

# 2016

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ANNUAL REPORT

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**FRESENIUS GROUP IN FIGURES (U.S. GAAP)**

€ in millions	2016	2015	2014	2013	2012
<b>Sales and Earnings</b>					
Sales	29,083	27,626	23,231	20,331	19,290
EBITDA <sup>1</sup>	5,500	5,073	4,095	3,888	3,851
EBIT <sup>1</sup>	4,327	3,958	3,158	3,045	3,075
Net income <sup>2</sup>	1,593	1,423	1,086	1,051	938
Depreciation and amortization	1,173	1,115	937	843	776
Earnings per share in € <sup>2</sup>	2.92	2.61	2.01	1.96	1.81
<b>Cash flow and Balance sheet</b>					
Operating cash flow	3,574	3,327	2,585	2,320	2,438
Operating cash flow in % of sales	12.3%	12.0%	11.1%	11.4%	12.6%
Total assets	46,447	42,959	39,788	32,663	30,558
Non-current assets	34,648	32,480	29,776	24,703	22,456
Equity <sup>3</sup>	20,420	18,003	15,483	13,260	12,758
Equity ratio <sup>3</sup>	44%	42%	39%	41%	42%
Net debt	13,201	13,725	14,170	11,845	10,037
Net debt/EBITDA <sup>4,5</sup>	2.34	2.68	3.24	2.54	2.57
Investments <sup>6</sup>	2,547	2,029	3,795	3,827	4,179
<b>Profitability</b>					
EBIT margin <sup>1</sup>	14.9%	14.3%	13.6%	15.0%	15.9%
Return on equity after taxes (ROE) <sup>2</sup>	12.7%	13.0%	11.6%	12.8%	12.3%
Return on operating assets (ROOA) <sup>4</sup>	10.1%	10.1%	9.1%	10.6%	11.0%
Return on invested capital (ROIC) <sup>4</sup>	8.5%	8.3%	7.5%	8.8%	9.0%
Dividend per share in €	0.62 <sup>7</sup>	0.55	0.44	0.42	0.37
Employees (December 31)	232,873	222,305	216,275	178,337	169,324

<sup>1</sup> 2012–2015 before special items

<sup>2</sup> Net income attributable to shareholders of Fresenius SE & Co. KGaA; 2012–2015 before special items

<sup>3</sup> Including noncontrolling interest

<sup>4</sup> 2016 pro forma acquisitions; 2012–2015 before special items; 2014 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; 2012 pro forma acquisitions

<sup>5</sup> At LTM average exchange rates for both net debt and EBITDA

<sup>6</sup> Investments in property, plant and equipment, and intangible assets, acquisitions

<sup>7</sup> Proposal

## FRESENIUS MEDICAL CARE

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

	2016 US\$ in millions	2015 US\$ in millions	Change
Sales	17,911	16,738	7%
EBIT	2,638	2,327	13%
Net income <sup>1</sup>	1,243	1,029	21%
Operating cash flow	2,140	1,960	9%
Capital expenditure/ acquisitions	1,887	1,380	37%
R & D expenses	162	140	16%
Employees (December 31)	116,120	110,242	5%

## FRESENIUS KABI

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

	2016 € in millions	2015 € in millions	Change
Sales	6,007	5,950	1%
EBIT	1,224	1,189 <sup>2</sup>	3%
Net income <sup>1</sup>	716	669 <sup>2</sup>	7%
Operating cash flow	991	913	9%
Capital expenditure/ acquisitions	436	389	12%
R & D expenses	353	336 <sup>2</sup>	5%
Employees (December 31)	34,917	33,195	5%

## FRESENIUS HELIOS

HOSPITAL OPERATION

	2016 € in millions	2015 € in millions	Change
Sales	5,843	5,578	5%
EBIT	682	640 <sup>2</sup>	7%
Net income <sup>1</sup>	543	483 <sup>2</sup>	12%
Operating cash flow	622	618	1%
Capital expenditure/ acquisitions	390	376	4%
Order intake	n/a	n/a	
Employees (December 31)	72,687	69,728	4%

## FRESENIUS VAMED

PROJECTS AND SERVICES  
FOR HOSPITALS AND  
OTHER HEALTH CARE FACILITIES

	2016 € in millions	2015 € in millions	Change
Sales	1,160	1,118	4%
EBIT	69	64	8%
Net income <sup>1</sup>	45	44	2%
Operating cash flow	27	53	-49%
Capital expenditure/ acquisitions	11	15	-27%
Order intake	1,017	904	13%
Employees (December 31)	8,198	8,262	-1%

<sup>1</sup> Net income attributable to the parent company of the respective business segment

<sup>2</sup> Before special items

For a detailed overview of special items please see the reconciliation table on page 44.



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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 230,000 employees have dedicated themselves to the service of health in over 100 countries worldwide.

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**Stephan Sturm**  
Chairman of the Management Board

Dear shareholders,

It is with great pleasure that I write to you today – for the first time in my position as Fresenius' Chief Executive Officer. I am excited, and honored, to be leading this great and unique company. As you know, I am not new to Fresenius. As Chief Financial Officer since 2005, I worked very closely with my predecessor as CEO, Ulf Mark Schneider. I helped to further advance a company that always puts patients first, and whose products and services stand for quality and reliability. A company whose employees never get complacent about what has already been achieved, but instead work hard to find even better solutions. This is the path we will continue to pursue with consistency and commitment.

2016 was a very eventful year for Fresenius. Each of our four business segments continued to make progress. A milestone was the acquisition of the Spanish hospital operator Quirónsalud by Fresenius Helios. Based on the purchase price, this was the largest acquisition in Fresenius' history.

Quirónsalud is Spain's leading private hospital operator. Its network comprises 43 hospitals, 39 outpatient centers and about 300 occupational risk prevention centers, located in every metropolitan region of Spain. With Quirónsalud and Germany-based Fresenius Helios, we combine two leaders in terms of quality and size. It is an acquisition offering more than just growth and synergy potential: The opportunity to exchange knowledge and experience will lead to improved medical care for our patients in both countries.

The acquisition of Quirónsalud turns Fresenius Helios international – as Fresenius Medical Care, Fresenius Kabi and Fresenius Vamed have been for decades. This creates additional opportunities for cooperation among our four business segments, initially in Spain but prospectively in other countries as well.

Fresenius Helios also remains highly successful in its home market. Last summer we acquired the Niederberg Hospital in North Rhine-Westphalia, the company's 112th hospital across Germany. We have further increased the number of patients treated – and invested almost €350 million in upgrading and modernizing our facilities. This is something we will continue to do. In Wiesbaden, for example, we will spend well over €200 million on a completely new hospital building with more than 900 beds and 22 operating rooms. That is a large investment. But when completed in 2020, it will be a highly modern facility with a functional design concept that minimizes distances for both patients and staff. And one that will improve the medical quality we can provide.

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» We successfully developed our activities in all four business segments. «

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We reached another milestone last autumn, when Fresenius Medical Care celebrated its 20th anniversary. Fresenius had been active in renal replacement therapy since back in the late 1960s, but only with Fresenius Medical Care's founding in 1996 did we evolve from a pure product supplier to a vertically integrated dialysis company, offering dialysis treatment as well as dialysis products. Over the next 20 years, Fresenius Medical Care increased its number of patients five-fold, dialyzer production 10-fold, and sales 12-fold, further expanding its position as the world's leading dialysis company.



Fresenius Medical Care introduced a completely new generation of hemodialysis machines – the 6008 CAREsystem

Among our many steps to further improve dialysis therapy, Fresenius Medical Care last year introduced a completely new generation of hemodialysis machines – the 6008 CARE-system. It simplifies the workflow for clinical staff, reduces waste, and makes overall treatment even safer and more efficient. We increased the number of our dialysis clinics, in part by acquiring India's second-largest dialysis chain, Sandor Nephro Services. We further expanded our Care Coordination initiative with services in dialysis-related areas. And by acquiring Xenios AG in Germany, we extended our range of services into the area of cardiac and lung therapies.

Fresenius Kabi also continued to grow in all regions and product areas. A particular highlight was the resumption of strong growth in China and Latin America. We broadened our product offering worldwide – in intravenous generics alone we launched about 80 new products. In the United States we acquired a production facility for prefilled syringes, and continued to invest in the high quality and efficiency of our

manufacturing processes. Our plant in Melrose Park, near Chicago, will be significantly expanded and modernized for around US\$250 million. In addition, we have started an expansion of our medical disposables plant in Mihla, eastern Germany.

With order intake surpassing the €1 billion mark for the first time, and further sales growth in both its project and services businesses, Fresenius Vamed also developed very well last year. Europe remains Fresenius Vamed's most important region in terms of sales, but we are continuously expanding our activities in Africa, Asia, Latin America and the Middle East. Fresenius Vamed is thereby doing important pioneering work to make high-quality medical care accessible to a steadily increasing number of patients around the world. In this way we are opening the healthcare markets of the future.

All these successes combined to make 2016 Fresenius' 13th consecutive record year. Our sales and net income rose strongly, and, subject to shareholder approval at our Annual General Meeting, we will increase our dividend for the 24th consecutive time. Once again, we have shown that even in times of political and economic uncertainty our company posts stable growth. The same can be said of our share price. Fresenius shares gained 13 percent in 2016, while Germany's DAX index rose about 7 percent. Since last year, all three leading rating agencies award Fresenius an "Investment Grade" corporate credit rating – additional proof of the financial markets' trust in our company's stability, efficiency and potential.



A milestone was the acquisition of the Spanish hospital operator Quirónsalud by Fresenius Helios.

There is every reason to believe that we can continue this very successful development. This year, we expect to increase sales by 15 to 17 percent and net income by even more – 17 to 20 percent. We also see outstanding medium- to long-term growth potential for Fresenius. Accordingly, we have set ambitious new targets for the 2020 business year: We are aiming for sales of €43 to €47 billion by then, with net income of between €2.4 and €2.7 billion. This means our goal is to increase both sales and net income by about 50 percent over the next four years.

Growth and size are not ends in themselves, however. Their greatest value is in serving our most important goal – our patients' health and well-being. Only if we are successful as a business can we develop new therapies and invest in better, yet affordable medicine. Similarly, size is an important factor. Consider Fresenius Helios, which can draw on comparative data from its more than 100 hospitals in Germany: The quality management system we have established, based on this data, is industry-leading in terms of its structure and transparency. In addition, doctors and nurses from all specialist



areas exchange information with their colleagues at other Fresenius Helios hospitals – a knowledge transfer that will be taken to an even higher level following the acquisition of Quirónsalud.

At Fresenius Medical Care, our patients benefit from the experience gained in more than 3,500 dialysis clinics in almost 50 countries. We use this knowledge to further refine procedures in our clinics, improve treatments, and continually develop our dialysis products. Not least for these reasons, Fresenius Medical Care has long been the market and technology leader – and we have every intention to keep it that way. In our effort to better coordinate the many medical services related to dialysis – what we call Care Coordination – Fresenius Medical Care’s size, economic strength and enormous experience are huge advantages. They are decisive factors enabling us to provide even better, more comprehensive care to our patients.

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» Bringing continuous improvements in care to ever more people will remain our challenge, well into the future. «

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Size also helps us at Fresenius Kabi to strengthen our capability to assure a steady supply of urgently needed, highest-quality drugs for patients. Only a large, economically successful company can afford huge investments in production processes, such as those we are making in Melrose Park. We take production technologies, develop them further inside our company and then introduce them into our plants worldwide.

Thanks to our international production network, encompassing some 70 facilities on every continent, we can react quickly to increases in demand and ensure that patients are supplied reliably with often life-saving drugs.

Fresenius Vamed, meanwhile, has implemented almost 800 health care projects in about 80 countries. The company is clearly the market leader in its field, and our size gives us access to a uniquely wide range of experience. This helps us, in turn, to design customized solutions for health care facilities around the world – both in the industrialized countries and in the developing nations.

For all these reasons we want to continue growing, and we will. Because growth will enable us to offer even better products and treatments, and contribute to the provision of high-quality, yet affordable health care. Bringing continuous improvements in care to ever more people will remain our challenge, well into the future.

I am very happy and proud that, as CEO, I have the opportunity to lead our company as we pursue these goals. As our valued shareholders, you should also be proud of your commitment and dedication to Fresenius. It is your investments and your trust that are helping us to continue growing. For that, I want to thank you most sincerely.

Yours,

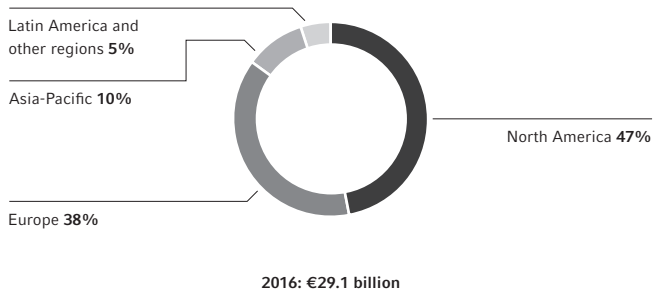
Stephan Sturm  
Chairman of the Management Board

## SUMMARY OF THE FISCAL YEAR

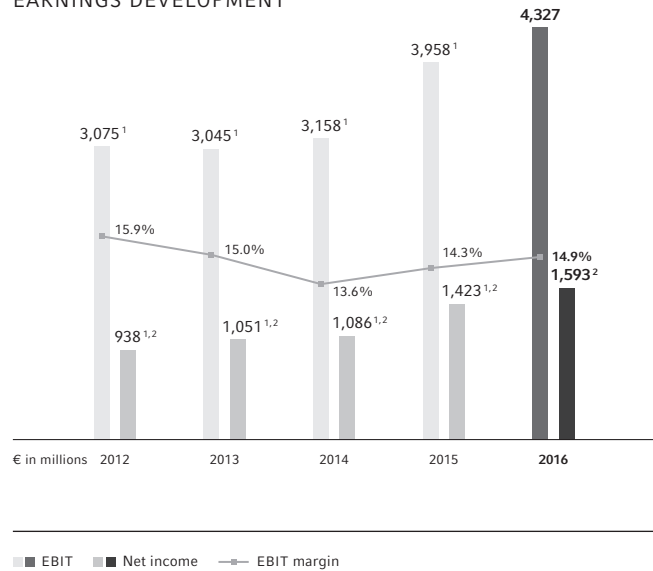
**SALES.** Group sales increased by 5% to €29,083 million (2015: €27,626 million). Organic sales growth was 6%. Acquisitions contributed 1%. Divestitures reduced sales growth by 1%. Currency translation had a negative effect of 1%.

**EARNINGS.** Group EBIT<sup>1</sup> increased to €4,327 million. The EBIT margin was 14.9%. Group net income<sup>1,2</sup> increased by 12% to €1,593 million. Growth in constant currency was 13%.

### SALES BY REGION



### EARNINGS DEVELOPMENT



<sup>1</sup> Before special items

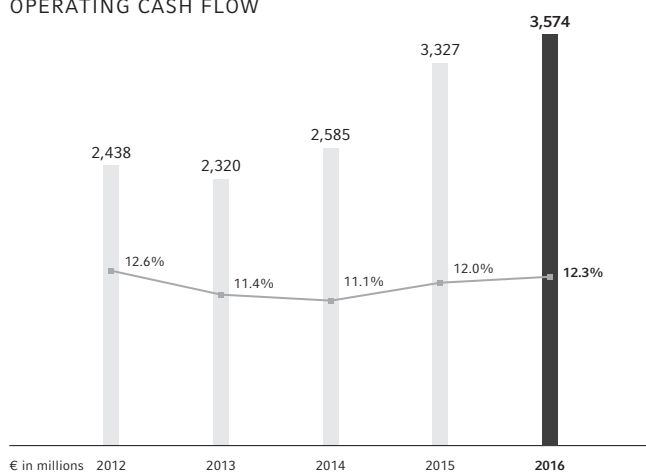
<sup>2</sup> Net income attributable to the shareholders of Fresenius SE & Co. KGaA

For a detailed overview of special items please see the reconciliation table on page 44.

**CASH FLOW.** Operating cash flow increased by 7% to €3,574 million. The cash flow margin increased to 12.3%. Cash flow before acquisitions and dividends increased by 6% to €1,971 million.

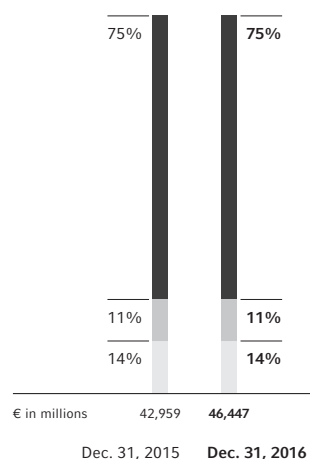
**BALANCE SHEET.** Total assets increased by 8% to €46,447 million, mainly due to business expansion. Total shareholders' equity, including noncontrolling interest, increased by 13% to €20,420 million. As of December 31, 2016, the net debt/ EBITDA ratio was 2.34<sup>3,5</sup> (December 31, 2015: 2.68<sup>3,4</sup>).

OPERATING CASH FLOW

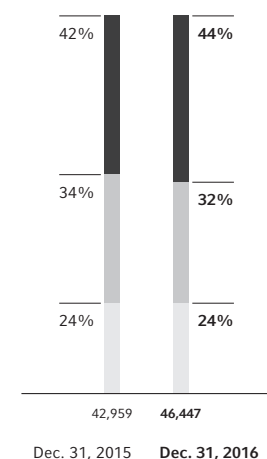


■ Operating cash flow — Operating cash flow margin

ASSETS



EQUITY AND LIABILITIES



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

<sup>3</sup> At LTM average exchange rates for both net debt and EBITDA  
<sup>4</sup> Before special items  
<sup>5</sup> Pro forma acquisitions

**FRESENIUS SHARE.** Fresenius shares continued their excellent performance in 2016, reaching a record high of €74.26 in December. With an increase of 13%, Fresenius significantly outperformed the DAX.

#### STOCK MARKETS AND DEVELOPMENT OF THE FRESENIUS SHARE

Following the year's volatile start and the surprising result of the Brexit referendum, financial markets recovered in the course of the year. The slight recovery of the global economy had a calming effect on the markets.

The **DAX** increased by 7%; the **EURO STOXX 50** gained 1% for the year. The **STOXX Europe 600** index ended the year down by 1%. In this index, the subsector health care decreased by 10%. The leading U.S. indices performed as follows: the **S & P 500** increased by 10%, while the **Dow Jones Industrial Average** increased by 13%.

The closing price for the Fresenius share on December 31, 2016, was €74.26. This represents a gain of 13% over the closing price of 2015.

In a comparison over five years, the Fresenius share outperformed its benchmark DAX by 117 percentage points.

While the DAX rose by 95% over this period, the Fresenius share gained 212%.

The **market capitalization** of Fresenius was €40.6 billion as of December 31, 2016, an increase of 13% compared to the previous year. The average daily **trading volume** on **Xetra** decreased by 15% to 1,176,579 Fresenius shares compared to the previous year (2015: 1,390,878). DAX trading volume remained nearly unchanged 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.

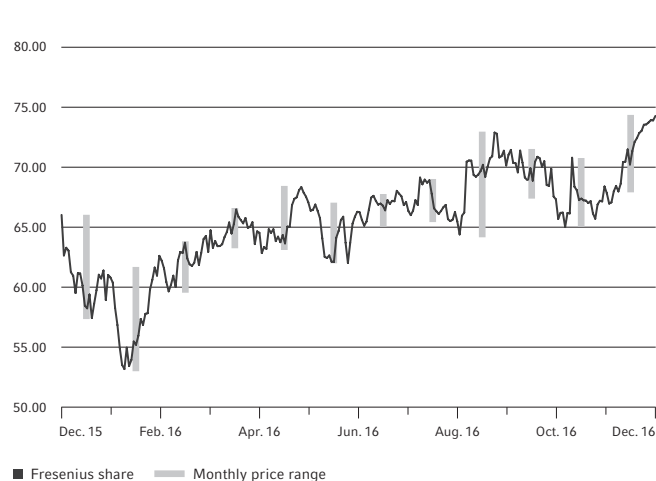
#### CAPITAL STRUCTURE

The total number of issued shares at the end of 2016 was 547,208,371 (December 31, 2015: 545,727,950 shares). The increase is due to the exercise of options under the stock

RELATIVE SHARE PRICE PERFORMANCE 2011 – 2016  
FRESENIUS SHARE VS. DAX



ABSOLUTE SHARE PRICE PERFORMANCE 2016  
FRESENIUS SHARE IN €



option plans. Information on stock option plans can be found on pages 173 to 180 of the Notes to this Annual Report.

## DIVIDEND

In 2016, Fresenius again delivered excellent financial results. For the 24th consecutive year, we are proposing to our shareholders to increase the dividend – by 13% per share, to €0.62 (2015: €0.55). The total proposed dividend distribution will

be €343.1 million, equivalent to 22% of Group net income. Based on the proposed dividend and the closing price at the end of 2016, the dividend yield is 0.8%.

Fresenius shares are an attractive investment. Anyone who invested €1,000 five years ago and reinvested the dividends would have increased their capital to €3,179 as of December 31, 2016. That is an average annual return of 27% (before expenses and taxes).

## KEY DATA OF THE FRESENIUS SHARE

	2016	2015	2014	2013	2012
Number of shares	547,208,371	545,727,950	541,532,600	539,084,487	534,564,780
Stock exchange quotation <sup>1</sup> in €					
High	74.26	69.75	44.12	37.31	32.12
Low	53.05	42.41	35.00	27.30	24.02
Year-end quotation	74.26	65.97	43.16	37.20	29.03
Market capitalization <sup>2</sup> in million €	40,636	36,002	23,373	20,054	15,520
Total dividend distribution in million €	343.1 <sup>3</sup>	300.2	238.3	224.6	196.0
Dividend per share in €	0.62 <sup>3</sup>	0.55	0.44	0.42	0.37
Earnings per share in €	2.92 <sup>4</sup>	2.61 <sup>4</sup>	2.01 <sup>4</sup>	1.96 <sup>4</sup>	1.81 <sup>4</sup>

<sup>1</sup> Xetra closing price on the Frankfurt Stock Exchange

<sup>2</sup> Total number of ordinary shares multiplied by the respective Xetra year-end quotation on the Frankfurt Stock Exchange

<sup>3</sup> Proposal

<sup>4</sup> Net income attributable to shareholders of Fresenius SE & Co. KGaA; 2012–2015 before special items

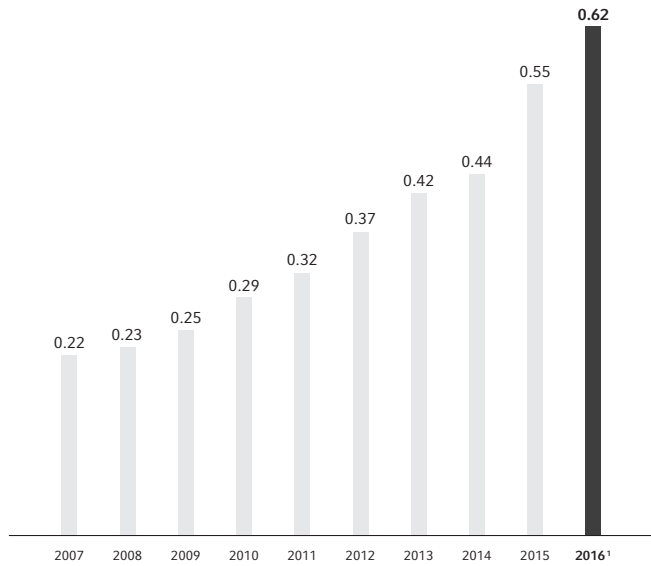
In September 2016, in the awards for the best European dividend shares, hosted by the society DividendenAdel, Fresenius SE & Co. KGaA received a special DividendenAdel award. With this award, the jury honored the annual dividend increases that Fresenius shares have seen for more than two decades.

### SHAREHOLDER STRUCTURE

The charts below show the shareholder structure by the end of 2016. The Else Kröner-Fresenius Foundation was the largest shareholder of Fresenius SE & Co. KGaA, with 26.44% of the shares. According to notifications pursuant to the German Securities Trading Act (WpHG), Allianz Global Investors GmbH held 5.11% of the shares and BlackRock, Inc. held 4.98%. For further information on notifications, please visit [www.fresenius.com/shareholder-structure](http://www.fresenius.com/shareholder-structure).

As of December 31, 2016, a **shareholder survey** identified the ownership of about 92% of our subscribed capital. The shareholder base of Fresenius is solid: a total of more than 580 institutional investors held about 330.1 million shares or 60% of the subscribed capital; 27.8 million shares were identified as retail holdings. The **top-ten investors** held about 20% of the share capital. Our shares were mostly held by investors in Germany, the United States, and Great Britain.

### DEVELOPMENT OF DIVIDENDS IN €

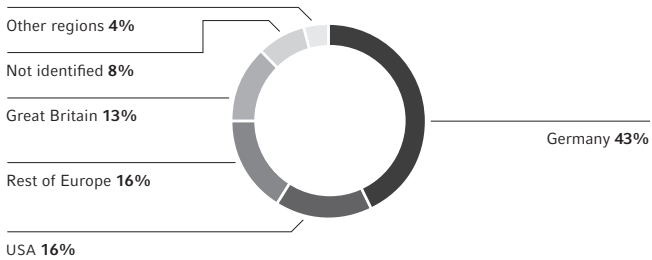


<sup>1</sup> Proposal

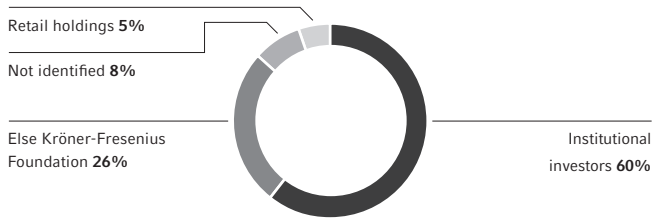
### ANALYST RECOMMENDATIONS

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 21, 2017, we were rated with 17 "buy", 6 "hold", and no "sell" recommendations.

### SHAREHOLDER STRUCTURE BY REGION



### SHAREHOLDER STRUCTURE BY INVESTORS<sup>1</sup>



<sup>1</sup> Due to rounding differences the figures do not add up to 100%

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](http://www.fresenius.com/analysts-and-consensus).

## 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 2016. In addition to its quarterly conference calls and webcasts, Fresenius gave presentations in all the major European and U.S. financial markets. We expanded our contacts with institutional investors and analysts at 31 international investor conferences, 10 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. Fresenius did

## ANALYST RECOMMENDATIONS



particularly well this time, with its investor relations team being named the best in the MedTech sector in Europe.

We also continued the dialog with our **private investors**, especially via the Internet. At [www.fresenius.com/events-and-presentations](http://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.

If you would like to contact us or find out about our 2017 financial calendar, please take a look at the last page of this report or visit us at [www.fresenius.com/investors](http://www.fresenius.com/investors).

**FRESENIUS MEDICAL CARE.** In 2016, Fresenius Medical Care achieved strong sales and earnings growth. We further strengthened our leading position in the global dialysis market – especially in the services area.

Fresenius Medical Care is the world's leading provider of dialysis products and services for individuals with chronic kidney failure. 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. As a vertically integrated company, Fresenius Medical Care offers services and dialysis products along the entire dialysis value chain in over 120 countries. Fresenius Medical Care has a worldwide network of 37 production sites. We further expanded our leading market position in 2016: we treated 308,471 patients in 3,624 dialysis clinics worldwide. The number of treatments increased by 4% to 46.5 million.

#### BUSINESS DEVELOPMENT

Fresenius Medical Care increased sales by 7% to US\$17,911 million in 2016 (2015: US\$16,738 million). Organic sales growth was 7%. Acquisitions/divestitures increased sales by 1%. Currency effects negatively affected sales by 1%.

Health care services sales (dialysis services and Care Coordination) increased by 8% (9% in constant currency) to US\$14,519 million (2015: US\$13,392 million). Dialysis product sales increased by 1% (4% in constant currency) to US\$3,392 million (2015: US\$3,346 million).

EBIT increased by 13% to US\$2,638 million (2015: US\$2,327 million). The EBIT margin was 14.7% (2015: 13.9%). Before one-time items<sup>1</sup>, EBIT increased by 10%.

Net income<sup>2</sup> increased by 21% to US\$1,243 million (2015: US\$1,029 million). Before one-time items<sup>3</sup>, net income increased by 16%.

#### SALES BY REGION

US\$ in millions	2016	2015	Change	Currency translation effects	% of total Fresenius Medical Care sales
North America	12,886	11,813	9%	0%	72%
Europe/Middle East/Africa	2,667	2,629	1%	-3%	15%
Asia-Pacific	1,632	1,502	9%	1%	9%
Latin America	712	766	-7%	-20%	4%
Corporate	14	28	-48%	0%	0%
<b>Total</b>	<b>17,911</b>	<b>16,738</b>	<b>7%</b>	<b>-1%</b>	<b>100%</b>

<sup>1</sup> 2016 before acquisitions (US\$39 million before tax), 2015 before settlement costs for an agreement in principle for GranuFlo®/NaturaLyte® case (-US\$60 million before tax) and acquisitions (US\$16 million before tax)

<sup>2</sup> Net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA

<sup>3</sup> 2016 before acquisitions (US\$15 million after tax), 2015 before settlement costs for an agreement in principle for GranuFlo®/NaturaLyte® case (-US\$37 million after tax), and acquisitions (US\$9 million after tax)



## REGIONAL DEVELOPMENT

North America remained Fresenius Medical Care's largest business region. In 2016, sales grew by 9% to US\$12,886 million, compared to US\$11,813 million in 2015.

EBIT increased by 18% to US\$2,119 million (2015: US\$1,798 million). The EBIT margin was 16.4% (2015: 15.2%).

The average revenue per treatment in the United States was US\$351 in 2016, compared to US\$346 in 2015. The average cost per treatment in the United States decreased from US\$279 in 2015 to US\$278 in 2016.

In 2016, 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 2% (7% in constant currency) to US\$5,011 million (2015: US\$4,897 million). EBIT decreased by 2% to US\$909 million (2015: US\$923 million). The EBIT margin was 18.1% (2015: 18.8%).

## ACQUISITIONS/DIVESTITURES

In 2016, Fresenius Medical Care further expanded its clinical network.

Last year, we acquired an 85% stake in the Indian dialysis group Sandor Nephro Services from a group of investors. It is the second-largest provider of dialysis treatments in India and operates more than 50 dialysis centers under the "Sparsh Nephrocare" brand. This acquisition strengthens Fresenius Medical Care's core business in one of the world's fastest-growing economies.

## FRESENIUS MEDICAL CARE BY REGION

	North America	Europe/ Middle East/ Africa	Latin America	Asia-Pacific	Total 2016	Change 2016/2015
Dialysis clinics (December 31)	2,306	711	233	374	3,624	6%
Dialysis patients (December 31)	188,987	59,767	30,389	29,328	308,471	5%
Treatments	28,882,107	8,872,231	4,770,859	4,003,957	46,529,154	4%

## QUALITY PARAMETERS OF FRESENIUS MEDICAL CARE PATIENTS<sup>1</sup>

	USA		EMEA		Latin America		Asia-Pacific	
	2016	2015	2016	2015	2016	2015	2016	2015
Kt/V ≥ 1.2	98%	98%	96%	96%	91%	92%	97%	97%
Hemoglobin = 10 – 12 g/dl	73%	72%	78%	77%	52%	52%	60%	60%
Hemoglobin = 10 – 13 g/dl	79%	78%	77%	77%	68%	69%	68%	68%
Albumin ≥ 3.5 g/dl <sup>2</sup>	78%	81%	91%	92%	91%	90%	89%	89%
Phosphate ≤ 5.5 mg/dl <sup>2</sup>	64%	64%	77%	79%	77%	75%	72%	72%
Hospitalization days	10.0	10.0	9.4	9.5	3.8	3.5	4.4	4.2

<sup>1</sup> Data refer to the last quarter

<sup>2</sup> International standard BCR CRM470

## SALES BY SEGMENT

US\$ in millions	2016	2015	Change
<b>North America</b>			
Health care services <sup>1</sup>	11,982	10,932	10%
Dialysis products	904	881	3%
<b>Total</b>	<b>12,886</b>	<b>11,813</b>	<b>9%</b>
<b>International<sup>2</sup></b>			
Health care services <sup>1</sup>	2,537	2,460	3%
Dialysis products	2,474	2,437	2%
<b>Total</b>	<b>5,011</b>	<b>4,897</b>	<b>2%</b>
<b>Worldwide</b>			
Health care services <sup>1</sup>	14,519	13,392	8%
Dialysis products <sup>3</sup>	3,392	3,346	1%
<b>Total</b>	<b>17,911</b>	<b>16,738</b>	<b>7%</b>

<sup>1</sup> Sales from dialysis services and Care Coordination

<sup>2</sup> International represents the business segments EMEA (Europe/Middle East/Africa), Asia-Pacific, and Latin America

<sup>3</sup> Including sales generated by corporate functions of US\$14 million in 2016 and US\$28 million in 2015

## TREATMENT QUALITY

Again in 2016, physicians and clinical staff in our dialysis clinics offered patients the highest-quality treatment, illustrated by clinical quality parameters shown in the table below. Please see page 31 of the Management Report for further details on treatment quality.

Please refer to page 58f. of the Management Report for the 2017 financial outlook of Fresenius Medical Care. For further information, please see Fresenius Medical Care's Annual Report 2016 or visit the website at [www.freseniusmedicalcare.com](http://www.freseniusmedicalcare.com).

**FRESENIUS KABI.** Our business grew organically in all regions and product segments. In the emerging markets, China and Latin America showed particularly strong growth. Organic sales growth of 5% and EBIT growth of 5%<sup>1</sup> exceeded original expectations.

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.

#### SALES BY REGION

€ in millions	2016	2015	Change	Currency translation effects	% of total Fresenius Kabi sales
Europe	2,135	2,123	1%	-1%	36%
North America	2,170	2,093	4%	0%	36%
Asia-Pacific	1,108	1,141	-3%	-4%	18%
Latin America/Africa	594	593	0%	-14%	10%
<b>Total</b>	<b>6,007</b>	<b>5,950</b>	<b>1%</b>	<b>-3%</b>	<b>100%</b>

#### BUSINESS DEVELOPMENT

Sales increased by 1% to €6,007 million in 2016. Organic sales growth was 5%. The divestment of the Australian and German oncology compounding business in 2015 reduced sales by 1%. Negative currency translation effects (-3%) were mainly related to the devaluation of the Argentine peso and the Chinese yuan against the euro.

In Europe, we achieved organic sales growth of 3%. In North America, organic sales growth was 3%, mainly driven by new product launches. Fresenius Kabi showed strong overall growth in the emerging markets. We achieved organic sales growth of 17% in Latin America. In Asia-Pacific, organic sales growth of 7% to €719 million in China is worth special mention.

<sup>1</sup> 2015 before special items; in constant currency

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

€ in millions	2016	2015	Organic sales growth
IV drugs	2,531	2,429	5%
Clinical nutrition	1,576	1,560	7%
Infusion therapy	861	914	6%
Medical devices/ Transfusion technology	1,039	1,047	1%
<b>Total</b>	<b>6,007</b>	<b>5,950</b>	<b>5%</b>

EBIT<sup>1</sup> rose by 3% to €1,224 million. Currency translation had a negative effect of 2%.

€ in millions	2016	2015	Change
Europe	343	352	-3%
North America	837	798	5%
Asia-Pacific/Latin America/Africa	348	314	11%
Administrative and corporate R & D expenses	-304	-275	-11%
<b>EBIT<sup>1</sup></b>	<b>1,224</b>	<b>1,189</b>	<b>3%</b>
<b>EBIT margin<sup>1</sup></b>	<b>20.4%</b>	<b>20.0%</b>	
Net income <sup>2</sup>	716	669	7%

<sup>1</sup> Before special items

<sup>2</sup> Net income attributable to the shareholders of Fresenius Kabi AG; before special items

## ACQUISITIONS / INVESTMENTS

In 2016, Fresenius Kabi acquired a production facility and a portfolio of seven IV drugs in pre-filled syringes from the U.S. medical technology company Becton, Dickinson and Company. Pre-filled syringes are gaining in importance due to the high demands placed on application safety and hospital efficiency.

We invested in all manufacturing facilities and launched certain investment programs during the year: for example, in Melrose Park, near Chicago, we will invest a total of around US\$250 million between now and 2026, in order to increase and modernize production capacity for drugs. Another example is Germany, where we began the expansion of our location in Mihla, Thuringia; the amount invested is €12 million. The Mihla plant produces components for medical disposables.

## PRODUCT SEGMENTS

In the generic **IV drugs** segment, we expanded our product portfolio to additional regional markets. Worldwide, we introduced approximately 80 IV drugs. In the United States, we introduced nine IV drugs in the year under review, two of which were pre-filled syringe products. We are continuously working on offering our products in packaging and dosage forms like pre-filled syringes that are especially user-friendly and safe.

In **clinical nutrition**, we expanded the global market presence of our three-chamber bag for parenteral nutrition. We distribute our product SmofLipid in more than 65 countries and last year we received regulatory approval to sell the product in the United States. In enteral nutrition, we introduced a high-protein tube-feed product for early enteral nutrition for intensive care patients in some European countries. Fresubin Intensive was developed for patients with increased protein requirements and low to moderate energy requirements.

In the **infusion therapy product segment**, we were able to help alleviate shortages in the supply of standard infusion products on the basis of a temporary prolonged import permit granted by the U.S. Food and Drug Administration (FDA).

In the **medical devices/transfusion technology segment**, we received CE approval for our new AmiCORE apheresis device and introduced the product in Malaysia, Thailand, and Vietnam. In apheresis, certain blood components are obtained from the blood of the donor. In addition, we successfully introduced our CATSmart device in other countries, such as the United States. CATSmart is a device for automated auto-transfusion; this process makes it possible to quickly provide patients with their own erythrocytes for operations or in the event of heavy blood loss. This reduces the need for the transfusion of donor blood.

Please refer to page 58f. of the Management Report for the 2017 financial outlook of Fresenius Kabi. For further information, please see Fresenius Kabi's website at [www.fresenius-kabi.com](http://www.fresenius-kabi.com).

<sup>1</sup> 2015 before special items

For a detailed overview of special items please see the reconciliation table on page 44. The special items are reported in the Group Corporate/Other segment.

