flow margin

ASSETS



EQUITY AND LIABILITIES



■ Non-current assets
■ Trade accounts receivable
■ Other current assets
■ Equity and noncontrolling interest
■ Debt
■ Other liabilities

[5] At LTM average exchange rates for both net debt and EBITDA
[6] Before special items
[7] Pro forma acquisitions

For a detailed overview of special items and adjustments please see the reconciliation table on page 40.

FRESENIUS SHARE. We propose the 25th consecutive dividend increase. Uncertainty about the competitive environment and pricing of drugs in North America weighed on the share performance of companies from the health care sector and the Fresenius share price during the course of the year.

STOCK MARKETS AND DEVELOPMENT OF THE FRESENIUS SHARE

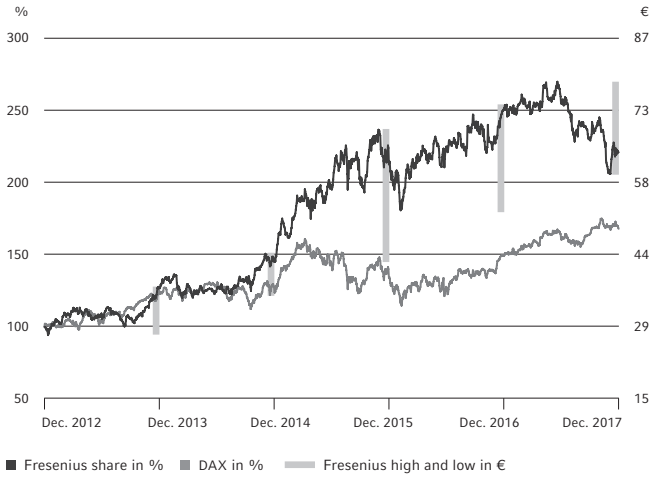
Most of the financial markets recorded a significant increase for the year. Positive global economic data supported the market trend. However, the share price development of companies from the health care sector was negatively impacted by uncertainties regarding future U.S. health care policy, and the competitive environment and pricing of drugs in North America.

The **DAX** increased by 13%; the **EURO STOXX 50** gained 6% for the year. The **STOXX Europe 600** index ended the year up by 8%. In this index, the subsector STOXX Europe 600 Health Care increased merely by 2%. The leading U.S. indices performed as follows: the **S & P 500** increased by 19%, while the **Dow Jones Industrial Average** increased by 25%.

The closing price for the Fresenius share on December 31, 2017, was €65.07 and thus 12% below the closing price of 2016.

In a comparison over five years, the Fresenius share outperformed its benchmark DAX by 54 percentage points. While the DAX rose by 70% over this period, the Fresenius share gained 124%.

RELATIVE SHARE PRICE PERFORMANCE 2013 – 2017
FRESENIUS SHARE VS. DAX



ABSOLUTE SHARE PRICE PERFORMANCE 2017
FRESENIUS SHARE IN €

The **market capitalization** of Fresenius was €36.1 billion as of December 31, 2017, a decrease of 11% compared to the previous year. The average daily **trading volume on Xetra** decreased by 1% to 1,164,824 Fresenius shares compared to the previous year (2016: 1,176,579). DAX trading volume decreased by 7% in the same comparison time period.

In the United States, Fresenius has a Sponsored Level I American Depositary Receipt (ADR) program. In this program, four Fresenius ADRs correspond to one Fresenius share. The ADRs are traded in the OTCQX International Premier market segment.

CAPITAL STRUCTURE

The total number of issued shares at the end of 2017 was 554,710,473 (December 31, 2016: 547,208,371 shares). The increase is due to the issuance of 6,108,176 new shares in connection with the acquisition of Quirónsalud, as well as to the exercise of options under the stock option plans. Information on stock option plans can be found on pages 205 to 212 of the Notes to this Annual Report.

KEY DATA OF THE FRESENIUS SHARE

	2017	2016	2015	2014	2013
Number of shares	**554,710,473**	547,208,371	545,727,950	541,532,600	539,084,487
Stock exchange quotation[1] in €					
High	**79.65**	74.26	69.75	44.12	37.31
Low	**60.58**	53.05	42.41	35.00	27.30
Year-end quotation	**65.07**	74.26	65.97	43.16	37.20
Market capitalization[2] in million €	**36,095**	40,636	36,002	23,373	20,054
Total dividend distribution in million €	**416.0**[3]	343.1	300.2	238.3	224.6
Dividend per share in €	**0.75**[3]	0.62	0.55	0.44	0.42
Earnings per share in €[4]	**3.28**	2.85	2.64	2.01	1.92

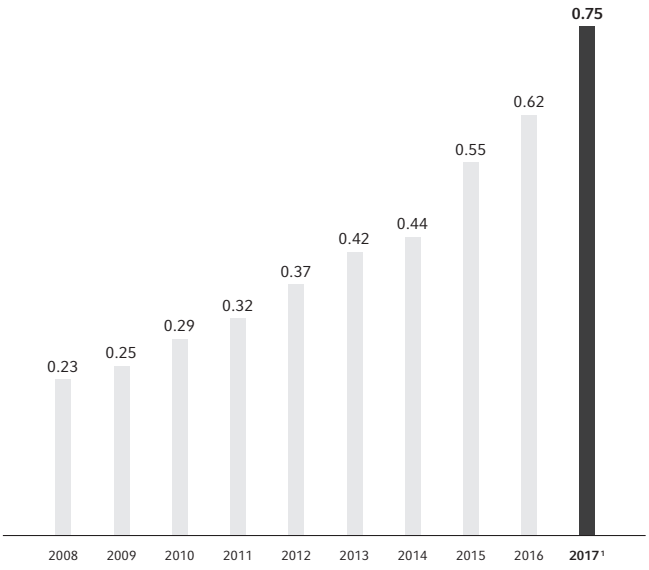
[1] Xetra closing price on the Frankfurt Stock Exchange
[2] Total number of ordinary shares multiplied by the respective Xetra year-end quotation on the Frankfurt Stock Exchange
[3] Proposal
[4] Net income attributable to shareholders of Fresenius SE & Co. KGaA; 2013 – 2015, 2017 before special items

DIVIDEND

In 2017, Fresenius again delivered excellent financial results. For the **25th consecutive year**, we are proposing to our shareholders to increase the dividend – by 21% per share, to €0.75 (2016: €0.62). The proposed dividend distribution to the shareholders of Fresenius SE & Co. KGaA will be €416 million, equivalent to 23% of Group net income. Based on the proposed dividend and the closing price at the end of 2017, the dividend yield is 1.2%.

Fresenius shares are an attractive investment. Anyone who invested €1,000 five years ago and reinvested the dividends would have increased their capital to €2,339 as of December 31, 2017. That is an average annual return of 19% (before expenses and taxes).

DEVELOPMENT OF DIVIDENDS IN €



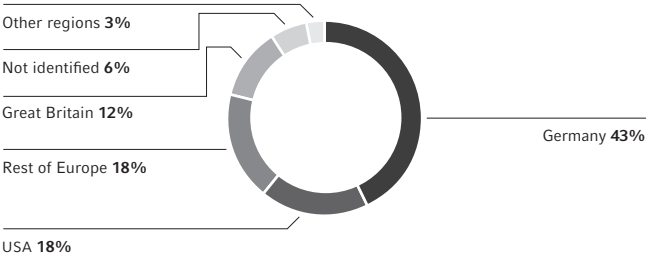
[1] Proposal

SHAREHOLDER STRUCTURE

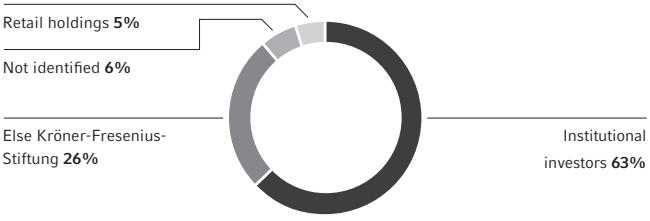
The charts below show the shareholder structure by the end of 2017. The Else Kröner-Fresenius-Stiftung was the largest shareholder of Fresenius SE & Co. KGaA, with 26.29% of the shares. According to notifications pursuant to the German Securities Trading Act (WpHG), Allianz Global Investors GmbH held 5.06% of the shares and BlackRock, Inc. held 4.99%. For further information on notifications, please visit www.fresenius.com/shareholder-structure.

As of December 31, 2017, a **shareholder survey** identified the ownership of about 94% of our subscribed capital. The shareholder base of Fresenius is solid: a total of approximately 600 institutional investors held about 350 million shares or 63% of the subscribed capital; 27.6 million shares were identified as retail holdings. The **10 largest investors** held about 21% of the share capital. Our shares were mostly held by investors in Germany, the United States, and Great Britain.

SHAREHOLDER STRUCTURE BY REGION



SHAREHOLDER STRUCTURE BY INVESTORS

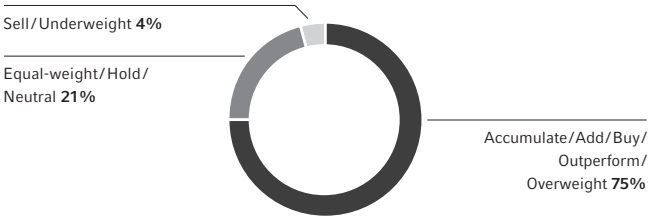


ANALYST RECOMMENDATIONS

The recommendations published by financial analysts are an important guide for institutional and private investors when making investment decisions. According to our survey, as of February 7, 2018, we were rated with 18 "buy", 5 "hold", and 1 "sell" recommendations.

The list of banks that provide regular analyst coverage of Fresenius and their latest recommendations can be found at www.fresenius.com/analysts-and-consensus.

ANALYST RECOMMENDATIONS



INVESTOR RELATIONS

Our investor relations activities are in accordance with the transparency rules of the German Corporate Governance Code. We communicate comprehensively, promptly, and openly with private and institutional investors, as well as financial analysts. The equal treatment of all market actors is very important to us.

We intensified our **dialog with the capital markets** in 2017. In addition to its conference calls and webcasts, Fresenius gave presentations in major European and U.S. financial markets. We expanded our contacts with institutional investors and analysts at 31 international investor conferences, 12 roadshows, and in numerous one-on-one meetings. We also organized field trips with banks, giving investors and analysts the opportunity to discuss matters with the Management Board.

The Fresenius investor relations team and the management team were recognized in the results of the Extel Survey, a broad survey conducted by the company Thomson Reuters, which annually surveys some 15,000 investors and analysts on various aspects of good investor relations. On this occasion, the Fresenius investor relations team was honored as the best in the MedTech sector in Europe.

We also continued the dialog with our **private investors**, especially via the Internet. In addition, we participate in private shareholder events. At www.fresenius.com/events-and-presentations our private shareholders can follow live webcasts of the conference calls and can use our continuously increased information offer on our website and social media channels.

If you would like to contact us or find out about our 2018 financial calendar, please take a look at the last page of this Annual Report. For additional information visit us at www.fresenius.com/investors.

FRESENIUS MEDICAL CARE. In 2017, we achieved a record year supported by strong growth in North America and Asia-Pacific. And we strengthened our leading position in the global dialysis market.

Fresenius Medical Care is the world's leading provider of products and services for people with chronic kidney failure. Around 3.2 million patients with this disease worldwide regularly undergo dialysis treatment. When the kidney function of patients with this disease fails, dialysis takes over the vital task of cleansing the blood of toxins and surplus water. Fresenius Medical Care offers products and services along the entire dialysis value chain from a single source. We care for more than 320,000 patients in our global network of more than 3,700 dialysis clinics. At the same time, we operate 41 production sites on all continents, to provide dialysis products such as dialysis machines, dialyzers, and related disposables.

Our strategy is geared toward sustainable growth. We aim to continuously improve the quality of life of patients with kidney disease by offering innovative products and treatment concepts of the highest quality.

BUSINESS DEVELOPMENT

Fresenius Medical Care increased sales by 7% to €17,784 million in 2017. Organic sales growth was 7%. Acquisitions and the agreement with the United States Departments of Veterans Affairs and Justice (VA agreement) contributed 2% in total. Currency effects negatively impacted sales by 2%.

Health care services sales (dialysis services and Care Coordination) increased by 8% (10% in constant currency) to €14,532 million. Sales of health care products (e. g., dialysis products) increased by 6% (7% in constant currency) to €3,252 million.

Adjusted EBIT[1] increased by 4% to €2,493 million (2016: €2,409 million), mainly due to strong business performance in North America and Asia-Pacific. The adjusted EBIT margin[1] was 14.1% (2016: 14.5%).

SALES BY REGION

€ in millions	2017	2016	Change	Currency translation effects	% of total Fresenius Medical Care sales
North America	**12,879**	12,030	7%	-2%	73%
Europe/Middle East/Africa	**2,547**	2,409	6%	0%	14%
Asia-Pacific	**1,623**	1,474	10%	-3%	9%
Latin America	**720**	643	12%	-3%	4%
Corporate	**15**	14	7%	0%	0%
Total	**17,784**	16,570	7%	-2%	100%

[1] Before effects of agreement with the United States Departments of Veterans Affairs and Justice (VA agreement), natural disaster costs, and FCPA provision

Net income[1] increased by 12% to €1,280 million (2016: €1,144 million). Consistent with the original scope of guidance, i. e., excluding the effects of the VA agreement and natural disaster costs and a book gain of €236 million from U.S. tax reform and the FCPA (Foreign Corrupt Practices Act)[2] provision, net income[1] increased by 7% in constant currency.

REGIONAL DEVELOPMENT

North America remained Fresenius Medical Care's largest business region. In 2017, sales grew by 7% to €12,879 million, compared to €12,030 million in 2016.

EBIT[3] increased by 4% to €2,010 million (2016: €1,936 million). The EBIT[3] margin was 15.7% (2016: 16.1%).

The average revenue per treatment in the United States was US$353 in 2017, compared to US$351 in 2016. The average cost per treatment in the United States increased from US$278 in 2016 to US$282 in 2017.

In 2017, the business development outside of North America, in the business segments **EMEA** (**Europe/Middle East/Africa), Asia-Pacific, and Latin America**, was impacted by currency translation effects. Sales increased by 8% (9% in constant currency) to €4,890 million (2016: €4,527 million). EBIT of €815 million remained on the prior year's level (2016: €823 million). The EBIT margin was 16.7% (2016: 18.2%).

ACQUISITIONS

In 2017, Fresenius Medical Care further expanded its clinical network. With the acquisition of the Cura Group with its 19 day hospitals, the network of Fresenius Medical Care in Australia is growing to around 40 outpatient facilities.

With the announced acquisition of NxStage Medical, Inc., a provider of dialysis machines and other products for use in home dialysis and critical care, we intend to broaden the range of therapies.

SALES BY SEGMENT

€ in millions	2017	2016	Change
North America			
Health care services[1]	**12,036**	11,214	7%
Health care products[2]	**843**	816	3%
Total	**12,879**	12,030	7%
International[3]			
Health care services[1]	**2,496**	2,291	9%
Health care products[2]	**2,394**	2,235	7%
Total	**4,890**	4,526	8%
Worldwide			
Health care services[1]	**14,532**	13,505	8%
Health care products[2, 4]	**3,252**	3,065	6%
Total	**17,784**	16,570	7%

[1] Sales from dialysis services and Care Coordination
[2] Sales from dialysis products such as dialysis machines, dialyzers, and related disposables and non-dialysis products
[3] International represents the business segments EMEA (Europe/Middle East/Africa), Asia-Pacific, and Latin America
[4] Including sales generated by corporate functions of €15 million in 2017 and €14 million in 2016

TREATMENT QUALITY

Again in 2017, physicians and clinical staff in our dialysis clinics offered patients the highest-quality treatment. Please see page 71 ff. of the Group Nonfinancial Report for further details on treatment quality.

Please refer to page 55 of the Group Management Report for the 2018 financial outlook of Fresenius Medical Care. For further information, please see Fresenius Medical Care's Annual Report 2017 or visit the website at www.fresenius-medicalcare.com.

FRESENIUS MEDICAL CARE BY REGION

	North America	Europe/ Middle East/ Africa	Latin America	Asia-Pacific	**Total 2017**	Change 2017/2016
Dialysis clinics (December 31)	2,393	746	232	381	**3,752**	4%
Dialysis patients (December 31)	197,356	62,490	31,375	29,739	**320,960**	4%
Treatments	29,804,196	9,350,024	4,865,046	4,249,878	**48,269,144**	4%

[1] Net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA
[2] Additional Information on the FCPA provision is provided on page 167 f. of the Notes.
[3] Before VA agreement, natural disaster costs

FRESENIUS KABI. Our business reported strong growth in 2017 and we achieved our sales and earnings targets. With the successful entry into the biosimilars business we will further broaden our product offering.

Fresenius Kabi specializes in the therapy and care of chronically and critically ill people. The **portfolio** includes IV drugs, i. e., intravenously administered generic anesthetics, analgesics, anti-infectives, and drugs for the treatment of oncological and other critical diseases. Another product segment is clinical nutrition. In this segment, we are one of the few companies worldwide that offer both parenteral and enteral nutrition products. The infusion therapy portfolio includes infusion solutions and blood volume substitutes.

In the medical devices/transfusion technology segment, we offer infusion and nutrition pumps, as well as consumables, for the administration of pharmaceuticals and clinical nutrition products. Moreover, our portfolio includes products used in the collection and processing of blood components, as well as in transfusion medicine.

In the biosimilars business, we are developing products with a focus on oncology and autoimmune diseases.

BUSINESS DEVELOPMENT

Sales increased by 6% to €6,358 million in 2017. Organic sales growth was 7%. Negative currency translation effects (-1%) were mainly related to the devaluation of the U.S. dollar and the Chinese yuan against the euro.

In Europe, we achieved organic sales growth of 5%. In North America, organic sales growth was 8%. Fresenius Kabi showed strong overall growth in the emerging markets. We achieved organic sales growth of 9% in Latin America. In Asia-Pacific we achieved organic sales growth of 11%.

SALES BY REGION

€ in millions	2017	2016	Change	Currency translation effects	% of total Fresenius Kabi sales
Europe	**2,214**	2,135	4%	0%	35%
North America	**2,290**	2,170	6%	-2%	36%
Asia-Pacific	**1,196**	1,108	8%	-3%	19%
Latin America/Africa	**658**	594	11%	2%	10%
Total	**6,358**	6,007	6%	-1%	100%

Sales by **product segment** were as follows:

€ in millions	2017	2016	Organic sales growth
IV drugs	**2,699**	2,531	8%
Clinical nutrition	**1,671**	1,576	8%
Infusion therapy	**903**	861	6%
Medical devices/ Transfusion technology	**1,085**	1,039	5%
Total	**6,358**	6,007	7%

Adjusted EBIT[1] rose by 6% to €1,237 million. Currency translation had a negative effect of 2%.

€ in millions	2017	2016	Change
Europe	**351**	336	4%
North America	**853**	806	6%
Asia-Pacific/ Latin America/Africa	**373**	350	7%
Administrative and corporate R & D expenses	**-400**	-321	-25%
EBIT[1]	**1,177**	1,171	1%
Adjusted EBIT[2]	**1,237**	1,171	6%
Adjusted EBIT margin[2]	**19.5%**	19.5%	
Adjusted net income[2,3]	**745**	675	10%

[1] Before special items (acquisition-related expenses)
[2] Consistent with scope of original guidance: before acquisition-related expenses; before expenditures for further development of biosimilars business
[3] Net income attributable to the shareholders of Fresenius SE & Co. KGaA; before book gain of €30 million from U.S. tax reform

ACQUISITIONS / INVESTMENTS

In April 2017, Fresenius Kabi announced the acquisition of Akorn, Inc., a U.S. manufacturer and supplier of prescription and over-the-counter drugs. Akorn's broad range of products includes intravenously administered drugs, as well as creams, ointments, and gels, sterile ophthalmic drugs, and liquid medications for use in the mouth, nose, ear, and respiratory tract. Fresenius is conducting an independent investigation, using external experts, into alleged breaches of FDA data integrity requirements relating to product development at Akorn, Inc. For additional information please see page 48.

The acquisition of Merck KGaA's biosimilars business has given us a development pipeline focusing on cancer and autoimmune diseases, whose branded products include a market of around US$30 billion. We expect initial product sales towards the end of 2019. Like generics, biosimilars are usually significantly cheaper than the associated branded products and therefore allow a greater number of patients to access these new therapies.

In the United States, we laid the foundation for the expansion and modernization of our Melrose Park plant near Chicago last year. This is part of our US$250 million investment program for this location announced in 2016. We will also invest more than US$100 million over the next five years to expand our manufacturing facility in Wilson, North Carolina. At our Santiago de Besteiros site in Portugal, we invested €17 million in a new production building with two additional antibiotics production lines.

PRODUCT SEGMENTS

In the **generic IV drugs** segment, we have expanded our product portfolio to additional regional markets. There were more than 90 new product launches of IV drugs worldwide, 7 of which we launched in the United States. These include product launches in pre-filled syringes, such as the painkiller Dilaudid for the U.S. market and the anesthetic Propofol, which we are now offering in this dosage form to the Chinese market.

In **clinical nutrition**, we further expanded the market presence of our products for parenteral nutrition. Our three-chamber bags make us the world leader in the product segment of multi-chamber bags for parenteral nutrition. In 2017, we introduced our three-chamber bag SmofKabiven peripheral emulsion in Canada. We now distribute SmofKabiven in more than 60 countries. In the area of enteral nutrition, we introduced Fresubin 3.2 kcal, a high-calorie, protein-rich sip-feed nutrition product, in numerous countries in Europe and in South Africa last year.

In **infusion therapy**, we introduced our first standard solution, Dextrose 5% in a freeflex bag, in the United States last year.

In **medical devices/transfusion technology,** we continued to move forward with the internationalization of our product range last year. For example, we introduced our AmiCORE apheresis device in Asia and the Middle East. In apheresis, certain blood components are obtained from the blood of the donor.

Please refer to pages 55 f. of the Group Management Report for the 2018 financial outlook of Fresenius Kabi. For further information, please see Fresenius Kabi's website at www.fresenius-kabi.com.

[1] Consistent with scope of original guidance: before acquisition-related expenses; before expenditures for further development of biosimilars business

For a detailed overview of special items and adjustments please see the reconciliation table on page 40.

FRESENIUS HELIOS. We achieved our sales and earnings target. With organic sales growth of 4%, our business in Germany developed well. We have successfully completed the acquisition of Quirónsalud in Spain and exceeded our earnings target.

Fresenius Helios is Europe's leading private hospital operator. The company comprises **Helios Germany** and **Helios Spain** (Quirónsalud). Helios Germany operates 111 acute care hospitals and post-acute care clinics, 89 outpatient clinics, 4 post-acute care centers, 17 prevention centers, and 12 nursing homes. This makes it one of the largest providers of inpatient and outpatient patient care in Germany. Helios Germany offers high-quality treatment across the entire range of medical services. Quirónsalud operates 45 hospitals, 55 outpatient centers, and around 300 Occupational Risk Prevention (ORP) centers. Quirónsalud is Spain's largest private hospital operator with a comprehensive range of inpatient and outpatient medical care.

BUSINESS DEVELOPMENT

Fresenius Helios[1] increased sales by 48% to €8,668 million in 2017. Organic sales growth was 4%. Acquisitions, mainly Quirónsalud, contributed 44% to the increase.

Sales of Helios Germany increased by 4% to €6,074 million. Acute care hospitals accounted for 90% of sales (2016: 91%), while post-acute care clinics accounted for 6% (2016: 6%). 4% was attributable to other revenues (2016: 3%). Sales of Helios Spain[1] were €2,594 million.

Fresenius Helios grew EBIT[1] by 54% to €1,052 million. The EBIT margin increased to 12.1%.

EBIT of Helios Germany grew by 6% to €725 million with a margin of 11.9%. Helios Spain's EBIT[1] was €327 million with a margin of 12.6%.

Fresenius Helios increased net income[1,2] by 34% to €728 million.

SALES AND EARNINGS DEVELOPMENT

€ in millions	2017	2016	Change
Sales	**8,668**	5,843	48%
Helios Germany	**6,074**	5,843	4%
Helios Spain	**2,594**	–	–
EBIT	**1,052**	683	54%
Helios Germany	**725**	683	6%
Helios Spain	**327**	–	–
EBIT margin in %	**12.1**	11.7	
Helios Germany	**11.9**	11.7	
Helios Spain	**12.6**	–	
Net income[1]	**728**	544	34%

2017: 11 months contribution of Helios Spain

[1] Net income attributable to shareholders of Fresenius SE & Co. KGaA

ACQUISITIONS

In January 2017, Fresenius Helios successfully completed the acquisition of Quirónsalud and has been consolidating it since February 1, 2017. The integration is proceeding as scheduled. The first joint projects have already been implemented.

[1] 2017: 11 months contribution of Helios Spain
[2] Net income attributable to shareholders of Fresenius SE & Co. KGaA

For example, bundling of the purchasing of medical products across national borders has been initiated, with the first joint supplier contracts concluded.

Helios Germany expanded its outpatient clinic network from 78 to 89 in 2017.

STRUCTURAL DATA AND PERFORMANCE INDICATORS

Key structural data and performance indicators at **Helios Germany** developed as follows:

	2017	2016	Change
Acute care hospitals	**88**	88	0%
Beds	**29,438**	29,618	-1%
Length of stay (days)	**6.2**	6.4	-3%
Post-acute care clinics	**23**	24	-4%
Beds	**5,172**	5,088	2%
Length of stay (days)	**26.0**	26.1	0%
Occupancy	**82%**	82%	
Inpatient and semi-inpatient admissions	**1,295,661**	1,287,808	1%
Acute care hospitals	**1,237,068**	1,229,125	1%
Post-acute care clinics	**58,593**	58,683	0%
Outpatient admissions	**4,028,503**	3,985,746	1%

Quirónsalud treated 11,592,758 patients in 2017, of which 11,239,451 were outpatients. The hospital group has a total of 6,652 beds. The average length of stay was 4.3 days.

INVESTMENTS AND STRATEGIC INITIATIVES

In 2017, Fresenius Helios invested a total of €6,508 million (2016: €500 million). Of this, €5,979 million was accounted for acquisitions, primarily of Quirónsalud. The main focus of investment in **Germany** was new construction and the modernization of hospitals in Duisburg, Nordenham, and Wuppertal, among others.

In **Spain** we are investing around €40 million in the construction of a proton beam therapy center in Madrid. Scheduled for opening in 2019, it will be the first facility of this type for treating cancer patients in Spain. The use of a high-energy beam in such a therapy allows tumors to be irradiated with lower total doses of radiation and reduced exposure to surrounding tissue compared with conventional radiation therapy.

We will substantially expand the university hospital Quirónsalud Madrid. The number of beds will increase by 52, bringing the hospital's total to 288. All expansion and modernization measures are scheduled to be completed by the end of 2018. The total investment is approximately

€ in millions	2017	2016	Change
Investments	**6,508**	500	--
Own investments (property, plant and equipment)	**415**	352	18%
Subsidies[1] (property, plant and equipment)	**114**	110	4%
Acquisitions	**5,979**	38	--

[1] Total of purpose-related public investment subsidies in Germany according to Section 9 of the German Hospital Funding Act (KHG)

€30 million. Further investments include the new building of the hospital site in Córdoba, as well as in Alcalá de Henares, which is located just outside of Madrid.

Helios Germany uses standardized key figures compiled from administrative data to measure the quality of medical outcomes. This procedure will now be transferred to Quirónsalud. The first step, harmonizing medical data within the Spanish network, began in 2017.

Helios Germany is a partner of **Wir für Gesundheit**, the largest cross-provider health care network in Germany. More than 210 partner clinics and a large number of outpatient facilities meet strict and measurable medical quality criteria. The **PlusCard** from Wir für Gesundheit includes supplemental occupational health insurance that provides special services and high levels of comfort in the partner hospitals. More information is available at www.wir-fuer-gesundheit.de (in German only).

Fresenius Helios is also fostering digitalization in health care. The company's **helios.hub** platform supports entrepreneurs and start-ups in developing digital innovations with immediate benefits for patients, their family members, and physicians. Further information is available at www.helios-hub.com.

hello is the new Helios Germany online portal that lets patients call up information related to their hospital stay. They can find out what to expect during their procedure or treatment, and receive checklists and tips to help speed their recovery. The portal will also enable German patients to access doctors' letters and test results via smartphone, tablet, or PC for the first time, in full compliance with Germany's strict laws on data protection and privacy.

Please refer to pages 55f. of the Group Management Report for the 2018 financial outlook of Fresenius Helios.
For further information on Fresenius Helios, please see www.helios-gesundheit.de (in German only) and www.quironsalud.es/en (in Spanish and English).

FRESENIUS VAMED. Our business has developed very well and we achieved our sales and earnings target. The service business was further expanded. Future growth will also be secured by the high order intake of more than €1 billion.

Fresenius Vamed manages projects and provides services for hospitals and other health care facilities worldwide. Our portfolio ranges along the entire value chain: from project development, planning, and turnkey construction, via maintenance and technical management, to total operational management, as illustrated in the diagram on page 19. Our offerings target different areas of health care, from prevention to acute care, post-acute care, and nursing care. This comprehensive range of competencies enables us to support complex health care facilities efficiently and successfully at each stage of their life cycle. As a specialist provider that can deliver the full spectrum of services worldwide, we are in a unique position. We have thus far successfully completed more than 800 projects in more than 80 countries.

BUSINESS DEVELOPMENT

In 2017, Fresenius Vamed increased sales by 6% to €1,228 million. Organic growth was also 6%. Currency translation effects had no major impact on sales.

SALES BY REGION

€ in millions	2017	2016	Change	% of total Fresenius Vamed sales
Europe	**889**	828	7%	72%
Africa	**92**	98	-6%	8%
Asia-Pacific	**200**	193	4%	16%
Latin America	**47**	41	15%	4%
Total	**1,228**	1,160	6%	100%

The table shows the sales development by activity:

€ in millions	2017	2016	Change	% of total Fresenius Vamed sales
Project business	**606**	594	2%	49%
Service business	**622**	566	10%	51%

EBIT grew by 10% to €76 million (2016: €69 million). The EBIT margin increased to 6.2% (2016: 5.9%). EBIT in the project business was at the previous year's level with €27 million. In the service business, EBIT grew to €49 million (2016: €42 million). Net income[1] improved to €50 million (2016: €45 million).

Our business has a low capital intensity. This is reflected in the share of property, plant and equipment in the balance sheet of 16% and the pre-tax return on equity of 19.0% (2016: 19.6%).

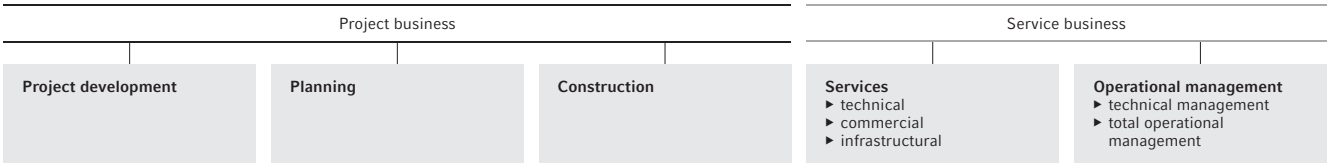
PROJECT BUSINESS

VAMED's project business comprises the consulting, project development, planning, turnkey construction, and financing management of projects. VAMED responds flexibly to the local needs of clients, providing custom-tailored solutions all from one source. We also carry out projects in cooperation with partners. VAMED is a pioneer in public-private partnership (PPP) projects. As of the end of 2017, 25 of these models have been or are now being implemented.

In **Europe,** VAMED has continued its positive development. Among other things, we moved forward with construction

[1] Net income attributable to VAMED AG

VAMED VALUE CHAIN



and modernization of the University Hospital Schleswig-Holstein (UKSH). This contract, the largest PPP project in the German health care sector, also includes technical management. The Sana clinic in Biberach has commissioned us as general contractor for planning, construction, and medical equipment. In Austria, planning and construction of the University Hospital in St. Pölten is proceeding as planned. We are also managing other projects in Bosnia-Herzegovina, the Netherlands, Poland, Switzerland, and other countries.

We have also obtained important contracts in **Africa,** including the turnkey construction of a general hospital in Zambia. In addition, there are projects in Equatorial Guinea and Kenya. In the **Asia-Pacific** region, we were commissioned with the turnkey construction of a regional hospital in Papua New Guinea. Other new contracts came from Laos, Malaysia, and Mongolia. In **Latin America,** VAMED is responsible for new projects in Argentina and Ecuador.

ORDER INTAKE AND ORDER BACKLOG FOR PROJECTS

€ in millions	2017	2016	Change
Order intake	**1,096**	1,017	8%
Order backlog (December 31)	**2,147**	1,961	9%

SERVICE BUSINESS

Modular in design, our service offering encompasses every aspect of technical, commercial, and infrastructural facility management as well as the total operational management for health care facilities. The service business includes building and equipment maintenance, medical technology management, and technical management. Our integrated portfolio of services is aimed at the optimal operation of a health care facility.

We were responsible for the total operational management of approximately 50 health care facilities with more than 7,700 beds in 2017. In addition, as part of its technical operation services, VAMED provides services globally to more than 670 hospitals with approximately 153,000 beds.

In **Austria**, we continued the partnership we have maintained since 1986 with Vienna's General Hospital (AKH), one of Europe's largest hospitals. In **Germany,** we have been providing technical services for UKSH since mid-2015. VAMED leads also a consortium responsible for all technical and infrastructural services at Berlin's Charité Hospital since 2006. The acquisition of Cleanpart Healthcare GmbH in Duisburg in 2017 expands the range of services around instrument management and makes us the leading provider of high-end services for the supply of sterile goods in Germany. In addition to Germany and Austria, we have obtained new service contracts in important European markets such as **Italy, the Netherlands, Switzerland,** and **Spain.**

With 12 facilities, VAMED is the largest private provider of rehabilitation services in Austria. In 2018, we will expand our offer to include a children's rehabilitation facility. In Switzerland, we strengthened our position as the second-largest private rehabilitation provider by acquiring Reha Seewis. We now cover the most important therapeutic areas in this market with our own hospitals. We also operate other well-known rehabilitation facilities in the **Czech Republic** and the **United Kingdom.**

In cooperation with the Medical University of Vienna, VAMED has founded the Institute for Gender Medicine. The findings gained here are used for tailor-made therapy programs, primarily in the areas of prevention and rehabilitation.

VAMED VITALITY WORLD

With the range of services offered by VAMED Vitality World, we are building a bridge between preventive medicine and health tourism in spa and health resorts. We are a leader in the Austrian market and operate Hungary's largest thermal and health care spa, the Aqua World Budapest.

Please refer to pages 55 f. of the Group Management Report for the 2018 financial outlook. For further information, please see Fresenius Vamed's website at www.vamed.com.

TABLE OF CONTENTS GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT. 2017 was a very successful year for Fresenius. We met our guidance and achieved €33.9 billion in sales and €1.9 billion in adjusted net income. Operating cash flow margin was 11.6%.

FUNDAMENTAL INFORMATION ABOUT THE GROUP

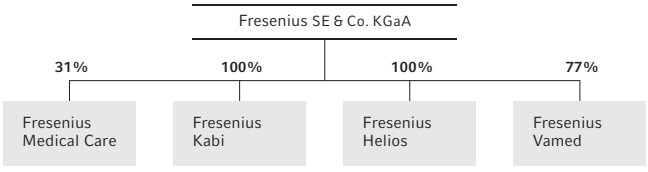
THE GROUP'S BUSINESS MODEL

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

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

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

GROUP STRUCTURE



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

IMPORTANT MARKETS AND COMPETITIVE POSITION

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

Fresenius Medical Care holds the leading position 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 for large parts of its product portfolio leading market positions in Europe and has significant market shares in the growth markets of Asia-Pacific and Latin America. In the United States, Fresenius Kabi is one of the leading suppliers of generic IV drugs. Further information on the market position of Fresenius Kabi can be found in the market description on page 34. **Fresenius Helios** is Europe's leading private hospital operator. The company comprises Helios Germany, the country's largest hospital operator, and Helios Spain (Quirónsalud), Spain's largest private hospital operator. **Fresenius Vamed** is one of the world's leading companies in its field.

EXTERNAL FACTORS

Overall, the legal and economic factors for the Fresenius Group were largely unchanged. The life-saving and life-sustaining products and therapies that the Group offers are of intrinsic importance for people worldwide. Therefore, the business development of our company is fundamentally stable and relatively independent of economic cycles. For detailed information on our markets, please see pages 32 ff.

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

Fluctuating exchange rates, particularly between the U.S. dollar and the euro, have an effect on the income statement and the balance sheet. In 2017, the average annual exchange rate between the U.S. dollar and the euro of 1.13 was above the 2016 rate of 1.11, and therefore had a negative currency translation effect on the income statement. Furthermore, negative currency translation effects on the income statement resulted, in particular, from the depreciation of the Chinese yuan and Latin American currencies against the euro in the 2017 fiscal year. As a result of these exchange rate changes (from 1.05 U.S. dollars on December 31, 2016, to 1.20 U.S. dollars on December 31, 2017), the balance sheet total increased by 14% only (21% in constant currencies).

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

MANAGEMENT AND CONTROL

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

The **general partner**, represented by its **Management Board**, conducts the business and represents the Company in dealings with third parties. The Management Board generally has seven members. According to the Management Board's rules of procedure, each member is accountable for his or her own area of responsibility. However, the members have joint responsibility for the management of the Group. In addition to the Supervisory Board of Fresenius SE & Co. KGaA, Fresenius Management SE has its own Supervisory Board. The Management Board is required to report to the Supervisory Board of Fresenius Management SE regularly, in particular on its corporate policy and strategies, business profitability, current operations, and any other matters that could be of significance for the Company's profitability and liquidity. The Supervisory Board of Fresenius Management SE also advises and supervises the Management Board in its management

of the Company. It is prohibited from managing the Company directly. However, the Management Board's rules of procedure require it to obtain the approval of the Supervisory Board of Fresenius Management SE for specific activities.

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

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

The Supervisory Board must meet at least twice per calendar half-year. The Supervisory Board of Fresenius SE & Co. KGaA has two permanent **committees**: the Audit Committee, consisting of five members, and the Nomination Committee, consisting of three members. The members of the committees are listed on page 233 of this Annual Report. The Company's annual corporate governance declaration describes the procedures of the Supervisory Board's committees on page 104 f. 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 on pages 115 ff. of this Annual 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 554,710,473 ordinary shares as of December 31, 2017 (December 31, 2016: 547,208,371).

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

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

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

- The subscribed capital is conditionally increased by up to €5,017,585.00 through the issuance of new bearer ordinary shares **(Conditional Capital I)**. The conditional capital increase will only be executed to the extent that convertible bonds for ordinary shares have been issued under the 2003 Stock Option Plan and the holders of these convertible bonds exercise their conversion rights.
- The subscribed capital is conditionally increased by up to €5,980,888.00 through the issuance of new bearer ordinary shares **(Conditional Capital II)**. The conditional capital increase will only be executed to the extent that subscription rights have been issued under the 2008 Stock Option Plan, the holders of these subscription rights exercise their rights, and the Company does not use its own shares to service the subscription rights or does not exercise its right to make payment in cash.
- The general partner is authorized, with the approval of the Supervisory Board, until May 15, 2019, to issue option bearer bonds and/or convertible bearer bonds, once or several times, for a total nominal amount of up to €2.5 billion. To fulfill the granted subscription rights, the subscribed capital of Fresenius SE & Co. KGaA was increased conditionally by up to €48,971,202.00 through issuance

of new bearer ordinary shares **(Conditional Capital III)**. The conditional capital increase shall only be implemented to the extent that the holders of convertible bonds issued for cash, or of warrants from option bonds issued for cash, exercise their conversion or option rights and as long as no other forms of settlement are used.

- The share capital is conditionally increased by up to €25,200,000.00 by the issuance of new ordinary bearer shares **(Conditional Capital IV)**. The conditional capital increase will only be implemented to the extent that subscription rights have been, or will be, issued in accordance with the Stock Option Program 2013 and the holders of subscription rights exercise their rights, and the Company does not grant own shares to satisfy the subscription rights.

The Company is authorized, until May 15, 2019, to purchase and use its **own shares** up to a maximum amount of 10% of the subscribed capital. In addition, when purchasing own shares, the Company is authorized to use equity derivatives with possible exclusion of any tender right. The Company had not utilized these authorizations as of December 31, 2017.

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

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

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

GOALS AND STRATEGIES

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

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

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

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

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

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

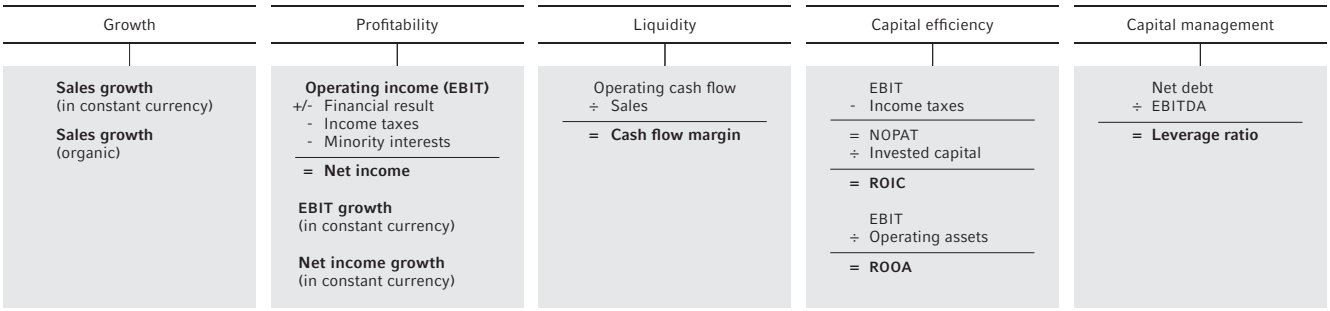
With 111 hospitals, Fresenius Helios operates in nearly the whole of Germany. Building on this, Fresenius Helios is now in the position to develop new patient care models. Moreover, the company can take advantage of an intermittent selective consolidation in the German hospital market, in which it selectively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

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

- **Strengthen innovation**: Fresenius' strategy is to continue building on its strength in technology, its competence and quality in patient care, and its ability to manufacture cost-effectively. We want to develop products and systems that provide a high level of safety and user-friendliness and enable tailoring to individual patient needs. We intend to continue to meet our requirements of best-in-class medical standards by offering more effective products and treatment methods for the critically and chronically ill. For example, with the acquisition of the biosimilars business of Merck KGaA, Fresenius Kabi now develops imitation products of biotechnologically produced drugs called biopharmaceuticals, with a focus on oncology and autoimmune diseases. Fresenius Helios' goal is to foster knowledge sharing across its international hospital network and use innovation to develop the best health care services and therapies for its patients. Fresenius Vamed's goal is to realize further projects in integrated health care services and to support patient-oriented health care systems more efficiently.
- **Enhance profitability**: Our goal is to continue to improve Group profitability. To contain costs, we are concentrating particularly on making our production plants more efficient, exploiting economies of scale, leveraging the existing marketing and distribution infrastructure more intensively, and practicing strict cost control. By focusing on our operating cash flow and employing efficient working capital management, we will increase our investment flexibility and improve our balance sheet ratios. Another goal is to optimize our weighted average cost of capital (WACC) by deliberately employing a balanced mix of equity and debt funding. In the present capital market conditions, we believe we optimize our cost of capital if we hold the net debt / EBITDA ratio within a range of 2.5 to 3.0. Please see the following section "Corporate Performance Criteria", and pages 38 and 50, for more details.

We report on our goals in detail in the Outlook section on pages 51 to 56.

FINANCIAL PERFORMANCE INDICATORS



CORPORATE PERFORMANCE CRITERIA

The Management Board makes operational and strategic management decisions based on our Group-wide performance indicators for growth, profitability, liquidity, capital efficiency, and capital management. The most important financial performance indicators for us are explained below and a definition is provided in the glossary of financial terms on pages 238 to 240.

GROWTH OF SALES

In line with our growth strategy, sales growth (in constant currency) of the Group and, in our business segments, organic sales growth in particular are of central importance.

PROFITABILITY

We use earnings before interest and taxes (EBIT) and EBIT growth (in constant currency) to measure the profitability of the segments. At Group level, we primarily use net income and net income growth (in constant currency). In order to be able to better compare the operating performance over several periods, the results are adjusted by special items if necessary.

LIQUIDITY

At the corporate level, cash flow margin is used as the main liquidity indicator. In order to further analyze and optimize the contributions of our business segments to operating cash flow, we also use the additional performance indicators DSO[1] (days sales outstanding) and SOI[1] (scope of inventory). These show the amount of receivables or inventories in relation to the sales or costs of the services rendered during the past reporting period.

CAPITAL EFFICIENCY

We work as profitably and efficiently as possible with the capital provided to us by shareholders and lenders. In order to manage this, we primarily calculate the Return on Invested Capital (ROIC)[2] and the Return on Operating Assets (ROOA)[2].

CAPITAL MANAGEMENT

We use the ratio of net debt and EBITDA as the key parameter for managing the capital structure. This measure indicates the degree to which a company is able to meet its payment obligations. Our business segments usually hold leading positions in growing and mostly non-cyclical markets. Since the majority of our customers are of high credit quality, they generate mainly stable, predictable cash flows. The Group is therefore able to use debt to finance its growth to a greater extent than companies in other industries.

INVESTMENT PROCESS

Our investments are carried out using a detailed coordination and evaluation process. As a first step, the Management Board sets the Group's investment targets and the budget based on investment proposals. In the next step, the respective business segments and the internal Acquisition & Investment

[1] Does not reflect a core performance indicator
[2] For a detailed calculation of ROIC and ROOA please see page 239

Council (AIC) determine the proposed projects and measures, taking into account the overall strategy, the total investment budget, and the required and potential return on investment. We evaluate investment projects based on commonly used methods, such as internal rate of return (IRR) and net present value (NPV). Based on investment volume, a project is submitted for approval to the executive committees or respective managements of the business segments, to the Management Board of Fresenius Management SE, or its Supervisory Board.

RESEARCH AND DEVELOPMENT

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

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

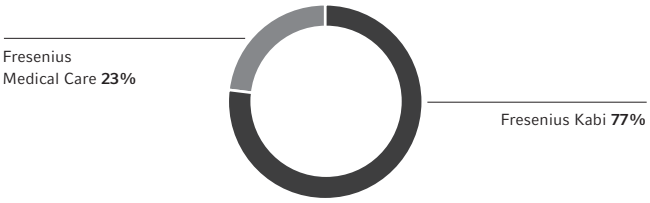
Apart from new products, we are concentrating on developing optimized or completely new therapies, treatment methods, and services.

Research and development **expenses** were €558 million (2016: €528 million)[1], approximately 5.9% of our product sales (2016: 5.6%). Fresenius Medical Care decreased its R & D spending by 11%, Fresenius Kabi increased its R & D spending by 12%. Detailed figures are included in the segment reporting on pages 136 f.

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

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

R & D EXPENSES BY SEGMENT[1]



2017: €558 million

FRESENIUS MEDICAL CARE

Health care systems face major financial challenges not only at present, but also in the long term. With regard to our R & D activities, this confirms our intention to develop innovative products that both meet high quality standards and are also affordable. From our experience in operating our own dialysis centers, we know that these are not incompatible goals.

Our R & D strategy is globally oriented. This will enable us to respond even better to the growing global demand for high-quality and cost-efficient treatment methods. However, we also take regional market conditions into account and offer a diverse product portfolio. In the future, we want to provide **innovative, competitive products** even more efficiently and focus more strongly on developing countries.

KEY FIGURES RESEARCH AND DEVELOPMENT

	2017	2016	2015	2014	2013
R & D expenses, € in millions	**558**	528	451	365	390
as % of product sales[1]	**5.9**	5.6	5.2	4.7	4.6
R & D employees	**2,772**	2,770	2,247	2,107	1,969

[1] 2013 – 2016 excluding impairment losses from capitalized in-process R & D activities

[1] 2016 includes impairment losses from acquired in-process R & D of €26 million.

In addition to R & D activities carried out at our company, we collaborate with external partners with the aim of building a comprehensive innovation and technology network. These include numerous academic institutions, such as research institutes at renowned universities in the United States. Another partner is the Renal Research Institute (RRI) in New York. This subsidiary of Fresenius Medical Care North America is a leading institution in the field of clinical research into chronic kidney failure. Together we are working on fundamental issues relating to dialysis treatment. We are increasingly collaborating with start-ups to encourage an open culture that promotes innovation and to gain access to the latest technologies both in our core business and in adjacent areas that are of future strategic interest to us.

We are also developing a portfolio of products that meet the strictest requirements in terms of quality and efficiency, especially for the **emerging markets**. This work is being conducted in our own development center in China and at other locations.

FRESENIUS KABI

Fresenius Kabi's research and development activities concentrate on products for the therapy and care of critically and chronically ill patients. Our products help to support medical advancements in acute and post-acute care and improve the patients' quality of life.

Our **development expertise** includes all the related components, such as the drug raw material, the pharmaceutical formulation, the primary packaging, the medical device needed for application of drugs and infusions, and the production technology. The acquisition of Merck's biosimilars business in 2017 significantly enhanced our development expertise.

In the area of **IV drugs**, we are continuously working on the extension of our drug portfolio. Our aim is to launch new generic drug formulations directly after the patents of the branded products expire. We also develop new formulations and dosage forms for non-patented IV drugs. In 2017, we had approximately 100 active projects in the area of generics. We focus, among other items, on complex formulations such as active ingredients in liposomal[1] solutions. We develop ready-to-use products that are especially convenient and safe and help to prevent application errors in day-to-day medical care. These are, for example, ready-to-use solutions in our freeflex infusion bags and pre-filled syringes. Drugs in pre-filled syringes are simpler and safer to use than traditional applications, which helps improve patient care.

In the **biosimilars business,** we have a pipeline of molecules at different stages of development. Biosimilars are imitation products of biotechnologically produced drugs called biopharmaceuticals. Biopharmaceuticals have a targeted impact with minimal side effects for patients. A highly specialized biosimilars team is working to develop products for the treatment of cancer and autoimmune diseases. At the end of 2017, we submitted our first application for approval of a biosimilar product to the European regulatory authority, the biosimilar version of Adalimumab, which can be used for chronic inflammatory diseases such as rheumatoid arthritis, intestinal diseases, and psoriasis (skin disease).

Clinical nutrition provides care for patients who cannot nourish themselves normally or sufficiently. This includes, for example, patients in intensive care and those with serious or chronic illnesses or malnourishment. Early and correct intervention can help patients avoid malnutrition and its consequences.

In **parenteral nutrition**, we devote our efforts to products that make a significant contribution to improving clinical treatment and the nutritional condition of patients and to innovative containers such as our multi-chamber bags that are safe and convenient in everyday use. During 2017, we continued the development of parenteral formulations, with a focus on formulations designed to meet the needs of individual patient groups. For example, in parenteral nutrition, we developed a multi-chamber bag product SmofKabiven extra nitrogen, which meets the special nutritional needs of critically ill patients, e. g., in the catabolic phase[2]. In order to obtain

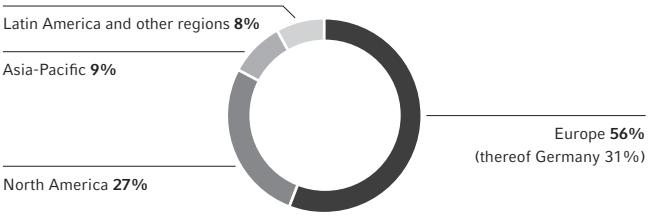
[1] Liposomes are tiny capsules used as a vehicle for active pharmaceutical ingredients. They allow for a targeted transportation of these ingredients to the location where they are needed within an organism.
[2] A critical illness is a multi-phase process with complex metabolic changes that affect the nutritional needs of patients. In the initial, catabolic phase, critically ill patients have an increased need for protein and reduced energy requirements.

approval within several EU countries at the same time, a so-called decentralized approval procedure was carried out. In 2017 we received the first national approvals. In addition, we are researching new parenteral nutrition products that enable the optimized absorption of nutrients. Our research and development work also includes the development of market-specific parenteral formulations. In 2017, we worked on products for the United States, South Korea, and China, among other markets.

In the development of our **enteral nutrition**, we are focusing our research and development activities on product concepts that support therapeutic compliance and thus the success of therapy. These include, for example, products that are offered in a variety of flavors, providing patients with a wider range of products for daily care. In 2017, we also worked on new packaging in order to take into account the special features of other local markets that we intend to serve with our portfolio in the future.

In our work in **medical devices/transfusion technology,** we are constantly working on further developing our existing portfolio, as well as on new products. Especially in the area of infusion technology, new software connections can contribute to simplifying day-to-day work in hospitals. In 2017, for example, we developed additional software for our Agilia infusion pumps, which amalgamates real-time data on the supply of drugs to patients. This enables nursing staff in hospitals to obtain a prompt and comprehensive overview of the supply of drugs, which serves as the basis for medical decisions on further steps in treatment.

EMPLOYEES BY REGION



2017: 273,249

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** increased to 273,249 employees at the end of 2017, which was 17% more than last year.

Personnel expenses for the Fresenius Group were €13,496 million in 2017 (2016: €11,643 million), equivalent to 39.8% of sales (2016: 39.5%). The increase of 16% is mainly attributable to acquisitions, the increase in headcount, and salary increases. Personnel expenses per employee were at €50.1 thousand (2016: €50.8 thousand) and at €50.6 thousand in constant currency. In Germany, Fresenius companies have signed tariff agreements with IG BCE, Marburger Bund, and ver.di (labor union for services). There were no significant structural changes to compensation or employment agreements in 2017.

NUMBER OF EMPLOYEES

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Change 2017/2016	% of total as of Dec. 31, 2017
Fresenius Medical Care	**121,245**	116,120	110,242	4%	44%
Fresenius Kabi	**36,380**	34,917	33,195	4%	13%
Fresenius Helios	**105,927**	72,687	69,728	46%	39%
Fresenius Vamed	**8,667**	8,198	8,262	6%	3%
Corporate/Other	**1,030**	951	878	8%	1%
Total	**273,249**	232,873	222,305	17%	100%

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.

The approaches and measures for employee recruitment and personnel development in the business segments are based on the market requirements of each segment. They are coordinated, developed, and realized independently for each business segment.

At Fresenius, qualifications are the only thing that matters in the selection of personnel. Consequently, at Fresenius women and men with comparable qualifications will continue to have the same career opportunities. As of December 31, 2017, the proportion of female employees within the Fresenius Group was 68%. Women also held 30% of senior management positions, based on the number of worldwide participants in the stock option plans. Detailed information on the statutory targets for the participation of women and men in management positions is available within the Corporate Governance Declaration pursuant to Section 289f of the German Commercial Code (HGB) on our website, see www.fresenius.com/corporate-governance, as well as on page 113 of the Annual Report.

You can visit our award-winning **careers portal** at www.career.fresenius.com.

Further information on employment management can be found in our Group Nonfinancial Report on pages 84 ff. of our Annual Report.

PERSONNEL EXPENDITURE

€ in millions	2017	2016	2015
Fresenius Medical Care	**6,898**	6,291	5,698
Fresenius Kabi	**1,443**	1,372	1,344
Fresenius Helios	**4,672**	3,528	3,360
Fresenius Vamed	**358**	339	329
Corporate/Others	**125**	113	104
Total	**13,496**	11,643	10,835

CHANGES TO THE MANAGEMENT BOARD

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

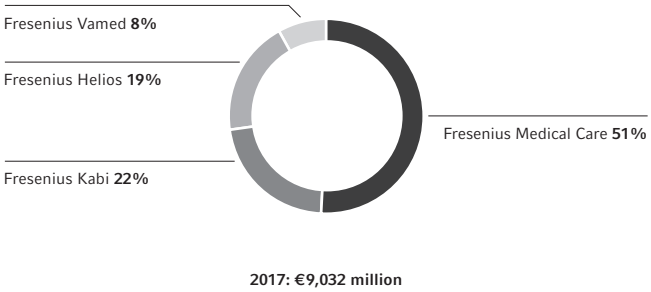
PROCUREMENT

In 2017, the cost of raw materials and supplies and of purchased components and services was €9,032 million (2016: €7,599 million) and increased by 19% due to business expansion.

€ in millions	2017	2016
Cost of raw materials and supplies	**7,766**	6,572
Write-downs of raw materials, supplies and purchased components	**0**	0
Cost of purchased components and services	**1,266**	1,027
Total	**9,032**	7,599

An efficient value chain is important for our profitability. In an environment characterized by ongoing cost-containment pressure from health insurers as well as price pressure, security and quality of supply play a crucial role. Within each business segment of the Fresenius Group, **procurement processes** are coordinated centrally, enabling us to bundle similar requirements, negotiate global framework agreements, constantly monitor market and price trends, and ensure the safety and quality of materials.

COST OF MATERIAL BY BUSINESS SEGMENT [1]



2017: €9,032 million

[1] Before consolidation

QUALITY MANAGEMENT

The quality of our products, services, and therapies is the basis for optimal medical care. All processes are subject to the highest quality and safety standards, for the benefit of the patients and to protect our employees. Our quality management has the following three main objectives:

- to identify value-enhancing processes oriented toward efficiency and the needs of our customers
- to monitor and manage these processes on the basis of performance indicators
- to improve procedures

Further information on quality management at Fresenius can be found in our Opportunities and Risk Report on pages 61 f. as well as our Group Nonfinancial Report on pages 71 ff. of our Annual Report.

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.

Further information can be found in our Group Nonfinancial Report on pages 91 ff. of our Annual Report.

ECONOMIC REPORT

HEALTH CARE INDUSTRY

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

The main **growth factors** are:

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

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

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

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

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

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

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

Health care structures are being reviewed and cost-cutting potential identified in order to contain the steadily rising **health care expenditures**. However, such measures cannot compensate for the cost pressure. Market-based elements are increasingly being introduced into the health care system to create incentives for 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 2017, the global **dialysis market** (products and services) was worth approximately €70 billion. In constant currency, the global dialysis market grew by 4%.

Worldwide, approximately 3.9 million **patients with chronic renal failure** were treated in 2017. Of these patients, around 3.2 million received dialysis treatments and about 760,000 were living with a transplanted kidney. About 89% were treated with hemodialysis and 11% with peritoneal dialysis.

HEALTH CARE SPENDING AS % OF GDP

in %	2016	2000	1990	1980	1970
USA	17.2	12.5	11.3	8.2	6.2
France	11.0	9.5	8.0	6.7	5.2
Germany	11.3	9.8	8.0	8.1	5.7
Switzerland	12.4	9.3	7.4	6.6	4.9

Source: OECD Health Data 2017

The major growth driver is the growing number of patients suffering from diabetes and high blood pressure, two diseases that often precede the onset of chronic kidney failure.

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

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

Dialysis care

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

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

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

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

Dialysis products

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

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

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

Care Coordination

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

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

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

THE MARKET FOR GENERIC IV DRUGS, BIOPHARMACEUTICALS, 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 €81 billion in 2017.

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

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

In 2017, Fresenius Kabi successfully completed the acquisition of the 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 currently worth about €30 billion.

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

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

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

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

[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.

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

THE HOSPITAL MARKET[1]

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

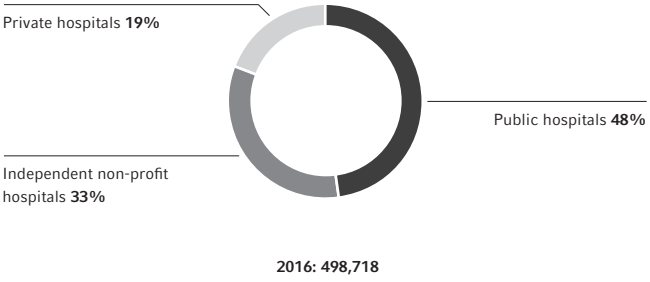
Through the increase in admissions, the organic growth of the acute care hospital market was around 1%.

Although their economic situation has improved compared with previous years, almost a third (29%) of the German hospitals recorded losses in 2016. A further 10% broke even, and 61% were able to generate a profit for the year. The difficult economic and financial situation is often accompanied by significant **investment needs**. This is due, in large part, to an investment backlog that has accumulated because, in the past, the federal states failed to meet their statutory obligation to finance necessary investments and major maintenance measures sufficiently due to budget constraints. Moreover, investment needs are driven by technological advances, higher quality requirements, and necessary modernizations. The Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) estimates that the annual investment requirement at German hospitals (excluding university hospitals) is at least €5.4 billion. This is about twice the funding for investment currently being provided by the federal states.

The **number of hospitals** in Germany in 2016 was 1,951 and the **number of beds** was 498,718. For further figures on the German hospital market please see the table below.

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

HOSPITAL BEDS BY OPERATOR



Source: German Federal Statistical Office 2017

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

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

With the acquisition of Spain's largest private hospital group, Quirónsalud, the **private Spanish hospital market** has become relevant. The market was about €14 billion[3] in 2016.

KEY FIGURES FOR INPATIENT CARE IN GERMANY

	2016	2015	2014	2013	2012	Change 2016/2015
Hospitals	**1,951**	1,956	1,980	1,996	2,017	-0.3%
Beds	**498,718**	499,351	500,680	500,671	501,475	-0.1%
Length of stay (days)	**7.3**	7.3	7.4	7.5	7.6	0.0%
Number of admissions (millions)	**19.53**	19.24	19.15	18.79	18.62	1.5%
Average costs per admission in €[1]	**5,205**	5,060	4,893	4,792	4,663	2.9%

[1] Total costs, gross

Source: German Federal Statistical Office 2017

[1] Most recent market data available: German Federal Statistical Office 2017; German Hospital Institute (DKI), Krankenhaus Barometer 2017; Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI), Krankenhaus Rating Report 2017
[2] The market is defined by total costs of the German hospitals (gross), less academic research and teaching.
[3] 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).

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

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

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

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

The **market for projects and services for hospitals and other health care facilities** is very fragmented. Therefore, an overall market size cannot be determined. The market is country-specific and depends, to a large extent, on factors such as public health care policies, government regulation, and levels of privatization, as well as demographics and economic and political conditions. In **markets with established health care systems** and mounting cost pressure, the challenge for hospitals and other health care facilities is to increase their efficiency. Here, demand is especially high for sustainable planning and energy-efficient construction, optimized hospital processes, and the outsourcing of medical-technical support services to external specialists. This enables hospitals to concentrate on their core competency – treating patients. In **emerging markets**, the focus is on building and developing infrastructure and improving the level of health care.

Fresenius Vamed is one of the world's leading companies in its market. The company has no **competitors** that cover its comprehensive portfolio of services across the entire life cycle worldwide. Competitors offer only parts of Fresenius Vamed's service portfolio. Depending on the service, the company competes with international companies and consortia, as well as with smaller local providers.

OVERALL BUSINESS DEVELOPMENT

THE MANAGEMENT BOARD'S ASSESSMENT OF THE EFFECT OF GENERAL ECONOMIC DEVELOPMENTS AND THOSE IN THE HEALTH CARE SECTOR FOR FRESENIUS

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

THE MANAGEMENT BOARD'S ASSESSMENT OF THE BUSINESS RESULTS AND SIGNIFICANT FACTORS AFFECTING OPERATING PERFORMANCE

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

Fresenius Medical Care sales increased by 7% (9% in constant currency) to €17,784 million. The increase is mainly due to the good development of health care services. Net income[1] attributable to shareholders of Fresenius Medical Care increased by 9% (11% in constant currency) to €1,244 million. Consistent with the original scope of guidance, i. e., excluding the effects of the agreement with the United States Departments of Veterans Affairs and Justice (VA agreement), natural disaster costs, a book gain from U.S. tax reform and the FCPA (Foreign Corrupt Practices Act)[2] provision, net income increased by 7% in constant currency.

[1] Before special items
[2] Additional Information on the FCPA provision is provided on page 167 f. of the Notes.

For a detailed overview of special items and adjustments please see the reconciliation table on page 40. The special items are reported in the Group Corporate/Other segment.

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

COMPARISON OF THE ACTUAL BUSINESS RESULTS WITH THE FORECASTS

For 2017, we had assumed that strong demand for our products and services would continue. This proved to be the case.

The table below shows the guidance development for 2017 for the Group as well as for the business segments.

Based on the strong business development, exceeding our original expectations, we improved **Group earnings guidance** on a like-for-like basis, hence excluding Fresenius Kabi's acquisitions announced in April 2017, during the year.

The forecast for the currency-adjusted **sales growth** was achieved by the Fresenius Group. At 16%, this was at the mid-point of the targeted range. **Net income**[2,3] increased by 21% in constant currency and was at the upper end of the targeted range of 19% to 21%.

Fresenius invested €1,828 million in **property, plant and equipment** (2016: €1,633 million). With 5.4% the investments in property, plant and equipment was slightly below the budgeted level of about 6% as percentage of sales.

Operating cash flow was €3,937 million (2016: €3,585 million). The cash flow margin was 11.6% (2016: 12.2%) and therefore in line with our expectations. We had expected to achieve a cash flow margin between 10% and 12%.

ACHIEVED GROUP TARGETS 2017

	Targets for 2017 announced in February 2017	Guidance announced in May 2017	Achieved in 2017
Group			
Sales (growth, in constant currency)	15% – 17%		16%
Net income[1] (growth, in constant currency)	17% – 20%	19% – 21%[2]	21%[2]
Fresenius Medical Care			
Sales (growth, in constant currency)[3]	8% – 10%		9%
Net income (growth, in constant currency)[4]	7% – 9%		7%
Fresenius Kabi			
Sales (growth, organic)	5% – 7%		7%
EBIT (growth, in constant currency)	5% – 7%	6% – 8%[5]	8%[5]
Fresenius Helios			
Sales (growth, organic)	3% – 5%[6]		4%[6]
Sales	~€8.6 bn		€8.7 bn
thereof Sales Quirónsalud[7]	~€2.5 bn		€2.6 bn
EBIT	€1,020 m – €1,070 m		€1,052 m
thereof EBIT Quirónsalud[7]	€300 m – €320 m		€327 m
Fresenius Vamed			
Sales (growth, organic)	5% – 10%		6%
EBIT (growth)	5% – 10%		10%

[1] Net income attributable to shareholders of Fresenius SE & Co. KGaA
[2] Before acquisition-related expenses; before expenditures for further development of biosimilars business; before book gain from U.S. tax reform; before FCPA provision
[3] Excluding effects from the settlement with the United States Departments of Veterans Affairs and Justice (VA settlement)
[4] Net income attributable to the shareholders of Fresenius Medical Care AG & Co. KGaA; effects from VA settlement and natural disasters are not included; before book gain from U.S. tax reform; before FCPA provision
[5] Before acquisition-related expenses; before expenditures for further development of biosimilars business
[6] Helios Kliniken Germany, excluding Quirónsalud
[7] Quirónsalud consolidated for 11 months

[1] Consistent with scope of original guidance: before acquisition-related expenses; before expenditures for further development of biosimilars business
[2] Net income attributable to the shareholders of Fresenius SE & Co. KGaA
[3] Consistent with scope of original guidance: before acquisition-related expenses; before expenditures for further development of biosimilars business; before book gain from U.S. tax reform; before FCPA provision

For a detailed overview of special items and adjustments please see the reconciliation table on page 40. The special items are reported in the Group Corporate/Other segment.