**FRESENIUS HELIOS.** The acquisition of Quirónsalud is an important strategic step that significantly expands our position as the largest private hospital operator in Europe. We further improved our business in Germany, and reached our sales and earnings targets.

Fresenius Helios is the leading hospital operator in Germany. At the end of 2016, the HELIOS Group operated 112 hospitals: 88 acute care hospitals, including 7 maximum care hospitals in Berlin-Buch, Duisburg, Erfurt, Krefeld, Schwerin, Wiesbaden, and Wuppertal, as well as 24 post-acute care clinics. In addition, it also operated 78 outpatient clinics, 4 outpatient post-acute care centers, 18 prevention centers, and 13 nursing homes. The Group has approximately 35,000 beds and treats more than 5.2 million patients – including approximately 1.3 million inpatients – each year.

### BUSINESS DEVELOPMENT

In 2016, Fresenius Helios increased sales by 5% to €5,843 million (2015: €5,578 million). Organic sales growth was 4%. Acquisitions contributed 1%.

The acute care hospitals accounted for 91% of sales (2015: 91%), while the post-acute care clinics accounted for 6% (2015: 6%). 3% was attributable to other revenues (2015: 3%).

Fresenius Helios increased EBIT<sup>1</sup> by 7% to €682 million (2015: €640 million). The EBIT margin<sup>1</sup> was 11.7% (2015: 11.5%). The increase is attributable to the broad-based positive performance across the hospital network.

Net income<sup>2</sup> increased by 12% to €543 million (2015: €483 million).

€ in millions	2016	2015	Change
Sales	5,843	5,578	5%
thereof acute care	5,332	5,080	5%
thereof post-acute care	370	348	6%
EBIT <sup>1</sup>	682	640	7%
EBIT margin <sup>1</sup> in %	11.7	11.5	
Net income <sup>2</sup>	543	483	12%

<sup>1</sup> 2015 before special items

<sup>2</sup> Net income attributable to HELIOS Kliniken GmbH, 2015 before special items

We have established a six-year **development plan** for acute care and post-acute care clinics acquired in Germany. The development plan provides for the EBIT margin to improve by two percentage points each year until the target margin of 12% to 15% is achieved.

### ACQUISITIONS

In September 2016, Fresenius Helios announced the acquisition of IDC Salud Holding S.L.U. (Quirónsalud), Spain's largest private hospital operator. Quirónsalud's network comprises 43 hospitals, 39 outpatient centers, and around 300 Occupational Risk Prevention ("ORP") centers located in all economically important areas in Spain. The company offers the full spectrum of inpatient and outpatient care. Quirónsalud treats approximately 320,000 inpatients and approximately 9.4 million outpatients per year, and operates a total of approximately 6,600 beds.

<sup>1</sup> 2015 before special items

<sup>2</sup> Net income attributable to HELIOS Kliniken GmbH, 2015 before special items

In 2016, Quirónsalud had sales of €2,540 million and EBITDA<sup>1</sup> of €461 million.

The purchase price was €5.76 billion (on a cash and debt-free basis). The relevant Spanish antitrust authority approved the transaction on December 22, 2016, without imposing conditions. The acquisition was closed on January 31, 2017, and Quirónsalud is consolidated as of February 1, 2017.

In May 2016, Fresenius Helios closed the acquisition of the municipal hospital in Velbert, in the German state of North Rhine-Westphalia. The hospital has 519 beds. Sales were €69 million in 2015.

In addition, HELIOS expanded its outpatient clinic network from 72 to 78 in 2016.

## HOSPITAL ADMISSIONS AND TREATMENTS

Due to the broad range of services and high treatment quality of HELIOS – the number of inpatients and outpatients treated increased further in 2016:

	2016	2015	Change
Inpatient and semi-inpatient admissions	1,287,808	1,251,982	3%
Acute care hospitals	1,229,125	1,193,423	3%
Post-acute care clinics	58,683	58,559	0%
Outpatient admissions	3,985,746	3,488,045	14%

Key structural data and performance indicators developed as follows:

	2016	2015	Change
Acute care hospitals	88	87	1%
Beds	29,618	28,914	2%
Length of stay (days)	6.4	6.4	0%
Post-acute care clinics	24	24	0%
Beds	5,088	5,162	-1%
Length of stay (days)	26.1	26.4	-1%
Occupancy	82%	82%	

<sup>1</sup> Before special items; primarily relating to the transaction

## INVESTMENTS

In 2016, Fresenius Helios invested a total of €500 million (2015: €480 million). Of this amount, €38 million accounted for acquisitions and €470 million primarily for new buildings and the modernization of the hospitals in Schleswig, Duisburg, Pforzheim, and Wiesbaden. Own investments were €352 million, about 6% of sales.

€ in millions	2016	2015	Change
Investments	500	480	6%
Own investments (property, plant and equipment)	352	277	27%
Subsidies <sup>1</sup> (property, plant and equipment)	110	104	13%
Acquisitions	38	99	-62%

<sup>1</sup> Total of purpose-related public investment subsidies according to Section 9 of the Hospital Funding Act (KHG)

## STRATEGIC INITIATIVES

HELIOS hospitals are partners in “Wir für Gesundheit”, a network comprising more than 130 hospitals across Germany that are subject to strict, measurable 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 about the hospital network and the PlusCard is available at [www.wir-fuer-gesundheit.de](http://www.wir-fuer-gesundheit.de) (in German only).

HELIOS is also fostering **digitalization** in health care. The company’s new “helios.hub” platform – the first of its kind in Germany – supports entrepreneurs and start-ups in developing innovations that directly benefit patients, as well as their family members and physicians. The network of 112 HELIOS hospitals across Germany offers excellent opportunities to implement pilot projects, and to assess and improve them by working closely with doctors and patients. Please visit [www.helios-hub.com](http://www.helios-hub.com) for more information.

Please refer to page 58f. of the Management Report for the 2017 financial outlook of Fresenius Helios. For further information, please see Fresenius Helios’ website at [www.helios-kliniken.de](http://www.helios-kliniken.de) (in German only).

**FRESENIUS VAMED.** Both the service and project business developed very well. Our sales and earnings targets were achieved. Order intake exceeded the €1 billion mark for the first time. This forms an excellent basis for future growth.

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 outpatient care. This 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, VAMED is in a unique position. We have thus far successfully completed more than 800 projects in 79 countries.

## BUSINESS DEVELOPMENT

In 2016, Fresenius Vamed increased sales by 4% to €1,160 million (2015: €1,118 million). Organic growth was 5%. Divestitures reduced sales by 1%. Currency translation effects had no major impact on sales.

### SALES BY REGION

€ in millions	2016	2015	Change	% of total Fresenius Vamed sales
Europe	828	833	-1%	71%
Africa	98	96	2%	8%
Asia-Pacific	193	156	24%	17%
Latin America	41	33	24%	4%
<b>Total</b>	<b>1,160</b>	<b>1,118</b>	<b>4%</b>	<b>100%</b>

The table shows the sales development by activity:

€ in millions	2016	2015	Change	% of total Fresenius Vamed sales
Project business	594	575	3%	51%
Service business	566	543	4%	49%

**EBIT** grew by 8% to €69 million (2015: €64 million). The EBIT margin increased to 5.9% (2015: 5.7%). In the project business, EBIT grew to €27 million (2015: €25 million), and in the service business to €42 million (2015: €39 million). Net income<sup>1</sup> improved to €45 million (2015: €44 million).

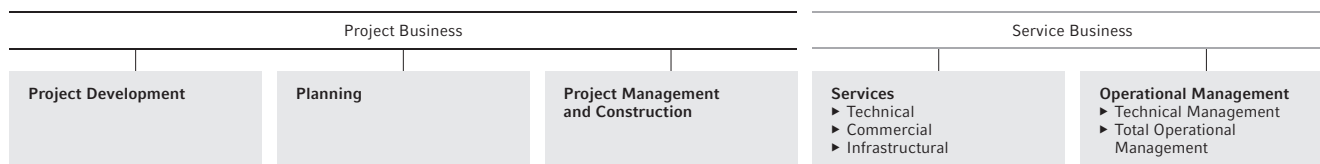
Our business has a low capital intensity. This is reflected in the share of property, plant and equipment in the balance sheet of 16% and the pre-tax return on equity of 19.6% (2015: 19.4%).

## PROJECT BUSINESS

The 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) models. As of the end of 2016, 24 of these models have been or are now being implemented.

<sup>1</sup> Net income attributable to VAMED AG

## VAMED VALUE CHAIN



**Europe** remains VAMED's strongest sales market. In Germany, we completed the construction of the surgery area, the intensive care station, and the main emergency ward, as well as the redesigned high-rise inpatient building for Berlin's Charité Hospital. The first milestone was reached in the largest PPP project in the German health care sector, the construction and modernization of the Universitätsklinikum Schleswig-Holstein (UKSH). In Austria, VAMED received additional orders, including a PPP order for the general planning, construction, and financing, as well as the technical operation of radio-oncology facilities at two locations in Vienna. In December 2016, the expansion of a neurological rehabilitation facility was completed in Vienna. VAMED also manages other projects, i.a. in Poland and Switzerland.

We also expanded our operations in **Africa**, including in Ghana. The government there commissioned VAMED to provide the turnkey construction of five regional hospitals and a polyclinic. In Tunisia, we are building an oncology center.

In the **Asia-Pacific** region, VAMED successfully worked on the realization of a life-cycle project in Abu Dhabi. We won further contracts in both China and Laos, where VAMED is commissioned with the turnkey construction of a hospital.

In **Latin America**, VAMED is managing further medical equipment projects in Nicaragua. In Bolivia, we will build a regional hospital.

## ORDER INTAKE AND ORDER BACKLOG FOR PROJECTS

€ in millions	2016	2015	Change
Order intake	1,017	904	13%
Order backlog (December 31)	1,961	1,650	19%

## SERVICE BUSINESS

VAMED offers a full range of facility management services for health care facilities. Modular in design, our service offering encompasses every aspect of technical, commercial, and infrastructural facility management. This ranges from building

and equipment maintenance, medical technology management, and technical management through to the operational 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 52 health care facilities on 4 continents with approximately 7,000 beds in 2016. In addition, as part of its technical operation services, VAMED provides services globally to approximately 600 hospitals with approximately 143,000 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 began providing technical services to UKSH in mid-2015. VAMED has also led a consortium responsible for all technical and infrastructural services at Berlin's Charité Hospital since 2006. In addition, VAMED signed additional service contracts in major European markets, such as Germany, Austria, **Switzerland**, and **Italy**.

Our 12 facilities make us the largest private rehabilitation provider in Austria. We also operate other well-known rehabilitation facilities in Switzerland and the **Czech Republic**.

## VAMED VITALITY WORLD

With its services portfolio, VAMED Vitality World bridges the gap between preventive medicine and health care tourism. We are market leader in Austria, with eight thermal spas and wellness resorts. VAMED also operates the Aqua World Budapest in Hungary, the largest thermal spa in the country. The facilities have been recognized in Austria and internationally for their innovative services and high quality.

Please refer to page 58 f. of the Management Report for the 2017 financial outlook. For further information, please see Fresenius Vamed's website at [www.vamed.com](http://www.vamed.com).

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MANAGEMENT REPORT. 2016 was a successful year for Fresenius. We met our guidance and achieved €29.1 billion in sales and €1.6 billion in net income. Operating cash flow margin was 12.3%.

## 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.

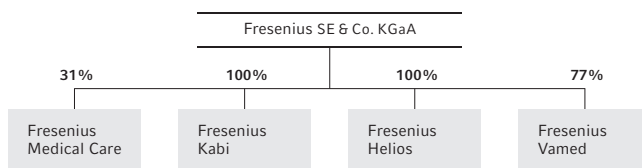
The operating business comprises four **business segments**, all of which are legally independent entities managed by the operating parent company Fresenius SE & Co. KGaA. The business segments have a regional and decentralized structure.

- **Fresenius Medical Care** offers services and products for patients with chronic kidney failure. As of December 31, 2016, Fresenius Medical Care treated 308,471 patients at 3,624 dialysis clinics. Dialyzers, dialysis machines, and

renal pharmaceuticals 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. The company sells its products mainly to hospitals.
- **Fresenius Helios** is the largest hospital operator in Germany. At the end of 2016, Fresenius Helios operated a total of 112 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, the HELIOS Group has 24 post-acute care clinics. Following the closing of the acquisition of Quirónsalud in January 2017, Fresenius Helios is also the largest private hospital operator in Spain. At the end of 2016, Quirónsalud operated 43 hospitals, 39 outpatient centers, and around 300 Occupational Risk Prevention centers.
- **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 approximately 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 80 countries through its subsidiaries. The **main markets** are North America and Europe with 47% and 38% 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 34%. **Fresenius Kabi** holds leading market positions in Europe and has significant market shares in the growth markets of Asia-Pacific and Latin America. In the United States, Fresenius Kabi is one of the leading suppliers of generic IV drugs. **Fresenius Helios** is the largest hospital operator in Germany and, following the closing of the acquisition of Quirónsalud in January 2017, it is also the largest private hospital operator in Spain. **Fresenius Vamed** is one of the world's leading companies in its field.

### LEGAL AND ECONOMIC 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, our markets are fundamentally stable and relatively independent of economic cycles. For detailed information on our markets, please see pages 36 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, can have an effect on the income statement and the balance sheet. The euro exchange rate was unchanged year-on-year at 1.11 U.S. dollars. This did not have any material effect on the income statement in the 2016

fiscal year. However, slightly negative currency translation effects on the income statement resulted, in particular, from the depreciation of Latin American currencies and the Chinese yuan against the euro in the 2016 fiscal year. As a result of these exchange rate changes (from 1.09 U.S. dollars on December 31, 2015, to 1.05 U.S. dollars on December 31, 2016), the balance sheet total increased by 2% due to currency translation effects.

There were no legal aspects that significantly affected business performance in 2016.

### 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 195 of this Annual Report. The Company's annual corporate governance declaration describes the procedures of the Supervisory Board's committees. The declaration can be found on pages 72 to 86 of the Annual Report and on the website [www.fresenius.com/corporate-governance](http://www.fresenius.com/corporate-governance).

The description of both the **compensation system** and individual amounts paid to the Management Board and Supervisory Board of Fresenius Management SE, and the Supervisory Board of Fresenius SE & Co. KGaA, are included in the Compensation Report on pages 87 to 99 of the 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 547,208,371 ordinary shares as of December 31, 2016 (December 31, 2015: 545,727,950).

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 €120.96 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.

### Report of the general partner pursuant to Section 203 (2) sentence 2 of the German Stock Corporation Act (AktG) in conjunction with Section 186 (4) sentence 2 AktG in conjunction with Section 278 (3) AktG on the partial utilization of Authorized Capital I resolved by the annual shareholders' meeting on 16 May 2014

On 2 September 2016, the Management Board of the general partner, with consent of the Supervisory Board of the Company, has resolved, as further substantiated by another resolution as of 12 January 2017, to partially utilize the authorization granted pursuant to Article 4 (4) of the articles of association and to increase the Company's share capital by €6,108,176 by issuing 6,108,176 new non-par value ordinary bearer shares by way of a capital increase against contributions in kind excluding shareholders' subscription rights. The implementation of the capital increase from € 545,727,950 to €551,836,126 was registered with the commercial register on 31 January 2017. The volume of the capital increase is equivalent to about 1.12% of the share capital at the time of the utilization.

The new non-par value shares, which carry dividend entitlements from 1 January 2016, were issued to HC Investments BV against contributions in kind of shares in IDC Salud S.L.U. ("Quirónsalud"). The capital increase was made in the context of the acquisition of all shares in Quirónsalud for an aggregate amount of €5.76 billion (on a cash and debt-free basis), which was implemented in part (for 4,548,101 of all 32,518,921 Quirónsalud shares) against issuance of new shares and apart from that against a cash purchase price. The contributed 4,548,101 shares represent about 14% of the value of Quirónsalud.

The exclusion of subscription rights was based on the authorization pursuant to Article 4 (4) subsection 2 of the articles of association to increase the share capital against contributions in kind for the acquisition of a company. This opportunity to act quickly and flexibly was used in the best

interest of the Company. Thereby, the requirement for debt-financing of the purchase price could be reduced. The value of the contributions in kind is adequate in relation to the value of the new shares. Due to the limited volume of the capital increase, shareholders who wish to maintain their shareholding quota could and can acquire additional shares via the stock exchange. Thus, the interests of shareholders in terms of both financial interests and voting rights were appropriately protected.

In addition, there are the following **Conditional Capitals**, of which the Conditional Capitals I and II are adjusted for stock options that have been exercised in the meantime:

- ▶ 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, 2016.

As the **largest shareholder**, Else Kröner-Fresenius-Stiftung, Bad Homburg, Germany, informed the Company on December 16, 2016, that it held 144,695,094 ordinary shares of Fresenius SE & Co. KGaA. This corresponds to an equity interest of 26.44% as of December 31, 2016.

**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 could impact some of our long-term financing agreements, which contain customary change of control provisions that grant creditors the right to terminate agreements early or to request early repayments of outstanding amounts in case of a change of control. These termination rights partly become effective if the change of control is followed by a decline of the Company's rating or of the respective financing instruments.

## GOALS AND STRATEGY

Our goal is to strengthen the position of Fresenius as a leading global provider of products and therapies for critically and chronically ill people. With our four business segments, we are concentrating on a limited number of health care areas. Thanks to 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 seeks 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 in the field of Care Coordination. In this area, Fresenius Medical Care offers additional services for dialysis patients. These include, e.g., vascular care services and laboratory services, as well as hospitalist and intensivist 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 exist-

ing 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, and clinical nutrition, as well as in medical devices/transfusion technology.

With 112 hospitals, Fresenius Helios is operating in nearly the whole of Germany. Building on this, Fresenius Helios is now in the position to develop new patient care models and take advantage of further growth opportunities arising from the privatization and consolidation process in the German hospital market. In January 2017, Fresenius Helios closed the acquisition of 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 developing and offering more effective products and treatment methods for the critically and chronically ill.
- **Enhance profitability:** Last but not least, it is our goal 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

## FINANCIAL PERFORMANCE INDICATORS

Growth	Profitability	Liquidity	Capital efficiency	Capital management
<b>Sales growth</b> (in constant currency)  <b>Sales growth</b> (organic)	<b>Operating income (EBIT)</b> +/- Financial result - Income taxes - Minority interests = <b>Net income</b>  <b>EBIT growth</b> (in constant currency)  <b>Net income growth</b> (in constant currency)	Operating cash flow ÷ Sales = <b>Cash flow margin</b>	EBIT - Income taxes = NOPAT ÷ Invested capital = <b>ROIC</b>  EBIT ÷ Operating assets = <b>ROOA</b>	Net debt ÷ EBITDA = <b>Leverage ratio</b>

conditions, 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 42 and 53, for more details.

We report on our goals in detail in the Outlook section on pages 54 to 60.

## 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 200 to 202.

## 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 also adjusted by special items.

## 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<sup>1</sup> (days sales outstanding) and SOI<sup>1</sup> (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) and the Return on Operating Assets (ROOA)<sup>2</sup>.

## 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.

<sup>1</sup> Does not reflect a core performance indicator

<sup>2</sup> For a detailed calculation of ROIC and ROOA please see pages 200–202

## 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 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.

## FRESENIUS TO CEASE VOLUNTARY U.S. GAAP REPORTING

Fresenius SE & Co. KGaA, as a publicly traded company based in a European Union member country, is required to prepare and publish its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) pursuant to Section 315a of the German Commercial Code (HGB).

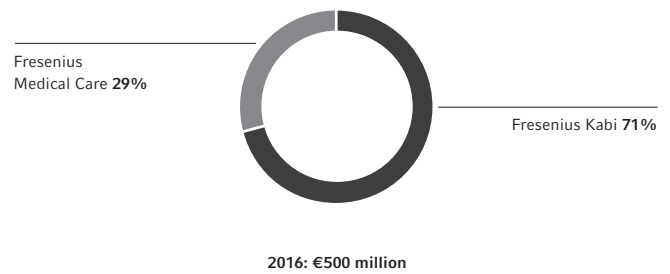
In addition to this compulsory IFRS accounting, Fresenius also publishes consolidated U.S. GAAP financial statements. This has provided comparability with the Group's largest subsidiary, Fresenius Medical Care, which was required to report in accordance with U.S. GAAP under a so-called pooling agreement. However, Fresenius Medical Care's 2016 Annual General Meeting lifted this obligation.

In the interest of harmonizing the management and accounting of the Fresenius Group and all of its business segments, the Fresenius Group and all of its business segments will report solely in accordance with IFRS starting with the 2017 fiscal year.

## KEY FIGURES RESEARCH AND DEVELOPMENT

	2016	2015	2014	2013	2012
R & D expenses, € in millions	500	464	369	348	305
as % of product sales	5.6	5.2	4.8	4.6	4.4
R & D employees	2,770	2,247	2,107	1,969	1,903

## R & D EXPENSES BY SEGMENT



## 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
- ▶ 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 €500 million (2015: €464 million), approximately 5.6% of our product sales (2015: 5.2%). Fresenius Medical Care increased its R & D spending by 17%, Fresenius Kabi increased its R & D spending by 5%. Detailed figures are included in the segment reporting on pages 106 f.

As of December 31, 2016, there were 2,770 employees in research and development (2015: 2,247). Of that number, 816 were employed at Fresenius Medical Care (2015: 671) and 1,954 at Fresenius Kabi (2015: 1,576).

Our main research sites are in Europe, the United States, and India. Product-related development activities are also carried out in China. Our R & D projects are mainly conducted in-house; external research is commissioned only on a limited scale.

### FRESENIUS MEDICAL CARE

The complex interactions and side effects that lead to kidney failure are better explored today than ever before. Technological advances develop in parallel to improve the possibilities for treating patients. Our R & D activities at Fresenius Medical Care aim to translate new insights into novel developments and to bring them to market as quickly as possible, and thus make an important contribution towards rendering the treatment of patients increasingly comfortable, safe, and individualized.

With our **global R & D portfolio management**, we seek to standardize basic functions and single components of our therapy systems internationally and to standardize process and control structures. This allows us to address local requirements, to reduce development time, and to bundle our resources. We benefit from our **vertical integration** in the development of **new technologies and applications**. It gives us access to the experiences of patients and specialized medical personnel.

In 2016, Fresenius Medical Care once again continued to develop products and introduce innovations, including a new therapy system. The 6008 CAREsystem optimizes dialysis treatment and minimizes the operating steps required for the procedure. It consists of a new, all-in-one cartridge system with completely preconnected bloodlines for all treatment modalities. Since it also reduces the amount of waste in dialysis treatments, the 6008 CAREsystem is simultaneously cost-efficient and environmentally friendly.

In addition, in 2016 we collected the first clinical data for a new dialyzer. We modified the inner wall of the hollow fiber to produce a more hemo-compatible fiber surface. This enabled us to reduce heparin requirements in standard dialysis treatments.

We are working with our partners to develop a portfolio of state-of-the-art technologies for automated peritoneal dialysis (APD).

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 in 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.

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 for non-patented IV drugs. In 2016, we had 107 active projects in the area of generics. We focus, among other items, on complex formulations such as active ingredients in liposomal<sup>1</sup> solutions. We develop ready-to-use products that are especially convenient and safe, including, 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.

**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 2016, we continued the development of parenteral formulations, with a focus on formulations designed to meet the needs of individual patient groups. In addition, we are researching new parenteral

<sup>1</sup> 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.



nutrition products that enable the optimized absorption of nutrients. Our research and development work also includes the development of market-specific parenteral formulations. In 2016, we worked on products for the United States and China, among other markets.

In the development of our **enteral nutrition**, we concentrate on new products and packaging in order to take account of the specific requirements of other local markets that we would like to break into. In addition, we are working on the development of formulations that facilitate the daily intake of enteral nutrition products for patients.

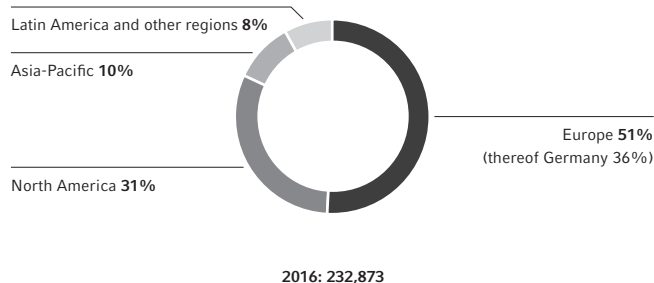
Our work in **medical devices/transfusion technology** has included the expansion of our product range in application technology. The Agilia brand makes it possible for us to offer a broad portfolio of safe and efficient application technologies for both inpatients and outpatients. Last year, we developed an infusion pump that allows patients to administer painkillers (analgesics) intravenously themselves. This form of pain therapy is usually used after surgeries. The new pump, Agilia Connect PCA, has a software link that helps simplify day-to-day operation and patient safety during medical care. We plan to introduce the new pumps in 2017.

## 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 232,873 employees at the end of 2016, which was 5% more than last year.

## EMPLOYEES BY REGION



**Personnel expenses** for the Fresenius Group were €11,671 million in 2016 (2015: €10,862 million), equivalent to 40.1% of sales (2015: 39.3%). The increase of 7% is mainly attributable to the increase in headcounts, salary increases, and acquisitions. Personnel expenses per employee were at €51.0 thousand (2015: €49.3 thousand) and at €51.2 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 2016.

## 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. Employees voluntarily contribute vacation days or make contributions from their salary to this long-term account, which they can use for training, nursing care, or early retirement.

Number of employees	Dec. 31, 2016	Dec. 31, 2015	Change	% of total
Fresenius Medical Care	116,120	110,242	5%	50%
Fresenius Kabi	34,917	33,195	5%	15%
Fresenius Helios	72,687	69,728	4%	31%
Fresenius Vamed	8,198	8,262	-1%	4%
Corporate/Other	951	878	8%	0%
<b>Total</b>	<b>232,873</b>	<b>222,305</b>	<b>5%</b>	<b>100%</b>

Part of our identity as a health care company includes creating the right conditions to foster the **health of the employees**. In 2016, Fresenius SE & Co. KGaA was named a "Healthy Company" by the Gesundes Unternehmen initiative. The award focuses attention throughout Germany on companies that set especially high standards for the promotion of health in the workplace.

## 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.

We support the development of our employees' **professional and personal skills** across the Group through personal career talks, as well as through our comprehensive range of training sessions and seminars. We continue to expand these at all hierarchy levels.

Fresenius promotes the long-term, sustainable **advancement of women**. 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, 2016, 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 289a of the German Commercial Code (HGB) on our website, see [www.fresenius.com/corporate-governance](http://www.fresenius.com/corporate-governance), as well as on page 84 of this Annual Report.

The Fresenius Group devotes a lot of attention to **vocational training**. We trained more than 3,700 young people in 30 different occupations at our German locations in 2016, and also put more than 100 university students through 15 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 of study, for example in the area of digital media. Alongside the traditional channel of direct job entry, Fresenius offers trainee programs for university graduates.

Fresenius is involved in two initiatives for the vocational integration of young refugees in Bad Homburg and Frankfurt am Main. The aim of these initiatives is to integrate refugees into vocational training after they have been through a vocational orientation phase and successfully completed their initial qualification.

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

## PROFIT-SHARING SCHEME AND STOCK OPTION PLAN

For many years, we have 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 further information on stock options, please see pages 173 ff. of this Annual Report.

## CHANGES TO THE SUPERVISORY BOARD AND MANAGEMENT BOARD

At the General Meeting on May 13, 2016, Prof. Dr. med. Iris Löw-Friedrich and Ms. Hauke Stars were elected to the

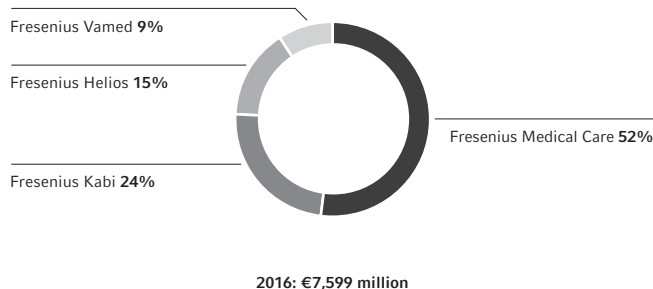
## PROFIT-SHARING BONUS

	2015	2014	2013	2012	2011
Profit-sharing bonus <sup>1</sup> in €	2,200	2,335	2,134	2,164	2,036
Eligible employees <sup>2</sup>	2,385	2,310	2,155	2,313	2,220

<sup>1</sup> The profit-sharing bonus is paid retroactively for the respective fiscal year. It forms part of compensation in some German Group companies.

<sup>2</sup> Without eligible employees of Fresenius Medical Care AG & Co. KGaA

## COST OF MATERIAL BY BUSINESS SEGMENT<sup>1</sup>



<sup>1</sup> Before consolidation

Supervisory Board as shareholder representatives. Ms. Stefanie Lang, Ms. Frauke Lehmann, and Mr. Oscar Romero De Paco were elected by the European Works Council as employee representatives to the Board. 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.

On June 26, 2016, Fresenius SE & Co. KGaA announced that the Supervisory Board of Fresenius Management SE has unanimously appointed Stephan Sturm (52) as Chief Executive Officer of Fresenius as of July 1, 2016. Stephan Sturm succeeds Dr. Ulf Mark Schneider (50), who decided to leave the company effective June 30, 2016, to pursue another opportunity.

## PROCUREMENT

In 2016, the cost of raw materials and supplies and of purchased components and services was €7,599 million (2015: €7,493 million) and increased by 1% due to business expansion.

€ in millions	2016	2015
Cost of raw materials and supplies	6,572	6,466
Cost of purchased components and services	1,027	1,027
<b>Total</b>	<b>7,599</b>	<b>7,493</b>

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.

## 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

## FRESENIUS MEDICAL CARE

As a life-saving treatment, the highest demands are placed on dialysis in terms of safety and quality. This applies both to the production of our dialysis products and to the administration of dialysis treatments in our own hospitals. For this reason, Fresenius Medical Care has established **quality management systems** at all production sites and dialysis clinics and we commission regular external audits on their use.

In Europe, the German technical certification organization TÜV audits our clinical organizations annually to verify their compliance with ISO 9001 for quality management and ISO 14001 for environmental management. In the United States, our clinics are monitored by the Centers for Medicare and Medicaid Services (CMS), a public health care authority. We also regularly review our quality management systems through internal audits.

We measure and compare our **quality performance** in our dialysis clinics using generally recognized quality standards. In addition to industry-specific clinical benchmarks, they include our own quality targets, set by Fresenius Medical Care, and linked to the services and advice we provide, for example. Fresenius Medical Care uses **quality parameters** that are generally recognized in the dialysis industry, e.g., the hemoglobin value.

## FRESENIUS KABI

The global **quality management system** at Fresenius Kabi is based on the internationally recognized ISO 9001 standard. This includes, 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 global quality management system is certified and audited by TÜV SÜD.

Our quality management comprises:

- ▶ **Global processes and standards:** Specialist teams develop enterprise-wide standards and guidelines. Those are implemented by subsidiaries in all countries.
- ▶ **Early warning system:** We have established reporting processes for standard procedures and unforeseen events, which are evaluated against key performance indicators, e.g., complaint rates.
- ▶ **Global product risk management:** Safety officers respond immediately when we are informed of a problem with quality or patient safety. They manage product recalls centrally.

At Fresenius Kabi, inspections by regulatory authorities and audits by independent organizations and customers are performed along the entire **value chain**.

However, our quality management system does not just extend to internal processes. It also covers the application of our products and services by customers. In order to be able to receive information about their issues in a timely manner and deal with them appropriately, Fresenius Kabi has set up a **global monitoring and reporting system** (vigilance system). The responsible regulatory authorities monitor this system and keep an increasingly close eye on it in the interests of **patient safety**.

In 2016, we made further progress in transferring our quality management processes into electronic quality systems. These global systems support further harmonization of our processes and the availability of data for risk prevention.

## FRESENIUS HELIOS

HELIOS uses a procedure that combines internal measures of **quality management** with the use of quality indicators. We use key figures and administrative data to measure the quality of medical outcomes of a treatment. The quality of medical outcomes resulting from the different treatments is measured using key indicators compiled from administrative data and then made transparent on the basis of **G-IQI quality indicators** (German Inpatient Quality Indicators). In 2016, we further

## HELIOS QUALITY PERFORMANCE INDICATORS (EXTRACT)

Indications/standardized mortality ratio (SMR) <sup>1</sup>	2016 SMR	2015 SMR <sup>2</sup>
Chronic obstructive pulmonary disease (COPD)	0.71	0.77
Acute myocardial infarction (AMI)	0.70	0.74
Heart failure	0.58	0.65
Ischemic stroke	0.82	0.86
Pneumonia	0.62	0.69
Hip fracture	0.80	0.82

<sup>1</sup> SMR < 1 corresponds to the German average.

SMR < 1 = means that mortality is below the German average.

<sup>2</sup> Adjusted for the HELIOS hospital in Niederberg acquired in 2016. The German Federal Statistical Office's 2014 reference values will be converted to G-IQI 5.0 with new reference values in 2017.

More information can be found at: [www.helios-kliniken.de/medizin/qualitaetsmanagement](http://www.helios-kliniken.de/medizin/qualitaetsmanagement)

expanded the **HELIOS quality management system**. With the conversion of the G-IQI indicators to version 5.0, improved key figures and updated reference rates will be used in 2017.

Where statistical abnormalities arise, HELIOS examines these in a peer review process using patient data. The issue of hygiene remains the focus. In 2016, for the first time, inter-professional teams were assembled to address selected issues in areas such as intensive care medicine. For example, specially trained employees from nursing occupations supported the medical team in 11 of 19 peer review processes.

In addition, we make intensive use of the pool of quality indicators, e.g., in obstetrics, created as part of statutory quality assurance. As a result of peer review procedures, instruction and training programs were initiated to make childbirth even safer.

A further goal of HELIOS is to establish an interdisciplinary group for the treatment of patients with malignant tumors. The medical advisory board of 10 experienced HELIOS chief physicians from various disciplines produces quarterly quality analyses to monitor the implementation of this HELIOS-wide decision.

In addition, HELIOS is involved in the **Initiative of Quality Medicine (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.

The IQM members provide acute care for approximately 6.3 million patients in more than 400 hospitals in Germany and Switzerland. In Germany, their share of acute care is 30%.

We have defined specific targets for 46<sup>1</sup> of the G-IQI quality indicators. These targets are set at a level above the national average for Germany. In 2016, we achieved this target for 43 quality indicators, a **success rate of 93%** (2015: 91%).

We are convinced that transparency creates the best incentive for improvement. HELIOS provides full transparency for all quality data. For each acute care hospital, the results for medical treatment quality, results of patient surveys, and key indicators in the field of hygiene are published on the website [www.helios-kliniken.de](http://www.helios-kliniken.de). HELIOS exceeds mandatory legal requirements.

The National Quality Institute (IQTIG) has been commissioned by the Federal Joint Committee to recommend quality indicators that can form a suitable basis for quality-oriented decisions in hospital planning. The initial indicators from the areas of gynecological surgery, obstetrics, and breast surgery, which are collected during external inpatient quality assurance, have now been established and will be tested from 2017 onwards. With its own quality management system, HELIOS is prepared for the new procedure.

## FRESENIUS VAMED

In the planning and construction of hospitals, Fresenius Vamed sets high quality standards. In particular, these are aimed at optimizing processes by care level, and ensuring maximum flexibility in the use of buildings and wards.

Internally, Fresenius Vamed designs its processes for efficiency and sustainability, using **interdisciplinary quality standards**. These are based on ISO 9001 (quality management system), ISO 13485 (quality management system for medical devices), ISO 17020 (inspections of medical device products), ISO 17025 (competence of testing and calibration laboratories), ISO 14001 (environmental management), ISO 19600 (compliance management system), ISO 50001 (systematic energy management), ISO 27001 (information security management system), and the EFQM standards of the European Foundation for Quality Management. The EFQM has already granted awards

in four different categories to the VAMED company responsible for the technical operation of AKH Vienna, including the Excellence Award Prize Winner and Exemplary European Company for Employee Success (2010, 2013), Innovation (2012), and Customer Benefits (2015).

In addition, Fresenius Vamed companies are certified in accordance with numerous relevant technical standards.

Three facilities managed by VAMED in Austria have obtained this certification from **JCI (Joint Commission International)**. These hospitals were certified to have the highest level of quality, firstly regarding patient care, secondly regarding hygiene and safety, and thirdly regarding patient and employee satisfaction. This status is regularly confirmed in the recertification process provided for by JCI.

## 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.

The international ISO Standard 14001 for **environmental management** is implemented at our various production plants and most of our dialysis clinics. Among other things, key environmental performance indicators are, for instance, not only energy and water consumption, but also the volumes of waste and recycling rates at our locations.

In Europe, our production sites are subject to the **EU regulation REACH** (Registration, Evaluation, and Authorization of Chemicals). The aim of REACH is to protect human health and the environment against hazards and risks from chemical substances.

<sup>1</sup> By decision of the specialists for gynecology in March 2016, the indicator "non-abdominal hysterectomy" has been upgraded from the observed value to target value, so that in 2016 a total of 46 goals are attainable.

In 2016, Fresenius established a Group-wide project to expand its **sustainability reporting**. As part of this expansion, we carried out an extensive materiality analysis in the fourth quarter in which we involved the relevant internal and external stakeholders. We will continue the project in 2017 and plan to report extensively on it in the 2017 Annual Report.

### FRESENIUS MEDICAL CARE

In the **environmental management** of our operations we work to comply with environmental regulations and to make our products and processes resource-efficient. We also support the business segments in creating added value for our clients with eco-friendly products and services.

In Europe, the Middle East, and Africa (EMEA), TÜV-certified **environmental management** is part of the integrated management system. At the end of 2016, eight (2015: eight) European **production sites** and our medical device development department were certified according to ISO 14001. We use an energy management system as per ISO 50001 at our German production sites in St. Wendel and Schweinfurt. We have also implemented the certified environmental management system in 14 (2015: 14) European countries.

One of our central concerns is to further reduce the environmental effects of **dialysis treatments**. The central element for managing the resource efficiency of our dialysis centers in EMEA and Latin America is the software e-con5 that we use in 526 (2015: 518) European and 213 (2015: 209) Latin American dialysis centers.

This **environmental data management system** allows us to capture and compare data on resource efficiency and take prompt advantage of opportunities for improvements.

From 2009 until 2016, we reduced the average water consumption per dialysis treatment by 7% and electricity consumption by 15% in our dialysis centers. Additionally, we have been able to reduce the amount of contaminated blood waste significantly over the last years. It's our goal to keep these figures on the already low level and to comply with existing legal framework in the future. Moreover, the environmental program established in 2013 aims to reduce the average water consumption per dialysis treatment by 11%, and electricity consumption by 7%, until 2018.

### FRESENIUS KABI

An integral component of the quality management of Fresenius Kabi is an **environmental management system** that complies with the international standard ISO 14001. Fresenius Kabi AG and several sites are certified to this standard. We have also implemented the occupational health and safety assessment system OHSAS 18001 at several sites and set guidelines for all of our sites worldwide. In 2016, all sites of Fresenius Kabi Deutschland GmbH were certified under ISO 50001, the international standard for energy management systems. Internationally, the production units Wuxi in China and La Châtre in France are also ISO 50001-certified. We continued to implement environmental measures at our production sites worldwide with a specific focus outside of Europe.

At the site in Graz, **Austria**, we were able to keep energy consumption at the previous year's level despite higher production volumes and expanded production area. Three heat exchangers were installed to recover heat from flash steam and boiler blowdown for warming-up of city water before it is fed into the steam boiler. With this measure, it was possible to reduce the gas consumption of the steam boiler. In addition, the gas burner was renewed to further reduce gas consumption and emissions, specifically NO<sub>x</sub>. By recycling packaging material, nearly 2,200 tons of CO<sub>2</sub> were saved and a recycling rate of over 80% could be maintained in 2016.

At the Uppsala site in **Sweden**, energy consumption per liter of solution produced was unchanged at 2.8 kWh/l in 2016. Approximately 42% of the energy needed at the Swedish sites in Uppsala and Brunna is provided by renewable sources (2015: 40%). We maintained our recycling rate at 99.5%.

At our production site in Pune, **India**, we reduced the briquette consumption by about 8% compared to the previous year. In the same period, we were able to reduce water consumption by 5%. At the Haina site in the **Dominican Republic**, we reduced plastic waste by 30% last year and reduced our electricity consumption by about 8% by using new lighting and air-conditioning technologies.

## FRESENIUS HELIOS

Hospitals require a great deal of energy and water. In order to create awareness among our employees of the economical use of resources, we have intensified our environmental campaign within HELIOS.

The structural condition of a hospital building has an important influence on **energy consumption**. All new construction projects and modernizations conform to the latest standards of efficient heat insulation, in accordance with current energy savings regulations. Further improvements are based on our comprehensive controlling system for real estate management, which enables us to compare target and actual values regularly and promptly. Compared to the previous year, adjusted energy consumption was reduced by 3%. This represents a CO<sub>2</sub> reduction of around 1,571 mg/a and saves approximately €1.4 million, which can be usefully invested in medicine.

This system also formed the basis for the certification of all HELIOS hospitals in accordance with the requirement of the new Energy Services Act (Energiedienstleistungsgesetz; EDL-G). We continually review measures to further reduce the resources required and implement these measures as promptly as possible. In addition, we continue to shift heating to renewable energies, for instance wood pellets. This form of heating is CO<sub>2</sub>-neutral and therefore more eco-friendly than gas or oil heating. HELIOS still uses electricity and heat from fossil fuel natural gas as it has built combined heat and power plants at nine sites. Thanks to the steps taken, we saved approximately 4,680 mg CO<sub>2</sub> in 2016 (2015: 29,747 mg CO<sub>2</sub>).

**Water consumption** in all HELIOS hospitals was 4,760,500 m<sup>3</sup> (2015: 4,434,810 m<sup>3</sup>). The majority of all water is consumed for sterilization processes, process cooling, and water recycling plants. To reduce consumption, some hospitals are using well water, for instance for the cooling towers of air-conditioning systems.

Proper **waste disposal** is of great importance to hospitals. HELIOS 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. In 2016, the total amount of clinical waste generated in all HELIOS hospitals was 21,560 t (2015: 20,775 t).

## FRESENIUS VAMED

In our **project business**, we already integrate national environmental standards and regulations into the planning and construction of a hospital or other health care facility. VAMED's extensive expertise in environmental management is an important success factor, especially in growth markets in Africa and Asia. Sewage treatment and the disposal of medical technology waste meet the highest possible standards.

We also achieved success in the **service business** in the area of environmental protection. VAMED, for instance, has been responsible for the technical management of the AKH hospital in Vienna for more than 30 years. During the period, energy and water consumption were significantly reduced: energy consumption decreased by 14%, demand for long-distance heat by 23%, and drinking water consumption by 45%. The volume of waste classified as hazardous medical waste at AKH fell by about 90%.

Since 2015, the energy management of Fresenius Vamed in Austria has been certified as compliant with ISO 50001:2011.

## ECONOMIC REPORT

### HEALTH CARE INDUSTRY

The health care sector is one of the world's largest industries. It is relatively insensitive to economic fluctuations compared to other sectors and has posted above-average growth over the past several years.

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 2015, with an average of US\$3,814 spent per capita.

As in previous years, the United States had the highest per capita spending (US\$9,451). Germany ranked sixth among the OECD countries with per capita spending of US\$5,267.

In Germany, 85% of **health spending** was funded by public sources in 2015, 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 2014, 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 2016, the global **dialysis market** (products and services) was worth approximately US\$76 billion. In constant currency, the global dialysis market grew by 4%.

Worldwide, approximately 3.7 million **patients with chronic renal failure** were treated in 2016. Of these patients, around 3.0 million received dialysis treatments and about 726,000 were living with a transplanted kidney. About 88% were treated with hemodialysis and 12% with peritoneal dialysis.

### HEALTH CARE SPENDING AS % OF GDP

in %	2015	2000	1990	1980	1970
USA	16.9	12.5	11.3	8.2	6.2
France	11.0	9.5	8.0	6.7	5.2
Germany	11.1	9.8	8.0	8.1	5.7
Switzerland	11.5	9.3	7.4	6.6	4.9

Source: OECD Health Data 2016



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 2016. In the U.S., 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. In developing countries it can be well below 100. It averages just over 1,100 in the countries of the European Union. Prevalence is very high in countries such as Japan and the United States, being well over 2,000. 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.

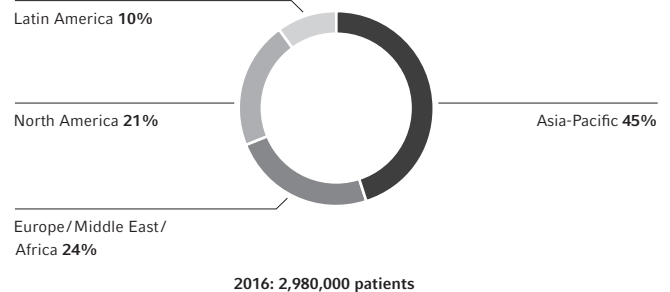
### Dialysis care

In 2016, the global **dialysis care market** (including renal pharmaceuticals) was worth approximately US\$62 billion.

10% of worldwide dialysis patients were treated by Fresenius Medical Care. With 3,624 dialysis clinics and 308,471 dialysis patients in over 45 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% (>185,000) of dialysis patients in 2016. The market for dialysis care in the United States is already highly consolidated. Taken together, Fresenius Medical Care and DaVita – another provider of dialysis care – treat over 75% of all U.S. dialysis patients.

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 PATIENTS BY REGION



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 2016, the global **dialysis products market** was worth approximately US\$14 billion.

Fresenius Medical Care is the leading provider of dialysis products in the world, with a **market share** of about 34%, followed by its largest **competitor**, Baxter, with 28%. Each of the other competitors held a single-digit percentage market share.

Fresenius Medical Care is the leading supplier worldwide of hemodialysis products, with a market share of 38%. With a market share of approximately 21%, Fresenius Medical Care is the second-largest provider worldwide of products for peritoneal dialysis after Baxter.

### 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.

In the United States, Fresenius Medical Care provides Care Coordination, among others, within its network of more than 2,200 providers working across the entire acute episode of care from emergency medicine, hospitalists, and intensivists to transitional care providers. At around 350 hospitals and post-acute facilities, the company cared for more than 1.5 million patients in 2016.

### THE MARKET FOR GENERIC IV DRUGS, CLINICAL NUTRITION, INFUSION THERAPY, AND MEDICAL DEVICES/TRANSFUSION TECHNOLOGY<sup>1</sup>

The global market for generic IV drugs, clinical nutrition, infusion therapy, and medical devices/transfusion technology was worth about €48 billion in 2016.

Thereof, the global **market for generic IV drugs** was worth about €29 billion<sup>2</sup>. Fresenius Kabi was able to enter additional market segments of the global addressable market due to targeted investments and the expansion of our product portfolio, among others, in the area of complex formulations, liposomal solutions, and prefilled syringes.

In Europe and the United States, the market for IV drugs grew by 12%. 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, Sandoz, and Teva Pharmaceutical Industries.

The global **market for clinical nutrition** was worth about €8 billion in 2016. In Europe, the market grew by about 2%. 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. Estimates<sup>3</sup> regarding the European Union situation indicate that as many as 20 million individuals are at risk of malnutrition. 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 2016. 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 2016, including approximately €4 billion for medical devices and about €2 billion for transfusion technology. The market grew by approximately 3% in 2016. 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 bags in emerging markets. New therapies and treatments reduced demand for blood bags in Europe and in the United States. Related overcapacities involve price reductions.

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.

<sup>1</sup> Market data based on company research and refers to Fresenius Kabi's addressable markets. This is subject to annual volatility due to currency fluctuations and patent expiries of original drugs in the IV drug market, among other things.

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

<sup>3</sup> German Society for Nutritional Medicine (DGEM) 2009; Ljungqvist O., *Clinical Nutrition* 2010, 29: 149–150

## THE HOSPITAL MARKET<sup>1</sup>

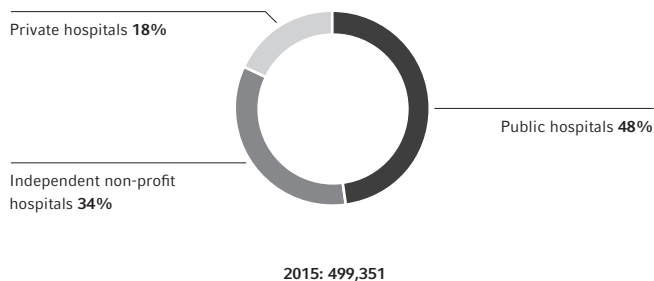
In 2015, the market of acute care hospitals in **Germany** was about €94 billion<sup>2</sup>. Personnel costs accounted for about 62% of hospital costs, and material costs for 38%. Personnel and material costs each rose by approximately 4%.

Through the increase in admissions, the organic growth of the acute care hospital market was around 1%. In addition, potential for growth for private hospital operators arises from hospital acquisitions or privatization.

Although their economic situation has improved compared with previous years, a third (33%) of German hospitals recorded losses in 2015. A further 10% broke even, and 57% 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. At the same time, 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 (not including university hospitals) is at least €5.5 billion. This is twice the funding for investment currently being provided by the federal states.

The **number of hospitals** in 2015 was 1,956 and the **number of beds** was 499,351. For further figures on the German hospital market please see the table below.

## HOSPITAL BEDS BY OPERATOR



Source: German Federal Statistical Office 2016

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

The so-called change in value figure is relevant for the increase in **reimbursements 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 the year 2016 it was 2.95% (2015: 2.53%).

The **post-acute care market** in Germany comprised 1,152 **clinics** with a total of 165,013 **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 1.97 million. The average length of stay was 25.3 days (2014: 25.3 days).

## KEY FIGURES FOR INPATIENT CARE IN GERMANY

	2015	2014	2013	2012	2011	Change 2015/2014
Hospitals	1,956	1,980	1,996	2,017	2,045	-1.2%
Beds	499,351	500,680	500,671	501,475	502,029	-0.3%
Beds per 1,000 population	6.11	6.18	6.21	6.24	6.26	-1.1%
Length of stay (days)	7.3	7.4	7.5	7.6	7.7	-1.4%
Number of admissions (millions)	19.24	19.15	18.79	18.62	18.34	0.5%
Average costs per admission in € <sup>1</sup>	5,060	4,893	4,792	4,663	4,547	3.4%

<sup>1</sup> Total costs, gross

Source: German Federal Statistical Office 2016

<sup>1</sup> Most recent data available on the German hospital market

<sup>2</sup> Total costs, gross, of the German hospitals, less academic research and teaching

With the closing of the acquisition of Spain's largest private hospital group, Quirónsalud, in January 2017, the **private Spanish hospital market** has become relevant. The market was about €13 billion<sup>1</sup> in 2015. In particular, the increasing number of privately insured patients is opening up growth opportunities for private operators. In Spain, private health insurance 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. Private supplemental insurance in Spain is relatively inexpensive.

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 also has considerable consolidation potential.

Quirónsalud is the clear market leader, with a market share of about 10% 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 2016. 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 2016 was excellent – with sales and earnings growth across all business segments.

Fresenius Medical Care sales increased by 7% to US\$17,911 million. The increase is mainly due to the good development of health care services. Net income attributable to shareholders of Fresenius Medical Care excluding one-time items increased by 16%<sup>2</sup>. Fresenius Kabi achieved organic

<sup>1</sup> Market data based on company own research and is related to the addressable market of Quirónsalud. Market definition does neither include 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).

<sup>2</sup> 2016 before acquisitions (US\$15 million after tax), 2015 before settlement costs for an agreement in principle for GranuFlo®/NaturaLyte® case (-US\$37 million after tax), and acquisitions (US\$9 million after tax).

sales growth of 5% and increased EBIT<sup>1</sup> by 3% (5% in constant currency) to €1,224 million. New product launches in the United States led to a better than expected development in this region. Organic sales growth of Fresenius Helios was 4%. An increase in admissions and price increases for hospital services contributed to organic growth. The company increased EBIT<sup>1</sup> by 7% to €682 million. Fresenius Vamed achieved organic sales growth of 5%. EBIT grew by 8% to €69 million.

## COMPARISON OF THE ACTUAL BUSINESS RESULTS WITH THE FORECASTS

For 2016, 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 2016 for the Group as well as for the business segments. Based on the strong business development, exceeding our original

expectations, especially at Fresenius Kabi in the United States, we improved **Group earnings guidance** twice during the year.

The forecast for the currency-adjusted **sales growth** was achieved by Fresenius Group. At 6%, this was well in line with the targeted range. **Net income**<sup>2</sup> increased by 13% in constant currency and was well in line with the targeted range of 12% to 14%.

Fresenius invested €1,621 million in **property, plant and equipment** (2015: €1,512 million). That was in line with the budgeted level of about 6% as percentage of sales.

**Operating cash flow** was €3,574 million (2015: €3,327 million). The cash flow margin was 12.3% (2015: 12.0%) and therefore above our expectations. We had expected to achieve a cash flow margin between 9% and 11%.

### ACHIEVED GROUP TARGETS 2016

	Targets for 2016 announced in February 2016	Guidance announced in August 2016	Guidance announced in October 2016	Achieved in 2016
<b>Group</b>				
Sales (growth, in constant currency)	6% – 8%			6%
Net income <sup>1</sup> (growth, in constant currency)	8% – 12%	11% – 14%	12% – 14%	13%
<b>Fresenius Medical Care<sup>2</sup></b>				
Sales (growth, in constant currency)	7% – 10%			7%
Net income (growth) <sup>3,4</sup>	15% – 20%			16%
<b>Fresenius Kabi<sup>5</sup></b>				
Sales (growth, organic)	low single-digit %	3% – 5%	4% – 6%	5%
EBIT (growth, in constant currency)	roughly flat	3% – 5%	4% – 6%	5%
<b>Fresenius Helios</b>				
Sales (growth, organic)	3% – 5%			4%
EBIT	€670 m – €700 m			€682 m
<b>Fresenius Vamed</b>				
Sales (growth, organic)	5% – 10%			5%
EBIT (growth)	5% – 10%			8%

<sup>1</sup> Net income attributable to shareholders of Fresenius SE & Co. KGaA; 2015 before integration costs (€12 million before tax for hospitals acquired from Rhön-Klinikum AG), before costs for the efficiency program at Fresenius Kabi (€105 million before tax), and before the disposal gains from the divestment of two HELIOS hospitals (€34 million before tax)

<sup>2</sup> Savings from the global efficiency program are included, while acquisitions 2015/2016 are not.

<sup>3</sup> Net income attributable to the shareholders of Fresenius Medical Care AG & Co. KGaA

<sup>4</sup> 2016 before acquisitions (US\$15 million after tax), 2015 before settlement costs for an agreement in principle for GranuFlo®/NaturaLyte® case (-US\$37 million after tax) and acquisitions (US\$9 million after tax); hence the basis for net income outlook 2016 was US\$1,057 million.

<sup>5</sup> 2015 before costs for the efficiency program at Fresenius Kabi (€105 million before tax)

<sup>1</sup> 2015 before special items

<sup>2</sup> Net income attributable to the shareholders of Fresenius SE & Co. KGaA; 2015 before special items

Group **net debt/EBITDA** was 2.34<sup>1</sup> and thus below the level of approximately 2.5; the level we originally expected.

Group ROIC increased to 8.50%<sup>2</sup> (2015: 8.26%<sup>3</sup>), and Group ROA to 10.13%<sup>2</sup> (2015: 10.11%<sup>3</sup>) and hence as expected above the level of 2015.

## RESULTS OF OPERATIONS, FINANCIAL POSITION, ASSETS AND LIABILITIES

### RESULTS OF OPERATIONS

#### Sales

In 2016, we increased Group sales by 6% in constant currency and by 5% at actual rates to €29,083 million (2015: €27,626 million). The chart on the right shows the various influences on Fresenius' Group sales.

In 2016, there were no major effects due to changes in **product mix**, as expected.

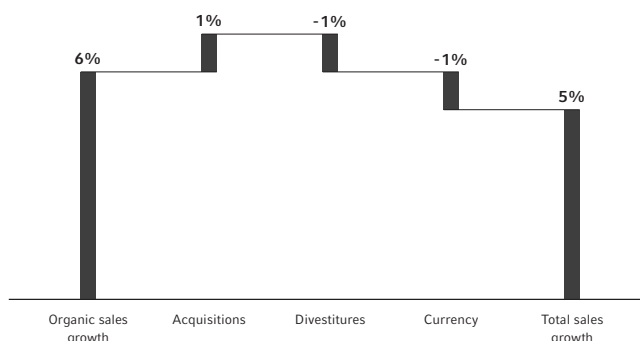
**Price effects** occurred at Fresenius Medical Care. Medicare reimbursement rates remained virtually unchanged in 2016, while personnel costs have increased.

**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% (8% in constant currency) to €16,181 million (2015: €15,086 million). This is mainly due to the good development of health care services, where sales increased by 9% to €13,116 million. Care Coordination in North America increased by 23% (23% in constant currency) to €2,084

#### SALES GROWTH ANALYSIS



million. Dialysis product sales increased by 2% to €3,065 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 contributed 1%.

- ▶ Fresenius Kabi increased sales by 1% to €6,007 million (2015: €5,950 million). Sales growth was mainly driven by new product launches in the United States. The company achieved organic sales growth of 5%. Divestitures reduced sales by 1%. Negative currency translation effects (3%) were mainly related to the euro's appreciation against the Latin American currencies and the Chinese yuan.
- ▶ Fresenius Helios increased sales by 5% to €5,843 million (2015: €5,578 million). An increase in admissions and price increases for hospital services contributed to organic sales growth of 4%. Acquisitions contributed 1% to sales growth.

#### SALES BY REGION

€ in millions	2016	2015	Change	Organic sales growth	Currency translation effects	Acquisitions/divestitures	% of total sales
North America	13,735	12,621	9%	7%	0%	2%	47%
Europe	10,839	10,557	3%	3%	0%	0%	38%
Asia-Pacific	2,928	2,779	5%	8%	-2%	-1%	10%
Latin America	1,223	1,297	-6%	12%	-16%	-2%	4%
Africa	358	372	-4%	2%	-6%	0%	1%
<b>Total</b>	<b>29,083</b>	<b>27,626</b>	<b>5%</b>	<b>6%</b>	<b>-1%</b>	<b>0%</b>	<b>100%</b>

<sup>1</sup> At average exchange rates for the last 12 months for both net debt and EBITDA; pro forma acquisitions

<sup>2</sup> Pro forma acquisitions

<sup>3</sup> Before special items

► Fresenius Vamed increased sales by 4% to €1,160 million (2015: €1,118 million). Divestitures reduced sales by 1%. Sales in the project business increased by 3% to €594 million (2015: €575 million). Sales in the service business grew by 4% to €566 million (2015: €543 million). The increase in sales is due to new and existing business. **Order intake** in the project business again developed well; it increased above the level of €1 billion for the first time (2015: €904 million). Fresenius Vamed increased its **order backlog** by 19% to €1,961 million (December 31, 2015: €1,650 million). Fresenius Vamed is the only business segment within the Fresenius Group whose business is significantly determined by order intake and order backlog.

### Earnings structure

**Group net income**<sup>1,2</sup> rose by 12% to €1,593 million (2015: €1,423 million). Growth in constant currency was 13%.

**Earnings per share**<sup>1,2</sup> rose to €2.92 (2015: €2.61). This represents an increase of 12% at actual rates and of 13% in constant currency. The weighted average number of shares was 546.4 million.

Inflation had no significant effect on results of operations in 2016.

**Group EBITDA**<sup>2</sup> increased by 8% to €5,500 million (2015: €5,073 million). This corresponds to an increase of 9% in constant currency. **Group EBIT**<sup>2</sup> increased by 9% to €4,327 million (2015: €3,958 million). This corresponds to an increase of 10% in constant currency.

**EBIT development by business segment** was as follows:

- Fresenius Medical Care's EBIT increased by 14% (constant currency: 14%) to €2,383 million (2015: €2,097 million). Unchanged Medicare reimbursement rates in North America were offset by cost savings on the procurement side for pharmaceutical products and cost savings from the global efficiency program. The EBIT margin of Fresenius Medical Care Group increased to 14.7% (2015: 13.9%). Adjusted for one-time items<sup>3</sup>, EBIT increased by 10% to US\$2,599 million.
- Fresenius Kabi's EBIT<sup>2</sup> increased by 3% (5% in constant currency) to €1,224 million (2015: €1,189 million). The increase was mainly driven by new product launches and solid sales and earnings growth in the United States. The EBIT<sup>2</sup> margin increased to 20.4% (2015: 20.0%).
- Fresenius Helios increased EBIT<sup>2</sup> by 7% to €682 million (2015: €640 million). The EBIT<sup>2</sup> margin increased to 11.7% (2015: 11.5%). The increase is attributable both to increased admissions and to continuous cost efficiency improvements at our hospitals and clinics.

### SALES BY BUSINESS SEGMENT

€ in millions	2016	2015	Change	Organic sales growth	Currency translation effects	Acquisitions/Divestitures	% of total sales
Fresenius Medical Care	16,181	15,086	7%	7%	-1%	1%	56%
Fresenius Kabi	6,007	5,950	1%	5%	-3%	-1%	20%
Fresenius Helios	5,843	5,578	5%	4%	0%	1%	20%
Fresenius Vamed	1,160	1,118	4%	5%	0%	-1%	4%

### ORDER INTAKE AND ORDER BACKLOG – FRESENIUS VAMED

€ in millions	2016	2015	2014	2013	2012
Order intake	1,017	904	840	744	657
Order backlog (December 31)	1,961	1,650	1,398	1,139	987

<sup>1</sup> Net income attributable to shareholders of Fresenius SE & Co. KGaA

<sup>2</sup> 2015 before special items

<sup>3</sup> 2016 before acquisitions (US\$39 million before tax), 2015 before settlement costs for an agreement in principle for GranuFlo®/NaturaLyte® case (-US\$60 million before tax) and acquisitions (US\$16 million before tax)

- Fresenius Vamed increased EBIT by 8% to €69 million (2015: €64 million). The EBIT margin increased to 5.9% (2015: 5.7%).

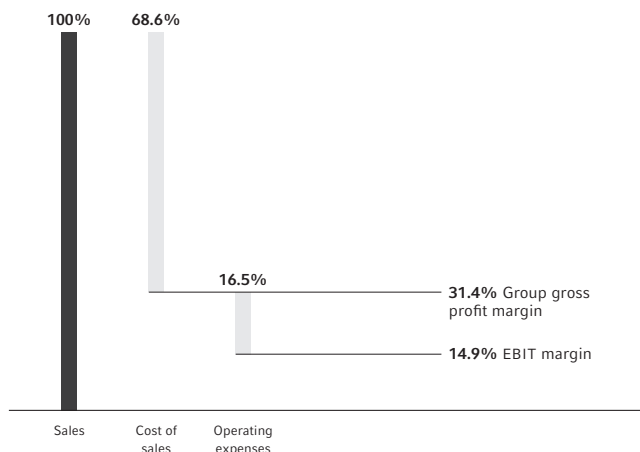
### Reconciliation to Group net income

The Group's U.S. GAAP financial results as of December 31, 2016, do not comprise special items, whereas the financial results as of December 31, 2015, do comprise special items. In order to show the operating performance of the Group in the reporting period, the relevant positions of the profit and loss statement were adjusted for these special items. The table below shows the special items and the reconciliation from net income (before special items) to earnings according to U.S. GAAP.

### Development of other major items in the statement of income

**Group gross profit** rose to €9,128 million, exceeding the previous year's gross profit of €8,534 million by 7% (8% in constant currency). The gross margin increased to 31.4% (2015: 30.9%). The **cost of sales** rose by 5% to €19,955 million (2015: €19,092 million). Cost of sales as a percentage

### EARNINGS STRUCTURE (BEFORE SPECIAL ITEMS)



of Group sales decreased to 68.6% in 2016, compared to 69.1% in 2015.

**Selling, general, and administrative expenses** consisted primarily of personnel costs, marketing and distribution costs, and depreciation and amortization. These expenses rose by 3% to €4,301 million (2015: €4,195 million). The increase is primarily due to business expansion. Their ratio

### RECONCILIATION

€ in millions	Q1-4/ 2016 (before special items)	Kabi efficiency program	Integration costs for acquired Rhön hospitals	Disposal gains from two HELIOS hospitals	Q1-4/ 2016 according to U.S. GAAP (incl. spe- cial items)	Q1-4/ 2015 (before special items)	Kabi efficiency program	Integration costs for acquired Rhön hospitals	Disposal gains from two HELIOS hospitals	Q1-4/ 2015 according to U.S. GAAP (incl. spe- cial items)
Sales	29,083				29,083	27,626				27,626
EBIT	4,327	0	0	0	4,327	3,958	-105	-12	34	3,875
Interest result	-582				-582	-613				-613
Net income before taxes	3,745	0	0	0	3,745	3,345	-105	-12	34	3,262
Income taxes	-1,051	0	0	0	-1,051	-983	16	2	0	-965
Net income	2,694	0	0	0	2,694	2,362	-89	-10	34	2,297
Less noncontrolling interest	-1,101				-1,101	-939				-939
Net income <sup>1</sup>	1,593	0	0	0	1,593	1,423	-89	-10	34	1,358

<sup>1</sup> Net income attributable to the shareholders of Fresenius SE & Co. KGaA

The costs are reported in the Group Corporate/Other segment.



as a percentage of Group sales therefore decreased to 14.8% (2015: 15.2%). **R & D expenses** were €500 million (2015: €464 million). With 6% they are above the targeted range of approximately 4% to 5% of our product sales. **Depreciation and amortization** was €1,173 million (2015: €1,115 million). The ratio as a percentage of sales was 4.0% (2015: 4.0%). Group **Personnel costs** increased to €11,671 million (2015: €10,862 million). The personnel cost ratio was 40.1% (2015: 39.3%). The chart on the left shows the earnings structure in 2016.

**Group net interest** decreased to -€582 million (2015: -€613 million), mainly due to more favorable financing terms and interest rate savings on lower net debt.

The **Group tax rate** (before special items) was 28.1% and hence below the prior-year level (2015: 29.4%).

**Noncontrolling interest** increased to €1,101 million (2015: €939 million). Of this, 96% was attributable to the noncontrolling interest in Fresenius Medical Care.

The table on page 46 shows the profit margin development in 2016.

## 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.

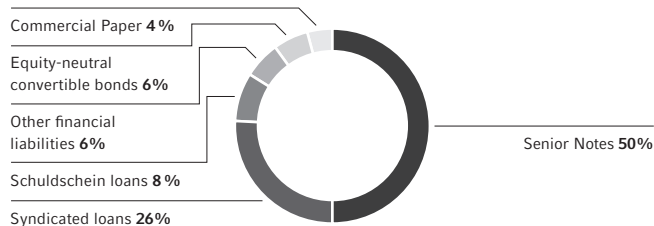
### STATEMENT OF INCOME (SUMMARY)

€ in millions	2016	2015	Change	Change in constant currency
Sales	29,083	27,626	5%	6%
Cost of goods sold	-19,955	-19,092	-5%	-6%
Gross profit	9,128	8,534	7%	8%
Selling, general, and administrative expenses	-4,301	-4,195	-3%	-4%
Research and development expenses	-500	-464	-8%	-8%
EBIT	4,327	3,875	12%	12%
Net interest	-582	-613	5%	5%
Income taxes	-1,051	-965	-9%	-10%
Noncontrolling interest in profit	-1,101	-939	-17%	-17%
<b>Net income (before special items)<sup>1</sup></b>	<b>1,593</b>	<b>1,423</b>	<b>12%</b>	<b>13%</b>
Net income <sup>1</sup>	1,593	1,358	17%	18%
Earnings per ordinary share in € (before special items) <sup>1</sup>	2.92	2.61	12%	13%
Earnings per ordinary share in € <sup>1</sup>	2.92	2.50	17%	18%
EBITDA	5,500	4,990	10%	11%
Depreciation and amortization	1,173	1,115	5%	6%

<sup>1</sup> Net income attributable to the shareholders of Fresenius SE & Co. KGaA

For a detailed overview of special items please see the reconciliation table on page 44. The special items are reported in the Group Corporate/Other segment.

## FINANCING MIX OF THE FRESENIUS GROUP



Dec. 31, 2016: €14,780 million

The Group's main debt financing instruments are shown in the chart above. Including the financing activities related to the acquisition of Quirónsalud, there is only a slight shift within the financing mix.

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 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

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 loans, important financing instruments include the issuance of Senior Notes, Schuldschein Loans, convertible bonds, commercial paper programs, and a receivable securitization program.

**Financing activities** during the past fiscal year were mainly related to the acquisition of IDC Salud Holding S.L.U. (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 October 2016, the 2013 Senior Credit Agreement was increased by €1.2 billion incremental facilities, which consist of an incremental revolving credit facility of €300 million and an incremental term loan of €900 million, both due in 2020. The incremental facilities were disbursed on January 31, 2017.

in %	2016	2015	2014	2013	2012
EBITDA margin <sup>1</sup>	18.9	18.4	17.6	19.1	20.0
EBIT margin <sup>1</sup>	14.9	14.3	13.6	15.0	15.9
Return on sales (before taxes and noncontrolling interest) <sup>1</sup>	12.9	12.1	11.0	12.1	12.5

<sup>1</sup> 2012–2015 before special items

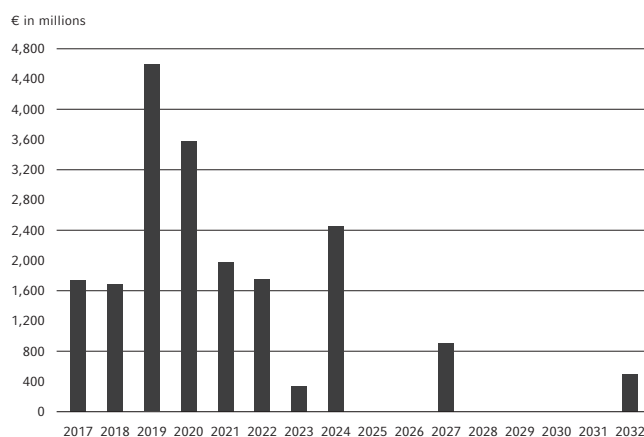
For a detailed overview of special items please see the reconciliation table on page 44. The special items are reported in the Group Corporate/Other segment.

- ▶ In December 2016, Fresenius SE & Co. KGaA placed €1.0 billion of Schuldschein Loans in tranches of five, seven and ten years with fixed and variable interest rates. Funding of the Schuldschein Loans took place on January 31, 2017.
- ▶ In January 2017, Fresenius Finance Ireland plc. issued Senior Notes with an aggregate volume of €2.6 billion, split in 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 Senior Notes were drawn under the newly established Fresenius European Medium Term Note (EMTN) program.
- ▶ Also in January 2017, Fresenius SE & Co. KGaA issued €500 million equity-neutral convertible bonds, due 2024. The bonds do not bear any interest and were issued at a price of 101.00%. The initial conversion price is €107.0979. This represents a 45% premium over the Fresenius reference share price of €73.8606. 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 not result in the issuance of new shares upon conversion of the bonds.
- ▶ Due to the successful closing of the long-term financing for the acquisition of Quirónsalud in December 2016 and January 2017, the bridge facility of Fresenius SE & Co. KGaA which had been in place since September 2016, was voluntarily terminated. It had been arranged with a small group of banks in the amount of €3.75 billion.

In addition to measures related to the acquisition of Quirónsalud, the following **financing activities** for general corporate purposes took place in 2016:

- ▶ In March 2016, Fresenius US Finance II, Inc. issued Schuldschein Loans with an aggregate volume of US\$400 million in tranches of five and seven years with fixed and floating interest rates.

#### MATURITY PROFILE OF THE FRESENIUS GROUP FINANCING FACILITIES <sup>1</sup>



<sup>1</sup> As of December 31, 2016, major financing instruments  
Pro forma Quirónsalud acquisition: €2.6 billion Senior Notes; €1.2 billion Senior Credit Agreement incremental facilities; €1.0 billion Schuldschein Loans and €500 million equity-neutral convertible bonds

- ▶ In December 2016, Fresenius Medical Care extended the maturity of its receivable securitization program of US\$800 million to December 2019.

The chart above 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, 2016, €178 million of Fresenius SE & Co. KGaA's commercial paper program was utilized. Under Fresenius Medical Care AG & Co. KGaA's commercial paper program, €476 million were outstanding.

The Fresenius Group has drawn about €4.4 billion of bilateral and syndicated credit lines. In addition, as of December 31, 2016, the Group had approximately €3.4 billion in unused credit lines available (including committed credit lines of about €2.8 billion). These credit facilities are generally used for covering working capital needs and – with the exception of the syndicated credit agreements of Fresenius SE & Co. KGaA and Fresenius Medical Care – are usually unsecured.

As of December 31, 2016, both Fresenius SE & Co. KGaA and Fresenius Medical Care AG & Co. KGaA, including all subsidiaries, complied with the covenants under its debt arrangements.

Detailed information on the Fresenius Group's financing can be found on pages 136 to 144 of the Notes. Further information on financing requirements in 2017 is included in the Outlook section on page 59.

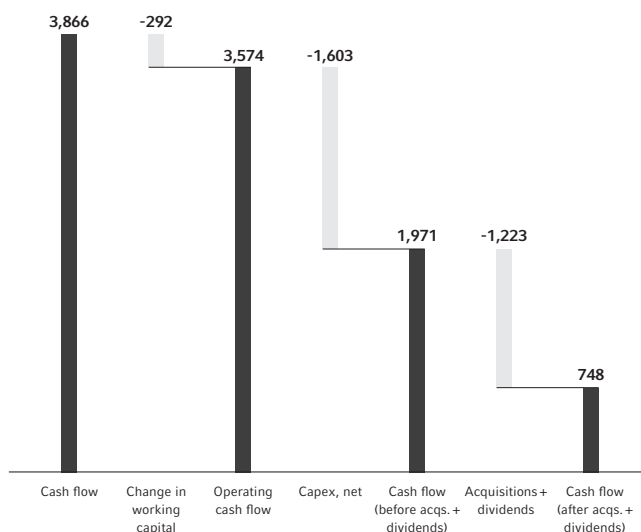
### Effect of off-balance-sheet financing instruments on our financial position and liabilities

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

### Liquidity analysis

In 2016, 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 bilateral bank credit agreements. Additionally, receivables under the Fresenius Medical Care accounts receivable securitization program can be sold. Mid- and long-term

CASH FLOW IN € MILLIONS



funding are mostly provided by the syndicated credit facilities of Fresenius SE & Co. KGaA and Fresenius Medical Care, as well as by Senior Notes, Schuldschein Loans, and convertible bonds. Fresenius is convinced that its existing credit facilities, inflows from Senior Note 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.

### FINANCIAL POSITION – FIVE-YEAR OVERVIEW

€ in millions	2016	2015	2014	2013	2012
Operating cash flow	3,574	3,327	2,585	2,320	2,438
as % of sales	12.3	12.0	11.1	11.4	12.6
Working capital <sup>1</sup>	6,839	6,090	5,448	4,571	4,470
as % of sales	23.5	22.0	23.5	22.5	23.2
Investments in property, plant and equipment, net	1,603	1,462	1,323	1,047	952
Cash flow before acquisitions and dividends	1,971	1,865	1,262	1,273	1,486
as % of sales	6.8	6.8	5.4	6.3	7.7

<sup>1</sup> Trade accounts receivable and inventories, less trade accounts payable and payments received on accounts

## Dividend

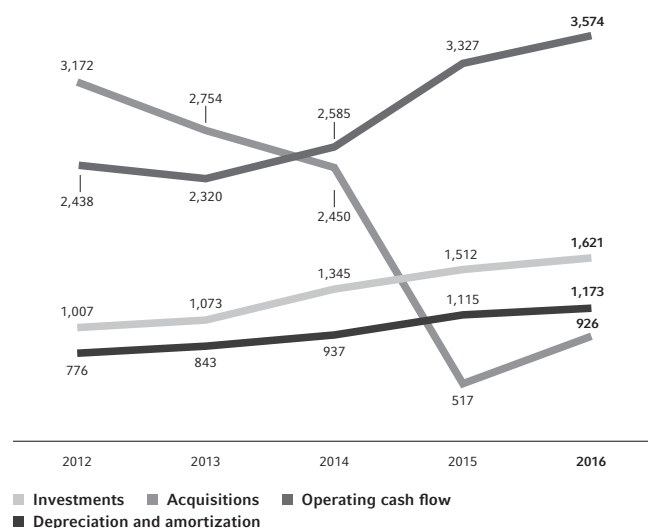
The general partner and the Supervisory Board will propose a dividend increase to the Annual General Meeting. For 2016, a dividend of €0.62 per share is proposed. This is an increase of about 13%. The total dividend distribution will increase by about 14% to €343 million (2015: €300 million).