Group **net debt/EBITDA** was 2.84[1,2].

Group ROIC was 8.0%[2] (2016: 8.5%[3]), and Group ROOA was 9.4%[2] (2016: 10.0%[3]). The year-on-year decline is mainly due to the acquisition of Quirónsalud: both metrics are thus as expected below the level of 2016.

RESULTS OF OPERATIONS, FINANCIAL POSITION, ASSETS AND LIABILITIES

RESULTS OF OPERATIONS

Sales

In 2017, we increased Group sales by 16% in constant currency and by 15% at actual rates to €33,886 million (2016: €29,471 million). The chart on the right shows the various influences on Fresenius' Group sales.

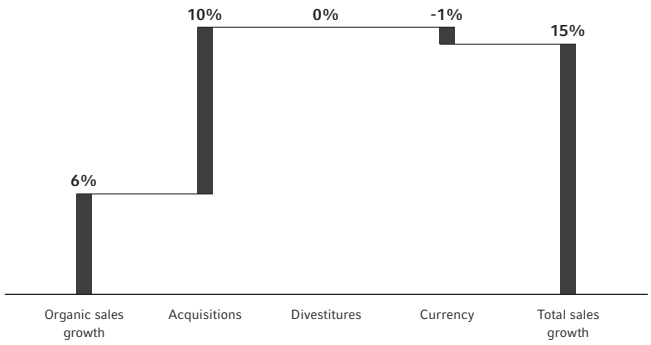
In 2017, there were no major effects due to changes in **product mix** or changes in **prices**.

Sales growth by region is shown in the table below.

Sales growth in the business segments was as follows:

- Fresenius Medical Care increased sales by 7% (9% in constant currency) to €17,784 million (2016: €16,570 million). This is mainly due to the good development of health care services, where sales increased by 8% to €14,532 million. Sales of health care products increased by 6% (7% in constant currency) to €3,252 million. This is due to improved sales of dialyzers, products for acute care treatments, and dialysis machines. Organic sales growth was 7%, while acquisitions net and the agreement with the United States Departments of Veterans Affairs and Justice (VA agreement) contributed 2%.
- Fresenius Kabi increased sales by 6% to €6,358 million (2016: €6,007 million). Sales growth was mainly driven by increases in the United States and in the emerging markets. The company achieved organic sales growth of 7%. Acquisitions/Divestitures had no impact on sales development. Negative currency translation effects (1%) were mainly related to the euro's appreciation against the U.S. dollar and the Chinese yuan.
- Fresenius Helios increased sales by 48% to €8,668 million (2016: €5,843 million). The first-time consolidation of Quirónsalud contributed 44% percentage points to sales growth. Mainly price increases for hospital services contributed to organic sales growth of 4%.

SALES GROWTH ANALYSIS



SALES BY REGION

€ in millions	2017	2016	Change	Organic sales growth	Currency translation effects	Acquisitions/ divestitures	% of total sales[4]
North America	**15,093**[5]	14,122	7%[5]	7%	-2%[5]	2%[5]	45%[5]
Europe	**13,767**	10,839	27%	3%	0%	24%	41%
Asia-Pacific	**3,182**	2,922	9%	8%	-2%	3%	9%
Latin America	**1,431**	1,223	17%	12%	-2%	7%	4%
Africa	**413**	365	13%	10%	3%	0%	1%
Total	**33,886**	29,471	15%	6%	-1%	10%	100%

[1] At average exchange rates for the last 12 months for both net debt and EBITDA
[2] Pro forma acquisitions; before special items
[3] Pro forma acquisitions
[4] Calculated on the basis of contribution to consolidated sales
[5] Including effects of the agreement with the United States Departments of Veterans Affairs and Justice

For a detailed overview of special items and adjustments please see the reconciliation table on page 40. The special items are reported in the Group Corporate/Other segment.

- Fresenius Vamed increased sales by 6% to €1,228 million (2016: €1,160 million). Sales in the project business increased by 2% to €606 million (2016: €594 million). Sales in the service business grew by 10% to €622 million (2016: €566 million). The increase in sales is due to new and existing business. **Order intake** in the project business again developed well; it increased to €1,096 million (2016: €1,017 million). Fresenius Vamed increased its **order backlog** by 9% to €2,147 million (December 31, 2016: €1,961 million). Fresenius Vamed is the only business segment within the Fresenius Group whose business is significantly influenced by order intake and order backlog.

Earnings structure

Adjusted Group net income[1,2] rose by 19% to €1,859 million (2016: €1,560 million). Growth in constant currency was 21%. **Adjusted earnings per share**[1,2] rose to €3.35 (2016: €2.85). This represents an increase of 18% at actual rates and of 19% in constant currency. The weighted average number of shares was 554.1 million.

Group net income[1] **before special items** (acquisition-related expenses, book gain from U.S. tax reform and before FCPA provision) rose by 16% to €1,816 million (2016: €1,560 million). Growth in constant currency was 18%. **Earnings per share**[1] **before special items** (before acquisition-related expenses, book gain from U.S. tax reform and before FCPA provision), rose to €3.28 (2016: €2.85). This represents an increase of 15% at actual rates and of 16% in constant currency.

Group net income[1] rose by 16% to €1,814 million (2016: €1,560 million). Growth in constant currency was 18%. **Earnings per share**[1] rose to €3.27 (2016: €2.85). This represents an increase of 15% at actual rates and of 16% in constant currency.

Inflation had no significant effect on results of operations in 2017.

Group EBITDA[3] increased by 14% to €6,267 million (2016: €5,517 million). This corresponds to an increase of 15% in constant currency. **Group EBIT**[3] increased by 12% to €4,830 million (2016: €4,302 million). This corresponds to an increase of 14% in constant currency.

SALES BY BUSINESS SEGMENT

€ in millions	2017	2016	Change	Organic sales growth	Currency translation effects	Acquisitions/ Divestitures	% of total sales[4]
Fresenius Medical Care	**17,784**[5]	16,570	7%[5]	7%	-2%[5]	2%[5]	52%[5]
Fresenius Kabi	**6,358**	6,007	6%	7%	-1%	0%	19%
Fresenius Helios	**8,668**	5,843	48%	4%	0%	44%	26%
Fresenius Vamed	**1,228**	1,160	6%	6%	0%	0%	3%

ORDER INTAKE AND ORDER BACKLOG – FRESENIUS VAMED

€ in millions	2017	2016	2015	2014	2013
Order intake	**1,096**	1,017	904	840	744
Order backlog (December 31)	**2,147**	1,961	1,650	1,398	1,139

[1] Net income attributable to shareholders of Fresenius SE & Co. KGaA
[2] 2017 consistent with scope of original guidance: before acquisition-related expenses; before expenditures for further development of biosimilars business; before book gain of U.S. tax reform; and before FCPA provision
[3] 2017 before special items
[4] Calculated on the basis of contribution to consolidated sales
[5] Including effects of the agreement with the United States Departments of Veterans Affairs and Justice

For a detailed overview of special items and adjustments please see the reconciliation table on page 40. The special items are reported in the Group Corporate/Other segment.

EBIT development by business segment was as follows:

- Fresenius Medical Care's adjusted EBIT[1] increased by 6% (constant currency: 8%) to €2,562 million (2016: €2,409 million), mainly due to strong business performance in North America and Asia-Pacific. The EBIT margin[1] was 14.4% (2016: 14.5%).
- Fresenius Kabi's adjusted EBIT[2] increased by 6% (8% in constant currency) to €1,237 million (2016: €1,171 million). The increase was mainly driven by solid sales and earnings growth in the United States and in the emerging markets. The adjusted EBIT[2] margin was 19.5% (2016: 19.5%). Fresenius Kabi's EBIT[3] increased by 1% (3% in constant currency) to €1,177 million (2016: €1,171 million). The EBIT[3] margin was 18.5% (2016: 19.5%).
- Fresenius Helios increased EBIT by 54% to €1,052 million (2016: €683 million). The healthy increase is mainly attributable to the first time consolidation of Quirónsalud. The EBIT margin increased to 12.1% (2016: 11.7%).
- Fresenius Vamed increased EBIT by 10% to €76 million (2016: €69 million). The EBIT margin increased to 6.2% (2016: 5.9%).

Reconciliation to Group net income

Consolidated results for 2017 include special items related to the acquisition of the biosimilars business of Merck KGaA and the announced acquisition of the shares in Akorn, Inc. (acquisition-related expenses). These are mainly transaction costs in the form of legal and consulting fees, as well as costs of the financing commitment for the Akorn transaction. Moreover, special items arose from a book gain from the revaluation of deferred tax liabilities due to U.S. tax reform and from the FCPA provision.

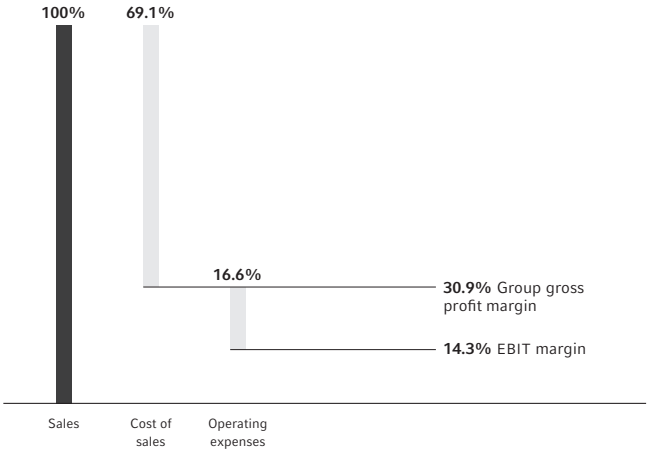
In order to compare the results with the scope of original guidance, key figures are additionally adjusted for expenditures for further development of the biosimilars business. The following presentation shows the corresponding reconciliation to the IFRS values. There were no adjustments or special items in 2016.

RECONCILIATION

	2017						
€ in millions	**Basis for guidance comparison: Before special items and before expenditures for further development of biosimilars business**	Adjustments for guidance comparison: Expenditures for further development of biosimilars business	**Before special items (before acquisition-related expenses and book gain from U.S. tax reform, and FCPA provision)**	Special items (acquisition-related expenses)	Special items (book gain from U.S. tax reform)	Special items (FCPA provision)	**After special items (IFRS reported)**
Sales	**33,886**		**33,886**				**33,886**
EBIT	**4,890**	-60	**4,830**	-41		-200	**4,589**
Net interest	**-634**	-2	**-636**	-15			**-651**
Net income before taxes	**4,256**	-62	**4,194**	-56		-200	**3,938**
Income taxes	**-1,203**	19	**-1,184**	13	266		**-905**
Net income	**3,053**	-43	**3,010**	-43	266	-200	**3,033**
Less noncontrolling interest	**-1,194**		**-1,194**		-163	138	**-1,219**
Net income attributable to shareholders of Fresenius SE & Co. KGaA	**1,859**	-43	**1,816**	-43	103	-62	**1,814**

[1] 2017 before FCPA provision
[2] 2017 consistent with scope of original guidance: before acquisition-related expenses; before expenditures for further development of biosimilars business
[3] 2017 before special items

EARNINGS STRUCTURE (BEFORE SPECIAL ITEMS)



Development of other major items in the statement of income

Group gross profit rose to €10,476 million, exceeding the previous year's gross profit of €9,513 million by 10% (12% in constant currency). The gross margin decreased to 30.9% (2016: 32.3%). The **cost of sales** rose by 17% to €23,410 million (2016: €19,958 million). Cost of sales as a percentage of Group sales increased to 69.1% in 2017, compared to 67.7% in 2016.

Selling, general, and administrative expenses consisted primarily of personnel costs, marketing and distribution costs, and depreciation and amortization. These expenses rose by 14% to €5,329 million (2016: €4,683 million). The increase is primarily due to business expansion and the impact of FCPA related expenses. Their ratio as a percentage of Group sales therefore decreased to 15.7% (2016: 15.9%). **R & D expenses** were €558 million (2016: €528 million). With 6% they are above the targeted figure of approximately 5% of our product sales, mainly due to the R & D expenses for the further development of the biosimilars business. **Depreciation and amortization** was €1,437 million (2016: €1,215 million). The ratio as a percentage of sales was 4.2% (2016: 4.1%). Group **personnel costs** increased to €13,496 million (2016: €11,643 million). The personnel cost ratio was 39.8% (2016: 39.5%). The chart on the left shows the earnings structure in 2017.

Group net interest decreased to -€651 million (2016: -€582 million), mainly due to financing of the Quirónsalud acquisition.

The **Group tax rate** before special items (before acquisition-related expenses and the book gain from U.S. tax reform) was 28.2% and hence on the prior-year level (2016: 28.1%). Group tax rate after special items was 23.0%.

Noncontrolling interest increased to €1,219 million (2016: €1,116 million). Of this, 95% was attributable to the noncontrolling interest in Fresenius Medical Care.

The table on page 42 shows the profit margin development in 2017.

STATEMENT OF INCOME (SUMMARY)

€ in millions	2017	2016	Change	Change in constant currency
Sales	**33,886**	29,471	15%	16%
Cost of goods sold	**-23,410**	-19,958	-17%	-19%
Gross profit	**10,476**	9,513	10%	12%
Selling, general, and administrative expenses	**-5,329**	-4,683	-14%	-15%
Research and development expenses	**-558**	-528	-6%	6%
EBIT	**4,589**	4,302	7%	8%
Net interest	**-651**	-582	-12%	-13%
Income taxes	**-905**	-1,044	13%	12%
Noncontrolling interest in profit	**-1,219**	-1,116	-9%	-12%
Net income (before special items)[1]	**1,816**	1,560	16%	18%
Net income[1]	**1,814**	1,560	16%	18%
Earnings per ordinary share in € (before special items)[1]	**3.28**	2.85	15%	16%
Earnings per ordinary share in €[1]	**3.27**	2.85	15%	16%
EBITDA	**6,026**	5,517	9%	11%
Depreciation and amortization	**1,437**	1,215	18%	19%

[1] Net income attributable to the shareholders of Fresenius SE & Co. KGaA

For a detailed overview of special items and adjustments please see the reconciliation table on page 40. The special items are reported in the Group Corporate/Other segment.

FINANCIAL POSITION

Financial management policies and goals

The financing strategy of the Fresenius Group has the following main objectives:

- Ensure financial flexibility
- Optimize the weighted-average cost of capital

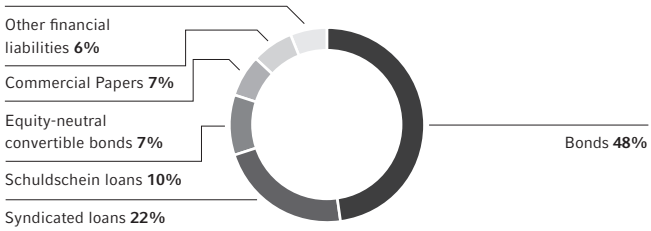
Ensuring financial flexibility is key to the financing strategy of the Fresenius Group. This is achieved through a broad spectrum of financing instruments, taking market capacity, investor diversification, flexibility, credit covenants, and the current maturity profile into consideration. The Group's **maturity profile** is characterized by a broad spread of maturities with a large proportion of mid- to long-term financing. We also take into account the currency in which our earnings and cash flows are generated when selecting the **financing instruments**, and match them with appropriate debt structures in the respective currencies.

The Group's main debt financing instruments are shown in the chart above. Sufficient **financial cushion** is assured for the Fresenius Group by unused syndicated and bilateral credit lines. In addition, Fresenius SE & Co. KGaA and Fresenius Medical Care AG & Co. KGaA maintain commercial paper programs. The Fresenius Medical Care receivable securitization program offers additional financing options.

Another main objective of the Fresenius Group's financing strategy is to **optimize the weighted-average cost of capital** by employing a balanced mix of equity and debt. Due to the Company's diversification within the health care sector and the strong market positions of the business segments in global, growing, and non-cyclical markets, predictable and sustainable cash flows are generated. These allow for a reasonable proportion of debt, i. e., the use of a comprehensive mix of financial instruments. A capital increase may also be considered in exceptional cases to ensure long-term growth, for example to finance a major acquisition.

In line with the Group's structure, financing for Fresenius Medical Care and the rest of the Fresenius Group is conducted separately. There are no joint financing facilities and no mutual guarantees. The Fresenius Kabi, Fresenius Helios, and Fresenius Vamed business segments are financed primarily through Fresenius SE & Co. KGaA, in order to avoid any structural subordination.

FINANCING MIX OF THE FRESENIUS GROUP



Dec. 31, 2017: €19,042 million

Financing

Fresenius meets its **financing needs** through a combination of operating cash flows generated in the business segments and short-, mid-, and long-term debt. In addition to bank

in %	2017	2016	2015	2014	2013
EBITDA margin[1]	**18.5**	18.7	18.3	17.5	19.0
EBIT margin[1]	**14.3**	14.6	14.3	13.5	14.6
Return on sales (before taxes and noncontrolling interest)[1]	**12.4**	12.6	12.1	10.9	11.8

[1] 2013–2015, 2017 before special items

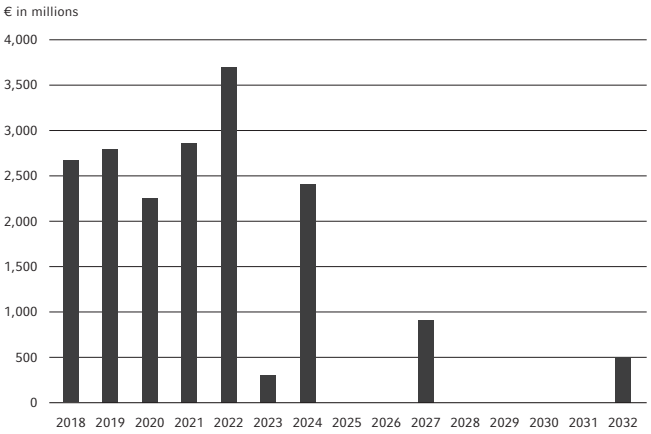
For a detailed overview of special items and adjustments please see the reconciliation table on page 40. The special items are reported in the Group Corporate/Other segment.

loans, important financing instruments include bonds, Schuldschein loans, convertible bonds, commercial paper programs, and a receivable securitization program.

The **financing activities** which took place in early 2017 were mainly related to the acquisition of Quirónsalud. Of the total purchase price of €5.76 billion, €5.36 billion was debt-financed and €400 million was paid in the form of new Fresenius SE & Co. KGaA shares issued from Authorized Capital. The following financing activities were carried out:

- In January 2017, Fresenius Finance Ireland plc. issued bonds with a total volume of €2.6 billion, split into four tranches with maturities of five years (€700 million, coupon of 0.875%, issue price of 99.732%), seven years (€700 million, coupon of 1.500%, issue price of 99.875%), 10 years (€700 million, coupon of 2.125%, issue price of 99.359%) and 15 years (€500 million, coupon of 3.000%, issue price of 99.275%). The bonds were issued under the Fresenius European Medium Term Note (EMTN) program.
- Also in January 2017, Fresenius SE & Co. KGaA issued equity-neutral convertible bonds with a volume of €500 million, due 2024. The bonds are non-interest-bearing and were issued at 101.00%. The initial conversion price is €107.0979. Concurrently with the placement of the bonds, Fresenius purchased call options on its shares to fully hedge its risk of high repayment obligations. The instrument will therefore not result in the issuance of new shares upon conversion of the bonds.
- In addition, in January 2017, incremental facilities of €1.2 billion under the 2013 Credit Agreement were disbursed, which had been arranged in October 2016.
- Also in January 2017, €1.0 billion of Schuldschein loans were paid out. These had been placed in December 2016. The Schuldschein loans have terms of five, seven and ten years.

MATURITY PROFILE OF THE FRESENIUS GROUP FINANCING FACILITIES [1]



[1] As of December 31, 2017, major financing instruments

To finance the acquisition of Akorn, Inc., in April 2017, Fresenius SE & Co. KGaA entered into a US$ 4.2 billion bridge facility with a group of banks. It has a term of 18 months and can be drawn down by Fresenius SE & Co. KGaA and various financing companies in euros and U.S. dollars. It will be replaced or refinanced by various long-term financing instruments.

In addition to the acquisition financing measures, the following refinancing activities took place, aimed in particular at optimizing the financing structure:

- In July 2017, Fresenius Medical Care refinanced and extended its syndicated 2012 Credit Agreement ahead of maturity and at more favorable terms. The Credit Agreement has an aggregate amount of approximately US$ 3.9 billion and consists of revolving facilities and term loans, both denominated in euros and U.S. dollars, with maturities in 2020 and 2022. Consistent with Fresenius Medical Care's investment grade rating, the syndicated Credit Agreement is now unsecured. In addition, certain covenants for Fresenius Medical Care have been simplified.

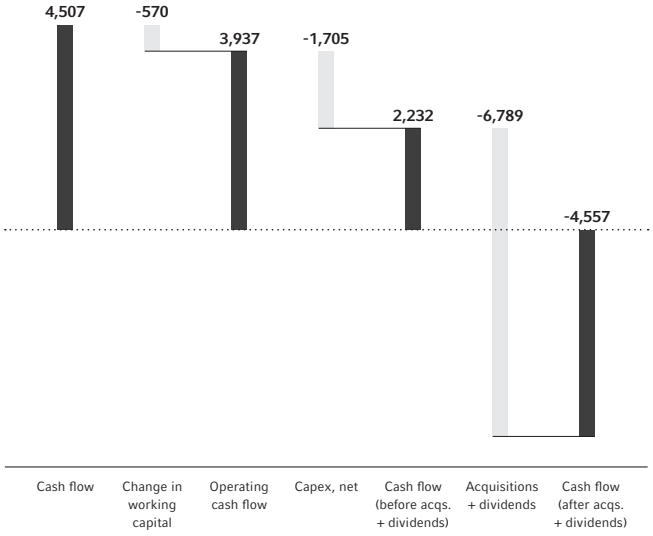
- In August 2017, Fresenius SE & Co. KGaA also successfully refinanced its syndicated 2013 Credit Agreement. The new Credit Agreement has an aggregate amount of approximately € 3.8 billion and consists of revolving facilities and term loans, both denominated in euros and U.S. dollars, maturing in 2021 and 2022. Secured facilities have been replaced by unsecured facilities, covenants have been simplified, and the guarantor structure has been aligned, with Fresenius SE & Co. KGaA now being sole guarantor. The Credit Agreement is used by various financing entities of Fresenius.

The chart on page 43 shows the maturity profile of the Fresenius Group.

Fresenius SE & Co. KGaA and Fresenius Medical Care AG & Co. KGaA maintain commercial paper programs under each of which up to €1.0 billion in short-term debt can be issued. As of December 31, 2017, €715 million of Fresenius SE & Co. KGaA's commercial paper program was utilized. Under Fresenius Medical Care AG & Co. KGaA's commercial paper program, €680 million were outstanding.

The Fresenius Group has drawn about €4.8 billion of bilateral and syndicated credit lines. In addition, as of December 31, 2017, the Group had approximately €3.7 billion in unused credit lines available (including committed credit lines of about € 3.0 billion). These credit facilities are mainly available for general corporate purposes. They are generally unsecured.

CASH FLOW IN € MILLIONS



As of December 31, 2017, both Fresenius SE & Co. KGaA and Fresenius Medical Care AG & Co. KGaA, including all subsidiaries, complied with the covenants under their debt arrangements.

Detailed information on the Fresenius Group's financing can be found on pages 169 to 177 of the Notes. Further information on financing requirements in 2017 is included in the Outlook section on page 56.

FINANCIAL POSITION – FIVE-YEAR OVERVIEW

€ in millions	2017	2016	2015	2014	2013
Operating cash flow	**3,937**	3,585	3,349	2,560	2,337
as % of sales	**11.6**	12.2	12.0	10.9	11.4
Working capital [1]	**7,713**	6,998	6,091	5,451	4,579
as % of sales	**22.8**	23.7	21.8	23.2	22.3
Investments in property, plant and equipment, net	**1,705**	1,616	1,484	1,344	1,064
Cash flow before acquisitions and dividends	**2,232**	1,969	1,865	1,216	1,273
as % of sales	**6.6**	6.7	6.7	5.2	6.2

[1] Trade accounts receivable and inventories, less trade accounts payable and payments received on accounts

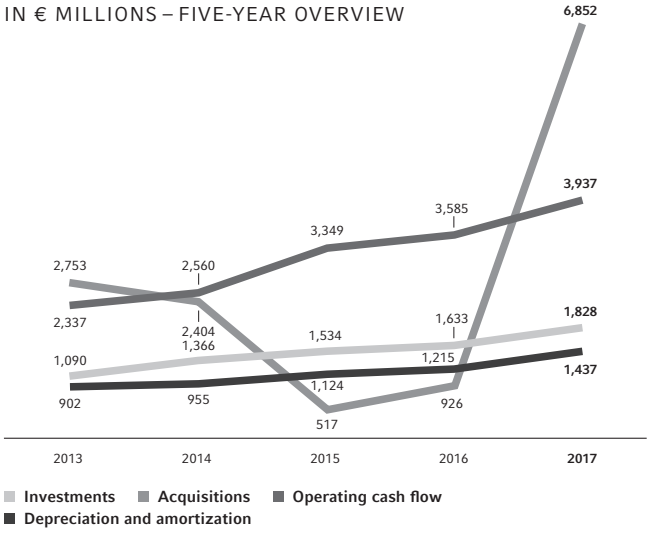
Effect of off-balance-sheet financing instruments on our financial position and liabilities

Fresenius is not involved in any off-balance-sheet transactions that are likely to have a significant impact on its financial position, expenses or income, results of operations, liquidity, investments, assets and liabilities, or capitalization in present or in future.

Liquidity analysis

In 2017, key sources of liquidity were **operating cash flows** and **cash inflow from financing activities** including short-, mid-, and long-term debt. Cash flow from operations is influenced by the profitability of the business of Fresenius and by net working capital, especially accounts receivable. Cash inflow from financing activities is generated from short-term borrowings through the commercial paper programs, and by drawing on bank credit agreements. Additionally, receivables under the Fresenius Medical Care accounts receivable securitization program can be sold. Mid- and long-term funding are mostly provided by the syndicated credit facilities of Fresenius SE & Co. KGaA and Fresenius Medical Care, as well as by bonds, Schuldschein loans, and convertible bonds. Fresenius is convinced that its existing credit facilities and inflows from bond issuances, as well as the operating cash flows and additional sources of short-term funding, are sufficient to meet the Company's foreseeable liquidity needs.

INVESTMENTS, ACQUISITIONS, OPERATING CASH FLOW, DEPRECIATION AND AMORTIZATION IN € MILLIONS – FIVE-YEAR OVERVIEW



CASH FLOW STATEMENT (SUMMARY)

€ in millions	2017	2016	Change	Margin
Earnings after tax	**3,033**	2,676	13%	
Depreciation and amortization	**1,437**	1,215	18%	
Change in pension provisions	**37**	1	--	
Cash flow	**4,507**	3,892	16%	**13.3%**
Change in working capital	**-570**	-307	-86%	
Operating cash flow	**3,937**	3,585	10%	**11.6%**
Property, plant and equipment	**-1,823**	-1,641	-11%	
Proceeds from the sale of property, plant and equipment	**118**	25	--	
Cash flow before acquisitions and dividends	**2,232**	1,969	13%	**6.6%**
Cash used for acquisitions/proceeds from disposals	**-5,865**	-485	--	
Dividends	**-924**	-738	-25%	
Cash flow after acquisitions and dividends	**-4,557**	746	--	
Cash provided by/used for financing activities (without dividends paid)	**4,796**	-236	--	
Effect of exchange rate changes on cash and cash equivalents	**-182**	25	--	
Change in cash and cash equivalents	**57**	535	-89%	

The detailed cash flow statement is shown in the consolidated financial statements.

Dividend

The general partner and the Supervisory Board will propose a dividend increase to the Annual General Meeting. For 2017, a dividend of €0.75 per share is proposed. This is an increase of about 21%. The total dividend distribution will increase by about 21% to €416 million (2016: €343 million).

Cash flow analysis

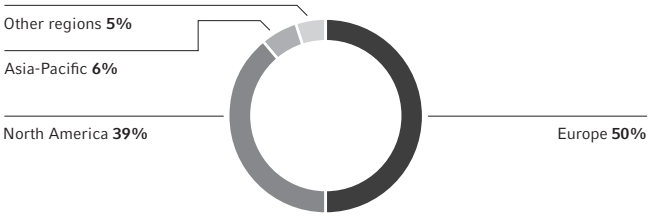
Cash flow increased by 16% to €4,507 million (2016: €3,892 million). The change in working capital was -€570 million (2016: -€307 million), mainly due to business expansion. **Operating cash flow** increased by 10% to €3,937 million (2016: €3,585 million), mainly due to the excellent cash flow development at Fresenius Medical Care and the first-time consolidation of Quirónsalud. The cash flow margin was 11.6% (2016: 12.2%). Operating cash flow was more than sufficient to meet all financing needs for investment activities, excluding acquisitions, whereby cash used for capital expenditure was €1,823 million, and proceeds from the sale of property, plant and equipment were €118 million (2016: €1,641 million and €25 million, respectively).

Cash flow before acquisitions and dividends was €2,232 million (2016: €1,969 million). This was sufficient to finance the Group dividends of €924 million. Group dividends consisted of dividend payments of €343 million to the shareholders of Fresenius SE & Co. KGaA, payments of €294 million by Fresenius Medical Care to its shareholders, and dividends paid to third parties of €378 million (primarily relating to Fresenius Medical Care). These payments were offset by the dividend of €91 million, which Fresenius SE & Co. KGaA received as a shareholder of Fresenius Medical Care. Net acquisition expenditures of €5,865 million were covered by cash flow from financing activities.

Cash from financing activities (without dividend payments) was €4,796 million (2016 cash outflow: €236 million). In 2017, it was predominantly characterized by the financing of the Quirónsalud acquisition.

Cash and cash equivalents increased by €57 million to €1,636 million as of December 31, 2017 (December 31, 2016: €1,579 million). Cash and cash equivalents were negatively influenced by currency translation effects of €182 million (2016 positively influenced: €25 million).

INVESTMENTS BY REGION



2017: €1,828 million

Investments and acquisitions

In 2017, the Fresenius Group provided €8,680 million (2016: €2,559 million) for investments and acquisitions. **Investments in property, plant and equipment** increased to €1,828 million (2016: €1,633 million). At 5.4% of sales (2016: 5.5%), this

INVESTMENTS/ACQUISITIONS BY BUSINESS SEGMENT

€ in millions	2017	2016	Thereof property, plant and equipment	Thereof acquisitions	Change	% of total
Fresenius Medical Care	**1,627**	1,705	944	683	-5%	19%
Fresenius Kabi	**585**	449	428	157	30%	7%
Fresenius Helios	**6,394**	390	415	5,979	--	73%
Fresenius Vamed	**49**	11	16	33	--	1%
Corporate/Other	**25**	4	25	0	--	0%
Total	**8,680**	2,559	1,828	6,852	--	100%

INVESTMENTS AND ACQUISITIONS

€ in millions	2017	2016	Change
Investment in property, plant and equipment	**1,828**	1,633	12%
thereof maintenance	**51%**	54%	
thereof expansion	**49%**	46%	
Investment in property, plant and equipment as % of sales	**5.4**	5.5	
Acquisitions	**6,852**	926	>100%
Total investments and acquisitions	**8,680**	2,559	>100%

was well above the depreciation level of €1,437 million and serves as the basis for enabling expansion and preserving the Company's value over the long term. A total of €6,852 million was invested in **acquisitions** (2016: €926 million). Of the total capital expenditure in 2017, 21% was invested in property, plant and equipment, 79% was spent on acquisitions.

The table on the left shows the distribution of investments/acquisitions by business segment. The chart on the left shows the regional breakdown.

The cash outflow for acquisitions is primarily related to the following business segments:

- Fresenius Medical Care's acquisition spendings were mainly related to the acquisition of dialysis clinics and a Care Coordination acquisition.
- Fresenius Kabi invested primarily in the acquisition of Merck KGaA's biosimilars business.
- Fresenius Helios' acquisition spending was mainly for the purchase of 100% of the share capital in IDCSalud Holding S.L.U. (Quirónsalud), Spain's largest private hospital operator.

The main investments in property, plant and equipment were as follows:

- modernization of existing, and equipping of new, dialysis clinics at Fresenius Medical Care
- optimization and expansion of production facilities, primarily in North America and Europe for Fresenius Medical Care, and for Fresenius Kabi, primarily in Europe, North America, and Asia. Significant individual projects for Fresenius Kabi were investments in the production plant in Melrose Park near Chicago and investments in Santiago de Basteiros in Portugal
- new building and modernization of hospitals at Fresenius Helios. The most significant individual projects were the hospitals in Duisburg, Nordenham, Wuppertal, and Gotha, as well as the construction of a proton beam therapy center in Madrid.

Investments in property, plant and equipment of €369 million will be made in 2018, to continue with major ongoing **investment projects on the reporting date**. These are investment obligations mainly for hospitals at Fresenius Helios, as well as investments to expand and optimize production facilities for Fresenius Medical Care and Fresenius Kabi. These projects will be financed from operating cash flow.

Acquisition of Quirónsalud

On January 31, 2017, Fresenius Helios closed the acquisition of 100% of the share capital in IDCSalud Holding S.L.U. (Quirónsalud), Spain's largest private hospital operator.

Quirónsalud's network comprises 45 hospitals, 55 outpatient centers, and about 300 Occupational Risk Prevention centers located in all economically important areas of Spain. The company offers the full spectrum of inpatient and outpatient care. With the acquisition, Fresenius Helios strengthens its position as Europe's largest private hospital operator. €5.36 billion of the total purchase price in the amount of €5.76 billion had already been financed by means of different debt instruments and paid in cash on January 31, 2017. The balance of €400 million was paid in the form of 6,108,176 new shares of Fresenius SE & Co. KGaA issued on January 31, 2017, from Authorized Capital, excluding subscription rights.

Quirónsalud has been consolidated as of February 1, 2017.

Acquisition of the biosimilars business of Merck KGaA

On August 31, 2017, Fresenius Kabi successfully closed the acquisition of Merck KGaA's biosimilars business. The transaction comprises a development pipeline and about 70 employees located in Aubonne and Vevey, Switzerland. The product pipeline has a focus on oncology and autoimmune diseases. The biosimilars business has been consolidated since September 1, 2017.

Announced acquisition of Akorn, Inc.

On April 24, 2017, Fresenius announced that Fresenius Kabi has agreed to acquire Akorn, Inc., a U.S.-based manufacturer and marketer of prescription and over-the-counter pharmaceutical products, for approximately US$4.3 billion, or US$34 per share, plus the prevailing net debt at closing of the transaction (Akorn reported net debt of approximately US$0.5 billion as at September 30, 2017).

Akorn shareholders approved the transaction at a meeting held on July 19, 2017. The acquisition is subject to customary closing conditions including FTC clearance under the Hart-Scott-Rodino Antitrust Improvements Act in the United States. Fresenius is conducting an independent investigation, using external experts, into alleged breaches of FDA data integrity requirements relating to product development at Akorn, Inc. The Management and Supervisory Boards of Fresenius will assess the findings of that investigation. The consummation of the transaction may be affected if the closing conditions under the merger agreement are not met. Fresenius does not intend to provide further updates as the investigation proceeds.

Fresenius continues to seek FTC clearance.

The purchase price would be financed by a broad mix of euro- and U.S.-dollar-denominated long-term debt instruments.

Announced acquisition of NxStage Medical, Inc.

On August 7, 2017, Fresenius Medical Care announced that it intends to acquire all outstanding shares of NxStage Medical Inc., a U.S.-based medical technology and services company, through a merger for US$30 per common share; thus the transaction would be valued at approximately US$2.0 billion.

The merger is subject to receipt of regulatory approvals (including FTC clearance) and other customary closing conditions. NxStage shareholders approved the transaction at a meeting held on October 27, 2017.

ASSETS AND LIABILITIES

Asset and liability structure

The **total assets** of the Group rose by 14% to €53,133 million (Dec. 31, 2016: €46,697 million). In constant currency, this was an increase of 21%. The increase is mainly driven by the acquisition of Quirónsalud, which resulted in an increase of the balance sheet total by €7.2 billion. Inflation had no significant impact on the assets of Fresenius in 2017.

ASSETS AND LIABILITIES – FIVE-YEAR OVERVIEW

€ in millions	**2017**	2016	2015	2014	2013
Total assets	**53,133**	46,697	43,233	39,955	32,859
Shareholders' equity[1]	**21,720**	20,849	18,453	15,860	13,595
as % of total assets[1]	**41**	45	43	40	41
Shareholders' equity[1]/non-current assets, in %	**54**	60	56	52	54
Debt	**19,042**	14,780	14,769	15,348	12,716
as % of total assets	**36**	32	34	38	39
Gearing in %	**80**	63	74	89	71[2]

[1] Including noncontrolling interest
[2] Pro forma excluding advances made in the amount of €2.18 billion under a fiduciary agreement for the acquisition of hospitals of Rhön-Klinikum AG

Current assets increased to €12,604 million (Dec. 31, 2016: €11,744 million). Within current assets, trade accounts receivable increased by 19% to €6,202 million (Dec. 31, 2016: €5,199 million). At 65 days, average days sales outstanding was on the previous year's level.

Inventories rose by 2% to €3,252 million (Dec. 31, 2016: €3,189 million). The scope of inventory in 2017 was 50 days (Dec. 31, 2016: 58 days). The ratio of inventories to total assets decreased to 6.1% (Dec. 31, 2016: 6.8%).

Non-current assets increased by 16% to €40,529 million (Dec. 31, 2016: €34,953 million). In constant currency, the increase was 23%. Additions to property, plant and equipment, and to goodwill had a strong effect. The goodwill and intangible assets in the amount of €28,457 million (Dec. 31, 2016: €24,664 million) has proven sustainable and increased mainly due to the acquisitions made in fiscal year 2017. In fiscal year 2017, the addition to the goodwill from acquisitions was €4.374 million. Please see page 164 ff. of the Notes for further information.

Shareholders' equity, including noncontrolling interest, rose by 4% to €21,720 million (Dec. 31, 2016: €20,849 million). In constant currency, shareholders' equity, including noncontrolling interest, rose by 14%. **Group net income** attributable to Fresenius SE & Co. KGaA increased shareholders' equity by €1,814 million. The equity ratio, including noncontrolling interest, was 40.9% as of December 31, 2017 (Dec. 31, 2016: 44.6%).

The liabilities and equity side of the balance sheet shows a solid financing structure. Total shareholders' equity, including noncontrolling interest, covers 54% of non-current assets (Dec. 31, 2016: 60%). Shareholders' equity, noncontrolling interest, and long-term liabilities cover all non-current assets and 60% of inventories.

Long-term liabilities increased by 24% to €20,748 million as of December 31, 2017 (Dec. 31, 2016: €16,769 million). **Short-term liabilities** increased by 17% to €10,665 million (Dec. 31, 2016: €9,079 million).

Besides the FCPA provision (for details please see page 167 f.), the Group has no additional major **accruals** that are of major significance as individual items.

Group debt increased, due to the acquisition of Quirónsalud, by 29% (35% in constant currency) to €19,042 million (Dec. 31, 2016: €14,780 million). Its relative weight in the balance sheet was 36% (Dec. 31, 2016: 32%). Approximately 31% of the Group's debt is denominated in U.S. dollars. Liabilities due in less than one year were €2,899 million (Dec. 31, 2016: €1,937 million), while liabilities due in more than one year were €16,143 million (Dec. 31, 2016: €12,843 million).

FIVE-YEAR OVERVIEW FINANCING KEY FIGURES

	Dec. 31, 2017[1,2]	**Dec. 31, 2016[2]**	Dec. 31, 2015[1]	Dec. 31, 2014[1,2]	Dec. 31, 2013[3]
Debt/EBITDA	**3.1**	2.7	2.9	3.7	2.7
Net debt/EBITDA[4]	**2.8**	2.3[6]	2.7	3.2	2.5
Net debt/EBITDA[5]	**2.8**	2.4[7]	2.7	3.4	2.5
EBITDA/net interest[1]	**9.9**	9.5	8.4	6.8	6.7

[1] Before special items
[2] Pro forma acquisitions
[3] Pro forma excluding advances made in the amount of €2.18 billion under a fiduciary agreement for the acquisition of hospitals of Rhön-Klinikum AG; before special items
[4] At LTM average exchange rates for both net debt and EBITDA
[5] Net debt at year-end exchange rate; EBITDA at LTM average exchange rates
[6] Pro forma Quirónsalud acquisition: net debt/EBITDA 3.1
[7] Pro forma Quirónsalud acquisition: net debt/EBITDA 3.2

For a detailed overview of special items and adjustments please see the reconciliation table on page 40. The special items are reported in the Group Corporate/Other segment.

Group net debt increased, mainly due to the acquisition of Quirónsalud, by 32% (37% in constant currency) to €17,406 million (Dec. 31, 2016: €13,201 million).

The net debt to equity ratio including noncontrolling interest (gearing) is 80% (Dec. 31, 2016: 63%).

The return on equity [1,2] after taxes (equity attributable to shareholders of Fresenius SE & Co. KGaA) increased to 13.3% (Dec. 31, 2016: 12.3%). The return on total assets after taxes and before noncontrolling interest [1,2] is on prior-year level of 5.7% (2016: 5.7%).

Group ROIC was 8.0% [1,2] (2016: 8.5% [2]), and Group ROOA was 9.4% [1,2] (2016: 10.0% [2]). Within the position invested capital, the goodwill of €25.3 billion had a significant effect on the calculation of ROIC. It is important to take into account that approximately 66% of the goodwill is attributable to the strategically significant acquisitions of National Medical Care in 1996, Renal Care Group and HELIOS Kliniken in 2006, APP Pharmaceuticals in 2008, Liberty Dialysis Holdings in 2012, hospitals of Rhön-Klinikum AG in 2014, Quirónsalud and the biosimilars business in 2017. Those have significantly strengthened the competitive position of the Fresenius Group.

The summary shows ROIC and ROOA by business segment:

	ROIC		ROOA	
in %	**2017**	2016	**2017**	2016
Fresenius Medical Care	**8.6**	8.1	**10.9**	10.6
Fresenius Kabi [1,2]	**9.0**	9.5	**10.8**	11.7
Fresenius Helios [1]	**6.2**	8.1	**6.9**	8.5
Fresenius Vamed [3]	–	–	**9.8**	10.5
Group (IFRS) [1,2]	**8.0**	8.5	**9.4**	10.0

[1] Pro forma acquisitions
[2] 2017 before special items
[3] ROIC: invested capital is insignificant due to prepayments, cash, and cash equivalents.

In 2017, the Fresenius Group's return on invested capital (ROIC) substantially exceeded our cost of capital. The WACC (weighted average cost of capital) of Fresenius Medical Care was 6.2%, the WACC of the other business segments was 5.6%.

Currency and interest risk management

The nominal value of all foreign currency hedging contracts was €1,964 million as of December 31, 2017. These contracts had a market value of -€3 million. The nominal value of interest rate hedging contracts was €598 million. These contracts had a market value of €4 million. Please see the Opportunities and Risk Report on pages 64 f. and the Notes on pages 194 to 201 for further details.

CORPORATE RATING

The credit quality of Fresenius is assessed and regularly reviewed by the leading rating agencies Moody's, Standard & Poor's, and Fitch. Following Fresenius' announcement on April 24, 2017, that it would acquire Akorn, Inc. and Merck KGaA's biosimilars business, the rating agencies Standard & Poor's, Moody's, and Fitch confirmed the corporate credit ratings of Fresenius. On December 27, 2017, Standard & Poor's revised the outlook to positive from stable. The corporate credit rating was affirmed. Fresenius is rated investment grade at all rating agencies.

The table below shows the company rating and the respective outlook as of December 31, 2017.

RATING OF FRESENIUS SE & CO. KGAA

	Dec. 31, 2017	Dec. 31, 2016
Standard & Poor's		
Corporate Credit Rating	**BBB-**	BBB-
Outlook	**positive**	stable
Moody's		
Corporate Credit Rating	**Baa3**	Baa3
Outlook	**stable**	stable
Fitch		
Corporate Credit Rating	**BBB-**	BBB-
Outlook	**stable**	stable

[1] Before special items
[2] Pro forma acquisitions

For a detailed overview of special items and adjustments please see the reconciliation table on page 40. The special items are reported in the Group Corporate/Other segment.

OVERALL ASSESSMENT OF THE BUSINESS SITUATION

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

OUTLOOK

This Group Management Report contains forward-looking statements, including statements on future sales, expenses, and investments, as well as potential changes in the health care sector, our competitive environment, and our financial situation. These statements were made on the basis of the expectations and assessments of the Management Board regarding events that could affect the Company in the future, and on the basis of our mid-term planning. Such forward-looking statements are subject, as a matter of course, to risks, uncertainties, assumptions, and other factors, so that the actual results, including the financial position and profitability of Fresenius, could therefore differ materially – positively or negatively – from those expressly or implicitly assumed or described in these statements. For further information, please see our Opportunities and Risk Report on pages 57 ff.

GENERAL AND MID-TERM OUTLOOK

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

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

hospitals, and further consolidation potential in the highly fragmented Spanish private hospital market, in particular. The cross-selling of Quirónsalud's facilities for Occupational Risk Prevention within the Spanish hospital network offers additional growth opportunities.

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

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

The outlook takes account of all events known at the time the annual financial statements were prepared that could influence our operating performance in 2018 and beyond. Significant risks are discussed in the Opportunities and Risk Report. As in the past, we will do our utmost to achieve and – if possible – exceed our targets.

FUTURE MARKETS

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

New markets will open up as **Fresenius Medical Care** successively rolls out its product and services portfolio, especially in emerging countries. In addition, Fresenius Medical Care continues to expand its Care Coordination business with services related to dialysis.

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

With its broad hospital network across Germany, **Fresenius Helios** is able to develop new patient care models. In addition, the company anticipates that it can continue to take advantage of an intermittent selective consolidation in the German hospital market, in which it selectively participates. The increasing number of privately insured patients in Spain is opening up opportunities for private operators like Quirónsalud.

Fresenius Vamed is expecting to grow in the life cycle and PPP project areas, both with regard to the project and the services business. Moreover, the company intends to further expand its position with follow-up orders, as well as to enter new target markets.

HEALTH CARE SECTOR AND MARKETS

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

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

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

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

THE DIALYSIS MARKET

The **global dialysis market** is expected to grow by about 4% at constant exchange rates in 2018.

The number of dialysis patients worldwide is expected to rise by approximately 6% in 2018, although significant regional differences will remain. For the United States, Japan, and the countries of Central and Western Europe, where prevalence is already relatively high, we forecast patient growth in the region of 0% to 4%. In economically weaker regions, the growth rates are even higher.

Driven by the development of infrastructure, the establishment of health care systems, and the growing number of chronically ill patients, overproportional growth is expected in Asia, Latin America, Eastern Europe, the Middle East, and Africa.

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

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

Further information is provided on pages 32 f. of the Group Management Report.

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

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

The **market for generic IV drugs** in Europe and the United States is expected to grow by approximately 6% to 8% in 2018. The demand for generic drugs is likely to grow because of their significantly lower price in comparison to the originator drugs' price. The growth dynamic will continue to be driven by originator drugs going off-patent, as well as by original off-patent products that are offered at steady prices due to a unique selling proposition. A factor working in the opposite direction is the price erosion for original off-patent drugs and generic drugs that are already on the market.

We expect Fresenius Kabi's relevant **market for biopharmaceuticals** to grow by around 11% to 12% in 2018.

[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.

Source: Company research

Growth of about 3% is expected for the **clinical nutrition market** in Europe in 2018. However, given the financial constraints in these countries, the efforts to contain costs in the health care sector are being pursued undiminished. Continued high growth potential is projected in Asia-Pacific, Latin America, and Africa. We expect growth of up to 10% in individual countries.

We expect the **market for infusion therapy** in Europe to remain at the prior year's level in 2018. Besides a slightly decreasing blood volume substitutes market due to restrictions imposed on the use of these products, continuous price pressure in the tender-driven standard-solutions business is expected to affect growth. Outside Europe, we also expect the market for infusion therapy to remain at the prior year's level in 2018, whereby Latin America is expected to grow by up to 8%.

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

THE HOSPITAL MARKET

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

The so-called change in value figure is relevant for the increase in the **reimbursement of hospital treatments** in Germany. For 2018 it was set at 2.97%. In addition, the hospital funding system provides for various increases and reductions for acute hospitals. For surplus services agreed in advance with the health insurance companies, hospitals have to accept the so-called fixed cost degression discount on surplus services of 35% to 50%. The exact amount of the discount is negotiated between the hospitals and the health insurance companies.

Since 2017, the care supplement replaces the extra charge on invoiced hospital treatments. This is intended to support care in hospitals and is granted based on the cost of care at the individual hospitals. The funding volume for 2018 is around €500 million.

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

In order to factor medical outcomes into the remuneration, the Federal Joint Committee defines quality indicators. The specific financial terms and details are to be defined in a consistent overall concept by the end of 2018. However, we do not expect any adverse effects since the Helios group is well prepared for quality-based remuneration thanks to its clear focus on quality and transparency of medical outcomes.

The future expectations with respect to their economic situation vary among the German hospitals: according to the Krankenhaus-Barometer 2017 survey by the German Hospital Institute (DKI), only one fifth (22%) of the hospitals expect their economic situation to improve in 2018, whereas 37% expect it to worsen. Moreover, investment needs are growing while government support is declining. The Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) forecasts that more hospitals will respond to economic pressures by joining together into networks and bundling their services. Networks offer opportunities for individual hospitals to reduce costs, for example in purchasing.

We anticipate that we can continue to take advantage of an intermittent selective consolidation in the German hospital market, in which we selectively participate.

We expect the private hospital market in **Spain** to grow by 2% to 3% in 2018. The continuing increase in the number of privately insured patients should also open up opportunities for private operators in the future. Relevant indicators, for example nationwide health care spending and bed density, indicates the further market development potential in the Spanish health care system compared with other EU countries. This also provides opportunities for the establishment of new hospitals. In addition, the fragmented private hospital market is expected to see further consolidation.

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

For 2018, we expect the worldwide demand for projects and services for hospitals and other health care facilities to grow at a low single-digit rate.

Source: Company research; Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI), Krankenhaus Rating Report 2013 and 2017

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

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

GROUP SALES AND EARNINGS

In 2018, we expect to increase **Group sales**[1] by 5% to 8% in constant currency. We project **Group net income**[2,3] to increase by 6% to 9% in constant currency.

GROUP FINANCIAL TARGETS 2018

	Targets 2018[1]	Fiscal year 2017
Sales growth (in constant currency)	5% – 8%	€33,400 m[2]
Net income[3] growth (in constant currency)	6% – 9%[4]	€1,816 m[5]
Net income[3] growth (in constant currency), excluding Biosimilars	~10% – 13%[6]	€1,859 m[7]
Dividend	Profit-driven dividend policy	Proposal +21% per share

[1] Excluding pending acquisitions of Akorn and NxStage
[2] Adjusted for IFRS 15 (€486 million at Fresenius Medical Care)
[3] Net income attributable to shareholders of Fresenius SE & Co. KGaA
[4] Before special items (before acquisition-related expenses); including expenditures for further development of biosimilars business (€43 million after tax in FY/17 and ~€120 million after tax in FY/18)
[5] Before special items (before acquisition-related expenses, before book gain from U.S. tax reform, before FCPA provision)
[6] Before special items (before acquisition-related expenses); excluding expenditures for further development of biosimilars business (€43 million after tax in FY/17 and ~€120 million after tax in FY/18)
[7] Adjusted net income: before acquisition-related expenses, before expenditures for further development of biosimilars business, before book gain from U.S. tax reform, before FCPA provision

SALES AND EARNINGS BY BUSINESS SEGMENT

In 2018, we expect sales and earnings development in our business segments as shown below:

FINANCIAL TARGETS BY BUSINESS SEGMENT 2018

	Targets 2018[1]	Fiscal year 2017
Fresenius Medical Care		
Sales growth (in constant currency)	~8%	€17,298 m[2]
Net income[3] growth (in constant currency)	13% – 15%[4]	€1,280 m
Fresenius Kabi		
Sales growth (organic)	4% – 7%	€6,358 m
EBIT growth[5] (in constant currency)	-3% – -6%	€1,177 m
EBIT growth[6] (in constant currency), excluding Biosimilars	~2% – 5%	€1,237 m
Fresenius Helios		
Sales growth (organic)	3% – 6%[7]	€8,668 m[8]
EBIT growth	7% – 10%	€1,052 m[8]
Fresenius Vamed		
Sales growth (organic)	5% – 10%	€1,228 m
EBIT growth	5% – 10%	€76 m

[1] Excluding pending acquisitions of Akorn and NxStage
[2] Reported sales 2017 of €17,784 million, adjusted for IFRS 15 (€486 million)
[3] Net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA
[4] 2018 including recurring benefits from U.S. tax reform of €140 million to €160 million
[5] Before special items (before acquisition-related expenses); including expenditures for further development of biosimilars business (€60 million in FY/17 and expected expenditures of ~€160 million in FY/18)
[6] Before special items (before acquisition-related expenses); excluding expenditures for further development of biosimilars business (€60 million in FY/17 and expected expenditures of ~€160 million in FY/18)
[7] Organic growth reflects 11 months contribution of Helios Spain
[8] Helios Spain consolidated for 11 months

For 2018, **Fresenius Medical Care** expects sales to grow by ~8% in constant currency. The 2018 guidance is based on 2017 sales adjusted for the effect of the IFRS 15 implementation. Net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA is expected to increase by 13% to 15% in constant currency, including recurring benefits from the U.S. tax reform of €140 million to €160 million.

[1] 2017 adjusted for IFRS 15 (€486 million at Fresenius Medical Care), excluding pending acquisitions of Akorn and NxStage
[2] Net income attributable to shareholders of Fresenius SE & Co. KGaA
[3] Before special items (before acquisition-related expenses); including expenditures for further development of biosimilars business (€43 million after tax in FY/17 and ~€120 million after tax in FY/18), excluding pending acquisitions of Akorn and NxStage

For 2018, **Fresenius Kabi** expects organic sales growth of 4% to 7% and EBIT growth in constant currency of -3% to -6%.

For 2018, **Fresenius Helios** expects organic sales growth of 3% to 6%, and EBIT growth of 7% to 10%.

For 2018, **Fresenius Vamed** expects to achieve organic sales growth of 5% to 10% and EBIT growth of 5% to 10%.

FINANCING

For 2018, we expect continued strong cash flow with a cash flow margin between 10% and 12%.

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

In 2018, refinancing will be mainly required for maturing bonds of Fresenius Medical Care in the amount of €400 million and US$400 million.

Moreover, it is planned to carry out the long-term debt financing for the acquisition of Akorn, Inc. by Fresenius Kabi and the acquisition of NxStage Medical, Inc. by Fresenius Medical Care.

We expect to further reduce **net debt/EBITDA**[1] by year-end 2018.

INVESTMENTS

In 2018, we expect to invest about 6% of sales in property, plant and equipment. About 45% of the capital expenditure planned will be invested at Fresenius Medical Care, about 25% at Fresenius Kabi and Fresenius Helios, each. The remaining funds are intended for other investments and the expansion of the Group headquarters. At Fresenius Medical Care, investments will primarily be used for the expansion of production capacity, optimizing production costs, and the establishment of new dialysis clinics.

Fresenius Kabi will primarily invest in expanding and maintaining production facilities, as well as in introducing new manufacturing technologies. At Fresenius Helios, we will primarily invest in the new buildings, in the modernizing, and equipping of existing hospitals, and newly acquired hospitals.

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

We assume that the return on operating assets[2] (ROOA) and the return on invested capital[2] (ROIC) will be above the level of 2017.

DIVIDEND

The dividend increases provided by Fresenius in the last 24 years show impressive continuity. Our dividend policy aims to align dividends with earnings per share growth (before special items) and thus broadly maintains a payout ratio of 20% to 25%. Based on our positive earnings forecast, we expect to offer our shareholders an earnings-linked dividend.

[1] Calculated at expected annual average exchange rates, for both net debt and EBITDA; excluding pending acquisition of Akorn and NxStage without potential unannounced acquisitions; according to current IFRS rules

[2] Excluding pending acquisitions of Akorn and NxStage

OPPORTUNITIES AND RISK REPORT

The Fresenius Group is exposed to a number of risks due to the complexity and the dynamics of its business. These risks are inevitable consequences of entrepreneurial activities. **Opportunities can only be exploited when there is a willingness to take risks**.

As a provider of products and services for the severely and chronically ill, we are relatively independent of economic cycles. The diversification into four business segments, which operate in different segments of the health care market, and the global footprint further minimize the Group's risk profile. Our experience, as well as our strong market position, serve as a solid basis for a reliable assessment of risks.

At the same time, we will continue to take advantage of the wide-ranging opportunities for sustainable growth and expansion that the health care market offers to the Fresenius Group.

OPPORTUNITIES MANAGEMENT

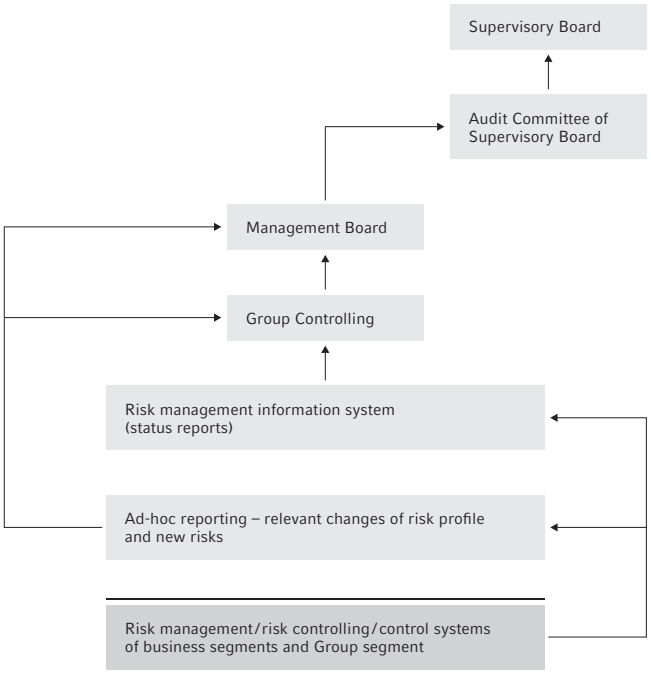
Managing opportunities is an ongoing, integral part of corporate activity aimed at securing the Company's long-term success. In this way, we can explore new prospects and consolidate and improve on what we have already achieved. The organization and management of the Fresenius Group have a decentralized, regional structure. This enables us to recognize and analyze trends, requirements, and opportunities in the often fragmented markets and to focus our actions accordingly. We maintain regular contact and dialogue with research groups and scientific institutions, and keep a close watch on markets and competitors in order to identify opportunities. Within the Group, opportunities and synergies can be exploited through continuous communication involving the exchange of information and know-how between the business segments. Anticipated future opportunities for the Fresenius Group are discussed in the **Outlook** starting on page 51.

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.

RISK MANAGEMENT



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

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

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

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

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

INTERNAL FINANCIAL REPORTING CONTROLS

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

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

financial data and key figures are reported, discussed, and compared on a regular monthly basis with the prior-year figures, budget, and latest forecast. In addition, all parameters, assumptions, and estimates that are of relevance for the externally reported Group and segment results are discussed intensively with the department responsible for preparing the Group's consolidated financial statements. These matters are also 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 having a direct impact on financial reporting are identified and that controls are in place to minimize them. Moreover, changes in accounting principles are monitored and employees involved in financial reporting are instructed regularly and comprehensively. External experts and specialists are engaged if necessary. The Treasury, Tax, Controlling, and Legal departments are involved in supporting the preparation of the financial statements. Finally, the information provided is verified once again by the department responsible for preparing the consolidated financial statements.

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

RISK AREAS

GENERAL ECONOMIC RISKS AND RISKS IN THE GENERAL OPERATING FRAMEWORK

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

The risk situation for each business segment also depends on the development of its markets. **Country-specific political, legal, and financial conditions** are therefore monitored and evaluated carefully, particularly in the current macroeconomic environment. This applies, for example, to countries

with budget problems as a result of the sovereign debt crisis, in particular with regard to our accounts receivable. This also applies to the possible impact on our business activities resulting from the decision by the United Kingdom to leave the European Union and Catalonia's quest for independence from Spain.

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

RISKS IN THE HEALTH CARE 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 2017, approximately 34% of Fresenius Medical Care's sales in the United States were attributable to U.S. federal health care benefit programs, such as **Medicare** and **Medicaid (CMS)**. A reduction in reimbursement rates or reimbursed services could result in significantly lower sales and operational results.

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

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

Under CMS's Comprehensive ESRD Care Model, dialysis providers and physicians can form entities known as ESRD Seamless Care Organizations (ESCOs). The aim is to improve the health of patients, while at the same time reducing the costs of CMS.

ESCOs that achieve the program's minimum quality requirements and generate reductions in treatment costs for CMS will receive a share of the cost savings. However, ESCOs that include dialysis chains with more than 200 facilities are required to share in the risk of cost increases and reimburse CMS a share of any such increases.

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

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

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

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

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

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

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

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

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

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

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

Changes in the law, the reimbursement method and the health care program could affect the scope of payments for services, as well as for insurance coverage and the product business. This could have a significant adverse impact on the

assets and liabilities, financial position, and results of operations. Generally, our aim is to counter such possible regulatory risks through enhanced performance and cost reductions.

Development of new products and therapies

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

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

OPERATING RISKS

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

- the quality, safety, and efficacy of medical and pharmaceutical products, supplies, and therapies;
- the operation of hospitals, other health care facilities, manufacturing facilities, and laboratories;
- Product releases and approvals;
- the planning, construction, equipping, and management of health care facilities;
- the rate of, and accurate reporting and billing for, government and third-party reimbursement;
- the labeling and designation of pharmaceutical products and their marketing;
- compensation of medical directors and other financial arrangements with physicians and other referral sources.

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

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

Production, products, and services

Compliance with **product and manufacturing regulations** is ensured by our quality management systems, which are structured in accordance with the internationally recognized quality standard ISO 9001, taking into account a large number of national and international regulations. These are implemented by internal standards such as quality and work procedure manuals. Regular internal and external audits are carried out at the Group's production sites, distribution companies, and dialysis clinics. These audits test compliance with regulations in all areas – from management and administration to production and clinical services and patient satisfaction. Our production facilities comply with the Good Manufacturing Practice (GMP) of the markets they supply. Our facilities are audited by the FDA and other public authorities. If deficiencies are detected and complaints are filed, the Company is required to remedy them, as it was, for example, following inspections in prior years of our production facilities in India in 2017.

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

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

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

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

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

Procurement

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

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

Competition

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

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

In the United States, almost all Fresenius Kabi injectable pharmaceutical products are sold to customers through arrangements with **group purchasing organizations (GPOs)** and distributors. The majority of hospitals undertake contracts with GPOs of their choice for their purchasing needs. Currently, three GPOs control the large majority of sales in the United States to hospital customers. Fresenius Kabi derives a large percentage of its revenue in the United States through a small number of GPOs and has purchasing agreements with the most important of them. To maintain these business relationships, Fresenius Kabi needs to be a reliable supplier of a comprehensive and high-quality product line, remain price-competitive, and comply with the regulations of the U.S. Food and Drug Administration (FDA). The GPOs also have purchasing agreements with other manufacturers and the bidding process for products is highly competitive. Most of the agreements Fresenius has with GPOs in the United States can be terminated at short or medium notice. The main customers in the area of transfusion technology are plasma companies and blood centers. There are four major plasma companies serving the United States. Blood centers in the United States are consolidating in response to blood-saving efforts at hospitals, which is having an effect on pricing.

Payment default

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

Personnel

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

RISKS ASSOCIATED WITH RESEARCH AND DEVELOPMENT AND PRODUCT APPROVAL

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

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

RISKS FROM 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, with others and/or claims against Fresenius.

Following an acquisition, the acquired company's structure must be integrated while clarifying legal questions and contractual obligations. Marketing, patient services, and logistics must also be unified. During the integration phase, key managers can leave the company and both the course of ongoing business processes and relationships with customers and employees can be harmed. In addition, change-of-control clauses may be claimed. The integration process may

prove more difficult or require more time and resources than expected. Risks can arise from the operations of the newly acquired company that Fresenius regarded as insignificant or was unaware of. An acquisition may also prove to be less beneficial than initially expected. **Future acquisitions** may be a strain on the finances and management of our business. Moreover, as a consequence of an acquisition, Fresenius may become directly or indirectly liable towards third parties, or claims against third parties may turn out to be non-assertable.

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

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

INFORMATION TECHNOLOGY RISKS

The Company's processes are growing ever more complex as a result of the Fresenius Group's steady growth and increasing internationalization. Correspondingly, the **dependence on information and communication technologies**, and on the systems used to structure procedures and – increasingly – harmonize them internationally, intensifies. A failure of these systems could temporarily lead to an interruption of other parts of our business and thus cause serious damage. Fresenius counters these risks with various security measures, controls, and audits. In addition, we counter these risks with constant investment in hardware and software, as well as by improving our system know-how. Potential risks are covered by a detailed contingency plan, which is regularly improved and tested. Redundant systems are maintained for all key systems, such as IT systems or communications infrastructure.

The loss of sensitive data or the **non-compliance with data protection laws**, regulations, and standards could damage our competitive position, our reputation and the entire company. To comply with these requirements, we have implemented comprehensive data protection management systems, which also provide the appropriate technical and organizational measures for the protection of personal data. Further information about our Data Protection Management Systems can be found in the Group Nonfinancial Report on pages 78 f.

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

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

FINANCIAL RISKS

Currency and interest-rate risks

The international operations of the Fresenius Group expose us to a variety of **currency risks**. In addition, the financing of the business exposes us to certain **interest rate risks**. We use derivative financial instruments as part of our risk management to avoid any possible negative impacts of these risks.

However, we limit ourselves to non-exchange-traded, marketable instruments, used exclusively to hedge our operations and not for trading or speculative purposes. All transactions are conducted with banks that have a high rating.

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

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

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

As a globally active company, we have production facilities in all the main currency areas. In the service businesses, our revenue and cost base largely coincide. The Fresenius Group uses a Cash-Flow-at-Risk (CFaR) model in order to estimate and quantify such **transaction risks** from foreign currencies. The foreign currency cash flows that are reasonably expected to arise within the following 12 months, less any hedges, form the basis for the analysis of the currency risk. As of December 31, 2017, the Fresenius Group's cash flow at risk was €79 million. Hence, with a probability of 95%, a potential loss in relation to the forecast foreign exchange cash flows of the next 12 months will not be higher than €79 million. Further details on financial risks can be found on pages 194 to 201 in the Notes.