## Cash flow analysis

Cash flow increased by 11% to €3,866 million (2015: €3,469 million). The change in working capital was -€292 million (2015: -€142 million), mainly due to business expansion. **Operating cash flow** increased by 7% to €3,574 million (2015: €3,327 million), despite a US\$100 million discretionary cash contribution from Fresenius Medical Care to its pension plan assets in the United States. The cash flow margin was 12.3% (2015: 12.0%). Operating cash flow was more than sufficient to meet all financing needs for investment activities, excluding acquisitions, whereby cash used for capital expenditure was €1,628 million, and proceeds from the sale of property, plant and equipment were €25 million (2015: €1,489 million and €27 million, respectively).

**Cash flow before acquisitions and dividends** was €1,971 million (2015: €1,865 million). This was sufficient to finance the Group dividends of €738 million. Group dividends consisted of dividend payments of €300 million to the shareholders of Fresenius SE & Co. KGaA, payments of €244 million

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



by Fresenius Medical Care to its shareholders, and dividends paid to third parties of €270 million (primarily relating to Fresenius Medical Care). These payments were offset by the dividend of €76 million, which Fresenius SE & Co. KGaA received as a shareholder of Fresenius Medical Care. Net acquisition expenditures of €485 million were financed by cash flow.

## CASH FLOW STATEMENT (SUMMARY)

€ in millions	2016	2015	Change	Margin
Earnings after tax	2,694	2,297	17%	
Depreciation and amortization	1,173	1,115	5%	
Change in pension provisions	-1	57	-102%	
<b>Cash flow</b>	<b>3,866</b>	<b>3,469</b>	<b>11%</b>	<b>13.3%</b>
Change in working capital	-292	-142	-106%	
<b>Operating cash flow</b>	<b>3,574</b>	<b>3,327</b>	<b>7%</b>	<b>12.3%</b>
Property, plant and equipment	-1,628	-1,489	-9%	
Proceeds from the sale of property, plant and equipment	25	27	-7%	
<b>Cash flow before acquisitions and dividends</b>	<b>1,971</b>	<b>1,865</b>	<b>6%</b>	<b>6.8%</b>
Cash used for acquisitions/proceeds from disposals	-485	-32	--	
Dividends	-738	-639	-15%	
<b>Cash flow after acquisitions and dividends</b>	<b>748</b>	<b>1,194</b>	<b>-37%</b>	
Cash provided by/used for financing activities (without dividends paid)	-238	-1,343	82%	
Effect of exchange rate changes on cash and cash equivalents	25	18	39%	
<b>Change in cash and cash equivalents</b>	<b>535</b>	<b>-131</b>	<b>--</b>	

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

Cash used for financing activities (without dividend payments) was €238 million (2015: €1,343 million). In 2016, it was predominantly characterized by the reduction of debt due to the strong free cash flow and refinancing measures.

Cash and cash equivalents increased by €535 million to €1,579 million as of December 31, 2016 (December 31, 2015: €1,044 million). Cash and cash equivalents were positively influenced by currency translation effects of €25 million (2015: €18 million).

### Investments and acquisitions

In 2016, the Fresenius Group provided €2,547 million (2015: €2,029 million) for investments and acquisitions. **Investments in property, plant and equipment** increased to €1,621 million (2015: €1,512 million). At 5.6% of sales (2015: 5.5%), this was well above the depreciation level of €1,173 million and serves as the basis for enabling expansion and preserving the Company's value over the long term. A total of €926 million was invested in **acquisitions** (2015: €517 million). Of the total capital expenditure in 2016, 64% was invested in property, plant and equipment, 36% was spent on acquisitions.

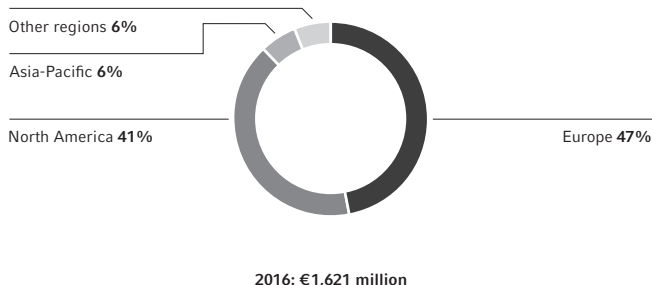
The table below shows the distribution of investments/acquisitions by business segment. The chart on the right shows the regional breakdown.

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

Fresenius Medical Care invested mainly in the acquisition of dialysis clinics and into the expansion of the Care Coordination business.

Fresenius Kabi invested primarily in the acquisition of a U.S. production facility and a portfolio of seven IV drugs.

### INVESTMENTS BY REGION



Fresenius Helios' acquisition spending was mainly for the purchase of 100% of the shares in Klinikum Niederberg gGmbH, Germany, as well as the acquisition of outpatient facilities.

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

- ▶ 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
- ▶ modernization of existing, and equipping of new, dialysis clinics at Fresenius Medical Care
- ▶ new building and modernization of hospitals at Fresenius Helios accounting for €352 million. The most significant individual projects were the hospitals in Schleswig, Duisburg, Pforzheim, and Wiesbaden

### INVESTMENTS/ACQUISITIONS BY BUSINESS SEGMENT

€ in millions	2016	2015	Thereof property, plant and equipment	Thereof acquisitions	Change	% of total
Fresenius Medical Care	1,705	1,244	931	774	37%	67%
Fresenius Kabi	436	389	322	114	12%	17%
Fresenius Helios	390	376	352	38	4%	15%
Fresenius Vamed	11	15	11	0	-27%	1%
Corporate/Other	5	5	5	0	0%	0%
<b>Total</b>	<b>2,547</b>	<b>2,029</b>	<b>1,621</b>	<b>926</b>	<b>26%</b>	<b>100%</b>

## INVESTMENTS AND ACQUISITIONS

€ in millions	2016	2015	Change
Investment in property, plant and equipment	1,621	1,512	7%
thereof maintenance	54%	48%	
thereof expansion	46%	52%	
Investment in property, plant and equipment as % of sales	5.6	5.5	
Acquisitions	926	517	79%
<b>Total investments and acquisitions</b>	<b>2,547</b>	<b>2,029</b>	<b>26%</b>

Investments in property, plant and equipment of €273 million will be made in 2017, 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 IDC Salud Holding S.L.U. (Quirónsalud)

On September 5, 2016, Fresenius Helios announced the signing of a purchase agreement to acquire 100% of the share capital in IDC Salud Holding S.L.U. (Quirónsalud), Spain, for a total purchase price of €5.76 billion.

The sellers are the private equity group CVC Capital Partners, Víctor Madera, founder and CEO of Quirónsalud, and other members of Quirónsalud's management board. Quirónsalud, Spain's largest private hospital operator, covers the full spectrum of inpatient and outpatient care.

Approval by the relevant antitrust authorities was received on December 22, 2016, and the transaction was closed on January 31, 2017. Quirónsalud will be consolidated from February 1, 2017.

## ASSETS AND LIABILITIES

#### Asset and liability structure

The **total assets** of the Group rose by 8% to €46,447 million (Dec. 31, 2015: €42,959 million). In constant currency, this was an increase of 6%. The increase is mainly driven by business expansion and currency translation effects. The latter resulted in an increase of the balance sheet total by €0.9 billion. Inflation had no significant impact on the assets of Fresenius in 2016.

**Current assets** increased to €11,799 million (Dec. 31, 2015: €10,479 million). Within current assets, trade accounts receivable increased by 10% to €5,052 million (Dec. 31, 2015: €4,596 million). At 63 days, average days sales outstanding was above the previous year's level of 61 days.

**Inventories** rose by 12% to €3,189 million (Dec. 31, 2015: €2,860 million). The scope of inventory in 2016 was 58 days (Dec. 31, 2015: 55 days). The ratio of inventories to total assets increased to 6.9% (Dec. 31, 2015: 6.7%).

**Non-current assets** increased by 7% to €34,648 million (Dec. 31, 2015: €32,480 million). In constant currency, the increase was 5%. Additions to property, plant and equipment, and to goodwill had an effect. The goodwill in the amount of €22,774 million (Dec. 31, 2015: €21,523 million) has proven sustainable and increased mainly due to the acquisitions made in fiscal year 2016 and due to currency translation effects. In fiscal year 2016, the addition to the goodwill from acquisitions was €692 million. Please see page 131 ff. of the Notes for further information.

**Shareholders' equity**, including **noncontrolling interest**, rose by 13% to €20,420 million (Dec. 31, 2015: €18,003 million). In constant currency, shareholders' equity, including noncontrolling interest, rose by 11%. **Group net income**

attributable to Fresenius SE & Co. KGaA increased shareholders' equity by €1,593 million. The equity ratio, including noncontrolling interest, was 44.0% as of December 31, 2016 (Dec. 31, 2015: 41.9%).

The liabilities and equity side of the balance sheet shows a solid financing structure. Total shareholders' equity, including noncontrolling interest, covers 59% of non-current assets (Dec. 31, 2015: 55%). Shareholders' equity, noncontrolling interest, and long-term liabilities cover all non-current assets and 65% of inventories.

**Long-term liabilities** decreased by 2% to €16,299 million as of December 31, 2016 (Dec. 31, 2015: €16,661 million).

**Short-term liabilities** increased by 16% to €8,544 million (Dec. 31, 2015: €7,348 million).

The Group has no major **accruals** that are of major significance as individual items.

**Group debt** remained nearly unchanged at €14,780 million (Dec. 31, 2015: €14,769 million). In constant currency, the decrease was 2%. Its relative weight in the balance sheet was 32% (Dec. 31, 2015: 34%). Approximately 52% of the Group's debt is denominated in U.S. dollars. Liabilities due in less than one year were €1,937 million (Dec. 31, 2015:

€1,162 million), while liabilities due in more than one year were €12,843 million (Dec. 31, 2015: €13,607 million).

**Group net debt** decreased by -4% (-5% in constant currency) to €13,201 million (Dec. 31, 2015: €13,725 million).

The net debt to equity ratio including noncontrolling interest (gearing) is 65% (Dec. 31, 2015: 76%).

The return on equity after taxes (equity attributable to shareholders of Fresenius SE & Co. KGaA) decreased to 12.7% (Dec. 31, 2015: 13.0%<sup>1</sup>). The return on total assets after taxes and before noncontrolling interest increased to 5.8% (2015: 5.5%<sup>1</sup>).

Group ROIC increased to 8.50%<sup>2</sup> (2015: 8.26%<sup>1</sup>), and Group ROOA to 10.13%<sup>2</sup> (2015: 10.11%<sup>1</sup>). Within the position invested capital, the goodwill of €22.8 billion had a significant effect on the calculation of ROIC. It is important to take into account that approximately 62% 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, and hospitals of Rhön-Klinikum AG in 2014. Those have significantly strengthened the competitive position of the Fresenius Group.

#### ASSETS AND LIABILITIES – FIVE-YEAR OVERVIEW

€ in millions	2016	2015	2014 <sup>3</sup>	2013 <sup>3</sup>	2012 <sup>3</sup>
Total assets	46,447	42,959	39,788	32,663	30,558
Shareholders' equity <sup>1</sup>	20,420	18,003	15,483	13,260	12,758
as % of total assets <sup>1</sup>	44	42	39	41	42
Shareholders' equity <sup>1</sup> /non-current assets, in %	59	55	52	54	57
Debt	14,780	14,769	15,345	12,709	10,922
as % of total assets	32	34	39	39	36
Gearing in %	65	76	92	73 <sup>2</sup>	79

<sup>1</sup> Including noncontrolling interest

<sup>2</sup> 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

<sup>3</sup> Adjusted due to debt issuance cost restatement (U.S. GAAP standard ASU 2015-03)

<sup>1</sup> 2015 before special items

<sup>2</sup> Pro forma acquisitions



The summary shows ROIC and ROOA by business segment:

in %	ROIC		ROOA	
	2016	2015	2016	2015
Fresenius Medical Care <sup>1</sup>	7.8	6.9	10.4	9.6
Fresenius Kabi <sup>2</sup>	10.4	10.6	12.7	13.2
Fresenius Helios <sup>2</sup>	8.1	7.7	8.4	8.1
Fresenius Vamed <sup>3</sup>	–	–	10.5	11.1
Group <sup>1,2</sup>	8.5	8.3	10.1	10.1

<sup>1</sup> 2016 pro forma acquisitions

<sup>2</sup> 2015 before special items

<sup>3</sup> ROIC: invested capital is insignificant due to prepayments, cash and cash equivalents.

In 2016, 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 5.1%, the WACC of the other business segments was 5.9%.

### Currency and interest risk management

The nominal value of all foreign currency hedging contracts was €2,635 million as of December 31, 2016. These contracts had a market value of -€7 million. The nominal value of interest rate hedging contracts was €647 million. These contracts had a market value of €3 million. Please see the Risk Report on pages 68f. and the Notes on pages 162 to 169 for further details.

### FIVE-YEAR OVERVIEW FINANCING KEY FIGURES

	Dec. 31, 2016 <sup>2</sup>	Dec. 31, 2015 <sup>1</sup>	Dec. 31, 2014 <sup>1,2</sup>	Dec. 31, 2013 <sup>3</sup>	Dec. 31, 2012 <sup>1,2</sup>
Debt/EBITDA	2.7	2.9	3.7	2.7	2.8
Net debt/EBITDA <sup>4</sup>	2.3 <sup>6</sup>	2.7	3.2	2.5	2.6
Net debt/EBITDA <sup>5</sup>	2.4 <sup>7</sup>	2.7	3.4	2.5	2.5
EBITDA/net interest	9.5	8.3	6.8	6.7	5.8

<sup>1</sup> Before special items

<sup>2</sup> Pro forma acquisitions

<sup>3</sup> 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

<sup>4</sup> At LTM average exchange rates for both net debt and EBITDA

<sup>5</sup> Net debt at year-end exchange rate; EBITDA at LTM average exchange rates

<sup>6</sup> Pro forma Quirónsalud acquisition: Net debt/EBITDA 3.1

<sup>7</sup> Pro forma Quirónsalud acquisition: Net debt/EBITDA 3.2

### CORPORATE RATING

The credit quality of Fresenius is assessed and regularly reviewed by the leading rating agencies Moody's, Standard & Poor's, and Fitch. In July 2016, the rating agency Fitch upgraded the corporate credit rating of Fresenius from BB+ to BBB- with a stable outlook. Standard & Poor's and Moody's raised Fresenius' rating to investment-grade status in 2015.

The table below shows the company rating and the respective outlook as of December 31, 2016.

### RATING OF FRESENIUS SE & CO. KGAA

	Dec. 31, 2016	Dec. 31, 2015
Standard & Poor's		
Corporate Credit Rating	BBB-	BBB-
Outlook	stable	stable
Moody's		
Corporate Credit Rating	Baa3	Baa3
Outlook	stable	stable
Fitch		
Corporate Credit Rating	BBB-	BB+
Outlook	stable	stable

## 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 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 61 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 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. 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 **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 expanding the coordination of care. These include, e.g., vascular care services, laboratory services, and hospitalist and intensivist services. 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 Fresenius Helios and Quirónsalud. 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 renal pharmaceuticals as growth drivers. They complement our dialysis portfolio and add to the horizontal expansion of our portfolio. They offer further growth potential in line with our strategic goals and the growing trend of offering more integrated care. 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. Home dialysis and the corresponding technologies and products will continue to be a major focus of our R & D activities. In addition, Fresenius Kabi is developing new dosage forms for its products.
- ▶ **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 2017 and beyond. Significant risks are discussed in the 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. With Care Coordination, Fresenius Medical Care can address the needs of dialysis patients even more comprehensively.

**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.

With its broad hospital network across Germany, **Fresenius Helios** is able to develop new patient care models. In addition, further acquisition opportunities are expected to arise in the German hospital market. The increasing number of privately insured patients in Spain is opening up significant 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 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 2017.

The number of dialysis patients worldwide is expected to rise by approximately 6% in 2017, 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. The fact that a large part of the world's population lives in these regions underscores the strong growth potential for the entire spectrum of dialysis services and products.

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 age 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 36 ff. of the Management Report.

### THE MARKET FOR GENERIC IV DRUGS, CLINICAL NUTRITION, INFUSION THERAPY, AND MEDICAL DEVICES/TRANSFUSION TECHNOLOGY<sup>1</sup>

We expect the global market for generic IV drugs, clinical nutrition, infusion therapy, and medical devices/transfusion technology to grow by approximately 4% to 5% in 2017.

The **market for generic IV drugs** in Europe and the United States is expected to grow by 7% to 9% in 2017. 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.

Growth of about 2% is expected for the **clinical nutrition market** in Europe in 2017. However, given the financial constraints in these countries, the efforts to contain costs in the

<sup>1</sup> Market data refers to Fresenius Kabi's addressable markets. Those are subject to annual volatility due to currency fluctuations and patent expiries of original drugs in the IV drug market, among other things.

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 2017. 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 2017, 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 2017.

## THE HOSPITAL MARKET

We expect the acute care hospital market in **Germany** to grow slightly in 2017. Admissions are forecast to increase by approximately 1%.

The so-called change in value figure is relevant for the increase in **reimbursements of hospital treatments**. For 2017 it was set at 2.50%. In addition, the hospital funding system provides for various increases and reductions for acute hospitals.

Until 2016, hospitals had to accept a 25% discount on surplus services agreed in advance with the health insurance companies. Starting 2017, this discount is replaced by 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. A reduction of 65% continues to apply to surplus services not agreed upon.

The care supplement will replace the extra charge on invoiced hospital treatments beginning in 2017. 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 2017 is around €500 million. We expect the overall effect of the increases and discounts on HELIOS's earnings to be neutral in 2017.

Beginning in 2018, medical outcomes will factor into the amount of funding. For this purpose, the Federal Joint Committee will define quality indicators until the end of 2017. The specific financial impact this will have on HELIOS cannot currently be quantified. 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.

Despite higher revenues, the expectations of the hospitals are rather pessimistic with respect to their **economic situation** in 2017. According to the Krankenhaus-Barometer 2016 survey by the German Hospital Institute (DKI), only a quarter (24%) of the hospitals expect their economic situation to improve, whereas 36% 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 privatization and consolidation will continue in the German hospital market.

We expect the private hospital market in **Spain** to grow by 2% to 3% in 2017. The continuing increase in the number of privately insured patients should also open up opportunities for private operators in the future. Important market data, for example nationwide health care spending and bed density, indicates that the Spanish health care system is lagging behind that of 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 2017, we expect the worldwide demand for projects and services for hospitals and other health care facilities to grow at a low single-digit rate.

In the Central European **markets with established health care systems**, we expect solid growth. The demand for projects and services for hospitals and other health care facilities will continue to grow due to demographic changes and the rising investment and modernization needs of public health facilities. The focus is on services ranging from the maintenance and repair of medical and hospital equipment, facility

management, and technical operation, through to total operational management and infrastructure process optimization – especially within the framework of public-private partnership (PPP) models. Additional growth opportunities are presented by an increasing number of non-medical services, which are outsourced from public facilities to private service providers.

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

## GROUP SALES AND EARNINGS

The Fresenius Group and all of its business segments will report solely in accordance with IFRS starting with the fiscal year 2017. Hence, the following outlook shows 2016 figures as well as targets for 2017 according to IFRS (for more details please also see page 27).

### GROUP MID-TERM TARGETS

	Targets 2020 <sup>1</sup>
Sales <sup>2</sup>	€43 – 47 bn
Net income <sup>2,3</sup>	€2.4 – 2.7 bn

<sup>1</sup> All data according to IFRS; at current IFRS rules

<sup>2</sup> At comparable exchange rates; including small and mid-size acquisitions

<sup>3</sup> Net income attributable to shareholders of Fresenius SE & Co. KGaA

By the end of fiscal year 2020, **Group sales** are expected to reach €43 to €47 billion. **Group net income**<sup>1</sup> is expected to increase from €2.4 to €2.7 billion by 2020.

In 2017, we expect to increase **Group sales** by 15% to 17% in constant currency. We project **Group net income**<sup>1</sup> to increase by 17% to 20% in constant currency.

## GROUP FINANCIAL TARGETS

	Targets 2017 <sup>1</sup>	Fiscal year 2016 <sup>1</sup>
Sales growth (in constant currency)	15% – 17%	€29,471 m
Net income <sup>2</sup> growth (in constant currency)	17% – 20%	€1,560 m
Capital expenditure	~6% of sales	€1,633 m
Dividend	Profit-driven dividend policy	Proposal +13% per share

<sup>1</sup> All data according to IFRS

<sup>2</sup> Net income attributable to shareholders of Fresenius SE & Co. KGaA

## SALES AND EARNINGS BY BUSINESS SEGMENT

In 2017, we expect sales and earnings development in our business segments as shown below:

### FINANCIAL TARGETS BY BUSINESS SEGMENT

	Targets 2017 <sup>1</sup>	Fiscal year 2016 <sup>1</sup>
<b>Fresenius Medical Care</b>		
Sales growth <sup>2</sup> (in constant currency)	8% – 10%	€16,570 m
Net income <sup>2,3</sup> growth (in constant currency)	7% – 9%	€1,144 m
<b>Fresenius Kabi</b>		
Sales growth (organic)	5% – 7%	€6,007 m
EBIT growth (in constant currency)	5% – 7%	€1,171 m
<b>Fresenius Helios</b>		
Sales growth (organic)	3% – 5% <sup>4</sup>	€5,843 m <sup>4</sup>
Sales	~€8.6 bn <sup>5,6</sup>	€5,843 m <sup>4</sup>
	€1,020 – 1,070 m <sup>5,7</sup>	€683 m <sup>4</sup>
<b>Fresenius Vamed</b>		
Sales growth (organic)	5% – 10%	€1,160 m
EBIT growth	5% – 10%	€69 m

<sup>1</sup> All data according to IFRS

<sup>2</sup> The effects of the agreement with the U.S. Departments of Veterans Affairs and Justice are excluded.

<sup>3</sup> Net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA

<sup>4</sup> Helios Kliniken Germany, excluding Quirónsalud

<sup>5</sup> Quirónsalud 11 months consolidated

<sup>6</sup> Thereof Quirónsalud: ~€2.5 billion

<sup>7</sup> Thereof Quirónsalud: €300 to 320 million

For fiscal year 2017, **Fresenius Medical Care** expects sales to grow by 8% to 10% in constant currency. Net income attributable to shareholders of Fresenius Medical Care AG & Co. KGaA is expected to increase by 7% to 9% in constant currency. The effects of the agreement with the U.S. Department of Veterans Affairs and Justice are excluded.

**Fresenius Kabi** expects organic sales growth of 5% to 7% and EBIT growth in constant currency of 5% to 7%.

**Fresenius Helios** expects organic sales growth of 3% to 5%<sup>1</sup>, and sales of ~€8.6 bn (thereof Quirónsalud ~€2.5 bn<sup>2</sup>). EBIT is expected to increase to €1,020 to €1,070 million (thereof Quirónsalud €300 to €320 million<sup>2</sup>).

For 2017, **Fresenius Vamed** expects to achieve organic sales growth of 5% to 10% and EBIT growth of 5% to 10%.

## FINANCING

For 2017, 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 2017, refinancing activities are limited due to our well-balanced maturity profile.

At the end of 2017, we expect **Group net debt/EBITDA**<sup>3</sup> to be within the bottom half of Fresenius' self-imposed target range of 2.5 to 3.0.

We concluded debt financing for the acquisition of IDC Salud Holding S.L.U. (Quirónsalud), Spain's largest private hospital operator, in January 2017.

## INVESTMENTS

In 2017, we expect to invest about 6% of sales in property, plant and equipment. About 50% of the capital expenditure planned will be invested at Fresenius Medical Care, about 20% at Fresenius Kabi, and 25% at Fresenius Helios. The remaining funds are intended for other investments and the expansion of the Group headquarters. At Fresenius Medical Care, investments will primarily be used for the expansion of production capacity, optimizing production costs, and the establishment of new dialysis clinics.

Fresenius Kabi will primarily invest in expanding and maintaining production facilities, as well as in introducing new manufacturing technologies. At Fresenius Helios, we will primarily be investing in the new building, the modernizing, and equipping of existing hospitals, and in 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 (ROOA) and the return on invested capital (ROIC) will be below the level of 2016 due to the acquisition of Quirónsalud.

## PROCUREMENT

We will continue optimizing our procurement management in 2017; prices, terms, and especially quality are key factors for securing further earnings growth.

Based on the developments in the financial and the real markets, we assume that price fluctuations will continue despite tension easing in the commodities markets in the short and medium terms.

## RESEARCH AND DEVELOPMENT

Our R & D activities will continue to play a key role in securing the Group's long-term growth through **innovations and new therapies**.

We plan to increase the Group's R & D spending in 2017. Approximately 5% of our product sales will be reinvested in research and development.

Market-oriented research and development with strict time-to-market management processes is crucial for the success of new products. We continually review our R & D results using clearly defined milestones. Innovative ideas, product development, and therapies with a high level of quality will continue to provide the basis for future market-leading positions. Given the continued cost-containment efforts in the health care sector, cost-efficiency combined with a strong quality focus is acquiring ever-greater importance in product development, and in the improvement of treatment concepts and therapies.

<sup>1</sup> Helios Kliniken Germany; excluding Quirónsalud

<sup>2</sup> Quirónsalud consolidated for 11 month

<sup>3</sup> Calculated at expected annual average exchange rates, for both net debt and EBITDA; without large unannounced acquisitions

At **Fresenius Medical Care** we will continue to expand our global R & D product platform. Home dialysis, as well as associated technologies and products, will be a focal point of our activities. We will continue to expand our range of innovative products and technologies in the future to react to growth opportunities – also with the aim of best meeting demand for integrated care.

Infusion and nutrition therapies and generic IV drugs are primary focus areas of development at **Fresenius Kabi**. In particular, we are concentrating on being in a position to offer the corresponding generic drug formulation promptly upon the expiration of patents for originator drugs. We are also working to expand our portfolio to include additional ready-to-use products, for example, pre-filled syringes and ready-to-use solutions in our freeflex infusion bags.

The Fresenius Kabi portfolio of medical devices makes a contribution to the safe and effective application of infusion solutions and clinical nutrition. We will continue to develop new products and improve on existing ones in this segment. In transfusion technology, we are focusing our development work on devices and disposables that enable the safe, efficient, and user-friendly production of blood products and the treatment of specific diseases, including autoimmune diseases.

## PLANNED CHANGES IN HUMAN RESOURCES AND THE SOCIAL AREA

The number of employees in the Group will continue to rise in the future, as a result of the expected expansion. We anticipate that the number of employees will increase to approximately 270,000<sup>1</sup> (December 31, 2016: 232,873). The number of employees is expected to increase in all business segments. Approximately 55% will be located in Europe, approximately 30% in North America, and approximately 15% in Asia-Pacific, Latin America, and Africa.

## DIVIDEND

The dividend increases provided by Fresenius in the last 23 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.

<sup>1</sup>This figure includes 27,600 Quirónsalud employees. It does not take into account approximately 7,400 contract employees and independent doctors.



## 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

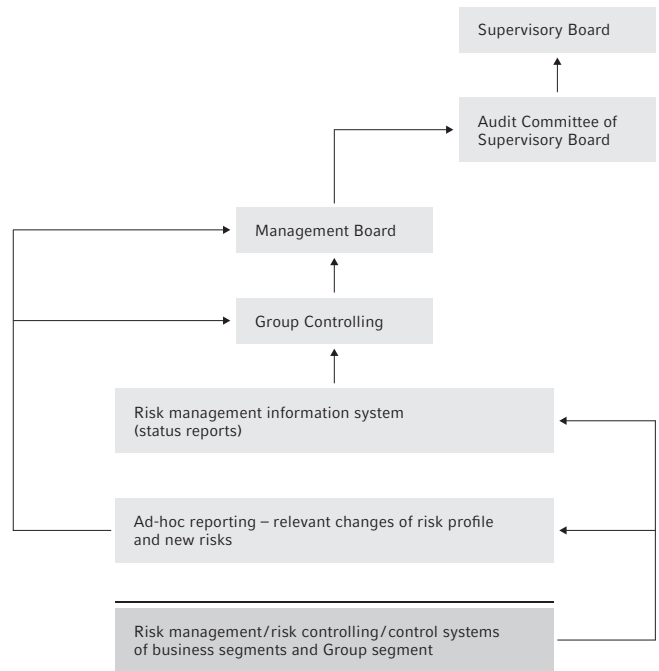
**Managing opportunities** is an ongoing, integral part of corporate activity aimed at securing the Company’s long-term success. In this way, we can explore new prospects and consolidate and improve on what we have already achieved. The organization and management of the Fresenius Group have a decentralized, 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 54.

### 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 2017, 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.

It applies in particular to any initiatives by the new U.S. administration to possibly increase import duties, potential changes to the current health care programs, and possible reductions in corporate taxes.

### 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 2016, approximately 32% 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. The ESRD PPS

payment amount is subject to annual adjustment based on increases in the costs of a "market basket" of certain health care items and services, less a productivity adjustment.

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 could have payments for a particular year reduced by up to 2% based on a year's performance. 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.

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.

Working with health care provider groups, also known as ESRD Seamless Care Organizations (ESCOs), CMS plans to test a new Comprehensive ESRD Care Model for payment and care delivery that seeks to deliver better health outcomes for ESRD patients while lowering CMS's costs. CMS allows dialysis clinics and physicians to form so called ESCOs under the Comprehensive ESRD Care Model. ESCOs that achieve the program's minimum quality thresholds and generate reductions in CMS's cost of care above certain thresholds for the ESRD patients covered by the ESCO will receive a share of the cost savings. 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. The model commenced on October 1, 2015, includes six of our organizations. The initial agreement period for the model lasts for three years.

In addition, Fresenius Medical Care currently takes part in various value-oriented programs, such as “Bundled Payments for Care Improvement Program” (BPCI), and the “Medicare Advantage Chronic Special Needs Plans” (MA-CSNP) as well as claim payments negotiations with insurers. Under the BPCI, Fresenius Medical Care has the ability to receive additional payments if Fresenius Medical Care is able to deliver quality care at a cost that is lower than certain established benchmarks, but also has the risk of incurring financial penalties if Fresenius Medical Care is not successful in doing so. Should Fresenius Medical Care fail to perform as required under the BPCI initiative and the agreement with CMS, CMS may, among other remedies, terminate the right to participate in the BPCI program, in whole or in part.

The new U.S. administration is expected to revise or even repeal the “Affordable Care Act”. At the same time, the stance of the CMS towards this kind of program could well differ from that under the previous administration. These developments could impact this program in unpredictable ways in the future.

Furthermore, a portion of our dialysis care business in the United States is currently reimbursed by private insurers or **managed care organizations**. If these organizations enforce reductions in the reimbursement, it would significantly reduce the revenues and earnings for the products and services of Fresenius Medical Care. Some of Fresenius Medical Care’s privately insured dialysis patients who rely on charitable support to cover the insurance premiums could shortly be forced to switch to state health insurance. If the most recent efforts in the U.S. to restrict or do away with this option of charitable financing were to be successful, then the resulting lower reimbursement rates could have a substantial negative impact on Fresenius Medical Care’s operating results.

The same applies to the hospital market in Germany, where the **DRG system** (Diagnosis Related Groups) is intended to increase the efficiency of hospitals while reducing health care spending. 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 operations outside Germany for the first time. Quirónsalud operates hospitals 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 or the reimbursement method could affect the scope of payments for services, as well as for insurance coverage and the product business. This could have a significant adverse impact on the assets and liabilities, financial position, and results of operations. Generally, our aim is to counter such possible regulatory risks through enhanced performance and cost reductions.

### Development of new products and therapies

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

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

## OPERATING RISKS

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

- ▶ the quality, safety, and efficacy of medical and pharmaceutical products, supplies, and therapies;
- ▶ the operation of hospitals, manufacturing facilities, and laboratories;
- ▶ 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 U.S. production facilities in Grand Island or our facility in Kalyani, India.

**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 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.

**The development of new products and therapies** always carries the risk that targets might not be achieved, or it might take longer than planned, and that regulatory authorities either do not grant, or delay, **product approval**. With IV drugs, it is also crucial that new products are continually brought to the market in a timely manner. The product development process can be controlled on the basis of detailed project roadmaps and a tight focus on the achievement of specific milestones. If the defined targets are called into question, countermeasures can be initiated.

### 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.

Under the Medicare bundled reimbursement system, payment for Erythropoietin stimulating agents (ESAs) is generally included in the bundled rate. Any interruption of supply or material increases in the utilization or acquisition costs for ESAs could materially affect sales and profitability adversely.

In 2015, patents on certain ESAs expired. This enables us to diversify the procurement sources and to reduce the risks arising from supply interruptions and price increases.

We counter the risk of poor-quality purchased raw materials, semifinished 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, fewer than five 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 2016, 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

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. 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. 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, due either to regulatory actions or our voluntary decision to stop marketing a product. 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. The product development process can be controlled on the basis

of detailed project roadmaps and a tight focus on the achievement of specific milestones. If the defined targets are called into question, countermeasures can be initiated.

### RISKS FROM THE INTEGRATION OF ACQUISITIONS

The **acquisition and integration** of companies carries risks that can adversely affect the assets and liabilities, financial position, and results of operations of Fresenius. 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 toward third parties, or claims against third parties may turn out to be non-assertable.

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

These risks also apply to the **acquisition of the Spanish private hospital chain Quirónsalud** by Fresenius Helios. The aforementioned countermeasures have been and continue to be taken.

In addition, there are risks for hospitals operated by Quirónsalud via PPP contracts. 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.

## 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. 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.

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. A password system is in place to minimize organizational risks, such as tampering and unauthorized access. In addition, there are Company guidelines regulating the granting of access authorization, and compliance with these rules is monitored. We also conduct operational and security-related audits.

In addition, the increased integration of IT systems into 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).

## 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, 2016, approximately 66% of the Fresenius Group's debt were protected against increases in interest rates either by fixed-rate financing arrangements or by interest rate hedges; 34% were exposed to interest rate risks. This ratio is only very slightly affected by the long-term finance agreement for the Quirónsalud acquisition. 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 €5 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, 2016, the Fresenius Group's cash flow at risk was €73 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 €73 million. Further details on financial risks can be found on pages 162 to 169 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. If assets have to be depreciated, this could have a significant adverse impact on the assets and liabilities, financial position, and results of operations. Further information can be found on pages 131 ff. of the Notes.

### Taxes

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

tax regulations or resulting from tax audits could lead to higher tax payments. Information on the status of the tax audits can be found on pages 126 f. of the Notes.

### Debt and liquidity

Fresenius' debt was €14,780 million as of December 31, 2016. 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. Other financing risks could arise for Fresenius in the case of an ongoing general financial market crisis. We reduce these risks through a high proportion of mid- and long-term funding with a balanced maturity profile. Our financing agreements contain covenants requiring us to comply with certain financial ratios and additional financial criteria. Non-compliance with these covenants could result in a default and acceleration of the debt under the agreements.

Additional information on conditions and maturities can be found on pages 136 ff. of the Notes and on pages 46 ff. of the Management Report.

## COMPLIANCE AND LEGAL RISKS

### Compliance risks

Fresenius is subject to comprehensive government regulation and control in nearly all countries. This is especially true in the United States and Germany and, in the future, will be true in Spain. In addition, Fresenius must comply with general rules of law, which differ from country to country. There could be far-reaching legal repercussions 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. 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.

The Corporate Compliance department reports to the **Chief Compliance Officer**, who is the Management Board member for Legal Affairs, Compliance, and Human Resources, and is accountable for establishing and implementing these compliance guidelines and procedures. A compliance officer has been appointed in each business segment. He or she is supported by additional compliance officers appointed based on organizational and business structures.

The Corporate Compliance department supports the compliance officers at the business segment, regional, and country levels. These compliance programs and guidelines set binding rules of conduct for our employees. We believe that we have taken adequate measures to ensure that national and international rules are observed and complied with.

### Legal risks

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

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

Information regarding legal matters and an ongoing internal compliance review at Fresenius Medical Care can be found on pages 156 to 161 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.

### 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 beside shows the significant risks that could lead to deviations from the expected business performance within the one-year forecast period. Compared with last year, no changes have occurred in the grouping and the potential effects of risks. Within the regulatory environment, due to initiatives by the new U.S. administration, we are exposed to risks relating to import duties and changes to the existing present health care programs. Regarding reimbursement rates, possible changes to patient structures in the U.S. 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 1-year forecast
Medium	Moderate negative impact on the 1-year forecast
Low	Insignificant negative impact on the 1-year forecast

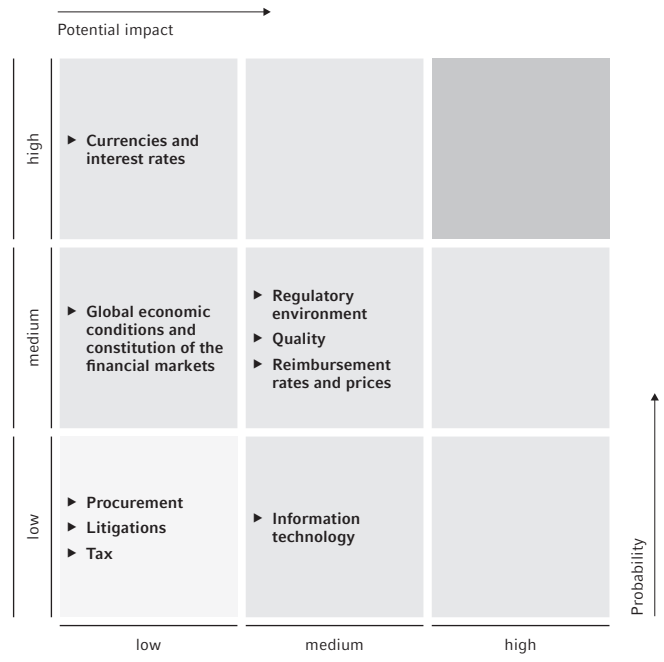
Probability	Classification
High	≥ 66% to 100%
Medium	≥ 33% to < 66%
Low	0% to < 33%

**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 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 65 f.),
- ▶ Risks arising from the financing of health systems and potential changes in reimbursement systems (Risks in the healthcare sector see page 63 f.),
- ▶ Risks arising from the regulatory environment and compliance with laws and regulations (General economic risks and risks in the general operating framework see page 62 f.).

**RISKS AFFECTING THE 1-YEAR FORECAST PERIOD**



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**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 Section 289a 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](http://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](http://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 86 and in the section “Fresenius share” on page 11.

#### ANNUAL GENERAL MEETING

Our Annual General Meeting (AGM) was held on May 13, 2016, in Frankfurt/Main. Approximately 73% 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 2015 dividend by 25% to €0.55 per ordinary share with a majority of more than 90% of the votes cast. With clear majorities, the shareholders elected all the candidates for a new Supervisory Board. By clear majorities of 99.6% and 99.5% respectively, the shareholders approved the actions of the Management and Supervisory Boards in 2015.

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](http://www.fresenius.com/annual-general-meeting).

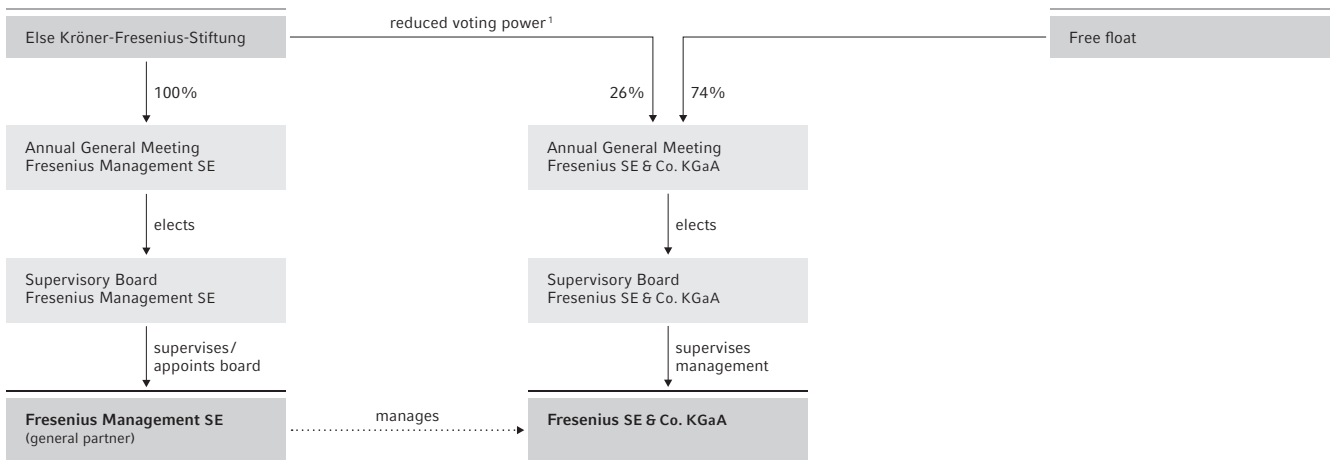
## MANAGEMENT BOARD AND SUPERVISORY BOARD PROCEDURES

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.

### 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

#### STRUCTURE OF FRESENIUS SE & CO. KGAA



<sup>1</sup> 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

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 he 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 was appointed as Chairman of Fresenius Management SE as of July 1, 2016. He succeeds Ulf Mark Schneider, who decided to leave the Company effective June 30, 2016. Since July 1, 2016, Stephan Sturm has held the dual roles of Chairman and Chief Financial Officer. Until the Supervisory Board appoints a new Chief Financial Officer, the Management Board consists of six members.

The Management Board is listed on page 196 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 197 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 proposal provided by the Supervisory Board will take into account the Company's international activities, potential conflicts of interest, the number of independent members of the Supervisory Board within the meaning of number 5.4.2 of the Code, and diversity. 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. 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 includes 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](http://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 U.S. GAAP and 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 194 to 195 of the Annual Report. On pages 186 to 193 of the Annual Report, the Supervisory Board reports on the main focuses of its activities and those of its committees in 2016.

### 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 2016.

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 (2)). 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 195 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.

Since the constitutive meeting of the Supervisory Board on May 13, 2016, 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. Until the close of the Annual General Meeting on May 13, 2016, the Audit committee consisted of Prof. Dr. Roland Berger (Chairman), Konrad Kölbl, Dr. Gerd Krick, Gerhard Roggemann, and Rainer Stein.

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.

Since the constitutive meeting of the Supervisory Board on May 13, 2016, the Nomination Committee consists of Dr. Gerd Krick (Chairman), Michael Diekmann, and Klaus-Peter Müller. Until the close of the Annual General Meeting on May 13, 2016, the Nomination committee consisted of Dr. Gerd Krick (Chairman), Prof. Dr. Roland Berger, and Michael Diekmann.

### 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 2016.

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 194 to 197 of the Annual Report.

## 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](http://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

As a global health care Group, sustainable success in our business is the key to providing high-quality yet affordable healthcare over the long term. **Compliance** ensures this sustainable growth, determines our corporate culture, and is an integral part of our day-to-day work. This understanding of Compliance is the basis for our **corporate values** reflected in the Fresenius Code of Conduct. In this Code of Conduct, the Management Board commits itself without limitation to binding principles and rules for conduct within the Company and in its course of business. These include professionalism, honesty, and integrity in relations with our patients, customers, suppliers, employees, and shareholders. Furthermore, in its Code of Conduct, Fresenius commits itself to fair competition and dealing honestly with business partners and the general public. Fresenius expects all of its employees and managers to comply with all applicable laws and regulations, as well as Fresenius guidelines and policies. Breaches will not be tolerated and will be pursued. All Fresenius business segments have implemented Codes of Conduct specific to their businesses, but reflecting the values of the Fresenius Code of Conduct.

## COMPLIANCE MANAGEMENT SYSTEM (CMS)



### 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** of the business segment. In line with the business structure and organization, the business segments have established compliance responsibilities at the respective organizational levels. 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 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, global compliance initiatives are being developed by the Corporate Compliance department of Fresenius SE & Co. KGaA 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 Compliance Management System related to the corporate functions of Fresenius SE & Co. KGaA, such as the Treasury

department. 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** is the central consultative committee at Fresenius SE & Co. KGaA for compliance topics. It facilitates exchange with other relevant governance functions. Main **agenda topics** include

- ▶ consultation on the status and developments of the Group's Compliance Management Systems and important compliance initiatives
- ▶ discussion of severe cases of potential misconduct and remediation actions, as well as
- ▶ presentation of compliance-relevant topics of other governance functions, such as Internal Audit planning and Internal Audit reports.

It 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. Business segments provide the Compliance Steering Committee with an annual update on their Compliance Management Systems. Compliance Steering Committee meetings are held every six to eight weeks, minimum six times per year.

The Supervisory Board at 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, and cases, if relevant.

### Compliance Management Systems

At Fresenius we have implemented risk-based Compliance Management Systems in all our business segments and at Fresenius SE & Co. KGaA corporate level. Such systems consider the markets Fresenius is operating in and are tailored to the specific requirements of each business segment. All Compliance Management Systems comprise three pillars: **Prevent, Detect, and Respond**. Emphasis is placed on preventing any acts of non-compliance before they occur. Should non-compliant behavior be detected, adequate processes are in place to respond at short notice.

## Prevent

Prevention includes a thorough risk assessment, adequate and effective policies and procedures, regular training, and continuous advice.

Compliance risks are regularly assessed using standardized methodologies in each business segment and at Fresenius SE & Co. KGaA. These **risk assessments** include up to 20 compliance risk groups depending on the business structure. Across all business segments, corruption is one of the focus risk areas. From a Fresenius Group perspective, anti-trust and data privacy are additional focus risk areas.

In dealing with health care professionals and organizations as well as public customers worldwide every day, living up to our model of forward thinking health care demands high standards of honesty and integrity in all our interactions. Therefore, compliance with anti-corruption regulations worldwide is the basis for our day-to-day actions. All business segments defined **anti-corruption measures** as a central element of their Compliance Management System.

Such measures include diligence in interacting with our **business partners** worldwide. In all our business segments we have risk-based due diligence processes in place to determine the risks related to our business partners. Based on the risk profile, we implement appropriate mitigation measures, including contractual commitments to prevent corruption at the business partner. Putting the patient first commits us to the highest standards in fair competition and data privacy in our day-to-day business.

In all our business segments and at Fresenius SE & Co. KGaA, the compliance functions have established **policies and procedures** which provide tailored guidance in applying the respective Code of Conduct's rules in practice. Their purpose is to help employees in making the right decisions in their day-to-day work. Examples are the transparency guideline to prevent conflicts of interest by doctors in the Helios Group and policies on compliant and transparent interactions with health care professionals at Fresenius Kabi.

Regular **classroom and online training** on the respective Code of Conduct, on company policies in general or on specific topics, such as anti-corruption and anti-trust, help the employees to comply with applicable rules. The aim is to make participants aware of the importance of compliant behavior

and to avoid potential violations from the beginning. Fresenius gives top priority to this training and all employees, including managers, receive relevant compliance training. The training schedules follow a risk-based approach. 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. In addition, management-specific compliance training is performed for high-risk compliance areas. We have processes in place to ensure that every employee joins relevant compliance training on a regular basis.

All compliance functions provide **continuous advice** to employees in compliance-related questions. The business segments have established compliance responsibilities throughout the organizational levels. Local Compliance functions provide the employees with answers in case of questions and support the employees with decisions in their daily work locally. Regional and divisional compliance functions provide guidance and advice to the local compliance function. The business segments' corporate compliance functions develop global compliance initiatives for the business segments and support the regional and divisional compliance functions in their compliance initiatives. The Corporate Compliance department of Fresenius SE & Co. KGaA supports the compliance functions of the business segments as required.

## Detect

The compliance organization regularly performs functional **reviews** of implemented compliance initiatives. Such reviews are held as workshops to further strengthen the implementation of policies and the rollout of procedures and to advise employees on how to live by our values of integrity and honesty in day-to-day business.

With the **Compliance Cockpit**, Fresenius Kabi has a tool in place to display the compliance risk profile of each legal entity. For this, the tool 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.

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 Compliance Management System. If the results of reviews or **audits** reveal any potential for improvement, necessary actions are defined in consultation with the responsible management. In 2016, Internal Audit and compliance functions have performed multiple compliance-related reviews, workshops, and audits in all business segments across the world.

The compliance functions of Fresenius SE & Co. KGaA and of the business segments support the management to implement solid **control structures**, in order to guarantee compliant transactions in the day-to-day business. Solid control structures assure that potential cases of non-compliance are avoided or detected early. Relevant controls are described in compliance policies on business segment and Group level.

We have implemented controls for cash and bank transactions, requiring dual approval and complete monitoring of money transfers above certain thresholds to guarantee that all money transfers are properly authorized and executed based on a legitimate purpose. As such internal controls form an integral part of established business processes, employees are enabled to act in compliance with rules and regulations. Potential improvements resulting from audits or other reviews are duly implemented.

All employees of Fresenius are expected to **report** any potential cases of non-compliance with laws, regulations, or internal policies to their superiors or the responsible compliance function. The Fresenius Code of Conduct explicitly states that no employee may incur any disadvantage as a result of reporting a potential misconduct. Therefore, non-compliance may also be reported anonymously through whistleblower hotlines or e-mail addresses set up for this purpose in the business segments and at Fresenius SE & Co. KGaA.

## Respond

All reported or otherwise detected compliance violations are followed-up based on the severity of the **potential misconduct** at corporate level of Fresenius SE & Co. KGaA or in the business segments. All cases of potential misconduct are objectively assessed for their plausibility and potential severity and duly followed-up to ensure that all violations are managed in a consistent, fair, and comprehensive manner. If necessary, an investigation is performed either by an internal investigation team or with external support.

If the assessment of potential misconduct reveals that changes and improvements in internal control structures are required, these measures are duly implemented by the management in close cooperation with the responsible compliance function. If required, targeted **remediation actions** are defined to reduce the risk of any misconduct in the future. Disciplinary actions are taken as required.

In order to ensure ethical conduct, we continuously review and question current practices and try to learn from "best practices". With four business segments focusing on different areas of compliance, this means learning from each other through the continuous exchange of ideas between the compliance functions within the Group. We aim to achieve continuous **improvement** of our compliance activities in our day-to-day operations, in order to live up our commitment to professionalism, honesty, and integrity in all our relations with our patients, customers, suppliers, employees, and shareholders.

## RISK MANAGEMENT AND CONTROL SYSTEM

In our view, the responsible handling of risks is an element of good corporate governance. Fresenius has a systematic risk management and control system that allows the Management Board to make early identifications of risks and market trends and to react promptly to relevant changes in our risk profile. Our risk management and control system and 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 division. Further information can be found on pages 61 to 62 of the Management Report.

The Internal Audit division supports the Management Board as an independent function outside the Company's day-to-day operations. The division 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, as well as the prevention of 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](http://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 Corporate 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 by 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 previous declaration of conformity in December 2015, 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 have been met and will be met in the future. Only the following recommendations of the Code in the version of May 5, 2015 have not and will not be met:

#### ► **Code number 4.2.3 paragraph 2 sentence 6:**

##### **Caps regarding specific compensation amounts**

Pursuant to Code number 4.2.3 paragraph 2 sentence 6, the compensation amount for Management Board members shall be capped, both overall and for variable compensation components.

This recommendation is not met. The service agreements with members of the Management Board do not provide for caps regarding specific amounts for all compensation components and accordingly not for caps regarding specific amounts for the overall compensation. The performance-oriented short-term compensation (the variable bonus) is capped. As regards stock options and phantom stocks as compensation components with long-term incentives, the service agreements with members of the Management Board do provide for a possibility of limitation but no caps regarding specific amounts. Introducing caps regarding specific amounts in relation to such stock-based compensation components would contradict the basic idea of the members of the Management Board participating appropriately in the economic risks and opportunities of the company. Instead, Fresenius pursues a flexible concept according to which each individual case is considered. In events of extraordinary developments in relation to the stock-based compensation which are not related to the performance of the Management Board, the Supervisory Board may cap the stock-based compensation.

► **Code number 4.2.3 paragraph 4: Severance payment cap**

Pursuant to Code number 4.2.3 paragraph 4, when concluding Management Board contracts, care shall be taken to ensure that payments made to a Management Board member on premature termination of his/her contract, including fringe benefits, do not exceed the value of two years' compensation (severance payment cap) and compensate no more than the remaining term of the service agreement. The severance payment cap shall be calculated on the basis of the total compensation for the past full fiscal year and if appropriate also the expected total compensation for the current fiscal year.

These recommendations are not met insofar as the service agreements of the members of the Management Board do not contain severance payment arrangements for the case of premature termination of the contract and consequently do not contain a limitation of any severance payment amount to this extent. 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. They would also not allow for a well-balanced assessment of individual cases.

► **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 present 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).

Fresenius, in deviation from Code number 4.2.3 paragraph 2 sentence 6, does not provide for caps regarding specific amounts for all variable compensation components and, therefore, does not provide for caps regarding

specific amounts for the overall compensation. There are no target values or comparable values for the one-year variable compensation and for the deferrable portions from one-year variable compensation (deferrals). The one-year variable compensation is determined on the basis of bonus curves applicable to several years. In this respect, the compensation report cannot meet the recommendations of the Code. Irrespective thereof, Fresenius will continue to comprehensively and transparently present its compensation system and the amounts paid to members of the Management Board in its compensation report. The compensation report will include tables relating to the value of the benefits granted as well as the allocation in the year under review which follow the structure and largely also the specifications of the model tables.

► **Code number 5.1.2 paragraph 2 sentence 3: Age Limit for members of the Management Board**

Pursuant to Code number 5.1.2 paragraph 2 sentence 3, an age limit shall be specified for 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 5.3.2 sentence 3: Independence of the Chairman of the Audit Committee**

Pursuant to Code number 5.3.2 sentence 3, the Chairman of the Audit Committee shall be independent. Pursuant to Code number 5.4.2 sentence 2, a Supervisory Board member is not to be considered independent in particular if he/she has personal or business relations with the company, its executive bodies, a controlling shareholder or an enterprise associated with the latter which may cause a substantial and not merely temporary conflict of interests.

The term of Prof. Dr. h. c. Roland Berger as Chairman of the Audit Committee ended when the Annual General Meeting concluded on May 13, 2016. During his term as

Chairman of the Audit Committee, he was also partner at Roland Berger Strategy Consultants Holding GmbH and honorary chairman of the Supervisory Board of Roland Berger Strategy Consultants Holding GmbH. During the tenure of Prof. Dr. h. c. Berger as Chairman of the Audit Committee, Fresenius Group made use of consultancy services provided by Roland Berger Strategy Consultants GmbH, an affiliated enterprise of management consultancy Roland Berger Strategy Consultants Holding GmbH. The Management Board and Supervisory Board believe that these business relations neither constituted a substantial or long-term conflict of interest, nor did they interfere with the tasks of the Chairman of the Audit Committee. However, as a precaution, a deviation from Code number 5.3.2 sentence 3 is being declared, given the legal views with regards to question of independence, for the time until Prof. Dr. h.c. Roland Berger withdrew from the Supervisory Board. Since the election of Mr. Klaus-Peter Müller as Chairman of the Audit Committee at the constitutive meeting of the Supervisory Board on May 13, 2016, this recommendation has been met.

► **Code number 5.4.1 paragraph 2 and paragraph 3: Specification of concrete objectives regarding the composition of the Supervisory Board and their consideration when making recommendations to the competent election bodies**

Pursuant to Code number 5.4.1 paragraph 2 and paragraph 3, the Supervisory Board shall specify concrete objectives regarding its composition and, when making recommendations to the competent election bodies, take these objectives into account. The objectives specified by the Supervisory Board and the status of the implementation shall be published in the Corporate Governance Report.

These recommendations are not 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. When discussing its recommendations to the competent election bodies, the Supervisory Board will take into account the international activities of the

enterprise, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of Code number 5.4.2, and diversity.

In the interest of the enterprise not to generally limit the selection of qualified candidates, the Supervisory Board, however, confines itself to complying with statutory requirements and particularly refrains from specifying an age limit and a regular limit of length of membership.

► **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, if promised to the members of the Supervisory Board, shall be oriented toward sustainable growth of the enterprise. The variable compensation of the Supervisory Board members of Fresenius SE & Co. KGaA does not have a multi-year calculation basis and is thus, in this sense, not oriented toward sustainable growth of the enterprise. Instead, the Supervisory Board receives a performance-related compensation component which depends on the dividend pursuant to Section 13 paragraph 1 of the Articles of Association of Fresenius SE & Co. KGaA. This compensation model has been in existence since 1995. It continues to bring forth adequate compensation for the Supervisory Board which is in line with the law and the interests of the shareholders.

Bad Homburg v. d. H., December 2016

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](http://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 1,200 executives was 30.2% as of December 31, 2016.

Further information on diversity as well as personnel development and personnel management are included in the Group Management Report on page 29f.

### 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 2016:

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 currently is a Non-Executive Director of the Board of Directors of Allianz Australia Ltd. In 2016, 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. Dr. Schenk is 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 2016. In 2016, the Fresenius Group paid a total of about €0.9 million to the law firm Noerr (2015: €1.4 million). This corresponds to less than 0.5 % of the total amount paid by the Fresenius Group for services and legal advice in 2016 (2015: 1 %). This amount paid also includes payments for services already provided in 2015 which have been paid in 2016. Of the total amount for fiscal year 2016, less than €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 2016, 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 2016 quarterly reports and on page 181 of the Annual Report.

#### DISCLOSURES ON DIRECTORS' DEALINGS/ MANAGERS' TRANSACTIONS AND SHAREHOLDINGS IN 2016

On July 3, 2016, the Market Abuse Regulation (MAR) became applicable. Instead of the former Section 15a of the German Securities Trading Act (WpHG) regarding directors' dealings, now the provisions of Art. 19 MAR regarding managers' transactions are applicable. Therefore, 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 2016 are disclosed on our website at [www.fresenius.com/corporate-governance](http://www.fresenius.com/corporate-governance).

Pursuant to number 6.2 of the Code, ownership of shares of the Company and financial instruments based on them must be disclosed by Management Board and Supervisory Board members if more than 1% of the shares issued by the Company are held either directly or indirectly. 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 0.26% of the shares of Fresenius SE & Co. KGaA outstanding as of December 31, 2016, in the form of shares or related financial

instruments and stock options under the Fresenius SE & Co. KGaA stock option plans. 0.25% 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 is 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](http://www.fresenius.com). We report in detail on investor relations activities on page 11 of the Annual Report.

#### FINANCIAL ACCOUNTING AND REPORTING

Fresenius prepares its consolidated financial statements in accordance with the United States Generally Accepted Accounting Principles (U.S. GAAP). Fresenius, as a publicly traded company based in a member country of the European Union, is required to prepare and publish its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) pursuant to Section 315a of the German Commercial Code (HGB). Our largest subsidiary, Fresenius Medical Care, prepares its financial statements in accordance with U.S. GAAP. We therefore publish our consolidated financial statements in accordance with U.S. GAAP and our statutory consolidated financial statements in accordance with IFRS. This enables us to disclose our financial results to all our shareholders in a comparable and transparent manner. Starting with the 2017 fiscal year, Fresenius will report solely in accordance with IFRS. The Company will not provide additional financial information according to U.S. GAAP. Further information is provided in the Group Management Report on page 27.

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 2016, 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 2016:

- ▶ 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.

With effect from June 30, 2016, Dr. Ulf M. Schneider has resigned from the Management Board of Fresenius Management SE. He received the non-performance-based compensation pro rata for the fiscal year 2016, plus the bonus. However, he was not granted any stock options or phantom stocks for the fiscal year 2016. Participation in the stock option plans provide that in the case of a mutually agreed resignation, members can exercise stock options within 60 calendar days of their resignation (potentially plus any black-out period) provided their waiting period has expired and the performance target has been achieved. Dr. Ulf M. Schneider took advantage of this arrangement and exercised 227,040 stock options following his resignation. 270,000 stock options and 80,499 phantom stocks already assigned to him forfeited without replacement, as their waiting period had not yet expired. Dr. Ulf M. Schneider's contractual pension entitlement is not affected by his resignation.

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

The fixed compensation was paid in 12 monthly installments in the fiscal year 2016. 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, cost 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 2016 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. Sturm, Dr. Schneider<sup>1</sup>, and Dr. Götz – the amount of the

<sup>1</sup> Dr. Ulf M. Schneider resigned from the Management Board of Fresenius Management SE effective June 30, 2016. He receives his short-term performance-based compensation for 2016 pro rata up to June 30, 2016 in accordance with his contract.

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. Henriksson and Dr. 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. 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.

For the fiscal years 2016 and 2015, the amount of cash payment to the Management Board of the general partner of Fresenius SE & Co. KGaA consisted of the following:

€ in thousands	Non-performance-based compensation				Short-term performance-based compensation		Cash compensation (without long-term incentive components)	
	Fixed compensation		Fringe benefits <sup>2</sup>		Bonus		2016	2015
	2016	2015	2016	2015	2016	2015		
Stephan Sturm	850	600	43	109	1,773	1,142	2,666	1,851
Dr. Ulf M. Schneider (up to June 30, 2016)	550	1,100	72	143	875	1,712	1,497	2,955
Dr. Francesco De Meo	600	600	23	22	1,250	1,242	1,873	1,864
Dr. Jürgen Götz	460	460	37	70	928	869	1,425	1,399
Mats Henriksson	600	600	149	185	1,250	1,239	1,999	2,024
Rice Powell <sup>1</sup>	1,242	1,239	121	342	2,403	1,032 <sup>3</sup>	3,766	2,613
Dr. Ernst Wastler	500	500	72	85	775	707	1,347	1,292
<b>Total</b>	<b>4,802</b>	<b>5,099</b>	<b>517</b>	<b>956</b>	<b>9,254</b>	<b>7,943</b>	<b>14,573</b>	<b>13,998</b>

<sup>1</sup> Mr. Rice Powell received his compensation only from Fresenius Medical Care, of which Fresenius SE & Co. KGaA held around 30.82% of the total subscribed capital.

As a member of the Management Board of Fresenius Management SE, his compensation has to be included in the compensation report of the Fresenius Group.

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

<sup>3</sup> This amount contains a discretionary bonus for Mr. Rice Powell in the amount of €541 thousand for the 2015 fiscal year.

In the fiscal year 2016, the one-year variable compensation, excluding the payment to Mr. Rice Powell, amounted to €6,851 thousand. This equals the total one-year variable compensation.

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

In the fiscal year 2016, no portion of the one-year variable compensation was converted into a component based on a multi-year assessment.

In the fiscal year 2016, 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 consist, 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. The LTIP 2013 is available both for members of the Management Board and other executives. In accordance with the division of powers under stock corporation law, grants to members of the Management Board are made by the Supervisory Board of Fresenius Management SE, and grants to other executives are made by the Management Board. The number of stock options and phantom stocks for Management Board members to be granted is determined by the Supervisory Board at the Supervisory Board's own due discretion, provided that generally all Management Board members receive the same amount of stock options and phantom stocks, with the exception of the Chairman of the Management Board, who receives double the respective amount of stock options and phantom stocks. At the time of the grant, the participants in LTIP 2013 may elect whether they wish 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 33 of the notes of the Fresenius Group, Share-based compensation plans.

The members of the Management Board, with the exception of Dr. Ulf M. Schneider<sup>2</sup> 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 2016. 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.

<sup>2</sup> Dr. Ulf M. Schneider resigned from the Management Board of Fresenius Management SE effective June 30, 2016.

For the fiscal years 2016 and 2015, 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 2016 is basically unchanged when compared with 2015. However, Dr. Ulf M. Schneider did not receive any stock options or phantom stocks for the 2016 fiscal year due to the fact that he left the Company on June 30, 2016. 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. The stated values correspond to their fair value at the time of grant, namely a value of €15.31 (2015: €14.76) per stock option of Fresenius SE & Co. KGaA. The exercise price of the granted stock options of Fresenius SE & Co. KGaA was €66.02 (2015: €60.64). The higher values in comparison to 2015, as well as the higher exercise price, reflect the excellent Fresenius share price development.

The fair value of the phantom stocks granted to members of the Management Board in the fiscal year 2016 corresponds to a value at the time of grant of €64.31 (2015: €58.70) per phantom stock of Fresenius SE & Co. KGaA and US\$85.06 per performance share of Fresenius Medical Care AG & Co. KGaA granted for the first time.

#### LONG-TERM INCENTIVE COMPONENTS

	Stock options <sup>1</sup>				Postponed payment of the one-year variable compensation		Share-based compensation with cash settlement (phantom stocks)		Total	
	Number		Value, € in thousands		Value, € in thousands		Value, € in thousands		Value, € in thousands	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Stephan Sturm	101,250	45,000	1,550	664	0	0	613	762	2,163	1,426
Dr. Ulf M. Schneider (up to June 30, 2016)	0	90,000	0	1,328	0	0	0	1,424	0	2,752
Dr. Francesco De Meo	67,500	67,500	1,033	996	0	0	442	430	1,475	1,426
Dr. Jürgen Götze	67,500	45,000	1,033	664	0	0	442	762	1,475	1,426
Mats Henriksson	45,000	45,000	689	664	0	0	786	762	1,475	1,426
Rice Powell	0	149,400	0	2,244	0	0	2,415 <sup>2</sup>	941	2,415	3,185
Dr. Ernst Wastler	67,500	45,000	1,033	664	0	0	442	762	1,475	1,426
<b>Total</b>	<b>348,750</b>	<b>486,900</b>	<b>5,338</b>	<b>7,224</b>	<b>0</b>	<b>0</b>	<b>5,140</b>	<b>5,843</b>	<b>10,478</b>	<b>13,067</b>

<sup>1</sup> Stock options that were granted in 2016 and 2015 under the Fresenius SE & Co. KGaA stock option plan. Mr. Rice Powell received stock options under the Fresenius Medical Care stock option plan.

<sup>2</sup> Performance shares and share based awards of Fresenius Medical Care AG & Co. KGaA

At the end of the fiscal year 2016, the members of the Management Board held a total of 1,294,530 (2015: 1,030,920) stock options of Fresenius SE & Co. KGaA and 344,793 (2015: 465,318) of Fresenius Medical Care AG & Co. KGaA. Furthermore, they held a total of 262,524 (2015: 237,911) phantom

stocks of Fresenius SE & Co. KGaA as well as 19,852 performance shares granted for the first time and 17,853 (2015: 24,124) 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 2016 are shown in the following table:

	Stephan Sturm	Dr. Francesco De Meo	Dr. Jürgen Götz	Mats Henriksson	Rice Powell <sup>1</sup>	Dr. Ernst Wastler	Total <sup>2</sup>
<b>Options outstanding on January 1, 2016</b>							
Number	305,280	242,640	135,000	213,000	465,318	135,000	1,030,920
Average exercise price in €	33.17	39.02	43.55	36.83	55.88	43.55	38.02
<b>Options granted during fiscal year</b>							
Number	101,250	67,500	67,500	45,000	0	67,500	348,750
Exercise price in €	66.02	66.02	66.02	66.02	0	66.02	66.02
<b>Options exercised during the fiscal year</b>							
Number	85,140	0	0	0	64,500	0	85,140
Average exercise price in €	23.76	n. a.	n. a.	n. a.	34.41	n. a.	23.76
Average stock price in €	70.00	n. a.	n. a.	n. a.	72.99	n. a.	70.00
<b>Options forfeited in the fiscal year</b>							
Number	0	0	0	0	56,025	0	0
Average exercise price in €	n. a.	n. a.	n. a.	n. a.	49.76	n. a.	n. a.
<b>Options outstanding on December 31, 2016</b>							
Number	321,390	310,140	202,500	258,000	344,793	202,500	1,294,530
Average exercise price in €	46.01	44.89	51.04	41.93	60.89	51.04	46.50
Average remaining life in years	5.26	5.20	6.10	4.80	4.76	6.10	5.40
Range of exercise prices in €	26.11 to 66.02	26.11 to 66.02	33.10 to 66.02	23.76 to 66.02	42.68 to 76.99	33.10 to 66.02	23.76 to 66.02
<b>Exercisable options on December 31, 2016</b>							
Number	85,140	85,140	0	78,000	102,018	0	248,280
Average exercise price in €	26.11	26.11	n. a.	25.21	47.38	n. a.	25.83

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

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

The following table shows the total compensation of the Management Board of the general partner of Fresenius SE & Co. KGaA for the years 2016 and 2015:

€ in thousands	Cash compensation (without long-term incentive components)		Long-term incentive components		Total compensation (including long-term incentive components)	
	2016	2015	2016	2015	2016	2015
Stephan Sturm	2,666	1,851	2,163	1,426	4,829	3,277
Dr. Ulf M. Schneider (up to June 30, 2016)	1,497	2,955	0	2,752	1,497	5,707
Dr. Francesco De Meo	1,873	1,864	1,475	1,426	3,348	3,290
Dr. Jürgen Götz	1,425	1,399	1,475	1,426	2,900	2,825
Mats Henriksson	1,999	2,024	1,475	1,426	3,474	3,450
Rice Powell	3,766	2,613	2,415	3,185	6,181	5,798
Dr. Ernst Wastler	1,347	1,292	1,475	1,426	2,822	2,718
<b>Total</b>	<b>14,573</b>	<b>13,998</b>	<b>10,478</b>	<b>13,067</b>	<b>25,051</b>	<b>27,065</b>

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

2016 and 2015 are stated in the following table. The values shown for the year 2016 for Dr. Ulf M. Schneider include corrections to expenses in prior years for stock options and phantom stocks that now expire due to his resignation.

#### EXPENSES FOR LONG-TERM INCENTIVE COMPONENTS

€ in thousands	Stock options		Share-based compensation with cash settlement (phantom stocks)		Total expenses for share-based compensation	
	2016	2015	2016	2015	2016	2015
Stephan Sturm	523	365	1,047	929	1,570	1,294
Dr. Ulf M. Schneider (up to June 30, 2016)	-826	729	-1,850	1,482	-2,676	2,211
Dr. Francesco De Meo	552	399	932	892	1,484	1,291
Dr. Jürgen Götz	469	365	1,039	929	1,508	1,294
Mats Henriksson	433	321	986	686	1,419	1,007
Rice Powell	593	377	668 <sup>1</sup>	699	1,261	1,076
Dr. Ernst Wastler	469	365	1,039	929	1,508	1,294
<b>Total</b>	<b>2,213</b>	<b>2,921</b>	<b>3,861</b>	<b>6,546</b>	<b>6,074</b>	<b>9,467</b>

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

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

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. As a Management Board Member leaving on June 30, 2016, Dr. Ulf M. Schneider has an individual

contractual pension commitment based on his former contract of employment with the general partner of Fresenius SE & Co. KGaA. The Management Board member Dr. Ernst Wastler has a pension commitment of VAMED AG, Vienna; Fresenius SE & Co. KGaA has issued a guarantee for the commitments thereunder. The Management Board member Mats Henriksson has an individual contractual pension commitment of 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 2016, 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. With regard to the pension commitments for acting Management Board members as of December 31, the Fresenius Group had pension obligations of €31,180 thousand as of December 31, 2016 (2015: €25,111 thousand). The additions to pension liability in the fiscal year 2016 amounted to €6,069 thousand (2015: €5,024 thousand).



The pension commitments are as follows:

€ in thousands	As of January 1, 2016	Additions	As of December 31, 2016
Stephan Sturm	3,007	2,667	5,674
Dr. Francesco De Meo	2,402	552	2,954
Dr. Jürgen Götz	2,092	441	2,533
Mats Henriksson	4,115	579	4,694
Rice Powell	9,397	875	10,272
Dr. Ernst Wastler	4,098	955	5,053
<b>Total</b>	<b>25,111</b>	<b>6,069</b>	<b>31,180</b>

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

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

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

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

In the event of the death of one of the Management Board members, the widow receives a pension equivalent to 60% of the pension entitlement accruing at the time of death. In addition, legitimate 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 orphans' pensions and the widow's pension 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.

The Management Board member Mr. Mats Henriksson has solely a pension commitment of 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 from January 1, 1988, 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 2016, no loans or advance payment on future compensation components were granted to any member of the Management Board of Fresenius Management SE.

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

Based on pension commitments to former members of the Management Board, €1,094 thousand were paid in the fiscal year 2016 (2015: €1,081 thousand) and €585 thousand (2015: €588 thousand) were paid to Dr. Ben Lipps as a result

Benefits granted Value € thousands	Stephan Sturm Chairman of the Management Board (since July 1, 2016) Board member since January 1, 2005				Dr. Ulf M. Schneider Chairman of the Management Board (up to June 30, 2016) Board member since May 28, 2003				Dr. Francesco De Meo CEO Fresenius Helios Board member since January 1, 2008			
	2016	2016 min.	2016 max.	2015	2016	2016 min.	2016 max.	2015	2016	2016 min.	2016 max.	2015
Fixed compensation	850	850	850	600	550	550	550	1,100	600	600	600	600
Fringe benefits	43	43	43	109	72	72	72	143	23	23	23	22
<b>Total non-performance-based compensation</b>	<b>893</b>	<b>893</b>	<b>893</b>	<b>709</b>	<b>622</b>	<b>622</b>	<b>622</b>	<b>1,243</b>	<b>623</b>	<b>623</b>	<b>623</b>	<b>622</b>
One-year variable compensation <sup>1</sup>	1,773	1,750	2,300	1,142	875	600	875	1,712	1,250	750	1,250	1,242
Multi-year variable compensation / components with long-term incentive effect	2,163	0	n. a.	1,426	0	0	n. a.	2,752	1,475	0	n. a.	1,426
Thereof postponed one-year variable compensation	0	0	n. a.	0	0	0	n. a.	0	0	0	n. a.	0
Thereof Stock Option Plan 2013 (part of LTIP 2013) (5-year term)	1,550	0	n. a.	664	0	0	n. a.	1,328	1,033	0	n. a.	996
Thereof phantom stocks (part of LTIP 2013) (5-year term)	513	0	n. a.	662	0	0	n. a.	1,324	342	0	n. a.	330
Thereof further phantom stocks	100	0	n. a.	100	0	0	n. a.	100	100	0	n. a.	100
<b>Total non-performance-based and performance-based compensation</b>	<b>4,829</b>	<b>2,643</b>	<b>n. a.</b>	<b>3,277</b>	<b>1,497</b>	<b>1,222</b>	<b>n. a.</b>	<b>5,707</b>	<b>3,348</b>	<b>1,373</b>	<b>n. a.</b>	<b>3,290</b>
Service cost	276	276	276	251	191	191	191	342	300	300	300	273
<b>Value of benefits granted</b>	<b>5,105</b>	<b>2,919</b>	<b>n. a.</b>	<b>3,528</b>	<b>1,688</b>	<b>1,413</b>	<b>n. a.</b>	<b>6,049</b>	<b>3,648</b>	<b>1,673</b>	<b>n. a.</b>	<b>3,563</b>

<sup>1</sup> For the one-year variable compensation, there are no target values or comparable values for Board members who receive their remuneration 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 remuneration is stated here.

<sup>2</sup> This amount contains a discretionary bonus for Mr. Rice Powell in the amount of €541 thousand for the 2015 fiscal year.

<sup>3</sup> Mr. Rice Powell was granted stock options, phantom stocks and performance shares from the program of Fresenius Medical Care as follows:  
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  
in 2015: €164 thousand from the Share Based Award – New Incentive Bonus Plan 2010, €2,244 thousand from the Long Term Incentive Program 2011 – Stock Option Plan 2011, and €777 thousand from the Long Term Incentive Program 2011 – Phantom Stock Plan 2011.

of a consultancy agreement entered into with Fresenius Medical Care Management AG. The benefit obligation for these persons amounted to €23,183 thousand (2015: €17,835 thousand). Thereof, €5,182 thousand relates to Dr. Ulf M. Schneider.