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. Further information can be found on pages 164 ff. of the Notes.

Taxes and duties

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

Debt and liquidity

Fresenius' debt was €19,042 million as of December 31, 2017. The **debt** could limit the Company's ability to pay dividends, arrange refinancing, be in compliance with its credit covenants, or implement the corporate strategy. If the conditions on the relevant financial markets deteriorate significantly, financing risks could arise for Fresenius. We reduce

these risks through a high proportion of mid- and long-term funding with a balanced maturity profile. Our financing agreements contain covenants requiring us to comply with certain financial ratios and additional financial criteria. Noncompliance with these covenants could result in a default and acceleration of the debt under the agreements.

Additional information on conditions and maturities can be found on pages 169 ff. of the Notes and on pages 42 ff. of the Group Management Report.

COMPLIANCE AND LEGAL RISKS

Compliance risks

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

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

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

Each business segment appoints a Chief Compliance Officer to oversee the development, implementation and monitoring of the relevant business segment's Compliance Management System. Business segments have established compliance responsibilities in line with their organizational and corporate structure. The Corporate Compliance department of Fresenius SE & Co. KGaA supports the compliance officers in each business segment with standardized instruments, processes and methods, and reports to the Chief Compliance Officer of Fresenius SE & Co. KGaA – the member of the Management Board for Legal Affairs, Compliance and Human Resources.

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

Further information about our Compliance Management Systems can be found in the Group Nonfinancial Report on pages 81 ff.

Legal risks

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

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

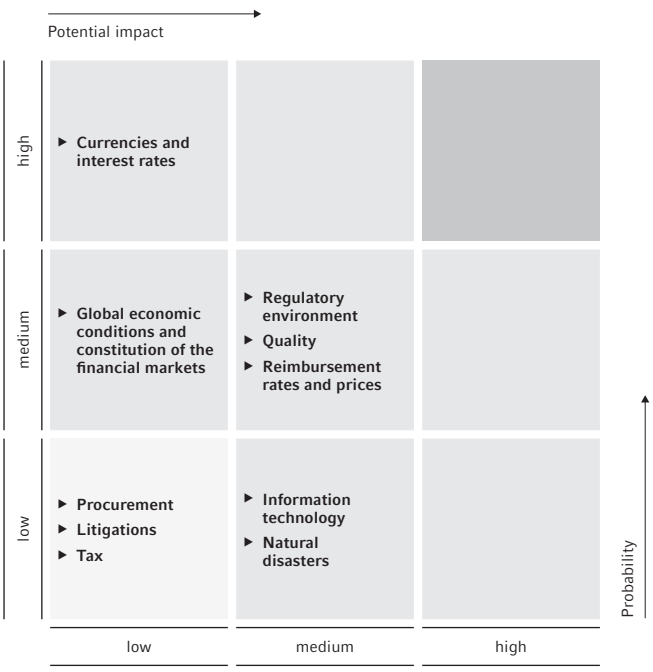
Information regarding legal matters and an ongoing internal compliance review at Fresenius Medical Care can be found on pages 186 to 193 of the Notes.

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

OTHER RISKS

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

RISKS AFFECTING THE ONE-YEAR FORECAST PERIOD



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 on this page shows the significant risks that could lead to deviations from the expected business performance within the one-year forecast period. Compared with last year, the risk of natural disasters was incorporated. Apart from that, no changes have occurred in the grouping and the potential effects of risks. Within the regulatory environment, due to possible initiatives by the 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.

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 target. We believe the following, as was the case last year, will be particularly important for this:

- Risks relating to the quality, safety, and effectiveness of our products and services (Risks for operating risks, see page 61 f.);
- Risks arising from the financing of health systems and potential changes in reimbursement systems (Risks in the health care sector, see page 59 ff.);
- Risks arising from the regulatory environment and compliance with laws and regulations (General economic risks and risks in the general operating framework, see page 58 f.).

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GROUP NONFINANCIAL REPORT. We are committed to responsible management and ethical business principles as an integral part of the Fresenius corporate culture. These principles, which underpin our professionalism, include honesty and integrity in relations with our patients, customers, governments, and the general public.

OUR RESPONSIBILITY

At Fresenius, the patient always comes first. For more than 100 years, we have been working to save lives, promote health, and improve the quality of life of our patients. Economic success is not an end in itself for Fresenius; it rather enables us to keep investing in better medicine.

Every business decision we make is consistently guided by the well-being of our patients. It is at the center of everything we do. We are committed to integrity in conducting business with external partners and responsible action, as well as reliability in our communication.

With the Fresenius Code of Conduct, we set binding rules for our course of business that cover all employees of Fresenius SE & Co. KGaA, managers, and board members. The rules are intended to help us make the right decisions in our daily work. In addition, the Code of Conduct is the framework for the individual Codes of the business segments. The structure of this Group Nonfinancial Report is therefore aligned with our Code of Conduct and the Codes of the business segments.

The Fresenius Code of Conduct defines **material topics** for all our employees, which are mirrored in the materiality analysis conducted for this Group Nonfinancial Report:

- We take **responsibility for the well-being of the patient** and commit to the highest quality in our products, therapies, and services.
- We want to **do the right thing** and comply with all applicable rules and laws. In addition to legal requirements, we adhere to high ethical standards and rules of good corporate governance.
- Our success and growth are based on the commitment of our more than 270,000 employees worldwide. As an **attractive employer** we want to attract talent, retain employees, and develop them in the long term.
- With every business decision we make, we think and act long term. Therefore, it is natural for us to **protect nature as a basis for life** and to conserve resources.
- We are **committed to human rights** as they are defined by international standards, e. g. the Charter of Human Rights of the United Nations.

THE GROUP'S BUSINESS MODEL

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

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

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

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

For additional information on the Group's business model, especially legal and economic factors, as well as important markets and competitive positions, please see page 22 of the Group Management Report.

MATERIALITY ANALYSIS

We want our reporting on nonfinancial topics to be closely aligned with our business model, the interests of our stakeholders, and legal requirements. For this reason, we have defined the material nonfinancial topics for the Fresenius Group in a three-step process. This process consisted of an external analysis, an internal analysis, and a final prioritization and validation of the identified topics. The table on page 71 provides an overview of our nonfinancial activity areas.

For the **external analysis**, we first analyzed the nonfinancial reporting of companies in the health care sector and gathered topics that are typically included. In addition, we included reporting standards, examples given in the law, and material topics regularly requested and discussed with external stakeholders, e. g. investors, analysts, or rating agencies. Finally, we summarized these results and compared them with our existing reporting on nonfinancial topics.

In the second step, we discussed the results of the external analysis with representatives of the business segments in order to identify material nonfinancial topics for the Fresenius Group. Our primary focus was on the **internal business relevance**, i.e. the impact on and the relevance of the topics for our business operations.

In a third step, we enclosed the results of the separate materiality analysis from Fresenius Medical Care. The internally and externally identified **topics were prioritized and validated** with the responsible members of the Group Management Board. In this step, we decided to report not only in accordance with the minimum legal requirements, but on individual topics that were identified as material in at least one of the previous steps.

NONFINANCIAL ACTIVITY AREAS AT FRESENIUS

Serving the well-being of the patient	Doing the right thing	Being an attractive employer	Protecting nature as the basis of life	Protecting human rights
Social matters	Anti-corruption and bribery	Employee matters	Environmental matters	Human rights
▶ Quality of medical outcomes and patient satisfaction ▶ Quality and safety of products ▶ Data protection	▶ Code of Conduct ▶ Compliance Organization ▶ Compliance Management Systems (Prevent, Detect, Respond)	▶ Personnel structure and diversity ▶ Attract talent, retain and develop employees ▶ Employee engagement and participation ▶ Profit-sharing scheme ▶ Occupational health and safety	▶ Water ▶ Energy ▶ GHG emissions ▶ Waste ▶ Wastewater	▶ Child or forced labor ▶ Working conditions ▶ Non-discrimination ▶ Data protection

NONFINANCIAL RISKS

The Fresenius Group has not identified material risks related to its own operations, business relationships, products, or services that are very likely to have a material adverse effect on the nonfinancial aspects or on the Group's business operations. For a detailed overview of the Group's risk management please see pages 57 ff. of the Group Management Report.

SERVING THE WELL-BEING OF THE PATIENT [1]

At Fresenius, our aspiration is: better medicine for more people. We commit ourselves to strive for the highest quality in our products, services, and therapies. Our patients' well-being [1] is the main nonfinancial aspect in the Fresenius Group to measure our success. We achieve this through the medical quality of our treatments and services, product safety and quality, as well as protection of personal data and patient satisfaction.

QUALITY OF OUR PRODUCTS, SERVICES, AND THERAPIES

We place great importance on the high quality of our products, services, and therapies. The patients' health depends on it. All business segments make an overall contribution to increasing the quality and efficiency of **health care**. This will enable access to high-quality and affordable medical care for a growing number of people.

It is important that every Fresenius employee ensures that all applicable **quality and safety regulations** are consistently adhered to in his or her area of responsibility. Our employees in production plants, care centers, and clinics have a special duty of care while working in the manufacturing of products or providing medical services.

In our business segments, we focus on value-enhancing processes oriented toward efficiency and the needs of our customers. With our quality management, we aim to monitor and manage them on the basis of performance indicators, as well as to improve procedures.

The business segments adapt their quality management systems to their respective business models, resulting in different approaches. We therefore present the specific requirements, management approaches, and results in separate sub-sections for each business segment.

QUALITY OF CARE AND PATIENT SATISFACTION AT FRESENIUS MEDICAL CARE

Fresenius Medical Care has set out clear and consistent general principles regarding patient care for all members of staff who come into contact with the patients we treat in our own dialysis centers. According to these principles, clinical care must be in line with the company's policy and the order of the responsible physician. Fresenius Medical Care expects all

[1] The standards developed by the Global Reporting Initiative (GRI) as an internationally acknowledged framework for sustainability reporting define social matters as the impact of companies' activities on their customers' health, among others. The guidelines for nonfinancial reporting drawn up by the European Union demand for example that companies disclose material information regarding health, safety and consumer satisfaction under the aspect of social matters.

staff to adhere to the following, among other principles, in their dealings with patients:

- act ethically, fairly, courteously, competently and timely,
- treat all patients with dignity and respect,
- involve patients and families in treatment planning and processes whenever appropriate,
- respond carefully and accurately to patients' and families' questions.

Quality standards and guidelines

Fresenius Medical Care measures and assesses the quality of care at dialysis clinics in all operating segments on the basis of generally recognized quality standards and international guidelines[1], industry-specific clinical benchmarks and own quality targets. Chief Medical Officers (CMOs) as well as other relevant specialist departments in each segment are responsible for this task. Together they maintain and further develop internal quality policies, standards and guidelines taken from the guidelines and standards mentioned above, employing their individual medical experience and judgement. Our specialists use different IT systems and algorithms that fulfill local requirements to calculate and monitor **key performance indicators** (KPIs) relating to quality. In addition, we derive valuable insights from this data with the help of IT-supported systems and processes within the scope provided by the policies and guidelines. The results of this extensive analysis of treatment indicators are constantly reviewed to improve the quality of Fresenius Medical Care's dialysis care services.

Quality parameters

Fresenius Medical Care attaches particular importance to the quality of care it provides to its patients. For this reason, executives in the individual business segments regularly receive aggregated data on the quality of care together with the financial results.

In addition, Fresenius Medical Care publishes selected results of its treatment analyses every quarter to provide information about the quality of patient care and to underscore Fresenius Medical Care's social responsibility towards its patients. Fresenius Medical Care uses the following quality parameters for public reporting:

- **Kt/V** provides information about the effectiveness and efficiency of dialysis. It is calculated by dividing the product of urea clearance (K) and the duration of treatment (dialysis time, t) by the filtration rate of certain toxins (the urea distribution volume in the patient, V).
- The **hemoglobin value** in patients' blood must be kept within a defined range. Hemoglobin is the component of red blood cells that transports oxygen within the human body. An insufficient level of hemoglobin in the blood indicates anemia.
- **Albumin**, **calcium and phosphate levels** in the blood are indicative of a patient's general nutritional status and point to disorders in the mineral and bone metabolism of patients with chronic kidney disease.
- **Catheters** are associated with a serious risk of infection and an increase in the number of days spent in hospital. In contrast, a permanent vascular access is associated with reduced risk and supports effective dialysis treatment. Fresenius Medical Care records the number of patients who do not use a catheter as a vascular access for dialysis.
- The **number of days** patients are hospitalized is relevant for determining the quality of care, because more days spent in hospital significantly reduce the quality of life of dialysis patients and are particularly cost-intensive for health care systems.

In the reporting year, Fresenius Medical Care included the quality parameters of more than 90% of its dialysis clinics worldwide in its table of quality parameters by operating segment on page 73.

The company has identified a need for **integrated care for patients** with advanced renal disease to optimize transitions of care, develop cost-effective alternative therapies and care structures, increase renal transplantation rates, and reduce the costs associated with caring for patients. Based on these considerations, the CMOs and other specialist

[1] Kidney Disease: Improving Global Outcomes (KDIGO), Kidney Disease Outcome Quality Initiative (KDOQI), European Best Practice Guideline (EBPG)

departments at Fresenius Medical Care and other dialysis organizations have set up a **global initiative** to collaborate and share their clinical expertise with the aim of aligning the various definitions of clinical parameters used in quality management for end-stage renal disease. This group of experts is also dedicated to improving care as well as outcomes for dialysis patients worldwide. To this end, they analyze good clinical practices, develop new guidelines and promote their distribution in the respective clinic networks.

Patient satisfaction

Fresenius Medical Care carries out **patient surveys** in selected countries to find out where further improvements can be made and in which areas the company should expand its services. The different regions are responsible for coordinating these surveys. In the U.S., the state-run public health care authority Centers for Medicare & Medicaid Services (CMS) specifies the content of patient satisfaction surveys. Fresenius Medical Care uses the survey results to provide more specific information and training for both patients and clinic staff with the aim of permanently improving patients' quality of life.

Patient support in emergency situations

The company as a whole fulfills its social responsibility in crisis situations or in the event of international disasters. To ensure that the vital dialysis treatment required by dialysis patients is not interrupted, even in extreme conditions such as severe storms or floods, Fresenius Medical Care has a system of emergency response teams in place. Their task is to protect patients and employees in emergency situations and to give patients the best possible care, even under extremely difficult conditions. In addition, Fresenius Medical Care provides funds, dialysis machines and medical supplies for institutions that need specific help quickly. Fresenius Medical Care's crisis teams act whenever patients or employees are directly affected by natural disasters. In 2017, the response to the life-threatening conditions caused by Hurricanes Irma, Maria and Harvey in the U.S. and parts of the Caribbean is a good example of Fresenius Medical Care's social responsibility and commitment to patients.

FRESENIUS MEDICAL CARE: QUALITY PARAMETERS BY OPERATING SEGMENT

			North America		Europe, Middle East, Africa		Latin America		Asia-Pacific[1]	
	Description	Possible impact if too low	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Kt/V[2] >1.2	Effectiveness of dialysis: measures how well the patient was detoxified	Possibly more days spent in hospital; increased mortality	**98%**	98%	**95%**	96%	**93%**	91%	**96%**	97%
Hemoglobin[3,4,5] = 10 – 12 g/dl	Hemoglobin is responsible for transporting oxygen around the body	Indicative of anemia	**73%**	73%	**79%**	78%	**52%**	52%	**58%**	60%
Calcium[2] 8.4 – 10.2 mg/dl	Measures the patient's nutritional status and mineral balance	Marker for increased mortality	**85%**	84%	**76%**	76%	**77%**	79%	**75%**	75%
Albumin[6] ≥ 3.5 g/dl			**79%**	78%	**87%**	86%	**90%**	91%	**88%**	89%
Phosphate[2,7] ≤ 5.5 mg/dl			**63%**	64%	**79%**	77%	**76%**	77%	**70%**	72%
Patients without catheter (after 90 days)[8]	Measures the number of patients with vascular accesss	Possibly more days spent in hospital	**83%**	84%	**80%**	81%	**81%**	82%	**88%**	91%
Days in hospital per patient year[9]	Result of complications during dialysis	Restriction to patients' quality of life	**10.1**	10.0	**7.5**	8.0	**4.1**	3.8	**3.8**	4.4

[1] Includes data from the dialysis service provider Jiate in Taiwan and the Philippines
[2] KDOQI guidelines (Kidney Disease Outcomes Quality Initiative)
[3] KDIGO guidelines (Kidney Disease: Improving Global Outcomes)
[4] EBPG standard (European Best Practice Guidelines)
[5] Including patients with Hb > 12 g/dl without Erythropoietin-stimulating agents (ESA)
[6] European Reference Material ERM®-DA470k
[7] Phosphate specified as mg/dl of phosphorus
[8] Ability to create a vascular access (where we are directly responsible) and an indirect indicator of how well our patients are cared for
[9] Days spent in hospital for a patient during a 365-day dialysis treatment period

Relating to the fourth quarter of the respective year

CUSTOMER HEALTH AND PRODUCT SAFETY AT FRESENIUS MEDICAL CARE

For Fresenius Medical Care, customer health and product safety means creating a safe and healthy clinical environment to avoid harm potentially caused by Fresenius Medical Care's products. Our business success depends on the quality and safety of our products and services. To fulfill our commitment to our customers' health and the safety of products while complying with the numerous relevant regulatory requirements, Fresenius Medical Care has established processes in its operating segments that are embedded in the respective **quality management systems (QMS)**. The QMS in the different operating segments are based on the company's global quality policy. These established processes ensure that all of Fresenius Medical Care's products and procedures comply with quality and safety standards from their development to market approval, manufacture and use in clinics, right up to training customers and dealing with complaints.

Global quality policy

Fresenius Medical Care's products must comply with the valid laws and regulations in terms of their design, contents and the sourcing of raw materials. This is mainly the responsibility of two corporate functions: Global Research & Development (GRD) and Global Manufacturing & Quality (GMQ). In the global GRD and GMQ quality policy, Fresenius Medical Care commits itself to providing products and services of an uncompromised quality, while ensuring compliance with all relevant regulations. In addition, the heads of the GRD and GMQ functions, who are also members of the Management Board, are committed to ensuring the effectiveness of quality management systems and operations.

The quality policy is a key component of Fresenius Medical Care's quality management system and defines the company's purpose and approach with regard to the quality of its products and processes. The quality policy is proof of top management's commitment to developing and implementing the QMS and maintaining its effectiveness.

The quality policy provides a framework for compliance with all relevant rules and regulations. In practice, these include regulations by governmental authorities such as the European Union's Registration, Evaluation, Authorisation and restriction of Chemicals (REACH) and Restriction of Hazardous Substances (RoHS). It also covers standards defined by national and international associations like the Association for the Advancement of Medical Instrumentation (AAMI), the International Organization for Standardization (IOS) (e. g. ISO 9001 and ISO 13485) and the International Electrotechnical Commission (IEC). These regulations and standards apply to the licensing, safety, security and operation of Fresenius Medical Care's facilities, qualifications and licensing for personnel, equipment, quality assurance programs, as well as the dispensing, storage, and administration of controlled substances, among others.

Quality management system and quality inspections

All Fresenius Medical Care plants have successfully passed the annual ISO 13485/ISO 9001 or Good Manufacturing Practice (GMP) inspections required for recertification. Further to that, Fresenius Medical Care has established and implemented quality management systems in the Latin America segment based on local or international regulations. Each country in this region must comply at least with local regulations to be eligible for manufacturing recertification. The QMS of each country in the Latin America segment is reviewed in periodic management reviews as well as internal and corporate audits. In the Asia-Pacific segment, every plant that makes medical devices or pharmaceutical products has a local QMS certified in accordance with either ISO 13485:2003 and/or ISO 9001:2008. There are also plans to gradually certify the affected plants in accordance with ISO 9001:2015 and ISO 13485:2016.

Where applicable, each plant must also comply with the Medical Device Directive 93/42/EEC. Additional requirements must be taken into account for quality management systems when it comes to manufacturing medical devices or pharmaceuticals in most countries in the Asia-Pacific segment. These depend on the target market and country of production.

Reporting adverse events and product complaints

To guarantee the quality and safety of its products and services, as well as to improve product and service quality, Fresenius Medical Care also reviews adverse events and analyzes product complaints. The company uses this information, among other data, to evaluate the safety of its products and services. All employees with relevant tasks are required to understand, be familiar with, and follow Fresenius Medical Care's policies regarding the reporting of adverse events and product complaints.

QUALITY AND PRODUCT SAFETY AT FRESENIUS KABI

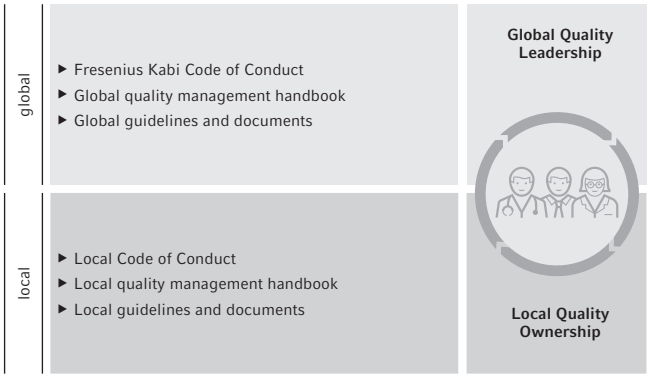
The **global quality management system** at Fresenius Kabi is based on the recognized ISO 9001 standard. It is binding for all locations and certified and audited annually by TÜV Süd. In addition, the quality management system takes into account national and international regulations governing product development, manufacturing, and marketing at Fresenius Kabi. These include, for example, Good Clinical Practice (GCP), Good Manufacturing Practice (GMP), Good Distribution Practice (GDP), the Code of Federal Regulations (CFR) of the U.S. Food and Drug Administration (FDA), and the ISO 13485 quality management standard for medical devices.

The importance of quality management is reflected in the organizational structure of Fresenius Kabi. The **global quality managers** report directly to the responsible member of the Management Board. The Management Board is thus directly responsible for quality management.

The core components of quality management at Fresenius Kabi are:

- **Global processes and standards:** Fresenius Kabi has implemented a global quality management handbook, as well as standard operating procedures. They apply to all production plants and sites of Fresenius Kabi. Through regular training on a global, regional, and local level, Fresenius Kabi ensures that employees are aware of those aspects of the quality management system that are relevant for their daily work.

QUALITY MANAGEMENT FRESENIUS KABI



- Fresenius Kabi has set up a **global monitoring and reporting system (vigilance system)** in order to be informed about product quality and patient safety issues in a timely manner and deal with them appropriately. The system comprises global **product risk management,** and an early-warning system. In the product risk management specially trained safety & complaints officers worldwide record complaints and side effects in IT systems. Reports are passed on to product experts to be investigated. The global safety officers react promptly and appropriately to any potential quality-related issue. They initiate and coordinate necessary actions on a global level, e. g. product recalls. With its **early-warning system**, Fresenius Kabi evaluates any quality-related information from various risk areas to identify risks at an early stage and take corrective and preventive actions. Information is obtained from databases for complaints and side effects, internal and external audits, and from key performance indicators used for internal control and optimization of quality processes. With these systems, Fresenius Kabi is able to evaluate the safety profile of any of its products at a global level.
- Fresenius Kabi regularly conducts **internal quality audits** to ensure the effectiveness of the quality management system and compliance with internal and external standards and regulations.
- Fresenius Kabi's **suppliers** are subject to a qualification process in their manufacturing based on the relevance of the supplied product or service. The qualification of suppliers, as well as their recertification, include regular audits.

- **Inspections by regulatory authorities** and **audits** by independent organizations and customers are performed along the entire value chain at Fresenius Kabi. Whenever these inspections reveal any weaknesses or deficiencies, Fresenius Kabi promptly takes steps to deal with them.

The overarching goal of quality management at Fresenius Kabi is to ensure the well-being of patients, as well as the quality and safety of our products, services, and therapies. In 2017, Fresenius Kabi achieved this goal. There were no incidents recorded with severe negative impacts on the business, patients, or other third parties.

Crisis management

In 2017, Fresenius Kabi demonstrated swift and targeted support in crisis situations. After Hurricane Maria in Puerto Rico, a delegated team helped restore operations at two production sites and distributed emergency supplies to more than 1,000 employees and their families. Furthermore, Fresenius Kabi had a close cooperation with a supplier in Puerto Rico in its recovery efforts.

QUALITY OF MEDICAL OUTCOME AND PATIENT SATISFACTION AT FRESENIUS HELIOS

Helios Germany

Helios Germany measures the **quality of medical outcomes** using key indicators on the basis of G-IQIs (German Inpatient Quality Indicators). These G-IQIs are not only used in the Helios Germany hospitals. In more than 400 German hospitals, different hospital operators have implemented these key indicators. Clinically relevant indications and surgical procedures are documented with the help of more than 1,500 key figures derived from routine administrative data. Helios Germany uses the latest reference data from the German Federal Statistics Office to benchmark its own performance.

Head doctors and hospital managers receive monthly reports on the medical quality of each department. Helios Germany analyzes the cases – including treatments and medical routines – in hospitals where target values were not achieved, in order to identify improvement opportunities. The **peer review** is of great importance in this process. This review is a discussion between specially trained medical experts from Helios Germany and from the **Initiative of Quality Medicine (IQM)**. They question statistical abnormalities and systematically search for improvements. Insights can be translated into concrete recommendations for action in the hospital in order to increase patient safety.

HELIOS GERMANY QUALITY PERFORMANCE INDICATORS (EXTRACT)

Indication/standardized mortality ratio (SMR) [1]	2017 SMR	2016 SMR [2]
Chronic obstructive pulmonary disease (COPD)	**0.67**	0.72
Acute myocardial infarction (AMI)	**0.72**	0.75
Heart failure	**0.58**	0.60
Ischemic stroke	**0.83**	0.86
Pneumonia	**0.64**	0.67
Hip fracture	**0.79**	0.80

[1] SMR 1 corresponds to the German average, SMR < 1 means that mortality is below the German average
[2] The German Federal Statistical Office's 2017 reference values were converted to G-IQI 5.1 with new reference values in 2017. For comparability, the 2016 values are also calculated and presented according to this version.

Further information can be found at:
www.helios-gesundheit.de/unternehmen/was-wir-tun/medizin/qualitaet/qualitaetskennzahlen/

Helios Germany is involved in the IQM to exchange ideas and knowledge with other hospital operators. IQM members are committed to observing three basic principles: quality measurement with administrative data, publication of results, and peer review processes. IQM members provide acute care for approximately 6.3 million inpatients in more than 400 hospitals in Germany and Switzerland. In Germany, their share of acute care is 30%.

We have defined specific **targets** for 45 [1] G-IQIs. These targets are set at a level above the national average for Germany. In 2017, we achieved the targets for 44 quality indicators, a success rate of 98% (2016: 93%).

An extract of six indicators can be found in the table above. Their selection is based on the frequency of the cases.

Hygiene management

Helios Germany also focuses on hygiene management. The principal goal is to prevent the spread of infections by pathogens in a clinic. The **Helios Group Hygiene Regulation** (Helios Konzernregelung Hygiene) is based on the recommendations of the Robert Koch Institute and is binding for all employees and clinics. Helios Germany conducts regular training courses on hygiene management. In daily operations,

[1] By decision of the specialists for visceral surgery, the indicator "Transfer rate for removal of gallbladder in patients with gallstones" has been downgraded from target value to observation value, so that in 2017 a total of 45 targets were attainable.

hygiene management is conducted locally by specially qualified nurses and hospital hygienists. It differentiates between nosocomial (i. e. acquired in the hospital) infections and those brought from the outside by patients.

Further data on the most common pathogens[1] are published in the Helios Germany publication Hygiene EinBlick (Hygiene InSight) and on the Internet.

Patient satisfaction

Since 2009, Helios Germany has conducted patient surveys of inpatients using a **standardized questionnaire**. A service provider evaluates the questionnaires on a monthly basis. In addition to the quality of medical results, quality of care is essential for the assessment of patient satisfaction. Helios Germany uses the results to keep up with patient satisfaction regarding care and service and to initiate necessary improvements promptly.

From 2018, Helios Germany employees will conduct weekly inpatient **interviews** at the hospital sites and electronically and anonymously record the information. The surveys will be evaluated locally in order to be able to directly analyze patient feedback and initiate improvement processes without delay.

Helios Germany is convinced that transparency creates the best incentive for improvement. In addition, the results for medical treatment quality, key indicators in the field of hygiene, and results of patient surveys are published on the website www.helios-gesundheit.de.

Helios Spain (Quirónsalud)

Quirónsalud is firmly committed to ensuring **patient safety**. It is embedded in the company's quality strategy. The company is currently strengthening its hospital benchmarking system, aligning it with the pathogen-based benchmarking system of Helios Germany. Furthermore, Quirónsalud is developing a peer review system for hospitals and a procedure for auditing clinical results, as well as a procedure to evaluate and follow-up on quality of care and patient satisfaction indicators.

QUALITY MANAGEMENT AND PATIENT SATISFACTION AT FRESENIUS VAMED

Fresenius Vamed designs its quality processes based on established standards such as ISO 9001, ISO 14001, ISO 13485, as well as the European Foundation for Quality Management (EFQM) standards. In addition, Fresenius Vamed has certified health care facilities according to the Joint Commission International (JCI), ISO or QMS Reha models. To ensure its quality standards, Fresenius Vamed uses regular internal audits as well as external recertifications.

Fresenius Vamed uses performance indicators in the quality management system of its health care facilities. These are exclusively used for the optimization of local and internal processes.

Patient satisfaction

Fresenius Vamed has implemented a continuous and structured process for patient satisfaction surveys in its health care facilities. The company evaluates data internally and implements improvement measures in the respective facilities.

PROTECTION OF PERSONAL DATA

Fresenius takes responsibility for future-oriented health care. This requires the use of information and communication technologies. This particularly requires us to act with special care when handling the data of our patients, employees, and partners. We respect the right to informational self-determination and the rights and privacy of all persons about whom we collect, receive, process, and use data.

We make sure that unauthorized access by third parties is prevented. If we use third parties to process data, we ensure that these guarantee data protection.

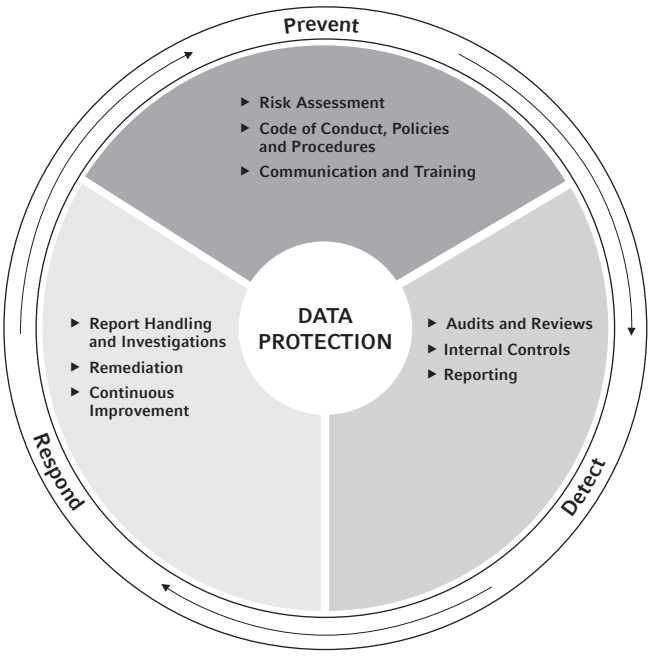
ORGANIZATION

Responsibility for compliance with data protection regulations lies within the individual entities. They are supported by **data protection advisors** and the **data protection officers** in all questions concerning data protection. The data protection officer is responsible for monitoring compliance with data protection laws.

At the corporate level, the data protection team, consisting of two advisors for data protection and the data protection

[1] The most relevant pathogens published are: MRSA (methicillin-resistant Staphylococcus aureus), VRE (vancomycin-resistant Enterococcus) and MRGN (multiresistant gram-negative rods).

DATA PROTECTION MANAGEMENT SYSTEMS



officer, is part of the Corporate Compliance department. The data protection officer directly reports to the Management Board member responsible for Legal and Compliance, and Labor Relations Director.

The individual **entities/countries** have also installed data protection advisors and/or data protection officers, which are supported by a central organization at the corporate level of the business segments or Fresenius SE & Co. KGaA respectively. If required by local laws in the countries, data protection officers are assigned. The data protection officer informs responsible management, i. e. board members or general managers. In the future, the further development of our Data Protection Management System will take place in the **Data Protection Coordination Committee**, in which data protection advisors and data protection officers regularly coordinate their efforts.

Fresenius Netcare is responsible for IT security and directly reports to the Chief Financial Officer.

DATA PROTECTION MANAGEMENT SYSTEMS

Loss of sensitive data or non-compliance with data protection laws can damage the trust our partners put in us. This is why we systematically analyze our **data protection and IT security risks** on an annual basis and develop measures to ensure an appropriate level of protection.

Based on our risk analysis, we have identified **five areas of activity**:

- protecting patient data
- protecting our IT networks from hacking, spying, or other attacks
- creating a uniform level of data protection
- implementing the guidelines of the General Data Protection Regulation (GDPR)
- involving data protection at an early stage

We manage our areas of activity in the Data Protection Management Systems in all our business segments and at Fresenius SE & Co. KGaA. They comprise three pillars: Prevent, Detect, and Respond.

Prevent

All business segments commit themselves to data protection in their codes of conduct. We take the following approach to the identified areas of activity:

- **Protect patient data**
  Sensitive personal data, such as patient data in our health care facilities or in studies initiated or supported by us, are only processed in accordance with legal requirements. This specifically means that patient data is only known to physicians responsible for treatment or health care facilities carrying out the studies. All persons with access to patient data are subject to confidentiality obligations. When using service providers to carry out clinical trials, they are contractually obliged to comply with all legal provisions on patient data protection.

- **Protecting our IT networks from hacking, spying, or other attacks**
  Access to sensitive or critical data from outside the secured data center network is protected by the use of secure protocols and cryptographic measures. In addition, we continuously invest in hardware and software and improve the knowledge on our systems. To minimize organizational risks, such as tampering or unauthorized access, we have implemented architectural concepts, user access regulations, and access security through passwords. The existing IT security architecture, with security measures at different levels, protects the systems in our data centers. In addition, annual penetration tests are carried out for applications with sensitive data (for example, patient or employee data). Redundant systems are maintained for all key systems, such as IT systems or communications infrastructure.
- **Creating a uniform level of data protection**
  In order to create a uniform level of data protection, we have agreed upon important key points for the design of the level of protection with the business segments and plan to implement binding corporate rules for Fresenius SE & Co. KGaA, Fresenius Netcare, and Fresenius Kabi. The minimum requirements for the technical and organizational measures, as well as regular classroom and online training for data protection, will help us to ensure compliance with these guidelines. The following applies to all business segments: we only exchange data based on respective legal basis containing the minimum requirements for technical and organizational measures. The data protection advisors and data protection officers support users in the business segments in complying with the requirements for the level of data protection.
- **Implementing GDPR guidelines throughout the Group**
  At the end of 2016, we initiated a Group-wide project to implement GDPR guidelines in the European entities. Among other things, we are further developing our approach to data protection risk analysis in order not only to meet the requirements of the General Data Protection Regulation on "Privacy Impact Assessment" for procedures and processes with increased data protection risk, but also to classify all procedures and processes according to a uniform risk catalog. Following a risk-based approach, this procedure leads to comprehensive technical and organizational measures.
- **Involving data protection at an early stage**
  Only by involving data protection employees at an early stage in the development of new procedures or systems can we ensure the appropriate technical and organizational measures to protect personal data. For this, we have put a network of dedicated data protection advisors in place at Fresenius SE & Co. KGaA and at Fresenius Kabi in 2017.

Thereby, we ensure that data is handled carefully and confidentially and is protected in our Company.

Detect

The business segments and Fresenius SE & Co. KGaA offer different options, such as whistleblowing systems or dedicated email addresses, to report cases of non-compliance. Employees can report cases or other matters related to handling personal data, as well as IT security, to the data protection officer, directly to their superior, or anonymously.

Our own **Cyber Emergency Response Team** at Fresenius Netcare investigates attacks on our IT infrastructure. In 2017, we recorded approximately 800 cyber incidents.

Over the next few years, we plan to develop key performance indicators for data protection (data protection cockpit), through which we can manage data protection issues even better.

The following functions are responsible for the regular review of the described measures: Cybersecurity, IT Security, and Compliance. Regular and random checks are also carried out as part of internal audits.

Respond

We immediately follow up on suspected violations and inquiries from people who have been affected by incidents or from the authorities. We take identified weaknesses or violations and new developments as an opportunity to improve our internal processes immediately. If current developments require it, we take further ad hoc measures.

DOING THE RIGHT THING

For us, compliance means more than acting in accordance with laws and regulations. Compliance means doing the right thing. This means: We adhere to all rules, including legal requirements, internal guidelines, our commitments, and ethical principles. Compliance is an integral part of our corporate culture and our daily work. Our **Fresenius Code of Conduct** defines the framework of our rules. All Fresenius business segments have implemented Codes of Conduct. They cover the specifics of their businesses and reflect the values of the Fresenius Code of Conduct. Underlying guidelines, instructions, and process descriptions complement and specify the rules of the Code of Conduct. Our Compliance Management Systems are designed to achieve the implementation of these rules within the Company.

We take even possible misconduct seriously. Any illegal actions or violations of the rules may harm the individual and Fresenius. We do not tolerate non-compliance. If a violation of applicable regulations is detected, we will take the necessary actions to remediate the violation and prevent any recurrence. We also take all reports as an opportunity to review our company processes for possible improvements.

COMPLIANCE MANAGEMENT

COMPLIANCE ORGANIZATION

Each of our business segments has appointed a Chief Compliance Officer who is in charge of developing, implementing, and monitoring the **Compliance Management System (CMS)** of the business segment. In line with the business structure and organization, the business segments have established compliance responsibilities at the respective organizational levels. Within these structures, local management is responsible for compliance in their respective legal entities. Besides this, more than 150 employees are working in a full-time compliance function within the Fresenius Group.

The **Corporate Compliance department** of Fresenius SE & Co. KGaA supports the compliance functions of the business segments with standardized tools, processes, and methodologies. To further develop the Group's Compliance Management Systems, Corporate Compliance develops global compliance initiatives in consultation with the compliance functions of the business segments. In addition, the Corporate Compliance department of Fresenius SE & Co. KGaA is responsible for developing, implementing, and monitoring the CMS of Fresenius SE & Co. KGaA and its corporate functions. The Corporate Compliance department reports to the **Chief Compliance Officer** of Fresenius SE & Co. KGaA – the member of the Management Board responsible for Legal, Compliance, and Labor Relations.

The **Compliance Steering Committee (CSC)** is the central consultative committee at Fresenius SE & Co. KGaA for compliance topics. It facilitates exchange with other relevant governance functions. It's main duties are:

- It consults on the status and developments of the Group's CMS and important compliance initiatives.
- It discusses severe cases of potential misconduct and remediation actions.
- It discusses compliance-relevant topics of other governance functions, such as Internal Audit planning and Internal Audit reports.

The CSC comprises the following participants of Fresenius SE & Co. KGaA: the Chief Compliance Officer, the Chief Financial Officer, and the Heads of Legal, Internal Audit, and the Corporate Compliance department. All business segments provide the CSC with an annual update on their Compliance Management Systems. CSC meetings are held every six to eight weeks, minimum six times per year. In the seven CSC meetings held in 2017, focus was on developments of the Compliance Management Systems, new regulatory requirements, important Compliance initiatives, on cases of potential misconduct, and implemented remediation measures.

The Supervisory Boards of Fresenius SE & Co. KGaA and the general partner, Fresenius Management SE, are regularly informed – at least once per year – about compliance within the Group. Topics include the Compliance Management Systems, current and future compliance initiatives, cases of potential misconduct, and remediation measures performed.

COMPLIANCE MANAGEMENT SYSTEMS

We have implemented risk-based Compliance Management Systems in all our business segments and at Fresenius SE & Co. KGaA's corporate level. They comprise three pillars: Prevent, Detect, and Respond. Emphasis is placed on preventing any acts of non-compliance before they occur.

Such systems consider the markets Fresenius is operating in. They are tailored to the specific requirements of each business segment.

Prevent

Essential measures for prevention include a thorough risk assessment, adequate and effective policies and procedures, regular training, and continuous advice.

We assess compliance risks regularly using standardized methodologies in each business segment and at Fresenius SE & Co. KGaA. These **risk assessments** include up to 21 compliance risk groups depending on the business structure. The risk analysis is conducted in a top-down approach. In addition, Fresenius Kabi has started implementing a bottom-up risk analysis. Once per year, the compliance functions of the business segments and Fresenius SE & Co. KGaA share significant insights from the individual risk assessments. Thereby, they identify relevant risk areas and material changes that are relevant for the Group.

Across all business segments, corruption is one of the **focus risk areas**. From a Fresenius Group perspective, antitrust and data privacy are additional focus risk areas.

All business segments defined **anti-corruption measures** as a central element of their Compliance Management Systems. The trust of our patients, business partners, and the public must not be compromised by non-compliant conduct. Therefore, we set high standards for interaction with health care professionals and organizations as well as public customers worldwide. We do not tolerate any business that is initiated or carried out in an unfair manner, and we strictly oppose corruption and bribery. Our codes of conduct strictly prohibit every form of influence through undue practices. The following **four principles** help us to act with integrity at Fresenius:

COMPLIANCE MANAGEMENT SYSTEMS (CMS)

- We set appropriate remunerations: performance and reward must be equivalent – for us as well as for third parties.
- We document business arrangements transparently in agreements.
- We strictly separate sales transactions and transfers of value, received or granted: transfers of value must not be related to a potential sales transaction through timing or cause.
- We observe approval and disclosure requirements.

Our anti-corruption measures include selecting our partners carefully and according to objective criteria. In all our business segments and at Fresenius SE & Co. KGaA's corporate level, we have risk-based due diligence processes in place to determine the risks related to our **business partners**. So far, more than 9,000 business partners have been reviewed in this way. Based on the risk profile, we implement appropriate mitigation measures, such as contractual commitments, to prevent corruption at the business partner.

We also take compliance risks into account for acquisitions and investment decisions. Processes to conduct compliance due diligence measures are implemented in all business segments. In these, specific audit procedures for compliance risks, especially for corruption risks, are performed. The results are considered in the decision making.

In all our business segments and at Fresenius SE & Co. KGaA, the compliance functions support the management in establishing adequate internal controls to ensure compliant business transactions in daily business. The internal controls are described in **compliance policies and procedures** on business segment and corporate level. The guidelines provide support for our employees to take the right decisions, especially on questions in the three focus risk areas.

In addition, we support our employees through regular **classroom and online training**. Training covers the respective Code of Conduct, company policies, or specific topics, such as anti-corruption, anti-trust, or data protection. They help keep the rules of the Code of Conduct in mind, as well as preventing potential violations. Training has a high priority for Fresenius and applies to all employees, including managers. We select participants on a risk-oriented and function-focused basis. In this way, all new employees receive relevant compliance training on a standardized basis as part of the onboarding process. Key compliance training, such as the Group's Code of Conduct, is mandatory for all employees and repeated regularly. We perform function-specific compliance training for high-risk areas. In addition, we have processes in place to ensure that all employees join relevant compliance training on a regular basis. As an example, Fresenius Helios trains all new managers centrally in applying and implementing the Fresenius Helios Anti-Corruption guidelines. Besides the managers, all product group managers of Fresenius Helios purchasing and all employees in construction and project management with relevant authority are trained by the central Compliance function.

All compliance functions provide **continuous advice** to employees in compliance-related questions. The business segments have established compliance responsibilities throughout the organizational structures. Local compliance functions provide the employees with answers and support the employees with decisions in their daily work locally. They are supported in return by the compliance functions in the regions and divisions. The compliance functions at the corporate level of the business segments develop global initiatives for the business segments and support the compliance functions in the regions and divisions in their compliance initiatives. The Corporate Compliance department of Fresenius SE & Co. KGaA supports the compliance functions of the business segments as required.

Detect

Through objective indicators we try to detect potential Compliance risks early on. With the **Compliance Cockpit**, Fresenius Kabi has a tool in place to give an overview on Compliance-relevant indicators of each legal entity. For this, it uses objective internal and external indicators. Fresenius Kabi reviews the Compliance Cockpit of all entities annually and determines required monitoring measures for entities with a higher risk profile.

For cash and bank transactions, we have implemented controls such as the four-eyes principle, as well as complete monitoring of cash payments above certain thresholds. Thereby, we ensure that all financial transactions are based on a legitimate purpose and are properly authorized and executed. Automated procedures and analyses of the adherence to value limits enable us to detect compliance risks early on.

In addition, the Corporate Compliance functions of Fresenius SE & Co. KGaA and Fresenius Kabi regularly perform functional reviews of compliance initiatives in the form of workshops. Thereby, they ensure that guidelines and processes are implemented and support employees regarding questions of correct behavior in day-to-day business. The Corporate Compliance Department of Fresenius SE & Co. KGaA accompanied seven international workshops in 2017.

Helios Germany conducts a yearly **transparency review** in selected hospitals. In this review, the adherence to the regulations in the transparency guideline is tested on a sample basis.

In addition, the Internal Audit departments of Fresenius perform **independent audits** of the Compliance Management Systems by auditing business segments and Group companies, also including compliance-relevant topics. Internal Audit examines the implementation of policies and procedures and the effectiveness of the CMS. If the results of reviews or audits reveal any potential for improvement, necessary actions are defined in consultation with the responsible management. In 2017, Internal Audit has performed multiple compliance-related audits at Fresenius SE & Co. KGaA and in the business segments across the world.

If Fresenius employees are aware of potential misconduct, e. g. non-compliance with laws, regulations, or internal policies, they can contact their superior or the responsible compliance function to **report** a potential compliance case. In addition, they can report compliance cases anonymously. For this, the business segments and Fresenius SE & Co. KGaA offer different options, such as whistleblowing systems or dedicated email addresses.

Fresenius SE & Co. KGaA and Fresenius Kabi have opened the whistleblowing system not only to employees, but also to third parties, such as customers, suppliers, and other partners, via the corporate website.

Respond

We follow up on all reported or otherwise detected compliance cases at the corporate level of Fresenius SE & Co. KGaA or in the business segments, depending on the severity of the potential misconduct. To this end, we objectively assess all cases of potential misconduct for their plausibility and potential severity first, in order to manage all potential misconduct fairly and comprehensively. The severity of the case determines who is responsible for handling the case. If necessary, an investigation is performed either by an internal investigation team or with external support. After finishing the investigation, we define and implement necessary remediation measures that prevent or at least impede future misconduct.

We take all **reports** as an opportunity to review our company processes for possible improvements. The implementation of measures is performed in a timely manner by the responsible management in cooperation with the responsible compliance function. Depending on the type and severity of misconduct, sanctions for employees responsible for the misconduct are determined. Such sanctions can include actions under employment, civil, and criminal law.

In order to ensure ethical conduct, we continuously review and question current practices and try to learn from **best practices**. In our annual Compliance Conference, the Compliance functions of the business segments regularly share their experience. The four different business models of our business segments enable us to learn from each other. Participants of the conference are the Chief Compliance Officer of Fresenius SE & Co. KGaA, the employees of the Corporate Compliance department of Fresenius SE & Co. KGaA, the compliance functions of the business segments, as well as the Heads of the departments Legal and Internal Audit. In the course of the year, the Compliance Conference is complemented by telephone conferences every two months, regular jour fixes, and regular exchange in topic-related working groups.

Our aim is the continuous **improvement** of the compliance measures to fulfill our commitment to the highest quality of our products and services, integrity in dealing with our partners, responsible conduct, and reliability in our communication for the well-being of our patients in the future.

In fiscal year 2017 the Fresenius Group was involved in various legal disputes resulting from business operations. Further information regarding legal matters can be found on pages 186 ff. of the Notes.

BEING AN ATTRACTIVE EMPLOYER

The commitment of our more than 270,000 employees worldwide is the basis for the success and sustained growth of Fresenius. With their achievements and skills, our employees are helping our businesses occupy leading positions in their markets. We want to attract, retain, and develop talent at Fresenius. That is why we offer them a variety of attractive development opportunities. Furthermore, we promote international and interdisciplinary cooperation, as well as diversity in the business areas and regions. In the Group Management Board, the member of the Management Board responsible for Legal and Compliance and Labor Relations is responsible for all central employee matters.

PERSONNEL STRUCTURE AND DIVERSITY

At the end of fiscal year 2017, the Fresenius Group employed 273,249 employees. That was 40,376 people or 17% more than in the previous year (December 31, 2016: 232,873). Organic employee growth was 2%. Acquisitions contributed 15% to this increase.

EMPLOYEES (FTE) BY BUSINESS SEGMENT

	2017	2016	2015
Fresenius Medical Care	**114,000**	109,319	104,033
Fresenius Kabi	**34,923**	33,476	31,857
Helios Germany[1]	**57,719**	56,596	52,289
Helios Spain (Quirónsalud)	**27,858**	n. a.	n. a.
Fresenius Vamed	**7,215**	6,909	7,062
Corporate/Other	**969**	889	819
Total (FTE)	**242,684**	207,190	196,061

[1] Number of employees converted to the full collectively agreed working time on monthly average (Vollkräfte)

EMPLOYEES (HEADCOUNT) BY REGION

	2017	2016	2015
Europe	**154,172**	119,434	114,753
thereof Germany	**86,613**	84,165	80,640
Europe excl. Germany	**67,559**	35,269	34,113
North America	**75,083**	72,803	68,859
Asia-Pacific	**24,381**	22,441	20,257
Latin America	**17,709**	16,283	16,498
Africa	**1,904**	1,912	1,938
Total as of Dec. 31	**273,249**	232,873	222,305

Our employee structure by function remained fairly unchanged compared to the previous year's figure. About 15% of our employees work in production while 70% are engaged in service.

EMPLOYEES BY FUNCTION

	2017	2016	2015
Production	**40,189**	38,069	37,317
Service	**190,564**	161,495	153,775
Administration	**28,568**	19,955	19,051
Sales and marketing	**11,156**	10,584	9,915
Research and development	**2,772**	2,770	2,247

The **proportion of female employees** in the Fresenius Group was 68% as of December 31, 2017 (December 31, 2016: 68%). The number of women who participate in the Group-wide stock option plans is a good indication for the women's share in management positions worldwide. The female quota among these approximately 1,400 top executives amounted to 30.3% as of December 31, 2017.

FEMALE EMPLOYEES IN THE BUSINESS SEGMENTS

	2017	2016	2015
Fresenius Medical Care	**69%**	69%	69%
Fresenius Kabi	**51%**	51%	50%
Fresenius Helios	**76%**	76%	77%
Fresenius Vamed	**56%**	56%	55%
Corporate/Other	**39%**	39%	40%

Fresenius respects and promotes a **culture of diversity**. We are convinced that the combination of different perspectives, opinions, cultural impressions, experiences, and values will enable us to exploit the potential that will make us successful. We aim to maintain and foster this cultural diversity in our company. The Fresenius Code of Conduct is the foundation for a company culture characterized by collaboration and mutual respect. It is binding for all Fresenius employees.

Our **intercultural working environment** is a clear competitive advantage, especially in these times of globalization. The knowledge and social skills of our employees of different ethnic, social, and religious backgrounds support us in developing a high sensitivity for local needs of our customers and patients.

The average age of an employee was 41.6 years in 2017 (2016: 41.5 years). The majority (55%) of our employees is between the age of 30 and 50. For further information on our diversity concept for the Management Board and the Supervisory Board, please see our Corporate Governance Declaration and Report on pages 106 ff. of our Annual Report.

AVERAGE AGE [1]

	2017	2016
Fresenius Medical Care	**41.8**	n. a.
Fresenius Kabi	**38.5**	38.7
Fresenius Helios	**42.7**	42.6
Fresenius Vamed	**43.0**	43.5
Corporate/Other	**39.2**	39.2
Total	**41.6**	41.5

ATTRACT TALENT, RETAIN AND DEVELOP EMPLOYEES

The ongoing globalization of our markets remains a challenge for our human resources management. Since needs differ in the various business segments, all employee development concepts are formulated and implemented according to specific market requirements and cultural differences. Our human resources management focuses on three topics:

- **Attract talent:** Over recent years, we significantly broadened our personnel marketing activities and expanded our global career website. In fiscal year 2017, the market research institute Potentialpark named Fresenius as the best German company in the category "Online appeal to applicants" for the sixth consecutive year.
- **Retain employees:** As an international health care Group, our human resources management and accompanying activities are designed for local needs, e. g. flexible working time models or incentive programs to participate in the company's success.
- **Develop employees:** Our personnel management instruments are continuously adjusted to meet future challenges. The Group-wide binding trainings on our Code of Conduct are accompanied by mandatory training in the business segments, e. g. in quality management, environmental management, or occupational health and safety management. Further individual training courses for employees and executives, as well as training relevant to the respective departments, complement our personnel development measures.

We offer our employees the opportunity to develop their career in an international, dynamic environment. Depending on the customer and market structure, our business areas place very different demands on concepts and measures for 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.

AGE STRUCTURE [1]

	2017			2016		
in %	Below 30	Between 30 and 50	Above 50	Below 30	Between 30 and 50	Above 50
Fresenius Medical Care	**17%**	**58%**	**25%**	n. a.	n. a.	n. a.
Fresenius Kabi	**25%**	**59%**	**16%**	24%	60%	16%
Fresenius Helios	**19%**	**49%**	**32%**	19%	50%	32%
Fresenius Vamed	**18%**	**54%**	**28%**	18%	54%	29%
Corporate/Other	**24%**	**55%**	**21%**	23%	57%	20%
Total	**19%**	**55%**	**26%**	20%	53%	27%

[1] Data of Fresenius Medical Care are based on country data representing 89% of Fresenius Medical Care employees. Fresenius Kabi's data encompass employees globally. Data of Fresenius Helios include Helios Germany only. Data of Fresenius Vamed also include temporary staff.

The Fresenius Group devotes a lot of attention to **vocational training**. We trained more than 4,000 young people in 31 different occupations at our German locations in 2017 and also put more than 100 university students through 19 degree programs in cooperation with dual institutions of higher learning. In order to meet the challenges of the digitization of its work processes, Fresenius has increased the number of training and study places it offers in IT and IT-related professions and offers new dual courses or topics of study, for example in Digital Business Management, E-health or Data Science. Alongside the traditional channel of direct job entry, Fresenius offers trainee programs for university graduates.

TRAINEES AND TRAINING RATIO FOR GERMANY

	2017	2016	2015
Trainees[1]	**4,019**	3,743	3,672
Training ratio	**4.64**	4.63	4.55

[1] includes vocational trainings and university students

The length of service within the Group may vary due to acquisitions in the business segments. In 2017 it was 8.3 years (2016: 8.4 years).

AVERAGE LENGTH OF SERVICE[1]

years	**2017**	2016
Fresenius Medical Care	**7.2**	n. a.
Fresenius Kabi	**7.4**	7.6
Fresenius Helios	**10.5**	10.8
Fresenius Vamed	**6.1**	6.0
Corporate/Other	**7.6**	7.6
Total	**8.3**	8.4

In 2017, the voluntary turnover rate was 11% (2016: 10.4%).

VOLUNTARY TURNOVER RATE[1]

in %	**2017**	2016
Fresenius Medical Care	**14.7**	n. a.
Fresenius Kabi	**11.3**	10.7
Fresenius Helios	**6.0**	5.3
Fresenius Vamed	**8.0**	n. a.
Corporate/Other	**2.7**	2.5
Total	**11.0**	10.4

Calculated as the number of employees who left the organization voluntarily in relation to the number of employees at the end of the year.

We encourage long-term retention with attractive development programs. The **Group-wide training catalog** is available to all employees. It includes, for example, programs for communication and presentation, self-management, project management, and target-group-specific learning content.

In addition to the training catalog, Fresenius documents training activities through the learning management system **Fresenius Learning Center (FLC)**. Those training activities are conducted in cooperation with a business segment or a department. Depending on the subject, these training programs may consist of one or more modules. Most training programs are provided as e-learning, as traditional web-based training, but may also include webinars or classroom training session. Employees in Germany who do not have access to a company computer, or who do not have a quiet work environment, can carry out the necessary training at specially designed learning places.

Fresenius Medical Care, Fresenius Kabi, and the Group departments of Fresenius SE & Co. KGaA manage and document the majority of their e-learning programs in the FLC system from the headquarters in Bad Homburg. Fresenius Helios and Fresenius Vamed offer e-learning independently and document the training activities in their own management systems. In 2017, Fresenius Kabi documented training activities in more than 50 countries in the FLC.

Group-wide **compliance training**, for example on the Code of Conduct, is compulsory for all employees and conducted on a regular basis. Furthermore, Fresenius conducts management-specific training for high-risk compliance areas. Fresenius has implemented control processes to ensure that all employees are trained on topics relevant for their work on a regular basis. Further information can be found in the compliance section, see pages 80 ff.

Fresenius has established two **Group-wide programs for executives**. The Top Executive Program Maximizing Leadership Impact in cooperation with the Harvard Business School targets senior executives. The Executive Program with the University of St. Gallen, Switzerland, focuses on strategy and change management, and is designed for executives in middle and upper management.

[1] Data of Fresenius Medical Care are based on country data representing 89% of Fresenius Medical Care employees. Fresenius Kabi's data encompass employees globally. Data of Fresenius Helios include Helios Germany only. Data of Fresenius Vamed also include temporary staff.

FRESENIUS MEDICAL CARE

Lifelong learning as well as personal and professional development are crucial elements of employee motivation and prerequisites for a successful career. In addition, they are critical for giving the company a competitive edge. Fresenius Medical Care invests in its employees and provides them with attractive development opportunities, taking into account their roles and individual strengths. This is reflected in various local, regional and global **development programs**. Examples include the Clinical Advancement Program (CAP), a development program designed specifically for state-registered nurses in the U.S., and the Fresenius Medical Care Leadership Academy for middle management positions in the EMEA region. Another aspect of this investment is the use of online trainings, which are available in all countries in which Fresenius Medical Care has employees. In 2017, the company also reviewed its leadership talents and succession pipelines with the aim of building a global talent management framework to support employees, managers, and HR colleagues in identifying and delivering "best-fit" solutions in the future. This includes shaping the way Fresenius Medical Care identifies, promotes and develops its leadership talents.

FRESENIUS KABI

Fresenius Kabi has created global, regional, and local structures for the training and development of employees. All employees are trained and qualified according to their functions and/or tasks. Compliance training, such as on the Fresenius Kabi Code of Conduct, is mandatory. In addition, our employees in production receive obligatory training with respect to good manufacturing practice, as well as occupational health and safety and environmental protection.

Management development at Fresenius Kabi is meant to support both corporate strategy and growth targets. This is why Fresenius Kabi aims to identify talents, retain them within the company, and develop them further. The development of executives requires continuous learning and is focused on the company values of Fresenius Kabi. The company supports the development of its executives with an annual talent review, a dialogue on performance, competences, and development potential. This talent review is the basis for identifying, evaluating, and developing talents in all of Fresenius Kabi's regions, divisions, and central functions worldwide.

FRESENIUS HELIOS

Knowledge is one of the four strategic corporate goals of Fresenius Helios: we want to share and increase our knowledge. It directly influences the quality of medical services and supports our ambition to present Fresenius Helios as an attractive employer in the health care market. All employee development programs support Fresenius Helios in reaching its other three corporate strategic goals: patient benefit, profitability, and growth.

Helios Germany

The **Helios Academy** and the **Helios training centers** offer extensive opportunities for competence-oriented education and further education to all professional groups. Since 2010, the basic curriculum care has been available at the Helios training centers. With **simulator training**, we also extend the competence of those employees who already possess a wealth of experience, e. g. in the field of anesthesia, intensive care medicine, and shock room. Interdisciplinary and interprofessional teams of doctors and nurses prepare themselves for possible emergency situations in the training sessions. They train and simulate typical scenarios of the respective medical areas. Competencies such as team and crisis communication are a major focus in these training sessions.

Helios Germany supports young talents in medical care and nursing care through a **central talent management system**. We offer a special development program to leading executives in the medical service. Thanks to it's trainee programs and management training, Helios Germany enjoys a reputation as an attractive employer among university graduates.

Helios Spain (Quirónsalud)

Quirónsalud has implemented a **corporate talent plan** to develop its employees. This contains a talent pool for internal exchange and training activities. The company continues to expand the training program, focusing specifically on occupational health and safety, patient information, patient safety, and patient care improvements.

FRESENIUS VAMED

One of Fresenius Vamed´s key success factors is the individual performance of its employees based on training, expertise, and project experience. The focus is on the further development of this success factor. Fresenius Vamed therefore offers its employees tailored programs for **professional training and development**. Key to all personnel development programs is keeping employees updated with regard to health care developments. The **VAMED Human Capital Management (HCM) program** is a leadership and development program for the identification of those with potential and their individual further development in order to be able to take on management and performance functions in the future.

Fresenius Vamed is also dedicated to the qualification and training of young employees through its various **trainee programs**. The trainee programs offer young employees with above-average development potential the opportunity to acquire comprehensive specialist know-how and professional experience for a particular job profile. In addition, all employees are entitled to participate in courses and training offered by the **VAMED Academy**. Besides specialist topics, training is offered for self-development, leadership, and social and methodological competence. Various knowledge platforms, such as the International Medical Board (IMB), bundle the know-how of around 650 health care professionals who work for Fresenius Vamed.

EMPLOYEE ENGAGEMENT AND PARTICIPATION

Fresenius SE & Co. KGaA has implemented a **European Works Council** with 22 members, as of December 31, 2017. These are employee representatives from Member States of the EU and the states party to the EEA Agreement in which the Fresenius Group employs staff. The European Works Council is responsible for the passing of resolutions on cross-border issues in Fresenius SE & Co. KGaA, where at least two countries are involved. The European Works Council elects the six employee representatives to the Supervisory Board of Fresenius SE & Co. KGaA.

PROFIT-SHARING SCHEME AND STOCK OPTION PLAN

For many years, Fresenius has paid a **stock-based profit-sharing bonus**, which is distributed when the Fresenius Group's EBIT and earnings targets defined in the program have been achieved. The table below shows the development in the profit-sharing bonus over the last several years.

With our **Long Term Incentive Program 2013**, we have a global compensation instrument linking management's entrepreneurial responsibility to future opportunities and risks. It comprises the Stock Option Plan 2013, as well as the Phantom Stock Plan 2013, and combines the granting of stock options with the granting of phantom stock awards. For additional information on stock options, please see pages 205 ff. of the Notes.

Fresenius Medical Care has its own share-based compensation plans.

PROFIT-SHARING BONUS

	2016	2015	2014
Profit-sharing bonus[1] in €	2,200	2,200	2,335
Eligible employees	6,130	5,934	5,730
Total of profit-sharing bonus[1] payment in € millions	12.2	11.9	9.8

[1] The profit participation is paid retroactively for the respective fiscal year. It forms part of the compensation in some German Group companies.

OCCUPATIONAL HEALTH AND SAFETY

Ensuring the safety of our employees is part of our corporate responsibility. The Fresenius Code of Conduct bindingly stipulates that all necessary measures for employee safety are taken to prevent occupational health and safety incidents. All business segments focus on preventive measures in the field of occupational health and safety and on the individual responsibility of the employees. The safety concepts are adapted to the business models of the four business segments. We aim to secure the occupational safety of our employees, as well as the safety of our patients.

All Fresenius business segments record data on occupational health and safety in line with regulatory provisions. Those which are consolidated at the business segment level are published in the following section of the nonfinancial statement.

FRESENIUS MEDICAL CARE

Fresenius Medical Care's operations are subject to governmental regulation in virtually every country in which the company operates. Although these regulations differ from country to country, they are generally designed to accomplish the same objectives. For example, they govern the operation of Fresenius Medical Care's clinics, laboratories, and manufacturing facilities, compliance with labor and employment laws, fulfillment of occupational, health and safety standards, and accurate reporting.

While local management is responsible for ensuring adherence to any local statutes or regulations that take precedence over the company's objectives, it is supported in the North America segment by a specialized department with responsibility for monitoring and evaluating operational activities with regard to **occupational health and safety management**. The function in charge of health and safety in the workplace also assesses external regulatory and legal requirements and incorporate them into our internal policies and guidelines together with regional and local management. Fresenius Medical Care is committed to giving occupational health and safety management the utmost priority and to providing a safe, healthy and productive workplace for its employees and business partners. In many countries, medical facilities must fulfill occupational health and safety requirements to achieve certification. For North America, EMEA and Latin America, internal reviews and audits are conducted to monitor compliance with occupational health and safety policies and procedures as part of local quality management systems; in the EMEA and Latin America segments, this is true for the dialysis care business.

Every year, Fresenius Medical Care's production sites and laboratories in the U.S. are put through a formal program to monitor environmental protection and occupational safety standards. Audits are carried out to check compliance with regulations from the U.S. Occupational Safety & Health Administration, the Department of Transportation and the Environmental Protection Agency as well as state and local statutes. For the EMEA segment, Fresenius Medical Care has bundled its occupational health procedures in a central management system for occupational safety based on the the British Standards for Occupational Health and Safety Assessment Series 18001 (BS OHSAS 18001) and incorporated it into the company's integrated management system.

Fresenius Medical Care aims to foster a culture of continuous improvement in the work environment with the goal of minimizing injuries and reducing incident rates. This includes:

- reporting and analyzing work-related accidents and injuries,
- identifying their root causes,
- implementing corrective action as appropriate.

As part of this concept, **KPIs** for occupational health and safety have been introduced to our production sites as well as Fresenius Medical Care's dialysis clinics to ensure that the information required by governmental authorities is provided.

FRESENIUS KABI

Fresenius Kabi has implemented binding **occupational health and safety guidelines**. The focus is on the prevention and processing of occupational incidents. The aim is to avoid all work-related accidents. The guidelines include standard operating procedures (SOPs) and standard process guidelines that provide a framework for occupational health and safety. In addition, Fresenius Kabi uses a **management system for occupational health and safety** in accordance with the international standard OHSAS 18001. This management system will be rolled out globally. Fresenius Kabi aims to improve occupational health and safety processes and control mechanisms at all locations to align them with internationally recognized standards.

The employees at Fresenius Kabi's **Global Work and Environmental Safety department** analyze and evaluate working procedures, risks, and processes and enable the exchange of best practices within the business segment. Fresenius Kabi performs internal audits at its locations to identify potential for improvement. To exploit this potential, measures are defined together with local employees responsible for occupational health and safety. Fresenius Kabi documents all occupational health and safety incidents and accidents that lead to lost working time for its employees or temporary workers. Reported cases are categorized according to their severity and might

lead to further training, or, in some cases, the adjustment of the existing standard operating procedures. All recorded incidents are transferred into the **key performance indicator** LTIFR (Lost Time Injury Frequency Rate). This KPI improved in 2017, compared to the previous year's figure. The reporting system covers all Fresenius Kabi employees, as well as temporary staff, globally.

In fiscal year 2017, no work-related fatalities or severe accidents were recorded at Fresenius Kabi.

FRESENIUS HELIOS

Helios Germany

Helios Germany is subject to various laws and regulations regarding occupational health and safety. To evaluate employee health and safety, Helios Germany has developed and implemented a **health and safety indicator (Gesundheits- und Sicherheits-Indikator – GSI)**. Experts in the clinics use five different categories: The implementation of the Occupational Health and Safety Act, risk assessment, occupational integration management, occupational health and safety practices, and an analysis of existing occupational health management. The GSI indicator is represented in a scoring system, where ten is the maximum achievable score. Reporting of the GSI is binding for all clinics of Helios Germany.

The department for employee health and safety holds responsibility for occupational health and safety at Helios Germany. The department reports directly to the Helios Germany board of management member responsible for personnel. Operational control of occupational health and safety based on GSI is performed on a local basis, adjusted to the individual clinic's needs. Hospitals that were able to identify weaknesses in individual categories took measures to correct them and to achieve improvements in the corresponding category, for example health promotion offers or occupational integration management.

In 2016, the **average GSI result** for all participating hospitals was 7.2 out of 10 points, within the defined target range of 7 to 10 points. In 2017, Helios Germany achieved a further improvement in this range with an overall result of 7.4. Helios Germany aims to continuously achieve an annual improvement in the average annual result.

Helios Spain (Quirónsalud)

Quirónsalud strives to develop a role-model culture of prevention within the health care sector that is geared toward internal customers and focused on caring for health, preventing occupational health risks, and promoting healthy habits among its employees. Quirónsalud unified the joint OHS service of its private hospitals and companies and developed a corporate training platform for specific, workplace related risks to train employees. Quirónsalud is currently undertaking a project to develop a balanced scorecard regarding its OHS activities.

FRESENIUS VAMED

All local entities of Fresenius Vamed are subject to occupational health and safety measures, in compliance with the applicable laws and regulations. The local management is responsible for the implementation of the respective procedures. Occupational health and safety is a corporate responsibility of Fresenius Vamed and included in its corporate culture and the vision statement of the company.

All locations are subject to regular **occupational health and safety inspections**. Furthermore, the employees of Fresenius Vamed are provided with occupational medical care and a related offer of checkups.

Fresenius Vamed offers all employees a wide range of health promotion offers through its occupational health management.

PROTECTING NATURE AS THE BASIS FOR LIFE

Our responsibility as a health care Group goes beyond our business operations. Fresenius is committed to protecting nature as the basis of life and using its resources responsibly. We comply with legal requirements and aim to improve the safety of our plants and our performance in the areas of environmental protection, product responsibility, and logistics. The four Fresenius business segments manage environmental matters differently to meet their individual business requirements. Therefore, we present the corresponding **environmental management approaches** separately for each business segment.

Fresenius Medical Care, Fresenius Kabi and Fresenius Vamed use the ISO 14001 standard as the basis for their environmental management. Furthermore, they have certified locations according to the energy management standard ISO 50001. In Europe, all Fresenius production sites are subject to the EU regulation REACH – Registration, Evaluation, Authorisation and Restriction of Chemicals.

Energy consumption, water consumption, and greenhouse gas emissions (GHG) data are collected in all business segments. To comply with the interests of external stakeholders, we will report Group figures[1] from 2017 onwards. External stakeholders, such as investors and environmental associations, frequently inquire about information on waste and effluents for the Group. Therefore, we will also include information on these topics.

Water is an important resource for all of the four Fresenius business segments. In particular, water quality is crucial as it is directly linked to the quality of our products and the safety of our patients. In fiscal year 2017, Fresenius[1] consumed a total of approximately 49 million m³ of water.

WATER CONSUMPTION FRESENIUS GROUP[1]

m³ in millions	2017	2016
Fresenius Medical Care	**36.0**	n. a.
Fresenius Kabi	**9.8**	9.8
Fresenius Helios	**3.2**	3.0
Fresenius Vamed	**0.3**	0.3
Total	**49.3**	n. a.

In fiscal year 2017, Fresenius[1] consumed a total of approximately 5.3 million MWh of **energy**. As with water consumption, our patients' well-being and product safety are the focus of energy management. Safe and uninterruptible power supply is therefore a top priority. Measures for saving energy are always considered with the utmost care. We continually optimize our energy procurement and generate energy ourselves at numerous locations. This makes us independent and secures the energy supply in the long term.

ENERGY CONSUMPTION FRESENIUS GROUP[1]

MWh in millions	2017	2016
Fresenius Medical Care	**2.80**	n. a.
Fresenius Kabi	**1.53**	1.46
Fresenius Helios	**0.95**	0.96
Fresenius Vamed	**0.05**	0.05
Total	**5.33**	n. a.

In fiscal year 2017, Fresenius[1] caused a total of 1,542 thousand t **CO_2 equivalents**.

GREENHOUSE GAS EMISSIONS FRESENIUS GROUP[1], SCOPE 1 AND 2

t CO_2 equivalents in thousands		2017	2016
Fresenius Medical Care	Scope 1	**326**	n. a.
	Scope 2	**530**	n. a.
Fresenius Kabi	Scope 1	**174**	164
	Scope 2	**248**	239
Fresenius Helios	Scope 1	**103**	104
	Scope 2	**152**	156
Fresenius Vamed	Scope 1	**3**	3
	Scope 2	**6**	6
Total	Scope 1	**606**	n. a.
	Scope 2	**936**	n. a.

[1] Fresenius Medical Care figures include data on electricity, natural gas and water consumption provided by GMQ-coordinated manufacturing sites as well as data on electricity and water consumption in our dialysis centers. Some environmental data for the fiscal year was not yet fully available at the time of this report. In these cases, figures were estimated and extrapolated. The data of Fresenius Helios contain all own hospitals in Germany. Fresenius Kabi's data include all facilities worldwide. Fresenius Vamed data include all fully consolidated health care facilities.

ENVIRONMENTAL MANAGEMENT AT FRESENIUS MEDICAL CARE

As a global player in the health care sector, Fresenius Medical Care is subject to a broad range of federal, foreign, state, and local laws and regulations relating to emissions and the protection of the environment. We aim to achieve environmental improvements throughout the entire life cycle of Fresenius Medical Care's products, as well as reducing the impact of our operations on the environment.

The laws we adhere to in our operations in accordance with our quality policy regulate, among other things, discharging substances into the environment, the handling and disposal of various kinds of waste and wastewater, remediation of contaminated sites, and other activities to protect the environment. In addition, the company uses substances that are regulated under U.S., EU and other national environmental laws.

COMPLIANCE WITH ENVIRONMENTAL LAWS AND REGULATIONS

The Global Internal Audit function at Fresenius Medical Care monitors and audits the company's business activities to confirm that it adheres to the law, company guidelines and policies. When potential violations are brought to its attention, Fresenius Medical Care will take appropriate action to investigate all such reports, and to ensure that its business is conducted in accordance with all applicable laws.

As Fresenius Medical Care has a decentralized structure, **environmental management** is implemented at a regional, national and local level. In the EMEA segment, environmental management is carried out as part of Fresenius Medical Care's integrated management system to systematically reduce and control risks associated with environmental protection and occupational health and safety, as well as fulfilling the respective legislations and meeting the expectations of our customers and patients in this regard. External experts regularly check compliance with the ISO 14001 environmental management standard at Fresenius Medical Care's company headquarters, in the area of research and development, as well as in the company's certified plants and national clinic organizations.

REDUCING ENVIRONMENTAL IMPACT ALONG THE PRODUCT LIFE CYCLE

Fresenius Medical Care's GRD organization is committed to delivering maximum efficiency and regulatory compliance. We aim to achieve environmental improvements along the whole life cycle of Fresenius Medical Care's products and reduce negative environmental impacts and risks for patients, employees and users. The life cycle principles embedded in Fresenius Medical Care's EMEA **environment, health and safety program** ensure that the Company continuously improves its performance with regard to the environment, health and safety. Fresenius Medical Care has therefore established a simplified, lean product life cycle assessment methodology (screening LCA) with the aim of identifying, assessing and reducing the environmental impact resulting from the design of a product over its life cycle. Screening LCA takes international guidelines into consideration to calculate the environmental impact caused during a product's life cycle in order to meet the requirements of IEC 60601-1-9 and ISO 14001. Our screening LCA covers the majority of our current medical device product lines.

The GMQ Green & Lean initiative has reported on **local sustainability initiatives** such as energy efficiency projects and projects to mitigate environmental risks to GMQ management since 2015. Thanks to this reporting process, best practices can be shared with other plants to save energy, reduce waste and waste water and use more renewable and alternative energies as well as finding further solutions for recycling material. Each plant is responsible for defining, planning and implementing these initiatives.

In addition to these activities, the GMQ and GRD functions within the EMEA and Latin America regions have committed themselves to minimizing the impact of their actions on the environment as part of their environmental policy. The aim is to prevent environmental pollution, use natural resources efficiently, recycle waste, and enhance Fresenius Medical Care's environmental performance.

ENVIRONMENTAL KPIS

Most of the water utilized by Fresenius Medical Care is needed for producing dialysate during dialysis treatments in the company's dialysis centers around the world. The amount of dialysate and therefore the amount of water required is determined by a variety of factors, most of which are the direct responsibility of the physician. They include above all the blood flow rate, the selected dialyzer, the duration of treatment, the treatment method and the flow rate of the dialysis solution. In its efforts to save resources and energy by reducing its water and energy consumption, Fresenius Medical Care ensures that resource efficiency does not negatively impact the quality of care or product quality.

To significantly reduce dialysis fluid consumption and thus the cost of energy, water and waste water without compromising quality of care, Fresenius Medical Care develops environmentally friendly concepts with advanced treatment options such as EcoFlow and AutoFlow. These concepts are integrated into Fresenius Medical Care's latest and most advanced machine generations, the 5008 and 6008 series. Fresenius Medical Care is continuously increasing sales of machines in these series worldwide. More than one in five dialysis machines produced by the company in 2017 was from one of these resource-friendly machine generations.

ENVIRONMENTAL MANAGEMENT AT FRESENIUS KABI

Fresenius Kabi has implemented binding global environmental guidelines. In addition, Fresenius Kabi uses an **environmental management system** in line with the international standard ISO 14001. An environmental handbook and standard process guidelines are the framework for the environmental management of all certified local units. The environmental management system is certified by TÜV Rheinland and audited annually. In its environmental management, Fresenius Kabi focuses on the continuous improvement of energy and water usage, as well as the reduction of wastewater, waste, and emissions. Fresenius Kabi also expects careful and responsible handling of nature and its resources from its suppliers. This is implemented in Fresenius Kabi's Supplier Code of Conduct.

Global responsibility for environmental management is anchored in the area of **Global Quality Management** with a direct reporting line to the Fresenius Kabi CEO. Employees in the Global Work and Environmental Safety division analyze and evaluate processes centrally and at the sites. They facilitate the exchange of best practices. With internal audits, Fresenius Kabi identifies improvement opportunities at its own sites and develops appropriate measures with locally responsible managers to tap these potentials.

The production sites place special importance on the reduction of their **consumption of resources**. At our plant in Uppsala, Sweden, we have installed a heat pump in the sterilization process to use excess heat and cooling. With this measure, we were able to replace the heating supply from power plants and achieved annual savings of 0.5 t CO_2 and 3,637 MWh/year of heat and cooling capacity.

ENVIRONMENTAL MANAGEMENT AT FRESENIUS HELIOS

HELIOS GERMANY

At Helios Germany, the environmental management is part of the central function responsible for facility management (Zentrale Dienste). This unit reports directly to the Management Board. The facility management supports purchasing activities and the exchange of best practices at the clinics. On an operational level, environmental topics are managed by the individual hospitals. For them, the **energy consumption** and **water quality** are of particular importance in environmental management. However, as drinking water quality has to be ensured at all times and microbiological contamination must be prevented, Helios Germany can only control the water consumption in hospitals and clinics to a small extent.

The facility management has also established a central purchasing and management system to control energy consumption at all sites and clinics. It allows the company to regularly and promptly compare targets with actual values and to derive improvement measures. This system also forms the basis for the certification of all Helios Germany hospitals under the German Energy Services Act (EDL-G) according to the DIN EN 16247 standard.

Waste and **sewage** are disposed of in the hospitals according to legal requirements, for example the Recycling and Waste Management Act (Kreislauf- und Abfallwirtschaftsgesetz). Local municipalities and rural districts also set specifications in wastewater regulations. Proper waste disposal is of great importance to hospitals. Helios Germany views

waste disposal management as a process: it starts with avoiding any future waste, and ends with the consistent recycling or environmentally friendly disposal of the same. Requirements pertaining to environmental protection, occupational health and safety, and infection protection and hospital hygiene are taken into account. That relates particularly to major waste groups such as clinical waste, i. e., from the diagnosis and treatment of human diseases.

HELIOS SPAIN (QUIRÓNSALUD)

Quirónsalud uses the international ISO 50001 standard for the certification of its hospitals' energy management and aims to increase their energy efficiency. In 2016, Quirónsalud started the exchange of best practices and experience in the company through an energy management committee. Furthermore, it controls its greenhouse gas emissions and plans to reduce them through energy efficiency measures. All Quirónsalud hospitals use authorized service providers to manage hazardous waste. Wherever possible, Quirónsalud encourages the reuse and recycling of waste.

ENVIRONMENTAL MANAGEMENT AT FRESENIUS VAMED

At Fresenius Vamed, the responsibility for the environmental management of the consolidated health facilities is anchored directly to the respective management. In environmental management, the resource-efficient handling of energy sources and fresh water is of particular importance. State-of-the-art construction and installation techniques are used in health care facilities built by Fresenius Vamed, to ensure optimal **resource management**.

Fresenius Vamed's energy management in Austria is certified for companies with a majority stake in accordance with ISO 50001 and is regularly audited. In 2016, an **energy management system** in line with ISO 50001 was introduced in the thermal baths managed by Fresenius Vamed on a voluntary basis. It is certified by Quality Austria. The local units are provided by Fresenius Vamed with the framework conditions for energy management. On this basis, measures to improve energy efficiency are defined and implemented locally.

PROTECTING HUMAN RIGHTS

We at Fresenius respect and support human rights as they are defined by international standards, such as the United Nations Universal Declaration of Human Rights. We consider this part of our corporate responsibility. We consider secure **access to good and affordable health care** an essential human right to which we make a decisive contribution with our products and services. As a global health care company, we improve access to health care in many countries for the local people and thereby contribute to respecting human rights.

- Every 0.7 seconds, **Fresenius Medical Care** provides a dialysis treatment somewhere around the globe.
- With a broad range of generic and, in future, biosimilar products, **Fresenius Kabi** enables patients with medical needs to access modern therapies and keep health care affordable.
- **Helios Germany** invests around €1 million per day in hospitals to ensure comprehensive access to high-quality health care nationwide. Quirónsalud has invested €800 million in the past 10 years.
- Since it was founded, **Fresenius Vamed** has completed more than 800 projects in 80 countries, and through this facilitates access to health care facilities for patients in developing countries.

AREAS OF ACTIVITY IN WHICH WE MAKE A CONTRIBUTION

In 2017, we conducted a systematic analysis to increase transparency in areas of activity through which we can fulfill our responsibility. We have identified the following areas of activity in which we contribute to respecting human rights:

- We at Fresenius do not tolerate the use or threat of violence, or any other form of coercion. In particular, we are dedicated to protecting children from exploitation. We strictly forbid using, supporting, or assenting to exploitative and illegal **child or forced labor**.

- We are committed to ensuring that necessary safety measures are taken and **working conditions** are fair and safe for all our employees.
- We support equal opportunities and take a clear stance **against discrimination**. We respect and value the contribution of every employee. No one may be discriminated against, e. g. for their color of skin, race, gender, religion, political views, age, physical constitution, sexual orientation, appearance, or other personal characteristics.
- We respect the privacy of every person. We feel accountable for the **personal data** of our patients, employees, customers, and suppliers. Details on this are described in the section on Data Protection Management Systems on pages 78 ff.

Our areas of activity are guided by a three-step approach, which comprises preventive, detective, and responsive measures:

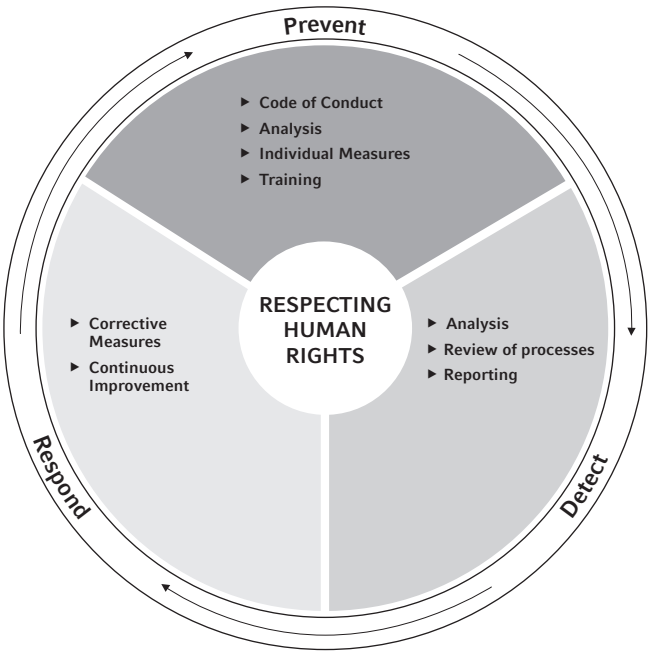
PREVENT

All business segments of Fresenius have implemented Codes of Conduct, in which they commit to respecting human rights.

We address the identified **areas of activity** as follows:

- **No exploitative and illegal child or forced labor**
  Taking responsibility for our employees is part of the corporate responsibility of the whole Fresenius Group. In all business segments, processes in local entities are implemented to ensure that applicable laws on the prevention of exploitative and illegal child or forced labor are adhered to. We expect our business partners to comply with these laws. Where it is required by local laws, such as the UK Modern Slavery Act, we confirm compliance with these laws on the websites of our local entities.[1]

HUMAN RIGHTS



- **Creating safe working conditions**
  We make sure that the necessary measures for the security of our employees are taken. We report in detail on occupational health and safety on pages 88 ff. in this nonfinancial report.
- **Standing against discrimination and promoting equal opportunity**
  Our interactions are characterized by mutual respect. We interact openly, fairly and appreciatively. All business segments have embedded these principles in their codes of conduct. Fresenius Medical Care strives to provide a work environment free from all forms of discrimination and does not tolerate harassment or intimidation in any form. Fresenius Medical Care offers multiple avenues for employees and patients to report grievances. Fresenius Kabi has established shared company values for all employees that form a worldwide common understanding of its

[1] For further information, please see:
www.freseniusmedicalcare.co.uk/about-us/statement-modern-slavery
www.fresenius-kabi.co.uk/7266.htm
www.calea.co.uk/about/compliance/calea-modern-slavery-act-2015-statement

corporate culture. They emphasize the importance of respectful collaboration among all employees. The values are part of the quality management handbook and the code of conduct at Fresenius Kabi. To promote equal opportunity, Fresenius Helios particularly emphasizes the compatibility of family and work, especially for employees working in shifts and on-call duty, and offers or supports child care.

- **Requiring human rights commitment from our partners**
  All business segments expect their suppliers and business partners to commit to ethical standards of conduct in daily business, toward employees, society and the environment. This also includes our five areas of activity in relation to respecting human rights. Fresenius Medical Care has enshrined these commitments in Sustainability Principles for suppliers of the Global Manufacturing and Quality function in the regions EMEA, Latin America, and Asia-Pacific. Fresenius Kabi, Fresenius Vamed, and Fresenius SE & Co. KGaA, specify such commitments in the respective Supplier Codes of Conduct. Both the Sustainability Principles and the Supplier Codes of Conduct are embedded in different SOPs to be used as standard attachments for procurement contracts.

Regular classroom or online training on the respective Code of Conduct for our employees and managers further helps us to keep awareness of our values and principles of conduct up to date. Details on training on the Code of Conduct are described in the chapter on our Compliance Management Systems on pages 81 ff.

DETECT

Across the business segments and at Fresenius SE & Co. KGaA, different ways to report incidents anonymously, such as whistleblower hotlines or email addresses, are available. Employees can report incidents and concerns related to human rights directly to their superiors or anonymously. At Fresenius SE & Co. KGaA, the whistleblower hotline and corporate company website are available for third parties to raise concerns about potential misconduct. Additional information on reporting possibilities is described in the chapter on the Compliance Management Systems on pages 81 ff. In the reporting period, there have not been any human rights violations recorded.

Preventive measures are assessed by the responsible functions, such as Human Resources and Occupational Health and Safety, within the business segments. Regular sample checks are also conducted as part of internal audits.

RESPOND

In case current developments require it, we implement additional measures, which vary according to the business model of our business segments. For example, Fresenius Kabi has clearly opposed the use of products for executions in American prisons in 2016.

The following applies for all business segments: when we recognize deficiencies and limitations in our products, therapies, or processes, we make them transparent and take necessary actions to prevent any impact on our patients. When conducting clinical studies, too, our first priority is the safety of our patients. We observe applicable ethical, medical, and legal requirements. When we recognize any deviations, we respond immediately.

We take the results of internal reviews and reports as an opportunity to review our company processes for improvements of our internal processes.

Our goal is to continuously improve our measures through which we contribute to respecting human rights. No events with a material adverse impact were recorded that conflict with our goal of respecting human rights.

RESPONSIBILITY IN THE SUPPLY CHAIN

The Fresenius business segments are vertically integrated to a high degree. In doing so, we want to ensure the highest quality standards and keep a large part of the added value in the company. When manufacturing products and providing health services, the business segments also work with suppliers, service providers, and partners. We expect them to commit to the same standards as we do ourselves. In addition, Fresenius Medical Care, Fresenius Kabi, and Fresenius Vamed have their own **supplier codes of conduct**. These are part of the terms and conditions of purchase and are designed to ensure that comparable standards are followed in the supply chain as in our Company.

In addition, Fresenius Kabi carries out targeted **environmental and quality management audits** with suppliers. Further information can be found in the respective chapters of this report.

At Fresenius Medical Care, regional procurement organizations assist the health care, services division, the sales organisations and the company's headquarters in North America, EMEA, Latin America and Asia-Pacific in managing their demand for materials and services. The GMQ procurement function has the purpose of managing demand for materials and services in the company's more than 30 production sites. GMQ procurement has endorsed the incorporation of key corporate social responsiblity issues into the company's sustainability principles as supplementary requirements for suppliers. The sustainability principles are part of Fresenius Medical Care's SOPs in EMEA, Latin America and Asia-Pacific. These SOPs require all compulsory elements (contract specifications, general terms and conditions, and sustainability principles) as well as additional information (according to local rules and regulations) to be included in supplier contracts.

If requested by Fresenius Medical Care, suppliers must complete a questionnaire on compliance with the company's sustainability principles (self-assessment). The Company may also solicit information from a third partiy on supplier´s compliance and performance with regard to the requirements specified in these principles (third-party assessment). Moreover, Fresenius Medical Care is entitled to conduct on-site inspections either itself or indirectly by a third party to verify compliance with Fresenius Medical Care's sustainability principles (on-site audit). In North America, suppliers are screened to see whether they are included in the Office of the Inspector General's (OIE) List of Excluded Individuals/Entities (LEIE).

To ensure that these requirements are observed at an operational level, the Global Internal Audit fuction at Fresenius Medical Care undertakes regular audits, including the implementation of SOPs. Furthermore, various external audits (e. g. by the FDA, CFDA and other independent certification bodies) are carried out at plant level to ensure compliance with laws and regulations.

STRUCTURE OF THE NONFINANCIAL REPORT

This is the first separate Group Nonfinancial Report of Fresenius. It relates to the fiscal year ending December 31, 2017. The report was prepared pursuant to Sections 315b, 315c in connection with Sections 289c to 289e of the German Commercial Code (HGB) as amended by the Corporate Social Responsibility Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz). Statements and key figures are reported in reference to internationally applicable standards for sustainability reporting set out by the Global Reporting Initiative (GRI Standards). This report includes a materiality analysis as specified in GRI Disclosure 102-46 (defining report content and topic boundaries) and the applicable regulations. It further includes a description of management approaches referenced in GRI Disclosures 103. This separate Group nonfinancial report has been subject to a limited assurance engagement conducted by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. KPMG expressed a limited assurance conclusion in an Independent Auditor's Report.

Reference to data or information outside of the Group management report is further information and not part of the separate Group nonfinancial report. References to additional information are part of the nonfinancial report.

The report will be published annually and is an integral part of the Annual Report. Fresenius conducted a materiality analysis in fiscal year 2017 to determine and prioritize its content and priorities. Material nonfinancial topics that were already reported in previous years in our management report and the corporate governance report were merged in this declaration and structured according to their materiality for the Fresenius Group.

The report encompasses all Fresenius entities worldwide in which Fresenius SE & Co. KGaA has legal or effective control, as in the consolidated financial statement.

LIMITED ASSURANCE REPORT OF THE INDEPENDENT AUDITOR REGARDING THE SEPARATE NON-FINANCIAL GROUP REPORT [1]

To the Supervisory Board of Fresenius SE & Co. KGaA, Bad Homburg v. d. Höhe

We have performed an independent limited assurance engagement on the separate non-financial group report as well as the by reference qualified part "Group's business model", further "non-financial group report", of Fresenius SE & Co. KGaA, Bad Homburg v. d. Höhe (further "Fresenius") according to § 315b HGB for the period from January 1 to December 31, 2017.

MANAGEMENT'S RESPONSIBILITY

The legal representatives of Fresenius are responsible for the preparation of the non-financial group report in accordance with §§ 315b, 315c in connection with 289c to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the non-financial group report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the non-financial group report in a way that is free of – intended or unintended – material misstatements.

INDEPENDENCE AND QUALITY ASSURANCE ON THE PART OF THE AUDITING FIRM

We are independent from the company in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the legal provisions and professional pronouncements for quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a conclusion based on our work performed of the non-financial group report within a limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by IAASB. This standard require that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the non-financial group report, has not been prepared, in all material respects in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB. We do not, however, issue a separate conclusion for each disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

[1] Our engagement applied to the German version of the separate non-financial group report. This text is a translation of the Independent Assurance Report issued in German, whereas the German text is authoritative.

Within the scope of our engagement, we performed amongst others the following procedures:

- Inquiries of personnel of the CSR core team who are responsible for the materiality analysis to get an understanding of the process for identifying material topics and respective report boundaries for FSE
- A risk analysis, including a media research, to identify relevant information on Fresenius' sustainability performance in the reporting period
- Evaluation of the design and implementation of the systems and processes for the collection, processing and control of disclosure on environmental, employee and social matters, respect for human rights as well as anti-corruption and bribery matters, including the collection and consolidation of quantitative data
- Inquiries of personnel who are responsible for determining disclosures and for compiling the disclosures on concepts, due diligence processes, results and risks, the conduction of internal controls and consolidation of the disclosures
- Evaluation of selected internal and external documents
- Analytical evaluation of data and trends of quantitative disclosures which are reported by all sites on group level
- Assessment of local data collection and reporting processes and reliability of reported data via a sampling survey at the Fresenius Medical Care site St. Wendel (Germany)
- Assessment of the overall presentation of the disclosures in the non-financial group report

CONCLUSION

Based on the procedures performed and the evidence received to obtain assurance, nothing has come to our attention that causes us to believe that the non-financial group report of Fresenius SE & Co. KGaA for the period from January 1 to December 31, 2017 is not prepared, in all material respects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

RESTRICTION OF USE / CLAUSE ON GENERAL ENGAGEMENT TERMS

This report is issued for purposes of the Supervisory Board of Fresenius SE & Co. KGaA, Bad Homburg v. d. Höhe, only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of Fresenius SE & Co. KGaA, Bad Homburg v. d. Höhe, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this report, each recipient confirms notice of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Frankfurt am Main, February 26, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Laue	Glöckner
Wirtschaftsprüfer	Wirtschaftsprüfer

CORPORATE GOVERNANCE DECLARATION AND REPORT. The Supervisory Board and the Management Board are committed to responsible management that is focused on achieving a sustainable increase in the value of the Company. Long-term corporate strategies, solid financial management, strict adherence to legal and ethical business standards, and transparency in corporate communication are key factors.

In this Corporate Governance Declaration, the Supervisory Board of Fresenius SE & Co. KGaA and the Management Board of the general partner of Fresenius SE & Co. KGaA, Fresenius Management SE (Management Board), report, pursuant to Sections 289f and 315d of the German Commercial Code (HGB), on corporate management and, pursuant to number 3.10 of the German Corporate Governance Code, on the Corporate Governance at the Company (Corporate Governance Report). The Corporate Governance Declaration and the Corporate Governance Report are published on our website, see www.fresenius.com/corporate-governance.

CORPORATE GOVERNANCE DECLARATION

GROUP MANAGEMENT AND SUPERVISION STRUCTURE AND CORPORATE BODIES

GROUP MANAGEMENT AND SUPERVISION STRUCTURE

The Company has the legal form of a KGaA (Kommanditgesellschaft auf Aktien – partnership limited by shares). The **Annual General Meeting**, the **Supervisory Board**, and the **general partner** Fresenius Management SE are the legal corporate bodies. There have been no changes in the Group management and the supervision structure in the reporting period. The chart on the following page provides an overview of the Group structure.

The articles of association of Fresenius SE & Co. KGaA, which, in addition to legal provisions, further define the responsibilities of the individual corporate bodies, can be downloaded from our website, see www.fresenius.com/corporate-governance.

SHAREHOLDERS

The shareholders uphold their rights at the Annual General Meeting, where they exercise their **voting rights**. Every ordinary share of Fresenius SE & Co. KGaA confers one vote. None of the shares carry multiple or preferential voting rights.

We report in detail on our investor relations activities on page 114 and in the section "Fresenius share" on page 11.

ANNUAL GENERAL MEETING

Our Annual General Meeting (AGM) was held on May 12, 2017, in Frankfurt/Main. Approximately 70% of the share capital was represented.

During the AGM, the shareholders approved the proposal made by the general partner and the Supervisory Board to increase the 2016 dividend by 13% to €0.62 per ordinary share with a majority of around 91% of the votes cast. Shareholder majorities of 99.95% and 91.81%, respectively, approved the actions of the Management and Supervisory Boards in 2016. Further agenda items were the amendment of the Stock Option Program 2013 as a result of financial reporting according to IFRS and the amendment of the remuneration of the Supervisory Board, with corresponding amendments of the articles of association.

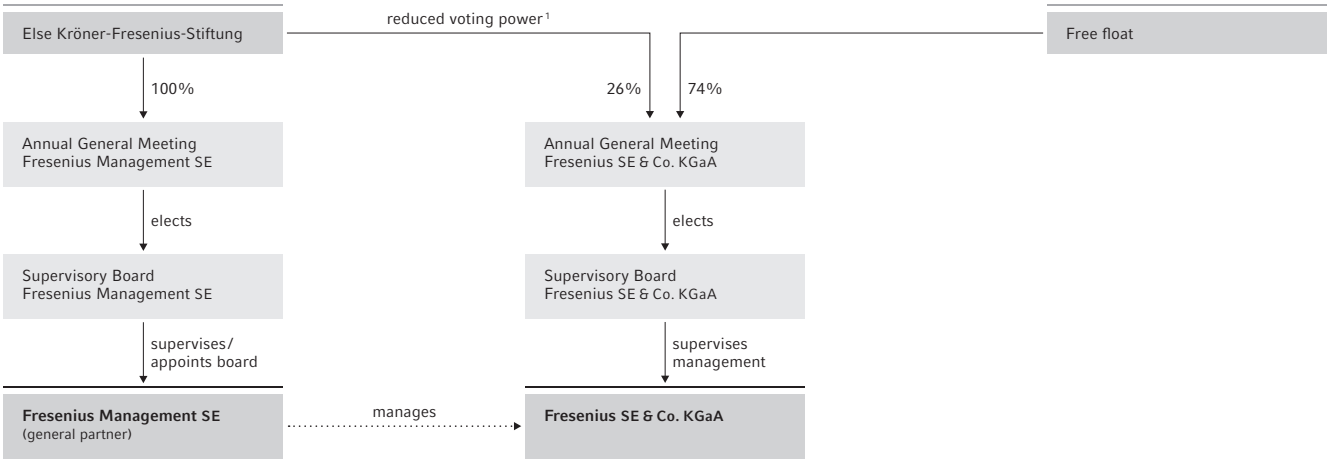
With regard to certain subject matters, legally required voting right exclusions exist for the general partner and in some instances for its sole shareholder, the Else Kröner-Fresenius-Stiftung. These pertain, for example, to the appointment of the Supervisory Board of Fresenius SE & Co. KGaA, the approval of the actions of the general partner and the members of the Supervisory Board, and the selection of the auditor. This guarantees that the remaining shareholders retain the sole authority to decide on these matters, especially those that pertain to the supervision of management.

Documents and information on the Annual General Meeting, as well as the voting results, are available on our website at www.fresenius.com/annual-general-meeting.

MANAGEMENT BOARD AND SUPERVISORY BOARD PROCEDURES

The **responsibilities** are distributed as follows in Fresenius SE & Co. KGaA: the Management Board of the general partner is responsible for conducting the business of Fresenius SE & Co. KGaA. The Supervisory Board of Fresenius SE & Co. KGaA supervises the management of the Company's business by the general partner.

STRUCTURE OF FRESENIUS SE & CO. KGAA



[1] For selected items no voting power, e. g., election of Supervisory Board of Fresenius SE & Co. KGaA, discharge of general partner and Supervisory Board of Fresenius SE & Co. KGaA, election of the auditor

General partner – Management and Supervisory Boards

The general partner, Fresenius Management SE, represented by its Management Board, manages Fresenius SE & Co. KGaA at its own responsibility and conducts its business. The Management Board formulates the Company's strategy, discusses it with the Supervisory Boards of Fresenius Management SE and Fresenius SE & Co. KGaA, and oversees its implementation. Its actions and decisions are aligned with the best interests of Fresenius SE & Co. KGaA. The Management Board is committed to increasing the value of the Company on a sustainable basis. The rules of procedure for the Management Board were established by the Supervisory Board of Fresenius Management SE. They define the activities within the board more specifically, especially with regard to the individual duties and responsibilities of the members, matters reserved for the full Management Board, and resolutions to be passed by the full Management Board. The **meetings of the Management Board** are convened as required, but at least once a month, and are chaired by the Chairman of the Management Board or, if he is incapacitated, by the Chief Financial Officer or, if she is also incapacitated, by the Management Board member present who is most senior in age. However, Management Board meetings are usually held twice a month. The person chairing the meeting decides the order in which the items on the agenda are dealt with and the form in which the voting is conducted. The Management Board passes its resolutions by a simple majority of the votes cast or, outside its meetings, by a simple majority of its members, except in cases where mandatory provisions of law impose stricter requirements. The Chairman of the Management Board has the casting vote if a vote is tied. If the Chairman is incapacitated or absent, the motion is deemed rejected if a vote is tied. The rules of procedure for the Management Board also govern the relations between the Management Board and the Supervisory Board of the general partner, as well as between the general partner and the Supervisory Board of Fresenius SE & Co. KGaA, and also matters that require approval of the general partner's Supervisory Board.

The Management Board generally consists of seven members: the Chairman, the Chief Financial Officer, the Chief Legal and Compliance Officer and Labor Relations Director, and the chief executive officers of the four business segments. This ensures that the full Management Board is kept constantly informed about important events, plans, developments, and measures within the business segments. There are no Management Board committees owing to Fresenius SE & Co. KGaA's role as an operating holding company. Stephan Sturm held the dual roles of Chairman and Chief Financial Officer from July 1, 2016, until July 31, 2017. Rachel Empey was appointed as his successor in the position of the Chief Financial Officer of Fresenius as of August 1, 2017. The Management Board is listed on page 234 of the Annual Report.

Members of the Management Board are appointed for a maximum period of five years. Following the recommendation of the Code, a first-time appointment period of five years is not the rule. In principle, first-time appointments are rather for a three-year period.

As a European company (SE – Societas Europaea), Fresenius Management SE has its own **Supervisory Board**. It consists of six members, and its Chairman is Dr. Gerd Krick. The Supervisory Board appoints the members of the Management Board of Fresenius Management SE and supervises and advises the Management Board by conducting the business. If necessary, e. g., in order to discuss or decide on matters concerning the Management Board, the Supervisory Board meets without the Management Board. It established its rules of procedure following the recommendation in number 5.1.3 of the Code.

The Supervisory Board members of Fresenius Management SE can be found on page 235 of the Annual Report.

The Supervisory Board of Fresenius SE & Co. KGaA

The Supervisory Board of Fresenius SE & Co. KGaA supervises the management of the Company's business by the general partner. It supervises business operations to ensure that corporate decisions are compliant, suitable, and financially sound. The members of the Management Board of the general partner are appointed by the Supervisory Board of Fresenius Management SE, not – as already explained – by the Supervisory Board of Fresenius SE & Co. KGaA.

The Supervisory Board of Fresenius SE & Co. KGaA consists of 12 members. Half of its members are elected by the AGM. The proposals for the members of the Supervisory Board primarily take account of the knowledge, ability, and expert experience required to perform the tasks. The election proposals provided by the Supervisory Board will reflect its designated **objectives** as well as its **profile of expertise and skills**. Further information can be found on pages 106 ff. For the Supervisory Board of Fresenius SE & Co. KGaA, the law requires a quota of at least 30% women and 30% men. These mandatory quotas were met by the Supervisory Board in fiscal year 2017 and are further met. As it is in the Company's interest not to limit the selection of qualified candidates in a general way, the Supervisory Board confines itself to a general declaration of intent and particularly refrains from an age limit, as well as a regular limit on length of membership. The statutorily required declaration of conformity concerning the Code accordingly includes a justified limitation. A Nomination Committee has been instituted for election proposals for the **shareholder representatives**. Its activities are aligned with the provisions of law and the Code. The European Works Council elects the **employee representatives** to the Supervisory Board of Fresenius SE & Co. KGaA.

The Supervisory Board is of the opinion that all its members are independent. The Supervisory Board shall include what it deems to be an appropriate number of **independent members** who do not have any business or personal relationship with the Company, its corporate bodies, a controlling shareholder, or a party related to the latter that may give grounds for a material and not merely temporary conflict of interest. The **articles of association** of Fresenius SE & Co. KGaA regulate the details with regard to the Supervisory Board's election, constitution, term of office, meetings and resolutions, and rights and duties. They are published on our website, see www.fresenius.com/corporate-governance.

The Supervisory Board of Fresenius SE & Co. KGaA has established its rules of procedure in accordance with number 5.1.3 of the Code. The Chairman of the Supervisory Board is responsible for coordinating the activities of the Supervisory Board, chairing the **meetings**, and representing its interests externally. The Supervisory Board should convene once each calendar quarter, and must convene twice each calendar half-year. The meetings are convened and chaired by the Chairman or, if he is incapacitated, by a chairperson named by the Chairman. The person chairing the meeting decides the order in which the items on the agenda are dealt with and the form in which the voting is conducted. Unless other majorities are mandatory by law, the Supervisory Board passes its resolutions by a simple majority of the votes submitted in the voting. If a vote is tied, the Chairman has the casting vote or, if he does not take part in the voting, the matter is decided by the vote of the Deputy Chairman, who is a shareholder representative.

The Supervisory Board of Fresenius SE & Co. KGaA conducts its business in accordance with the provisions of law, the articles of association of Fresenius SE & Co. KGaA, and its rules of procedure. The Management Board of the general partner Fresenius Management SE continuously informs the Supervisory Board of the corporate development, planning, and strategy. The Supervisory Board supervises the Company's management and, taking into account the auditor's reports, reviews the Group's annual financial statements. Another important part of the Supervisory Board's activities is the work conducted within the committees formed in accordance with the requirements of the German Stock Corporation Act and the recommendations of the Code.

Supervisory Board training and further education measures

The members of the Supervisory Board on their own take on necessary training and further education measures required for their tasks. They keep themselves regularly informed, through internal and external sources, about the latest requirements with regard to their supervisory activities. The Supervisory Board at all times ensures that its members are suitably

qualified, keep their professional knowledge up to date, and further develop their judgment and expertise. They are supported appropriately by the Company in accordance with number 5.4.5 paragraph 2 of the Code. Various external experts as well as experts from the Company provide information about important developments, for example about the strategic orientation of the Company in growth markets, relevant new laws and precedents, or changes in the IFRS accounting and auditing standards. In addition, the Company holds an onboarding event for new members of the Supervisory Board.

The members of the Supervisory Board of Fresenius SE & Co. KGaA can be found on pages 232 to 233 of the Annual Report. On pages 224 to 231 of the Annual Report, the Supervisory Board reports on the main focuses of its activities and those of its committees in 2017.

Supervisory Board efficiency evaluation

The Supervisory Board of Fresenius SE & Co. KGaA deliberated on the efficiency evaluation in accordance with number 5.6 of the Code at its meeting in March 2017.

It reviewed the efficiency of its activities through an open discussion within the full Supervisory Board. A **company-specific questionnaire** covering the salient points for a self-evaluation served as the basis for the discussion. Among other things, this included the organization and structuring of the meetings, the amount of information, and how this information was provided. The self-evaluation showed that the Supervisory Board assesses its organization as well as its work as efficient.

Cooperation between general partner and Supervisory Board of Fresenius SE & Co. KGaA

Good corporate governance requires **trusting and efficient cooperation** between the Management and the Supervisory Board. The Management Board of the general partner and the Supervisory Board of Fresenius SE & Co. KGaA closely cooperate for the benefit of the Company. Open communication is essential. The common goal is to sustainably increase the company value in line with the corporate governance and compliance principles. The Management Board of the general partner and the Supervisory Board of Fresenius SE & Co. KGaA coordinate with each other, especially with regard to the Company's strategic focus. As the monitoring body, the Supervisory Board of Fresenius SE & Co. KGaA also needs to be fully informed about operating performance and corporate planning, as well as the risk situation, risk management, and compliance. The Management Board of the general partner provided this information in full and in compliance with its duties.

The representatives of the shareholders and of the employees may prepare the Supervisory Board meetings separately, and, if applicable, with members of the Management Board. Pre-meetings of the employee representatives as well as consultations of the shareholder representatives take place on a regular basis. If necessary, the Supervisory Board meets without the Management Board.

COMPOSITION AND PROCEDURES OF THE SUPERVISORY BOARD COMMITTEES

The Supervisory Board of Fresenius SE & Co. KGaA forms two **permanent committees** from among its members: the Audit Committee, consisting of five members, and the Nomination Committee, consisting of three members. The committee members were elected for the duration of their term as a member of the Supervisory Board of Fresenius SE & Co. KGaA. In accordance with the articles of association of Fresenius SE & Co. KGaA, only members of the Audit Committee receive additional compensation (Section 13 (5) and Section 13 (2) (old version)). There is no Personnel Committee in the KGaA because the Supervisory Board of Fresenius SE & Co. KGaA is not responsible for appointing members of the Management Board of the general partner or for their contracts. Responsibility for these personnel matters lies with the Supervisory Board of the general partner.

The provisions for the Supervisory Board of Fresenius SE & Co. KGaA apply analogously to the committees. The committees hold meetings as required. The meetings are convened by the committee chairmen. They report during the following Supervisory Board meeting about the work of the respective committee. The rules of procedure for the committees are regulated in the rules of procedure of the Supervisory Board of Fresenius SE & Co. KGaA. The committees do not have their own rules of procedure.

The members of the Supervisory Board's committees are listed on page 233 of the Annual Report.

Audit Committee

The Audit Committee's function is, among other things, to prepare the Supervisory Board's approval of the financial statements – and the consolidated financial statements – and the Supervisory Board's proposal to the AGM on the appointment of the auditor for the financial statements, and to make a preliminary review of the proposal on the allocation of distributable profits. It also reviews the quarterly reports before they are published and – following discussions with the Management Board – engages the auditor for the financial statements (and concludes the agreement on the auditor's fees), determines the main focuses of the audit, and defines the auditor's reporting duties in relation to the Supervisory Board of Fresenius SE & Co. KGaA. Other matters within its remit are to review the effectiveness of the internal controls system, of the risk management system, of the internal audit system, and of the compliance.

The Audit Committee consists of Klaus-Peter Müller (Chairman), Konrad Kölbl, Dr. Gerd Krick, Hauke Stars, and Rainer Stein. Klaus-Peter Müller is independent and has the required expertise in the fields stated in Section 100 (5) of the German Stock Corporation Act (AktG), as well as specialist knowledge and experience in the application of accounting principles and internal control processes.

The Audit Committee also examined in detail the non-audit services rendered additionally by the auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin.

Nomination Committee

The Nomination Committee proposes suitable candidates to the Supervisory Board for the nominations it makes to the AGM for the election of Supervisory Board members on the shareholders' side. It consists solely of shareholder representatives. In making its proposals, the Nomination Committee is guided by the requirements of the Code.

The Nomination Committee consists of Dr. Gerd Krick (Chairman), Michael Diekmann, and Klaus-Peter Müller.

Mediation Committee

Fresenius SE & Co. KGaA does not have a Mediation Committee because the provisions of the German Co-Determination Act that require such a committee do not apply to a partnership limited by shares and because the Code does not require such a committee either.

Joint Committee

For some matters, which are defined in further detail in Section 13c (1) of the articles of association of Fresenius SE & Co. KGaA, the general partner requires the approval of the Joint Committee if 40% of the consolidated sales, the consolidated balance sheet total, and the consolidated profit are affected by the matter. These include, for example, the divestiture and acquisition of large investments and business units or the divestiture of large business units from the assets of Fresenius SE & Co. KGaA or a wholly owned company. The approval of the Joint Committee is also required for certain legal transactions between Fresenius SE & Co. KGaA or its affiliates and the Else Kröner-Fresenius-Stiftung.

Dr. Gerd Krick and Michael Diekmann are members of the Joint Committee. The other members are Dr. Dieter Schenk (Chairman) and Dr. Karl Schneider, who were appointed by the general partner. The Joint Committee did not meet in 2017.

Information on positions held by committee members on statutorily required supervisory boards and comparable domestic and foreign control bodies of other business enterprises can be found on pages 232 to 235 of the Annual Report.

OBJECTIVES FOR THE COMPOSITION, PROFILE OF SKILLS AND EXPERTISE, AND DIVERSITY CONCEPT

In December 2017, the Supervisory Board of Fresenius SE & Co. KGaA determined in accordance with number 5.4.1 of the German Corporate Governance Code concrete objectives for its composition and prepared a profile of skills and expertise for the entire board. Furthermore, it resolved on a diversity concept for the Management Board of Fresenius Management SE and the Supervisory Board of Fresenius SE & Co. KGaA.

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD AND PROFILE OF SKILLS AND EXPERTISE FOR THE ENTIRE BOARD

The Supervisory Board of Fresenius SE & Co. KGaA is to be composed in such a way that its members in entirety have the required knowledge, skills, and professional experiences for duly observing the tasks. Thereby, it is necessary to differentiate between the requirements for the individual Supervisory Board members and the requirements for the composition of the entire Board.

Requirements for the individual Supervisory Board members

The Supervisory Board members have to be professionally as well as personally qualified to advise and supervise the Management Board of a globally active health care Group.

Good corporate governance

Each Supervisory Board member is to have the knowledge of good corporate governance of a capital-market-oriented company required for duly observing its tasks. This includes knowledge of the main features of accounting, risk management, internal control mechanisms, and of compliance matters.

Sector experience and internationality

Each Supervisory Board member is to have general knowledge of the health care sector, as well as a basic understanding of the global activities of Fresenius.

Independence

A minimum of half of the Supervisory Board members and a minimum of the half of the shareholder representatives in the Supervisory Board are to be independent within the meaning of the German Corporate Governance Code. Independent in this meaning is someone who does not have a personal or business relationship with the Company, its governing bodies, a controlling shareholder, or a company affiliated with such that may cause a substantial and not merely temporary conflict of interest. The shareholder structure may be appropriately taken into account.

When assessing independence, in the view of the Supervisory Board, neither an appointment to the Management Board lapsed for more than two years nor the duration of the membership to the Supervisory Board exclude the classification as independent per se.

With regard to the employee representatives, the independence is not contested by the fact of representing employees as well as by the employment relationship.

Individuals exercising an office in a body of a significant competitor of Fresenius or who hold, directly or indirectly, more than 3% of the voting capital in such are not to be a member of the Supervisory Board.

In cases where a Supervisory Board member is active for another company having business relationships with Fresenius, this activity is described in the section "Legal relationships with members of the corporate bodies" of the Annual Report.

Time availability and limit to the numbers of offices held

Each Supervisory Board member is to have sufficient time available for duly observing the office as Supervisory Board member and to comply with the limit to the offices held as recommended by the German Corporate Governance Code. Under the assumption of four meetings annually, the expected time expenditure of new members generally amounts to approximately 12 to 24 days a year. This includes the preparation and follow-up of the Supervisory Board's meetings, the review of reports to the Supervisory Board, the participation in the Annual General Meeting, and regular training. Thereby, it is to be considered that the time expenditure also depends on the membership in one or several Supervisory Board committees.

Age limit and duration limit on the term of membership
In order to not unduly limit the selection of qualified candidates, the Supervisory Board refrains from an age limit and a duration limit on the term of membership. The statutorily required declaration on the German Corporate Governance Code therefore includes a reasoned exception. The Supervisory Board is rather to include members with long-term experience and therefore generally older members. A balanced ratio of Supervisory Board members of various ages and various durations of term of membership is essential.

Requirements for the entire Board

Sector experience
The Supervisory Board in its entirety needs to be familiar with the health care sector. An appropriate number of Supervisory Board members are to have in-depth knowledge and/or experience in the important sectors of the Company's operations:

- dialysis products, dialysis services, and care coordination
- essential medicines, medical products, and services for the critically and chronically ill
- operation of hospitals
- planning, construction, and management of health care institutions

The Supervisory Board is to include an appropriate number of members with management experience in the health care sector.

Financial knowledge
The Supervisory Board in its entirety needs to have financial knowledge, in particular in the fields of accounting, reporting, and auditing. At least one member needs to have expert knowledge in the fields of accounting or annual auditing.

Knowledge of relevant legal issues as well as relevant regulatory and compliance matters
The Supervisory Board in its entirety is to be familiar with the relevant legal issues, as well as relevant regulatory and compliance matters.

Experience in the field of digitalization
The Supervisory Board in its entirety is to have the required understanding of the requirements of digitalization.

Internationality
Fresenius is present in more than 100 countries. Therefore, the Supervisory Board in its entirety is to have knowledge and experience in the regions important for Fresenius. The Supervisory Board is to include an appropriate number of members with, due to their origin or business experience, a particular relation to the international markets relevant for Fresenius.

Management experience
The Supervisory Board is to include an appropriate number of members with experience in managing or supervising a medium-sized or large company.

Diversity and appropriate representation of women
The Supervisory Board is to rely on as different as possible expert knowledge, skills, and experiences. Therefore, diversity is to be appropriately considered for its composition, and when making election proposals, in the Company's interest, attention should be paid to ensuring that the candidates' profiles reasonably complement each other.

At least 30% of the Supervisory Board are women and at least 30% are men. In general, the participation of women is a joint responsibility of the shareholder and employee sides. For nominations, both the shareholder and employee sides will consider, to the extent possible, whether the proportion of women can be increased with qualified female candidates. Please note that the responsibility for electing employee representatives is with the European Works Council. Therefore, the Supervisory Board cannot provide a recommendation.

The current composition of the Supervisory Board of Fresenius SE & Co. KGaA fulfills the designated objectives. Furthermore, the current composition complies with the profile of competence. The Supervisory Board is of the opinion that all of its members are currently independent.

DIVERSITY CONCEPT

A diversity concept applies for the Management Board of Fresenius Management SE and the Supervisory Board of Fresenius SE & Co. KGaA. The concept is outlined below. The objectives of the diversity concept, the way in which they are implemented, and the results achieved in the fiscal year are also explained. Diversity enables us to look at matters from different perspectives and against the background of different experiences. Fresenius seeks diversity in the Management Board of Fresenius Management SE as well as in the Supervisory Board of Fresenius SE & Co. KGaA in terms of age, gender, education, professional background, and international experience.

Age

Finding a balance between expertise and novel approaches is important for the Management Board of Fresenius Management SE and the Supervisory Board of Fresenius SE & Co. KGaA. Therefore, both the Management Board of Fresenius Management SE and the Supervisory Board of Fresenius SE & Co. KGaA should have a balanced mix of experienced and new members, ensuring that different perspectives are taken into consideration in the decision-making processes and a continuous transfer of knowledge is warranted. Therefore, there is no age limit for members of the Management Board and Supervisory Board and also no duration limit for the term of membership of those serving on the Supervisory Board.

Gender

Fresenius believes that a mix of women and men on both the Management Board of Fresenius Management SE and the Supervisory Board of Fresenius SE & Co. KGaA is desirable. At least 30% of the Supervisory Board are women and at least 30% are men. In general, the participation of women is a joint responsibility of the shareholder and employee sides. For nominations, both the shareholder and employee sides will consider, to the extent possible, whether the proportion of women can be increased with qualified female candidates. Please note that the responsibility for electing employee representatives is with the European Works Council. Therefore, the Supervisory Board cannot provide a recommendation. Besides, qualification is the decisive criterion for filling board positions. Since August 1, 2017, the board has one female member. Given a ratio of women of currently more than 30% both at the first and the second management level, we expect the number of women on the board to increase in the context of future appointment decisions.

Professional background

Each member of the Management Board of Fresenius Management SE shall have longstanding experience in one of the Company's key business areas:

- dialysis products, dialysis services, and care coordination
- essential medicines, medical devices, and services for the critically and chronically ill
- operation of hospitals
- planning, construction, and management of health care institutions

In addition, one of the members shall have longstanding experience and expertise in finance and corporate governance, law, and compliance. This takes into account the special requirements of a capital-market-oriented company.

The Supervisory Board of Fresenius SE & Co. KGaA shall have a reasonable number of members experienced in the management or supervision of a medium-sized or large company. A reasonable number of Supervisory Board members should have leadership experience in the health care industry. At least one member of the Supervisory Board shall have expertise in accounting or auditing.

International experience

Fresenius is present in more than 100 countries. Against this background, the majority of the members of the Management Board of Fresenius Management SE are expected to have international experience in at least one of the markets relevant to Fresenius, based on their background, professional training, or career.

An appropriate number of members of the Supervisory Board of Fresenius SE & Co. KGaA should also have a special connection to international markets relevant to Fresenius as a result of their origin or business experience.

Implementation of objectives

The implementation of the objectives of the Diversity Concept with view to the composition of the Management Board of Fresenius Management SE will be reflected by future personnel decisions of the Supervisory Board of Fresenius Management SE. The Diversity Concept will be reflected in the proposals of candidates by the Supervisory Board of Fresenius SE & Co. KGaA to the Annual General Meeting of Fresenius SE & Co. KGaA.

As far as possible, this should be taken into account by the European Works Council in the election of employee representatives to the Supervisory Board of Fresenius SE & Co. KGaA. In the past fiscal year, Ms. Rachel Empey was appointed to serve on the Management Board of Fresenius Management SE. She optimally fulfills the goals of the diversity concept in terms of age, gender, professional background, and international experience. Otherwise, the Management Board has remained unchanged.

RELEVANT DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

The general partner, represented by its Management Board, manages the Company's business with the due care and diligence of a prudent and conscientious company director in compliance with the provisions of the law, the articles of association, the rules of procedure for the Management Board, the resolutions passed by the full Management Board, and the Supervisory Board of the general partner. Corporate governance practices extending beyond the requirements of law are defined in the **Fresenius Code of Conduct**. This Code of Conduct contains the key principles and rules for our conduct within the Company and in our relations with external partners and with the public. We have published the Fresenius Code of Conduct on our website at www.fresenius.com/compliance. The Code of Conduct is binding for all Company employees and must be complied with regarding any type of business relationship. Our executives regard ensuring compliance with the principles of the Code of Conduct as part of their managerial responsibilities.

COMPLIANCE MANAGEMENT SYSTEM

For us, compliance means more than acting in accordance with laws and regulations. Compliance means doing the right thing. This means: we adhere to all rules, including legal requirements, internal guidelines, our commitments, and ethical principles. Compliance is an integral part of our corporate culture and our daily work.

Our **Fresenius Code of Conduct** defines the framework of our rules. All Fresenius business segments have implemented Codes of Conduct. They cover the specifics of their businesses and reflect the values of the Fresenius Code of Conduct. Underlying guidelines, instructions, and process descriptions complement and specify the rules of the Code of Conduct.

Our **Compliance Management Systems** are designed to achieve the implementation of these rules within the Company. We have implemented risk-based Compliance Management Systems in all our business segments and at Fresenius SE & Co. KGaA's corporate level. They comprise three pillars: Prevent, Detect, and Respond. Emphasis is placed on preventing any acts of non-compliance before they occur. Such systems consider the markets Fresenius is operating in. They are tailored to the specific requirements of each business segment.

Each of our business segments has appointed a Chief Compliance Officer who is in charge of developing, implementing, and monitoring the Compliance Management System (CMS) of the business segment. In line with the business structure and organization, the business segments have established compliance responsibilities at the respective organizational levels. The Corporate Compliance department of Fresenius SE & Co. KGaA supports the compliance functions of the business segments with standardized tools, processes, and methodologies and reports to the Chief Compliance Officer of Fresenius SE & Co. KGaA – the member of the Management Board responsible for Legal, Compliance, and Labor Relations.

We take even possible misconduct seriously. This is why Fresenius employees who are aware of potential misconduct, e. g., non-compliance with laws, regulations, or internal policies, can contact their superior or the responsible compliance function or report a potential compliance case anonymously through whistleblowing systems or dedicated email

addresses. Fresenius SE & Co. KGaA and Fresenius Kabi have opened the whistleblowing system not only to employees, but also to third parties, such as customers, suppliers, and other partners, via the corporate website.

Any illegal actions or violations of the rules may harm the individual and Fresenius. We do not tolerate non-compliance. If a violation of applicable regulations is detected, we will take the necessary actions to remediate the violation and prevent any recurrence. We also take all reports as an opportunity to review our company processes for possible improvements.

Further information on Compliance and the Compliance Management Systems can be found in the Nonfinancial Report in this Annual Report, pages 80 ff.

RISK MANAGEMENT AND CONTROL SYSTEM

In our view, responsible risk management is a crucial element of good corporate governance. Fresenius has a systematic risk management and control system that allows the Management Board to identify risks and market trends at an early stage and to react promptly to relevant changes in our risk profile. It consists of the following elements:

- early warning system for risks,
- steering of operational, financial, and strategic risks,
- quality management systems,
- compliance management systems,
- reporting on legal risks, and
- risk assessment in acquisition processes.

The well-being of our patients is important to us. Our risk management and control system, as well as efficiently designed processes, help to enhance the Company's performance. Our risk management is reviewed as part of the annual audit of the financial statements. The control system is regularly reviewed by the Management Board and the Internal Audit department. Further information can be found on pages 57 to 58 of the Management Report.

The Internal Audit department supports the Management Board as an independent function outside the Company's day-to-day operations. The department assesses internal processes from an objective viewpoint and with the necessary distance. Our goal is to create added value for Fresenius, and thus to help achieve organizational goals through improved internal controls, optimized business processes, cost reduction, and efficiency increases. Results from internal audits are evaluated by the Compliance organization to continuously improve preventive measures, for example to prevent corruption.

Fresenius Medical Care AG & Co. KGaA has its own internal risk management and control system.

GERMAN CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The German Corporate Governance Code aims to provide more transparency for investors with regard to existing regulations covering the management and monitoring of companies. Our value-enhancing strategies, as well as the majority of the guidelines, recommendations, and suggestions for **responsible management** contained in the Code, have been basic components of our activities for many years. Extensive information on Corporate Governance can be found on our website at www.fresenius.com/corporate-governance.

The Management Board of the general partner of Fresenius SE & Co. KGaA, Fresenius Management SE, and the Supervisory Board of Fresenius SE & Co. KGaA have issued the required **Declaration of Conformity** pursuant to Section 161 of the German Stock Corporation Act (AktG) and have made it available to shareholders on the website of the Company:

"Declaration by the Management Board of the General Partner of Fresenius SE & Co. KGaA, Fresenius Management SE, and the Supervisory Board of Fresenius SE & Co. KGaA on the German Corporate Governance Code pursuant to Section 161 German Stock Corporation Act (Aktiengesetz)

The Management Board of the General Partner of Fresenius SE & Co. KGaA, Fresenius Management SE (hereafter the Management Board), and the Supervisory Board of Fresenius SE & Co. KGaA declare that since the issuance of the last Declaration of Conformity in December 2016, the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice and Consumer Protection (Bundesministerium der Justiz und für Verbraucherschutz) in the official section of the

Federal Gazette (Bundesanzeiger) (hereafter the Code) in the version of May 5, 2015 as well as in the version of February 7, 2017, since its publication in the Federal Gazette, have been met and that the Code in its version of February 7, 2017, will also be met in the future. Only the following recommendations of the Code in the versions of May 5, 2015, and February 7, 2017, respectively, have not and will not be met as explained in the following:

- **Code number 4.2.3 paragraph 2 sentence 6: Compensation caps by specific amount**
  Pursuant to Code number 4.2.3 paragraph 2 sentence 6, the compensation amount for Management Board members shall be capped by specific amount, both overall and for variable compensation components.

  This recommendation is only partly met with regards to the compensations of the Management Board members granted for the fiscal years through 2017. Until fiscal year 2017 stock options and phantom stocks as compensation components with long-term incentives and therefore the overall compensation, have not provided for a cap by specific amount as the setting of these types of caps for equity-based compensation components contradicts the basic idea of the members of the Management Board participating appropriately in the economic risks and opportunities of the company. As part of updating the long-term equity-based compensation in 2018, a cap will be introduced for this component. With regards to the compensation granted to the members of the Management Board through Fresenius Management SE, the service agreements as of 2018 will include caps regarding specific amounts for each individual variable compensation component and thus for the overall compensation. The compensations granted by Fresenius Management SE as of fiscal year 2018 will thus fully meet the Code recommendation.

- **Code number 4.2.3 paragraph 4: Severance Cap**
  Pursuant to Code number 4.2.3 paragraph 4, when contracts are entered into with Management Board members, it shall be ensured that payments, including fringe benefits, made to a Management Board member due to early termination of their contract do not exceed twice the annual compensation (Severance Cap) and compensate no more than the remaining term of the service agreement. If the service agreement of a Management Board member is terminated for good cause for which the Management Board member is responsible, no payments are made to that Management Board member. The severance payment cap shall be calculated on the basis of the total compensation paid for the previous fiscal year and, if appropriate, shall take into account the expected total compensation for the current fiscal year.

  This recommendation is not met until the end of the fiscal year 2017 as uniform severance payment arrangements of this kind would contradict the concept practiced by Fresenius in accordance with the German Stock Corporation Act (Aktiengesetz) according to which service agreements of the members of the Management Board are, in principle, concluded for the period of their appointment. The service agreements concluded between Fresenius Management SE and the Management Board members will be amended and will include a severance payment cap effective from fiscal year 2018. The Code recommendation will thus be met starting fiscal year 2018.

- **Code number 4.2.5 paragraph 3: Presentation in the compensation report**
  Pursuant to Code number 4.2.5 paragraph 3, the presentation of the compensation for each individual member of the Management Board in the compensation report shall include information on the maximum and minimum achievable compensation for variable compensation components by using model tables. The presentation of the compensation granted pursuant to the description for model table 1 shall also specify the target value or a comparable value of an "average probability scenario" for the one-year variable compensation and for the deferrable portions from one-year variable compensations (deferrals).

  This recommendation is not met regarding the compensation that was granted to the members of the Management Board for the fiscal years through 2017 as until that point in time, no caps regarding specific amounts had been set for the variable compensation components and thus the overall compensation.

As already explained with regards to Code number 4.2.3 paragraph 2 sentence 6, a cap regarding specific amounts shall be implemented for the compensation granted by Fresenius Management SE to the members of the Management Board starting fiscal year 2018 for each individual variable compensation component and thus for the overall compensation. For the presentation of the target values of the one-year variable compensation and any deferrable portions from the one-year variable compensation (deferrals), the actual paid out (benefits received) amounts and/or deferrable compensation amount is used as an estimator and thus as a value of an "average probability scenario" in accordance with the explanations on the model table 1 of the Code number 4.2.5 paragraph 3. The Code recommendation for the compensation granted by Fresenius Management SE to the Management Board members will therefore be met starting fiscal year 2018.

- **Code number 5.1.2 paragraph 2 sentence 3: Age Limit of Management Board members**
  Pursuant to Code number 5.1.2 paragraph 2 sentence 3, an age limit shall be specified for the members of the Management Board.

  As in the past, Fresenius will continue to refrain from specifying an age limit for members of the Management Board. Complying with this recommendation would unduly limit the selection of qualified candidates.

- **Code number 5.4.1 paragraph 2 and paragraph 4: Specification of concrete objectives regarding the composition of the Supervisory Board, preparation of a profile of skills and expertise and consideration when making election proposals**
  Pursuant to Code number 5.4.1 paragraph 2 and paragraph 4, the Supervisory Board shall specify concrete objectives for its composition and prepare a profile of skills and expertise for the entire Board. The targets shall be considered when making election proposals to the Annual General Meeting and at the same time aim to fulfill the profile of skills and expertise for the entire Board. The status of the implementation shall be published in the Corporate Governance Report.

  This recommendation has so far not been met. The composition of the Supervisory Board must align with the interest of the enterprise and ensure effective supervision and consultation of the Management Board. It is thus a matter of principle and prime importance that each member is suitably qualified. Correspondingly, until December 2017, the Supervisory Board has confined itself to complying with statutory requirements.

  In December 2017, the Supervisory Board has specified concrete objectives for its composition and has prepared a profile of skills and expertise for the entire Board. In the interest of the company and to avoid unduly limitation in the selection of qualified candidates, it shall be refrained from specifying an age limit and regular limit for a member's tenure. The Supervisory Board shall also consist of members with long-term experience and thus individuals that might be of older age. A balanced Supervisory Board, consisting of members of various ages and with varying tenures, is crucial. With this exception, the recommendations pursuant to Code number 5.4.1 paragraph 2 and paragraph 4 will be met effective December 20, 2017.

- **Code number 5.4.6 paragraph 2 sentence 2: A performance-related compensation of the members of the Supervisory Board oriented toward sustainable growth of the enterprise**
  Pursuant to code number 5.4.6 paragraph 2 sentence 2, a performance-related compensation component, if promised to the Supervisory Board members, shall be oriented toward sustainable growth of the enterprise.