#### 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			
2016	2016 min.	2016 max.	2015	2016	2016 min.	2016 max.	2015	2016	2016 min.	2016 max.	2015	2016	2016 min.	2016 max.	2015
460	460	460	460	600	600	600	600	1,242	1,242	1,242	1,239	500	500	500	500
37	37	37	70	149	149	149	185	121	121	121	342	72	72	72	85
497	497	497	530	749	749	749	785	1,363	1,363	1,363	1,581	572	572	572	585
928	700	950	869	1,250	750	1,250	1,239	2,050	169	2,460	2,586 <sup>2</sup>	775	650	950	707
1,475	0	n. a.	1,426	1,475	0	n. a.	1,426	2,415 <sup>3</sup>	0	n. a.	3,185 <sup>3</sup>	1,475	0	n. a.	1,426
0	0	n. a.	0	0	0	n. a.	0					0	0	n. a.	0
1,033	0	n. a.	664	689	0	n. a.	664					1,033	0	n. a.	664
342	0	n. a.	662	686	0	n. a.	662					342	0	n. a.	662
100	0	n. a.	100	100	0	n. a.	100					100	0	n. a.	100
2,900	1,197	n. a.	2,825	3,474	1,499	n. a.	3,450	5,828	1,532	n. a.	7,352	2,822	1,222	n. a.	2,718
211	211	211	190	188	188	188	173	741	741	741	570	137	137	137	133
3,111	1,408	n. a.	3,015	3,662	1,687	n. a.	3,623	6,569	2,273	n. a.	7,922	2,959	1,359	n. a.	2,851

Allocations Value € thousands	Stephan Sturm Chairman of the Management Board (since July 1, 2016) Board member since January 1, 2005		Dr. Ulf M. Schneider Chairman of the Management Board (up to June 30, 2016) Board member since May 28, 2003		Dr. Francesco De Meo CEO Fresenius Helios Board member since January 1, 2008	
	2016	2015	2016	2015	2016	2015
Fixed compensation	850	600	550	1,100	600	600
Fringe benefits	43	109	72	143	23	22
<b>Total non-performance-based compensation</b>	<b>893</b>	<b>709</b>	<b>622</b>	<b>1,243</b>	<b>623</b>	<b>622</b>
One-year variable compensation	1,773	1,142	875	1,712	1,250	1,242
Multi-year variable compensation/components with long-term incentive effect	4,234	5,757	9,454	10,590	375	9,333
Thereof postponed one-year variable compensation	30	49	0	0	108	0
Thereof Stock Option Plan 2003 (5-year term)						
Issue 2007		2,078				1,845
Thereof Stock Option Plan 2008 (5-year term)						
Issue 2010		3,630		5,771		3,996
Issue 2011	3,937		2,385 <sup>3</sup>	4,819		3,492
Issue 2012			6,802 <sup>3</sup>			
Thereof further phantom stocks						
Issue 2011	267		267		267	
Other	0	0	0	0	0	0
<b>Total non-performance-based and performance-based compensation</b>	<b>6,900</b>	<b>7,608</b>	<b>10,951</b>	<b>13,545</b>	<b>2,248</b>	<b>11,197</b>
Service cost	276	251	191	342	300	273
<b>Allocation including multi-year variable compensation/components with long-term incentive effect</b>	<b>7,176</b>	<b>7,859</b>	<b>11,142</b>	<b>13,887</b>	<b>2,548</b>	<b>11,470</b>
<b>Allocation for the year under review</b> (not including multi-year variable compensation/components with long-term incentive effect)	<b>2,942</b>	<b>2,102</b>	<b>1,688</b>	<b>3,297</b>	<b>2,173</b>	<b>2,137</b>

<sup>1</sup> This amount contains a discretionary bonus for Mr. Rice Powell in the amount of €541 thousand for the 2015 fiscal year.

<sup>2</sup> Mr. Rice Powell had this allocation from stock options from the Fresenius Medical Care Stock Option Program:

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

in 2015: €485 thousand from the Share Based Award – New Incentive Bonus Plan 2010 issue 2011 and €2,123 thousand from the Stock Option Plan 2006 issue 2008.

<sup>3</sup> This allocation relates to stock options that Dr. Ulf M. Schneider exercised after his resignation from the Management Board as of June 30, 2016 in accordance with the conditions for participation in the stock option plans.

<b>Dr. Jürgen Götz</b> Chief Legal and Compliance Officer, and Labor Relations Director Board member since July 1, 2007		<b>Mats Henriksson</b> CEO Fresenius Kabi Board member since January 1, 2013		<b>Rice Powell</b> CEO Fresenius Medical Care Board member since January 1, 2013		<b>Dr. Ernst Wastler</b> CEO Fresenius Vamed Board member since January 1, 2008	
2016	2015	2016	2015	2016	2015	2016	2015
460	460	600	600	1,242	1,239	500	500
37	70	149	185	121	342	72	85
497	530	749	785	1,363	1,581	572	585
928	869	1,250	1,239	2,403	1,032 <sup>1</sup>	775	707
267	5,993	65	1,878	3,273 <sup>2</sup>	2,608 <sup>2</sup>	267	11,030
0	0	65	0			0	0
							992
			1,525				2,792
	2,493		353				3,723
	3,500						3,523
267						267	
0	0	0	0	0	0	0	0
1,692	7,392	2,064	3,902	7,039	5,221	1,614	12,322
211	190	188	173	741	570	137	133
1,903	7,582	2,252	4,075	7,780	5,791	1,751	12,455
1,636	1,589	2,187	2,197	4,507	3,183	1,484	1,425

### COMPENSATION OF THE SUPERVISORY BOARD

The compensation of the Supervisory Board is determined by the Annual General Meeting and is subject to the provisions contained in Section 13 of the articles of association of Fresenius SE & Co. KGaA. Each member of the Supervisory Board shall receive a fixed compensation of €13 thousand for each full fiscal year.

The members of the Audit Committee of Fresenius SE & Co. KGaA receive an additional €10 thousand each and the Chairman of the committee a further €10 thousand. For each full fiscal year, the remuneration 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. If the General Meeting resolves a higher remuneration in view of the annual results, the increased amount shall be applicable. The Chairman receives 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 receive 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. 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 provides 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 is, at the same time, a member of the Supervisory Board of the general partner Fresenius Management SE and receives remuneration for his service on the Supervisory Board for Fresenius Management SE, the remuneration shall be reduced by half. The same applies with respect to the additional part of the remuneration for the Chairman or one of his deputies if they are, 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 is, at the same time, the Chairman of the Supervisory Board of Fresenius Management SE, he shall not receive remuneration 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 remuneration of the Supervisory Board of Fresenius Management SE was charged to Fresenius SE & Co. KGaA.

For the fiscal years 2016 and 2015, 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:

€ in thousands	Fixed compensation				Compensation for committee services				Variable compensation				Total compensation	
	Fresenius SE & Co. KGaA		Fresenius Management SE		Fresenius SE & Co. KGaA		Fresenius Management SE		Fresenius SE & Co. KGaA		Fresenius Management SE		2016	2015
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015		
Dr. Gerd Krick	13	13	13	13	10	10	20	20	237	210	237	210	530	476
Michael Diekmann (since May 20, 2015)	13	8	6	4	0	0	0	0	237	129	119	65	375	206
Dr. Dieter Schenk	0	0	19	19	0	0	10	10	0	0	356	315	385	344
Niko Stumpfögger	19	19	0	0	0	0	0	0	356	315	0	0	375	334
Prof. Dr. med. D. Michael Albrecht	13	13	0	0	0	0	0	0	237	210	0	0	250	223
Prof. Dr. h. c. Roland Berger (up to May 13, 2016)	2	7	2	6	7	20	0	0	44	104	44	105	99	242
Dr. Kurt Bock (since May 13, 2016)	0	0	8	0	0	0	0	0	0	0	151	0	159	0
Dario Ilossi (up to May 13, 2016)	5	13	0	0	0	0	0	0	87	210	0	0	92	223
Konrad Kölbl	13	13	0	0	10	10	0	0	237	210	0	0	260	233
Stefanie Lang (since May 13, 2016)	8	0	0	0	0	0	0	0	151	0	0	0	159	0
Frauke Lehmann (since May 13, 2016)	8	0	0	0	0	0	0	0	151	0	0	0	159	0
Prof. Dr. med. Iris Löw-Friedrich (since May 13, 2016)	8	0	0	0	0	0	0	0	151	0	0	0	159	0
Klaus-Peter Müller	7	7	6	6	13	0	0	0	118	104	119	105	263	222
Dieter Reuß (up to May 13, 2016)	5	13	0	0	0	0	0	0	87	210	0	0	92	223
Gerhard Roggemann (up to May 13, 2016)	5	13	0	0	4	10	0	0	87	210	0	0	96	233
Oscar Romero de Paco (since May 13, 2016)	8	0	0	0	0	0	0	0	151	0	0	0	159	0
Dr. Karl Schneider	0	0	13	13	0	0	10	10	0	0	237	210	260	233
Stefan Schubert (up to May 13, 2016)	5	13	0	0	0	0	0	0	87	210	0	0	92	223
Hauke Stars (since May 13, 2016)	8	0	0	0	6	0	0	0	150	0	0	0	164	0
Rainer Stein	13	13	0	0	10	10	0	0	237	210	0	0	260	233
<b>Total</b>	<b>153</b>	<b>145</b>	<b>67</b>	<b>61</b>	<b>60</b>	<b>60</b>	<b>40</b>	<b>40</b>	<b>2,805</b>	<b>2,332</b>	<b>1,263</b>	<b>1,010</b>	<b>4,388</b>	<b>3,648</b>

## 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 2017. 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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## FRESENIUS SE & CO. KGAA

### CONSOLIDATED STATEMENT OF INCOME

€ in millions	Note	2016	2015
Sales	4	29,083	27,626
Cost of sales	5	-19,955	-19,092
<b>Gross profit</b>		<b>9,128</b>	<b>8,534</b>
Selling, general and administrative expenses	8	-4,301	-4,195
Research and development expenses		-500	-464
<b>Operating income (EBIT)</b>		<b>4,327</b>	<b>3,875</b>
Interest income	9	96	255
Interest expenses	9	-678	-868
<b>Income before income taxes</b>		<b>3,745</b>	<b>3,262</b>
Income taxes	10	-1,051	-965
<b>Net income</b>		<b>2,694</b>	<b>2,297</b>
Less noncontrolling interest	11	1,101	939
<b>Net income attributable to shareholders of Fresenius SE &amp; Co. KGaA</b>		<b>1,593</b>	<b>1,358</b>
<b>Earnings per share in €</b>	12	<b>2.92</b>	<b>2.50</b>
Fully diluted earnings per share in €	12	2.90	2.48

The following notes are an integral part of the consolidated financial statements.

## FRESENIUS SE & CO. KGAA

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ in millions	Note	2016	2015
<b>Net income</b>		<b>2,694</b>	<b>2,297</b>
<b>Other comprehensive income (loss)</b>			
Foreign currency translation	27, 29	544	869
Cash flow hedges	27, 29	23	63
Change of fair value of available for sale financial assets	27, 29	-	-
Actuarial gains/losses on defined benefit pension plans	24, 27	-78	95
Income taxes related to components of other comprehensive income (loss)	27	-1	-76
<b>Other comprehensive income, net</b>		<b>488</b>	<b>951</b>
<b>Total comprehensive income</b>		<b>3,182</b>	<b>3,248</b>
<b>Comprehensive income attributable to noncontrolling interest subject to put provisions</b>		<b>203</b>	<b>221</b>
<b>Comprehensive income attributable to noncontrolling interest not subject to put provisions</b>		<b>1,142</b>	<b>1,270</b>
<b>Comprehensive income attributable to shareholders of Fresenius SE &amp; Co. KGaA</b>		<b>1,837</b>	<b>1,757</b>

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	2016	2015
Cash and cash equivalents	13	1,579	1,044
Trade accounts receivable, less allowance for doubtful accounts	14	5,052	4,596
Accounts receivable from and loans to related parties		13	78
Inventories	15	3,189	2,860
Other current assets	16	1,966	1,901
<b>I. Total current assets</b>		<b>11,799</b>	<b>10,479</b>
Property, plant and equipment	17	8,138	7,428
Goodwill	18	22,774	21,523
Other intangible assets	18	1,571	1,510
Other non-current assets	16	1,605	1,479
Deferred taxes	10	560	540
<b>II. Total non-current assets</b>		<b>34,648</b>	<b>32,480</b>
<b>Total assets</b>		<b>46,447</b>	<b>42,959</b>

#### LIABILITIES AND SHAREHOLDERS' EQUITY

as of December 31, € in millions	Note	2016	2015
Trade accounts payable		1,315	1,291
Short-term accounts payable to related parties		57	9
Short-term accrued expenses and other short-term liabilities	19, 20	4,979	4,691
Short-term debt	21	847	202
Short-term debt from related parties		6	4
Current portion of long-term debt and capital lease obligations	21	611	607
Current portion of Senior Notes	22	473	349
Short-term accruals for income taxes		256	195
<b>A. Total short-term liabilities</b>		<b>8,544</b>	<b>7,348</b>
Long-term debt and capital lease obligations, less current portion	21	5,048	5,502
Senior Notes, less current portion	22	6,941	7,267
Convertible bonds	23	854	838
Long-term accrued expenses and other long-term liabilities	19, 20	1,205	955
Pension liabilities	24	1,155	1,078
Long-term accruals for income taxes		221	221
Deferred taxes	10	875	800
<b>B. Total long-term liabilities</b>		<b>16,299</b>	<b>16,661</b>
<b>I. Total liabilities</b>		<b>24,843</b>	<b>24,009</b>
<b>II. Noncontrolling interest subject to put provisions</b>	25	<b>1,184</b>	<b>947</b>
<b>A. Noncontrolling interest not subject to put provisions</b>	25	<b>7,917</b>	<b>7,068</b>
Subscribed capital	26	547	546
Capital reserve	26	3,125	3,095
Other reserves	26	8,307	7,014
Accumulated other comprehensive income	27	524	280
<b>B. Total Fresenius SE &amp; Co. KGaA shareholders' equity</b>		<b>12,503</b>	<b>10,935</b>
<b>III. Total shareholders' equity</b>		<b>20,420</b>	<b>18,003</b>
<b>Total liabilities and shareholders' equity</b>		<b>46,447</b>	<b>42,959</b>

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	2016	2015
<b>Operating activities</b>			
Net income		2,694	2,297
<b>Adjustments to reconcile net income to cash and cash equivalents provided by operating activities</b>			
Depreciation and amortization	16, 17, 18	1,173	1,115
Gain on sale of investments and divestitures	2	-2	-34
Change in deferred taxes	10	10	-73
Loss on sale of fixed assets		5	1
<b>Changes in assets and liabilities, net of amounts from businesses acquired or disposed of</b>			
Trade accounts receivable, net	14	-274	-303
Inventories	15	-304	-451
Other current and non-current assets	16	-14	51
Accounts receivable from/payable to related parties		55	6
Trade accounts payable, accrued expenses and other short-term and long-term liabilities	19, 20	194	695
Accruals for income taxes		37	23
<b>Net cash provided by operating activities</b>		<b>3,574</b>	<b>3,327</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	17	-1,628	-1,489
Proceeds from sales of property, plant and equipment		25	27
Acquisitions and investments, net of cash acquired and net purchases of intangible assets	2, 31	-675	-396
Proceeds from sale of investments and divestitures	2	190	364
<b>Net cash used in investing activities</b>		<b>-2,088</b>	<b>-1,494</b>
<b>Financing activities</b>			
Proceeds from short-term debt	21	985	260
Repayments of short-term debt	21	-351	-349
Proceeds from long-term debt and capital lease obligations	21	387	281
Repayments of long-term debt and capital lease obligations	21	-1,101	-985
Proceeds from the issuance of Senior Notes	22	0	269
Repayments of liabilities from Senior Notes	22	-350	-729
Changes of accounts receivable securitization program	21	112	-262
Proceeds from the exercise of stock options	33	76	173
Dividends paid		-738	-639
Change in noncontrolling interest	25	-1	-3
Exchange rate effect due to corporate financing		5	2
<b>Net cash used in financing activities</b>		<b>-976</b>	<b>-1,982</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>25</b>	<b>18</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>535</b>	<b>-131</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	13	<b>1,044</b>	<b>1,175</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	13	<b>1,579</b>	<b>1,044</b>

The following notes are an integral part of the consolidated financial statements.

## FRESENIUS SE & CO. KGAA

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Subscribed Capital		Reserves		
		Number of ordinary shares in thousand	Amount € in thousands	Amount € in millions	Capital reserve € in millions	Other reserves € in millions
<b>As of December 31, 2014</b>		541,533	541,533	542	3,018	5,894
Proceeds from the exercise of stock options	33	4,195	4,195	4	110	
Compensation expense related to stock options	33				19	
Vested subsidiary stock incentive plans					-1	
Dividends paid	26					-238
Sale of noncontrolling interest not subject to put provisions	25					
Noncontrolling interest subject to put provisions	25				-51	
Comprehensive income (loss)						
Net income						1,358
Other comprehensive income (loss)						
Cash flow hedges	27, 29					
Change of fair value of available for sale financial assets	27, 29					
Foreign currency translation	27, 29					
Actuarial gains on defined benefit pension plans	24, 27					
Comprehensive income						1,358
<b>As of December 31, 2015</b>		545,728	545,728	546	3,095	7,014
Proceeds from the exercise of stock options	33	1,480	1,480	1	44	
Compensation expense related to stock options	33				27	
Vested subsidiary stock incentive plans					-1	
Dividends paid	26					-300
Purchase of noncontrolling interest not subject to put provisions	25					
Noncontrolling interest subject to put provisions	25				-40	
Comprehensive income (loss)						
Net income						1,593
Other comprehensive income (loss)						
Cash flow hedges	27, 29					
Change of fair value of available for sale financial assets	27, 29					
Foreign currency translation	27, 29					
Actuarial losses on defined benefit pension plans	24, 27					
Comprehensive income						1,593
<b>As of December 31, 2016</b>		547,208	547,208	547	3,125	8,307

	Note	Accumulated other com- prehensive income (loss) € in millions	Total Fresenius SE & Co. KGaA shareholders' equity € in millions	Noncontrolling interest not subject to put provisions € in millions	Total shareholders' equity € in millions
<b>As of December 31, 2014</b>		-119	9,335	6,148	15,483
Proceeds from the exercise of stock options	33		114	59	173
Compensation expense related to stock options	33		19	7	26
Vested subsidiary stock incentive plans			-1	-3	-4
Dividends paid	26		-238	-250	-488
Sale of noncontrolling interest not subject to put provisions	25		0	-45	-45
Noncontrolling interest subject to put provisions	25		-51	-118	-169
Comprehensive income (loss)					
Net income			1,358	793	2,151
Other comprehensive income (loss)					
Cash flow hedges	27, 29	25	25	21	46
Change of fair value of available for sale financial assets	27, 29	-	-	-	-
Foreign currency translation	27, 29	325	325	439	764
Actuarial gains on defined benefit pension plans	24, 27	49	49	17	66
Comprehensive income		399	1,757	1,270	3,027
<b>As of December 31, 2015</b>		280	10,935	7,068	18,003
Proceeds from the exercise of stock options	33		45	31	76
Compensation expense related to stock options	33		27	19	46
Vested subsidiary stock incentive plans			-1	-2	-3
Dividends paid	26		-300	-260	-560
Purchase of noncontrolling interest not subject to put provisions	25		0	5	5
Noncontrolling interest subject to put provisions	25		-40	-86	-126
Comprehensive income (loss)					
Net income			1,593	928	2,521
Other comprehensive income (loss)					
Cash flow hedges	27, 29	3	3	11	14
Change of fair value of available for sale financial assets	27, 29	-	-	-	-
Foreign currency translation	27, 29	293	293	212	505
Actuarial losses on defined benefit pension plans	24, 27	-52	-52	-9	-61
Comprehensive income		244	1,837	1,142	2,979
<b>As of December 31, 2016</b>		524	12,503	7,917	20,420

The following notes are an integral part of the consolidated financial statements.

## FRESENIUS SE & CO. KGAA

### CONSOLIDATED SEGMENT REPORTING

#### BY BUSINESS SEGMENT

€ in millions	Fresenius Medical Care			Fresenius Kabi		
	2016	2015	Change	2016	2015 <sup>1</sup>	Change
Sales	16,181	15,086	7%	6,007	5,950	1%
thereof contribution to consolidated sales	16,158	15,062	7%	5,956	5,903	1%
thereof intercompany sales	23	24	-4%	51	47	9%
contribution to consolidated sales	56%	55%		20%	21%	
EBITDA	3,084	2,744	12%	1,479	1,446	2%
Depreciation and amortization	701	647	8%	255	257	-1%
EBIT	2,383	2,097	14%	1,224	1,189	3%
Net interest	-366	-353	-4%	-149	-184	19%
Income taxes	-618	-560	-10%	-323	-306	-6%
Net income attributable to shareholders of Fresenius SE & Co. KGaA	1,123	928	21%	716	669	7%
Operating cash flow	1,933	1,767	9%	991	913	9%
Cash flow before acquisitions and dividends	1,019	923	10%	668	589	13%
Total assets	25,552	23,298	10%	11,125	10,395	7%
Debt	8,132	7,942	2%	5,155	5,234	-2%
Capital expenditure, gross	931	859	8%	322	352	-9%
Acquisitions, gross/investments	774	385	101%	114	37	--
Research and development expenses	147	126	17%	353	336	5%
Employees (per capita on balance sheet date)	116,120	110,242	5%	34,917	33,195	5%
Key figures						
EBITDA margin	19.1%	18.2%		24.6%	24.3%	
EBIT margin	14.7%	13.9%		20.4%	20.0%	
Depreciation and amortization in % of sales	4.3%	4.3%		4.2%	4.3%	
Operating cash flow in % of sales	11.9%	11.7%		16.5%	15.3%	
ROOA	10.4%	9.6%		12.7%	13.2%	

<sup>1</sup> Before costs for the efficiency program

<sup>2</sup> Before integration costs and disposal gains (two HELIOS hospitals)

<sup>3</sup> After costs for the efficiency program, integration costs and disposal gains (two HELIOS hospitals)

<sup>4</sup> The underlying EBIT does not include costs for the efficiency program, integration costs and disposal gains (two HELIOS hospitals).

#### BY REGION

€ in millions	Europe			North America		
	2016	2015	Change	2016	2015	Change
Sales	10,839	10,557	3%	13,735	12,621	9%
contribution to consolidated sales	38%	38%		47%	46%	
EBIT	902	888	2%	2,691	2,337	15%
Depreciation and amortization	483	467	3%	549	521	5%
Total assets	16,865	15,986	5%	24,314	22,480	8%
Capital expenditure, gross	763	672	14%	671	615	9%
Acquisitions, gross/investments	346	241	44%	444	213	108%
Employees (per capita on balance sheet date)	119,434	114,753	4%	72,803	68,859	6%

Fresenius Helios			Fresenius Vamed			Corporate/Other			Fresenius Group		
2016	2015 <sup>2</sup>	Change	2016	2015	Change	2016	2015 <sup>2</sup>	Change	2016	2015	Change
5,843	5,578	5%	1,160	1,118	4%	-108	-106	-2%	29,083	27,626	5%
5,843	5,578	5%	1,122	1,077	4%	4	6	-33%	29,083	27,626	5%
0	0		38	41	-7%	-112	-112	0%	0	0	
20%	20%		4%	4%		0%	0%		100%	100%	
877	831	6%	80	75	7%	-20	-106	81%	5,500	4,990	10%
195	191	2%	11	11	0%	11	9	22%	1,173	1,115	5%
682	640	7%	69	64	8%	-31	-115	73%	4,327	3,875	12%
-37	-48	23%	-2	-3	33%	-28	-25	-12%	-582	-613	5%
-100	-108	7%	-21	-16	-31%	11	25	-56%	-1,051	-965	-9%
543	483	12%	45	44	2%	-834	-766	-9%	1,593	1,358	17%
622	618	1%	27	53	-49%	1	-24	104%	3,574	3,327	7%
273	347	-21%	16	42	-62%	-5	-36	86%	1,971	1,865	6%
8,701	8,430	3%	1,108	988	12%	-39	-152	74%	46,447	42,959	8%
1,406	1,282	10%	176	161	9%	-89	150	-159%	14,780	14,769	0%
352	277	27%	11	11	0%	5	13	-62%	1,621	1,512	7%
38	99	-62%	-	4	-100%	0	-8	100%	926	517	79%
-	-	--	0	0		0	2	-100%	500	464	8%
72,687	69,728	4%	8,198	8,262	-1%	951	878	8%	232,873	222,305	5%
15.0%	14.9%		6.9%	6.7%					18.9%	18.4% <sup>1,2</sup>	
11.7%	11.5%		5.9%	5.7%					14.9%	14.3% <sup>1,2</sup>	
3.3%	3.4%		0.9%	1.0%					4.0%	4.0%	
10.6%	11.1%		2.3%	4.7%					12.3%	12.0%	
8.4%	8.1%		10.5%	11.1%					10.1%	10.1% <sup>4</sup>	

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		
2016	2015	Change	2016	2015	Change	2016	2015	Change	2016	2015	Change
2,928	2,779	5%	1,223	1,297	-6%	358	372	-4%	29,083	27,626	5%
10%	10%		4%	5%		1%	1%		100%	100%	
587	511	15%	98	79	24%	49	60	-18%	4,327	3,875	12%
95	85	12%	39	36	8%	7	6	17%	1,173	1,115	5%
3,591	3,108	16%	1,479	1,225	21%	198	160	24%	46,447	42,959	8%
98	109	-10%	79	106	-25%	10	10	0%	1,621	1,512	7%
122	53	130%	14	10	40%	0	0		926	517	79%
22,441	20,257	11%	16,283	16,498	-1%	1,912	1,938	-1%	232,873	222,305	5%

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 2016:

- ▶ Fresenius Medical Care
- ▶ Fresenius Kabi
- ▶ Fresenius Helios
- ▶ Fresenius Vamed

Fresenius Medical Care is the world's largest integrated provider of products and services for individuals with renal diseases. As of December 31, 2016, Fresenius Medical Care was treating 308,471 patients in 3,624 dialysis clinics. Along with its core business, the company seeks to expand the range of medical services in the field of care coordination.

Fresenius Kabi offers infusion therapies, intravenously administered generic drugs and clinical nutrition for seriously and chronically ill patients in the hospital and outpatient environments. The company is also a leading supplier of medical devices and transfusion technology products.

Fresenius Helios is Germany's largest hospital operator. At the end of 2016, the HELIOS Group operated 112 hospitals, thereof 88 acute care hospitals (including 7 maximum care hospitals in Berlin-Buch, Duisburg, Erfurt, Krefeld, Schwerin, Wiesbaden and Wuppertal) and 24 post-acute care clinics. Fresenius Helios treats more than 5.2 million patients per year, thereof approximately 1.3 million inpatients, and operates approximately 35,000 beds.

Following the closing of the acquisition of Quirónsalud on January 31, 2017, Fresenius Helios is also the largest private hospital operator in Spain. Quirónsalud offers the full spectrum of inpatient and outpatient care in 43 hospitals, 39 outpatient centers and around 300 Occupational Risk Prevention

centers. Quirónsalud treats approximately 320,000 inpatients and approximately 9.4 million outpatients annually in its hospitals in Spain and operates a total of approximately 6,600 beds.

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 30.82% of the subscribed capital of Fresenius Medical Care AG & Co. KGaA (FMC-AG & Co. KGaA) at the end of the fiscal year 2016. 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, 2016. Through Fresenius ProServe GmbH, Fresenius SE & Co. KGaA holds 100% in HELIOS Kliniken GmbH and 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

The accompanying consolidated financial statements have been prepared in accordance with the United States Generally Accepted Accounting Principles (U.S. GAAP).

Fresenius SE & Co. KGaA, as a stock exchange listed company with a domicile in a member state of the European

Union, fulfills the obligation to prepare and publish the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applying Section 315a of the German Commercial Code (HGB). Simultaneously, the Fresenius Group voluntarily prepares and publishes the consolidated financial statements in accordance with U.S. GAAP due to the requirement of Fresenius Medical Care AG & Co. KGaA to report in accordance with U.S. GAAP under a so-called pooling agreement.

In May 2016, the Annual General Meeting of Fresenius Medical Care AG & Co. KGaA rescinded the obligation to prepare and report U.S. GAAP financial statements. Therefore, the Fresenius Group will be managed solely in accordance with IFRS starting with the 2017 fiscal year and will no longer provide consolidated financial statements according to U.S. GAAP voluntarily.

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.

The consolidated statement of financial position 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.

### 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 subject to put provisions is recognized between liabilities and equity in the consolidated statement of financial position. Noncontrolling interest not subject to put provisions is comprised of the interest of noncontrolling shareholders in the consolidated equity of Group entities. Profits and losses attributable to the noncontrolling shareholders are separately disclosed in the consolidated statement of income. Noncontrolling interest not subject to put provisions of acquired entities is valued at fair value.

Associated companies, over which Fresenius SE & Co. KGaA has significant exercisable influence (generally it holds more than 20% and less than 50% of the voting rights), 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

The consolidated financial statements include all material companies in which Fresenius SE & Co. KGaA has legal or effective control. This includes variable interest entities (VIEs) for which the Fresenius Group is deemed the primary beneficiary.

Fresenius Medical Care has entered into various arrangements with certain legal entities whereby the entities' equity holders lack the power to direct the activities that most significantly impact the entities' performance, and the obligation to absorb expected losses and receive expected residual returns of the legal entities. In these arrangements, the entities are VIEs, in which Fresenius Medical Care has been determined to be the primary beneficiary and which therefore have been fully consolidated. Fresenius Medical Care has provided some or all of the following services to these VIEs: management, financing or product supply. They generated approximately €227 million (US\$251 million) and €223 million (US\$247 million) in sales in 2016 and 2015, respectively. Fresenius Medical Care provided funding to these VIEs through loans and accounts receivable of €179 million (US\$188 million) and €180 million (US\$196 million) in 2016 and 2015, respectively. Relating to the VIEs, in 2016, Fresenius Medical Care

consolidated assets in an amount of €242 million (US\$255 million), liabilities in an amount of €232 million (US\$245 million) and €10 million (US\$10 million) in equity. In 2015, €248 million (US\$270 million) assets, €225 million (US\$245 million) liabilities and €23 million (US\$25 million) equity were consolidated. Due to the first-time implementation of Accounting Standards Update 2015-02 in 2016, the number of entities to be consolidated as VIEs has decreased. Prior year figures were adjusted accordingly (see note 1.III.ff, Recent pronouncements, applied). The interest held by the other shareholders in the consolidated VIEs is reported as noncontrolling interest in the consolidated statement of financial position.

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. Some of these project entities qualify as VIEs, in which Fresenius Vamed is not the primary beneficiary based on the cash flow analysis of the involved parties. The project entities generated approximately €114 million in sales in 2016 (2015: €110 million). The VIEs finance themselves mainly through debt, profit participation rights and investment grants. Assets and liabilities relating to the VIEs are not material. Fresenius Vamed made no payments to the VIEs 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 VIEs.

The consolidated financial statements of 2016 included, in addition to Fresenius SE & Co. KGaA, 2,477 (2015: 2,323) fully consolidated companies and 33 (2015: 31) companies were accounted for under the equity method. In 2016, 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 2016, 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
<b>Corporate/Other</b>	
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
<b>Fresenius Kabi</b>	
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
<b>Fresenius Helios</b>	
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 Fachkliniken Hildburghausen GmbH	Hildburghausen
HELIOS Hansekllinikum Stralsund GmbH	Stralsund
HELIOS Kids in Pflege GmbH	Geesthacht
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

Name of the company	Registered office
<b>Fresenius Helios</b>	
HELIOS Klinik Leisnig GmbH	Leisnig
HELIOS Klinik Lengerich GmbH	Lengerich
HELIOS Klinik Schkeuditz GmbH	Schkeuditz
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 Breisgau-Hochschwarzwald GmbH	Müllheim
HELIOS Kliniken GmbH	Berlin
HELIOS Kliniken Bad Grönenbach GmbH	Bad Grönenbach
HELIOS Kliniken Mansfeld-Südharz GmbH	Sangerhausen
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 Gotha GmbH	Gotha/Ohrdruf
HELIOS Klinikum Krefeld GmbH	Krefeld
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	Bad Homburg v. d. H. Ostseebad
HELIOS Rehaklinik Ahrenshoop GmbH	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-Krankenhaus Bad Kissingen GmbH	Bad Kissingen
HELIOS St. Josefs-Hospital GmbH	Bochum
HELIOS Versorgungszentren GmbH	Berlin
HELIOS Versorgungszentrum Bad Saarow GmbH	Bad Saarow
HELIOS Vogtland-Klinikum Plauen GmbH	Plauen
HELIOS Weißeritztal-Kliniken GmbH	Freital
Herzzentrum Leipzig GmbH	Leipzig
Klinik Kipfenberg GmbH Neurochirurgische und Neurologische Fachklinik	Kipfenberg
ostsee resort damp GmbH	Damp
Poliklinik am HELIOS Klinikum Buch GmbH	Berlin
Senioren- und Pflegeheim Erfurt GmbH	Erfurt
Verwaltungsgesellschaft ENDO-Klinik mbH	Hamburg

### c) Classifications

Certain items in the consolidated financial statements of 2015 have been reclassified to conform with the presentation in 2016.

Deferred taxes, which were classified as current at December 31, 2015, were reclassified to non-current as of January 1, 2016 in accordance with Accounting Standards Update 2015-17, Financial Accounting Standards Board Accounting Standards Codification Topic 740, Income Taxes – Balance Sheet Classification of Deferred Taxes.

### d) Sales recognition policy

Sales from services are recognized at the amount estimated to be receivable under 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. Research and development expenses are expensed as incurred.

**g) Impairment**

The Fresenius Group reviews the carrying amounts of its property, plant and equipment, intangible assets and other non-current assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Recoverability of these assets is measured by comparing the carrying amount of an asset to the future net cash flow directly associated with the asset. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying amount exceeds the fair value of the asset. The Fresenius Group uses a discounted cash flow approach or other methods, if appropriate, to assess fair value. Long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell and depreciation is ceased.

**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 2016 and 2015, interest of €4 million and €5 million, based on an average interest rate of 4.64% and 4.48%, 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 more likely than not 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 taxes are computed using enacted or adopted tax rates in the relevant national jurisdictions when the amounts are recovered. Tax rates which will be valid in the future but are not adopted till the date of the statement of financial position are not considered.

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 whether it is more likely than not that some portion or all of a 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 no longer more likely than not that sufficient taxable income will be available to allow the benefit of part or of the entire deferred tax asset to be utilized, the carrying amount of the deferred tax asset is reduced to that certain extent. The reduction is reversed to the date and extent that it becomes probable that sufficient taxable profit will be available.

It is Fresenius Group's policy that assets on uncertain tax positions are recognized to the extent it is more likely than not the tax will be recovered. It is also Fresenius Group's policy to recognize interest and penalties related to its tax positions as income tax expense.

#### **j) Unrecognized tax benefits**

The recognition and measurement of all tax positions taken or expected to be taken on a tax return requires a two step approach. The Fresenius Group determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If the threshold is met, the tax position is measured at the largest amount of tax benefit that is more than 50% likely of being realized upon settlement and is recognized in the consolidated financial statements.

#### **k) 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.

#### **l) Cash and cash equivalents**

Cash and cash equivalents are comprised of cash funds and all short-term, liquid investments with original maturities of up to three months (time deposits and securities).

#### **m) 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.

#### **n) Inventories**

Inventories are comprised of all assets which are held for sale in the normal 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 stated 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.

#### **o) 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.

#### p) Property, plant and equipment

Property, plant and equipment are stated at acquisition and manufacturing cost less accumulated depreciation. Significant improvements are capitalized; repairs and maintenance costs that do not extend the useful lives of the assets are charged to expense as incurred. 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).

#### q) 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 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). The useful life of patents, product and distribution rights ranges 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 life 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.

#### r) 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 trade names 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 reporting units and determined their carrying amount by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. A reporting unit is usually defined one level below the segment level based on regions or the nature of the business activity. 4 reporting units 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 10 reporting units, which are managed by a central division. The segment Fresenius Vamed consists of 2 reporting units (Project business and Service business). At least once a year, the Fresenius Group compares the fair value of each reporting unit to the reporting unit's carrying amount. The fair value of a reporting unit is determined using a discounted cash flow approach based upon the cash flow expected to be generated by the reporting unit. In case that the fair value of the reporting unit is less than its carrying amount, the difference is at first recorded as an impairment of the fair value of the goodwill.

To evaluate the recoverability of separable intangible assets with indefinite useful lives, the Fresenius Group compares the fair values of these intangible assets with their carrying amounts. An intangible asset's fair value is determined using a discounted cash flow approach and 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 2016 and 2015.

Any excess of the net fair value of identifiable assets and liabilities over cost (goodwill) still existing after reassessing the purchase price allocation is recognized immediately in profit or loss.

### s) 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.

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.

### t) 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 as at fair value through profit or loss upon initial recognition.

The following categories (according to International Accounting Standard 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 2016.

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 29, Financial instruments.

The Fresenius Group has potential obligations to purchase the 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 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. 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 29, 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.

#### u) Liabilities

Liabilities are generally stated at present value, which normally corresponds to the value of products or services which are delivered. As a general policy, short-term liabilities are measured at their repayment amount.

#### v) Legal contingencies

In the ordinary course of Fresenius Group's operations, the Fresenius Group is involved in litigation, arbitration, administrative procedure and 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 the disclosure of any such suit or assertion, does not necessarily indicate that an accrual of a loss is appropriate.

#### w) Accrued expenses

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.

Accruals for warranties and complaints are estimated based on historical experience.

Tax accruals include obligations for the current year and for prior years.

#### x) Pension liabilities and similar obligations

The Fresenius Group recognizes the underfunded status of its defined benefit plans, measured as the difference between the fair value of the plan assets and the present value of the benefit obligation, as a liability (funded status).

The Fresenius Group uses December 31 as the measurement date when measuring the funded status of all plans.

Changes in the funded status of a plan resulting from actuarial gains or losses and prior service costs or credits that are not recognized as components of the net periodic benefit cost are recognized through accumulated other comprehensive income (loss), net of tax, in the year in which they occur.

The Fresenius Group uses the corridor method for the recognition of the actuarial gains and losses. Actuarial gains and losses that exceed a corridor of 10% of the present value of the defined benefit obligation are spread over the expected average remaining working lives of the employees participating in the plans, adjusted for fluctuation.

Actuarial gains or losses and prior service costs are subsequently recognized as components of net periodic benefit cost when realized.

#### y) 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.

### z) Share-based compensation plans

In line with the standard for share-based payment, the Fresenius Group uses the modified prospective transition method. Under this transition method, in 2016 and 2015, the Fresenius Group recognized compensation cost for all share-based payments subsequent to January 1, 2012 (based on the grant-date fair value estimated).

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.

### aa) 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 North America, 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.

### bb) 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 general and administrative expenses, as far as they are not considered foreign equity instruments. In the fiscal year 2016, only immaterial gains 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, 2016	Dec. 31, 2015	2016	2015
U.S. dollar per €	1.0541	1.0887	1.1069	1.1095
Chinese renminbi per €	7.3202	7.0608	7.3522	6.9733
Japanese yen per €	123.4	131.07	120.1967	134.31
Brazilian real per €	3.4305	4.3117	3.8561	3.7004
Pound sterling per €	0.8562	0.7340	0.8195	0.7259
Argentinean peso per €	16.7182	14.1340	16.3342	10.2706
Swedish krona per €	9.5525	9.1895	9.4689	9.3535
Russian ruble per €	64.3	80.6736	74.1446	68.0720

### cc) Fair value hierarchy

The three-tier fair value hierarchy as defined in Financial Accounting Standards Boards Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, classifies 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 24, Pensions and similar obligations, and in note 29, Financial instruments.

### dd) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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.

### ee) 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 17% 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 2016 and 2015, respectively.

### ff) Recent pronouncements, applied

The Fresenius Group has prepared its consolidated financial statements at December 31, 2016 in conformity with U.S. GAAP that have to be applied for fiscal years beginning on January 1, 2016 or U.S. GAAP that can be applied earlier on a voluntary basis.

The Fresenius Group applied the following standards, as far as they are relevant for Fresenius Group's business, for the first time:

In November 2015, the Financial Accounting Standards Board (FASB) issued **Accounting Standards Update 2015-17** (ASU 2015-17), FASB Accounting Standards Codification (ASC) Topic 740, Income Taxes – Balance Sheet Classification of Deferred Taxes, which focuses on reducing the complexity of classifying deferred taxes on the balance sheet. ASU 2015-17 eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and non-current in a classified balance sheet and requires the classification of all deferred tax assets and liabilities as non-current. The update is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Earlier adoption is permitted. The Fresenius Group adopted this ASU as of March 31, 2016. In accordance with ASU 2015-17, deferred taxes recorded as of December 31, 2015 within current assets and liabilities have been reclassified to non-current assets and liabilities in the amount of €438 million and €61 million, respectively. As a result of deferred tax netting, non-current assets and liabilities were then adjusted in the amount of €211 million.

In February 2015, the FASB issued **Accounting Standards Update 2015-02** (ASU 2015-02), FASB ASC Topic 810, Consolidation – Amendments to the Consolidation Analysis, which focuses on clarifying guidance related to the evaluation of various types of legal entities such as limited partnerships, limited liability corporations and certain security transactions for consolidation. The update is effective for fiscal years and interim periods within those years beginning after December 15, 2015. The Fresenius Group has implemented ASU 2015-02 on a full retrospective basis. The information given with regard to the Variable Interest Entities (VIEs) of the segment Fresenius Medical Care for the year 2015 is based on the VIEs of 2016 (see note 1. III. b, Composition of the Group).

### gg) Recent pronouncements, not yet applied

The Fresenius Group will no longer voluntarily prepare U.S. GAAP financial statements starting with fiscal years and interim periods within those years beginning after January 1, 2017. Therefore, no new U.S. GAAP standards will be applied in the future financial statements of the Fresenius Group. With the exception of ASU 2015-17, the Fresenius Group did not apply any new U.S. GAAP standards earlier.

## 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, 2016 and December 31, 2015, the carrying amount of these was €23,004 million and €21,750 million, respectively. This represented 50% and 51%, 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 might be impaired (Impairment test).

To determine possible impairments of these assets, the fair value of the reporting units is compared to their carrying amount. The fair value of each reporting unit is determined using estimated future cash flows for the unit discounted by a weighted-average cost of capital (WACC) specific to that reporting unit. 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 reporting unit its approved three-year budget, projections for years 4 to 10 and a corresponding growth rate for all remaining years. These growth rates are 0% to 4% for Fresenius Medical Care, 3% for Fresenius Kabi and 1% for Fresenius Helios and Fresenius Vamed. The growth rates of the main reporting units of Fresenius Medical Care and Fresenius Kabi in North America (carrying amounts of goodwill as of December 31, 2016: €10,927 million and €3,941 million, respectively) were 1% and 3%, respectively. 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. The discount factor is determined by the WACC of the respective reporting unit. Fresenius Medical Care's WACC consisted of a basic rate of 5.14% and the WACC in the business segment Fresenius Kabi consisted of a basic rate of 5.93% for 2016, respectively. This basic rate is then adjusted by a country-specific risk rate and, if appropriate, by a factor to reflect higher risks associated with the cash flow from recent material acquisitions, until they are appropriately integrated, within each reporting unit. In 2016, WACCs (after tax) for the reporting units of Fresenius Medical Care ranged from 5.12% to 15.88% and WACCs (after tax) for the reporting units of Fresenius Kabi ranged from 5.93% to 14.38%. In the business segments Fresenius Helios and Fresenius Vamed, the WACC (after tax) was 5.93%, country-specific adjustments did not occur. The WACCs (after tax) of the main reporting units of Fresenius Medical Care and Fresenius Kabi in North America were 5.12% and 5.93%, respectively. If the fair value of the reporting unit 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 2016.

Additional sensitivity analyses were carried out for the reporting units in Latin America. An increase of the WACC of the reporting unit Fresenius Medical Care Latin America (carrying amount of goodwill as of December 31, 2016:

€89 million) by 1 percentage point would have led to the recognition of an impairment loss of €47 million. An increase of the WACC by 0.61 percentage points would have led to the fair value being equal to the carrying amount. An increase of the WACC of the reporting unit Fresenius Kabi Latin America (carrying amount of goodwill as of December 31, 2016: €171 million) by 2 percentage points would have led to the recognition of an impairment loss of €43 million. An increase of the WACC by 1.51 percentage points would have led to the fair value being equal to the carrying amount.

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 28, Commitments and contingent liabilities.

The Fresenius Group regularly analyzes current information about such claims for probable losses and provides accruals for such matters, including estimated expenses for legal services, 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 the disclosure of any such suit or assertion, does not necessarily indicate that an 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 €5,052 million and €4,596 million in 2016 and 2015, respectively, net of allowance. Approximately 66% 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 18% and private insurers in the United States with 11% at December 31, 2016. 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 €700 million and €650 million as of December 31, 2016 and December 31, 2015, 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 North America, is partially self-insured for professional liability claims. For further details regarding the accounting policies for self-insurance programs, please see note 1. III. aa, Self-insurance programs.

## 2. ACQUISITIONS, DIVESTITURES AND INVESTMENTS

### ACQUISITIONS, DIVESTITURES AND INVESTMENTS

The Fresenius Group made acquisitions, investments and purchases of intangible assets of €926 million and €517 million in 2016 and 2015, respectively. Of this amount, €675 million was paid in cash and €251 million was assumed obligations in 2016.

#### Fresenius Medical Care

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.

In 2015, Fresenius Medical Care spent €385 million on acquisitions, mainly for the purchase of dialysis clinics and for a loan to an associated company. In the third quarter of 2015, Fresenius Medical Care sold the dialysis service business in Venezuela. The transaction resulted in an after-tax loss of €24 million (US\$26.9 million).

Furthermore, in the third quarter of 2015, Fresenius Medical Care sold the European marketing rights for certain renal pharmaceuticals to the joint venture, Vifor Fresenius Medical Care Renal Pharma. The transaction resulted in an after-tax gain of €10.0 million (US\$11.1 million).

#### Fresenius Kabi

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.

In 2015, Fresenius Kabi spent €37 million on acquisitions, which mainly related to the purchase of 100% of the shares in medi1one medical gmbh, Germany, and the purchase of further shares in Fresenius Kabi Bidiphar JSC, Vietnam.

On February 16, 2015, Fresenius Kabi sold its German oncology compounding business. On September 30, 2015, Fresenius Kabi also sold its compounding business in Australia. The transactions resulted in a book gain in an immaterial amount, respectively.

#### Fresenius Helios

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.

#### Acquisition of IDC Salud Holding S.L.U.

##### (Quirónsalud)

On January 31, 2017, Fresenius Helios closed the acquisition of 100% of the share capital in IDC Salud Holding S.L.U. (Quirónsalud), Spain's largest private hospital operator. Quirónsalud will be consolidated as of February 1, 2017.

€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 (see notes 21, Debt and capital lease obligations, 22, Senior Notes and 23, Convertible bonds). 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.

Due to the relatively short interval between the closing date of the acquisition and the reporting date, the purchase price allocation is not yet completed. Based on first internal analyses, the Fresenius Group expects the opening balance sheet of Quirónsalud to include a goodwill of €3.5 billion, intangible assets of €1.2 billion as well as net assets of €1.3 billion. In 2016, Quirónsalud generated sales of €2.5 billion and EBITDA<sup>1</sup> of €461 million.

Quirónsalud's network is comprised of 43 hospitals, 39 outpatient centers and about 300 Occupational Risk Prevention centers located in all economically important areas of Spain. The company has about 35,000 employees and offers the full spectrum of inpatient and outpatient care. With the acquisition, Fresenius Helios strengthens its position as Europe's largest private hospital operator.

In 2015, Fresenius Helios spent €99 million on acquisitions, mainly for the purchase of 49% of the minority interest in HELIOS Kreiskrankenhaus Gotha/Ohrdruf GmbH, for subsequent purchase price payments, the acquisition of outpatient facilities and the purchase of 94% of the shares in Lungenklinik Diekholzen gGmbH, Germany.

### Fresenius Vamed

In 2015, Fresenius Vamed spent €4 million on acquisitions, mainly for a participation for the expansion of a thermal spa in Austria.

### Corporate/Other

In 2015, the segment Corporate/Other includes the consolidation of an intercompany transaction in the amount of €8 million.

## IMPACTS ON FRESENIUS GROUP'S CONSOLIDATED FINANCIAL STATEMENTS RESULTING FROM ACQUISITIONS

In the fiscal year 2016, 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 €903 million and €307 million in 2016 and 2015, 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 €692 million and the other intangible assets were €211 million. Of this goodwill, €586 million is attributable to the acquisitions of Fresenius Medical Care, €5 million to Fresenius Kabi's acquisitions and €101 million to the acquisitions of Fresenius Helios.

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 2016 or included in the consolidated statements for the first time for a full year, contributed the following amounts to the development of sales and earnings:

€ in millions	2016
Sales	210
EBITDA	-7
EBIT	-20
Net interest	-11
Net income attributable to shareholders of Fresenius SE & Co. KGaA	-21

The acquisitions increased the total assets of the Fresenius Group by €977 million.

<sup>1</sup> Before special items primarily relating to the transaction

## NOTES ON THE CONSOLIDATED STATEMENT OF INCOME

### 3. SPECIAL ITEMS

Net income attributable to shareholders of Fresenius SE & Co. KGaA for the year 2016 in the amount of €1,593 million does not include any special items.

Net income attributable to shareholders of Fresenius SE & Co. KGaA for the year 2015 in the amount of €1,358 million included special items relating to Fresenius Kabi's efficiency program and the integration of the acquired Rhön hospitals. The divestment of two HELIOS hospitals in the fiscal year 2014 led to an additional disposal gain in 2015.

The special items had the following impact on the consolidated statement of income of 2015:

€ in millions	EBIT	Net income attributable to shareholders of Fresenius SE & Co. KGaA
<b>Earnings 2015, adjusted</b>	<b>3,958</b>	<b>1,423</b>
Costs for Fresenius Kabi's efficiency program	-105	-89
Integration costs for the acquired Rhön hospitals	-12	-10
Disposal gains from the divestment of two HELIOS hospitals	34	34
<b>Earnings 2015 according to U.S. GAAP</b>	<b>3,875</b>	<b>1,358</b>

### 4. SALES

Sales by activity were as follows:

€ in millions	2016	2015
Sales of services	<b>19,918</b>	18,558
less patient service bad debt provision	-389	-369
Sales of products and related goods	<b>8,950</b>	8,851
Sales from long-term production contracts	<b>597</b>	577
Other sales	<b>7</b>	9
<b>Sales</b>	<b>29,083</b>	27,626

A sales analysis by business segment and region is shown in the segment information on pages 106 to 107.

### 5. COST OF SALES

Cost of sales was comprised of the following:

€ in millions	2016	2015
Cost of services	<b>14,905</b>	13,929
Manufacturing cost of products and related goods	<b>4,513</b>	4,637
Cost of long-term production contracts	<b>535</b>	524
Other cost of sales	<b>2</b>	2
<b>Cost of sales</b>	<b>19,955</b>	19,092

### 6. COST OF MATERIALS

Cost of materials was comprised of cost of raw materials, supplies and purchased components and cost of purchased services:

€ in millions	2016	2015
Cost of raw materials, supplies and purchased components	<b>6,572</b>	6,466
Cost of purchased services	<b>1,027</b>	1,027
<b>Cost of materials</b>	<b>7,599</b>	7,493

### 7. PERSONNEL EXPENSES

Cost of sales, selling, general and administrative expenses and research and development expenses included personnel expenses of €11,671 million and €10,862 million in 2016 and 2015, respectively.

Personnel expenses were comprised of the following:

€ in millions	2016	2015
Wages and salaries	<b>9,367</b>	8,732
Social security contributions, cost of retirement pensions and social assistance	<b>2,304</b>	2,130
thereof retirement pensions	<b>334</b>	321
<b>Personnel expenses</b>	<b>11,671</b>	10,862

Fresenius Group's annual average number of employees by function is shown below:

	2016	2015
Production	<b>37,589</b>	37,143
Service	<b>158,970</b>	151,903
Administration	<b>19,673</b>	19,078
Sales and marketing	<b>10,236</b>	10,041
Research and development	<b>2,500</b>	2,180
<b>Total employees (per capita)</b>	<b>228,968</b>	220,345



## 8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses were €916 million (2015: €915 million) and mainly included expenditures for sales personnel of €459 million (2015: €444 million).

General and administrative expenses amounted to €3,385 million (2015: €3,280 million) and were related to expenditures for administrative functions not attributable to research and development, production or selling.

In 2016, other operating income of €329 million (2015: €303 million) and other operating expenses of €147 million (2015: €224 million) were included in selling, general and administrative expenses.

## 9. NET INTEREST

Net interest of -€582 million included interest expenses of €678 million and interest income of €96 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 29, Financial instruments). The main portion of interest income resulted from the valuation of the call options in connection with the convertible bonds of Fresenius SE & Co. KGaA and the valuation of the derivatives embedded in the convertible bonds of Fresenius Medical Care AG & Co. KGaA (see note 23, Convertible bonds).

## 10. TAXES

### INCOME TAXES

Income before income taxes was attributable to the following geographic regions:

€ in millions	2016	2015
Germany	791	698
International	2,954	2,564
<b>Total</b>	<b>3,745</b>	<b>3,262</b>

Income tax expenses (benefits) for 2016 and 2015 consisted of the following:

€ in millions	Current taxes	Deferred taxes	Income taxes
<b>2016</b>			
Germany	130	5	135
International	911	5	916
<b>Total</b>	<b>1,041</b>	<b>10</b>	<b>1,051</b>
<b>2015</b>			
Germany	197	-32	165
International	841	-41	800
<b>Total</b>	<b>1,038</b>	<b>-73</b>	<b>965</b>

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 2016 (2015: 30.5%).

€ in millions	2016	2015
Computed "expected" income tax expense	1,148	995
Increase (reduction) in income taxes resulting from:		
Items not recognized for tax purposes	55	50
Tax rate differential	-7	35
Tax-free income	-36	-63
Taxes for prior years	-32	26
Changes in valuation allowances on deferred tax assets	24	40
Noncontrolling interests	-106	-99
Other	5	-19
<b>Income tax</b>	<b>1,051</b>	<b>965</b>
<b>Effective tax rate</b>	<b>28.1%</b>	<b>29.6%</b>

## 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	2016	2015
<b>Deferred tax assets</b>		
Accounts receivable	31	29
Inventories	108	95
Other current assets	44	9
Other non-current assets	94	80
Accrued expenses	445	474
Other short-term liabilities	39	47
Other liabilities	39	41
Benefit obligations	225	230
Losses carried forward from prior years	352	324
<b>Deferred tax assets, before valuation allowance</b>	<b>1,377</b>	<b>1,329</b>
less valuation allowance	152	128
<b>Deferred tax assets</b>	<b>1,225</b>	<b>1,201</b>
<b>Deferred tax liabilities</b>		
Accounts receivable	28	41
Inventories	30	32
Other current assets	106	90
Other non-current assets	1,099	1,030
Accrued expenses	30	10
Other short-term liabilities	165	169
Other liabilities	82	89
<b>Deferred tax liabilities</b>	<b>1,540</b>	<b>1,461</b>
<b>Net deferred taxes</b>	<b>-315</b>	<b>-260</b>

In the consolidated statement of financial position, the net amounts of deferred tax assets and liabilities are included as follows:

€ in millions	2016	2015
Deferred tax assets	560	540
Deferred tax liabilities	875	800
<b>Net deferred taxes</b>	<b>-315</b>	<b>-260</b>

As of December 31, 2016, Fresenius Medical Care has not recognized a deferred tax liability on approximately €7.0 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
2017	26
2018	32
2019	36
2020	67
2021	29
2022	36
2023	33
2024	22
2025	18
2026 and thereafter	35
<b>Total</b>	<b>334</b>

The total remaining operating losses of €685 million can mainly be carried forward for an unlimited period.

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, 2016.

## UNRECOGNIZED TAX BENEFITS

Fresenius SE & Co. KGaA and its subsidiaries are subject to tax audits in Germany and the United States on a regular basis and ongoing tax audits in other jurisdictions.

In Germany, for Fresenius SE & Co. KGaA and its subsidiaries, the tax years 2006 through 2013 are currently under audit by the tax authorities. The Fresenius Group recognized and recorded the current proposed adjustments of this audit period in the consolidated financial statements. Fiscal years 2014 until 2016 are open to audit.

For Fresenius Kabi USA, the audit actions for fiscal years until 2012 are concluded with regard to federal taxes. There are currently tax audits in progress in the two for Fresenius Kabi USA most relevant federal states which are partly completed. All proposed adjustments are deemed immaterial. Fiscal years 2013 until 2016 are open to audit with regard to federal taxes.

In the United States, for Fresenius Medical Care, fiscal years 2013 until 2016 are open to audit. Fresenius Medical Care Holdings, Inc. is also subject to audit in various state jurisdictions. A number of these audits are in progress and various years are open to audit in various state jurisdictions. All expected results for both federal and state income tax audits have been recognized in the consolidated financial statements.

Subsidiaries of Fresenius SE & Co. KGaA in a number of countries outside of Germany and the United States are also subject to tax audits. The Fresenius Group estimates that the effects of such tax audits are not material to the consolidated financial statements.

The following table shows the changes to unrecognized tax benefits during the year 2016:

€ in millions	2016
<b>Balance at January 1, 2016</b>	<b>260</b>
Increase in unrecognized tax benefits prior periods	59
Decrease in unrecognized tax benefits prior periods	-37
Increase in unrecognized tax benefits current periods	9
Changes related to settlements with tax authorities	-20
Foreign currency translation	3
<b>Balance at December 31, 2016</b>	<b>274</b>

Included in the balance at December 31, 2016 are €269 million of unrecognized tax benefits, which would affect the effective tax rate if recognized. The Fresenius Group is currently not in a position to forecast the timing and magnitude of changes in other unrecognized tax benefits.

It is Fresenius Group's policy to recognize interest and penalties related to its tax positions as income tax expense. During the fiscal year 2016, the Fresenius Group recognized gains of €6 million in interest and penalties. The Fresenius Group had a total accrual of €24 million of tax related interest and penalties at December 31, 2016.

## 11. NONCONTROLLING INTEREST

As of December 31, noncontrolling interest in net income in the Fresenius Group was as follows:

€ in millions	2016	2015
Noncontrolling interest in Fresenius Medical Care	776	641
Noncontrolling interest in Fresenius Vamed	10	10
Noncontrolling interest in the business segments		
Fresenius Medical Care	276	256
Fresenius Kabi	36	30
Fresenius Helios	2	1
Fresenius Vamed	1	1
<b>Total noncontrolling interest</b>	<b>1,101</b>	<b>939</b>

In the fiscal year 2016, Fresenius Medical Care AG & Co. KGaA paid dividends to noncontrolling interests in the amount of €169 million (2015: €163 million).

## 12. EARNINGS PER SHARE

The following table shows the earnings per share including and excluding the dilutive effect from stock options issued:

	2016	2015
<b>Numerators, € in millions</b>		
Net income attributable to shareholders of		
Fresenius SE & Co. KGaA	1,593	1,358
less effect from dilution due to Fresenius Medical Care shares	-	1
Income available to all ordinary shares	1,593	1,357
<b>Denominators in number of shares</b>		
Weighted-average number of ordinary shares outstanding	546,395,188	543,893,874
Potentially dilutive ordinary shares	3,689,472	4,266,418
Weighted-average number of ordinary shares outstanding assuming dilution	550,084,660	548,160,292
<b>Basic earnings per share in €</b>	<b>2.92</b>	<b>2.50</b>
<b>Fully diluted earnings per share in €</b>	<b>2.90</b>	<b>2.48</b>

## NOTES ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 13. CASH AND CASH EQUIVALENTS

As of December 31, cash and cash equivalents were as follows:

€ in millions	2016	2015
Cash	1,492	992
Time deposits and securities (with a maturity of up to 90 days)	87	52
<b>Total cash and cash equivalents</b>	<b>1,579</b>	<b>1,044</b>

As of December 31, 2016 and December 31, 2015, earmarked funds of €61 million and €57 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, 2016, €86 million (December 31, 2015: €106 million) of the cash balances and the equivalent amount of the overdraft balances were offset. Thereof €46 million related to Fresenius Medical Care.

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	3,371	1,091	403	315	572	5,752
less allowance for doubtful accounts	118	112	48	113	309	700
<b>Trade accounts receivable, net</b>	<b>3,253</b>	<b>979</b>	<b>355</b>	<b>202</b>	<b>263</b>	<b>5,052</b>

### 15. INVENTORIES

As of December 31, inventories consisted of the following:

€ in millions	2016	2015
Raw materials and purchased components	667	602
Work in process	620	526
Finished goods	2,044	1,839
less reserves	142	107
<b>Inventories, net</b>	<b>3,189</b>	<b>2,860</b>

### 14. TRADE ACCOUNTS RECEIVABLE

As of December 31, trade accounts receivable were as follows:

€ in millions	2016	2015
Trade accounts receivable	5,752	5,246
less allowance for doubtful accounts	700	650
<b>Trade accounts receivable, net</b>	<b>5,052</b>	<b>4,596</b>

All trade accounts receivable are due within one year.

The following table shows the development of the allowance for doubtful accounts during the fiscal year:

€ in millions	2016	2015
<b>Allowance for doubtful accounts at the beginning of the year</b>	<b>650</b>	<b>545</b>
Change in valuation allowances as recorded in the consolidated statement of income	431	431
Write-offs and recoveries of amounts previously written-off	-400	-353
Foreign currency translation	19	27
<b>Allowance for doubtful accounts at the end of the year</b>	<b>700</b>	<b>650</b>

The companies of the Fresenius Group are obliged to purchase approximately €1,119 million of raw materials and purchased components under fixed terms, of which €575 million was committed at December 31, 2016 for 2017. The terms of these agreements run one to eight years. Advance payments from customers of €420 million (2015: €564 million) have been offset against inventories. These exclusively related to long-term construction contracts.

## 16. OTHER CURRENT AND NON-CURRENT ASSETS

As of December 31, other current and non-current assets were comprised of the following:

€ in millions	2016		2015	
		thereof short-term		thereof short-term
At equity investments	644	0	592	0
Tax receivables	332	302	375	352
Insurance recoveries Fresenius Medical Care	209	209	202	202
Prepaid expenses	156	91	143	80
Advances made	125	112	138	79
Prepaid rent and insurance	77	77	74	74
Other assets	501	365	444	327
<b>Other non-financial assets, net</b>	<b>2,044</b>	<b>1,156</b>	<b>1,968</b>	<b>1,114</b>
Derivative financial instruments	408	41	375	39
Securities and long-term loans	344	264	339	263
Accounts receivable resulting from German hospital law	272	230	265	250
Leasing receivables	128	54	112	49
Cost report receivable from Medicare and Medicaid	120	120	100	100
Other investments	79	0	61	0
Deposits	71	22	60	19
Discounts	49	49	46	46
Other assets	56	30	54	21
<b>Other financial assets, net</b>	<b>1,527</b>	<b>810</b>	<b>1,412</b>	<b>787</b>
<b>Other assets, net</b>	<b>3,571</b>	<b>1,966</b>	<b>3,380</b>	<b>1,901</b>
Allowances	11	8	10	7
<b>Other assets, gross</b>	<b>3,582</b>	<b>1,974</b>	<b>3,390</b>	<b>1,908</b>

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 2016, income of €59 million (2015: €28 million) resulting from this valuation was included in selling, general and administrative expenses in the consolidated statement of income. Securities and long-term loans included €258 million financial assets available for sale as of December 31, 2016 (2015: €257 million) mainly relating to shares in funds.

The accounts receivable resulting from German hospital law primarily 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.

The item "Insurance recoveries Fresenius Medical Care" includes the recognized amount in relation to the NaturaLyte® and GranuFlo® agreement in principle, which partially offsets the accrued settlement amount recorded in Accrued expenses (see note 19, Accrued expenses). For further information, see note 28, Commitments and contingent liabilities.

In the fiscal year 2016, depreciation in an immaterial amount (2015: no depreciation) was recognized on other non-current assets.

## 17. 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, 2016	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi- cations	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	6,665	102	39	668	152	242	7,384
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
<b>Property, plant and equipment</b>	<b>13,848</b>	<b>225</b>	<b>116</b>	<b>1,577</b>	<b>-55</b>	<b>322</b>	<b>15,389</b>

### DEPRECIATION

€ in millions	As of Jan. 1, 2016	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi- cations	Disposals	As of Dec. 31, 2016
Land and land facilities	11	-	0	1	1	-	13
Buildings and improvements	2,386	48	4	325	1	41	2,723
Machinery and equipment	3,953	56	-4	640	-2	209	4,434
Machinery, equipment and rental equipment under capital leases	66	1	-	16	-	6	77
Construction in progress	4	-	0	-	-	-	4
<b>Property, plant and equipment</b>	<b>6,420</b>	<b>105</b>	<b>-</b>	<b>982</b>	<b>-</b>	<b>256</b>	<b>7,251</b>

### ACQUISITION AND MANUFACTURING COSTS

€ in millions	As of Jan. 1, 2015	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi- cations	Disposals	As of Dec. 31, 2015
Land and land facilities	524	2	-	4	13	7	536
Buildings and improvements	4,863	189	-1	109	288	60	5,388
Machinery and equipment	5,907	161	-4	613	206	218	6,665
Machinery, equipment and rental equipment under capital leases	171	5	3	8	-1	1	185
Construction in progress	862	29	-1	744	-540	20	1,074
<b>Property, plant and equipment</b>	<b>12,327</b>	<b>386</b>	<b>-3</b>	<b>1,478</b>	<b>-34</b>	<b>306</b>	<b>13,848</b>

### DEPRECIATION

€ in millions	As of Jan. 1, 2015	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi- cations	Disposals	As of Dec. 31, 2015
Land and land facilities	6	-	3	1	1	-	11
Buildings and improvements	2,031	108	-3	298	-2	46	2,386
Machinery and equipment	3,458	94	-10	611	-16	184	3,953
Machinery, equipment and rental equipment under capital leases	51	2	-	15	-1	1	66
Construction in progress	5	-	0	-	-1	-	4
<b>Property, plant and equipment</b>	<b>5,551</b>	<b>204</b>	<b>-10</b>	<b>925</b>	<b>-19</b>	<b>231</b>	<b>6,420</b>

## CARRYING AMOUNTS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Land and land facilities	548	525
Buildings and improvements	3,345	3,002
Machinery and equipment	2,950	2,712
Machinery, equipment and rental equipment under capital leases	115	119
Construction in progress	1,180	1,070
<b>Property, plant and equipment</b>	<b>8,138</b>	<b>7,428</b>

Depreciation on property, plant and equipment for the years 2016 and 2015 was €982 million and €925 million, respectively. It is allocated within cost of sales, selling, general and administrative expenses and research and development expenses, depending upon the use of the asset.

## LEASING

Machinery and equipment as of December 31, 2016 and 2015 included medical devices which Fresenius Medical Care and Fresenius Kabi lease to customers, patients and physicians under operating leases in an amount of €771 million and €720 million, respectively.

## 18. 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, 2016	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi- cations	Disposals	As of Dec. 31, 2016
Goodwill	21,523	556	674	18	3	–	22,774
Patents, product and distribution rights	713	21	15	9	1	11	748
Technology	383	12	67	0	0	0	462
Customer relationships	324	9	–	0	0	0	333
Tradenames	221	6	0	–	0	0	227
Software	406	10	1	51	19	13	474
Non-compete agreements	322	11	17	0	0	3	347
Management contracts	6	0	0	0	-3	0	3
Other	414	10	19	32	-5	7	463
<b>Goodwill and other intangible assets</b>	<b>24,312</b>	<b>635</b>	<b>793</b>	<b>110</b>	<b>15</b>	<b>34</b>	<b>25,831</b>

## AMORTIZATION

€ in millions	As of Jan. 1, 2016	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi- cations	Disposals	As of Dec. 31, 2016
Goodwill	0	0	0	0	0	0	0
Patents, product and distribution rights	356	11	–	36	–	11	392
Technology	111	5	0	25	0	0	141
Customer relationships	61	3	0	33	1	0	98
Tradenames	0	0	0	0	0	0	0
Software	248	5	–	48	1	12	290
Non-compete agreements	251	9	0	21	–	3	278
Management contracts	0	0	0	0	0	0	0
Other	252	7	0	28	2	2	287
<b>Goodwill and other intangible assets</b>	<b>1,279</b>	<b>40</b>	<b>–</b>	<b>191</b>	<b>4</b>	<b>28</b>	<b>1,486</b>

## ACQUISITION COST

€ in millions	As of Jan. 1, 2015	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi- cations	Disposals	As of Dec. 31, 2015
Goodwill	19,868	1,465	176	13	2	1	21,523
Patents, product and distribution rights	633	61	-4	14	9	–	713
Technology	349	40	0	0	-5	1	383
Customer relationships	272	30	22	0	–	0	324
Tradenames	202	19	0	0	0	0	221
Software	336	12	–	45	21	8	406
Non-compete agreements	281	30	14	–	2	5	322
Management contracts	6	–	0	0	0	0	6
Other	392	19	1	26	-18	6	414
<b>Goodwill and other intangible assets</b>	<b>22,339</b>	<b>1,676</b>	<b>209</b>	<b>98</b>	<b>11</b>	<b>21</b>	<b>24,312</b>

## AMORTIZATION

€ in millions	As of Jan. 1, 2015	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi- cations	Disposals	As of Dec. 31, 2015
Goodwill	0	0	0	0	0	0	0
Patents, product and distribution rights	288	25	-4	47	0	–	356
Technology	77	9	0	25	0	–	111
Customer relationships	29	3	0	29	0	–	61
Tradenames	0	0	0	0	0	0	0
Software	205	7	–	40	1	5	248
Non-compete agreements	212	24	0	20	0	5	251
Management contracts	0	0	0	0	0	0	0
Other	214	14	–	29	-1	4	252
<b>Goodwill and other intangible assets</b>	<b>1,025</b>	<b>82</b>	<b>-4</b>	<b>190</b>	<b>0</b>	<b>14</b>	<b>1,279</b>



## CARRYING AMOUNTS

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Goodwill	22,774	21,523
Patents, product and distribution rights	356	357
Technology	321	272
Customer relationships	235	263
Tradenames	227	221
Software	184	158
Non-compete agreements	69	71
Management contracts	3	6
Other	176	162
<b>Goodwill and other intangible assets</b>	<b>24,345</b>	<b>23,033</b>

The split of intangible assets into amortizable and non-amortizable intangible assets is shown in the following tables:

## AMORTIZABLE INTANGIBLE ASSETS

€ in millions	Dec. 31, 2016			Dec. 31, 2015		
	Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated amortization	Carrying amount
Patents, product and distribution rights	748	392	356	713	356	357
Technology	462	141	321	383	111	272
Customer relationships	333	98	235	324	61	263
Software	474	290	184	406	248	158
Non-compete agreements	347	278	69	322	251	71
Other	463	287	176	414	252	162
<b>Total</b>	<b>2,827</b>	<b>1,486</b>	<b>1,341</b>	<b>2,562</b>	<b>1,279</b>	<b>1,283</b>

Estimated regular amortization expenses of intangible assets for the next five years are shown in the following table:

€ in millions	2017	2018	2019	2020	2021
Estimated amortization expenses	199	191	186	178	169

## NON-AMORTIZABLE INTANGIBLE ASSETS

€ in millions	Dec. 31, 2016			Dec. 31, 2015		
	Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated amortization	Carrying amount
Tradenames	227	0	227	221	0	221
Management contracts	3	0	3	6	0	6
Goodwill	22,774	0	22,774	21,523	0	21,523
<b>Total</b>	<b>23,004</b>	<b>0</b>	<b>23,004</b>	<b>21,750</b>	<b>0</b>	<b>21,750</b>

Amortization on intangible assets amounted to €191 million and €190 million for the years 2016 and 2015, respectively. It is allocated within cost of sales, selling, general and

administrative expenses and research and development expenses, depending upon the use of the asset.

The carrying amount of goodwill has developed as follows:

€ in millions	Fresenius Medical Care	Fresenius Kabi	Fresenius Helios	Fresenius Vamed	Corporate/ Other	Fresenius Group
<b>Carrying amount as of January 1, 2015</b>	<b>10,775</b>	<b>4,601</b>	<b>4,387</b>	<b>99</b>	<b>6</b>	<b>19,868</b>
Additions	105	27	57	–	0	189
Disposals	0	-1	0	0	0	-1
Reclassifications	0	2	0	0	0	2
Foreign currency translation	1,091	374	0	0	0	1,465
<b>Carrying amount as of December 31, 2015</b>	<b>11,971</b>	<b>5,003</b>	<b>4,444</b>	<b>99</b>	<b>6</b>	<b>21,523</b>
Additions	586	5	101	0	–	692
Disposals	0	0	–	0	–	–
Reclassifications	3	0	0	0	0	3
Foreign currency translation	405	151	0	0	0	556
<b>Carrying amount as of December 31, 2016</b>	<b>12,965</b>	<b>5,159</b>	<b>4,545</b>	<b>99</b>	<b>6</b>	<b>22,774</b>

As of December 31, 2016 and December 31, 2015, the carrying amounts of the other non-amortizable intangible assets were €202 million and €198 million, for Fresenius

Medical Care as well as €28 million and €29 million, respectively, for Fresenius Kabi.

## 19. ACCRUED EXPENSES

As of December 31, accrued expenses consisted of the following:

€ in millions	2016		2015	
		thereof short-term		thereof short-term
Personnel expenses	946	712	876	712
Self-insurance programs	328	328	288	288
Settlement Fresenius Medical Care	266	266	257	257
Litigation risks	49	49	52	52
Warranties and complaints	45	44	45	44
Other accrued expenses	640	531	598	485
<b>Accrued expenses</b>	<b>2,274</b>	<b>1,930</b>	<b>2,116</b>	<b>1,838</b>

The following table shows the development of accrued expenses in the fiscal year:

€ in millions	As of Jan. 1, 2016	Foreign currency translation	Changes in entities consolidated	Additions	Reclassifi- cations	Utilized	Reversed	As of Dec. 31, 2016
Personnel expenses	876	14	19	810	-6	-706	-61	946
Self-insurance programs	288	8	0	58	0	-7	-19	328
Settlement								
Fresenius Medical Care	257	9	0	0	0	0	0	266
Litigation risks	52	2	-	17	1	-5	-18	49
Warranties and complaints	45	-	-	27	0	-18	-9	45
Other accrued expenses	598	9	58	435	5	-369	-96	640
<b>Total</b>	<b>2,116</b>	<b>42</b>	<b>77</b>	<b>1,347</b>	<b>-</b>	<b>-1,105</b>	<b>-203</b>	<b>2,274</b>

Accruals for personnel expenses mainly refer to bonus, severance payments, contribution of partial retirement, share-based compensation plans and holiday entitlements.

The item "Settlement Fresenius Medical Care" includes accruals related to the NaturaLyte® and GranuFlo® agreement in principle, partially offset by "Insurance recoveries Fresenius

Medical Care" recorded in Other current and non-current assets (see note 16, Other current and non-current assets). For further information, see note 28, Commitments and contingent liabilities.

For details regarding accruals for self-insurance programs, please see note 1. III. aa, Self-insurance programs.

## 20. OTHER LIABILITIES

As of December 31, other liabilities consisted of the following:

€ in millions	2016		2015	
		thereof short-term		thereof short-term
Tax liabilities	223	223	208	208
Accounts receivable credit balance	194	61	173	55
Advance payments from customers	87	68	75	65
All other liabilities	539	369	532	354
<b>Other non-financial liabilities</b>	<b>1,043</b>	<b>721</b>	<b>988</b>	<b>682</b>
Personnel liabilities	603	599	510	506
Invoices outstanding	447	447	450	450
Derivative financial instruments	412	47	355	15
Debtors with credit balances	408	408	378	378
Accrued variable payments outstanding for acquisitions	223	78	51	48
Accounts payable resulting from German hospital law	208	203	256	253
Bonuses and discounts	183	183	162	162
Interest liabilities	157	157	159	159
Leasing liabilities	122	122	101	101
Legal matters, advisory and audit fees	40	40	62	62
Commissions	36	35	33	32
All other liabilities	28	9	25	5
<b>Other financial liabilities</b>	<b>2,867</b>	<b>2,328</b>	<b>2,542</b>	<b>2,171</b>
<b>Other liabilities</b>	<b>3,910</b>	<b>3,049</b>	<b>3,530</b>	<b>2,853</b>

The accounts payable resulting from German hospital law primarily contain earmarked subsidies received but not yet spent appropriately by Fresenius Helios. The amount not yet spent appropriately is classified as liability.