  For fiscal year 2017, the members of the Supervisory Board shall receive for the last time a variable compensation that does not have a multi-year calculation basis and in that sense is not oriented toward sustainable growth of the enterprise in the sense of the Code. Rather, it is dependent on the dividend.

  The Annual General Meeting of Fresenius SE & Co. KGaA on May 12, 2017, adopted a Supervisory Board compensation system which meets the recommendation of the Code. This compensation system shall become effective in the fiscal year 2018. This Code recommendation will thus be met starting fiscal year 2018.

Bad Homburg v. d. H., December 2017
Management Board of the general partner of
Fresenius SE & Co. KGaA, of Fresenius Management SE,
and Supervisory Board of Fresenius SE & Co. KGaA"

In accordance with Section 161 para. 2 AktG and number 3.10 sentence 3 of the Code, this declaration and all past declarations are published on our website, see www.fresenius.com/corporate-governance.

FURTHER INFORMATION ON CORPORATE GOVERNANCE

DIVERSITY

The Management Board takes diversity into account when filling executive positions. At Fresenius, the individual's qualifications are the paramount consideration in all hiring and promotion decisions. This means that women and men with comparable qualifications and suitability have the same career opportunities. Fresenius will continue to consistently act upon this principle, and will of course comply with the law on the equal participation of women and men in executive positions in private companies and the public service:

For the Supervisory Board of Fresenius SE & Co. KGaA, the law requires a quota of at least 30% women and 30% men. These mandatory quotas were met by the Supervisory Board elections in 2016.

The legally stipulated targets for the Management Board do not apply to Fresenius Management SE or to Fresenius SE & Co. KGaA. Due to its legal form, Fresenius SE & Co. KGaA does not have a Management Board. Fresenius Management SE is not listed on the stock exchange and is also not subject to codetermination.

In accordance with the legal requirements, the Management Board specifies composition of the two management levels directly below the Management Board as follows:

The first management level includes all Senior Vice Presidents and Vice Presidents who have an employment contract with Fresenius SE & Co. KGaA and who report directly to a Member of the Management Board. Through a decision effective January 1, 2016, the Management Board has set a target, which has to be met by December 31, 2020, and calls for a proportion of women of 33.3% at the first management level. This target corresponds with the proportion as of December 31, 2015.

The second management level includes all Vice Presidents who have an employment contract with Fresenius SE & Co. KGaA and who report directly to a member of the first management level. Through the decision effective January 1, 2016, the Management Board has set a target, which has to be met by December 31, 2020, and calls for a proportion of women of 37.5% at the second management level. This target corresponds with the proportion as of December 31, 2015.

The Management Board believes that inclusion in the company-wide stock option program is a strong indicator that an individual holds a leading executive position. The proportion of women in this group of our top 1,400 executives was 30.3% as of December 31, 2017.

Further information on diversity as well as personnel development and personnel management are included in the Group Management Report on page 29 f.

LEGAL RELATIONSHIPS WITH MEMBERS OF THE CORPORATE BODIES

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 sideline activities or transactions with the Company by members of the corporate bodies must be reported to, and approved by, the Supervisory Board. The Supervisory Board of Fresenius SE & Co. KGaA reports to the AGM on any conflicts of interest and how they are dealt with.

Fresenius SE & Co. KGaA reports the following relationships existing between Fresenius Group companies and companies in which members of the Supervisory Board of Fresenius SE & Co. KGaA or members of the Supervisory or Management Board of Fresenius Management SE held an executive or other function in 2017:

Prof. Dr. med. D. Michael Albrecht is a member of the Supervisory Board of Fresenius SE & Co. KGaA 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 business relations with these hospitals in the ordinary course of business under customary conditions.

Klaus-Peter Müller is a member of the Supervisory Boards of Fresenius Management SE and of Fresenius SE & Co. KGaA and the Chairman of the Supervisory Board of Commerzbank AG, with which the Fresenius Group maintains business relationships under customary conditions. Michael Diekmann is a member of the Supervisory Board of Fresenius Management SE and Deputy Chairman of the Supervisory Board of Fresenius SE & Co. KGaA, and is Chairman of the Supervisory Board of Allianz SE. In 2017, the Fresenius Group paid insurance premiums to Allianz under customary conditions.

Consultancy or other service relationships between members of the Supervisory Board and the Company existed with regard to Dr. Dieter Schenk, Deputy Chairman of the Supervisory Board of Fresenius Management SE. Until December 31, 2017, Dr. Schenk was a partner in the law firm Noerr LLP.

The entities of the internationally acting law firm Noerr provided legal advice to the Fresenius Group in 2017. In 2017, the Fresenius Group paid a total of about €2.9 million to the law firm Noerr (2016: €0.9 million). This corresponds to less than 2% of the total amount paid by the Fresenius Group for services and legal advice in 2017 (2016: less than 0.5 %). This amount paid also includes payments for services already provided in 2016 which have been paid in 2017. Of the total amount for fiscal year 2017, about €0.1 million were attributable to services for Group companies not related to the business segment Fresenius Medical Care. The services rendered for Group companies of the business segment Fresenius Medical Care require a separate approval by the Supervisory Boards of Fresenius Medical Care Management AG and Fresenius Medical Care AG & Co. KGaA. The Supervisory Board of Fresenius Management SE has examined the mandate closely, and has approved this mandate. Dr. Schenk did not take part in the voting. The approval was made on the basis of a written submission to the Supervisory Board, which listed all individual mandates and their corresponding individual invoices. In 2017, the invoices were paid after the Supervisory Board gave its approval. The Supervisory Board of Fresenius SE & Co. KGaA dealt with the amounts for legal services paid to the law firm Noerr in relation to the amounts paid to other law firms.

The payments mentioned in the above section "Legal relationships with members of the corporate bodies" are net amounts. In addition, VAT was paid.

There are no other consulting or service contracts – neither directly nor indirectly – between Supervisory Board members and the Company.

Fresenius has disclosed the information on related parties in its 2017 quarterly reports and on page 212 of the Annual Report.

DISCLOSURES ON DIRECTORS' DEALINGS/ MANAGERS' TRANSACTIONS AND SHAREHOLDINGS IN 2017

According to the provisions of Art. 19 Market Abuse Regulation (MAR) regarding managers' transactions, persons discharging managerial responsibilities, as well as persons closely associated with them, shall notify on transactions conducted on their own account relating to the shares or debt instruments of Fresenius SE & Co. KGaA or to derivatives or other financial instruments linked thereto.

Managers' transactions in 2017 are disclosed on our website at www.fresenius.com/corporate-governance.

None of the Management or Supervisory Board members of the general partner or of the Supervisory Board of Fresenius SE & Co. KGaA directly or indirectly holds more than 1% of the shares issued by Fresenius or any related financial instruments.

The members of the Management and Supervisory Boards of Fresenius Management SE and the members of the Supervisory Board of Fresenius SE & Co. KGaA together hold 0.31% of the shares of Fresenius SE & Co. KGaA outstanding as of December 31, 2017, in the form of shares or related financial instruments and stock options under the Fresenius SE & Co. KGaA stock option plans. 0.29% are held by members of the Management Board of Fresenius Management SE, 0.01% by members of the Supervisory Board of Fresenius Management SE, and 0.01% by members of the Supervisory Board of Fresenius SE & Co. KGaA. Due to the fact that some persons are members of both Supervisory Boards, the amount of shares or related financial instruments and stock options held by the Boards of Fresenius SE & Co. KGaA and Fresenius Management SE in total can be smaller than the cumulative holdings of the three Boards as reported herein.

There were no notifications that the shareholdings of members of the Management and Supervisory Boards had reached, exceeded, or fallen below the reporting thresholds stipulated in the German Securities Trading Act.

TRANSPARENCY AND COMMUNICATION

Fresenius adheres to all recommendations under number 6 of the Code. Transparency is guaranteed by continuous communication with the public. In that way we are able to validate and deepen the trust given to us. Of particular importance to us is the **equal treatment** of all recipients. To ensure that all market participants receive the same information at the same time, we post all important publications on our website at www.fresenius.com. We report in detail on investor relations activities on page 11 of the Annual Report.

FINANCIAL ACCOUNTING AND REPORTING

Fresenius, as a publicly traded company based in a member country of the European Union, has to prepare and publish its consolidated financial statements, as required, in accordance with International Financial Reporting Standards (IFRS) pursuant to Section 315e of the German Commercial Code (HGB).

The leading auditor Marcus Rohrbach, KPMG AG Wirtschaftsprüfungsgesellschaft, has been responsible for the audit of the consolidated financial statements since 2012.

COMPENSATION REPORT

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

COMPENSATION OF THE MANAGEMENT BOARD

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

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

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

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

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

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

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

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

provide that the total compensation granted to a Management Board member including a possible discretionary bonus shall not exceed the sum of the fixed compensation and the maximum amounts for the variable compensation components (one-year variable and several-year variable compensation).

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

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

[1] Mr. Rice Powell received his compensation only from Fresenius Medical Care, of which Fresenius SE & Co. KGaA held around 30.80% of the total subscribed capital. As a member of the Management Board of Fresenius Management SE, his compensation has to be included in the compensation report of the Fresenius Group.
[2] Includes insurance premiums, private use of a company car, contributions to pension and health insurance, as well as other benefits

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

To ensure that the overall system of compensation of the members of the Management Board is oriented towards long-term and sustained corporate development, the compensation system provides that the share of long-term variable compensation components is at least equal in its amount to half of the total variable compensation components granted to the respective member of the Management Board. As a means of ensuring this minimum ratio in favor of the compensation components oriented towards the long term, it is expressly provided that the Supervisory Board may determine that the one-year variable compensation to be paid as a rule annually is converted (pro rata) into a variable compensation component based on a multi-year assessment, in order to also take account of any negative developments within the assessment period. This is done in such a way that the maturity of the yearly one-year variable compensation earned on a variable basis is postponed at the discretion of the Supervisory Board, either on a pro rata basis or in its entirety, by two years. At the same time, it is ensured that any payment is made to the member of the Management Board after expiration of such multi-year period only if (i) no subsequent adjustment of the net income (adjusted for extraordinary effects) attributable to Fresenius SE & Co. KGaA (after deduction of noncontrolling interest) decisive for assessing the one-year variable compensation beyond an amount equal to a tolerance range of 10% is made, and (ii) the amount of net income attributable to Fresenius SE & Co. KGaA (adjusted for extraordinary effects) in the two relevant subsequent years is not substantially less than the net income attributable to Fresenius SE & Co. KGaA

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

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

Exercise of the stock options and the phantom stocks granted under LTIP 2013 of Fresenius SE & Co. KGaA is subject to several conditions, such as expiry of a four-year waiting period, observance of vesting periods, achievement of the specified performance target, and continuance of the service or employment relationship. The vested stock options can be exercised within a period of four years. The vested phantom stocks are settled on March 1 of the year following the end of the waiting period.

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

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

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

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

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

The number of stock options granted to members of the Management Board under LTIP 2013 in the fiscal year 2017 is basically unchanged when compared with 2016. For the fiscal year 2016, Mr. Stephan Sturm received the regular number of stock options and phantom stocks pro rata for the period through June 30, 2016, when he was a regular member of the Management Board, and twice the number for the period from July 1, 2016, when he became Chairman of the Management Board. For the fiscal year 2017, as Chairman of the Management Board, he received twice the number of stock options and phantom stocks. Ms. Rachel Empey was granted stock options and phantom stocks pro rata for the period starting August 1, 2017, when she was appointed as a Management Board member. The stated values correspond to their fair value at the time of grant, namely a value of €12.59 (2016: €15.31) per stock option of Fresenius SE & Co. KGaA and €10.61 for stock options granted to Ms. Rachel Empey. The exercise price of the granted stock options of Fresenius SE & Co. KGaA was €74.77 (2016: €66.02) and €64.69 for stock options granted to Ms. Rachel Empey.

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

LONG-TERM INCENTIVE COMPONENTS

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

[1] Stock options that were granted in 2017 and 2016 under the Fresenius SE & Co. KGaA stock option plan.
[2] The amounts comprise all phantom stocks including performance shares of Fresenius Medical Care AG & Co. KGaA.

At the end of the fiscal year 2017, the members of the Management Board held a total of 1,612,515 (2016: 1,294,530) stock options of Fresenius SE & Co. KGaA and 284,793 (2016: 344,793) of Fresenius Medical Care AG & Co. KGaA. Furthermore, they held a total of 285,057 (2016: 262,524) phantom stocks of Fresenius SE & Co. KGaA, as well as 37,915 performance shares (2016: 19,852) and 16,888 (2016: 17,853) phantom stocks of Fresenius Medical Care AG & Co. KGaA.

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

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

[1] Mr. Rice Powell holds stock options under the Fresenius Medical Care stock option plan.
[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 2017 and 2016:

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

The stock options and the entitlement to a share-based compensation (phantom stocks) can be exercised only after the expiry of minimum terms (vesting periods). Their value is recognized over the vesting period as expense in the respective fiscal year. The expenses attributable to the fiscal years 2017 and 2016 are stated in the following table. The values shown for the year 2016 for Dr. Ulf M. Schneider include corrections to expenses in prior years for stock options and phantom stocks that now expire due to his resignation.

EXPENSES FOR LONG-TERM INCENTIVE COMPONENTS

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

[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, since 2018, they include an allocation cap in the amount of €6,000 thousand for Ms. Rachel Empey, Dr. Francesco De Meo, Dr. Jürgen Götz, Mr. Mats Henriksson, and Dr. Ernst Wastler and €9,000 thousand for Mr. Stephan Sturm.

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

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

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

The pension commitments are as follows:

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

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

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

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

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

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

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

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

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

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

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

MISCELLANEOUS

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

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

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

	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			
Benefits granted Value € thousands	**2017**	2017 min.	2017 max.	2016	**2017**	2017 min.	2017 max.	2016	**2017**	2017 min.	2017 max.	2016
Fixed compensation	**1,100**	1,100	1,100	850	**630**	630	630	600	**250**	250	250	n. a.
Fringe benefits	**79**	79	79	43	**24**	24	24	23	**16**	16	16	n. a.
Total non-performance-based compensation	**1,179**	1,179	1,179	893	**654**	654	654	623	**266**	266	266	n. a.
One-year variable compensation [1]	**1,866**	1,750	2,300	1,773	**1,412**	1,050	1,750	1,250	**338**	317	417	n. a.
Multi-year variable compensation/components with long-term incentive effect	**2,428**	0	n. a.	2,163	**1,412**	0	n. a.	1,475	**407**	0	n. a.	n. a.
Thereof postponed one-year variable compensation	**0**	0	n. a.	0	**148**	0	n. a.	0	**0**	0	n. a.	n. a.
Thereof Stock Option Plan 2013 (part of LTIP 2013) (5-year term)	**1,700**	0	n. a.	1,550	**850**	0	n. a.	1,033	**298**	0	n. a.	n. a.
Thereof phantom stocks (part of LTIP 2013) (5-year term)	**628**	0	n. a.	513	**314**	0	n. a.	342	**109**	0	n. a.	n. a.
Thereof further phantom stocks	**100**	0	n. a.	100	**100**	0	n. a.	100	**0**	0	n. a.	n. a.
Total non-performance-based and performance-based compensation	**5,473**	2,929	n. a.	4,829	**3,478**	1,704	n. a.	3,348	**1,011**	575	n. a.	n. a.
Service cost	**455**	455	455	276	**325**	325	325	300	**0**	0	0	n. a.
Value of benefits granted	**5,928**	3,384	n. a.	5,105	**3,803**	2,029	n. a.	3,648	**1,011**	575	n. a.	n. a.

[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 2016 and 2017.

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

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

TABLES DISPLAYING THE VALUE OF BENEFITS GRANTED AND ALLOCATIONS

The German Corporate Governance Code stipulates that specific information shall be presented in the compensation report pertaining to the benefits granted for the year under review as well as the allocations and service costs in/for the year under review. The model tables provided in the appendix of the German Corporate Governance Code shall be used to present the information.

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

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

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	
	2017	2016	**2017**	2016	**2017**	2016
Fixed compensation	**1,100**	850	**630**	600	**250**	n. a.
Fringe benefits	**79**	43	**24**	23	**16**	n. a.
Total non-performance-based compensation	**1,179**	893	**654**	623	**266**	n. a.
One-year variable compensation	**1,866**	1,773	**1,412**	1,250	**338**	n. a.
Multi-year variable compensation/components with long-term incentive effect	**317**	4,234	**4,806**	375	**0**	n. a.
Thereof postponed one-year variable compensation	**57**	30	**143**	108	**0**	n. a.
Thereof Stock Option Plan 2003 (5-year term)						
Issue 2007						
Thereof Stock Option Plan 2008 (5-year term)						
Issue 2010						
Issue 2011		3,937				
Issue 2012			**4,403**			
Thereof further phantom stocks						
Issue 2011		267		267		
Issue 2012	**260**		**260**			
Other	**0**	0	**0**	0	**0**	n. a.
Total non-performance-based and performance-based compensation	**3,362**	6,900	**6,872**	2,248	**604**	n. a.
Service cost	**455**	276	**325**	300	**0**	n. a.
Allocation including multi-year variable compensation/components with long-term incentive effect	**3,817**	7,176	**7,197**	2,548	**604**	n. a.
Allocation for the year under review (not including multi-year variable compensation/components with long-term incentive effect)	**3,500**	2,942	**2,391**	2,173	**604**	n. a.

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

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

COMPENSATION OF THE SUPERVISORY BOARD

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

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

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

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

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

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

[1] Up to May 13, 2016
[2] Since May 13, 2016
[3] Based on the proposed dividend

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

Each member of the Supervisory Board shall receive an amount of €150 thousand annually for each full fiscal year as fixed compensation, payable after the end of the fiscal year. In addition, each member of the Supervisory Board shall receive variable success-oriented compensation for each full fiscal year that is oriented on the respective average growth rate of the net income attributable to shareholders of Fresenius SE & Co. KGaA for the compensation year and the two preceding fiscal years (three-year average growth of the net income attributable to shareholders of Fresenius SE & Co. KGaA).

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

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

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

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

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

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

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

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

DIRECTORS & OFFICERS INSURANCE

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

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CONSOLIDATED FINANCIAL STATEMENTS

FRESENIUS SE & CO. KGAA
CONSOLIDATED STATEMENT OF INCOME

€ in millions	Note	2017	2016
Sales	4	**33,886**	29,471
Cost of sales		**-23,410**	-19,958
Gross profit		**10,476**	9,513
Selling expenses		**-948**	-890
General and administrative expenses	8	**-4,591**	-3,852
Other operating income	9	**393**	216
Other operating expenses	9	**-183**	-157
Research and development expenses	7	**-558**	-528
Operating income (EBIT)		**4,589**	4,302
Interest income	10	**197**	96
Interest expenses	10	**-848**	-678
Income before income taxes		**3,938**	3,720
Income taxes	11	**-905**	-1,044
Net income		**3,033**	2,676
Noncontrolling interest	12	**1,219**	1,116
Net income attributable to shareholders of Fresenius SE & Co. KGaA		**1,814**	1,560
Earnings per share in €	13	**3.27**	2.85
Fully diluted earnings per share in €	13	**3.25**	2.83

The following notes are an integral part of the consolidated financial statements.

FRESENIUS SE & CO. KGAA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ in millions	Note	2017	2016
Net income		**3,033**	2,676
Other comprehensive income (loss)			
Positions which will be reclassified into net income in subsequent years			
Foreign currency translation	28, 30	**-1,965**	522
Cash flow hedges	28, 30	**44**	23
Change of fair value of available for sale financial assets	28, 30	**–**	–
Income taxes on positions which will be reclassified	28	**15**	-17
Positions which will not be reclassified into net income in subsequent years			
Actuarial gains/losses on defined benefit pension plans	25, 28	**43**	-112
Income taxes on positions which will not be reclassified	28	**-35**	28
Other comprehensive income (loss), net		**-1,898**	444
Total comprehensive income		**1,135**	3,120
Comprehensive income attributable to noncontrolling interest		**292**	1,321
Comprehensive income attributable to shareholders of Fresenius SE & Co. KGaA		**843**	1,799

The following notes are an integral part of the consolidated financial statements.

FRESENIUS SE & CO. KGAA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

as of December 31, € in millions	Note	2017	2016
Cash and cash equivalents	14	**1,636**	1,579
Trade accounts receivable, less allowance for doubtful accounts	15	**6,202**	5,199
Accounts receivable from and loans to related parties		**17**	13
Inventories	16	**3,252**	3,189
Other current assets	17	**1,497**	1,764
I. Total current assets		**12,604**	11,744
Property, plant and equipment	18	**9,555**	8,139
Goodwill	19	**25,285**	22,901
Other intangible assets	19	**3,172**	1,763
Other non-current assets	17	**1,773**	1,523
Deferred taxes	11	**744**	627
II. Total non-current assets		**40,529**	34,953
Total assets		**53,133**	46,697

LIABILITIES AND SHAREHOLDERS' EQUITY

as of December 31, € in millions	Note	2017	2016
Trade accounts payable		**1,688**	1,315
Short-term accounts payable to related parties		**42**	57
Short-term provisions and other short-term liabilities	20, 21	**5,854**	5,514
Short-term debt	22	**1,550**	847
Short-term debt from related parties		**–**	6
Current portion of long-term debt and capital lease obligations	22	**618**	611
Current portion of bonds	23	**731**	473
Short-term accruals for income taxes		**182**	256
A. Total short-term liabilities		**10,665**	9,079
Long-term debt and capital lease obligations, less current portion	22	**6,487**	5,048
Bonds, less current portion	23	**8,338**	6,941
Convertible bonds	24	**1,318**	854
Long-term provisions and other long-term liabilities	20, 21	**2,094**	1,615
Pension liabilities	25	**1,163**	1,155
Long-term accruals for income taxes		**238**	221
Deferred taxes	11	**1,110**	935
B. Total long-term liabilities		**20,748**	16,769
I. Total liabilities		**31,413**	25,848
A. Noncontrolling interest	26	**8,059**	8,185
Subscribed capital	27	**555**	547
Capital reserve	27	**3,848**	3,379
Other reserves	27	**9,656**	8,165
Accumulated other comprehensive income (loss)	28	**-398**	573
B. Total Fresenius SE & Co. KGaA shareholders' equity		**13,661**	12,664
II. Total shareholders' equity		**21,720**	20,849
Total liabilities and shareholders' equity		**53,133**	46,697

The following notes are an integral part of the consolidated financial statements.

FRESENIUS SE & CO. KGAA
CONSOLIDATED STATEMENT OF CASH FLOWS

January 1 to December 31, € in millions	Note	2017	2016
Operating activities			
Net income		**3,033**	2,676
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities			
Depreciation and amortization	17, 18, 19	**1,437**	1,215
Gain on sale of investments and divestitures	2	**-119**	-2
Change in deferred taxes	11	**-230**	3
Gain/loss on sale of fixed assets		**-3**	4
Changes in assets and liabilities, net of amounts from businesses acquired or disposed of			
Trade accounts receivable, net	15	**-631**	-297
Inventories	16	**-228**	-304
Other current and non-current assets	17	**38**	6
Accounts receivable from/payable to related parties		**-25**	55
Trade accounts payable, provisions and other short-term and long-term liabilities	20, 21	**705**	192
Accruals for income taxes		**-40**	37
Net cash provided by operating activities		**3,937**	3,585
Investing activities			
Purchase of property, plant and equipment	18	**-1,823**	-1,641
Proceeds from sales of property, plant and equipment		**118**	25
Acquisitions and investments, net of cash acquired and net purchases of intangible assets	2, 32	**-6,289**	-675
Proceeds from sale of investments and divestitures	2	**424**	190
Net cash used in investing activities		**-7,570**	-2,101

January 1 to December 31, € in millions	Note	2017	2016
Financing activities			
Proceeds from short-term debt	22	**1,003**	985
Repayments of short-term debt	22	**-281**	-351
Proceeds from long-term debt and capital lease obligations	22	**2,712**	387
Repayments of long-term debt and capital lease obligations	22	**-1,482**	-1,101
Proceeds from the issuance of bonds	23	**2,600**	0
Repayments of liabilities from bonds	23	**-436**	-350
Proceeds from the issuance of convertible bonds	24	**500**	0
Payments for the share buy-back program of Fresenius Medical Care	27	**-58**	0
Proceeds from the accounts receivable securitization program	22	**157**	112
Proceeds from the exercise of stock options	34	**81**	78
Dividends paid		**-924**	-738
Change in noncontrolling interest	26	**–**	-1
Exchange rate effect due to corporate financing		**–**	5
Net cash provided by/used in financing activities		**3,872**	-974
Effect of exchange rate changes on cash and cash equivalents		**-182**	25
Net increase in cash and cash equivalents		**57**	535
Cash and cash equivalents at the beginning of the reporting period	14	**1,579**	1,044
Cash and cash equivalents at the end of the reporting period	14	**1,636**	1,579

ADDITIONAL INFORMATION ON PAYMENTS THAT ARE INCLUDED IN NET CASH PROVIDED BY OPERATING ACTIVITIES

January 1 to December 31, € in millions	Note	2017	2016
Received interest		**65**	45
Paid interest		**-566**	-562
Income taxes paid		**-1,187**	-894

The following notes are an integral part of the consolidated financial statements.

FRESENIUS SE & CO. KGAA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Subscribed Capital			Reserves	
	Note	Number of ordinary shares in thousand	Amount € in thousands	Amount € in millions	Capital reserve € in millions	Other reserves € in millions
As of December 31, 2015		545,728	545,728	546	3,309	6,964
Proceeds from the exercise of stock options	34	1,480	1,480	1	44	
Compensation expense related to stock options	34				26	
Dividends paid	27					-300
Purchase of noncontrolling interest	26					
Noncontrolling interest subject to put provisions	21, 30					-59
Comprehensive income (loss)						
Net income						1,560
Other comprehensive income (loss)						
Cash flow hedges	28, 30					
Change of fair value of available for sale financial assets	28, 30					
Foreign currency translation	28, 30					
Actuarial losses on defined benefit pension plans	25, 28					
Comprehensive income						1,560
As of December 31, 2016		547,208	547,208	547	3,379	8,165
Issuance of bearer ordinary shares	27	6,108	6,108	6	394	
Proceeds from the exercise of stock options	34	1,394	1,394	2	46	
Compensation expense related to stock options	34				29	
Dividends paid	27					-343
Purchase of noncontrolling interest	26					
Noncontrolling interest subject to put provisions	21, 30					20
Comprehensive income (loss)						
Net income						1,814
Other comprehensive income (loss)						
Cash flow hedges	28, 30					
Change of fair value of available for sale financial assets	28, 30					
Foreign currency translation	28, 30					
Actuarial gains/losses on defined benefit pension plans	25, 28					
Comprehensive income (loss)						1,814
As of December 31, 2017		**554,710**	**554,710**	**555**	**3,848**	**9,656**

	Note	Accumulated other comprehensive income (loss) € in millions	Total Fresenius SE & Co. KGaA shareholders' equity € in millions	Noncontrolling interest € in millions	Total shareholders' equity € in millions
As of December 31, 2015		334	11,153	7,300	18,453
Proceeds from the exercise of stock options	34		45	33	78
Compensation expense related to stock options	34		26	16	42
Dividends paid	27		-300	-438	-738
Purchase of noncontrolling interest	26		0	90	90
Noncontrolling interest subject to put provisions	21, 30		-59	-137	-196
Comprehensive income (loss)					
Net income			1,560	1,116	2,676
Other comprehensive income (loss)					
Cash flow hedges	28, 30	3	3	11	14
Change of fair value of available for sale financial assets	28, 30	–	–	–	–
Foreign currency translation	28, 30	300	300	214	514
Actuarial losses on defined benefit pension plans	25, 28	-64	-64	-20	-84
Comprehensive income		239	1,799	1,321	3,120
As of December 31, 2016		573	12,664	8,185	20,849
Issuance of bearer ordinary shares	27		400	0	400
Proceeds from the exercise of stock options	34		48	33	81
Compensation expense related to stock options	34		29	8	37
Dividends paid	27		-343	-582	-925
Purchase of noncontrolling interest	26		0	77	77
Noncontrolling interest subject to put provisions	21, 30		20	46	66
Comprehensive income (loss)					
Net income			1,814	1,219	3,033
Other comprehensive income (loss)					
Cash flow hedges	28, 30	19	19	14	33
Change of fair value of available for sale financial assets	28, 30	–	–	–	–
Foreign currency translation	28, 30	-1,013	-1,013	-926	-1,939
Actuarial gains/losses on defined benefit pension plans	25, 28	23	23	-15	8
Comprehensive income (loss)		-971	843	292	1,135
As of December 31, 2017		**-398**	**13,661**	**8,059**	**21,720**

The following notes are an integral part of the consolidated financial statements.

FRESENIUS SE & CO. KGAA
CONSOLIDATED SEGMENT REPORTING

BY BUSINESS SEGMENT

	Fresenius Medical Care			Fresenius Kabi		
€ in millions	**2017**[1]	2016	Change	**2017**[2]	2016	Change
Sales	**17,784**	16,570	7%	**6,358**	6,007	6%
thereof contribution to consolidated sales	**17,754**	16,546	7%	**6,301**	5,956	6%
thereof intercompany sales	**30**	24	25%	**57**	51	12%
contribution to consolidated sales	**52%**	56%		**19%**	20%	
EBITDA	**3,298**	3,110	6%	**1,483**	1,468	1%
Depreciation and amortization	**736**	701	5%	**306**	297	3%
EBIT	**2,562**	2,409	6%	**1,177**	1,171	1%
Net interest	**-354**	-366	3%	**-119**	-149	20%
Income taxes	**-690**	-623	-11%	**-317**	-311	-2%
Net income attributable to shareholders of Fresenius SE & Co. KGaA	**1,244**	1,144	9%	**702**	675	4%
Operating cash flow	**2,192**	1,932	13%	**1,010**	1,004	1%
Cash flow before acquisitions and dividends	**1,351**	1,017	33%	**590**	668	-12%
Total assets	**24,025**	25,504	-6%	**11,792**	11,430	3%
Debt	**7,448**	8,132	-8%	**4,806**	5,155	-7%
Other operating liabilities	**5,282**	5,658	-7%	**2,879**	2,153	34%
Capital expenditure, gross	**944**	931	1%	**428**	335	28%
Acquisitions, gross/investments	**683**	774	-12%	**157**	114	38%
Research and development expenses	**131**	147	-11%	**427**	381	12%
Employees (per capita on balance sheet date)	**121,245**	116,120	4%	**36,380**	34,917	4%
Key figures						
EBITDA margin	**18.5%**	18.8%		**23.3%**	24.4%	
EBIT margin	**14.4%**	14.5%		**18.5%**	19.5%	
Depreciation and amortization in % of sales	**4.1%**	4.2%		**4.8%**	4.9%	
Operating cash flow in % of sales	**12.3%**	11.7%		**15.9%**	16.7%	
ROOA	**10.9%**	10.6%		**10.8%**	11.7%	

[1] Before book gain from U.S. tax reform and FCPA provision
[2] Before acquisition-related expenses and book gain from U.S. tax reform
[3] After acquisition-related expenses, book gain from U.S. tax reform and FCPA provision
[4] Before acquisition-related expenses and FCPA provision
[5] The underlying pro forma EBIT does not include acquisition-related expenses and FCPA provision.

BY REGION

	Europe			North America		
€ in millions	**2017**	2016	Change	**2017**	2016	Change
Sales	**13,767**	10,839	27%	**15,093**	14,122	7%
contribution to consolidated sales	**41%**	37%		**45%**	48%	
EBIT	**1,030**	908	13%	**2,762**	2,662	4%
Depreciation and amortization	**698**	492	42%	**576**	582	-1%
Total assets	**24,807**	16,892	47%	**22,772**	24,538	-7%
Capital expenditure, gross	**913**	772	18%	**708**	673	5%
Acquisitions, gross/investments	**6,241**	346	--	**339**	444	-24%
Employees (per capita on balance sheet date)	**154,172**	119,434	29%	**75,083**	72,803	3%

Fresenius Helios			Fresenius Vamed			Corporate/Other			Fresenius Group		
2017	2016	Change	**2017**	2016	Change	**2017**[3]	2016	Change	**2017**	2016	Change
8,668	5,843	48%	**1,228**	1,160	6%	**-152**	-109	-39%	**33,886**	29,471	15%
8,652	5,843	48%	**1,174**	1,122	5%	**5**	4	25%	**33,886**	29,471	15%
16	0		**54**	38	42%	**-157**	-113	-39%	**0**	0	
26%	20%		**3%**	4%		**0%**	0%		**100%**	100%	
1,426	879	62%	**87**	80	9%	**-268**	-20	--	**6,026**	5,517	9%
374	196	91%	**11**	11	0%	**10**	10	0%	**1,437**	1,215	18%
1,052	683	54%	**76**	69	10%	**-278**	-30	--	**4,589**	4,302	7%
-155	-37	--	**-2**	-2	0%	**-21**	-28	25%	**-651**	-582	-12%
-164	-100	-64%	**-23**	-21	-10%	**289**	11	--	**-905**	-1,044	13%
728	544	34%	**50**	45	11%	**-910**	-848	-7%	**1,814**	1,560	16%
733	622	18%	**42**	27	56%	**-40**	0		**3,937**	3,585	10%
322	273	18%	**35**	16	119%	**-66**	-5	--	**2,232**	1,969	13%
16,583	8,696	91%	**1,282**	1,108	16%	**-549**	-41	--	**53,133**	46,697	14%
6,665	1,406	--	**245**	176	39%	**-122**	-89	-37%	**19,042**	14,780	29%
2,027	1,387	46%	**621**	574	8%	**452**	361	25%	**11,261**	10,133	11%
415	352	18%	**16**	11	45%	**25**	4	--	**1,828**	1,633	12%
5,979	38	--	**33**	0		**0**	0		**6,852**	926	--
–	–	--	**0**	0		**0**	0		**558**	528	6%
105,927	72,687	46%	**8,667**	8,198	6%	**1,030**	951	8%	**273,249**	232,873	17%
16.5%	15.0%		**7.1%**	6.9%					**18.5%**[4]	18.7%	
12.1%	11.7%		**6.2%**	5.9%					**14.3%**[4]	14.6%	
4.3%	3.4%		**0.9%**	0.9%					**4.2%**	4.1%	
8.5%	10.6%		**3.4%**	2.3%					**11.6%**	12.2%	
6.9%	8.5%		**9.8%**	10.5%					**9.4%**[5]	10.0%	

The consolidated segment reporting by business segment is an integral part of the notes.
The following notes are an integral part of the consolidated financial statements.

Asia-Pacific			Latin America			Africa			Fresenius Group		
2017	2016	Change	**2017**	2016	Change	**2017**	2016	Change	**2017**	2016	Change
3,182	2,922	9%	**1,431**	1,223	17%	**413**	365	13%	**33,886**	29,471	15%
9%	10%		**4%**	4%		**1%**	1%		**100%**	100%	
627	585	7%	**117**	98	19%	**53**	49	8%	**4,589**	4,302	7%
105	95	11%	**49**	39	26%	**9**	7	29%	**1,437**	1,215	18%
3,874	3,590	8%	**1,464**	1,479	-1%	**216**	198	9%	**53,133**	46,697	14%
113	99	14%	**82**	79	4%	**12**	10	20%	**1,828**	1,633	12%
263	122	116%	**9**	14	-36%	**0**	0		**6,852**	926	--
24,381	22,441	9%	**17,709**	16,283	9%	**1,904**	1,912	0%	**273,249**	232,873	17%

The consolidated segment reporting by region is an integral part of the notes.
The following notes are an integral part of the consolidated financial statements.

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GENERAL NOTES

1. PRINCIPLES

I. GROUP STRUCTURE

Fresenius is a global health care group with products and services for dialysis, hospitals and outpatient medical care. In addition, the Fresenius Group focuses on hospital operations and also manages projects and provides services for hospitals and other health care facilities worldwide. Besides the activities of the parent company Fresenius SE & Co. KGaA, Bad Homburg v. d. H., the operating activities were split into the following legally independent business segments in the fiscal year 2017:

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

Fresenius Medical Care offers services and products for patients with chronic kidney failure. As of December 31, 2017, Fresenius Medical Care treated 320,960 patients at 3,752 dialysis clinics. Dialyzers and dialysis machines are among the most important product lines. In addition, Fresenius Medical Care offers dialysis-related services, among others in the field of Care Coordination.

Fresenius Kabi specializes in intravenously administered generic drugs (IV drugs), clinical nutrition, and infusion therapies. The company is also a supplier of medical devices and products of transfusion technology. In addition, Fresenius Kabi is developing products with a focus on oncology and autoimmune diseases within its biosimilars segment. The company sells its products mainly to hospitals.

Fresenius Helios is Europe's leading private hospital operator. The company comprises Helios Germany and Helios Spain (Quirónsalud). At the end of 2017, Helios Germany operated a total of 111 hospitals with around 35,000 beds in Germany. In addition to 88 acute care hospitals, including 7 maximum care hospitals in Berlin-Buch, Duisburg, Erfurt, Krefeld, Schwerin, Wiesbaden, and Wuppertal, Helios Germany has 23 postacute care clinics. Quirónsalud operated 45 hospitals, 55 outpatient centers, and around 300 Occupational Risk Prevention centers at the end of 2017.

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

Fresenius SE & Co. KGaA owned 30.80% of the subscribed capital of Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) at the end of the fiscal year 2017. Fresenius Medical Care Management AG, the general partner of FMC-AG & Co. KGaA, is a wholly owned subsidiary of Fresenius SE & Co. KGaA. Through this structure, Fresenius SE & Co. KGaA has rights that give Fresenius SE & Co. KGaA the ability to direct the relevant activities and, hence, the earnings of FMC-AG & Co. KGaA. Therefore, FMC-AG & Co. KGaA is fully consolidated in the consolidated financial statements of the Fresenius Group.

Fresenius SE & Co. KGaA continued to hold 100% of the management companies of the business segments Fresenius Kabi (Fresenius Kabi AG) as well as Fresenius Helios and Fresenius Vamed (both held through Fresenius ProServe GmbH) on December 31, 2017. Through Fresenius ProServe GmbH, Fresenius SE & Co. KGaA holds 100% in HELIOS Kliniken GmbH and Helios Healthcare Spain S.L. (Quirónsalud) as well as a 77% stake in VAMED AG. In addition, Fresenius SE & Co. KGaA holds interests in companies with holding functions regarding real estate, financing and insurance, as well as in Fresenius Netcare GmbH which offers services in the field of information technology.

The reporting currency in the Fresenius Group is the euro. In order to make the presentation clearer, amounts are mostly shown in million euros. Amounts under €1 million after rounding are marked with "–".

II. BASIS OF PRESENTATION

Fresenius SE & Co. KGaA, as a stock exchange listed company with a domicile in a member state of the European Union (EU), fulfills its obligation to prepare and publish the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applying Section 315e of the German Commercial Code (HGB). The consolidated financial statements of Fresenius SE & Co. KGaA at December 31, 2017 have been prepared and will be published in accordance with the Standards valid on the date of

the statement of financial position issued by the International Accounting Standards Board (IASB) and the mandatory Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and as binding to be applied in the EU. The financial statements are also in accordance with IFRS as issued by the IASB. Beginning with the 2017 fiscal year, the Fresenius Group is solely managed in accordance with IFRS and does no longer voluntarily prepare and publish the consolidated financial statements in accordance with the United States Generally Accepted Accounting Principles (U.S. GAAP) which were provided previously.

In order to improve readability, various items are aggregated in the consolidated statement of financial position and in the consolidated statement of income. These items are shown separately in the notes to provide useful information to the readers of the consolidated financial statements.

Moreover, the notes include information required by HGB according to Section 315e (1) HGB. The consolidated financial statements include a management report according to Section 315e HGB in conjunction with Section 315 HGB.

The consolidated statement of financial position contains all information required to be disclosed by International Accounting Standard (IAS) 1, Presentation of Financial Statements, and is classified on the basis of the maturity of assets and liabilities. The consolidated statement of income is classified using the cost-of-sales accounting format.

The general partner of Fresenius SE & Co. KGaA is Fresenius Management SE. Fresenius Management SE prepares its own consolidated financial statements.

At February 26, 2018, the Management Board of Fresenius Management SE authorized the consolidated financial statements for issue and passed it to the Supervisory Board of Fresenius SE & Co. KGaA. The Supervisory Board has to review the consolidated financial statements.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The financial statements of consolidated entities have been prepared using uniform accounting methods. The acquisitions of companies are accounted for applying the purchase method.

Capital consolidation is performed by offsetting investments in subsidiaries against the underlying revaluated equity at the date of acquisition. The identifiable assets and liabilities of subsidiaries as well as the noncontrolling interest are recognized at their fair values. Any remaining debit balance between the investments in subsidiaries plus the noncontrolling interest and the revaluated equity is recognized as goodwill and is tested at least once a year for impairment.

All significant intercompany sales, expenses, income, receivables and payables are eliminated. Profits and losses on items of property, plant and equipment and inventory acquired from other Group entities are also eliminated. Deferred tax assets and liabilities are recognized on temporary differences resulting from consolidation procedures.

Noncontrolling interest is comprised of the interest of noncontrolling shareholders in the consolidated equity of Group entities and is recognized at its fair value at date of first consolidation. Profits and losses attributable to the noncontrolling interests are separately disclosed in the consolidated statement of income. As far as the Fresenius Group, as option writer on behalf of existing put options, can be obliged to purchase noncontrolling interests held by third parties, the potential purchase price liability is recorded in long-term provisions and other long-term liabilities as well as short-term provisions and other short-term liabilities at fair value at the date of the consolidated financial statements. According to the present access method, noncontrolling interests are further recorded in equity as noncontrolling interests. The initial recognition of the purchase price liability as well as valuation differences are recorded neutral to profit or loss through equity.

Generally, entities in which Fresenius SE & Co. KGaA, directly or indirectly, holds more than 20% and less than 50% of the voting rights and can exercise a significant influence over their financial and operating policies are associated companies. These companies are consolidated using the equity method. Investments that are not classified as in associated companies are recorded at acquisition costs or at fair value, respectively.

b) Composition of the Group

Besides Fresenius SE & Co. KGaA, the consolidated financial statements include all material subsidiaries according to IFRS 10 and IFRS 11, over which Fresenius SE & Co. KGaA has control or significant influence. Fresenius SE & Co. KGaA controls an entity if it has power over the entity. That is, Fresenius SE & Co. KGaA has existing rights that give Fresenius SE & Co. KGaA the current ability to direct the relevant activities, which are the activities that significantly affect Fresenius SE & Co. KGaA's return. In addition, Fresenius SE & Co. KGaA is exposed to, or has rights to, variable returns from the involvement with the entity and Fresenius SE & Co. KGaA has the ability to use its power over the entity to affect the amount of Fresenius SE & Co. KGaA's return.

Fresenius Vamed participates in project entities which are set up for long-term defined periods of time and for the specific purpose of constructing and operating thermal centers. These project entities are not controlled by Fresenius Vamed and therefore are not consolidated. The project entities generated approximately €119 million in sales in 2017 (2016: €114 million). The project entities finance themselves mainly through debt, profit participation rights and investment grants. Assets and liabilities relating to the project entities are not material. Fresenius Vamed made no payments to the project entities other than contractually stipulated. From today's perspective and due to the contractual situation, Fresenius Vamed is not exposed to any material risk of loss from these project entities.

The consolidated financial statements of 2017 included, in addition to Fresenius SE & Co. KGaA, 2,733 (2016: 2,477) fully consolidated companies and 50 (2016: 33) companies were accounted for under the equity method. In 2017, there were no material changes in the scope of consolidated entities, except for those mentioned in note 2, Acquisitions, divestitures and investments.

The complete list of the investments of Fresenius SE & Co. KGaA, registered office in 61352 Bad Homburg v. d. H., Else-Kröner-Straße 1, registered in the Commercial Register of the local court in Bad Homburg v. d. H. under B11852, will be submitted to the electronic Federal Gazette and the electronic companies register.

For the fiscal year 2017, the following fully consolidated German subsidiaries of the Fresenius Group will apply the exemption provided in Sections 264 (3) and 264b, respectively, of the German Commercial Code (HGB):

Name of the company	Registered office
Corporate/Other	
Fresenius Biotech Beteiligungs GmbH	Bad Homburg v. d. H.
Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt Friedberg KG	Bad Homburg v. d. H.
Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt St. Wendel KG	Bad Homburg v. d. H.
Fresenius Immobilien-Verwaltungs-GmbH & Co. Objekt Schweinfurt KG	Bad Homburg v. d. H.
Fresenius Netcare GmbH	Bad Homburg v. d. H.
Fresenius ProServe GmbH	Bad Homburg v. d. H.
FPS Immobilien Verwaltungs GmbH & Co. Reichenbach KG	Bad Homburg v. d. H.
ProServe Krankenhaus Beteiligungs-gesellschaft mbH & Co. KG	München
Fresenius Kabi	
Fresenius Hemocare GmbH	Bad Homburg v. d. H.
Fresenius Hemocare Beteiligungs GmbH	Bad Homburg v. d. H.
Fresenius Kabi AG	Bad Homburg v. d. H.
Fresenius Kabi Deutschland GmbH	Bad Homburg v. d. H.
Fresenius Kabi Logistik GmbH	Friedberg
Fresenius Kabi Vermögensverwaltung GmbH	Bad Homburg v. d. H.
MC Medizintechnik GmbH	Alzenau
medi1one medical gmbh	Waiblingen
Fresenius Helios	
Gesundheitsmanagement Elbe-Fläming Gmbh	Burg
Helios Agnes-Karll Krankenhaus GmbH	Bad Schwartau
Helios AOK-Klinik Bad Ems GmbH	Bad Ems
Helios Aukamm-Klinik Wiesbaden GmbH	Wiesbaden
Helios Beteiligungs Aktiengesellschaft	Berlin
Helios Bördeklinik GmbH	Oschersleben (Bode)
Helios Care GmbH	Berlin
Helios Fachklinik Schleswig GmbH	Schleswig
Helios Fachklinik Vogelsang-Gommern GmbH	Vogelsang-Gommern
Helios Fachkliniken Hildburghausen GmbH	Hildburghausen
Helios Fachpflege Schleswig GmbH	Schleswig
Helios Hanseklinikum Stralsund GmbH	Stralsund
Helios International Holding GmbH	Berlin
Helios Kids in Pflege GmbH	Geesthacht
Helios Klinik Bad Berleburg GmbH	Bad Berleburg
Helios Klinik Berching GmbH	Berching
Helios Klinik Bergisch-Land GmbH	Wuppertal
Helios Klinik Blankenhain GmbH	Blankenhain
Helios Klinik Bleicherode GmbH	Bleicherode
Helios Klinik für Herzchirurgie Karlsruhe GmbH	Karlsruhe
Helios Klinik Geesthacht GmbH	Geesthacht
Helios Klinik Hagen Ambrock GmbH	Hagen
Helios Klinik Hattingen GmbH	Hattingen
Helios Klinik Hohenstücken GmbH	Brandenburg
Helios Klinik Jerichower Land GmbH	Burg
Helios Klinik Leezen GmbH	Leezen
Helios Klinik Leisnig GmbH	Leisnig

Name of the company	Registered office
Fresenius Helios	
Helios Klinik Lengerich GmbH	Lengerich
Helios Klinik Rottweil GmbH	Rottweil
Helios Klinik Schkeuditz GmbH	Schkeuditz
Helios Klinik Schleswig GmbH	Schleswig
Helios Klinik Schloss Pulsnitz GmbH	Pulsnitz
Helios Klinik Schloss Schönhagen GmbH	Damp
Helios Klinik Schwedenstein Pulsnitz GmbH	Pulsnitz
Helios Klinik Volkach GmbH	Volkach
Helios Klinik Wipperfürth GmbH	Wipperfürth
Helios Klinik Zerbst/Anhalt GmbH	Zerbst
Helios Kliniken Bad Grönenbach GmbH	Bad Grönenbach
Helios Kliniken Breisgau Hochschwarzwald GmbH	Müllheim
Helios Kliniken Mansfeld-Südharz GmbH	Sangerhausen
Helios Kliniken Mittelweser GmbH	Nienburg
Helios Kliniken Taunus GmbH	Bad Schwalbach
Helios Klinikum Aue GmbH	Aue
Helios Klinikum Bad Saarow GmbH	Bad Saarow
Helios Klinikum Berlin-Buch GmbH	Berlin
Helios Klinikum Erfurt GmbH	Erfurt
Helios Klinikum Gifhorn GmbH	Gifhorn
Helios Klinikum Gotha GmbH	Gotha/Ohrdruf
Helios Klinikum Meiningen GmbH	Meiningen
Helios Klinikum Pirna GmbH	Pirna
Helios Klinikum Schwelm GmbH	Schwelm
Helios Klinikum Siegburg GmbH	Siegburg
Helios Klinikum Uelzen GmbH	Uelzen
Helios Klinikum Wuppertal GmbH	Wuppertal
Helios Ostseeklinik Damp GmbH	Damp
Helios Park-Klinikum Leipzig GmbH	Leipzig
Helios Privatkliniken GmbH	Berlin
Helios Rehaklinik Ahrenshoop GmbH	Ostseebad Ahrenshoop
Helios Rehaklinik Damp GmbH	Damp
Helios Rehakliniken Bad Berleburg GmbH	Bad Berleburg
Helios Rehakliniken GmbH	Damp
Helios Service GmbH	Berlin
Helios Spital Überlingen GmbH	Überlingen
Helios St. Elisabeth Klinik Oberhausen GmbH	Oberhausen
Helios St. Elisabeth-Krankenhaus Bad Kissingen GmbH	Bad Kissingen
Helios St. Josefs-Hospital GmbH	Bochum
Helios St. Marienberg Klinik Helmstedt GmbH	Helmstedt
Helios Versorgungszentren GmbH	Berlin
Helios Vogtland-Klinikum Plauen GmbH	Plauen
Helios Weißeritztal-Kliniken GmbH	Freital
Herzzentrum Leipzig GmbH	Leipzig
Klinik Kipfenberg GmbH Neurochirurgische und Neurologische Fachklinik	Kipfenberg
Medizinisches Versorgungszentrum am Helios Klinikum Bad Saarow GmbH	Bad Saarow
MVZ Campus Gifhorn GmbH	Gifhorn
ostsee resort damp GmbH	Damp
Poliklinik am Helios Klinikum Buch GmbH	Berlin
Senioren- und Pflegeheim Erfurt GmbH	Erfurt

c) Classifications

Certain items in the consolidated financial statements of 2016 have been reclassified to conform with the presentation in 2017.

In the business segment Fresenius Medical Care, trade accounts receivable on behalf of U.S. Medicare and Medicaid health care programs in the amount of €120 million and trade accounts receivable from management contracts in clinics in the amount of €27 million have been reclassified from other current assets (see note 17, Other current and non-current assets) to trade accounts receivable (see note 15, Trade accounts receivable) in the fiscal year 2016 to conform to the current year's presentation.

d) Sales recognition policy

Sales from services are recognized at the amount estimated to be receivable under the reimbursement arrangements with third party payors. Sales are recognized on the date services and related products are provided and the customer is obligated to pay.

Product sales are recognized when the title to the product passes to the customers, either at the time of shipment, upon receipt by the customer or upon any other terms that clearly define passage of title. As product returns are not typical, no return provisions are recognized. In the event that a return is required, the appropriate reductions to sales, cost of sales and accounts receivable are made. Sales are presented net of discounts, allowances and rebates.

In the business segment Fresenius Vamed, sales for long-term production contracts are recognized using the percentage of completion (PoC) method when the accounting conditions are met. The sales to be recognized are calculated as a percentage of the costs already incurred based on the estimated total cost of the contract, milestones laid down in the contract or the percentage of completion. Profits are only recognized when the earnings of a production contract accounted for using the PoC method can be measured reliably. Any expected excess of total contract costs over total contract revenue for a contract is recognized as an expense immediately.

Any tax assessed by a governmental authority that is incurred as a result of a sales transaction (e. g. sales tax) is excluded from sales and the related sale is reported on a net basis.

e) Government grants

The Fresenius Group primarily receives governmental funding for hospitals in Germany to finance buildings and medical equipment. Public sector grants are not recognized until there is reasonable assurance that the respective conditions are met and the grants will be received. Initially, the grant is recorded as a liability and as soon as the asset is acquired, the grant is offset against the acquisition costs. Expense-related grants are recognized as income in the periods in which related costs occur.

f) Research and development expenses

Research is the independent and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the technical and commercial implementation of research results and occurs before the start of the commercial production or use. The research and development phase of pharmaceutical products normally ends with the regulatory approval by the relevant authorities on the market of the particular country. Generally, a new pharmaceutical product is primarily approved on an established market, as such are considered Europe, the United States, China and Japan.

Research expenses are expensed as incurred. Development expenses that fully meet the criteria for the recognition of an intangible asset are capitalized as intangible asset.

g) Impairment

The Fresenius Group reviews the carrying amounts of its property, plant and equipment, intangible assets and other noncurrent assets for impairment whenever events or changes in circumstances indicate that the carrying amount is higher than the asset's recoverable amount. The recoverable amount is the higher of the net realizable value and its value in use. The net realizable value of an asset is defined as its fair value less costs to sell. The value in use is the present value of future cash flows expected to be derived from the relevant asset. If it is not possible to estimate the future cash flows from the individual assets, impairment is tested on the basis of the future cash flows of the corresponding cash generating units.

Impairment losses, except impairment losses recognized on goodwill, are reversed as soon as the reasons for impairment no longer exist. This reversal shall not exceed the carrying amount that would have been determined had no impairment loss been recognized before.

Assets held for sale are reported at the lower of their carrying amount and fair value less costs to sell. As long as the company intends to sell the asset, it is not depreciated.

h) Capitalized interest

The Fresenius Group includes capitalized interest as part of the cost of the asset if it is directly attributable to the acquisition, construction or manufacture of qualifying assets. For the fiscal years 2017 and 2016, interest of €5 million and €4 million, based on an average interest rate of 4.12% and 4.64%, respectively, was recognized as a component of the cost of assets.

i) Income taxes

Current taxes are calculated based on the earnings of the fiscal year and in accordance with local tax rules of the respective tax jurisdictions. Expected and executed additional tax payments and tax refunds for prior years are also taken into account.

Deferred tax assets and liabilities are recognized for the future consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Furthermore, deferred taxes are recognized on certain consolidation procedures affecting net income attributable to shareholders of Fresenius SE & Co. KGaA. Deferred tax assets also include claims to future tax reductions which arise from the probably expected usage of existing tax losses available for carryforward. The recognition of deferred tax assets from net operating losses and their utilization is based on the budget planning of the Fresenius Group and implemented tax strategies.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantially enacted by the end of the reporting period. A change in tax rate for the calculation of deferred tax assets and liabilities is recognized in the period the new laws are enacted or substantively enacted. The effects of the adjustment are generally recognized in the income statement. The effects of the adjustment are recognized in equity, if the temporary differences are related to items directly recognized in equity.

The realizability of the carrying amount of a deferred tax asset is reviewed at each date of the statement of financial position. In assessing the realizability of deferred tax assets, the Management considers to which extent it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences and tax loss carryforwards become deductible. The Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment.

If it is probable that sufficient taxable income will be available for the utilization of parts or of the entire deferred tax asset, the deferred tax asset is recognized to this certain extent.

The Fresenius Group recognizes assets and liabilities for uncertain tax treatments to the extent it is probable the tax will be recovered or that the tax will be payable, respectively. The Fresenius Group recognizes interest and penalties related to its income tax positions as income tax expense.

The Fresenius Group is subject to ongoing and future tax audits in the United States, Germany and other jurisdictions. Different interpretations of tax laws may lead to potential additional tax payments or tax refunds for prior years. To consider income tax provisions or income tax receivables of uncertain tax assessments, management's estimations are based on local tax rules of the respective tax jurisdiction and the interpretation of such. Estimates are adjusted in the period in which there is sufficient evidence which legitimates the adjustment of the assumption.

j) Earnings per share

Basic earnings per share are computed by dividing net income attributable to shareholders of Fresenius SE & Co. KGaA by the weighted-average number of ordinary shares outstanding during the year. Diluted earnings per share include the effect of all potentially dilutive instruments on ordinary shares that would have been outstanding during the fiscal year. The equity-settled awards granted under Fresenius' and Fresenius Medical Care's stock option plans can result in a dilutive effect.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash funds and all short-term investments with maturities of up to three months. Short-term investments are highly liquid and readily convertible into known amounts of cash. The risk of changes in value is insignificant.

l) Trade accounts receivable

Trade accounts receivable are stated at their nominal value less an allowance for doubtful accounts. The allowances are estimates comprised of customer-specific evaluations regarding their payment history, current financial stability, and applicable country-specific risks for receivables that are overdue more than one year. From time to time, accounts receivable are reviewed for changes from the historic collection experience to ensure the appropriateness of the allowances.

m) Inventories

Inventories are comprised of all assets which are held for sale in the ordinary course of business (finished goods), in the process of production for such sale (work in process) or consumed in the production process or in the rendering of services (raw materials and purchased components).

Inventories are measured at the lower of acquisition and manufacturing cost (determined by using the average or first-in, first-out method) or net realizable value. Manufacturing costs are comprised of direct costs, production and material overhead, including depreciation charges.

n) Available for sale financial assets

Investments in equity instruments, debt instruments and fund shares are classified as available for sale financial assets and measured at fair value. The Fresenius Group regularly reviews if objective substantial evidence occurs that would indicate an impairment of a financial asset or a portfolio of financial assets. After testing the recoverability of these assets, a possible impairment loss is recorded in the consolidated statement of financial position. Gains and losses of available for sale financial assets are recognized directly in the consolidated statement of equity until the financial asset is disposed of or if it is considered to be impaired. In the case of an impairment, the accumulated net loss is retrieved from the consolidated statement of equity and recognized in the consolidated statement of income.

o) Property, plant and equipment

Property, plant and equipment are stated at acquisition and manufacturing cost less accumulated depreciation. Repairs and maintenance costs are recognized in profit and loss as incurred. The costs for the replacement of components or the general overhaul of property, plant and equipment are recognized, if it is probable that future economic benefits will flow to the Fresenius Group and this costs can be measured reliably. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 50 years for buildings and improvements (with a weighted-average life of 16 years) and 2 to 15 years for machinery and equipment (with a weighted-average life of 11 years).

p) Intangible assets with finite useful lives

Intangible assets with finite useful lives, such as patents, product and distribution rights, non-compete agreements, technology as well as licenses to manufacture, distribute and sell pharmaceutical drugs are recognized and reported apart from goodwill and are amortized using the straight-line method over their respective useful lives to their residual values and reviewed for impairment (see note 1. III. g, Impairment). Patient relationships however are not reported as separate intangible assets due to the missing contractual basis but are part of goodwill. The useful lives of patents, product and distribution rights range from 5 to 20 years, the average useful life is 13 years. The useful lives of customer relationships vary from 6 to 15 years, the average useful life is 10 years. Non-compete agreements with finite useful lives have useful lives ranging from 2 to 25 years with an average useful life of 6 years. Technology has a finite useful live of 15 years. Licenses to manufacture, distribute and sell pharmaceutical drugs are amortized over the contractual license period. All other intangible assets are amortized over their individual estimated useful lives between 3 and 15 years.

Losses in value of a lasting nature are recorded as an impairment and are reversed when the reasons for impairment no longer exist. This reversal shall not exceed the carrying amount that would have been determined had no impairment loss been recognized before.

Development costs are capitalized as manufacturing costs when the recognition criteria are met.

For development costs of dialysis machines manufactured by Fresenius Medical Care, the timing of the recognition as assets is based on the technical utilizability of the machines. The useful lives of capitalized development costs vary from 5 to 20 years, the average useful life is 11 years.

Fresenius Kabi capitalizes development costs as soon as the registration of a new product is very likely. This mainly applies if a product is already approved on an established market. Costs are depreciated on a straight-line basis over the expected useful lives. In 2016, impairments were recorded

for a product approved in 2016 whose earnings prospects have changed despite the approval (see note 7, Research and development expenses).

q) Goodwill and other intangible assets with indefinite useful lives

The Fresenius Group identified intangible assets with indefinite useful lives because, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which those assets are expected to generate net cash inflows for the Group. The identified intangible assets with indefinite useful lives such as tradenames acquired in a purchase method business combination are recognized and reported apart from goodwill. They are recorded at acquisition costs. Goodwill and intangible assets with indefinite useful lives are not amortized but tested for impairment annually or when an event becomes known that could trigger an impairment (impairment test).

To perform the annual impairment test of goodwill, the Fresenius Group identified several cash generating units (CGUs) and determined the carrying amount of each CGU by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those CGUs. A CGU is usually defined one level below the segment level based on regions or the nature of the business activity. Four CGUs were identified in the segments Fresenius Medical Care and Fresenius Kabi, respectively (Europe, Latin America, Asia-Pacific and North America). According to the regional organizational structure, the segment Fresenius Helios consists of two CGUs, Germany and Spain. The segment Fresenius Vamed consists of two CGUs (Project business and Service business). At least once a year, the Fresenius Group compares the recoverable amount of each CGU to the CGU's carrying amount. The recoverable amount as its value in use of a CGU is determined using a discounted cash flow approach based upon the cash flow expected to be generated by the CGU. In case that the value in use of the CGU is less than its carrying amount, the difference is at first recorded as an impairment of the carrying amount of the goodwill.

To evaluate the recoverability of separable intangible assets with indefinite useful lives, the Fresenius Group compares the recoverable amounts of these intangible assets with their carrying amounts. An intangible asset's recoverable amount is determined using a discounted cash flow approach or other methods, if appropriate.

The recoverability of goodwill and other separable intangible assets with indefinite useful lives recorded in the Group's consolidated statement of financial position was verified. As a result, the Fresenius Group did not record any impairment losses in 2017 and 2016.

Any excess of the net fair value of identifiable assets and liabilities over cost (badwill) still existing after reassessing the purchase price allocation is recognized immediately in profit or loss.

r) Leases

Leased assets assigned to the Fresenius Group based on the risk and rewards approach (finance leases) are recognized as property, plant and equipment and measured on receipt date at the present values of lease payments as long as their fair values are not lower. Leased assets are depreciated in straight-line over their useful lives. If there is doubt as to whether title to the asset passes at a later stage and there is no opportune purchase option, the asset is depreciated over the lease term if this is shorter. An impairment loss is recognized if the recoverable amount is lower than the amortized cost of the leased asset. The impairment loss is reversed if the reasons for impairment no longer exist.

Finance lease liabilities are measured at the present value of the future lease payments and are recognized as a financial liability.

Property, plant and equipment that is rented by the Fresenius Group, is accounted for at its purchase cost. Depreciation is calculated using the straight-line method over the leasing time and its expected residual value.

s) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Purchases and sales of financial assets are accounted for on the trading day. The Fresenius Group does not make use of the fair value option, which allows financial assets or financial liabilities to be classified at fair value through profit or loss upon initial recognition.

The following categories (according to IAS 39, Financial Instruments: Recognition and Measurement) are relevant for the Fresenius Group: loans and receivables, financial liabilities measured at amortized cost, available for sale financial assets as well as financial liabilities/assets measured at fair value in the consolidated statement of income. Other categories are immaterial or not existing in the Fresenius Group. No financial instruments were reclassified during the fiscal year 2017.

According to their character, the Fresenius Group classifies its financial instruments into the following classes: cash and cash equivalents, assets recognized at carrying amount, liabilities recognized at carrying amount, derivatives for hedging purposes as well as assets recognized at fair value, liabilities recognized at fair value and noncontrolling interest subject to put provisions recognized at fair value.

The relationship between classes and categories as well as the reconciliation to the consolidated statement of financial position is shown in tabular form in note 30, Financial instruments.

The Fresenius Group, as option writer on behalf of existing put options, can be obliged to purchase noncontrolling interests held by third parties. The obligations are in the form of put provisions and are exercisable at the third-party owners' discretion within specified periods as outlined in each specific put provision. If these put provisions were exercised, the Fresenius Group would be required to purchase all or part of the third-party owners' noncontrolling interests at the appraised fair value at the time of exercise. To estimate the fair values of the noncontrolling interest subject to put provisions, the Fresenius Group recognizes the higher of net book value or a multiple of earnings, based on historical earnings, the development stage of the underlying business and other factors. Additionally, there are put provisions that are valued by an external valuation firm. The external valuation estimates the fair values using a combination of discounted cash flows and a multiple of earnings and/or revenue. When applicable, the obligations are discounted at a pre-tax discount rate which reflects the market valuation of the interest effect and the specific risk of the obligation. Depending on the market conditions, the estimated fair values of the noncontrolling interest subject to these put provisions can also fluctuate, the discounted cash flows and the implicit multiple of earnings and/or revenue at which the noncontrolling interest subject to put provisions may ultimately be settled could vary significantly from Fresenius Group's current estimates.

Derivative financial instruments, which primarily include foreign currency forward contracts and interest rate swaps, are recognized at fair value as assets or liabilities in the consolidated statement of financial position. Changes in the fair value of derivative financial instruments classified as fair value hedges and in the corresponding underlying assets and liabilities are recognized periodically in earnings. The effective portion of changes in fair value of cash flow hedges is recognized in accumulated other comprehensive income (loss) in shareholders' equity until the secured underlying transaction is realized (see note 30, Financial instruments). The ineffective portion of cash flow hedges is recognized in current earnings. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized periodically in earnings.

Derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

t) Liabilities

At the date of the statement of financial position, liabilities are generally stated at amortized cost, which normally corresponds to the settlement amount.

u) Legal contingencies

In the ordinary course of Fresenius Group's operations, the Fresenius Group is party to litigation and arbitration and is subject to investigations relating to various aspects of its business. The Fresenius Group regularly analyzes current

information about such claims for probable losses and provides accruals for such matters, including the estimated legal expenses and consulting services in connection with these matters, as appropriate. The Fresenius Group utilizes its internal legal department as well as external resources for these assessments. In making the decision regarding the need for a loss accrual, the Fresenius Group considers the degree of probability of an unfavorable outcome and its ability to make a reasonable estimate of the amount of loss.

The filing of a suit or formal assertion of a claim or assessment, or the disclosure of any such suit or assertion, does not necessarily indicate that accrual of a loss is appropriate.

v) Provisions

Accruals for taxes and other obligations are recognized when there is a present obligation to a third party arising from past events, it is probable that the obligation will be settled in the future and the amount can be reliably estimated.

Provisions for warranties and complaints are estimated based on historical experience.

Tax accruals include obligations for the current year and for prior years.

Non-current provisions with a remaining period of more than one year are discounted to the present value of the expenditures expected to settle the obligation.

w) Pension liabilities and similar obligations

Pension obligations for post-employment benefits are measured in accordance with IAS 19 (revised 2011), Employee Benefits, using the projected unit credit method, taking into account future salary and trends for pension increase.

The Fresenius Group uses December 31 as the measurement date when measuring the funded status of all plans.

Net interest costs are calculated by multiplying the pension liability at the beginning of the year with the discount rate utilized in determining the benefit obligation. The pension liability results from the benefit obligation less the fair value of plan assets.

Remeasurements include actuarial gains and losses resulting from the evaluation of the defined benefit obligation as well as from the difference between actual return on plan assets and the expected return on plan assets at the beginning of the year used to calculate the net interest costs. In the event of a surplus for a defined benefit pension plan remeasurements can also contain the effect from Asset Ceiling, as far as this effect is not included in net interest costs.

Remeasurements are recognized in accumulated other comprehensive income (loss) completely. It is not allowed to reclassify the remeasurements in subsequent periods. Components of net periodic benefit cost are recognized in profit and loss of the period.

x) Debt issuance costs

Debt issuance costs related to a recognized debt liability are presented in the consolidated statement of financial position as a direct deduction from the carrying amount of that debt liability. These costs are amortized over the term of the related obligation.

y) Share-based compensation plans

The total cost of stock options and convertible equity instruments granted to members of the Management Board and executive employees of the Fresenius Group at the grant date is measured using an option pricing model and recognized as expense over the vesting period of the stock option plans.

The measurement date fair value of cash-settled phantom stocks granted to members of the Management Board and executive employees of the Fresenius Group (except for Fresenius Medical Care) and of cash-settled performance shares granted to members of the Management Board and executive employees of Fresenius Medical Care is calculated using the Monte Carlo simulation. The corresponding liability based on the measurement date fair value is accrued over the vesting period of the phantom stock and performance share plans.

The measurement date fair value of cash-settled phantom stocks granted to members of the Management Board and executive employees of Fresenius Medical Care is calculated

using a binomial model. The corresponding liability based on the measurement date fair value is accrued over the vesting period of the phantom stock plans.

z) Self-insurance programs

Under the insurance programs for professional, product and general liability, auto liability, worker's compensation claims and medical malpractice claims, the largest subsidiary of Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA), located in the United States, is partially self-insured for professional liability claims. For all other coverage, FMC-AG & Co. KGaA assumes responsibility for incurred claims up to predetermined amounts, above which third party insurance applies. Reported liabilities for the year represent estimated future payments of the anticipated expense for claims incurred (both reported and incurred but not reported) based on historical experience and existing claim activity. This experience includes both the rate of claims incidence (number) and claim severity (cost) and is combined with individual claim expectations to estimate the reported amounts.

aa) Foreign currency translation

The reporting currency is the euro. Substantially all assets and liabilities of the foreign subsidiaries that use a functional currency other than the euro are translated at year-end exchange rates, while income and expense are translated at annual average exchange rates of the fiscal year. Adjustments due to foreign currency translation fluctuations are excluded from net earnings and are reported in accumulated other comprehensive income (loss). In addition, the translation adjustments of certain intercompany borrowings, which are of a long-term nature, are also reported in accumulated other comprehensive income (loss).

Gains and losses arising from the translation of foreign currency positions as well as those arising from the elimination of foreign currency intercompany loans are recorded as other operating income or expenses, as far as they are not considered foreign equity instruments. In the fiscal year 2017, only immaterial losses resulted out of this translation.

The exchange rates of the main currencies affecting foreign currency translation developed as follows:

	Year-end exchange rate		Average exchange rate	
	Dec. 31, 2017	Dec. 31, 2016	**2017**	2016
U.S. dollar per €	**1.1993**	1.0541	**1.1297**	1.1069
Chinese renminbi per €	**7.8044**	7.3202	**7.629**	7.3522
Japanese yen per €	**135.01**	123.4	**126.7112**	120.1967
Brazilian real per €	**3.9729**	3.4305	**3.6054**	3.8561
Argentinean peso per €	**22.6385**	16.7182	**18.7538**	16.3342
Pound sterling per €	**0.8872**	0.8562	**0.87668**	0.8195
Korean won per €	**1,279.61**	1,269.36	**1,276.7381**	1,284.1811
Australian dollar per €	**1.5346**	1.4596	**1.4732**	1.4883
Russian ruble per €	**69.392**	64.3	**65.9383**	74.1446
Swedish krona per €	**9.8438**	9.5525	**9.6351**	9.4689

bb) Fair value hierarchy

The three-tier fair value hierarchy as defined in IFRS 13, Fair Value Measurement, classifies financial assets and liabilities recognized at fair value based on the inputs used in estimating the fair value. Level 1 is defined as observable inputs, such as quoted prices in active markets. Level 2 is defined as inputs other than quoted prices in active markets that are directly or indirectly observable. Level 3 is defined as unobservable inputs for which little or no market data exists, therefore requiring the company to develop its own assumptions. The three-tier fair value hierarchy is used in note 30, Financial instruments.

cc) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Estimates and discretionary decisions are required in particular for the positions trade accounts receivable, deferred tax assets and pension liabilities as well as when examining the recoverability of goodwill.

dd) Receivables management

The entities of the Fresenius Group perform ongoing evaluations of the financial situation of their customers and generally do not require a collateral from the customers for the supply of products and provision of services. Approximately 18% and 19% of Fresenius Group's sales were earned and subject to the regulations under governmental health care programs, Medicare and Medicaid, administered by the United States government in 2017 and 2016, respectively.

ee) Recent pronouncements, applied

The Fresenius Group has prepared its consolidated financial statements at December 31, 2017 in conformity with IFRS that have to be applied for fiscal years beginning on January 1, 2017.

In 2017, the Fresenius Group applied the following new standard relevant for its business for the first time:

In January 2016, the International Accounting Standards Board (IASB) issued **Amendments to IAS 7, Statement of Cash Flows**. The amendments are intended to improve the information related to the change in a company's debt by providing additional disclosures. The standard is effective for fiscal years beginning on or after January 1, 2017. The Fresenius Group initially presents the amendments to IAS 7 in the consolidated financial statements as of December 31, 2017.

ff) Recent pronouncements, not yet applied

The International Accounting Standards Board (IASB) issued the following for the Fresenius Group relevant new standards, which are mandatory for fiscal years commencing on or after January 1, 2018:

In May 2017, the IASB issued **IFRS 17, Insurance Contracts**. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure related to the issuance of insurance contracts. IFRS 17 replaces IFRS 4, Insurance Contracts, which was brought in as an interim standard in 2004. IFRS 4 permitted the use of national accounting standards for the accounting of insurance contracts under IFRS. As a result of the varied application for insurance contracts, there was a lack of comparability among peer groups. IFRS 17 eliminates this diversity in practice by requiring all insurance contracts to be accounted for using current values. The frequent updates to the insurance values are expected to provide more useful information to users of financial statements. IFRS 17 is effective for fiscal years beginning on or after January 1, 2021. Earlier adoption is permitted for entities that have also adopted IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers. The Fresenius Group is currently evaluating the impact of IFRS 17 on the consolidated financial statements.

In January 2016, the IASB issued **IFRS 16, Leases**, which supersedes the current standard on lease accounting, IAS 17, as well as the interpretations IFRIC 4, SIC-15 and SIC-27. IFRS 16 significantly improves lessee accounting. For all leases, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Depreciation of the right-of-use asset and interest on the lease liability must be recognized in the income statement for every lease contract. Therefore, straight-line rental expenses will no longer be shown. The lessor accounting requirements in IAS 17 are substantially carried forward. The standard is effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted for entities that have also adopted IFRS 15, Revenue from Contracts with Customers. The Fresenius Group decided that IFRS 16 will not be adopted early. The Fresenius Group expects a balance sheet extension

due to the on balance sheet recognition of right-of-use assets and liabilities for agreed lease payment obligations, currently classified as operating leases, resulting in particular from leased clinics and buildings. Based on an impact analysis, using certain assumptions and simplifications, the Fresenius Group expects a financial debt increase of approximately €5 billion. Referring to the consolidated statement of income, the Fresenius Group expects an EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) as well as an operating income improvement due to the split of rent expenses in depreciation and interest expenses, by having unchanged cash outflows. The Fresenius Group also expects that its Leverage Ratio will increase by about 0.3 to 0.4. The impact on the Fresenius Group will depend on the contract portfolio at the effective date as well as on the transition method. Based on a previous impact analysis, the Fresenius Group decided to apply the modified retrospective method. Currently, the Fresenius Group evaluates accounting policy options of IFRS 16.

In May 2014, the IASB issued **IFRS 15, Revenue from Contracts with Customers**. This new standard specifies how and when companies reporting under IFRS will recognize revenue as well as providing users of financial statements with more informative and relevant disclosures. IFRS 15 supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. This standard applies to nearly all contracts with customers, the main exceptions are leases, financial instruments and insurance contracts. In September 2015, the IASB issued the amendment **Effective Date of IFRS 15**, which defers the effective date of IFRS 15 by one year to fiscal years beginning on or after January 1, 2018. Earlier adoption is permitted. The Fresenius Group did not adopt IFRS 15 early and evaluated the impact of IFRS 15, in conjunction with all amendments to the standard, on its consolidated financial statements. Based on findings the Fresenius Group obtained so far, it expects differences from the current accounting mainly in the calculation of the transaction price for health care services provided. IFRS 15 requires the consideration of implicit price concessions when determining the transaction price. This will lead to a corresponding decrease of revenues from health care services and thus the implicit price concessions will no longer be included in selling, general and administrative expenses as an allowance for doubtful accounts. This issue showed a decrease of revenue by 1.4% or approximately €500 million for 2017, without any effect on net income. There are no material contract assets or contract liabilities resulting from the implementation of IFRS 15. Revenue from lease contracts will be disclosed separately from IFRS 15 revenue in the notes to the consolidated financial statements in the future. The Fresenius Group expects to implement IFRS 15 using the cumulative effect method and is continuing to evaluate accounting policy options. The Fresenius Group intends to apply IFRS 15 only to open contracts as of January 1, 2018.

In July 2014, the IASB issued a new version of **IFRS 9, Financial Instruments**. This IFRS 9 version is considered the final and complete version, thus, mainly replacing IAS 39 as soon as IFRS 9 is applied. It includes all prior guidance on the classification and measurement of financial assets and financial liabilities as well as hedge accounting and introduces requirements for impairment of financial instruments as well as modified requirements for the measurement categories of financial assets. The impairment provisions reflect a model that relies on expected losses (expected loss model). This model comprises a three stage approach: Upon recognition, an entity shall recognize losses that are expected within the next 12 months. If credit risk deteriorates significantly, from that point in time impairment losses shall amount to lifetime expected losses. In case of objective evidence of impairment, there is an assignment to stage 3. The provisions for classification and measurement are amended by introducing an additional third measurement category for certain debt instruments. Such instruments shall be measured at fair value with changes recognized in other comprehensive income (fair value through other comprehensive income). The standard is accompanied by additional disclosure requirements and is effective for fiscal years beginning on or after January 1, 2018.

Earlier adoption is permitted. The Fresenius Group did not adopt IFRS 9 early. In accordance with IAS 39, the majority of the non-derivative financial assets are measured at amortized costs. The analysis on the business model and the contractual cash flow characteristics of each instrument is complete. The impact on the measurement of non-derivative financial assets under IFRS 9 will not be significant. For individual equity instruments, the Fresenius Group will use the option and present changes in fair value in other comprehensive income. The requirements for the classification and measurement of non-derivative financial liabilities have not changed significantly. Thus, the Fresenius Group expects a limited impact on its consolidated financial statements. Derivatives not designated as hedging instruments will continue to be classified and measured at fair value through profit and loss.

The Fresenius Group will implement the simplified method to determine the provisions for risks from trade accounts receivable, receivables from lease contracts and contract assets according to IFRS 15. Starting point of the new impairment model is an analysis of trade accounts receivable based on individual maturity. For the determination of impairment losses in addition to historical loss rates, also present and future information is included, to take foreseeable changes in the customer-specific or macroeconomic environment into account. The effect from the implementation of this simplified method will be immaterial.

Based on currently available information, derivative financial instruments presently designated as hedging instruments are also qualified for hedge accounting according to the requirements of IFRS 9. Hedging instruments will be designated on a spot basis. The Fresenius Group will use the option to recognize the forward element in other comprehensive income. The Fresenius Group expects to implement IFRS 9 using the modified retrospective method.

The EU Commission's endorsement of IFRS 17 is still outstanding.

In the Fresenius Group's view, all other pronouncements issued by the IASB do not have a material impact on the consolidated financial statements, as expected.

IV. CRITICAL ACCOUNTING POLICIES

In the opinion of the Management of the Fresenius Group, the following accounting policies and topics are critical for the consolidated financial statements in the present economic environment. The influences and judgments as well as the uncertainties which affect them are also important factors to be considered when looking at present and future operating earnings of the Fresenius Group.

a) Recoverability of goodwill and intangible assets with indefinite useful lives

The amount of goodwill and other non-amortizable intangible assets with indefinite useful lives represents a considerable part of the total assets of the Fresenius Group. At December 31, 2017 and December 31, 2016, the carrying amount of these was €25,480 million and €23,131 million, respectively. This represented 48% and 50%, respectively, of total assets.

An impairment test of goodwill and non-amortizable intangible assets with indefinite useful lives is performed at least once a year, or if events occur or circumstances change that would indicate the carrying amount may not be recoverable.

To determine possible impairments of these assets, the recoverable amount as its value in use of the cash generating units (CGUs) is compared to their carrying amount. The value in use of each CGU is determined using estimated future cash flows for the unit discounted by a weighted-average cost of capital (WACC) specific to that CGU. Estimating the discounted future cash flows involves significant assumptions, especially regarding future reimbursement rates and sales prices, number of treatments, sales volumes and costs. In determining discounted cash flows, the Fresenius Group utilizes for every CGU its approved three-year budget, projections for years 4 to 10 and a corresponding growth rate for all remaining years. Projections for up to 10 years are possible due to historical experience and the stability of Fresenius Group's business, which is largely independent from the economic cycle. Except for the CGUs in Asia-Pacific, the CGUs' average revenue growth for the 10-year planning period is between 3% and 7%. In Asia-Pacific, the average growth is in the upper single-digit range for Fresenius Medical Care and in the low double-digit range for Fresenius Kabi. A significant part of goodwill is assigned to the CGUs of Fresenius Medical Care and Fresenius Kabi in North America (carrying amounts of goodwill as of December 31, 2017: €10,152 million and €3,982 million, respectively) as well as the CGUs of

Fresenius Helios in Germany and Spain (carrying amounts of goodwill as of December 31, 2017: €4,561 million and €3,341 million, respectively). A significant part of the operating income is also achieved in these CGUs. For the 10-year planning period, the average growth of the operating income is in the mid single-digit range for these CGUs. For the period after 10 years, the growth rates are 0% to 4% for Fresenius Medical Care, 3% for Fresenius Kabi, 1% for Fresenius Helios (Germany), 1.5% for Fresenius Helios (Spain) and 1% for Fresenius Vamed. The growth rates of the main CGUs of Fresenius Medical Care and Fresenius Kabi in North America were 1% and 3%, respectively. The discount factor is determined by the WACC of the respective CGU. Fresenius Medical Care's WACC consisted of a basic rate of 5.83% and the WACC in the business segment Fresenius Kabi consisted of a basic rate of 5.55% for 2017, respectively. This basic rate is then adjusted by a country-specific risk premium and, if appropriate, by a factor to reflect higher risks associated with the cash flows from recent material acquisitions, until they are appropriately integrated, within each CGU. In 2017, WACCs (after tax) for the CGUs of Fresenius Medical Care ranged from 5.84% to 14.77% and WACCs (after tax) for the CGUs of Fresenius Kabi ranged from 6.14% to 13.90%. In the CGU Fresenius Helios (Germany) and the business segment Fresenius Vamed, the WACC (after tax) was 5.55%, country-specific adjustments did not occur. In the CGU Fresenius Helios (Spain), the WACC (after tax) was 7.03% The WACCs (after tax) of the main CGUs of Fresenius Medical Care and Fresenius Kabi in North America were 5.84% and 6.35%, respectively. If the value in use of the CGU is less than its carrying amount, the difference is recorded as an impairment of the fair value of the goodwill at first. An increase of the WACC (after tax) by 0.5 percentage points would not have resulted in the recognition of an impairment loss in 2017.

A prolonged downturn in the health care industry with lower than expected increases in reimbursement rates and prices and/or higher than expected costs for providing health care services and the manufacture of products could adversely affect the estimated future cash flows of certain countries or segments. Future adverse changes in a reporting unit's economic environment could affect the discount rate. A decrease in the estimated future cash flows and/or a decline in the reporting unit's economic environment could result in impairment charges to goodwill and other intangible assets with indefinite useful lives which could materially and adversely affect Fresenius Group's future operating results.

b) Legal contingencies

The Fresenius Group is involved in several legal matters arising from the ordinary course of its business. The outcome of these matters may have a material effect on the financial position, results of operations or cash flows of the Fresenius Group. For details, please see note 29, Commitments and contingent liabilities.

The Fresenius Group regularly analyzes current information about such claims for probable losses and provides accruals for such matters, including the estimated legal expenses and consulting services in connection with these matters, as appropriate. The Fresenius Group utilizes its internal legal department as well as external resources for these assessments. In making the decision regarding the need for a loss accrual, the Fresenius Group considers the degree of probability of an unfavorable outcome and its ability to make a reasonable estimate of the amount of loss.

The filing of a suit or formal assertion of a claim or assessment, or the disclosure of any such suit or assertion, does not necessarily indicate that accrual of a loss is appropriate.

c) Allowance for doubtful accounts

Trade accounts receivable are a significant asset and the allowance for doubtful accounts is a significant estimate made by the Management. Trade accounts receivable were €6,202 million and €5,199 million in 2017 and 2016, respectively, net of allowance. Approximately 54% of receivables derive from the business segment Fresenius Medical Care and mainly relate to the dialysis care business in North America.

The major debtors or debtor groups of trade accounts receivable were U.S. Medicare and Medicaid health care programs with 15%, private insurers in the United States with 8% as well as the public health authority of the region of Madrid with 9%, at December 31, 2017. Other than that, the Fresenius Group has no significant risk concentration, due to its international and heterogeneous customer structure.

The allowance for doubtful accounts was €741 million and €700 million as of December 31, 2017 and December 31, 2016, respectively.

The allowances are estimates comprised of customer-specific evaluations regarding their payment history, current financial stability, and applicable country-specific risks for overdue receivables. In the Fresenius Group's opinion, these analyses result in a well-founded estimate of allowances for doubtful accounts. From time to time, the Fresenius Group reviews changes in collection experience to ensure the appropriateness of the allowances.

A valuation allowance is calculated if specific circumstances indicate that amounts will not be collectible. When all efforts to collect a receivable, including the use of outside sources where required and allowed, have been exhausted, and after appropriate management review, a receivable deemed to be uncollectible is considered a bad debt and written off.

Deterioration in the aging of receivables and collection difficulties could require that the Fresenius Group increases the estimates of allowances for doubtful accounts. Additional expenses for uncollectible receivables could have a significant negative impact on future operating results.

d) Self-insurance programs

Under the insurance programs for professional, product and general liability, auto liability, worker's compensation claims and medical malpractice claims, the largest subsidiary of Fresenius Medical Care AG & Co. KGaA, located in the United States, is partially self-insured for professional liability claims. For further details regarding the accounting policies for self-insurance programs, please see note 1. III. z, Self-insurance programs.

2. ACQUISITIONS, DIVESTITURES AND INVESTMENTS

ACQUISITIONS, DIVESTITURES AND INVESTMENTS

The Fresenius Group made acquisitions, investments and purchases of intangible assets of €6,852 million and €926 million in 2017 and 2016, respectively. In 2017, of this amount, €6,289 million was paid in cash and €163 million was assumed obligations. Furthermore, shares in the equivalent amount of €400 million were granted.

Fresenius Medical Care

In 2017, Fresenius Medical Care spent €683 million on acquisitions, mainly on the purchase of dialysis clinics as well as the acquisition of an operator of day hospitals in Australia.

Acquisition of NxStage Medical, Inc.

On August 7, 2017, Fresenius Medical Care announced the acquisition of NxStage Medical, Inc. (NxStage), a U.S.-based medical technology and services company, for a total transaction value of approximately US$2.0 billion (€1.7 billion). On October 27, 2017, the shareholders of NxStage approved the acquisition. The transaction remains subject to regulatory approvals and other customary closing conditions. Fresenius Medical Care expects the closing of the transaction to occur in 2018.

In 2016, Fresenius Medical Care spent €774 million on acquisitions, mainly on acquisitions of dialysis clinics as well as on the purchase of a medical technology company focusing on the treatment of lung and cardiac failure.

Fresenius Kabi

In 2017, Fresenius Kabi spent €157 million on acquisitions, thereof €156 million for the acquisition of the biosimilars business of Merck KGaA.

Announced acquisition of Akorn, Inc.

On April 24, 2017, Fresenius announced that Fresenius Kabi has agreed to acquire Akorn, Inc., a U.S.-based manufacturer and marketer of prescription and over-the-counter pharmaceutical products, for approximately US$4.3 billion, or US$34 per share, plus the prevailing net debt at closing of the transaction (Akorn reported net debt of approximately US$0.5 billion as at September 30, 2017).

Akorn shareholders approved the transaction at a meeting held on July 19, 2017. The acquisition is subject to customary closing conditions including FTC clearance under the Hart-Scott-Rodino Antitrust Improvements Act in the United States. Fresenius is conducting an independent investigation, using external experts, into alleged breaches of FDA data integrity requirements relating to product development at Akorn, Inc. The Management and Supervisory Boards of Fresenius will assess the findings of that investigation. The consummation of the transaction may be affected if the closing conditions under the merger agreement are not met. Fresenius does not intend to provide further updates as the investigation proceeds.

Fresenius continues to seek FTC clearance.

The purchase price would be financed by a broad mix of euro- and U.S.-dollar-denominated long-term debt instruments.

Acquisition of the biosimilars business of Merck KGaA

On August 31, 2017, Fresenius Kabi has successfully closed the acquisition of Merck KGaA's biosimilars business. The transaction comprises a development pipeline and about 70 employees located in Aubonne and Vevey, Switzerland. The product pipeline has a focus on oncology and autoimmune diseases. The biosimilars business has been consolidated as of September 1, 2017.

The consideration transferred of €735 million is composed of €156 million, which were paid in cash upon closing, and risk-adjusted discounted success-related payments expected for the coming years with a current fair value of €579 million, which are strictly tied to achievements of agreed development and sales targets.

The transaction was accounted for as a business combination. The following table summarizes the current estimated fair values of assets acquired and liabilities assumed at the date of the acquisition. This allocation of the purchase price is based upon the best information available to management at present. Due to the relatively short interval between the closing date of the acquisition and the date of the statement of financial position, this information may be incomplete. Any adjustments to acquisition accounting, net of related income tax effects, will be recorded with a corresponding adjustment to goodwill.

€ in millions	
Working capital and other assets	1
Property, plant and equipment and other non-current assets	2
Intangible assets	345
Liabilities	-7
Goodwill	394
Consideration transferred	**735**

The goodwill in the amount of €394 million that was acquired as part of the acquisition will be deductible for tax purposes.

Goodwill mainly represents the value of future opportunities due to the acquisition of biosimilars products and their platform. The platform with highly qualified biosimilars experts will enable Fresenius to develop further products in this market segment and bring them on the market in the future. Furthermore, Fresenius acquired the opportunity to sell biosimilars products in other markets.

In 2016, Fresenius Kabi spent €114 million on acquisitions including the acquisition of a U.S. pharmaceutical manufacturing plant and a line of seven IV drugs.

Fresenius Helios

In 2017, Fresenius Helios spent €5,979 million on acquisitions, mainly for the acquisition of 100% of the share capital in IDCSalud Holding S.L.U. (Quirónsalud), Spain.

Acquisition of IDCSalud Holding S.L.U. (Quirónsalud)

On January 31, 2017, Fresenius Helios closed the acquisition of 100% of the share capital in IDCSalud Holding S.L.U. (Quirónsalud), Spain's largest private hospital operator. Quirónsalud has been consolidated as of February 1, 2017.

Quirónsalud's network is comprised of 45 hospitals, 55 outpatient centers and about 300 Occupational Risk Prevention centers located in every metropolitan region of Spain. The company offers the full spectrum of inpatient and outpatient care. With the acquisition, Fresenius Helios strengthens its position as Europe's largest private hospital operator.

€5.36 billion of the total purchase price in the amount of €5.76 billion had already been financed by means of different debt instruments and paid in cash on January 31, 2017. The balance of €400 million was paid in the form of 6,108,176 new shares of Fresenius SE & Co. KGaA issued on January 31, 2017 from Authorized Capital excluding subscription rights. In April 2017, a compensation payment in the amount of €174 million was made for working capital taken over.

The transaction was accounted for as a business combination. The following table summarizes the current estimated fair values of assets acquired and liabilities assumed at the date of the acquisition. This allocation of the purchase price is based upon the best information available to management at present. Due to the relatively short interval between the closing date of the acquisition and the date of the statement of financial position, this information may be incomplete. Any adjustments to acquisition accounting, net of related income tax effects, will be recorded with a corresponding adjustment to goodwill.

€ in millions	
Trade accounts receivable	776
Working capital and other assets	74
Property, plant and equipment and other non-current assets	1,766
Intangible assets	1,306
Liabilities	-1,279
Goodwill	3,309
Noncontrolling interest	-21
Consideration transferred	**5,931**

The goodwill in the amount of €3,309 million that was acquired as part of the acquisition is not deductible for tax purposes.

Goodwill mainly represents the market position of the acquired hospitals, health centers and health care facilities, the economies of scale of the significantly grown largest private European hospital operator and the know-how of the employees.

The noncontrolling interests acquired as part of the acquisition are stated at fair value.

In 2017, the acquired hospitals and outpatient facilities have contributed €2,594 million to sales and €327 million to the operating income (EBIT) of the Fresenius Group.

In 2016, Fresenius Helios spent €38 million on acquisitions, mainly for the purchase of 100% of the shares in Klinikum Niederberg gGmbH, Germany, and for the purchase of outpatient clinics.

Fresenius Vamed

In 2017, Fresenius Vamed spent €33 million on acquisitions for the puchase of a service provider for the decontamination of sterile medical devices in Germany and a post-acute care clinic in Switzerland.

IMPACTS ON FRESENIUS GROUP'S CONSOLIDATED FINANCIAL STATEMENTS RESULTING FROM ACQUISITIONS

In the fiscal year 2017, all acquisitions have been accounted for applying the purchase method and accordingly have been consolidated starting with the date of acquisition. The excess of the total acquisition costs over the fair value of the net assets acquired was €6,135 million and €903 million in 2017 and 2016, respectively.

The purchase price allocations are not yet finalized for all acquisitions of the current year. Based on preliminary purchase price allocations, the recognized goodwill was €4,374 million and the other intangible assets were €1,761 million. Of this goodwill, €596 million is attributable to the acquisitions of Fresenius Medical Care, €394 million to Fresenius Kabi's acquisitions, €3,365 million to the acquisitions of Fresenius Helios and €19 million to the acquisitions of Fresenius Vamed.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill arises principally due to the fair value placed on an established stream of future cash flows versus building a similar business.

The acquisitions completed in 2017 or included in the consolidated financial statements for the first time for a full year contributed the following amounts to the development of sales and earnings:

€ in millions	2017
Sales	2,880
EBITDA	461
EBIT	288
Net interest	-114
Net income attributable to shareholders of Fresenius SE & Co. KGaA	127

The acquisitions increased the total assets of the Fresenius Group by €9,223 million.

NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

3. SPECIAL ITEMS

Net income attributable to shareholders of Fresenius SE & Co. KGaA for the year 2017 in the amount of €1,814 million includes special items due to the acquisition of Merck KGaA's biosimilars business and the announced acquisition of shares of Akorn, Inc. These mainly comprise transaction costs in the form of legal and consulting expenses as well as financing commitment expenses for the Akorn transaction. Furthermore, the impact of FCPA (Foreign Corrupt Practices Act) related expenses and a book gain from the remeasurement of deferred tax assets and liabilities due to the U.S. tax reform are included in net income attributable to shareholders of Fresenius SE & Co. KGaA.

The special items had the following impact on the consolidated statement of income:

€ in millions	EBIT	Interest expenses	Net income attributable to shareholders of Fresenius SE & Co. KGaA
Earnings 2017, adjusted	4,830	-636	1,816
Acquisition-related expenses	-41	-15	-43
FCPA related expenses	-200	0	-62
Book gain from U.S. tax reform	0	0	103
Earnings 2017 according to IFRS	**4,589**	**-651**	**1,814**

Net income attributable to shareholders of Fresenius SE & Co. KGaA for the year 2016 in the amount of €1,560 million did not include any special items.

4. SALES

Sales by activity were as follows:

€ in millions	2017	2016
Sales of services	**23,792**	19,918
Sales of products and related goods	**9,480**	8,950
Sales from long-term production contracts	**607**	597
Other sales	**7**	6
Sales	**33,886**	29,471

A sales analysis by business segment and region is shown in the segment information on pages 136 to 137.

5. COST OF MATERIALS

Cost of materials included in cost of sales was comprised of cost of raw materials, supplies and purchased components and cost of purchased services:

€ in millions	2017	2016
Cost of raw materials, supplies and purchased components	**7,766**	6,572
Cost of purchased services	**1,266**	1,027
Cost of materials	**9,032**	7,599

6. PERSONNEL EXPENSES

Cost of sales, selling expenses, general and administrative expenses and research and development expenses included personnel expenses of €13,496 million and €11,643 million in 2017 and 2016, respectively.

Personnel expenses were comprised of the following:

€ in millions	2017	2016
Wages and salaries	**10,811**	9,367
Social security contributions, cost of retirement pensions and social assistance	**2,685**	2,276
thereof retirement pensions	**317**	305
Personnel expenses	**13,496**	11,643

Fresenius Group's annual average number of employees by function is shown below:

	2017	2016
Production	**39,207**	37,589
Service	**191,706**	158,970
Administration	**24,772**	19,673
Sales and marketing	**10,985**	10,236
Research and development	**2,679**	2,500
Total employees (per capita)	**269,349**	228,968

7. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of €558 million (2016: €528 million) included expenditures for research and non-capitalizable development costs as well as regular depreciation and amortization expenses relating to capitalized development costs of €15 million (2016: €16 million). Furthermore, in 2016, research and development expenses included impairments on capitalized development expenses of €26 million. These related to in-process R & D of product approval projects, which were acquired through the acquisition of Fresenius Kabi USA, Inc.

8. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to €4,591 million (2016: €3,852 million) and were related to expenditures for administrative functions not attributable to research and development, production or selling. Furthermore, in 2017, general and administrative expenses included expenses of €200 million in regards to Foreign Corrupt Practices Act (FCPA) investigations.

9. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses mainly included foreign exchange gains and losses, as well as income from the sale of companies, at equity valuations and the release of provisions.

10. NET INTEREST

Net interest of -€651 million included interest expenses of €848 million and interest income of €197 million. The main portion of the interest expenses resulted from Fresenius Group's financial liabilities, which are not recognized at fair value in the consolidated statement of income (see note 30, Financial instruments). The main portion of interest income resulted from the valuation of the derivatives embedded in the convertible bonds of Fresenius SE & Co. KGaA and the call options in connection with the convertible bonds of Fresenius Medical Care AG & Co. KGaA (see note 24, Convertible bonds).

11. TAXES

INCOME TAXES

Income before income taxes was attributable to the following geographic regions:

€ in millions	**2017**	2016
Germany	**505**	795
International	**3,433**	2,925
Total	**3,938**	3,720

Income tax expenses (benefits) for 2017 and 2016 consisted of the following:

€ in millions	Current taxes	Deferred taxes	**Income taxes**
2017			
Germany	**176**	**-13**	**163**
International	**959**	**-217**	**742**
Total	**1,135**	**-230**	**905**
2016			
Germany	130	1	131
International	911	2	913
Total	1,041	3	1,044

A reconciliation between the expected and actual income tax expense is shown in the following table. The expected corporate income tax expense is computed by applying the German corporation tax rate (including the solidarity surcharge) and the effective trade tax rate on income before income taxes. The respective combined tax rate was 30.7% for the fiscal year 2017 (2016: 30.7%).

€ in millions	**2017**	2016
Computed "expected" income tax expense	**1,208**	1,140
Increase (reduction) in income taxes resulting from:		
Items not recognized for tax purposes	**137**	57
Tax rate differential	**3**	7
Tax rate changes	**-270**	2
Tax-free income	**-67**	-39
Taxes for prior years	**-30**	-32
Noncontrolling interests	**-106**	-106
Other	**30**	15
Income tax	**905**	1,044
Effective tax rate	**23.0%**	28.1%

In the United States, the tax reform was enacted by signature of the president of the Tax Cuts and Jobs Act on December 22, 2017. The Act reduces the U.S. corporate income tax rate from 35% to 21% effective from January 1, 2018. Deferred tax assets and liabilities expected to reverse in 2018 and beyond have been remeasured using the corporate income tax rate that was enacted by the balance sheet date and will apply for future financial years. For the year ended December 31, 2017, the remeasurement of deferred tax assets and liabilities resulted in a deferred tax benefit of €266 million, which was recognized in tax expense, affecting profit and loss and included in the balance of €270 million in the reconciling item tax rate changes.

DEFERRED TAXES

The tax effects of the temporary differences and losses carried forward from prior years that gave rise to deferred tax assets and liabilities at December 31 are presented below:

€ in millions	2017	2016
Deferred tax assets		
Accounts receivable	**42**	31
Inventories	**136**	160
Other current assets	**127**	47
Other non-current assets	**136**	132
Provisions and other liabilities	**278**	528
Benefit obligations	**187**	233
Losses carried forward from prior years	**222**	199
Deferred tax assets	**1,128**	1,330
Deferred tax liabilities		
Accounts receivable	**22**	28
Inventories	**36**	30
Other current assets	**117**	106
Other non-current assets	**779**	1,156
Provisions and other liabilities	**540**	318
Deferred tax liabilities	**1,494**	1,638
Net deferred taxes	**-366**	-308

In the consolidated statement of financial position, the net amounts of deferred tax assets and liabilities are included as follows:

€ in millions	2017	2016
Deferred tax assets	**744**	627
Deferred tax liabilities	**1,110**	935
Net deferred taxes	**-366**	-308

As of December 31, 2017, Fresenius Medical Care has not recognized a deferred tax liability on approximately €6 billion of undistributed earnings of its foreign subsidiaries, because those earnings are considered indefinitely reinvested.

NET OPERATING LOSSES

The expiration of net operating losses is as follows:

for the fiscal years	€ in millions
2018	21
2019	23
2020	35
2021	23
2022	37
2023	22
2024	9
2025	10
2026	7
2027 and thereafter	148
Total	**335**

The total remaining operating losses of €1,076 million can mainly be carried forward for an unlimited period. The total amount of the existing operating losses as of December 31, 2017 includes an amount of €823 million (2016: €514 million) that will probably not be realizable. For these operating losses, deferred tax assets were not recognized.

Based upon the level of historical taxable income and projections for future taxable income, the Management of the Fresenius Group believes it is more likely than not that the Fresenius Group will realize the benefits of these deductible differences, net of the existing valuation allowances, at December 31, 2017.

12. NONCONTROLLING INTEREST

As of December 31, noncontrolling interest in net income in the Fresenius Group was as follows:

€ in millions	2017	2016
Noncontrolling interest in Fresenius Medical Care	**889**	790
Noncontrolling interest in Fresenius Vamed	**11**	10
Noncontrolling interest in the business segments		
Fresenius Medical Care	**274**	277
Fresenius Kabi	**39**	36
Fresenius Helios	**5**	2
Fresenius Vamed	**1**	1
Total noncontrolling interest	**1,219**	1,116

In the fiscal year 2017, Fresenius Medical Care AG & Co. KGaA paid dividends to noncontrolling interests in the amount of €203 million (2016: €169 million).

13. EARNINGS PER SHARE

The following table shows the earnings per share including and excluding the dilutive effect from stock options issued:

	2017	2016
Numerators, € in millions		
Net income attributable to shareholders of Fresenius SE & Co. KGaA	**1,814**	1,560
less effect from dilution due to Fresenius Medical Care shares	**1**	1
Income available to all ordinary shares	**1,813**	1,559
Denominators in number of shares		
Weighted-average number of ordinary shares outstanding	**554,124,656**	546,395,188
Potentially dilutive ordinary shares	**3,382,324**	3,689,472
Weighted-average number of ordinary shares outstanding assuming dilution	**557,506,980**	550,084,660
Basic earnings per share in €	**3.27**	2.85
Fully diluted earnings per share in €	**3.25**	2.83

NOTES ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

14. CASH AND CASH EQUIVALENTS

As of December 31, cash and cash equivalents were as follows:

€ in millions	2017	2016
Cash	**1,139**	1,276
Time deposits and securities (with a maturity of up to 90 days)	**497**	303
Total cash and cash equivalents	**1,636**	1,579

As of December 31, 2017 and December 31, 2016, earmarked funds of €183 million and €61 million, respectively, were included in cash and cash equivalents.

The Fresenius Group operates a multi-currency notional pooling cash management system. The Fresenius Group met the conditions to offset balances within this cash pool for reporting purposes. At December 31, 2017, €378 million (December 31, 2016: €366 million) of the cash balances and the equivalent amount of the overdraft balances were offset. Thereof €319 million related to Fresenius Medical Care.

15. TRADE ACCOUNTS RECEIVABLE

As of December 31, trade accounts receivable were as follows:

€ in millions	2017	2016
Trade accounts receivable	**6,943**	5,899
less allowance for doubtful accounts	**741**	700
Trade accounts receivable, net	**6,202**	5,199

All trade accounts receivable are due within one year. Trade accounts receivable with a term of more than one year in the amount of €25 million (2016: €25 million) are included in other non-current assets.

The following table shows the development of the allowance for doubtful accounts during the fiscal year:

€ in millions	2017	2016
Allowance for doubtful accounts at the beginning of the year	**700**	650
Change in valuation allowances as recorded in the consolidated statement of income	**518**	431
Write-offs and recoveries of amounts previously written-off	**-416**	-400
Foreign currency translation	**-61**	19
Allowance for doubtful accounts at the end of the year	**741**	700

The following table shows the aging analysis of trade accounts receivable and their allowance for doubtful accounts:

€ in millions	not overdue	up to 3 months overdue	3 to 6 months overdue	6 to 12 months overdue	more than 12 months overdue	Total
Trade accounts receivable	4,311	1,228	458	326	620	**6,943**
less allowance for doubtful accounts	74	129	75	108	355	**741**
Trade accounts receivable, net	4,237	1,099	383	218	265	**6,202**

16. INVENTORIES

As of December 31, inventories consisted of the following:

€ in millions	2017	2016
Raw materials and purchased components	**653**	667
Work in process	**715**	620
Finished goods	**2,024**	2,044
less reserves	**140**	142
Inventories, net	**3,252**	3,189

In 2017 and in 2016, no reversals of write-downs of inventory were made.

The companies of the Fresenius Group are obliged to purchase approximately €1,124 million of raw materials and purchased components under fixed terms, of which €620 million was committed at December 31, 2017 for 2018. The terms of these agreements run one to seven years. Advance payments from customers of €560 million (2016: €420 million) have been offset against inventories. These exclusively related to long-term construction contracts.

17. OTHER CURRENT AND NON-CURRENT ASSETS

As of December 31, other current and non-current assets were comprised of the following:

	2017		2016	
€ in millions		thereof short-term		thereof short-term
At equity investments	**647**	**0**	598	0
Tax receivables	**418**	**378**	332	302
Accounts receivable resulting from German hospital law	**175**	**143**	180	143
Advances made	**99**	**86**	125	112
Prepaid rent and insurance	**78**	**78**	77	77
Prepaid expenses	**73**	**43**	65	36
Insurance recoveries Fresenius Medical Care	**0**	**0**	209	209
Other assets	**595**	**446**	503	365
Other non-financial assets, net	**2,085**	**1,174**	2,089	1,244
Derivative financial instruments	**335**	**22**	408	41
Leasing receivables	**137**	**58**	128	54
Compensation receivable resulting from German hospital law	**124**	**121**	92	87
Long-term loans	**93**	**19**	86	13
Deposits	**78**	**25**	71	22
Other investments	**72**	**0**	79	0
Discounts	**49**	**49**	49	49
Securities	**19**	**9**	256	251
Other assets	**278**	**20**	29	3
Other financial assets, net	**1,185**	**323**	1,198	520
Other assets, net	**3,270**	**1,497**	3,287	1,764
Allowances	**11**	**8**	11	8
Other assets, gross	**3,281**	**1,505**	3,298	1,772

At equity investments mainly related to the joint venture named Vifor Fresenius Medical Care Renal Pharma Ltd. between Fresenius Medical Care and Galenica Ltd. In 2017, income of €67 million (2016: €59 million) resulting from this valuation was included in other operating income in the consolidated statement of income.

The accounts receivable resulting from German hospital law contain approved but not yet received earmarked subsidies of the Fresenius Helios operations. The approval is evidenced in a letter written by the granting authorities that Fresenius Helios has already received.

In the fiscal year 2016, the item insurance recoveries Fresenius Medical Care included the recognized amount in relation to the NaturaLyte® and GranuFlo® agreement in principle, which partially offset the accrued settlement amount recorded in provisions (see note 20, Provisions). For further information on the funding and consummation of the settlement by Fresenius Medical Care and its insurers, see note 29, Commitments and contingencies.

In the fiscal years 2017 and 2016, depreciation in an immaterial amount was recognized on other non-current assets.

18. PROPERTY, PLANT AND EQUIPMENT

As of December 31, the acquisition and manufacturing costs as well as accumulated depreciation of property, plant and equipment consisted of the following:

ACQUISITION AND MANUFACTURING COSTS

€ in millions	As of Jan. 1, 2017	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of Dec. 31, 2017
Land and land facilities	561	-9	251	5	14	8	**814**
Buildings and improvements	6,068	-351	968	135	457	148	**7,129**
Machinery and equipment	7,396	-424	178	693	279	278	**7,844**
Machinery, equipment and rental equipment under capital leases	192	-8	–	11	-5	3	**187**
Construction in progress	1,184	-77	18	839	-760	6	**1,198**
Property, plant and equipment	15,401	-869	1,415	1,683	-15	443	**17,172**

DEPRECIATION

€ in millions	As of Jan. 1, 2017	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of Dec. 31, 2017
Land and land facilities	13	–	0	1	0	–	**14**
Buildings and improvements	2,722	-188	-1	383	-3	94	**2,819**
Machinery and equipment	4,446	-244	-3	728	2	244	**4,685**
Machinery, equipment and rental equipment under capital leases	77	-4	-3	27	-1	3	**93**
Construction in progress	4	–	0	0	2	0	**6**
Property, plant and equipment	7,262	-436	-7	1,139	–	341	**7,617**

ACQUISITION AND MANUFACTURING COSTS

€ in millions	As of Jan. 1, 2016	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of Dec. 31, 2016
Land and land facilities	536	3	5	7	11	1	**561**
Buildings and improvements	5,388	96	64	228	348	56	**6,068**
Machinery and equipment	6,676	103	39	668	152	242	**7,396**
Machinery, equipment and rental equipment under capital leases	185	3	1	20	1	18	**192**
Construction in progress	1,074	21	7	654	-567	5	**1,184**
Property, plant and equipment	13,859	226	116	1,577	-55	322	**15,401**

DEPRECIATION

€ in millions	As of Jan. 1, 2016	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of Dec. 31, 2016
Land and land facilities	11	–	0	1	1	–	**13**
Buildings and improvements	2,385	48	4	325	1	41	**2,722**
Machinery and equipment	3,964	57	-4	640	-2	209	**4,446**
Machinery, equipment and rental equipment under capital leases	66	1	–	16	–	6	**77**
Construction in progress	4	–	0	–	–	–	**4**
Property, plant and equipment	6,430	106	–	982	–	256	**7,262**

CARRYING AMOUNTS

€ in millions	Dec. 31, 2017	Dec. 31, 2016
Land and land facilities	**800**	548
Buildings and improvements	**4,310**	3,346
Machinery and equipment	**3,159**	2,950
Machinery, equipment and rental equipment under capital leases	**94**	115
Construction in progress	**1,192**	1,180
Property, plant and equipment	**9,555**	8,139

Depreciation on property, plant and equipment for the years 2017 and 2016 was €1,139 million and €982 million, respectively. It is allocated within cost of sales, selling expenses, general and administrative expenses and research and development expenses, depending upon the use of the asset.

LEASING

Machinery and equipment as of December 31, 2017 and 2016 included medical devices which Fresenius Medical Care and Fresenius Kabi lease to customers, patients and physicians under operating leases in an amount of €788 million and €771 million, respectively.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

As of December 31, the acquisition cost and accumulated amortization of intangible assets consisted of the following:

ACQUISITION COST

€ in millions	As of Jan. 1, 2017	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of Dec. 31, 2017
Goodwill	22,901	-1,988	4,330	44	0	2	**25,285**
Customer relationships	332	-33	541	0	0	0	**840**
Tradenames with finite useful lives	0	-6	661	–	45	1	**699**
Capitalized development costs	425	-17	343	71	7	1	**828**
Patents, product and distribution rights	748	-79	-1	6	2	2	**674**
Software	474	-27	30	118	15	11	**599**
Technology	462	-44	2	0	0	5	**415**
Tradenames with indefinite useful lives	227	-25	0	–	-10	0	**192**
Non-compete agreements	347	-40	11	0	-2	2	**314**
Management contracts	3	–	0	0	0	0	**3**
Other	469	-45	24	26	-53	3	**418**
Goodwill and other intangible assets	26,388	-2,304	5,941	265	4	27	**30,267**

AMORTIZATION

€ in millions	As of Jan. 1, 2017	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of Dec. 31, 2017
Goodwill	0	0	0	0	0	0	**0**
Customer relationships	98	-11	-25	61	0	0	**123**
Tradenames with finite useful lives	0	-2	0	38	12	0	**48**
Capitalized development costs	232	-9	0	15	-9	–	**229**
Patents, product and distribution rights	392	-40	0	34	2	2	**386**
Software	290	-16	–	75	-3	9	**337**
Technology	141	-17	0	30	0	0	**154**
Tradenames with indefinite useful lives	0	0	0	0	0	0	**0**
Non-compete agreements	278	-34	0	22	-2	2	**262**
Management contracts	0	0	0	0	0	0	**0**
Other	293	-31	–	23	-11	3	**271**
Goodwill and other intangible assets	1,724	-160	-25	298	-11	16	**1,810**

ACQUISITION COST

€ in millions	As of Jan. 1, 2016	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of Dec. 31, 2016
Goodwill	21,646	560	674	18	3	–	**22,901**
Customer relationships	323	9	–	0	0	0	**332**
Capitalized development costs	492	6	0	13	0	86	**425**
Patents, product and distribution rights	713	21	15	9	1	11	**748**
Software	406	10	1	51	19	13	**474**
Technology	383	12	67	0	0	0	**462**
Tradenames	221	6	0	–	0	0	**227**
Non-compete agreements	321	11	17	0	0	2	**347**
Management contracts	6	0	0	0	-3	0	**3**
Other	420	10	19	32	-5	7	**469**
Goodwill and other intangible assets	24,931	645	793	123	15	119	**26,388**

AMORTIZATION

€ in millions	As of Jan. 1, 2016	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifications	Disposals	As of Dec. 31, 2016
Goodwill	0	0	0	0	0	0	**0**
Customer relationships	61	3	0	33	1	0	**98**
Capitalized development costs	273	3	0	42	0	86	**232**
Patents, product and distribution rights	356	11	–	36	–	11	**392**
Software	248	5	–	48	1	12	**290**
Technology	111	5	0	25	0	0	**141**
Tradenames	0	0	0	0	0	0	**0**
Non-compete agreements	251	9	0	21	–	3	**278**
Management contracts	0	0	0	0	0	0	**0**
Other	258	7	0	28	2	2	**293**
Goodwill and other intangible assets	1,558	43	–	233	4	114	**1,724**

CARRYING AMOUNTS

€ in millions	Dec. 31, 2017	Dec. 31, 2016
Goodwill	**25,285**	22,901
Customer relationships	**717**	234
Tradenames with finite useful lives	**651**	0
Capitalized development costs	**599**	193
Patents, product and distribution rights	**288**	356
Software	**262**	184
Technology	**261**	321
Tradenames with indefinite useful lives	**192**	227
Non-compete agreements	**52**	69
Management contracts	**3**	3
Other	**147**	176
Goodwill and other intangible assets	**28,457**	24,664

Amortization on intangible assets amounted to €298 million and €233 million for the years 2017 and 2016, respectively. It is allocated within cost of sales, selling expenses, general and administrative expenses and research and development expenses, depending upon the use of the asset.

The split of intangible assets into amortizable and non-amortizable intangible assets is shown in the following tables:

AMORTIZABLE INTANGIBLE ASSETS

	Dec. 31, 2017			Dec. 31, 2016		
€ in millions	**Acquisition cost**	**Accumulated amortization**	**Carrying amount**	Acquisition cost	Accumulated amortization	Carrying amount
Customer relationships	**840**	**123**	**717**	332	98	234
Tradenames	**699**	**48**	**651**	0	0	0
Capitalized development costs	**828**	**229**	**599**	425	232	193
Patents, product and distribution rights	**674**	**386**	**288**	748	392	356
Software	**599**	**337**	**262**	474	290	184
Technology	**415**	**154**	**261**	462	141	321
Non-compete agreements	**314**	**262**	**52**	347	278	69
Other	**418**	**271**	**147**	469	293	176
Total	**4,787**	**1,810**	**2,977**	3,257	1,724	1,533

The increase of tradenames and customer relationships mainly results from the acquisition of Quirónsalud. The increase of capitalized development costs is mainly due to the acquisition of the biosimilars business.

Fresenius Medical Care capitalized development costs in an amount of €3 million for the fiscal year 2017 (2016: €1 million). Capitalized development costs are amortized on a straight-line basis over a useful life of 11 years. The amortization expense for the fiscal year 2017 amounted to €0.4 million (2016: €1 million). In the case of Fresenius Kabi, development costs capitalized amounted to €596 million at December 31, 2017 (December 31, 2016: €192 million). The amortization is recorded on a straight-line basis over a useful life of 5 to 20 years and amounted to €15 million for the fiscal year 2017 (2016: €15 million). Furthermore, in 2016, research and development expenses included impairments on capitalized development expenses of €26 million (see note 7, Research and development expenses). These are included in the preceding amortization tables in the columns additions.

NON-AMORTIZABLE INTANGIBLE ASSETS

	Dec. 31, 2017			Dec. 31, 2016		
€ in millions	**Acquisition cost**	**Accumulated amortization**	**Carrying amount**	Acquisition cost	Accumulated amortization	Carrying amount
Goodwill	**25,285**	**0**	**25,285**	22,901	0	22,901
Tradenames	**192**	**0**	**192**	227	0	227
Management contracts	**3**	**0**	**3**	3	0	3
Total	**25,480**	**0**	**25,480**	23,131	0	23,131

The carrying amount of goodwill has developed as follows:

€ in millions	Fresenius Medical Care	Fresenius Kabi	Fresenius Helios	Fresenius Vamed	Corporate/ Other	**Fresenius Group**
Carrying amount as of January 1, 2016	**11,962**	**5,142**	**4,437**	**99**	**6**	**21,646**
Additions	586	5	101	0	–	692
Disposals	0	0	–	0	–	–
Reclassifications	3	0	0	0	0	3
Foreign currency translation	405	155	0	0	0	560
Carrying amount as of December 31, 2016	**12,956**	**5,302**	**4,538**	**99**	**6**	**22,901**
Additions	596	394	3,365	19	0	4,374
Disposals	0	-1	-1	0	0	-2
Foreign currency translation	-1,448	-540	0	0	0	-1,988
Carrying amount as of December 31, 2017	**12,104**	**5,155**	**7,902**	**118**	**6**	**25,285**

The increase of goodwill mainly results from the acquisitions of Quirónsalud and the biosimilars business.

As of December 31, 2017 and December 31, 2016, the carrying amounts of the other non-amortizable intangible assets were €178 million and €202 million for Fresenius Medical Care as well as €17 million and €28 million, respectively, for Fresenius Kabi.

20. PROVISIONS

As of December 31, provisions consisted of the following:

	2017		2016	
€ in millions		**thereof short-term**		thereof short-term
Self-insurance programs	**371**	**329**	371	331
Personnel expenses	**322**	**124**	252	107
FCPA related expenses	**200**	**200**	0	0
Warranties and complaints	**156**	**155**	162	161
Litigation and other legal risks	**99**	**92**	66	65
Settlement Fresenius Medical Care	**0**	**0**	266	266
Other provisions	**332**	**221**	377	351
Provisions	**1,480**	**1,121**	1,494	1,281

The following table shows the development of provisions in the fiscal year:

€ in millions	As of Jan. 1, 2017	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi-cations	Utilized	Reversed	**As of Dec. 31, 2017**
Self-insurance programs	371	-36	0	302	–	-229	-37	**371**
Personnel expenses	252	4	5	126	2	-53	-14	**322**
FCPA related expenses	0	0	0	200	0	0	0	**200**
Warranties and complaints	162	-1	0	116	–	-108	-13	**156**
Litigation and other legal risks	66	12	12	32	–	-16	-7	**99**
Settlement Fresenius Medical Care	266	-32	0	0	0	-234	0	**0**
Other provisions	377	-10	78	79	-2	-106	-84	**332**
Total	1,494	-63	95	855	–	-746	-155	**1,480**

In the fiscal year 2017, Fresenius Medical Care recorded a provision of €200 million related to Foreign Corrupt Practices Act (FCPA) investigations. The provision is based on the ongoing settlement negotiations that would avoid litigation between Fresenius Medical Care and the U.S. Securities and Exchange Commission and the U.S. Department of Justice (government agencies) and represents an estimate from the range of potential outcomes estimated from current

discussions. The FCPA related expenses encompass government agencies' claims for profit disgorgement, as well as accruals for fines and penalties, certain legal expenses and other related costs or asset impairments.

Provisions for personnel expenses mainly refer to share-based compensation plans, severance payments and contribution of partial retirement.

In the fiscal year 2016, the item settlement Fresenius Medical Care included accruals related to the NaturaLyte® and GranuFlo® agreement in principle, which were partially offset by insurance recoveries Fresenius Medical Care recorded in other current and non-current assets (see note 17, Other current and non-current assets). For further information on the funding and consummation of the settlement by Fresenius Medical Care and its insurers, see note 29, Commitments and contingencies.

For details regarding provisions for self-insurance programs, please see note 1. III. z, Self-insurance programs.

21. OTHER LIABILITIES

As of December 31, other liabilities consisted of the following:

	2017		2016	
€ in millions		thereof short-term		thereof short-term
Tax liabilities	**304**	**304**	223	223
Accounts payable resulting from German hospital law	**183**	**180**	171	166
Accounts receivable credit balance	**126**	**76**	99	50
Personnel liabilities	**98**	**0**	109	11
Advance payments from customers	**53**	**46**	87	68
All other liabilities	**758**	**602**	649	440
Other non-financial liabilities	**1,522**	**1,208**	1,338	958
Personnel liabilities	**1,282**	**1,275**	1,192	1,184
Noncontrolling interest subject to put provisions	**854**	**470**	1,029	530
Accrued contingent payments outstanding for acquisitions	**793**	**78**	223	78
Invoices outstanding	**717**	**717**	454	454
Derivative financial instruments	**334**	**25**	412	47
Debtors with credit balances	**331**	**331**	408	408
Bonuses and discounts	**198**	**198**	183	183
Interest liabilities	**185**	**185**	157	157
Leasing liabilities	**118**	**118**	122	122
Legal matters, advisory and audit fees	**55**	**55**	40	40
Compensation payable resulting from German hospital law	**39**	**39**	37	37
Commissions	**35**	**34**	36	35
All other liabilities	**5**	**0**	4	0
Other financial liabilities	**4,946**	**3,525**	4,297	3,275
Other liabilities	**6,468**	**4,733**	5,635	4,233

The Fresenius Group, as option writer on behalf of existing put options, has potential obligations to purchase noncontrolling interests held by third parties in certain of its consolidated subsidiaries. These obligations are in the form of put provisions and are exercisable at the third-party owners' discretion within specified periods as outlined in each specific put provision. If these put provisions were exercised, the Fresenius Group would be required to purchase all or part of third-party owners' noncontrolling interests at already defined purchase prices or the appraised fair value at the time of exercise.

The accounts payable resulting from German hospital law contain earmarked subsidies received but not yet spent appropriately by Fresenius Helios. The amount not yet spent appropriately is classified as liability.

The accrued contingent payments outstanding for acquisitions include €581 million at December 31, 2017 for the acquisition of the biosimilars business of Merck KGaA.

At December 31, 2017, the total amount of other long-term liabilities was €1,735 million, thereof €1,339 million was due between one and five years and €396 million was due after five years. The statement of financial position line item long-term provisions and other long-term liabilities of €2,094 million also included long-term provisions of €359 million as of December 31, 2017.

22. DEBT AND CAPITAL LEASE OBLIGATIONS

SHORT-TERM DEBT

As of December 31, short-term debt consisted of the following:

	Book value	
€ in millions	**2017**	2016
Fresenius SE & Co. KGaA Commercial Paper	**715**	178
Fresenius Medical Care AG & Co. KGaA Commercial Paper	**680**	476
Other short-term debt	**155**	193
Short-term debt	**1,550**	847

Other short-term debt mainly consists of borrowings by certain entities of the Fresenius Group under lines of credit with commercial banks. The average interest rates on the borrowings at December 31, 2017 and 2016 were 5.81% and 5.97%, respectively.

LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

As of December 31, long-term debt and capital lease obligations net of debt issuance costs consisted of the following:

€ in millions	**2017**	2016
Fresenius Medical Care 2012 Credit Agreement	**2,018**	2,244
2013 Credit Agreement	**2,238**	1,574
Schuldschein Loans	**1,873**	1,186
Accounts Receivable Facility of Fresenius Medical Care	**294**	165
Capital lease obligations	**234**	146
Other	**448**	344
Subtotal	**7,105**	5,659
less current portion	**618**	611
Long-term debt and capital lease obligations, less current portion	**6,487**	5,048

Maturities of long-term debt and capital lease obligations including debt issuance costs are shown in the following table:

€ in millions	up to 1 year	1 to 3 years	3 to 5 years	more than 5 years
Fresenius Medical Care 2012 Credit Agreement	128	656	1,243	0
2013 Credit Agreement	150	300	1,805	0
Schuldschein Loans	260	263	677	677
Accounts Receivable Facility of Fresenius Medical Care	0	294	0	0
Capital lease obligations	23	41	30	140
Other	71	221	61	96
Long-term debt and capital lease obligations	**632**	**1,775**	**3,816**	**913**

Aggregate annual repayments applicable to the above listed long-term debt and capital lease obligations for the years subsequent to December 31, 2017 are:

for the fiscal years	€ in millions
2018	632
2019	652
2020	1,123
2021	1,376
2022	2,440
Subsequent years	913
Total	**7,136**

Fresenius Medical Care 2012 Credit Agreement

Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) originally entered into a syndicated credit facility (Fresenius Medical Care 2012 Credit Agreement) of US$3,850 million and a 5-year tenor on October 30, 2012.

On November 26, 2014, the Fresenius Medical Care 2012 Credit Agreement was amended to increase the total credit facility to approximately US$4,400 million and extend the term for an additional two years until October 30, 2019.

On July 11, 2017, FMC-AG & Co. KGaA further amended and extended its syndicated credit agreement resulting in a total credit facility of approximately US$ 3,900 million with maturities in 2020 and 2022. Consistent with the investment grade rating of Fresenius Medical Care, the amended Fresenius Medical Care 2012 Credit Agreement is now unsecured and has lower tiered pricing.

The following tables show the available and outstanding amounts under the Fresenius Medical Care 2012 Credit Agreement at December 31:

	2017			
	Maximum amount available		**Balance outstanding**	
		€ in millions		**€ in millions**
Revolving Credit Facility (in US$)	US$900 million	750	**US$70 million**	**58**
Revolving Credit Facility (in €)	€600 million	600	**€0 million**	**0**
Term Loan 5 years (in US$)	US$1,470 million	1,226	**US$1,470 million**	**1,226**
Term Loan 3 years (in €)	€400 million	400	**€400 million**	**400**
Term Loan 5 years (in €)	€343 million	343	**€343 million**	**343**
Total		3,319		**2,027**
less financing cost				**9**
Total				**2,018**

	2016			
	Maximum amount available		**Balance outstanding**	
		€ in millions		**€ in millions**
Revolving Credit Facility (in US$)	US$1,000 million	949	**US$10 million**	**10**
Revolving Credit Facility (in €)	€400 million	400	**€0 million**	**0**
Term Loan 5 years (in US$)	US$2,100 million	1,992	**US$2,100 million**	**1,992**
Term Loan 5 years (in €)	€252 million	252	**€252 million**	**252**
Total		3,593		**2,254**
less financing cost				**10**
Total				**2,244**

As of December 31, 2017, the Fresenius Medical Care 2012 Credit Agreement consisted of:

- Revolving credit facilities of US$900 million and €600 million which will be due on July 31, 2022.
- A term loan of US$1,470 million, also scheduled to mature on July 31, 2022. Quarterly repayments of US$30 million began on October 31, 2017 with the remaining balance outstanding due on the maturity date.
- A term loan of €343 million, also scheduled to mature on July 31, 2022. Quarterly repayments of €7 million began on October 31, 2017 with the remaining balance outstanding due on the maturity date.
- A non-amortizing term loan of €400 million which is scheduled to mature on July 30, 2020.

Interest on the credit facilities is floating at a rate equal to EURIBOR / LIBOR (as applicable) plus an applicable margin. The applicable margin is variable and depends on Fresenius Medical Care's consolidated leverage ratio which is a ratio of its consolidated funded debt less cash and cash equivalents to consolidated EBITDA (as these terms are defined in the Fresenius Medical Care 2012 Credit Agreement). As of December 31, 2017 and 2016, the U.S. dollar denominated tranches outstanding under the Fresenius Medical Care 2012 Credit Agreement had a weighted-average interest rate of 2.48% and 2.15%, respectively. As of December 31, 2017 and 2016, the euro denominated tranches had a weighted-average interest rate of 0.81% and 1.25%, respectively.

The Fresenius Medical Care 2012 Credit Agreement contains affirmative and negative covenants with respect to FMC-AG & Co. KGaA and its subsidiaries. Under certain circumstances, these covenants limit indebtedness and restrict the creation of liens. Under the Fresenius Medical Care 2012 Credit Agreement, FMC-AG & Co. KGaA is required to comply with a maximum leverage ratio (ratio of net debt to EBITDA). As of December 31, 2017, FMC-AG & Co. KGaA and its subsidiaries were in compliance with all covenants under the Fresenius Medical Care 2012 Credit Agreement.

In addition, at December 31, 2017 and December 31, 2016, Fresenius Medical Care had letters of credit outstanding in the amount of approximately US$2 million (€1 million) and US$4 million (€3 million), respectively, under the U.S. dollar revolving credit facility. The letters of credit were not included in the above mentioned outstanding balances at those dates but reduce available borrowings under the applicable revolving credit facility.

2013 Credit Agreement

On December 20, 2012, Fresenius SE & Co. KGaA and various subsidiaries entered into a delayed draw syndicated credit agreement (2013 Credit Agreement) in the original amount of US$1,300 million and €1,250 million. Since the initial funding of the 2013 Credit Agreement in June 2013, additional tranches were added. Furthermore, scheduled amortization payments as well as voluntary repayments have been made.

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

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

The following tables show the available and outstanding amounts under the 2013 Credit Agreement at December 31:

	2017			
	Maximum amount available		Balance outstanding	
		€ in millions		€ in millions
Revolving Credit Facility (in €)	€1,000 million	1,000	**€0 million**	**0**
Revolving Credit Facility (in US$)	US$500 million	417	**US$0 million**	**0**
Term Loan 4 years (in €)	€750 million	750	**€750 million**	**750**
Term Loan 5 years (in €)	€975 million	975	**€975 million**	**975**
Term Loan 5 years (in US$)	US$635 million	529	**US$635 million**	**529**
Total		3,671		**2,254**
less financing cost				**16**
Total				**2,238**

	2016			
	Maximum amount available		Balance outstanding	
		€ in millions		€ in millions
Revolving Credit Facility (in €)	€900 million	900	**€0 million**	**0**
Revolving Credit Facility (in US$)	US$300 million	284	**US$0 million**	**0**
Term Loan 5 years (in €)	€933 million	933	**€933 million**	**933**
Term Loan 5 years (in US$)	US$689 million	654	**US$689 million**	**654**
Total		2,771		**1,587**
less financing cost				**13**
Total				**1,574**

Does not include the incremental facilities in the amount of €1.2 billion which were funded in January 2017

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

- Revolving credit facilities of US$500 million and €1,000 million which will be due on September 28, 2022.
- A term loan of US$635 million, scheduled to mature on September 28, 2022. Quarterly repayments of US$15 million began on December 28, 2017 with the remaining balance outstanding due on the maturity date.
- A term loan of €975 million, 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.

Interest on the credit facilities is floating at a rate equal to EURIBOR / LIBOR (as applicable) plus an applicable margin. The applicable margin is variable and depends on the consolidated leverage ratio of Fresenius SE & Co. KGaA and its subsidiaries (as defined in the 2013 Credit Agreement).

The 2013 Credit Agreement contains a number of customary affirmative and negative covenants. Under certain conditions, these covenants include limitations on liens and incurrence of debt. The 2013 Credit Agreement also requires Fresenius SE & Co. KGaA and its subsidiaries to maintain a maximum leverage ratio.

As of December 31, 2017, the Fresenius Group was in compliance with all covenants under the 2013 Credit Agreement.

Schuldschein Loans

As of December 31, Schuldschein Loans of the Fresenius Group net of debt issuance costs consisted of the following:

	Notional amount	Maturity	Interest rate fixed/variable	Book value € in millions 2017	2016
Fresenius SE & Co. KGaA 2013/2017	€125 million	Aug. 22, 2017	2.65%/variable	**0**	125
Fresenius SE & Co. KGaA 2014/2018	€97 million	April 2, 2018	2.09%	**97**	97
Fresenius SE & Co. KGaA 2014/2018[1]	€141 million	April 2, 2018	variable	**0**	141
Fresenius SE & Co. KGaA 2012/2018	€72 million	April 4, 2018	4.09%	**72**	72
Fresenius SE & Co. KGaA 2015/2018	€91 million	October 8, 2018	1.07%/variable	**91**	91
Fresenius SE & Co. KGaA 2014/2020	€262 million	April 2, 2020	2.67%/variable	**262**	260
Fresenius SE & Co. KGaA 2017/2022	€372 million	Jan. 31, 2022	0.93%/variable	**371**	0
Fresenius SE & Co. KGaA 2015/2022	€21 million	April 7, 2022	1.61%	**21**	21
Fresenius SE & Co. KGaA 2017/2024	€421 million	Jan. 31, 2024	1.40%/variable	**420**	0
Fresenius SE & Co. KGaA 2017/2027	€207 million	Jan. 29, 2027	1.96%/variable	**206**	0
Fresenius US Finance II, Inc. 2016/2021	US$342 million	March 10, 2021	2.66%/variable	**284**	323
Fresenius US Finance II, Inc. 2016/2023	US$58 million	March 10, 2023	3.12%/variable	**49**	56
Schuldschein Loans				**1,873**	1,186

[1] Terminated tranches repaid on April 3, 2017

On December 19, 2016, Fresenius SE & Co. KGaA issued €1,000 million of Schuldschein Loans in tranches of 5, 7 and 10 years with fixed and variable interest rates. The transaction was closed on January 31, 2017. Proceeds were used for general corporate purposes and to finance the acquisition of IDCSalud Holding S.L.U. (Quirónsalud) by Fresenius Helios.

In order to optimize the capital structure and to further reduce financing costs, two floating rate tranches of Schuldschein Loans due originally on April 2, 2018 in the amount of €76 million and €65 million have been terminated and prepaid as per April 3, 2017.

The Schuldschein Loans issued by Fresenius SE & Co. KGaA in the total amount of €125 million which were due on August 22, 2017 were repaid as scheduled. The Schuldschein Loans issued by Fresenius SE & Co. KGaA in the amount of €97 million and €72 million which are due on April 2, 2018 and April 4, 2018 and the Schuldschein Loans issued by Fresenius SE & Co. KGaA in the amount of €91 million which are due on October 8, 2018 are shown as current portion of long-term debt and capital lease obligations in the consolidated statement of financial position.

The Schuldschein Loans issued by Fresenius SE & Co. KGaA in the amount of €108 million, which were due on April 4, 2016, were repaid as scheduled.

On March 10, 2016, Fresenius US Finance II, Inc. issued Schuldschein Loans in a total amount of US$400 million which consist of fixed and floating rate tranches and terms of five and seven years.

The Schuldschein Loans of Fresenius SE & Co. KGaA are guaranteed by Fresenius Kabi AG and Fresenius ProServe GmbH. The Schuldschein Loans of Fresenius US Finance II, Inc. are guaranteed by Fresenius SE & Co. KGaA, Fresenius Kabi AG and Fresenius ProServe GmbH.

As of December 31, 2017, the Fresenius Group was in compliance with all of its covenants under the Schuldschein Loans.

Accounts Receivable Facility of Fresenius Medical Care

On December 6, 2016, the asset securitization facility (Accounts Receivable Facility) of Fresenius Medical Care was refinanced for a term expiring on December 6, 2019 with available borrowings of US$800 million (€667 million).

At December 31, 2017, there were outstanding borrowings under the Accounts Receivable Facility of US$353 million (€294 million) (2016: US$175 million (€166 million)). In the amounts shown, debt issuance costs are not included. Fresenius Medical Care also had letters of credit outstanding under the Accounts Receivable Facility in the amount of US$71 million (€59 million) at December 31, 2017 and US$16 million (€15 million) at December 31, 2016. These letters of credit are not included above as part of the balance outstanding at December 31, 2017, however, they reduce available borrowings under the Accounts Receivable Facility.

Under the Accounts Receivable Facility, certain receivables are sold to NMC Funding Corp. (NMC Funding), a wholly owned subsidiary of Fresenius Medical Care. NMC Funding then assigns percentage ownership interests in the accounts receivable to certain bank investors. Under the terms of the Accounts Receivable Facility, NMC Funding retains the right, at any time, to recall all the then outstanding transferred interests in the accounts receivable. Consequently, the receivables remain on the consolidated statement of financial position and the proceeds from the transfer of percentage ownership interests are recorded as long-term debt.

NMC Funding pays interest to the bank investors, calculated based on the commercial paper rates for the particular tranches selected. At December 31, 2017 and 2016, the interest rate was 1.40% and 1.00%, respectively. Refinancing fees, which include legal costs and bank fees, are amortized over the term of the facility.

CREDIT LINES AND OTHER SOURCES OF LIQUIDITY

In addition to the financial liabilities described before, the Fresenius Group maintains additional credit facilities which have not been utilized, or have only been utilized in part, as of the reporting date. At December 31, 2017, the additional financial cushion resulting from unutilized credit facilities was approximately €3.7 billion.

Syndicated credit facilities accounted for €2.7 billion. This portion is comprised of the Fresenius Medical Care 2012 Credit Agreement in the amount of €1,291 million and the 2013 Credit Agreement in the amount of €1,417 million. Furthermore, bilateral facilities of approximately €1,000 million were available. They include credit facilities which certain entities of the Fresenius Group have arranged with commercial banks. These credit facilities are used for general corporate purposes and are usually unsecured.

In addition, Fresenius SE & Co. KGaA has a commercial paper program under which up to €1,000 million in short-term notes can be issued. As of December 31, 2017, the commercial paper program of Fresenius SE & Co. KGaA was utilized in the amount of €715 million.

Fresenius Medical Care can also issue short-term notes of up to €1,000 million under a commercial paper program. As of December 31, 2017, the commercial paper program of Fresenius Medical Care AG & Co. KGaA was utilized in the amount of €680 million.

Additional financing of up to US$800 million (€667 million) can be provided using the Fresenius Medical Care Accounts Receivable Facility which had been utilized in the amount of US$424 million (€353 million) as of December 31, 2017.

Bridge Financing Facility

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

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

23. BONDS

As of December 31, bonds of the Fresenius Group net of debt issuance costs consisted of the following:

				Book value € in millions	
	Notional amount	Maturity	Interest rate	2017	2016
Fresenius Finance Ireland PLC 2017/2022	€700 million	Jan. 31, 2022	0.875%	**695**	0
Fresenius Finance Ireland PLC 2017/2024	€700 million	Jan. 30, 2024	1.50%	**696**	0
Fresenius Finance Ireland PLC 2017/2027	€700 million	Feb. 1, 2027	2.125%	**692**	0
Fresenius Finance Ireland PLC 2017/2032	€500 million	Jan. 30, 2032	3.00%	**494**	0
Fresenius SE & Co. KGaA 2014/2019	€300 million	Feb. 1, 2019	2.375%	**299**	299
Fresenius SE & Co. KGaA 2012/2019	€500 million	Apr. 15, 2019	4.25%	**499**	498
Fresenius SE & Co. KGaA 2013/2020	€500 million	July 15, 2020	2.875%	**498**	497
Fresenius SE & Co. KGaA 2014/2021	€450 million	Feb. 1, 2021	3.00%	**446**	445
Fresenius SE & Co. KGaA 2014/2024	€450 million	Feb. 1, 2024	4.00%	**449**	449
Fresenius US Finance II, Inc. 2014/2021	US$300 million	Feb. 1, 2021	4.25%	**249**	283
Fresenius US Finance II, Inc. 2015/2023	US$300 million	Jan. 15, 2023	4.50%	**248**	281
FMC Finance VII S.A. 2011/2021	€300 million	Feb. 15, 2021	5.25%	**297**	295
FMC Finance VIII S.A. 2011/2018	€400 million	Sept. 15, 2018	6.50%	**399**	397
FMC Finance VIII S.A. 2012/2019	€250 million	July 31, 2019	5.25%	**245**	244
Fresenius Medical Care US Finance, Inc. 2007/2017	US$500 million	July 15, 2017	6.875%	**0**	473
Fresenius Medical Care US Finance, Inc. 2011/2021	US$650 million	Feb. 15, 2021	5.75%	**538**	611
Fresenius Medical Care US Finance II, Inc. 2011/2018	US$400 million	Sept. 15, 2018	6.50%	**332**	377
Fresenius Medical Care US Finance II, Inc. 2012/2019	US$800 million	July 31, 2019	5.625%	**666**	757
Fresenius Medical Care US Finance II, Inc. 2014/2020	US$500 million	Oct. 15, 2020	4.125%	**415**	471
Fresenius Medical Care US Finance II, Inc. 2012/2022	US$700 million	Jan. 31, 2022	5.875%	**581**	661
Fresenius Medical Care US Finance II, Inc. 2014/2024	US$400 million	Oct. 15, 2024	4.75%	**331**	376
Bonds				**9,069**	7,414

FRESENIUS SE & CO. KGAA

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

As of July 29, 2016, the original issuer Fresenius Finance B.V. has been replaced as the issuer of its outstanding bonds by the successor issuer Fresenius SE & Co. KGaA.

All bonds of Fresenius US Finance II, Inc. and of Fresenius Finance Ireland PLC are guaranteed by Fresenius SE & Co. KGaA. 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. All bonds of Fresenius SE & Co. KGaA, Fresenius US Finance II, Inc. and of Fresenius Finance Ireland PLC may be redeemed prior to their maturity at the option of the issuers at a price of 100% plus accrued interest and a premium calculated pursuant to the terms of the indentures under observance of certain notice periods.

Fresenius SE & Co. KGaA has agreed to a number of covenants to provide protection to the bondholders, 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. In the event of non-compliance with certain terms of the bonds, the bondholders (owning in aggregate more than 25% of the outstanding bonds) are entitled to call the bonds and demand immediate repayment plus interest. As of December 31, 2017, the Fresenius Group was in compliance with all of its covenants.

FRESENIUS MEDICAL CARE AG & CO. KGAA

The bonds issued by Fresenius Medical Care US Finance, Inc. were redeemed at maturity on July 17, 2017. As of December 31, 2017, the bonds issued by FMC Finance VIII S.A. in the amount of € 400 million and by Fresenius Medical Care US Finance II, Inc. in the amount of US$ 400 million due on September 15, 2018 are shown as current portion of bonds in the consolidated statement of financial position.

The bonds issued by FMC Finance VI S.A. which were due on July 15, 2016 and the bonds issued by FMC Finance VIII S.A. which were due on October 15, 2016 were repaid as scheduled.

The bonds of Fresenius Medical Care US Finance, Inc., Fresenius Medical Care US Finance II, Inc., FMC Finance VII S.A. and FMC Finance VIII S.A. (wholly owned subsidiaries of FMC-AG & Co. KGaA) are guaranteed jointly and severally by FMC-AG & Co. KGaA and Fresenius Medical Care Holdings, Inc. The holders have the right to request that the respective issuers repurchase the respective bonds at 101% of principal plus accrued interest upon the occurrence of a change of control of FMC-AG & Co. KGaA followed by a decline in the rating of the respective bonds. The issuers may redeem the bonds at any time at 100% of principal plus accrued interest and a premium calculated pursuant to the terms of the indentures.

FMC-AG & Co. KGaA has agreed to a number of covenants to provide protection to the holders which, under certain circumstances, restrict the scope of action of 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, 2017, FMC-AG & Co. KGaA and its subsidiaries were in compliance with all of their covenants under the bonds.

24. CONVERTIBLE BONDS

As of December 31, the convertible bonds of the Fresenius Group net of debt issuance costs consisted of the following:

					Book value € in millions	
	Notional amount	Maturity	Coupon	Current conversion price	**2017**	2016
Fresenius SE & Co. KGaA 2014/2019	€500 million	Sept. 24, 2019	0.000%	€49.3599	**483**	474
Fresenius SE & Co. KGaA 2017/2024	€500 million	Jan. 31, 2024	0.000%	€107.0979	**448**	0
Fresenius Medical Care AG & Co. KGaA 2014/2020	€400 million	Jan. 31, 2020	1.125%	€73.4408	**387**	380
Convertible bonds					**1,318**	854

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

The fair value of the derivatives embedded in the convertible bonds of Fresenius SE & Co. KGaA was €206 million at December 31, 2017. The derivative embedded in the convertible bonds of Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) was recognized with a fair value of €102 million at December 31, 2017. Fresenius SE & Co. KGaA and FMC-AG & Co. KGaA have purchased stock options (call options) to hedge future fair value fluctuations of these derivatives. As of December 31, 2017, the call options had a corresponding aggregate fair value of €206 million and €102 million, respectively.

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

The derivatives embedded in the convertible bonds and the call options are recognized in other non-current liabilities/assets in the consolidated statement of financial position.

25. PENSIONS AND SIMILAR OBLIGATIONS

GENERAL

The Fresenius Group recognizes pension costs and related pension liabilities for current and future benefits to qualified current and former employees of the Fresenius Group. Fresenius Group's pension plans are structured in accordance with the differing legal, economic and fiscal circumstances in each country. The Fresenius Group currently has two types of plans, defined benefit and defined contribution plans. In general, plan benefits in defined benefit plans are based on all or a portion of the employees' years of services and final salary. Plan benefits in defined contribution plans are determined by the amount of contribution by the employee and the employer, both of which may be limited by legislation, and the returns earned on the investment of those contributions.

Upon retirement under defined benefit plans, the Fresenius Group is required to pay defined benefits to former employees when the defined benefits become due. Defined benefit plans may be funded or unfunded. The Fresenius Group has funded defined benefit plans in particular in the United States,

Norway, the United Kingdom, the Netherlands and Austria. Unfunded defined benefit plans are located in Germany and France.

Actuarial assumptions generally determine benefit obligations under defined benefit plans. The actuarial calculations require the use of estimates. The main factors used in the actuarial calculations affecting the level of the benefit obligations are: assumptions on life expectancy, the discount rate and future salary and benefit levels. Under Fresenius Group's funded plans, assets are set aside to meet future payment obligations. An estimated return on the plan assets is recognized as income in the respective period. Actuarial gains and losses are generated when there are variations in the actuarial assumptions and by differences between the actual and the estimated projected benefit obligations and the return on plan assets for that year. A company's pension liability is impacted by these actuarial gains or losses.

Related to defined benefit plans, the Fresenius Group is exposed to certain risks. Besides general actuarial risks, e. g. the longevity risk and the interest rate risk, the Fresenius Group is exposed to market risk as well as to investment risk.

In the case of Fresenius Group's funded plans, the defined benefit obligation is offset against the fair value of plan assets (funded status). A pension liability is recognized in the consolidated statement of financial position if the defined benefit obligation exceeds the fair value of plan assets. An asset is recognized and reported under other assets in the consolidated statement of financial position if the fair value of plan assets exceeds the defined benefit obligation and if the Fresenius Group has a right of reimbursement against the fund or a right to reduce future payments to the fund.

Under defined contribution plans, the Fresenius Group pays defined contributions to an independent third party as directed by the employee during the employee's service life which satisfies all obligations of the Fresenius Group to the employee. The employee retains all rights to the contributions made by the employee and to the vested portion of the Fresenius Group paid contributions upon leaving the Fresenius Group. The Fresenius Group has a main defined contribution plan in the United States.

DEFINED BENEFIT PENSION PLANS

At December 31, 2017, the defined benefit obligation (DBO) of the Fresenius Group of €1,671 million (2016: €1,671 million) included €526 million (2016: €532 million) funded by plan assets and €1,145 million (2016: €1,139 million) covered by pension provisions. Furthermore, the pension liability contains benefit obligations offered by other subsidiaries of Fresenius Medical Care in an amount of €37 million (2016: €34 million). The current portion of the pension liability in an amount of €19 million (2016: €18 million) is recognized in the consolidated statement of financial position within short-term provisions and other short-term liabilities. The non-current portion of €1,163 million (2016: €1,155 million) is recorded as pension liability.

The major part of pension liabilities relates to Germany. At December 31, 2017, 78% of the pension liabilities were recognized in Germany and 20% predominantly in the rest of Europe and North America. 52% of the beneficiaries were located in North America, 33% in Germany and the remainder throughout the rest of Europe and other continents.

70% of the pension liabilities in an amount of €1,182 million relate to the "Versorgungsordnung der Fresenius-Unternehmen" established in 2016 (Pension Plan 2016), which applies for most of the German entities of the Fresenius Group except Fresenius Helios. The remaining pension liabilities relate to individual plans from Fresenius Helios entities in Germany and non-German Group entities.

Plan benefits are generally based on an employee's years of service and final salary. Consistent with predominant practice in Germany, the benefit obligations of the German entities of the Fresenius Group are unfunded. The German Pension Plan 2016 does not have a separate pension fund.

Fresenius Medical Care Holdings, Inc. (FMCH), a subsidiary of Fresenius Medical Care AG & Co. KGaA, has a defined benefit pension plan for its employees in the United States

and supplemental executive retirement plans. During the first quarter of 2002, FMCH curtailed these pension plans. Under the curtailment amendment for substantially all employees eligible to participate in the plan, benefits have been frozen as of the curtailment date and no additional defined benefits for future services will be earned. FMCH has retained all employee benefit obligations as of the curtailment date. Each year, FMCH contributes to the plan covering United States employees at least the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. In 2017, there was no minimum funding requirement for the defined benefit plan. FMCH voluntarily provided €1 million. Expected funding for 2018 is €1 million.

Benefit plans offered by other subsidiaries of Fresenius Medical Care outside of the United States, Germany and France contain separate benefit obligations. The total pension liability for these other plans was €37 million and €34 million at December 31, 2017 and 2016, respectively. The current pension liability of €3 million (2016: €2 million) is recognized as a current liability in the line item short-term provisions and other short-term liabilities. The non-current pension liability of €34 million (2016: €32 million) for these plans is recorded as pension liability in the consolidated statement of financial position.

Fresenius Group's benefit obligations relating to fully or partly funded pension plans were €683 million. Benefit obligations relating to unfunded pension plans were €988 million.

The following table shows the changes in benefit obligations, the changes in plan assets, the funded status of the pension plans and the pension liability. Benefits paid as shown in the changes in benefit obligations represent payments made from both the funded and unfunded plans while the benefits paid as shown in the changes in plan assets include only benefit payments from Fresenius Group's funded benefit plans.

The pension liability has developed as follows:

€ in millions	2017	2016
Benefit obligations at the beginning of the year	**1,671**	1,489
Changes in entities consolidated	**28**	3
Foreign currency translation	**-63**	5
Service cost	**63**	54
Past service cost	**–**	3
Settlements	**-1**	-9
Net interest cost	**40**	45
Contributions by plan participants	**3**	3
Transfer of plan participants	**3**	5
Remeasurements	**-29**	123
Actuarial losses (gains) arising from changes in financial assumptions	**-33**	137
Actuarial losses (gains) arising from changes in demographic assumptions	**-4**	-13
Actuarial losses (gains) arising from experience adjustments	**8**	-1
Benefits paid	**-44**	-50
Benefit obligations at the end of the year	**1,671**	1,671
thereof vested	**1,392**	1,397
Fair value of plan assets at the beginning of the year	**532**	422
Changes in entities consolidated	**22**	–
Foreign currency translation	**-47**	7
Actual return (cost) on plan assets	**31**	31
Interest income from plan assets	**17**	14
Actuarial gains (losses) arising from experience adjustments	**14**	17
Contributions by the employer	**10**	107
Contributions by plan participants	**3**	3
Settlements	**-1**	-8
Transfer of plan participants	**4**	5
Gains from divestitures	**-1**	–
Benefits paid	**-27**	-35
Fair value of plan assets at the end of the year	**526**	532
Funded status as of December 31	**1,145**	1,139
Benefit plans offered by other subsidiaries	**37**	34
Pension liability as of December 31	**1,182**	1,173

The plan assets are neither invested in the Fresenius Group nor in related parties of the Fresenius Group.

As of December 31, 2017 and 2016, the fair value of plan assets did not exceed the benefit obligations in any pension plan. Furthermore, for the years 2017 and 2016, there were no effects from asset ceiling.

The discount rates for all plans are based upon yields of portfolios of highly rated debt instruments with maturities that mirror the plan's benefit obligation. Fresenius Group's discount rate is the weighted average of these plans based upon their benefit obligations.

The following weighted-average assumptions were utilized in determining benefit obligations as of December 31:

in %	2017	2016
Discount rate	**2.53**	2.56
Rate of compensation increase	**2.80**	2.87
Rate of pension increase	**1.39**	1.46

Mainly changes in the discount factor, as well as inflation and mortality assumptions used for the actuarial computation resulted in actuarial gains in 2017 which decreased the fair value of the defined benefit obligation. Unrecognized actuarial losses were €635 million (2016: €707 million).

Sensitivity analysis

Increases and decreases in principal actuarial assumptions by 0.5 percentage points would affect the pension liability as of December 31, 2017 as follows:

Development of pension liability € in millions	0.5 pp increase	0.5 pp decrease
Discount rate	-145	167
Rate of compensation increase	25	-24
Rate of pension increase	87	-76

The sensitivity analysis was calculated based on the average duration of the pension obligations determined at December 31, 2017. The calculations were performed isolated for each significant actuarial parameter, in order to show the effect on the fair value of the pension liability separately. The sensitivity analysis for compensation increases and for pension increases excludes the U.S. pension plan, because it is frozen and therefore is not affected by changes from these two actuarial assumptions.

Further explanatory notes

Defined benefit pension plans' net periodic benefit costs of €86 million (2016: €88 million) were comprised of the following components:

€ in millions	2017	2016
Service cost	**63**	57
Net interest cost	**23**	31
Net periodic benefit cost	**86**	88

Net periodic benefit cost is allocated as personnel expense within cost of sales, selling expenses, general and administrative expenses as well as research and development expenses. The allocation depends upon the area in which the beneficiary is employed.

The following weighted-average assumptions were used in determining net periodic benefit cost for the year ended December 31:

in %	2017	2016
Discount rate	**2.47**	3.06
Rate of compensation increase	**2.82**	2.85
Rate of pension increase	**1.46**	1.62

The following table shows the expected benefit payments for the next 10 years:

for the fiscal years	€ in millions
2018	43
2019	45
2020	48
2021	51
2022	55
2023 to 2027	327
Total expected benefit payments	**569**

At December 31, 2017 and at December 31, 2016, the weighted-average duration of the defined benefit obligation was 19 years.

The fair values of plan assets by categories were as follows:

€ in millions	December 31, 2017 Quoted prices in active markets for identical assets Level 1	December 31, 2017 Significant observable inputs Level 2	December 31, 2017 Total	December 31, 2016 Quoted prices in active markets for identical assets Level 1	December 31, 2016 Significant observable inputs Level 2	December 31, 2016 Total
Categories of plan assets						
Equity investments	**72**	**72**	**144**	66	83	149
Index funds[1]	**47**	**72**	**119**	53	83	136
Other equity investments	**25**	**0**	**25**	13	0	13
Fixed income investments	**117**	**204**	**321**	123	215	338
Government securities[2]	**10**	**1**	**11**	40	1	41
Corporate bonds[3]	**69**	**199**	**268**	35	209	244
Other fixed income investments[4]	**38**	**4**	**42**	48	5	53
Other[5]	**46**	**15**	**61**	31	14	45
Total	**235**	**291**	**526**	220	312	532

[1] This category is mainly comprised of low-cost equity index funds not actively managed that track the S & P 500, S & P 400, Russell 2000, the MSCI Emerging Markets Index and the Morgan Stanley International EAFE Index.
[2] This category is primarily comprised of fixed income investments by the U.S. government and government sponsored entities.
[3] This category primarily represents investment grade bonds of U.S. issuers from diverse industries.
[4] This category is mainly comprised of private placement bonds as well as collateralized mortgage obligations as well as cash and funds that invest in treasury obligations directly or in treasury backed obligations.
[5] This category mainly represents cash, money market funds as well as mutual funds comprised of high grade corporate bonds.

The methods and inputs used to measure the fair value of plan assets are as follows:

Index funds are valued based on market quotes.

Other equity investments are valued at their market prices as of the date of the statement of financial position.

Government bonds are valued based on both market prices (Level 1) and market quotes (Level 2).

Corporate bonds and other bonds are valued based on market quotes as of the date of the statement of financial position.

Cash is stated at nominal value which equals the fair value.

U.S. Treasury money market funds as well as other money market and mutual funds are valued at their market prices.

Plan investment policy and strategy in the United States

The Fresenius Group periodically reviews the assumptions for long-term expected return on pension plan assets. As part of the assumptions review, a range of reasonable expected investment returns for the pension plan as a whole was determined based on an analysis of expected future returns for each asset class weighted by the allocation of the assets. The range of returns developed relies both on forecasts, which include the actuarial firm's expected long-term rates of return for each significant asset class or economic indicator, and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class.

The overall investment strategy for the U.S. pension plan is to achieve a mix of approximately 98% of investments for long-term growth and income and 2% in cash or cash equivalents. Investment income and cash or cash equivalents are used for near-term benefit payments. Investments are governed by the plan investment policy and include well diversified index funds or funds targeting index performance.

The plan investment policy, utilizing a revised target investment allocation in a range around 30% equity and 70% long-term U.S. corporate bonds considers that there will be a time horizon for invested funds of more than five years. The total portfolio will be measured against a custom index that reflects the asset class benchmarks and the target asset allocation. The plan investment policy does not allow investments in securities of Fresenius Medical Care AG & Co. KGaA or other related party securities. The performance benchmarks for the separate asset classes include: S & P 500 Index, S & P 400 Mid Cap Index, Russell 2000 Index, MSCI EAFE Index, MSCI Emerging Markets Index and Barclays Capital Long-Corporate Bond Index.

The following schedule describes Fresenius Group's allocation for its funded plans.

in %	**Allocation 2017**	Allocation 2016	Target allocation
Equity investments	**27.31**	27.91	29.15
Fixed income investments	**60.97**	63.61	61.42
Other incl. real estate	**11.72**	8.48	9.43
Total	**100.00**	100.00	100.00

Contributions to plan assets for the fiscal year 2018 are expected to amount to €13 million.

DEFINED CONTRIBUTION PLANS

Fresenius Group's total expense under defined contribution plans for 2017 was €146 million (2016: €139 million). Of this amount, €90 million related to contributions by the Fresenius Group to several public supplementary pension funds for employees of Fresenius Helios. Further €49 million related to contributions to the U.S. savings plan, which employees of Fresenius Medical Care Holdings, Inc. can join.

Following applicable collective bargaining agreements, the Fresenius Group pays contributions for a given number of employees of Fresenius Helios to the Rheinische Zusatzversorgungskasse (a supplementary pension fund) and to other public supplementary pension funds (together referred to as ZVK ÖD) to complement statutory retirement pensions. Given that employees from multiple participating entities are insured by these ZVK ÖDs, these plans are Multi-Employer plans.

ZVK ÖDs are defined benefit plans according to IAS 19 since employees are entitled to the statutory benefits regardless of the amounts contributed. The plan assets of the fund necessary to evaluate and calculate the funded status of the Group cannot be obtained from the supplementary pension funds. The calculation of a pension liability according to IAS 19 is not possible due to missing information about future payment obligations. Therefore, the obligation is accounted for as defined contribution plan according to IAS 19.34a.

The plan operates on a pay-as-you-earn system based on applying a collection rate to given parts of gross remuneration.

Paid contributions are accounted for as personnel expenses within cost of sales, selling expenses as well as general and administrative expenses and amounted to €90 million in 2017 (2016: €87 million). Thereof, €48 million (2016: €47 million) were payments to Rheinische Zusatzversorgungskasse, to Versorgungsanstalt des Bundes und der Länder and to Zusatzversorgungskasse Wiesbaden (supplementary pension funds). The Group expects to contribute €93 million in 2018.

Under the U.S. savings plan, employees can deposit up to 75% of their pay up to an annual maximum of US$18,000 if under 50 years old (US$24,000 if 50 or over). Fresenius Medical Care will match 50% of the employee deposit up to a maximum company contribution of 3% of the employee's pay. Fresenius Medical Care's total expense under this defined contribution plan for the years ended December 31, 2017 and 2016 was €49 million and €44 million, respectively.

26. NONCONTROLLING INTEREST

As of December 31, noncontrolling interest in the Fresenius Group was as follows:

€ in millions	2017	2016
Noncontrolling interest in Fresenius Medical Care AG & Co. KGaA	**6,796**	6,903
Noncontrolling interest in VAMED AG	**66**	55
Noncontrolling interest in the business segments		
Fresenius Medical Care	**1,008**	1,073
Fresenius Kabi	**89**	90
Fresenius Helios	**92**	57
Fresenius Vamed	**8**	7
Total noncontrolling interest	**8,059**	8,185

For further financial information relating to Fresenius Medical Care see the consolidated segment reporting on pages 136 to 137.

Noncontrolling interest changed as follows:

€ in millions	2017
Noncontrolling interest as of January 1, 2017	**8,185**
Noncontrolling interest in profit	1,219
Stock options	41
Purchase of noncontrolling interest	77
Dividend payments	-582
Currency effects and other changes	-881
Noncontrolling interest as of December 31, 2017	**8,059**

27. FRESENIUS SE & CO. KGAA SHAREHOLDERS' EQUITY

SUBSCRIBED CAPITAL

Development of subscribed capital

As of January 1, 2017, the subscribed capital of Fresenius SE & Co. KGaA consisted of 547,208,371 bearer ordinary shares.

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

During the fiscal year 2017, 1,393,926 stock options were exercised. Consequently, as of December 31, 2017, the subscribed capital of Fresenius SE & Co. KGaA consisted of 554,710,473 bearer ordinary shares. The shares are issued as non-par value shares. The proportionate amount of the subscribed capital is €1.00 per share.

AUTHORIZED CAPITAL

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

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

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

of Fresenius SE & Co. KGaA has to be taken into consideration during the duration of the Authorized Capital until its utilization.

CONDITIONAL CAPITAL

The following Conditional Capitals exist in order to fulfill the subscription rights under the stock option plans of Fresenius SE & Co. KGaA: Conditional Capital I (Stock Option Plan 2003), Conditional Capital II (Stock Option Plan 2008) and Conditional Capital IV (Stock Option Plan 2013) (see note 34, Share-based compensation plans).

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

The following table shows the development of the Conditional Capital:

in €	Ordinary shares
Conditional Capital I Fresenius AG Stock Option Plan 2003	5,017,585
Conditional Capital II Fresenius SE Stock Option Plan 2008	5,980,888
Conditional Capital III option bearer bonds and/or convertible bonds	48,971,202
Conditional Capital IV Fresenius SE & Co. KGaA Stock Option Plan 2013	25,200,000
Total Conditional Capital as of January 1, 2017	**85,169,675**
Fresenius AG Stock Option Plan 2003 – options exercised	-282,502
Fresenius SE Stock Option Plan 2008 – options exercised	-839,624
Fresenius SE & Co. KGaA Stock Option Plan 2013 – options exercised	-271,800
Total Conditional Capital as of December 31, 2017	**83,775,749**

As of December 31, 2017, the Conditional Capital was composed as follows:

in €	Ordinary shares
Conditional Capital I Fresenius AG Stock Option Plan 2003	4,735,083
Conditional Capital II Fresenius SE Stock Option Plan 2008	5,141,264
Conditional Capital III option bearer bonds and/or convertible bonds	48,971,202
Conditional Capital IV Fresenius SE & Co. KGaA Stock Option Plan 2013	24,928,200
Total Conditional Capital as of December 31, 2017	**83,775,749**

CAPITAL RESERVES

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

OTHER RESERVES

Other reserves are comprised of earnings generated by Group entities in prior years to the extent that they have not been distributed.

DIVIDENDS

Under the German Stock Corporation Act (AktG), the amount of dividends available for distribution to shareholders is based upon the unconsolidated retained earnings of Fresenius SE & Co. KGaA as reported in its statement of financial position determined in accordance with the German Commercial Code (HGB).

In May 2017, a dividend of €0.62 per bearer ordinary share was approved by Fresenius SE & Co. KGaA's shareholders at the Annual General Meeting and paid. The total dividend payment was €343 million.

TREASURY STOCK OF FRESENIUS MEDICAL CARE

In 2017, Fresenius Medical Care repurchased 660,000 ordinary shares for an amount of €58 million.

28. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) is comprised of all amounts recognized directly in equity (net of tax) resulting from the currency translation of foreign subsidiaries' financial statements and the effects of measuring financial instruments at their fair value as well as the change in benefit obligation.

Changes in the components of other comprehensive income (loss) in 2017 and 2016 were as follows:

€ in millions	Amount before taxes	Tax effect	Amount after taxes
Positions which will be reclassified into net income in subsequent years			
Cash flow hedges	23	-9	14
Change in unrealized gains/losses	-16	2	-14
Realized gains/losses due to reclassifications	39	-11	28
Change of fair value of available for sale financial assets	–	–	–
Foreign currency translation	522	-8	514
Positions which will not be reclassified into net income in subsequent years			
Actuarial gains/losses on defined benefit pension plans	-112	28	-84
Total changes 2016	433	11	444
Positions which will be reclassified into net income in subsequent years			
Cash flow hedges	44	-11	33
Change in unrealized gains/losses	6	-1	5
Realized gains/losses due to reclassifications	38	-10	28
Change of fair value of available for sale financial assets	–	–	–
Foreign currency translation	-1,965	26	-1,939
Positions which will not be reclassified into net income in subsequent years			
Actuarial gains/losses on defined benefit pension plans	43	-35	8
Total changes 2017	**-1,878**	**-20**	**-1,898**

Changes in accumulated other comprehensive income (loss) net of tax by component in 2017 and 2016 were as follows:

€ in millions	Cash flow hedges	Change of fair value of available for sale financial assets	Foreign currency translation	Actuarial gains/losses on defined benefit pension plans	Total, before non-controlling interest	Non-controlling interest	Total, after non-controlling interest
Balance as of December 31, 2015	-82	1	659	-244	334	638	972
Other comprehensive income (loss) before reclassifications	-12	–	300	-64	224	192	416
Amounts reclassified from accumulated other comprehensive income (loss)	15	0	–	0	15	13	28
Other comprehensive income (loss), net	3	–	300	-64	239	205	444
Balance as of December 31, 2016	-79	1	959	-308	573	843	1,416
Other comprehensive income (loss) before reclassifications	4	–	-1,013	23	-986	-940	-1,926
Amounts reclassified from accumulated other comprehensive income (loss)	15	0	–	0	15	13	28
Other comprehensive income (loss), net	19	–	-1,013	23	-971	-927	-1,898
Balance as of December 31, 2017	**-60**	**1**	**-54**	**-285**	**-398**	**-84**	**-482**

OTHER NOTES

29. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES AND RENTAL PAYMENTS

Fresenius Group's subsidiaries lease hospitals, office and manufacturing buildings as well as machinery and equipment under various lease agreements expiring on dates through 2101. Rental expense recorded for operating leases for the years ended December 31, 2017 and 2016 was €1,043 million and €899 million, respectively.

Future minimum rental payments under non-cancellable operating leases for the years subsequent to December 31, 2017 are:

for the fiscal years	€ in millions
2018	871
2019	788
2020	684
2021	592
2022	508
Thereafter	2,082
Total	**5,525**

As of December 31, 2017, future investment commitments existed up to the year 2022 from the acquisition contracts for hospitals at projected costs of up to €290 million. Thereof €55 million relate to the year 2018.

Besides the above mentioned contingent liabilities, the current estimated amount of Fresenius Group's other known individual contingent liabilities is immaterial.

LEGAL AND REGULATORY MATTERS

The Fresenius Group is routinely involved in claims, lawsuits, regulatory and tax audits, investigations and other legal matters arising, for the most part, in the ordinary course of its business of providing health care services and products. Legal matters that the Fresenius Group currently deems to be material or noteworthy are described below. For the matters described below in which the Fresenius Group believes a loss is both reasonably possible and estimable, an estimate of the loss or range of loss exposure is provided. For the other matters described below, the Fresenius Group believes that the loss probability is remote and/or the loss or range of possible losses cannot be reasonably estimated at this time. The outcome of litigation and other legal matters is always difficult to predict accurately and outcomes that are not consistent with the Fresenius Group's view of the merits can occur. The Fresenius Group believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that the resolution of one or more of the legal matters currently pending or threatened could have a material adverse effect on its business, results of operations and financial condition.

Fresenius Medical Care Holdings – Qui tam complaint (Massachusetts)

On February 15, 2011, a whistleblower (relator) action under the False Claims Act against Fresenius Medical Care Holdings, Inc. (FMCH) was unsealed by order of the United States District Court for the District of Massachusetts and served by the relator. United States ex rel. Chris Drennen v. Fresenius Medical Care Holdings, Inc., 2009 Civ. 10179 (D. Mass.). The relator's complaint, which was first filed under seal in February 2009, alleged that Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) sought and received reimbursement from government payors for serum ferritin and multiple forms of hepatitis B laboratory tests that were medically unnecessary or not properly ordered by a physician. Discovery on the relator's complaint closed in May 2015. Although the United States initially declined to intervene in the case, the government subsequently changed position. On April 3, 2017, the court allowed the government to intervene with respect only to certain hepatitis B surface antigen tests performed prior to 2011, when Medicare reimbursement rules for such tests changed. The court rejected the government's request to conduct new discovery, but is allowing FMCH to take discovery against the government as if the government had intervened at the outset.

Internal review

Beginning in 2012, FMC-AG & Co. KGaA received certain communications alleging conduct in countries outside the U.S. that might violate the U.S. Foreign Corrupt Practices Act (FCPA) or other anti-bribery laws. Since that time, FMC-AG & Co. KGaA's Supervisory Board, through its Audit and Corporate Governance Committee, has conducted investigations with the assistance of independent counsel. In a continuing dialogue, FMC-AG & Co. KGaA voluntarily advised the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) about these investigations, while the SEC and DOJ (collectively the government or government agencies) have conducted their own investigations, in which FMC-AG & Co. KGaA has cooperated.

In the course of this dialogue, FMC-AG & Co. KGaA has identified and reported to the government, and has taken remedial actions including employee disciplinary actions with respect to, conduct that might result in the government agencies' seeking monetary penalties or other sanctions against FMC-AG & Co. KGaA under the FCPA or other anti-bribery laws and impact adversely FMC-AG & Co. KGaA's ability to conduct business in certain jurisdictions. FMC-AG & Co. KGaA has recorded in prior periods a non-material accrual for certain adverse impacts that were identified.

FMC-AG & Co. KGaA has substantially concluded its investigations and undertaken discussions toward a possible settlement with the government agencies that would avoid litigation over government demands related to certain identified conduct. These discussions are continuing and have not yet achieved an agreement-in-principle; failure to reach agreement and consequent litigation with either or both government agencies remains possible. The discussions have revolved around possible bribery and corruption questions principally related to certain conduct in FMC-AG & Co. KGaA's products business in a number of countries.

FMC-AG & Co. KGaA has recorded a charge of €200 million in the accompanying consolidated financial statements. The charge is based on ongoing settlement negotiations that would avoid litigation between FMC-AG & Co. KGaA and the government agencies and represents an estimate from a range of potential outcomes estimated from current discussions. The charge encompasses government agencies claims for profit disgorgement, as well as accruals for fines or penalties, certain legal expenses and other related costs or asset impairments.

FMC-AG & Co. KGaA continues to implement enhancements to its anti-corruption compliance program, including internal controls related to compliance with international anti-bribery laws. FMC-AG & Co. KGaA continues to be fully committed to FCPA and other anti-bribery law compliance.

Product liability litigation

On April 5, 2013, the U.S. Judicial Panel on Multidistrict Litigation ordered that the numerous lawsuits pending in various federal courts alleging wrongful death and personal injury claims against Fresenius Medical Care Holdings, Inc. (FMCH) and certain of its affiliates relating to FMCH's acid concentrate products NaturaLyte® and GranuFlo® be transferred and consolidated for pretrial management purposes into a consolidated multidistrict litigation in the United States District Court for the District of Massachusetts. In Re: Fresenius GranuFlo/NaturaLyte Dialysate Products Liability Litigation, Case No. 2013-md-02428. The Massachusetts state courts and the St. Louis City (Missouri) court subsequently established similar consolidated litigation for their cases. In Re: Consolidated Fresenius Cases, Case No. MICV 2013-03400-O (Massachusetts Superior Court, Middlesex County). Similar cases were filed in other state courts. The lawsuits alleged generally that inadequate labeling and warnings for these products caused harm to patients. On February 17, 2016, FMC-AG & Co. KGaA reached with a committee of plaintiffs' counsel and reported to the courts an agreement in principle for settlement of potentially all cases. The agreement in principle called for FMC-AG & Co. KGaA to pay US$250 million into a settlement

fund in exchange for releases of substantially all the plaintiffs' claims, subject to FMC-AG & Co. KGaA's right to void the settlement under certain conditions.

On November 28, 2017, after the plaintiff committee and FMC-AG & Co. KGaA determined that the condition of settlement related to minimum participation had been satisfied, FMC-AG & Co. KGaA and its insurers funded and consummated the settlement on or about this date. FMC-AG & Co. KGaA understands that fewer than fifty (50) plaintiffs with cases pending in the U.S. District Court for Massachusetts (Boston); Los Angeles, California county court; or Birmingham, Alabama county court declined to participate in the settlement and intend to continue litigation. These remaining cases represent less than 0.5% of the total cases filed. In some instances, the non-participating plaintiffs' counsel have moved to withdraw and no substitute counsel has been engaged.

FMC-AG & Co. KGaA's affected insurers funded US$220 million of the settlement fund, with a reservation of rights regarding certain coverage issues between and among FMC-AG & Co. KGaA and its insurers. FMC-AG & Co. KGaA accrued a net expense of US$60 million for consummation of the settlement, including legal fees and other anticipated costs.

Following entry of the agreement in principle, FMC-AG & Co. KGaA's insurers in the AIG group and FMC-AG & Co. KGaA each initiated litigation against the other, in New York and Massachusetts state courts, respectively, relating to the AIG group's coverage obligations under applicable policies. In the coverage litigation, the AIG group seeks to be indemnified by FMC-AG & Co. KGaA for a portion of its US$220 million outlay; FMC-AG & Co. KGaA seeks to confirm the AIG group's US$220 million funding obligation, to recover defense costs already incurred by FMC-AG & Co. KGaA, and to compel the AIG group to honor defense and indemnification obligations, if any, required for resolution of cases not participating in the settlement.

Certain of the complaints in the GranuFlo®/NaturaLyte® litigation named combinations of Fresenius Medical Care AG & Co. KGaA, Fresenius Medical Care Management AG, Fresenius SE and Fresenius Management SE as defendants, in addition to FMCH and its domestic United States affiliates. Plaintiffs participating in the settlement dismissed and released their claims encompassing the European defendants.

Four institutional plaintiffs filed complaints against FMCH or its affiliates under state deceptive practices statutes resting on certain background allegations common to the GranuFlo®/NaturaLyte® personal injury litigation, but seeking as remedy the repayment of sums paid to FMCH attributable to the GranuFlo®/NaturaLyte® products. These cases implicate different legal standards, theories of liability and forms of potential recovery from those in the personal injury litigation and their claims were not extinguished by the personal injury litigation settlement described above. The four plaintiffs are the Attorneys General for the States of Kentucky, Louisiana and Mississippi and the commercial insurance company Blue Cross Blue Shield of Louisiana in its private capacity. State of Mississippi ex rel. Hood, v. Fresenius Medical Care Holdings, Inc., No. 14-cv-152 (Chancery Court, DeSoto County); State of Louisiana ex re. Caldwell and Louisiana Health Service & Indemnity Company v. Fresenius Medical Care Airline, 2016 Civ. 11035 (U.S.D.C. D. Mass.); Commonwealth of Kentucky ex rel. Beshear v. Fresenius Medical Care Holdings, Inc. et al., No. 16-CI-00946 (Circuit Court, Franklin County).

Subpoena "Maryland"

In August 2014, Fresenius Medical Care Holdings, Inc. (FMCH) received a subpoena from the United States Attorney for the District of Maryland inquiring into FMCH's contractual arrangements with hospitals and physicians, involving contracts relating to the management of in-patient acute dialysis services. FMCH is cooperating in the investigation.

Civil complaint "Hawaii"

In July 2015, the Attorney General for Hawaii issued a civil complaint under the Hawaii False Claims Act alleging a conspiracy pursuant to which certain Liberty Dialysis subsidiaries of Fresenius Medical Care Holdings, Inc. (FMCH) overbilled Hawaii Medicaid for Liberty's Epogen® administrations to Hawaii Medicaid patients during the period from 2006 through 2010, prior to the time of FMCH's acquisition of Liberty. Hawaii v. Liberty Dialysis – Hawaii, LLC et al., Case No. 15-1-1357-07 (Hawaii 1st Circuit). The State alleges that Liberty acted unlawfully by relying on incorrect and unauthorized billing guidance provided to Liberty by Xerox State Healthcare, LLC, which acted as Hawaii's contracted administrator for its Medicaid program reimbursement operations during the relevant period. The amount of the overpayment claimed by the State is approximately US$8 million, but the State seeks civil remedies, interest, fines, and penalties against Liberty and FMCH under the Hawaii False Claims Act substantially in excess of the overpayment. FMCH filed third-party claims for contribution and indemnification against Xerox. The State's False Claims Act complaint was filed after Liberty initiated an administrative action challenging the State's recoupment of alleged overpayments from sums currently owed to Liberty. The civil litigation and administrative action are proceeding in parallel. Trial in the civil litigation is scheduled for April 2019.

Subpoenas "Colorado, New York and Tennessee"

On August 31 and November 25, 2015, respectively, Fresenius Medical Care Holdings, Inc. (FMCH) received subpoenas under the False Claims Act from the United States Attorneys for the District of Colorado and the Eastern District of New York inquiring into FMCH's participation in and management of dialysis facility joint ventures in which physicians are partners. On March 20, 2017, FMCH received a subpoena in the Western District of Tennessee inquiring into certain of the operations of dialysis facility joint ventures with the University of Tennessee Medical Group, including joint ventures in which FMCH's interests were divested to Satellite Dialysis in connection with FMCH's acquisition of Liberty Dialysis in 2012. FMCH is cooperating in these investigations.

Subpoena "Fresenius Vascular Care"

On October 6, 2015, the Office of Inspector General of the United States Department of Health and Human Services (OIG) issued a subpoena under the False Claims Act to FMC-AG & Co. KGaA seeking information about utilization and invoicing by Fresenius Vascular Care, now known as Azura Vascular Care, facilities as a whole for a period beginning after FMC-AG & Co. KGaA's acquisition of American Access Care, LLC (AAC) in October 2011. On August 24, 2017, an additional and more detailed subpoena on the same topics was issued by the United States Attorney for the Eastern District of New York (Brooklyn), which has managed the Azura investigation from its outset. FMC-AG & Co. KGaA is cooperating in the government's inquiry. Allegations against AAC arising in districts in Connecticut, Florida and Rhode Island relating to utilization and invoicing were settled in 2015.

Subpoena "Texas (Dallas)"

On June 30, 2016, Fresenius Medical Care Holdings, Inc. (FMCH) received a subpoena from the United States Attorney for the Northern District of Texas (Dallas) seeking information under the False Claims Act about the use and management of pharmaceuticals including Velphoro® as well as FMCH's interactions with DaVita Healthcare Partners, Inc. The investigation encompasses DaVita, Amgen, Sanofi, and other pharmaceutical manufacturers and includes inquiries into whether certain compensation transfers between manufacturers and pharmacy vendors constituted unlawful kickbacks. FMC-AG & Co. KGaA understands that this investigation is substantively independent of the US$63.7 million

settlement by Davita Rx announced on December 14, 2017 in the matter styled United States ex rel. Gallian v. DaVita Rx, 2016 Civ. 0943 (N.D. Tex.). FMCH is cooperating in the investigation.

Subpoena "New York"

On November 18, 2016, Fresenius Medical Care Holdings, Inc. (FMCH) received a subpoena under the False Claims Act from the United States Attorney for the Eastern District of New York (Brooklyn) seeking documents and information relating to the operations of Shiel Medical Laboratory, Inc., which FMCH acquired in October 2013. In the course of cooperating in the investigation and preparing to respond to the subpoena, FMCH identified falsifications and misrepresentations in documents submitted by a Shiel salesperson that relate to the integrity of certain invoices submitted by Shiel for laboratory testing for patients in long term care facilities. On February 21, 2017, FMCH terminated the employee and notified the United States Attorney of the termination and its circumstances. The terminated employee's conduct may subject FMC-AG & Co. KGaA to liability for overpayments and penalties under applicable laws.

On December 12, 2017, FMC-AG & Co. KGaA sold to Quest Diagnostics certain Shiel operations that are the subject of this Brooklyn subpoena, including the misconduct reported to the United States Attorney. Under the sale agreement, FMC-AG & Co. KGaA retains responsibility for the Brooklyn investigation and its outcome. FMC-AG & Co. KGaA continues to cooperate in the ongoing investigation.

Subpoena "American Kidney Fund" / CMS Litigation

On December 14, 2016, the Center for Medicare & Medicaid Services (CMS), which administers the federal Medicare program, published an Interim Final Rule (IFR) titled "Medicare Program; Conditions for Coverage for End-Stage Renal Disease Facilities-Third Party Payment." The IFR would have amended the Conditions for Coverage for dialysis providers, like Fresenius Medical Care Holdings, Inc. (FMCH) and would have effectively enabled insurers to reject premium payments made by or on behalf of patients who received grants for individual market coverage from the American Kidney Fund (AKF or the Fund). The IFR could thus have resulted in those patients losing individual insurance market coverage. The loss of coverage for these patients would have had a material and adverse impact on the operating results of FMCH.

On January 25, 2017, a federal district court in Texas responsible for litigation initiated by a patient advocacy group and dialysis providers including FMCH preliminarily enjoined CMS from implementing the IFR. Dialysis Patient Citizens v. Burwell, 2017 Civ. 0016 (E.D. Texas, Sherman Div.). The preliminary injunction was based on CMS' failure to follow appropriate notice-and-comment procedures in adopting the IFR. The injunction remains in place and the court retains jurisdiction over the dispute.

On June 22, 2017, CMS requested a stay of proceedings in the litigation pending further rulemaking concerning the IFR. CMS stated, in support of its request, that it expects to publish a Notice of Proposed Rulemaking in the Federal Register and otherwise pursue a notice-and-comment process. Plaintiffs in the litigation, including FMCH, consented to the stay, which was granted by the court on June 27, 2017.

The operation of charitable assistance programs like that of the AKF is also receiving increased attention by state insurance regulators. The result may be a regulatory framework that differs from state to state. Even in the absence of the IFR or similar administrative actions, insurers are likely to continue efforts to thwart charitable premium assistance to our patients for individual market plans and other insurance coverages. If successful, these efforts would have a material adverse impact on FMC-AG & Co. KGaA's operating results.

On January 3, 2017, FMC-AG & Co. KGaA received a subpoena from the United States Attorney for the District of Massachusetts under the False Claims Act inquiring into FMC-AG & Co. KGaA's interactions and relationships with the AKF, including FMC-AG & Co. KGaA's charitable contributions to the Fund and the Fund's financial assistance to patients for insurance premiums. FMCH is cooperating in the investigation, which FMC-AG & Co. KGaA understands to be part of a broader investigation into charitable contributions in the medical industry.

In early May 2017, the United States Attorney for the Middle District of Tennessee (Nashville) issued identical subpoenas to FMCH and two subsidiaries under the False Claims Act concerning FMC-AG & Co. KGaA's retail pharmaceutical business. The investigation is exploring allegations related to improper inducements to dialysis patients to fill oral prescriptions through FMCH's pharmacy service, improper billing for returned pharmacy products and other allegations similar to those underlying the US$63.7 million settlement by DaVita Rx in Texas announced on December 14, 2017. United States ex rel. Gallian, 2016 Civ. 0943 (N.D. Tex.). FMCH is cooperating in the investigation.

Subpoena "New York (Brooklyn)"

In 2011, Fresenius Medical Care Holdings, Inc. (FMCH) received a subpoena from the United States Attorney for the Eastern District of New York (Brooklyn) requesting information under the False Claims Act concerning an assay manufactured by Bayer Diagnostics. Bayer Diagnostics was later acquired by Siemens. The assay is used to test for the serum content of parathyroid hormone (PTH). The assay has been widely used by FMCH and others in the dialysis industry for assessment of bone mineral metabolism disorder, a common consequence of kidney failure. FMCH responded fully and cooperatively to the subpoena, but concluded that it was not the focus or target of the U.S. Attorney's investigation. On March 16, 2017, the U.S. Attorney elected not to intervene on a sealed relator (whistleblower) complaint first filed in January 2011 that underlay the investigation. After the U.S. Attorney declined intervention, the United States District Court for the Eastern District unsealed the complaint and ordered the relator to serve and otherwise proceed on his own. On August 14, 2017, FMCH was dismissed with prejudice from the litigation on relator's motion. The litigation continued against other defendants Patriarca v. Bayer Diagnostics n/k/a Siemens et alia, 2011 Civ. 00181 (E.D.N.Y.).

Subpoena "California"

FMC-AG & Co. KGaA received a subpoena dated December 11, 2017 from the United States Attorney for the Eastern District of California (Sacramento) requesting information under the False Claims Act concerning Spectra Laboratories, FMC-AG & Co. KGaA's affiliate engaged in laboratory testing for dialysis patients. The inquiry relates to allegations that certain services or materials provided by Spectra to its outpatient dialysis facility customers constitute unlawful kickbacks. FMC-AG & Co. KGaA understands that the allegations originate with an industry competitor and is cooperating in the investigation.

Subpoena "Nevada"

In November 2014, Fresenius Kabi Oncology Limited (FKOL) received a subpoena from the U.S. Department of Justice (DOJ), U.S. Attorney for the District of Nevada. The subpoena requests documents in connection with the January 2013 inspection by the U.S. Food and Drug Administration (FDA) of FKOL's plant for active pharmaceutical ingredients in Kalyani, India. That inspection resulted in a warning letter from the FDA in July 2013. The subpoena marks the DOJ's criminal and/or civil investigation in this connection and seeks information from throughout the Fresenius Kabi group. Through an ancillary subpoena of January 2016, the DOJ has requested

additional historic information and data. Through further ancillary subpoenas of June 2016 and November 2016, the DOJ has requested further information from Fresenius Kabi USA and Fresenius Kabi AG without changing the focus of the investigation. Fresenius Kabi fully cooperates with the governmental investigation. Fresenius Kabi has entered into a Tolling Agreement with the DOJ, thereby waiving its statute of limitation defense until July 2018.

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

The Fresenius Group, like other health care providers, insurance plans and suppliers, conducts its operations under intense government regulation and scrutiny. It must comply with regulations which relate to or govern the safety and efficacy of medical products and supplies, the marketing and distribution of such products, the operation of manufacturing facilities, laboratories, dialysis clinics and other health care facilities, and environmental and occupational health and safety. With respect to its development, manufacture, marketing and distribution of medical products, if such compliance is not maintained, the Fresenius Group could be subject to significant adverse regulatory actions by the U.S. Food and Drug Administration (FDA) and comparable regulatory authorities outside the U.S. These regulatory actions could include warning letters or other enforcement notices from the FDA, and/or comparable foreign regulatory authority which may require the Fresenius Group to expend significant time and resources in order to implement appropriate corrective actions. If the Fresenius Group does not address matters raised in warning letters or other enforcement notices to the satisfaction of the FDA and/or comparable regulatory authorities outside the U.S., these regulatory authorities could take additional actions, including product recalls, injunctions against the distribution of products or operation of manufacturing plants, civil penalties, seizures of the Fresenius Group's products and/or criminal prosecution. Fresenius Medical Care Holdings, Inc. is currently engaged in remediation efforts with respect to one pending FDA warning letter, Fresenius Kabi with respect to three pending FDA warning letters. The Fresenius Group must also comply with the laws of the United States, including the federal Anti-Kickback Statute, the federal False Claims Act, the federal Stark Law, the federal Civil Monetary Penalties Law and the federal Foreign Corrupt Practices Act as well as other federal and state fraud and abuse laws. Applicable laws or regulations may be amended, or enforcement agencies or courts may make interpretations that differ from the Fresenius Group's interpretations or the manner in which it conducts its business. Enforcement has become a high priority for the federal government and some states. In addition, the provisions of the False Claims Act authorizing payment of a portion of any recovery to the party bringing the suit encourage private plaintiffs to commence whistleblower actions. By virtue of this regulatory environment, the Fresenius Group's business activities and practices are subject to extensive review by regulatory authorities and private parties, and continuing audits, subpoenas, other inquiries, claims and litigation relating to the Fresenius Group's compliance with applicable laws and regulations. The Fresenius Group may not always be aware that an inquiry or action has begun, particularly in the case of whistleblower actions, which are initially filed under court seal.

The Fresenius Group operates many facilities and handles the personal data (PD) of its patients and beneficiaries throughout the United States and other parts of the world, and engages with other business associates to help it carry out its health care activities. In such a decentralized system, it is often difficult to maintain the desired level of oversight and control over the thousands of individuals employed by many affiliated companies and its business associates. On occasion, the Fresenius Group or its business associates may experience a breach under the Health Insurance Portability and Accountability Act Privacy Rule and Security Rules, the EU's General Data Protection Regulation and/or other similar laws (Data Protection Laws) when there has been impermissible use, access, or disclosure of unsecured PD or when the Fresenius Group or its business associates neglect to implement the required administrative, technical and physical safeguards of its electronic systems and devices, or a data breach that results in impermissible use, access or disclosure of personal identifying information of its employees, patients and beneficiaries. On those occasions, the Fresenius Group must comply with applicable breach notification requirements. The Fresenius Group relies upon its management structure, regulatory and legal resources, and the effective operation of its compliance program to direct, manage and monitor the activities of its employees. On occasion, the Fresenius Group may identify instances where employees or other agents deliberately, recklessly or inadvertently contravene the Fresenius Group's policies or violate applicable law. The actions of such persons may subject the Fresenius Group and its subsidiaries to liability under the Anti-Kickback Statute, the Stark Law, the False Claims Act, Data Protection Laws, the Health Information Technology for Economic and Clinical Health Act and the Foreign Corrupt Practices Act, among other laws and comparable state laws or laws of other countries.

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

The Fresenius Group has also had claims asserted against it and has had lawsuits filed against it relating to alleged patent infringements or businesses that it has acquired or divested. These claims and suits relate both to operation of the businesses and to the acquisition and divestiture transactions. The Fresenius Group has, when appropriate, asserted its own claims, and claims for indemnification. A successful claim against the Fresenius Group or any of its subsidiaries could have a material adverse effect upon its business, financial condition, and the results of its operations. Any claims, regardless of their merit or eventual outcome, could have a material adverse effect on the Fresenius Group's reputation and business.

30. FINANCIAL INSTRUMENTS

The relationship between classes and categories as well as the reconciliation to the statement of financial position line items is shown in the following table:

Classes	Categories: Loans and receivables	Financial liabilities measured at amortized cost	Financial liabilities/assets measured at fair value in the consolidated statement of income	Available for sale financial assets	Relating to no category
Cash and cash equivalents					▸ Cash and cash equivalents
Assets recognized at carrying amount	▸ Trade accounts receivable (incl. receivables from and loans to related parties) ▸ Other current and non-current financial assets				▸ Other current and non-current financial assets
Assets recognized at fair value				▸ Securities	
Liabilities recognized at carrying amount		▸ Trade accounts payable ▸ Short-term accounts payable to related parties ▸ Short-term debt (incl. short-term loans from related parties) ▸ Long-term debt excluding capital lease obligations ▸ Bonds ▸ Convertible bonds ▸ Other short-term and long-term financial liabilities			▸ Long-term capital lease obligations
Liabilities recognized at fair value			▸ Other short-term and long-term financial liabilities		
Noncontrolling interest subject to put provisions recognized at fair value					▸ Other short-term and long-term financial liabilities
Derivatives for hedging purposes			▸ Other current and non-current financial assets ▸ Other short-term and long-term financial liabilities		▸ Other current and non-current financial assets ▸ Other short-term and long-term financial liabilities

VALUATION OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments at December 31, classified into categories according to IAS 39, were as follows:

€ in millions	2017	2016
Loans and receivables	**6,913**	5,618
Financial liabilities measured at amortized cost	**23,503**	18,639
Assets measured at fair value in the consolidated statement of income[1]	**321**	389
Liabilities measured at fair value in the consolidated statement of income[1]	**1,118**	609
Available for sale financial assets	**19**	256
Relating to no category	**690**	525

[1] There are no financial instruments designated as at fair value through profit or loss upon initial recognition according to IAS 39.

The following table presents the carrying amounts and fair values as well as the fair value hierarchy levels of Fresenius Group's financial instruments as of December 31, classified into classes:

		2017		2016	
€ in millions	Fair value hierarchy level	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	1	**1,636**	**1,636**	1,579	1,579
Assets recognized at carrying amount	2	**7,050**	**7,050**	5,746	5,746
Assets recognized at fair value	1	**19**	**19**	256	256
Liabilities recognized at carrying amount	2	**23,737**	**24,822**	18,785	19,765
Liabilities recognized at fair value	3	**1,101**	**1,101**	586	586
Noncontrolling interest subject to put provisions recognized at fair value	3	**854**	**854**	1,029	1,029
Derivatives for hedging purposes	2	**309**	**309**	359	359

The significant methods and assumptions used to estimate the fair values of financial instruments as well as classification of fair value measurements according to the three-tier fair value hierarchy are as follows:

Cash and cash equivalents are stated at nominal value, which equals the fair value.

The nominal value of the predominant part of short-term financial instruments such as trade accounts receivable and payable, other current financial assets, other short-term financial liabilities and short-term debt represents its carrying amount, which is a reasonable estimate of the fair value due to the relatively short period to maturity for these instruments.

The fair values of major long-term financial instruments are calculated on the basis of market information. Financial instruments for which market quotes are available are measured with the market quotes at the reporting date. The fair values of the other long-term financial liabilities are calculated at the present value of respective future cash flows. To determine these present values, the prevailing interest rates and credit spreads for the Fresenius Group as of the date of the statement of financial position are used.

The class assets recognized at carrying amount is classified as hierarchy Level 2.

The class assets recognized at fair value was mainly comprised of securities. The fair values of these assets are calculated on the basis of market information. The fair value of available for sale financial assets quoted in an active market is based on price quotations at the period-end date (Level 1). Therefore, this class is classified as Level 1.

The class liabilities recognized at carrying amount is classified as hierarchy Level 2.

The derivatives embedded in the convertible bonds are included in the class liabilities recognized at fair value. The fair value of the embedded derivatives is calculated using the difference between the market value of the convertible bonds and the market value of an adequate straight bond discounted with the market interest rates as of the reporting date (Level 2). Furthermore, this class comprises contingent payments outstanding for acquisitions which are recognized at their fair value. The estimation of the individual fair values is based on the key inputs of the arrangement that determine the future contingent payment as well as the Fresenius Group's expectation of these factors (Level 3). The Fresenius Group

assesses the likelihood and timing of achieving the relevant objectives. The underlying assumptions are reviewed regularly. The class was classified as Level 3.

The valuation of the class noncontrolling interest subject to put provisions recognized at fair value is determined using significant unobservable inputs. It is therefore classified as Level 3.

Following is a roll forward of noncontrolling interest subject to put provisions:

€ in millions	2017
Noncontrolling interest subject to put provisions as of January 1, 2017	**1,029**
Noncontrolling interest subject to put provisions in profit	161
Sale of noncontrolling interest subject to put provisions	-35
Dividend payments	-164
Currency effects and other changes	-137
Noncontrolling interest subject to put provisions as of December 31, 2017	**854**

97% of noncontrolling interest subject to put provisions applied to Fresenius Medical Care at December 31, 2017.

Derivatives, mainly consisting of interest rate swaps and foreign exchange forward contracts, are valued as follows: The fair 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 statement of financial position. To determine the fair 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 statement of financial position. 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.

Fresenius Group's own credit risk is incorporated in the fair value estimation of derivatives that are liabilities. Counterparty credit risk adjustments are factored into the valuation of derivatives that are assets. The Fresenius Group monitors and analyses the credit risk from derivative financial instruments on a regular basis. For the valuation of derivative financial instruments, the credit risk is considered in the fair value of every individual instrument. The basis for the default probability are Credit Default Swap Spreads of each counterparty appropriate for the duration. The calculation of the credit risk considered in the valuation is done by multiplying the default probability appropriate for the duration with the expected discounted cash flows of the derivative financial instrument.

The class of derivatives for hedging purposes includes the call options which have been purchased to hedge the convertible bonds. The fair values of these call options are derived from market quotes. For the fair value measurement of the class derivatives for hedging purposes, significant other observable inputs are used. Therefore, the class is classified as Level 2 in accordance with the defined fair value hierarchy levels.

Currently, there is no indication that a decrease in the value of Fresenius Group's financing receivables is probable. Therefore, the allowances on credit losses of financing receivables are immaterial.

FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

	Dec. 31, 2017		Dec. 31, 2016	
€ in millions	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate contracts (non-current)	**5**	**1**	5	1
Foreign exchange contracts (current)	**9**	**8**	14	24
Foreign exchange contracts (non-current)	**–**	**–**	–	1
Derivatives in cash flow hedging relationships[1]	**14**	**9**	19	26
Interest rate contracts (current)	**0**	**–**	0	–
Interest rate contracts (non-current)	**0**	**–**	–	1
Foreign exchange contracts (current)[1]	**13**	**17**	27	23
Foreign exchange contracts (non-current)[1]	**–**	**0**	–	–
Derivatives embedded in the convertible bonds	**0**	**308**	0	362
Call options to secure the convertible bonds[1]	**308**	**0**	362	0
Derivatives not designated as hedging instruments	**321**	**325**	389	386

[1] Derivatives in cash flow hedging relationships, foreign exchange contracts and call options to secure the convertible bonds not designated as hedging instruments are classified as derivatives for hedging purposes.

Derivative financial instruments are marked to market each reporting period, resulting in carrying amounts equal to fair values at the reporting date.

Derivatives not designated as hedging instruments, which are derivatives that do not qualify for hedge accounting, are also solely entered into to hedge economic business transactions and not for speculative purposes.

Derivatives for hedging purposes as well as the derivatives embedded in the convertible bonds were recognized at gross value within other assets in an amount of €335 million and other liabilities in an amount of €334 million.

The current portion of derivatives indicated as assets in the preceding table is recognized within other current assets in the consolidated statement of financial position, while the current portion of those indicated as liabilities is included in short-term provisions and other short-term liabilities. The non-current portions indicated as assets or liabilities are recognized in other non-current assets or in long-term provisions and other long-term liabilities, respectively. The derivatives embedded in the convertible bonds and the call options to secure the convertible bonds are recognized in other non-current liabilities/assets in the consolidated statement of financial position.

Effects of financial instruments recorded in the consolidated statement of income

The net gains and losses from financial instruments consisted of allowances for doubtful accounts in an amount of €518 million and foreign currency transactions of -€33 million. Interest income of €197 million resulted mainly from the valuation of the derivatives embedded in the convertible bonds of Fresenius SE & Co. KGaA and the valuation of call options in connection with the convertible bonds of Fresenius Medical Care AG & Co. KGaA, trade accounts receivable and loans to related parties. Interest expense of €848 million resulted mainly from financial liabilities, which are not recognized at fair value in the consolidated statement of income.

EFFECT OF DERIVATIVES IN CASH FLOW HEDGING RELATIONSHIPS ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2017		
€ in millions	Gain or loss recognized in other comprehensive income (loss) (effective portion)	Gain or loss reclassified from accumulated other comprehensive income (loss) (effective portion)[2]	Affected line item in the consolidated statement of income
Interest rate contracts	–	36	Interest income/expense
Foreign exchange contracts	6	2	
thereof		1	Cost of sales
		1	Selling expenses, general and administrative expenses
		0	Interest income/expense
Derivatives in cash flow hedging relationships[1]	**6**	**38**	

[1] In the consolidated statement of income, no gains or losses from ineffectiveness or from a hedged underlying transaction, that is no longer expected to occur, are recognized.
[2] Gains are shown with a negative sign, losses with a positive sign.

	2016		
€ in millions	Gain or loss recognized in other comprehensive income (loss) (effective portion)	Gain or loss reclassified from accumulated other comprehensive income (loss) (effective portion)[2]	Affected line item in the consolidated statement of income
Interest rate contracts	3	36	Interest income/expense
Foreign exchange contracts	-19	3	
thereof		-1	Cost of sales
		3	Selling expenses, general and administrative expenses
		1	Interest income/expense
Derivatives in cash flow hedging relationships[1]	**-16**	**39**	

[1] In the consolidated statement of income, no gains or losses from ineffectiveness or from a hedged underlying transaction, that is no longer expected to occur, are recognized.
[2] Gains are shown with a negative sign, losses with a positive sign.

EFFECT OF DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Gain or loss recognized in the consolidated statement of income		
€ in millions	**2017**	2016	Affected line item in the consolidated statement of income
Interest rate contracts	**–**	–	Interest income/expense
Foreign exchange contracts	**-21**	–	Other operating income/expense
Foreign exchange contracts	**-6**	-4	Interest income/expense
Derivatives embedded in the convertible bonds	**116**	-27	Interest income/expense
Call options to secure the convertible bonds	**-116**	27	Interest income/expense
Derivatives not designated as hedging instruments	**-27**	-4	

Losses from foreign exchange contracts not designated as hedging instruments recognized in the consolidated statement of income are faced by gains from the underlying transactions in the corresponding amount.

In 2017 and 2016, losses and gains in an immaterial amount for available for sale financial assets were recognized in other comprehensive income (loss).

The following table shows when the cash flow from derivative financial instruments is expected to occur.

CASH FLOW FROM DERIVATIVE FINANCIAL INSTRUMENTS

	expected in period of			
€ in millions	1 year	1 to 3 years	3 to 5 years	over 5 years
Derivatives in cash flow hedging relationships	1	3	1	0
Derivatives not designated as hedging instruments	-4	–	–	0

MARKET RISK

General

The Fresenius Group is exposed to effects related to foreign exchange fluctuations in connection with its international business activities that are denominated in various currencies. In order to finance its business operations, the Fresenius Group issues bonds and commercial papers and enters into mainly long-term credit agreements and Schuldschein Loans with banks. Due to these financing activities, the Fresenius Group is exposed to interest risk caused by changes in variable interest rates and the risk of changes in the fair value of statement of financial position items bearing fixed interest rates.

In order to manage the risk of interest rate and foreign exchange rate fluctuations, the Fresenius Group enters into certain hedging transactions with highly rated financial institutions as authorized by the Management Board. Derivative financial instruments are not entered into for trading purposes.

In general, the Fresenius Group conducts its derivative financial instrument activities under the control of a single centralized department. The Fresenius Group has established guidelines derived from best practice standards in the banking industry for risk assessment procedures and supervision concerning the use of financial derivatives. These guidelines require amongst other things a clear segregation of duties in the areas of execution, administration, accounting and controlling. Risk limits are continuously monitored and, where appropriate, the use of hedging instruments is adjusted to that extent.

The Fresenius Group defines benchmarks for individual exposures in order to quantify interest and foreign exchange risks. The benchmarks are derived from achievable and sustainable market rates. Depending on the individual benchmarks, hedging strategies are determined and generally implemented by means of micro hedges.

Earnings of the Fresenius Group were not materially affected by hedge ineffectiveness in the reporting period since the critical terms of the interest and foreign exchange derivatives mainly matched the critical terms of the underlying exposures.

Derivative financial instruments

Classification

To reduce the credit risk arising from derivatives, the Fresenius Group concluded master netting agreements with banks. Through such agreements, positive and negative fair values of the derivative contracts could be offset against one another if a partner becomes insolvent. This offsetting is valid for transactions where the aggregate amount of obligations owed to and receivable from are not equal. If insolvency occurs, the party which owes the larger amount is obliged to pay the other party the difference between the amounts owed in the form of one net payment.

These master netting agreements do not provide a basis for offsetting the fair values of derivative financial instruments in the consolidated statement of financial position as the offsetting criteria under International Financial Reporting Standards are not satisfied.

At December 31, 2017 and December 31, 2016, the Fresenius Group had €27 million and €45 million of derivative financial assets subject to netting arrangements and €25 million and €46 million of derivative financial liabilities subject to netting arrangements. Offsetting these derivative financial instruments would have resulted in net assets of €17 million and €28 million as well as net liabilities of €15 million and €29 million at December 31, 2017 and December 31, 2016, respectively.

Foreign exchange risk management

The Fresenius Group has determined the euro as its financial reporting currency. Therefore, foreign exchange translation risks resulting from the fluctuation of exchange rates between the euro and the local currencies, in which the financial statements of the foreign subsidiaries are prepared, have an impact on results of operations and financial positions reported in the consolidated financial statements.

Besides translation risks, foreign exchange transaction risks exist. These mainly relate to transactions denominated in foreign currencies, such as purchases and sales, projects and services as well as intragroup sales of products to other Fresenius Group entities in different currency areas. Solely for the purpose of hedging existing and foreseeable foreign exchange transaction exposures, the Fresenius Group enters into foreign exchange forward contracts and, on a small scale, foreign exchange options. To ensure that no foreign exchange risks result from loans in foreign currencies, the Fresenius Group enters into foreign exchange swap contracts.

As of December 31, 2017, the notional amounts of foreign exchange contracts totaled €1,964 million. These foreign exchange contracts have been entered into to hedge risks from operational business and in connection with loans in foreign currency. The fair value of foreign exchange contracts designated as cash flow hedges was €1 million.

The hedge-effective portion of changes in the fair value of foreign exchange forward contracts that are designated and qualified as cash flow hedges of forecasted product purchases and sales is reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings as a component of cost of sales or as selling, general and administrative expenses in the same period in which the hedged transaction affects earnings.

As of December 31, 2017, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 14 months.

The Fresenius Group uses a Cash-Flow-at-Risk (CFaR) model in order to estimate and quantify such transaction risks from foreign currencies. The basis for the analysis of the currency risks are the foreign currency cash flows that are reasonably expected to arise within the following 12 months, less any hedges. Under the CFaR approach, the potential currency fluctuations of these net exposures are shown as probability distributions based on historical volatilities and correlations of the preceding 250 business days. The calculation is made assuming a confidence level of 95% and a holding period of up to one year. The aggregation of currency risks has risk-mitigating effects due to correlations between the transactions concerned, i. e. the overall portfolio's risk exposure is generally less than the sum total of the underlying individual risks. As of December 31, 2017, the Fresenius Group's cash flow at risk amounts to €79 million, this means, with a probability of 95%, a potential loss in relation to the forecasted foreign exchange cash flows of the next 12 months will be not higher than €79 million.

The following table shows the net positions in foreign currencies at December 31, 2017 which have a significant influence on Fresenius Group's foreign currency risk.

Nominal € in millions	2017
Chinese renminbi	349
U.S. dollar	347
Hong kong dollar	135
Korean won	102
Russian ruble	84

Interest rate risk management

Fresenius Group's interest rate risks mainly arise from money market and capital market transactions of the Group for financing its business activities.

The Fresenius Group enters into interest rate swaps and, on a small scale, into interest rate options in order to protect against the risk of rising interest rates. These interest rate derivatives are mainly designated as cash flow hedges and have been entered into in order to convert payments based on variable interest rates into payments at a fixed interest rate and in anticipation of future long-term debt issuances (pre-hedges). As of December 31, 2017, euro denominated interest rate swaps had a notional volume of €232 million and a fair value of -€1 million. These euro interest rate swaps expire in the years 2018 to 2022. They bear an average interest rate of 0.38%. Furthermore, the Fresenius Group had U.S. dollar denominated interest rate swaps in the amount of US$200 million (€167 million) with a fair value of US$6 million (€5 million). They expire in 2021 and bear an average interest rate of 1.22%. The interest rate options outstanding as of December 31, 2017 with a notional volume of €200 million and a fair value of €0 expire in 2018.

The pre-hedges are used to hedge interest rate exposures with regard to interest rates which are relevant for the future long-term debt issuance and which could rise until the respective debt is actually issued. These pre-hedges are settled at the issuance date of the corresponding long-term debt with the settlement amount recorded in accumulated other comprehensive income (loss) amortized to interest expense over the life of the debt. At December 31, 2017 and December 31, 2016, the Fresenius Group had €19 million and €45 million, respectively, related to such settlements of pre-hedges deferred in accumulated other comprehensive income (loss), net of tax.

Interest payables and interest receivables in connection with the swap agreements are accrued and recorded as an adjustment to the interest expense at each reporting date. Concerning interest rate contracts, unscheduled repayments or the renegotiation of hedged items may in some cases lead to the de-designation of the hedging instrument, which existed up to that point. From that date, the respective hedging transactions are recognized in the consolidated statement of income.

For purposes of analyzing the impact of changes in the relevant reference interest rates on Fresenius Group's results of operations, the Group calculates the portion of financial debt which bears variable interest rates and which has not been hedged by means of interest rate swaps or options against rising interest rates. For this particular part of its liabilities, the Fresenius Group assumes an increase in the reference rates of 0.5% compared to the actual rates as of the date of the statement of financial position. The corresponding additional annual interest expense is then compared to the net income attributable to shareholders of Fresenius SE & Co. KGaA. This analysis shows that an increase of 0.5% in the relevant reference rates would have an effect of less than 1.0% on the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA and Fresenius SE & Co. KGaA shareholders' equity.

CREDIT RISK

The Fresenius Group is exposed to potential losses regarding financial instruments in the event of non-performance by counterparties. With respect to derivative financial instruments, it is not expected that any counterparty fails to meet its obligations as the counterparties are highly rated financial institutions. The maximum credit exposure of derivatives is represented by the fair value of those contracts with a positive fair value amounting to €22 million for foreign exchange derivatives. The maximum credit exposure from interest rate derivatives was €5 million. The maximum credit risk resulting from the use of non-derivative financial instruments is defined as the total amount of all receivables. In order to control this credit risk, the Management of the Fresenius Group

performs an aging analysis of trade accounts receivable. For details on the aging analysis and on the allowance for doubtful accounts, please see note 15, Trade accounts receivable.

LIQUIDITY RISK

The liquidity risk is defined as the risk that a company is potentially unable to meet its financial obligations. The Management of the Fresenius Group manages the liquidity of the Group by means of effective working capital and cash management as well as an anticipatory evaluation of refinancing alternatives. The Management of the Fresenius Group believes that existing credit facilities as well as the cash generated by operating activities and additional short-term borrowings are sufficient to meet the company's foreseeable demand for liquidity (see note 22, Debt and capital lease obligations).

The following table shows the future undiscounted contractual cash flows (including interests) resulting from recognized financial liabilities and derivative financial instruments:

€ in millions	up to 1 year	1 to 3 years	3 to 5 years	more than 5 years
Long-term debt and capital lease obligations (including accounts receivable securitization program) [1]	749	1,979	3,929	1,007
Short-term debt	1,572	0	0	0
Bonds	1,089	3,156	3,096	3,243
Convertible bonds	4	907	0	500
Trade accounts payable	1,688	0	0	0
Other financial liabilities	2,853	7	2	4
Contingent payments outstanding for acquisitions	79	345	206	224
Noncontrolling interest subject to put provisions	473	223	82	116
Derivative financial instruments – designated as cash flow hedge	9	–	0	0
Derivative financial instruments – not designated as hedging instruments	17	276	–	32
Total	**8,533**	**6,893**	**7,315**	**5,126**

[1] Future interest payments for financial liabilities with variable interest rates were calculated using the latest interest rates fixed prior to December 31, 2017.

31. SUPPLEMENTARY INFORMATION ON CAPITAL MANAGEMENT

The Fresenius Group has a solid financial profile. Capital management includes both equity and debt. A principal objective of Fresenius Group's capital management is to optimize the weighted-average cost of capital. Further, it is sought to achieve a balanced mix of equity and debt. To secure growth on a long-term basis, a capital increase may also be considered in exceptional cases, for instance to finance a major acquisition.

Due to the company's diversification within the health care sector and the strong market positions of the business segments in global, growing and non-cyclical markets, predictable and sustainable cash flows are generated. They allow a reasonable proportion of debt, i. e. the employment of an extensive mix of financial instruments. Moreover, Fresenius Group's customers are generally of high credit quality.

Shareholders' equity and debt have developed as follows:

SHAREHOLDERS' EQUITY

€ in millions	Dec. 31, 2017	Dec. 31, 2016
Shareholders' equity	**21,720**	20,849
Total assets	**53,133**	46,697
Equity ratio	**40.9%**	44.6%

Fresenius SE & Co. KGaA is not subject to any capital requirements provided for in its articles of association. Fresenius SE & Co. KGaA has obligations to issue shares out of the Conditional Capital relating to the exercise of stock options on the basis of the existing 2008 and 2013 stock option plans (see note 34, Share-based compensation plans).

DEBT

€ in millions	Dec. 31, 2017	Dec. 31, 2016
Debt	**19,042**	14,780
Total assets	**53,133**	46,697
Debt ratio	**35.8%**	31.7%

Assuring financial flexibility is the top priority in the Group's financing strategy. This flexibility is achieved through a wide range of financing instruments and a high degree of diversification of the investors. Fresenius Group's maturity profile displays a broad spread of maturities with a high proportion of medium- and long-term financing. In the choice of financing instruments, market capacity, investor diversification, flexibility, credit conditions and the existing maturity profile are taken into account.

The leverage ratio on the basis of net debt/EBITDA is a key financial figure for the Fresenius Group. As of December 31, 2017, the leverage ratio (before special items) was 2.8.

Fresenius Group's financing strategy is reflected in its credit ratings. The Fresenius Group is covered by the rating agencies Moody's, Standard & Poor's and Fitch.

The following table shows the company rating of Fresenius SE & Co. KGaA:

RATING OF FRESENIUS SE & CO. KGAA

	Dec. 31, 2017	Dec. 31, 2016
Standard & Poor's		
Corporate Credit Rating	**BBB-**	BBB-
Outlook	**positive**	stable
Moody's		
Corporate Credit Rating	**Baa3**	Baa3
Outlook	**stable**	stable
Fitch		
Corporate Credit Rating	**BBB-**	BBB-
Outlook	**stable**	stable

Following Fresenius' announcement on April 24, 2017 to acquire Akorn, Inc. and Merck KGaA's biosimilars business, the rating agencies Standard & Poor's, Moody's and Fitch confirmed the corporate credit ratings of Fresenius.

Standard & Poor's has revised Fresenius' corporate credit outlook to positive from stable in late December 2017. The corporate credit rating was affirmed.

32. SUPPLEMENTARY INFORMATION ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statements of cash flows of the Fresenius Group for the fiscal years 2017 and 2016 are shown on pages 132 and 133.

Cash funds reported in the consolidated statement of cash flows and in the consolidated statement of financial position are comprised of cash on hand, checks, securities and cash at bank which are readily convertible within three months and are subject to insignificant risk of changes in value.

In 2017, Fresenius Helios has used subsidies for investments in property, plant and equipment in the amount of €114 million (2016: €110 million), that were offset in purchase of property, plant and equipment in the consolidated statement of cash flows.

Cash paid for acquisitions (without investments in licenses) consisted of the following:

€ in millions	2017	2016
Assets acquired	**8,220**	955
Liabilities assumed	**-1,287**	-83
Noncontrolling interest	**-103**	-58
Notes assumed in connection with acquisitions	**-163**	-251
Issuance of shares	**-400**	0
Cash paid	**6,267**	563
Cash acquired	**-22**	-30
Cash paid for acquisitions, net	**6,245**	533
Cash paid for investments, net of cash acquired	**18**	130
Cash paid for intangible assets, net	**26**	12
Total cash paid for acquisitions and investments, net of cash acquired, and net purchases of intangible assets	**6,289**	675

Proceeds from the sale of subsidiaries were €153 million in 2017 (2016: €1 million).

The following table shows a reconciliation of debt to cash flow from financing activities in 2017:

		cash-effective changes	non-cash-effective changes					
€ in millions	Jan. 1, 2017	Cash flow	Assumed as part of acquisitions	Foreign currency translation	Depreciation on financing costs	New lease contracts	Other	**Dec. 31, 2017**
Short-term debt	847	722	-5	-13	0	0	-1	**1,550**
Long-term debt and capital lease obligations, less accounts receivable securitization program	5,494	1,230	303	-405	9	12	168	**6,811**
Bonds	7,414	2,164	0	-463	18	0	-64	**9,069**
Convertible bonds	854	500	0	0	24	0	-60	**1,318**
Accounts receivable securitization program	165	157	0	-28	0	0	0	**294**

33. NOTES ON THE CONSOLIDATED SEGMENT REPORTING

GENERAL

The consolidated segment reporting tables shown on pages 136 to 137 of this Annual Report are an integral part of the notes.

The Fresenius Group has identified the business segments Fresenius Medical Care, Fresenius Kabi, Fresenius Helios and Fresenius Vamed, which corresponds to the internal organizational and reporting structures (Management Approach) at December 31, 2017.

The key data disclosed in conjunction with the consolidated segment reporting correspond to the key data of the internal reporting system of the Fresenius Group. Internal and external reporting and accounting correspond to each other; the same key data and definitions are used.

Sales and proceeds between the segments are indicative of the actual sales and proceeds agreed with third parties. Administrative services are billed in accordance with service level agreements.

The business segments were identified in accordance with IFRS 8, Operating Segments, which defines the segment reporting requirements in the annual financial statements and interim reports with regard to the operating business, product and service businesses and regions.

The business segments of the Fresenius Group are as follows:

- Fresenius Medical Care
- Fresenius Kabi
- Fresenius Helios
- Fresenius Vamed
- Corporate/Other

The segment Corporate/Other is mainly comprised of the holding functions of Fresenius SE & Co. KGaA as well as Fresenius Netcare GmbH, which provides services in the field of information technology. In addition, the segment Corporate/Other includes intersegment consolidation adjustments as well as special items (see note 3, Special items).

Details on the business segments are shown on page 139 of the notes.

The Management Board of Fresenius Management SE (the general partner of Fresenius SE & Co. KGaA) controls the segments using key data based on IFRS. Until December 31, 2016, the key data used to control the segments were based on U.S. GAAP. Consequently, the key figures in the segment information were given in accordance with U.S. GAAP. Prior year figures were adjusted to conform with the presentation of the fiscal year.

Segment reporting by region takes account of geographical factors and the similarity of markets in terms of opportunities and risks. The allocation to a particular region is based on the domicile of the customers.

NOTES ON THE BUSINESS SEGMENTS

The key figures used by the Management Board to assess segment performance, have been selected in such a way that they include all items of income and expenses which fall under the area of responsibility of the business segments. The Management Board is convinced that the most suitable performance indicator is the operating income (EBIT). The Management Board believes that, in addition to the operating income, the figure for earnings before interest, taxes and depreciation/amortization (EBITDA) can also help investors to assess the ability of the Fresenius Group to generate cash flows and to meet its financial obligations. The EBITDA figure is also the basis for assessing Fresenius Group's compliance with the terms of its credit agreements (e. g. the Fresenius Medical Care 2012 Credit Agreement or the 2013 Credit Agreement).

Depreciation and amortization is presented for property, plant and equipment and intangible assets with definite useful lives of the respective business segment.

Net interest is comprised of interest expenses and interest income.

Net income attributable to shareholders of Fresenius SE & Co. KGaA is defined as earnings after income taxes and noncontrolling interest.

The operating cash flow is the cash provided by/used in operating activities.

The cash flow before acquisitions and dividends is the operating cash flow less net capital expenditure.

Debt is comprised of bank loans, bonds, convertible bonds, capital lease obligations, liabilities relating to outstanding acquisitions as well as intercompany liabilities.

Capital expenditure mainly includes additions to property, plant and equipment.

Acquisitions refer to the purchase of shares in legally independent companies and the acquisition of business divisions and intangible assets (e. g. licenses). The key figures shown with regard to acquisitions present the contractual purchase prices comprising amounts paid in cash (less cash acquired), debts assumed and the issuance of shares, whereas for the purposes of the statement of cash flows, only cash purchase price components less acquired cash and cash equivalents are reported.

The EBITDA margin is calculated as a ratio of EBITDA to sales.

The EBIT margin is calculated as a ratio of EBIT to sales.

The return on operating assets (ROOA) is defined as the ratio of EBIT to average operating assets. Operating assets are defined as total assets less deferred tax assets, trade accounts payable and advance payments from customers as well as guaranteed subsidies.

In addition, the key indicators "Depreciation and amortization in % of sales" and "Operating cash flow in % of sales" are also disclosed.

RECONCILIATION OF KEY FIGURES TO CONSOLIDATED EARNINGS

€ in millions	2017	2016
Total EBIT of reporting segments	**4,867**	4,332
Special items	**-241**	0
General corporate expenses Corporate/Other (EBIT)	**-37**	-30
Group EBIT	**4,589**	4,302
Interest expenses	**-848**	-678
Interest income	**197**	96
Income before income taxes	**3,938**	3,720

RECONCILIATION OF NET DEBT WITH THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ in millions	Dec. 31, 2017	Dec. 31, 2016
Short-term debt	**1,550**	847
Short-term debt from related parties	**–**	6
Current portion of long-term debt and capital lease obligations	**618**	611
Current portion of bonds	**731**	473
Long-term debt and capital lease obligations, less current portion	**6,487**	5,048
Bonds, less current portion	**8,338**	6,941
Convertible bonds	**1,318**	854
Debt	**19,042**	14,780
less cash and cash equivalents	**1,636**	1,579
Net debt	**17,406**	13,201

The following table shows the non-current assets by geographical region:

€ in millions	Dec. 31, 2017	Dec. 31, 2016
Germany	**8,950**	8,646
Spain	**6,431**	214
Europe (excluding Germany and Spain)	**2,907**	2,861
North America	**18,473**	19,729
Asia-Pacific	**1,995**	1,777
Latin America	**664**	680
Africa	**52**	52
Total non-current assets[1]	**39,472**	33,959

[1] The aggregate amount of net non-current assets is the sum of non-current assets less deferred tax assets, less derivative financial instruments and capitalized pension assets.

In 2017, the Fresenius Group generated sales of €7,192 million (2016: €6,913 million) in Germany. Sales in the United States were €14,894 million at actual rates (2016: €13,931 million) and €15,201 million in constant currency in 2017.

34. SHARE-BASED COMPENSATION PLANS

COMPENSATION COST IN CONNECTION WITH THE SHARE-BASED COMPENSATION PLANS OF THE FRESENIUS GROUP

In 2017, the Fresenius Group recognized compensation cost in an amount of €37 million for stock options granted since 2013. For stock incentive plans which are performance-based, the Fresenius Group recognizes compensation cost over the vesting periods, based on the market values of the underlying stock at the grant date.

The expenses related to cash-settled share-based payment transactions are determined based upon the fair value at measurement date and the number of phantom stocks or performance shares granted which will be recognized over the vesting period. In 2017, the Fresenius Group recognized expenses of €73 million in connection with cash-settled share-based payment transactions.

FAIR VALUE OF STOCK OPTIONS

The Fresenius Group uses a binomial option pricing model in determining the fair value of stock options granted under the stock option plans of Fresenius SE & Co. KGaA and Fresenius Medical Care AG & Co. KGaA. Option valuation models require the input of highly subjective assumptions including expected stock price volatility. Fresenius Group's assumptions are based upon its past experiences, market trends and the experiences of other entities of the same size and in similar industries. To incorporate the effects of expected early exercise in the model, an early exercise of vested options was assumed as soon as the share price exceeds 150% of the exercise price. Fresenius Group's stock options have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option.

The weighted-average assumptions for the calculation of the fair value of grants of the Fresenius SE & Co. KGaA Stock Option Plan 2013 made during 2017 and 2016 are as follows:

	2017		2016	
€ in millions	**July Grant**	**December Grant**	July Grant	December Grant
Expected dividend yield	**1.25%**	**1.39%**	1.16%	1.22%
Risk-free interest rate	**0.26%**	**0.13%**	-0.30%	0.09%
Expected volatility	**21.91%**	**21.69%**	26.41%	24.22%
Life of options	**8 years**	**8 years**	8 years	8 years
Exercise price per option in €	**74.77**	**64.69**	66.02	67.15

The expected volatility results from the historical volatility calculated over the expected life of options. The volatility was determined when the fair value of stock options was calculated for the first time and since then has been controlled every year upon issuance of a new tranche.

SHARE-BASED COMPENSATION PLANS OF FRESENIUS SE & CO. KGAA

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

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

2013 LTIP

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

2013 SOP

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

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

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

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

The exercise price of an option shall equal the volume-weighted average stock market price (closing price) of the 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, on the last 30 calendar days prior to the respective grant date.

Options granted have an eight-year term but can be exercised only after a four-year vesting period. The exercise of options is subject to the condition precedent, in each case, that the annual success target within a four-year waiting period is achieved. The success target is achieved in each case if, after the granting of the options to the respective entitled person, either (i) the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, has increased by at least 8% per annum in comparison to the previous year in each case within the waiting period, or (ii) – if this is not the case – the compounded annual growth rate of the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, during the four years of the waiting period amounts to at least 8%. In the event that the success target within the four-year waiting period is not achieved for the individual years or for the compounded annual growth rate, the options issued in each case are forfeited in proportion to the non-achievement of the success target within the waiting period, i. e. by one quarter, two quarters, three quarters, or completely. The performance targets for 2013, 2014, 2015, 2016 and 2017 were met.

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

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

2013 PSP

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

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

As under the 2013 SOP, the Supervisory Board of Fresenius Management SE determines the phantom stocks 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 stocks granted to them.

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

The exercise of phantom stock is subject to the condition precedent, in each case, that the annual success target within a four-year waiting period is achieved. The success target is achieved in each case if, after the granting of the subscription rights to the respective entitled person, either (i) the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, has increased by at least 8% per annum in comparison to the previous year in each case within the waiting period, or (ii) – if this is not the case – the compounded annual growth rate of the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to IFRS, adjusted for extraordinary effects and on a constant currency basis, during the four years of the waiting period amounts to at least 8%. In the event that the success target within the four-year waiting period is not achieved for the individual years or for the compounded annual growth rate, the phantom stock awards issued in each case are forfeited in proportion to the non-achievement of the success target within the waiting-period, i. e. by one quarter, two quarters, three quarters, or completely. The performance targets for 2013, 2014, 2015, 2016 and 2017 were met.

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

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

Stock Option Plan 2008

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

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

The options granted have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is mandatorily subject to the condition, in each case, that the annual success target within the three-year vesting period is achieved. For each such year, the success target is achieved if the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA, adjusted for extraordinary effects, has increased by at least

8% compared to the respective adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA of the previous fiscal year. For each year in which the success target has not been met, one-third of the options granted shall forfeit. The adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA was calculated on the basis of the calculation method of the accounting principles according to U.S. GAAP. For the purposes of the 2008 Plan, the adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA was determined and 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 black-out periods.

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

Stock Option Plan 2003

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

On June 30, 2017, the term of the options granted under the Fresenius AG Stock Option Plan 2003 expired.

Transactions during 2017

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

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

At December 31, 2017, out of 1,697,327 outstanding and exercisable stock options issued under the 2008 Plan, 133,140 were held by the members of the Fresenius Management SE Management Board. Out of 10,065,822 outstanding stock options issued under the 2013 LTIP, 1,488,912 were exercisable at December 31, 2017. The members of the Fresenius Management SE Management Board held 1,479,375 stock options. 1,238,959 phantom stocks issued under the 2013 LTIP were outstanding at December 31, 2017. The members of the Fresenius Management SE Management Board held 231,492 phantom stocks.

Stock option transactions are summarized as follows:

Ordinary shares Dec. 31	Number of options	Weighted-average exercise price in €	Number of options exercisable
Balance 2015	**10,649,309**	**35.44**	**4,335,892**
Granted	2,254,663	66.03	
Exercised	1,480,421	21.10	
Forfeited	523,275	41.54	
Balance 2016	**10,900,276**	**43.42**	**2,844,263**
Granted	2,401,984	74.64	
Exercised	1,393,926	23.95	
Forfeited	145,185	50.32	
Balance 2017	**11,763,149**	**52.02**	**3,186,239**

The following table provides a summary of fully vested options outstanding and exercisable for ordinary shares at December 31, 2017:

OPTIONS FOR ORDINARY SHARES

	Options outstanding			Options exercisable		
Range of exercise price in €	Number of options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Number of options	Weighted-average remaining contractual life in years	Weighted-average exercise price in €
20.01 – 25.00	500,905	0.50	23.76	500,905	0.50	23.76
25.01 – 30.00	1,196,422	1.52	26.24	1,196,422	1.52	26.24
30.01 – 35.00	1,488,912	3.63	32.27	1,488,912	3.63	32.27
35.01 – 40.00	1,907,673	4.58	36.92	0		
60.01 – 65.00	2,055,840	5.62	60.70	0		
65.01 – 70.00	2,253,288	6.57	66.06	0		
70.01 – 75.00	2,360,109	7.58	74.77	0		
	11,763,149	**5.14**	**52.02**	**3,186,239**	**2.34**	**28.67**

At December 31, 2017, the aggregate intrinsic value of exercisable options for ordinary shares was €116 million.

At December 31, 2017, total unrecognized compensation cost related to non-vested options granted under the 2013 LTIP was €59 million. This cost is expected to be recognized over a weighted-average period of 2.7 years.

FRESENIUS MEDICAL CARE AG & CO. KGAA SHARE-BASED COMPENSATION PLANS

At December 31, 2017, Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) has various share-based compensation plans, which may either be equity- or cash-settled.

Fresenius Medical Care AG & Co. KGaA Long-Term Incentive Plan 2016

As of May 11, 2016, the issuance of stock options and phantom stocks under the FMC-AG & Co. KGaA Long-Term Incentive Program 2011 (LTIP 2011) is no longer possible. In order to continue to enable the members of the Management Board, the members of the management boards of affiliated companies and managerial staff members to adequately participate in the long-term, sustained success of Fresenius Medical Care, the Management Board and the Supervisory Board of Fresenius Medical Care Management AG have approved and adopted the FMC-AG & Co. KGaA Long-Term Incentive Plan 2016 (LTIP 2016) as a successor program effective January 1, 2016.

The LTIP 2016 is a variable compensation program with long-term incentive effects. Pursuant to the LTIP 2016, the plan participants may be granted so-called "performance shares" annually or semiannually during 2016 to 2018. Performance shares are non-equity, cash-settled virtual compensation instruments which may entitle plan participants to receive a cash payment depending on the achievement of pre-defined performance targets further defined below as well as FMC-AG & Co. KGaA's share price development.

For members of the Management Board, the Supervisory Board will, in due exercise of its discretion and taking into account the individual responsibility and performance of each Management Board member, determine an initial value for each grant for any awards to Management Board members. For plan participants other than the members of the Management Board, such determination will be made by the Management Board. The initial grant value is determined in the currency in which the respective participant receives their base salary at the time of grant. In order to determine the number of performance shares each plan participant receives, their respective grant value will be divided by the value per performance share at the time of the grant, which is mainly determined based on the average price of FMC-AG & Co. KGaA's shares over a period of 30 calendar days prior to the respective grant date.

The number of granted performance shares may change over the performance period of three years, depending on the level of achievement of the following: (i) revenue growth, (ii) growth in net income attributable to shareholders of FMC-AG & Co. KGaA (net income growth) and (iii) return on invested capital (ROIC) improvement.

Revenue, net income and ROIC are determined according to IFRS in euro based on full year results. Revenue growth and net income growth, for the purpose of this plan, are determined at constant currency.

An annual target achievement level of 100% will be reached for the revenue growth performance target if revenue growth is 7% in each individual year of the three-year performance period; revenue growth of 0% will lead to a target achievement level of 0% and the maximum target achievement level of 200% will be reached in the case of revenue growth of at least 16%. If revenue growth ranges between these values, the degree of target achievement will be linearly interpolated between these values.

An annual target achievement level of 100% for the net income growth performance target will be reached if net income growth is 7% in each individual year of the three-year performance period. In the case of net income growth of 0%, the target achievement level will also be 0%; the maximum target achievement of 200% will be reached in the case of net income growth of at least 14%. Between these values, the degree of target achievement will be determined by means of linear interpolation.

With regard to ROIC improvement, an annual target achievement level of 100% will be reached if the target ROIC as defined for the respective year is reached. In 2016, the target ROIC was 7.3% and will increase by 0.2% each subsequent year until 2020. A target achievement level of 0% will be reached if the ROIC falls below the target ROIC for the respective year by 0.2 percentage points or more, whereas the maximum target achievement level of 200% will be reached if the target ROIC for the respective year is exceeded by 0.2 percentage points or more. The degree of target achievement will be determined by means of linear interpolation if the ROIC ranges between these values. In case the annual ROIC target achievement level in the third year of a performance period is equal or higher than the ROIC target achievement level in each of the two previous years of such performance period, the ROIC target achievement level of the third year is deemed to be achieved for all years of the respective performance period.

The achievement level for each of the three performance targets will be weighted annually at one-third to determine the yearly target achievement for each year of the three-year performance period. The level of overall target achievement over the three-year performance period will then be determined on the basis of the mean of these three average yearly target achievements. The overall target achievement can be in a range of 0% to 200%.

The number of performance shares granted to the plan participants at the beginning of the performance period will each be multiplied by the level of overall target achievement in order to determine the final number of performance shares.

The final number of performance shares is generally deemed earned four years after the day of a respective grant (the vesting period). The number of such vested performance shares is then multiplied by the average FMC-AG & Co. KGaA share price over a period of 30 days prior to the lapse of this four-year vesting period. The respective resulting amount will then be paid to the plan participants as cash compensation.

Fresenius Medical Care AG & Co. KGaA Long-Term Incentive Program 2011

On May 12, 2011, the Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2011 (2011 SOP) was established by resolution of Fresenius Medical Care AG & Co. KGaA's (FMC-AG & Co. KGaA) Annual General Meeting. The 2011 SOP, together with the Phantom Stock Plan 2011, which was established by resolution of FMC Management AG's Management and Supervisory Boards, forms FMC-AG & Co. KGaA's Long-Term Incentive Program 2011 (LTIP 2011). Under the LTIP 2011, participants were granted awards, which consisted of a combination of stock options and phantom stocks. The final grant under the LTIP 2011 was made in December 2015. Awards under the LTIP 2011 are subject to a four-year vesting period. Vesting of the awards granted is subject to achievement of predefined performance targets. The 2011 SOP was established

with a conditional capital increase up to €12 million subject to the issue of up to 12 million non-par value bearer ordinary shares with a nominal value of €1.00, each of which can be exercised to obtain one ordinary share.

Stock options granted under the LTIP 2011 have an eight-year term and can be exercised for the first time after a four-year vesting period. The exercise price of stock options granted under the LTIP 2011 shall be the average stock exchange price on the Frankfurt Stock Exchange of FMC-AG & Co. KGaA's shares during the 30 calendar days immediately prior to each grant date. Stock options granted under the LTIP 2011 to U.S. participants are non-qualified stock options under the United States Internal Revenue Code of 1986, as amended. Stock options under the LTIP 2011 are not transferable by a participant or a participant's heirs, and may not be pledged, assigned, or disposed of otherwise.

Phantom stock awards under the LTIP 2011 entitle the holders to receive payment in euro from FMC-AG & Co. KGaA upon exercise of the phantom stock. The payment per phantom share in lieu of the issuance of such stock shall be based upon the share price on the Frankfurt Stock Exchange of one of FMC-AG & Co. KGaA's shares on the exercise date. Phantom stock awards have a five-year term and can be exercised for the first time after a four-year vesting period. For participants who are U.S. tax payers, the phantom stock is deemed to be exercised in any event in the month of March following the end of the vesting period.

Stock Option Plan 2006

The Fresenius Medical Care AG & Co. KGaA Stock Option Plan 2006 (Amended 2006 Plan) was established with a conditional capital increase up to €12.8 million subject to the issue of up to 5 million non-par value bearer ordinary shares with a nominal value of €1.00, each of which can be exercised to obtain one ordinary share. In connection with the share split effected in 2007, the principal amount was adjusted to the same proportion as the share capital out of the capital increase up to €15 million by the issue of up to 15 million new non-par value bearer ordinary shares.

After December 2010, no further grants were issued under the Amended 2006 Plan. As at December 31, 2017, there are no further exercisable stock options under the Amended 2006 plan.

Options granted under the Amended 2006 Plan to U.S. participants are non-qualified stock options under the United States Internal Revenue Code of 1986, as amended. Options under the Amended 2006 Plan are not transferable by a participant or a participant's heirs, and may not be transferred, pledged, assigned, or otherwise disposed of.

Transactions during 2017

During 2017, under the LTIP 2016, FMC-AG & Co. KGaA awarded 614,985 performance shares, including 73,746 performance shares awarded to the members of the Management Board of FMC Management AG at a measurement date weighted-average fair value of €83.40 each and a total fair value of €51 million, which will be revalued if the fair value changes. The total fair value will be amortized over the four-year vesting period.

During 2017, FMC-AG & Co. KGaA received cash of €42 million from the exercise of stock options. The intrinsic value of stock options exercised in 2017 was €32 million. In connection with cash-settled share-based payment transactions under the LTIP 2011 and the LTIP 2016, FMC-AG & Co. KGaA recognized compensation expense of €60 million and €35 million for the years ending December 31, 2017 and 2016, respectively.

At December 31, 2017, the Management Board members of FMC Management AG held 819,491 stock options and employees of FMC-AG & Co. KGaA held 4,007,643 stock options under the various stock-based compensation plans of Fresenius Medical Care.

At December 31, 2017, the Management Board members of FMC Management AG held 73,432 phantom stocks and employees of FMC-AG & Co. KGaA held 691,164 phantom stocks under the LTIP 2011.

At December 31, 2017, the Management Board members of FMC Management AG held 150,993 performance shares and employees of FMC-AG & Co. KGaA held 1,042,923 performance shares under the LTIP 2016.

The table below provides reconciliations for options outstanding at December 31, 2017 as compared to December 31, 2016:

	Number of options in thousands	Weighted-average exercise price in €
Balance at December 31, 2016 (options for ordinary shares)	**6,067**	**62.98**
Granted	0	
Exercised	889	47.50
Forfeited	351	52.82
Balance at December 31, 2017 (options for ordinary shares)	**4,827**	**65.67**

At December 31, 2017, total unrecognized compensation cost related to non-vested options granted under all plans was €10 million. This cost is expected to be recognized over a weighted-average period of one year.

35. RELATED PARTY TRANSACTIONS

Prof. Dr. h. c. Roland Berger, who is a partner of Roland Berger Strategy Consultants Holding GmbH, was a member of the Supervisory Board of Fresenius Management SE and of Fresenius SE & Co. KGaA until May 13, 2016. In 2017 and 2016, the Roland Berger group did not provide any consulting services to the Fresenius Group.

During the reporting period, Dr. Dieter Schenk, deputy chairman of the Supervisory Board of Fresenius Management SE, was a partner in the international law firm Noerr LLP, which provides legal services to the Fresenius Group. In 2017, after discussion and approval of each mandate by the Supervisory Board of Fresenius Management SE, the Fresenius Group paid about €2.9 million to this law firm for legal services rendered (2016: €0.9 million). This amount paid includes also payments for services already provided in 2016 which have been paid in 2017.

In 2017, €13 million (2016: €14 million) were paid to Fresenius Management SE as compensation for the Management Board and the Supervisory Board, general partners' fees and other reimbursements of out-of pocket expenses. At December 31, 2017, there were outstanding liabilities payable to Fresenius Management SE in the amount of €40 million (December 31, 2016: €38 million), consisting mainly of pension obligations and Management Board compensation.

The aforementioned payments are net amounts. In addition, VAT and insurance tax were paid.

Fresenius Medical Care has entered into exclusive supply agreements to purchase certain pharmaceuticals from its equity method investee Vifor Fresenius Medical Care Renal Pharma Ltd.

In 2015, Fresenius Medical Care provided unsecured loans in the amount of €60 million to an associated company under customary conditions, which have been fully repaid as of June 30, 2016.

36. SUBSEQUENT EVENTS

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

NOTES IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

37. COMPENSATION OF THE MANAGEMENT BOARD AND THE 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 page 115 ff.), which is part of the Management Report.

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

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

The cash compensation paid to the Management Board for the performance of its responsibilities was €14,378 thousand (2016: €14,573 thousand). Thereof, €5,407 thousand (2016: €5,319 thousand) is not performance-based and €8,971 thousand (2016: €9,254 thousand) is performance-based. The amount of the performance-based compensation depends on the achievement of targets relating to the net income of the Fresenius Group and business segments. As a long-term incentive component, the members of the Management Board received 433,125 stock options under the Fresenius SE & Co. KGaA Stock Option Plan 2013 and a share-based compensation with cash settlement in an amount of €4,740 thousand.

The total compensation of the Management Board was €24,664 thousand (2016: €25,051 thousand).

The total compensation paid to the Supervisory Boards of Fresenius SE & Co. KGaA and Fresenius Management SE and their committees was €5,365 thousand in 2017 (2016: €4,388 thousand). Of this amount, €226 thousand was fixed compensation (2016: €220 thousand), €100 thousand was compensation for committees services (2016: €100 thousand), and €5,039 thousand was variable compensation (2016: €4,068 thousand).

In 2017, based on pension commitments to former members of the Management Board, €1,099 thousand (2016: €1,094 thousand) was paid. The pension obligation for these persons amounted to €21,848 thousand in 2017 (2016: €23,183 thousand).

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

38. AUDITOR'S FEES

In 2017 and 2016, fees for the auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (KPMG), and its affiliates were expensed as follows:

	2017		2016	
€ in millions	**Total**	**Germany**	Total	Germany
Audit fees	**19**	**7**	17	6
Audit-related fees	**2**	**2**	2	2
Tax consulting fees	**1**	**–**	1	0
Other fees	**2**	**1**	5	5
Total auditor's fees	**24**	**10**	25	13

The leading auditor has been responsible for the audit of the consolidated financial statements since 2012.

In the fiscal year 2017, both worldwide and in Germany, 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.

39. 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).

40. PROPOSAL FOR THE DISTRIBUTION OF EARNINGS

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

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

41. RESPONSIBILITY STATEMENT

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

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

Fresenius SE & Co. KGaA,
represented by:
Fresenius Management SE, its general partner

The Management Board

S. Sturm

Dr. F. De Meo

R. Empey

Dr. J. Götz

M. Henriksson

R. Powell

Dr. E. Wastler

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of Fresenius SE & Co. KGaA, Bad Homburg v. d. Höhe and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Fresenius SE & Co. KGaA for the financial year from January 1, 2017 to December 31, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the non-financial statement and the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment of goodwill

For details of the accounting and valuation principles used and the assumptions used, please refer to Note 1. IVa. Information on the amount of goodwill can be found in Note 19 to the consolidated financial statements.

Risk for the consolidated financial statements

The goodwill reported in the consolidated financial statements of Fresenius SE & Co. KGaA as at December 31, 2017, at € 25.3 billion, represents around 48% of the balance sheet total and thus has a material significance for the net assets of the Group.

The goodwill impairment test is complex and largely dependent on estimates of future business performance by the legal representatives of the company, the interest rate used to discount future cash inflows, and other estimates. These assumptions are inherently subject to uncertainties. There is a risk for the consolidated financial statements that appropriate impairments are not recognized.

In addition, there is a risk that the required information for the impairment test of goodwill, provided within the notes to the consolidated financial statements, may not be appropriate or incomplete.

Our approach during the audit

When testing for impairment of goodwill, we have convinced ourselves of the reasonableness of significant value-determining assumptions and parameters. We have assessed the adequacy of the controls established by the company to ensure that the assumptions and parameters used, including the budget and projections, based on developments in the relevant markets are regularly updated by the legal representatives, and approved by the Supervisory Board. We have reconciled the budgetary calculations underlying the Discounted Cash Flow calculations with the budget approved by the Supervisory Board for the years 2018 – 2020 and the mid-term planning for the following years.

Furthermore, we have convinced ourselves of the company's previous forecasting quality by comparing plans from previous financial years with the actual results achieved and analyzing deviations.

We evaluated the material value assumptions and parameters of the underlying discount rate (WACC) and growth rates, using our valuation specialists taking into account market data and tracking the underlying valuation methods. Since even small changes in the parameters used can have a significant impact on the valuation result, we conducted our own sensitivity analyzes, in particular for the cash-generating units with a tendency to be low, in order to simulate the effects of changing individual parameters.

Finally, we assessed whether the disclosures within the notes to the consolidated financial statements on the fair value of goodwill are appropriate and complete.

Our conclusion

The valuation method is consistent with the valuation principles to be applied. The assumptions and parameters underlying the valuation are in total appropriate.

The disclosures within the notes to the consolidated financial statements required for the impairment test of goodwill are appropriate and complete.

The balance sheet presentation of the acquisitions of Quirónsalud, the biosimilars business and the announced acquisition of Akorn Inc.

For details of the accounting and valuation principles used, please refer to note 1. IIIa of the consolidated financial statements. Information on the significant acquisitions of the Fresenius Group can be found in the notes to the consolidated financial statements under item 2. Regarding the risks associated with acquisitions we refer to chapter financial position (section 'investments and acquisitions') and the risk report (section 'risk from the integration of acquisitions') of the Group Management Report.

Risk for the consolidated financial statements

Effective January 31, 2017, Fresenius Helios has acquired 100% of the shares in IDCSalud Holding S.L.U. (Quirónsalud). In addition, Fresenius Kabi completed the acquisition of the biosimilars business on August 31, 2017. The total consideration transferred was €5,931 million or €735 million. Taking account of the acquired net assets of €2,622 million or €341 million, goodwill amounted to €3,909 million and €394 million, respectively. On April 24, 2017 Fresenius announced to acquire Akorn Inc. As of December 31, 2017 the transaction has not been completed, yet.

The acquired identifiable assets and assumed liabilities are recognized in accordance with IFRS 3 at their fair value on the date of acquisition. Fresenius has appointed external experts to identify and measure the acquired assets and liabilities.

The identification and measurement of acquired assets and assumed liabilities is complex and based on discretionary assumptions made by the legal representatives. The key valuation-relevant assumptions relate to the respective sales planning and expected margin development of the acquired products and businesses, the assessment of the feasibility of development projects, the license rates that are considered comparable and therefore used for valuation purposes and the determination of the cost of capital.

The transferred consideration for the takeover of the biosimilars business includes contingent consideration in addition to a cash amount. These are linked to the achievement of agreed development and sales targets. The determination of the contingent purchase price liability is complex and based on discretionary assumptions of the legal representatives.

There is a risk that the fair value of the acquired assets and liabilities was incorrectly determined and that consequently the goodwill is incorrectly derived. Acquisition processes often include closing conditions. Non-Compliance with such closing conditions by either party to an acquisition could lead to litigation between the parties, with others and/or claims against Fresenius.

Finally, there is the risk that the disclosures in the notes to the consolidated financial statements are incomplete or inappropriate. The risks discussed in the Group Management Report may be incomplete or inadequate.

Our approach during the audit

We have assessed the appropriateness of the material assumptions and the identification and measurement procedures of the Company with the involvement of our valuation specialists. First of all, we gained an understanding of the acquisitions by evaluating the relevant contracts, interviewing the management of the company and the management of the acquired companies, as well as interviewing employees in the Finance department and M & A department.

We have agreed the respective total purchase prices with the underlying sales contracts and proof of payment. We have assessed the appropriateness of the assumptions underlying the determination of contingent consideration.

We assessed the competence, capabilities and objectivity of the independent experts appointed by Fresenius to evaluate the assets acquired. We also assessed the process of identifying assets acquired and liabilities assumed against the backdrop of our understanding of the business model for

compliance with IFRS 3 requirements. We have examined the valuation methods used for compliance with generally accepted valuation principles.

We discussed the expected sales and margin development with the planning managers. We also matched the budget set up by the legal representatives and approved by the Supervisory Board and assessed the consistency of the assumptions with industry-specific market assessments. The license rates used to value intangible assets were compared to benchmarks from relevant databases. We compared the assumptions and parameters underlying the cost of capital, in particular the risk-free interest rate, the market risk premium and the beta factor, with our own assumptions and publicly available data.

To assess the mathematical correctness of the valuation models, we have reconstructed selected calculations from a risk-oriented perspective.

Finally, we assessed whether the notes to the acquisition of Quirónsalud, the biosimilars business and the announced acquisition of Akorn Inc. are complete and appropriate and whether the Group Management Report discusses the related risks adequately.

Our conclusion

The approach underlying the identification and measurement of the acquired assets and assumed liabilities is appropriate and consistent with the accounting and valuation principles to be applied. The key assumptions and parameters are appropriate and the presentation within the notes to the consolidated financial statements is complete and appropriate. The discussion of risks associated with acquisitions is complete and adequate.

The recognition and measurement of the provision related to U.S. Foreign Corrupt Practices Act-investigations

For the accounting and valuation principles used, please refer to the notes to the consolidated financial statements note 1. IIIu. Explanatory notes on the procedure and ongoing investigations can be found in the notes to the consolidated financial statements, note 29, and in the group management report chapter legal risks.

Risk for the consolidated financial statements

Parts of the Company's business are characterized by competition for orders from customers directly or indirectly related to government entities. These types of transactions and the tenders that usually follow, include the risk of non-compliance. In addition, the Company operates in a number of countries where the use of external agents is standard business practice.

In the year 2012, the Company Fresenius Medical Care (FMC) has received guidance on practices outside of the United States that are in breach of U.S. Foreign Corrupt Practices Act or other anti-corruption laws. The FMC Supervisory Board has carried out its own investigations through its Audit and Corporate Governance Committee and with the help of independent lawyers. The results of the investigations were presented to the U.S. Securities and Exchange Commission and U.S. Department of Justice in several sessions.

Failure to comply with applicable law in this area may result in fines, penalties, prosecution, damages claims, and restrictions on future business practices that could materially affect the Company's results of operations. In order to avoid litigation, FMC is currently in discussions with the U.S. government authorities regarding a possible settlement. The discussions are still ongoing, so that in case of failure of the negotiations, a legal dispute with one or both authorities is possible.

Based on the ongoing settlement negotiations, FMC has made a provision of €200 million, which is based on the best estimate of the settlement amount. The provision takes into account government claims for profit sharing and provisions for fines and penalties, certain legal costs and other related costs or value adjustments. Both the recognition and measurement of this provision are based on discretionary assessments of FMC.

There is a risk for the consolidated financial statements that the provision recognized for this item is over or understated.

In addition, there is the risk that the required disclosures in the notes to the consolidated financial statements are incomplete or inappropriate.

Our approach during the audit

We received regular information about the results of the internal investigations and the course of the appointments with the U.S. government authorities. To this end, we mainly interviewed clients from the areas of corporate legal and corporate compliance and obtained information from the lawyers who carried out the investigation for FMC. FMC has also confirmed the current state of affairs in writing.

In addition, we held interviews with FMC's Chairman of the Supervisory Board, Chairman of FMC's Audit & Corporate Governance Committee, FMC Board members, and Corporate Accounting, Corporate Compliance, and Corporate Legal contacts. We evaluated the correspondence with relevant authorities with the help of our internal lawyers and appreciated the underlying documents and protocols.

Based on this information overall, we have assessed the assumptions made by FMC to determine the provision and have reviewed the calculation of the provision for mathematical accuracy.

Furthermore, we have assessed the completeness and accuracy of the disclosures made within the notes to the consolidated financial statements in relation to the facts.

Our conclusion

The provision of the provision for potential violations of the FCPA is appropriate. The calculation of the amount of the provision has been correct and the assumptions of FMC underlying this calculation are reasonable.

The notes to the consolidated financial statements contain all information necessary for this matter.

OTHER INFORMATION

The legal representatives are responsible for the other information. Other information includes the other parts of the annual report, with the exception of the audited consolidated financial statements and the group management report as well as our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial

performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as Group auditors by the Annual General Meeting on May 12, 2017. We were engaged by the Supervisory Board on December 6, 2017. We have been working continuously for more than 25 years for Fresenius SE & Co. KGaA and its legal predecessor as Group auditors.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Marcus Rohrbach.

Frankfurt am Main, February 26, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Rohrbach	Walter
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

REPORT OF THE SUPERVISORY BOARD

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

COOPERATION BETWEEN THE MANAGEMENT AND THE SUPERVISORY BOARD

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

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

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

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

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

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

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

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

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

MAIN FOCUS OF THE SUPERVISORY BOARD'S ACTIVITIES

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE

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

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

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

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

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

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

GROUP NONFINANCIAL REPORT

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

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

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

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

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

WORK OF THE COMMITTEES

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

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

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

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

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

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

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

PERSONNEL

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

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

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

The Supervisory Board of Fresenius SE & Co. KGaA

Dr. Gerd Krick
Chairman

BOARDS

SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

Dr. Gerd Krick

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

Chairman

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

Prof. Dr. med. D. Michael Albrecht

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

Offices
Supervisory Board
GÖK Consulting AG
Universitätsklinikum Aachen

Michael Diekmann

Member of various Supervisory Boards

Deputy Chairman

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

Konrad Kölbl

Full-time Works Council Member

Member of the Manual Workers' Works Council of VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H.

Chairman of the Group Works Council of VAMED AG

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

Corporate Offices
Supervisory Board
VAMED-KMB Krankenhausmanagement und Betriebsführungsges. m.b.H., Austria

Stefanie Lang

Full-time Works Council Member

Chairman of the Works Council of Fresenius Medical Care Deutschland GmbH

Frauke Lehmann

Full-time Works Council Member

Chair of the Works Council of Helios Kliniken Schwerin GmbH

Member of the Group Works Council of Helios Kliniken GmbH

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

Corporate Offices
Supervisory Board
Helios Kliniken Schwerin GmbH (Deputy Chairman)

Prof. Dr. med. Iris Löw-Friedrich

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

Offices
Supervisory Board
Evotec AG

Klaus-Peter Müller

Chairman of the Supervisory Board of Commerzbank AG

Offices
Supervisory Board
Commerzbank AG (Chairman)
Fresenius Management SE

Board of Directors
Parker Hannifin Corporation, USA

Oscar Romero de Paco

Production staff member

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

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

SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

Hauke Stars

Member of the Executive Board
Deutsche Börse AG

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

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

Rainer Stein

Full-time Works Council Member

Chairman of the Group Works Council of Helios Kliniken GmbH

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

Corporate Offices
Supervisory Board
Helios Klinikum Berlin-Buch GmbH

Niko Stumpfögger

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

Deputy Chairman

COMMITTEES OF THE SUPERVISORY BOARD

Audit Committee

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

Nomination Committee

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

Joint Committee[1]

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

[1] The committee consists equally of two members each of the Supervisory Board of Fresenius SE & Co. KGaA and of Fresenius Management SE.

MANAGEMENT BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

Stephan Sturm

Chairman

Chief Financial Officer

(until July 31, 2017)

Corporate Offices
Supervisory Board
Fresenius Kabi AG (Chairman)
Fresenius Medical Care Management AG (Chairman)
VAMED AG, Austria (Deputy Chairman)

Offices
Supervisory Board
Deutsche Lufthansa AG

Dr. Francesco De Meo

Business Segment Fresenius Helios

Corporate Offices
Supervisory Board
Helios Beteiligungs AG (Chairman)
Helios Kliniken Schwerin GmbH (Chairman)

Rachel Empey

Chief Financial Officer

(since August 1, 2017)

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

Offices
Board
Inchcape plc (Non-Executive Director)

Dr. Jürgen Götz

Chief Legal and Compliance Officer,

and Labor Relations Director

Mats Henriksson

Business Segment Fresenius Kabi

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

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

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

Rice Powell

Business Segment

Fresenius Medical Care

Corporate Offices
Administrative Board
Vifor Fresenius Medical Care Renal Pharma Ltd.,
Switzerland (Vice Chairman)

Board of Directors
Fresenius Medical Care Holdings, Inc., USA
(Chairman)

Dr. Ernst Wastler

Business Segment Fresenius Vamed

Corporate Offices
Supervisory Board
Charité CFM Facility Management GmbH
(Deputy Chairman)
VAMED-KMB Krankenhausmanagement und
Betriebsführungsges. m.b.H., Austria (Chairman)

SUPERVISORY BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

Dr. Gerd Krick

Chairman

Dr. Kurt Bock

Chief Executive Officer BASF SE

Michael Diekmann

Klaus-Peter Müller

Dr. Dieter Schenk

Lawyer and Tax Consultant

Deputy Chairman

Offices

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

Foundation Board
Else Kröner-Fresenius-Stiftung (Chairman)

Dr. Karl Schneider

Former Spokesman of Südzucker AG

Offices

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

GLOSSARY

Health care terms/Products and services

Administrative data
Data transmitted to sickness funds as part of the billing process or to federal agencies like the German Federal Statistical Office due to legal requirements. In Germany, this includes information about coded diagnoses and procedures.

Albumin
Protein that is indicative of a patient's general nutritional status.

Apheresis
A medical technology in which the blood of a person is passed through a device that separates out one particular blood component and returns the remainder to the circulation. This technology is used for the collection of various blood components by donors, as well as for therapeutic applications for patients.

Biosimilars
A biosimilar is a drug that is "similar" to another biologic drug already approved.

Blood volume substitutes
They are used for the temporary stabilization and/or maintenance of blood volume, for example, in the event of major blood loss.

Dialysis
Form of renal replacement therapy where a semipermeable membrane – in peritoneal dialysis the peritoneum of the patient, in hemodialysis the membrane of the dialyzer – is used to clean a patient's blood.

Dialysis machine
The hemodialysis process is controlled by a dialysis machine, which pumps blood, adds anticoagulants, regulates the cleansing process, and controls the mixture of dialysate and its flow rate through the system.

Dialysis solution/Dialysate
Fluid used in the process of dialysis in order to remove the filtered out substances and excess water from the blood.

Dialyzer
Special filter used in hemodialysis for removing toxic substances, waste products of metabolic processes, and excess water from the blood. The dialyzer is sometimes referred to as the "artificial kidney".

Enteral nutrition
Application of liquid nutrition as a tube or sip feed via the gastrointestinal tract.

EPO (Erythropoietin)
Hormone that stimulates red blood cell production. Recombinant (i. e., artificially produced) human EPO is commonly prescribed to patients on dialysis who suffer from anemia.

FDA (U.S. Food & Drug Administration)
Official authority for food observation and drug registration in the United States.

HD (Hemodialysis)
A treatment method for dialysis patients where the blood of the patient is cleansed by a dialyzer. The solute exchange between blood and dialysate is dominated by diffusive processes.

Health care terms/Products and services

Hemoglobin
Component of red blood cells that transports oxygen around the body. An insufficient level of hemoglobin is indicative of anemia, which typically occurs in patients with chronic kidney failure. Besides dialysis, anemia is treated with iron supplements and the hormone compound erythropoietin (EPO).

Kt/V value
Provides information on urea content in the blood. Urea is mostly excreted by healthy kidneys, but for dialysis patients it must be filtered from the blood through renal replacement therapy. The Kt/V value shows whether a patient was detoxified effectively during dialysis.

Medicare/Medicaid
A program developed by the federal U.S. Social Security Administration that reimburses health insurance companies and providers of medical services for medical care to individuals over 65, people with chronic kidney failure, or the disabled.

Outpatient clinic
Interdisciplinary facility for outpatient care, managed by physicians. The responsible body of a medical care center includes all service providers (such as physicians, pharmacists, health care facilities), which are authorized to treat patients with statutory health insurance.

Parenteral nutrition
Application of nutrients directly into the bloodstream of the patient (intravenously). This is necessary if the condition of a patient does not allow them to absorb and metabolize essential nutrients orally or as sip and tube feed in a sufficient quantity.

PD (Peritoneal dialysis)
Dialysis treatment method using the patient's peritoneum as a filter to cleanse their blood.

Phosphate
Phosphate concentrations show whether treating the patient with dialysis and medication is sufficient for the body to absorb phosphate ingested with food. Healthy people excrete excess phosphate via the kidney, but a diseased kidney is unable to do this. If the phosphate concentrations in the blood are too high, this can lead to severe conditions.

Prevalence
Number of all patients who suffer from a specific disease within a defined period. The prevalence rate indicates the number of people with this specific disease (e.g., terminal kidney failure) treated per million population.

PPP (public-private partnership model)
Public-private partnership describes a government service or private business venture that is funded and operated through a partnership of government and one or more private-sector companies. In most cases, PPP accompanies a part-privatization of governmental services.

Three-chamber bag
The three-chamber bag contains all the macronutrients like amino acids, glucose, and lipids, as well as electrolytes, in three separate chambers. Immediately before infusion, all nutrients are mixed thoroughly within the bag simply by opening individual chambers. This reduces the risk of contamination and saves time when preparing the infusions.

Financial terms[1]

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

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

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

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

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

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

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

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

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

DSO (Days Sales Outstanding)
Indicates the average number of days it takes for a receivable to be paid.

EBIT (Earnings before Interest and Taxes)
EBIT does include depreciation and write-ups on property, plant and equipment.

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

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

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)
EBITDA is calculated from EBIT by adding depreciations recognized in income and deducting write-ups recognized in income, both on intangible assets as well as property, plant and equipment.

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

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

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

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

[1] Integral part of Group Management Report

Financial terms[1]

RECONCILIATION OF AVERAGE INVESTED CAPITAL AND ROIC

€ in millions, except for ROIC	December 31, 2017	December 31, 2016	December 31, 2015
Total assets	**53,133**	46,697	43,233
Plus: Cumulative goodwill amortization	**501**	553	539
Minus: Cash and cash equivalents	**-1,636**	-1,579	-1,044
Minus: Loans to related parties	**-56**	-51	-109
Minus: Deferred tax assets	**-744**	-627	-599
Minus: Accounts payable	**-1,688**	-1,315	-1,291
Minus: Accounts payable to related parties	**-42**	-57	-9
Minus: Provisions and other current liabilities[1]	**-6,921**	-6,006	-5,278
Minus: Income tax payable	**-420**	-478	-416
Invested capital	**42,127**	37,137	35,026
Average invested capital as of December 31, 2017/2016[2]	**43,129**	36,271	
Operating income[3, 4]	**4,783**	4,291	
Income tax expense[4]	**-1,349**	-1,206	
NOPAT[3, 4]	**3,434**	3,085	
ROIC in %	**8.0%**	8.5%	

[1] Includes non-current provisions and payments outstanding for acquisition; does not include pension liabilities and noncontrolling interest subject to put provisions.
[2] Includes adjustments for acquisitions in the respective reporting period with a purchase price above a certain level (2017: €6,993 million; 2016: €378 million).
[3] Includes adjustments for acquisitions in the respective reporting period with a purchase price above a certain level (2017: -€47 million; 2016: -€11 million).
[4] 2017 before special items

For a detailed overview of special items and adjustments please see the reconciliation table on page 40.

RECONCILIATION OF AVERAGE OPERATING ASSETS AND ROOA

€ in millions, except for ROOA	December 31, 2017	December 31, 2016	December 31, 2015
Total assets	**53,133**	46,697	43,233
Minus: Payments received on account	**-53**	-87	-75
Minus: Cash held in trust	**-183**	-61	-57
Minus: Loans to related parties	**-56**	-51	-109
Minus: Deferred tax assets	**-744**	-627	-599
Minus: Accounts payable	**-1,688**	-1,315	-1,291
Minus: Accounts payable to related parties	**-42**	-57	-9
Minus: Approved subsidies due to Hospital Funding Act ("Krankenhausfinanzierungsgesetz", KHG)	**-175**	-180	-191
Operating assets	**50,192**	44,319	40,902
Average operating assets as of December 31, 2017/2016[1]	**50,717**	42,821	
Operating income[2, 3]	**4,783**	4,291	
ROOA in %	**9.4%**	10.0%	

[1] Includes adjustments for acquisitions in the respective reporting period with a purchase price above a certain level (2017: €6,923 million; 2016: €421 million).
[2] Includes adjustments for acquisitions in the respective reporting period with a purchase price above a certain level (2017: -€47 million; 2016: -€11 million).
[3] 2017 before special items

For a detailed overview of special items and adjustments please see the reconciliation table on page 40.

[1] Integral part of Group Management Report

Financial terms[1]

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 Group Management Report

IMPRINT

Commercial Register: Bad Homburg v. d. H.; HRB 11852
Chairman of the Supervisory Board: Dr. Gerd Krick

General Partner: Fresenius Management SE
Registered Office and Commercial Register: Bad Homburg v. d. H.; HRB 11673
Management Board: Stephan Sturm (President and CEO), Dr. Francesco De Meo, Rachel Empey, Dr. Jürgen Götz, Mats Henriksson, Rice Powell, Dr. Ernst Wastler
Chairman of the Supervisory Board: Dr. Gerd Krick

The German version of this Annual Report is legally binding.
The editorial closing date of this Annual Report was on March 16, 2018, and it was published on March 21, 2018. Rounding differences may occur.

The Annual Report and the financial statements of Fresenius SE & Co. KGaA are available on our website and may be obtained upon request under Investor Relations.

You will find further information and current news about our company on our website at: www.fresenius.com.

Forward-looking statements:
This Annual Report contains forward-looking statements. These statements represent assessments that we have made on the basis of the information available to us at the time. Should the assumptions on which the statements are based not occur, or if risks should arise – as mentioned in the risk report and the SEC filings of Fresenius Medical Care AG & Co. KGaA – the actual results could differ materially from the results currently expected.

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FINANCIAL CALENDAR

Report on 1st quarter 2018 Conference call, live webcast	May 3, 2018
Annual General Meeting, Frankfurt am Main, Germany	May 18, 2018
Payment of dividend[1]	May 24, 2018
Capital Markets Day Live webcast	June 7/8, 2018
Report on 2nd quarter 2018 Conference call, live webcast	July 31, 2018
Report on 3rd quarter 2018 Conference call, live webcast	October 30, 2018

[1] Subject to prior approval by the Annual General Meeting

Schedule updates, information on live webcasts, and other events at www.fresenius.com/events-and-presentations

FRESENIUS SHARE / ADR

	Ordinary share		ADR
Securities identification no.	578 560	CUSIP	35804M105
Ticker symbol	FRE	Ticker symbol	FSNUY
ISIN	DE0005785604	ISIN	US35804M1053
Bloomberg symbol	FRE GR	Structure	Sponsored Level 1 ADR
Reuters symbol	FREG.de	Ratio	4 ADR = 1 share
Main trading location	Frankfurt/Xetra	Trading platform	OTCQX

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