At December 31, 2016, the total amount of other long-term liabilities was €861 million, thereof €737 million was due between one and five years and €124 million was due after five years. The statement of financial position line item long-term accrued expenses and other long-term liabilities of €1,205 million also included long-term accrued expenses of €344 million as of December 31, 2016.

## 21. DEBT AND CAPITAL LEASE OBLIGATIONS

### SHORT-TERM DEBT

As of December 31, short-term debt consisted of the following:

€ in millions	Book value	
	2016	2015
Fresenius SE & Co. KGaA Commercial Paper	178	0
Fresenius Medical Care AG & Co. KGaA Commercial Paper	476	0
Other short-term debt	193	202
<b>Short-term debt</b>	<b>847</b>	<b>202</b>

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, 2016 and 2015 were 5.97% and 6.31%, 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	2016	2015
Fresenius Medical Care 2012 Credit Agreement	2,244	2,399
2013 Senior Credit Agreement	1,574	2,203
Schuldschein Loans	1,186	914
Accounts Receivable Facility of Fresenius Medical Care	165	46
Capital lease obligations	146	151
Other	344	396
Subtotal	5,659	6,109
less current portion	611	607
<b>Long-term debt and capital lease obligations, less current portion</b>	<b>5,048</b>	<b>5,502</b>

Maturities of long-term debt and capital lease obligations 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	214	2,040	0	0
2013 Senior Credit Agreement	211	423	953	0
Schuldschein Loans	125	401	586	77
Accounts Receivable Facility of Fresenius Medical Care	0	166	0	0
Capital lease obligations	18	26	19	83
Other	54	84	174	33
<b>Long-term debt and capital lease obligations</b>	<b>622</b>	<b>3,140</b>	<b>1,732</b>	<b>193</b>

Aggregate annual repayments applicable to the above listed long-term debt and capital lease obligations for the years subsequent to December 31, 2016 are:

for the fiscal years	€ in millions
2017	622
2018	877
2019	2,263
2020	1,389
2021	343
Subsequent years	193
<b>Total</b>	<b>5,687</b>

### 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 period with a large group of banks and institutional investors (collectively, the Lenders) 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.

The following tables show the available and outstanding amounts under the Fresenius Medical Care 2012 Credit Agreement at December 31:

	2016			
	Maximum amount available		Balance outstanding	
		€ in millions		€ in millions
Revolving Credit (in US\$)	US\$1,000 million	949	US\$10 million	10
Revolving Credit (in €)	€400 million	400	€0 million	0
US\$ Term Loan	US\$2,100 million	1,992	US\$2,100 million	1,992
€ Term Loan	€252 million	252	€252 million	252
<b>Total</b>		3,593		2,254
less financing cost				10
<b>Total</b>				<b>2,244</b>

	2015			
	Maximum amount available		Balance outstanding	
		€ in millions		€ in millions
Revolving Credit (in US\$)	US\$1,000 million	918	US\$25 million	23
Revolving Credit (in €)	€400 million	400	€0 million	0
US\$ Term Loan	US\$2,300 million	2,113	US\$2,300 million	2,113
€ Term Loan	€276 million	276	€276 million	276
<b>Total</b>		3,707		2,412
less financing cost				13
<b>Total</b>				<b>2,399</b>

As of December 31, 2016, the Fresenius Medical Care 2012 Credit Agreement consisted of:

- ▶ Revolving credit facilities of approximately US\$1,400 million comprising a US\$1,000 million revolving facility and a €400 million revolving facility, which will be due and payable on October 30, 2019.
- ▶ A term loan facility of US\$2,100 million, also scheduled to mature on October 30, 2019. Quarterly repayments of US\$50 million began in January 2015, with the remaining balance outstanding due on October 30, 2019.
- ▶ A term loan facility of €252 million scheduled to mature on October 30, 2019. Quarterly repayments of €6 million began in January 2015, with the remaining balance outstanding due October 30, 2019.

Interest on the credit facilities is, at Fresenius Medical Care's option, at a rate equal to either (i) LIBOR or EURIBOR (as applicable) plus an applicable margin or (ii) the Base Rate as defined in the Fresenius Medical Care 2012 Credit Agreement plus an applicable margin. As of December 31, 2016 and 2015, the U.S. dollar denominated tranches outstanding under the Fresenius Medical Care 2012 Credit Agreement had a weighted-average interest rate of 2.15% and 1.72%, respectively. As of December 31, 2016 and 2015, the euro denominated tranche had an interest rate of 1.25% and 1.38%, respectively.

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).

In addition to scheduled principal payments, indebtedness outstanding under the Fresenius Medical Care 2012 Credit Agreement would be reduced by portions of the net cash proceeds received from certain sales of assets.

Obligations under the Fresenius Medical Care 2012 Credit Agreement are secured by pledges of capital stock of certain material subsidiaries in favor of the Lenders.

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, investments 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). Additionally, the Fresenius Medical Care 2012 Credit Agreement provides for a limitation on dividends, share buy-backs and similar payments. Dividends to be paid are subject to an annual basket, which is €440 million for 2017, and will increase in subsequent years. Additional dividends and other restricted payments may be made subject to the maintenance of a maximum leverage ratio. In default, the outstanding balance under the Fresenius Medical Care 2012 Credit Agreement becomes immediately due and payable at the option of the Lenders.

As of December 31, 2016, 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, 2016 and December 31, 2015, Fresenius Medical Care had letters of credit outstanding in the amount of US\$4 million under the U.S. dollar revolving credit facility, which were not included above as part of the balance outstanding at those dates but which reduce available borrowings under the applicable revolving credit facility.

### 2013 Senior Credit Agreement

On December 20, 2012, Fresenius SE & Co. KGaA and various subsidiaries entered into a delayed draw syndicated credit agreement (2013 Senior Credit Agreement) in the original amount of US\$1,300 million and €1,250 million. Since the initial funding of the 2013 Senior Credit Agreement in June 2013, additional tranches were added. Furthermore, scheduled amortization payments as well as voluntary repayments have been made. On January 29, 2015, a Term Loan B facility of €297 million was voluntarily prepaid. On February 12, 2015, the revolving credit facilities and the Term Loan A tranches were extended ahead of time by two years to a new maturity date on June 28, 2020. On February 29, 2016, a Term Loan B of US\$489 million was voluntarily prepaid.

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

The following tables show the available and outstanding amounts under the 2013 Senior Credit Agreement at December 31:

	2016			
	Maximum amount available		Balance outstanding	
		€ in millions		€ in millions
Revolving Credit Facilities (in €)	€900 million	900	€0 million	0
Revolving Credit Facilities (in US\$)	US\$300 million	284	US\$0 million	0
Term Loan A (in €)	€933 million	933	€933 million	933
Term Loan A (in US\$)	US\$689 million	654	US\$689 million	654
<b>Total</b>		2,771		1,587
less financing cost				13
<b>Total</b>				1,574

Does not include the incremental facilities in the amount of €1.2 billion which were funded in January 2017

	2015			
	Maximum amount available		Balance outstanding	
		€ in millions		€ in millions
Revolving Credit Facilities (in €)	€900 million	900	€0 million	0
Revolving Credit Facilities (in US\$)	US\$300 million	276	US\$0 million	0
Term Loan A (in €)	€1,057 million	1,057	€1,057 million	1,057
Term Loan A (in US\$)	US\$781 million	717	US\$781 million	717
Term Loan B (in US\$)	US\$489 million	449	US\$489 million	449
<b>Total</b>		3,399		2,223
less financing cost				20
<b>Total</b>				2,203

As of December 31, 2016, the 2013 Senior Credit Agreement consisted of:

- ▶ Revolving credit facilities in the aggregate principal amount of US\$300 million and €900 million with a final repayment date on June 28, 2020.
- ▶ Term loan facilities of US\$689 million and €933 million (together Term Loan A). Term Loan A amortizes and is repayable in quarterly installments with a final maturity on June 28, 2020.

The interest rate on each borrowing under the 2013 Senior Credit Agreement is a rate equal to either (i) LIBOR or EURIBOR (as applicable) plus an applicable margin or (ii) the Base Rate as defined in the 2013 Senior Credit Agreement plus an applicable margin. The applicable margin is variable and depends on the leverage ratio as defined in the 2013 Senior Credit Agreement.

In addition to scheduled principal payments, indebtedness outstanding under the 2013 Senior Credit Agreement would be reduced by mandatory prepayments in the case of certain sales of assets and the incurrence of certain additional indebtedness, with the amount to be prepaid depending on the proceeds which are generated by the respective transaction.

The 2013 Senior Credit Agreement is guaranteed by Fresenius SE & Co. KGaA, Fresenius ProServe GmbH, Fresenius Kabi AG and certain U.S. subsidiaries of Fresenius Kabi AG. Obligations under the 2013 Senior Credit Agreement are secured by pledges of capital stock of certain material subsidiaries of Fresenius Kabi AG, and since funding of incremental facilities in February 2014 are additionally secured by a pledge of the capital stock of HELIOS Kliniken GmbH, in favor of the lenders.

The 2013 Senior Credit Agreement contains a number of customary affirmative and negative covenants. Under certain

conditions, these covenants include limitations on liens, sale of assets and incurrence of debt, among other items. The 2013 Senior Credit Agreement also includes financial covenants – as defined in the agreement – that require Fresenius SE & Co. KGaA and its subsidiaries (other than Fresenius Medical Care and its subsidiaries) to maintain a maximum leverage ratio and a minimum interest coverage ratio.

As of December 31, 2016, the Fresenius Group was in compliance with all covenants under the 2013 Senior 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	Book value € in millions	
				2016	2015
Fresenius SE & Co. KGaA 2012/2016	€108 million	April 4, 2016	3.36%	0	108
Fresenius SE & Co. KGaA 2013/2017	€51 million	Aug. 22, 2017	2.65%	51	51
Fresenius SE & Co. KGaA 2013/2017	€74 million	Aug. 22, 2017	variable	74	74
Fresenius SE & Co. KGaA 2014/2018	€97 million	April 2, 2018	2.09%	97	96
Fresenius SE & Co. KGaA 2014/2018	€76 million	April 2, 2018	variable	76	76
Fresenius SE & Co. KGaA 2014/2018	€65 million	April 2, 2018	variable	65	65
Fresenius SE & Co. KGaA 2012/2018	€72 million	April 4, 2018	4.09%	72	72
Fresenius SE & Co. KGaA 2015/2018	€36 million	October 8, 2018	1.07%	36	36
Fresenius SE & Co. KGaA 2015/2018	€55 million	October 8, 2018	variable	55	55
Fresenius SE & Co. KGaA 2014/2020	€106 million	April 2, 2020	2.67%	105	105
Fresenius SE & Co. KGaA 2014/2020	€55 million	April 2, 2020	variable	55	55
Fresenius SE & Co. KGaA 2014/2020	€101 million	April 2, 2020	variable	100	100
Fresenius SE & Co. KGaA 2015/2022	€21 million	April 7, 2022	variable	21	21
Fresenius US Finance II, Inc. 2016/2021	US\$309 million	March 10, 2021	variable	292	0
Fresenius US Finance II, Inc. 2016/2021	US\$33 million	March 10, 2021	2.66%	31	0
Fresenius US Finance II, Inc. 2016/2023	US\$15 million	March 10, 2023	variable	15	0
Fresenius US Finance II, Inc. 2016/2023	US\$43 million	March 10, 2023	3.12%	41	0
<b>Schuldschein Loans</b>				<b>1,186</b>	<b>914</b>



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 IDC Salud Holding S.L.U. (Quirónsalud) by Fresenius Helios.

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 issued by Fresenius SE & Co. KGaA in the total amount of €125 million which are due on August 22, 2017 are shown as current portion of long-term debt and capital lease obligations in the consolidated statement of financial position.

In March 2015, Fresenius SE & Co. KGaA voluntarily terminated floating rate tranches of Schuldschein Loans due in 2016 and 2018 in the amount of €172 million ahead of time. Furthermore, the Company made a termination offer to investors of its fixed rate €156 million Schuldschein Loans maturing in April 2016 which was accepted for €48 million. The respective repayments were made on April 7, 2015. Moreover, in April 2015, new Schuldschein Loans with maturities in 2018 and 2022 were issued in a total amount of €112 million.

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, 2016, 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.

At December 31, 2016, there were outstanding borrowings under the Accounts Receivable Facility of US\$175 million (€166 million) (2015: US\$51 million (€47 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\$16 million (€15 million) at December 31, 2016 and US\$17 million (€15 million) at December 31, 2015. These letters of credit are not included above as part of the balance outstanding at December 31, 2016, 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, 2016 and 2015, the interest rate was 1.00% and 0.89%, 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, 2016, the additional financial cushion resulting from unutilized credit facilities was approximately €3.4 billion.

Syndicated credit facilities accounted for €2.5 billion. This portion is comprised of the Fresenius Medical Care 2012 Credit Agreement in the amount of US\$1,408 million (€1,336 million) and the 2013 Senior Credit Agreement in the amount of US\$1,248 million (€1,184 million). Furthermore, bilateral facilities of approximately €900 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, 2016, the commercial paper program of Fresenius SE & Co. KGaA was utilized in the amount of €178 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, 2016, the commercial paper program of Fresenius Medical Care AG & Co. KGaA was utilized in the amount of €476 million.

Additional financing of up to US\$800 million can be provided using the Fresenius Medical Care Accounts Receivable Facility which had been utilized in the amount of US\$191 million as of December 31, 2016.

## Bridge Financing Facility

As of December 31, 2016, Fresenius SE & Co. KGaA had a loan facility of €2,750 million outstanding, which was entered into as Bridge Financing Facility in September 2016 for the purpose of the acquisition of IDC Salud Holding S.L.U. (Quirónsalud). The original amount of €3,750 million was reduced by €1,000 million in December 2016. Following the issuance of long-term financial instruments in the form of Senior Notes and convertible bonds in January 2017, the Bridge Financing Facility was cancelled prematurely without having been utilized.

## 22. SENIOR NOTES

As of December 31, Senior Notes of the Fresenius Group net of debt issuance costs consisted of the following:

	Notional amount	Maturity	Interest rate	Book value € in millions	
				2016	2015
Fresenius SE & Co. KGaA 2014/2019	€300 million	Feb. 1, 2019	2.375%	299	297
Fresenius SE & Co. KGaA 2012/2019	€500 million	Apr. 15, 2019	4.25%	498	497
Fresenius SE & Co. KGaA 2013/2020	€500 million	July 15, 2020	2.875%	497	496
Fresenius SE & Co. KGaA 2014/2021	€450 million	Feb. 1, 2021	3.00%	445	443
Fresenius SE & Co. KGaA 2014/2024	€450 million	Feb. 1, 2024	4.00%	449	450
Fresenius US Finance II, Inc. 2014/2021	US\$300 million	Feb. 1, 2021	4.25%	283	275
Fresenius US Finance II, Inc. 2015/2023	US\$300 million	Jan. 15, 2023	4.50%	281	273
FMC Finance VI S.A. 2010/2016	€250 million	July 15, 2016	5.50%	0	249
FMC Finance VII S.A. 2011/2021	€300 million	Feb. 15, 2021	5.25%	295	295
FMC Finance VIII S.A. 2011/2016	€100 million	Oct. 15, 2016	variable	0	100
FMC Finance VIII S.A. 2011/2018	€400 million	Sept. 15, 2018	6.50%	397	396
FMC Finance VIII S.A. 2012/2019	€250 million	July 31, 2019	5.25%	244	244
Fresenius Medical Care US Finance, Inc. 2007/2017	US\$500 million	July 15, 2017	6.875%	473	457
Fresenius Medical Care US Finance, Inc. 2011/2021	US\$650 million	Feb. 15, 2021	5.75%	611	590
Fresenius Medical Care US Finance II, Inc. 2011/2018	US\$400 million	Sept. 15, 2018	6.50%	377	363
Fresenius Medical Care US Finance II, Inc. 2012/2019	US\$800 million	July 31, 2019	5.625%	757	732
Fresenius Medical Care US Finance II, Inc. 2014/2020	US\$500 million	Oct. 15, 2020	4.125%	471	456
Fresenius Medical Care US Finance II, Inc. 2012/2022	US\$700 million	Jan. 31, 2022	5.875%	661	639
Fresenius Medical Care US Finance II, Inc. 2014/2024	US\$400 million	Oct. 15, 2024	4.75%	376	364
<b>Senior Notes</b>				<b>7,414</b>	<b>7,616</b>

All Senior Notes included in the table are unsecured.

As of July 29, 2016, the original issuer Fresenius Finance B.V. has been replaced as the issuer of its outstanding Senior Notes by the successor issuer Fresenius SE & Co. KGaA.

The Senior Notes issued by Fresenius US Finance II, Inc. which were due on July 15, 2015 have been repaid as scheduled and refinanced with the issuance of commercial paper.

On September 25, 2015, Fresenius US Finance II, Inc. issued US\$300 million of Senior Notes with a maturity of seven years. These Senior Notes have a coupon of 4.50% and were issued at par. The proceeds from this offering were used to refinance commercial paper.

All Senior Notes of Fresenius US Finance II, Inc. are guaranteed by Fresenius SE & Co. KGaA, Fresenius Kabi AG and Fresenius ProServe GmbH. The Senior Notes of Fresenius SE & Co. KGaA are guaranteed by Fresenius Kabi AG and Fresenius ProServe GmbH. The holders have the right to request that the issuers repurchase the Senior Notes at 101% of principal plus accrued interest upon the occurrence of a change of control followed by a decline in the rating of the respective Senior Notes. All Senior Notes of Fresenius SE & Co. KGaA and Fresenius US Finance II, Inc. 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 or consolidations with other companies. Some of these restrictions were lifted automatically as the rating of the respective Senior Notes reached investment grade. In the event of non-compliance with certain terms of the Senior Notes, the bondholders (owning in aggregate more than 25% of the outstanding Senior Notes) are entitled to call the Senior Notes and

demand immediate repayment plus interest. As of December 31, 2016, the Fresenius Group was in compliance with all of its covenants.

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

The Senior Notes issued by FMC Finance VI S.A. which were due on July 15, 2016 and the Senior Notes issued by FMC Finance VIII S.A. which were due on October 15, 2016 were repaid as scheduled.

The Senior Notes issued by Fresenius Medical Care US Finance, Inc. which are due on July 15, 2017 have been reclassified as short-term debt and are shown as current portion of Senior Notes in the consolidated statement of financial position.

The Senior Notes 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 on a senior basis jointly and severally by FMC-AG & Co. KGaA, Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Deutschland GmbH. The holders have the right to request that the respective issuers repurchase the respective Senior Notes 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 Senior Notes. The issuers may redeem the Senior Notes 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, limit the ability of FMC-AG & Co. KGaA and its subsidiaries to, among other things, incur debt, incur liens, engage in sale and leaseback transactions and merge or consolidate with other companies or sell assets. As of December 31, 2016, FMC-AG & Co. KGaA and its subsidiaries were in compliance with all of their covenants under the Senior Notes.

## 23. CONVERTIBLE BONDS

As of December 31, the convertible bonds of the Fresenius Group net of debt issuance costs consisted of the following:

	Notional amount	Maturity	Coupon	Current conversion price	Book value € in millions	
					2016	2015
Fresenius SE & Co. KGaA 2014/2019	€500 million	Sept. 24, 2019	0.000%	€49.5184	474	464
Fresenius Medical Care AG & Co. KGaA 2014/2020	€400 million	Jan. 31, 2020	1.125%	€73.6054	380	374
<b>Convertible bonds</b>					<b>854</b>	<b>838</b>

The fair value of the derivative embedded in the convertible bonds of Fresenius SE & Co. KGaA was €267 million at December 31, 2016. 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 €95 million at December 31, 2016. Fresenius SE & Co. KGaA and FMC-AG & Co. KGaA have purchased stock options (call options) to secure against future fair value fluctuations of these derivatives. The call options also had an aggregate fair value of €267 million and €95 million, respectively, at December 31, 2016.

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.

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

## 24. 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, 2016, the projected benefit obligation (PBO) of the Fresenius Group of €1,671 million (2015: €1,492 million) included €532 million (2015: €424 million) funded by plan assets and €1,139 million (2015: €1,068 million) covered by pension provisions. Furthermore, the pension liability contains benefit obligations offered by other subsidiaries of Fresenius Medical Care in an amount of €34 million (2015: €28 million). The current portion of the pension liability in an amount of €18 million (2015: €18 million) is recognized in the consolidated statement of financial position within short-term accrued expenses and other short-term liabilities. The non-current portion of €1,155 million (2015: €1,078 million) is recorded as pension liability.

The major part of pension liabilities relates to Germany. At December 31, 2016, 78% of the pension liabilities were recognized in Germany and 20% predominantly in the rest of Europe and North America. 55% of the beneficiaries were located in North America, 31% in Germany and the remainder throughout the rest of Europe and other continents.

69% of the pension liabilities in an amount of €1,173 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 Pension Plan 2016 is an updated version of the Pension Plan 1988 with minor amendments. 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 2016, FMCH's minimum funding requirement was US\$10 million (€9 million). In addition to the compulsory contributions, FMCH voluntarily provided US\$101 million (€91 million) to the defined benefit plan. Expected funding for 2017 is US\$1 million (€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 €34 million and €28 million at December 31, 2016 and 2015, respectively, and consists of a pension asset of €0 thousand (2015: €56 thousand) recognized as other non-current assets and a current pension liability of €2 million (2015: €3 million), which is recognized as a current liability in the line item short-term accrued expenses and other short-term liabilities. The non-current pension liability of €32 million (2015: €25 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 €694 million. Benefit obligations relating to unfunded pension plans were €977 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	2016	2015
<b>Benefit obligations at the beginning of the year</b>	<b>1,492</b>	<b>1,472</b>
Changes in entities consolidated	3	–
Foreign currency translation	5	55
Other amendments	0	9
Service cost	53	53
Prior service cost	3	3
Interest cost	45	43
Contributions by plan participants	3	3
Transfer of plan participants	5	3
Curtailments/settlements	-8	-11
Actuarial losses (gains)	120	-98
Benefits paid	-50	-39
Plan amendments	0	-1
<b>Benefit obligations at the end of the year</b>	<b>1,671</b>	<b>1,492</b>
thereof vested	1,397	1,267
<b>Fair value of plan assets at the beginning of the year</b>	<b>424</b>	<b>391</b>
Changes in entities consolidated	–	0
Foreign currency translation	6	32
Other amendments	0	–
Actual return (cost) on plan assets	30	-8
Contributions by the employer	107	26
Contributions by plan participants	3	3
Settlements	-8	-1
Transfer of plan participants	5	3
Benefits paid	-35	-22
<b>Fair value of plan assets at the end of the year</b>	<b>532</b>	<b>424</b>
<b>Funded status as of December 31</b>	<b>1,139</b>	<b>1,068</b>
Benefit plans offered by other subsidiaries	34	28
<b>Pension liability as of December 31</b>	<b>1,173</b>	<b>1,096</b>

As of December 31, 2016 and December 31, 2015, the fair value of plan assets did not exceed the benefit obligations in any pension plan.

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 %	2016	2015
Discount rate	2.56	3.15
Rate of compensation increase	2.87	2.90
Rate of pension increase	1.46	1.65

Mainly changes in the discount factor, as well as inflation and mortality assumptions used for the actuarial computation resulted in actuarial gains in 2016 which decreased the fair value of the defined benefit obligation. Unrecognized actuarial losses were €616 million (2015: €538 million).

### Sensitivity analysis

Increases and decreases in principal actuarial assumptions by 0.5 percentage points would affect the pension liability as of December 31, 2016 as follows:

Development of pension liability € in millions	0.5 pp increase	0.5 pp decrease
Discount rate	-151	175
Rate of compensation increase	25	-25
Rate of pension increase	89	-79

The sensitivity analysis was calculated based on the average duration of the pension obligations determined at December 31, 2016. 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

At December 31, 2016, the accumulated benefit obligations for all defined benefit pension plans were €1,487 million (2015: €1,371 million).

The following table relates to pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets:

€ in millions	2016	2015
Projected benefit obligation (PBO)	1,671	1,492
Accumulated benefit obligation (ABO)	1,487	1,371
Fair value of plan assets	532	424

The pre-tax changes of other comprehensive income (loss) relating to pension liabilities during the years 2016 and 2015 are shown in the following tables:

€ in millions	As of Jan. 1, 2016	Reclassifications <sup>1</sup>	Additions	Foreign currency translation	As of Dec. 31, 2016
Actuarial gains and losses	-538	39	-115	-2	-616
Prior service cost	-1	2	-2	-	-1
Transition obligation	-	0	-	-	-
<b>Adjustments related to pension liabilities</b>	<b>-539</b>	<b>41</b>	<b>-117</b>	<b>-2</b>	<b>-617</b>

<sup>1</sup> Effects recognized in the consolidated statement of income

€ in millions	As of Jan. 1, 2015	Reclassifications <sup>1</sup>	Additions	Foreign currency translation	As of Dec. 31, 2015
Actuarial gains and losses	-634	44	77	-25	-538
Prior service cost	-	1	-2	-	-1
Transition obligation	-	-	0	-	0
<b>Adjustments related to pension liabilities</b>	<b>-634</b>	<b>45</b>	<b>75</b>	<b>-25</b>	<b>-539</b>

<sup>1</sup> Effects recognized in the consolidated statement of income

For the tax effects on other comprehensive income at December 31, 2016 see note 27, Other comprehensive income (loss).

The Fresenius Group expects the following amounts to be amortized from other comprehensive income into net periodic pension cost in the year 2017:

€ in millions	2017
Actuarial gains and losses	43
Prior service cost	1

Defined benefit pension plans' net periodic benefit costs of €118 million (2015: €116 million) were comprised of the following components:

€ in millions	2016	2015
Service cost	53	53
Interest cost	45	43
Expected return on plan assets	-21	-22
Amortization of unrealized actuarial losses, net	39	44
Amortization of prior service costs	2	1
Amortization of transition obligations	0	-
Settlement loss	-	-3
<b>Net periodic benefit cost</b>	<b>118</b>	<b>116</b>

Net periodic benefit cost is allocated as personnel expense within cost of sales or selling, 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 %	2016	2015
Discount rate	3.06	2.85
Expected return of plan assets	4.72	4.77
Rate of compensation increase	3.03	3.05
Rate of pension increase	1.62	1.66

The following table shows the expected benefit payments for the next 10 years:

for the fiscal years	€ in millions
2017	43
2018	43
2019	46
2020	51
2021	53
2022 to 2026	321
<b>Total expected benefit payments</b>	<b>557</b>

At December 31, 2016 and at December 31, 2015, 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, 2016			December 31, 2015		
	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Total	Quoted prices in active markets for identical assets Level 1	Significant observable inputs Level 2	Total
<b>Categories of plan assets</b>						
Equity investments	66	83	149	62	59	121
Index funds <sup>1</sup>	53	83	136	50	59	109
Other equity investments	13	0	13	12	0	12
Fixed income investments	123	215	338	101	164	265
Government securities <sup>2</sup>	40	1	41	43	1	44
Corporate bonds <sup>3</sup>	35	209	244	29	156	185
Other fixed income investments <sup>4</sup>	48	5	53	29	7	36
Other <sup>5</sup>	31	14	45	26	12	38
<b>Total</b>	<b>220</b>	<b>312</b>	<b>532</b>	<b>189</b>	<b>235</b>	<b>424</b>

<sup>1</sup> 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.

<sup>2</sup> This category is primarily comprised of fixed income investments by the U.S. government and government sponsored entities.

<sup>3</sup> This category primarily represents investment grade bonds of U.S. issuers from diverse industries.

<sup>4</sup> 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.

<sup>5</sup> 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. As a result, the expected rate of return on pension plan assets of the U.S. pension plan was 6% for the year 2016.

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 investment policy and include well diversified index funds or funds targeting index performance.

The target allocations for plan assets in the United States are in a range around 30% equity and 70% long-term U.S. corporate bonds. The investment policy 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 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 2016	Allocation 2015	Target allocation
Equity investments	27.91	28.57	29.15
Fixed income investments	63.61	62.45	61.42
Other incl. real estate	8.48	8.98	9.43
<b>Total</b>	<b>100.00</b>	100.00	100.00

The overall expected long-term rate of return on assets of the Fresenius Group amounts to 4.68% compounded annually. Contributions to plan assets for the fiscal year 2017 are expected to amount to €11 million.

### DEFINED CONTRIBUTION PLANS

Fresenius Group's total expense under defined contribution plans for 2016 was €139 million (2015: €134 million). Of this amount, €87 million related to contributions by the Fresenius Group to several public supplementary pension funds for employees of Fresenius Helios. Further €44 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. Employees are entitled to the statutory benefits regardless of the contributed amounts.

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 and selling, general and administrative expenses and amounted to €87 million in 2016 (2015: €84 million). Thereof, €47 million (2015: €45 million) were payments to Rheinische Zusatzversorgungskasse, to Versorgungsanstalt des Bundes und der Länder and to Zusatzversorgungskasse Wiesbaden (supplementary pension funds).

Further disclosures are either irrelevant or immaterial for plans in supplementary pension funds or the necessary information cannot be obtained from the ZVK ÖDs without undue cost and effort.

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, 2016 and 2015 was €44 million and €42 million, respectively.

## 25. NONCONTROLLING INTEREST

### NONCONTROLLING INTEREST SUBJECT TO PUT PROVISIONS

The Fresenius Group has potential obligations to purchase the 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 the appraised fair value at the time of exercise.

Noncontrolling interest subject to put provisions changed as follows:

€ in millions	2016
<b>Noncontrolling interest subject to put provisions as of January 1, 2016</b>	<b>947</b>
Noncontrolling interest subject to put provisions in profit	173
Purchase of noncontrolling interest subject to put provisions	85
Dividend payments	-178
Currency effects and other changes	157
<b>Noncontrolling interest subject to put provisions as of December 31, 2016</b>	<b>1,184</b>

99.0% of noncontrolling interest subject to put provisions applied to Fresenius Medical Care at December 31, 2016.

As of December 31, 2016 and 2015, put options with an aggregate purchase obligation of €288 million and €237 million, respectively, were exercisable. Two put options were exercised for a total consideration of €1 million in 2016 (2015: six put options for a total consideration of €2 million).

### NONCONTROLLING INTEREST NOT SUBJECT TO PUT PROVISIONS

As of December 31, noncontrolling interest not subject to put provisions in the Fresenius Group was as follows:

€ in millions	2016	2015
Noncontrolling interest not subject to put provisions in Fresenius Medical Care AG & Co. KGaA	7,094	6,274
Noncontrolling interest not subject to put provisions in VAMED AG	55	49
Noncontrolling interest not subject to put provisions in the business segments		
Fresenius Medical Care	615	559
Fresenius Kabi	89	120
Fresenius Helios	57	59
Fresenius Vamed	7	7
<b>Total noncontrolling interest not subject to put provisions</b>	<b>7,917</b>	<b>7,068</b>

For further financial information relating to Fresenius Medical Care see the consolidated segment reporting on pages 106 to 107.

Noncontrolling interest not subject to put provisions changed as follows:

€ in millions	2016
<b>Noncontrolling interest not subject to put provisions as of January 1, 2016</b>	<b>7,068</b>
Noncontrolling interest not subject to put provisions in profit	928
Stock options	50
Purchase of noncontrolling interest not subject to put provisions	5
Dividend payments	-260
Currency effects and other changes	126
<b>Noncontrolling interest not subject to put provisions as of December 31, 2016</b>	<b>7,917</b>

## 26. FRESENIUS SE & CO. KGAA SHAREHOLDERS' EQUITY

### SUBSCRIBED CAPITAL

#### Development of subscribed capital

As of January 1, 2016, the subscribed capital of Fresenius SE & Co. KGaA consisted of 545,727,950 bearer ordinary shares.

During the fiscal year 2016, 1,480,421 stock options were exercised. Consequently, as of December 31, 2016, the subscribed capital of Fresenius SE & Co. KGaA consisted of 547,208,371 bearer ordinary shares. The shares are issued as non-par value shares. The proportionate amount of the subscribed capital is €1.00 per share.

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 have full dividend entitlement for the fiscal year 2016.

### AUTHORIZED CAPITAL

As of December 31, 2016, the general partner, Fresenius Management SE, is 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.

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 33, 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	5,261,987
Conditional Capital II Fresenius SE Stock Option Plan 2008	7,216,907
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
<b>Total Conditional Capital as of January 1, 2016</b>	<b>86,650,096</b>
Fresenius AG Stock Option Plan 2003 – options exercised	-244,402
Fresenius SE Stock Option Plan 2008 – options exercised	-1,236,019
<b>Total Conditional Capital as of December 31, 2016</b>	<b>85,169,675</b>

As of December 31, 2016, the Conditional Capital was composed as follows:

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
<b>Total Conditional Capital as of December 31, 2016</b>	<b>85,169,675</b>

#### 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 2016, a dividend of €0.55 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 €300 million.

**27. 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 2016 and 2015 were as follows:

€ in millions	Amount before taxes	Tax effect	Total before non-controlling interest after taxes	Non-controlling interest	Total after non-controlling interest after taxes
Cash flow hedges	34	-9	25	21	46
Change in unrealized gains/losses	21	-3	18	–	18
Realized gains/losses due to reclassifications	13	-6	7	21	28
Change of fair value of available for sale financial assets	–	–	–	–	–
Foreign currency translation	355	-30	325	514	839
Actuarial losses on defined benefit pension plans	71	-22	49	17	66
<b>Total changes 2015</b>	<b>460</b>	<b>-61</b>	<b>399</b>	<b>552</b>	<b>951</b>
Cash flow hedges	7	-4	3	11	14
Change in unrealized gains/losses	-13	1	-12	-2	-14
Realized gains/losses due to reclassifications	20	-5	15	13	28
Change of fair value of available for sale financial assets	–	–	–	–	–
Foreign currency translation	302	-9	293	242	535
Actuarial gains/losses on defined benefit pension plans	-68	16	-52	-9	-61
<b>Total changes 2016</b>	<b>241</b>	<b>3</b>	<b>244</b>	<b>244</b>	<b>488</b>

Changes in accumulated other comprehensive income (loss) net of tax by component in 2016 and 2015 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
<b>Balance as of December 31, 2014</b>	<b>-109</b>	<b>1</b>	<b>294</b>	<b>-305</b>	<b>-119</b>	<b>189</b>	<b>70</b>
Other comprehensive income (loss) before reclassifications	18	–	325	33	376	517	893
Amounts reclassified from accumulated other comprehensive income (loss)	7	0	–	16	23	35	58
Other comprehensive income (loss), net	25	–	325	49	399	552	951
<b>Balance as of December 31, 2015</b>	<b>-84</b>	<b>1</b>	<b>619</b>	<b>-256</b>	<b>280</b>	<b>741</b>	<b>1,021</b>
Other comprehensive income (loss) before reclassifications	-12	–	293	-67	214	219	433
Amounts reclassified from accumulated other comprehensive income (loss)	15	0	–	15	30	25	55
Other comprehensive income (loss), net	3	–	293	-52	244	244	488
<b>Balance as of December 31, 2016</b>	<b>-81</b>	<b>1</b>	<b>912</b>	<b>-308</b>	<b>524</b>	<b>985</b>	<b>1,509</b>

Reclassifications out of accumulated other comprehensive income (loss) into net income in 2016 and 2015 were as follows:

€ in millions	Amount of gain or loss reclassified from accumulated other comprehensive income (loss) <sup>1</sup>		Affected line item in the consolidated statement of income
	2016	2015	
<b>Details about accumulated other comprehensive income (loss) components</b>			
Cash flow hedges			
Interest rate contracts	36	37	Interest income/expense
Foreign exchange contracts	-1	16	Cost of sales
Foreign exchange contracts	3	-11	Selling, general and administrative expenses
Foreign exchange contracts	1	-	Interest income/expense
Other comprehensive income (loss)	39	42	
Tax expense or benefit	-11	-14	
Other comprehensive income (loss), net	28	28	
<b>Amortization of defined benefit pension items</b>			
Prior service costs	2	1	<sup>2</sup>
Transition obligations	0	-	<sup>2</sup>
Actuarial gains/losses on defined benefit pension plans	39	44	<sup>2</sup>
Other comprehensive income (loss)	41	45	
Tax expense or benefit	-14	-15	
Other comprehensive income (loss), net	27	30	
<b>Total reclassifications for the period</b>	<b>55</b>	<b>58</b>	

<sup>1</sup> Gains are shown with a negative sign, losses with a positive sign.

<sup>2</sup> Net periodic benefit cost is allocated as personnel expense within cost of sales or selling, general and administrative expenses as well as research and development expenses.

## OTHER NOTES

### 28. COMMITMENTS AND CONTINGENT LIABILITIES

#### 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 2106. Rental expense recorded for operating leases for the years ended December 31, 2016 and 2015 was €888 million and €821 million, respectively.

Future minimum rental payments under non-cancellable operating leases for the years subsequent to December 31, 2016 are:

for the fiscal years	€ in millions
2017	811
2018	690
2019	592
2020	498
2021	410
Thereafter	1,470
<b>Total</b>	<b>4,471</b>

As of December 31, 2016, future investment commitments existed up to the year 2022 from the acquisition contracts for hospitals at projected costs of up to €308 million. Thereof €59 million relates to the year 2017.

Besides the above mentioned contingent liabilities, the amount of other commitments 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 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.

#### Commercial litigation

##### 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<sup>®</sup> and GranuFlo<sup>®</sup> be transferred and consolidated for pretrial management purposes into a consolidated multidistrict litigation in the United States District Court for the District of Massachusetts. See, 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 such cases filed in Massachusetts county courts and St. Louis City court. See, In Re: Consolidated Fresenius Cases, Case No. MICV 2013-03400-O (Massachusetts Superior Court, Middlesex County). These lawsuits alleged generally that inadequate labeling and warnings for these products caused harm to patients. In addition, similar cases were filed in other state courts. On February 17, 2016, FMCH 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 FMCH to pay US\$250 million into a settlement fund in exchange for releases of all or substantially all of the plaintiffs' claims, subject to FMCH's right to void the settlement under certain conditions, including if more than 3% of all plaintiffs rejected the settlement or the distribution of rejecters met certain criteria. As subsequently agreed between FMCH and the plaintiff committee, and ordered by the courts, plaintiffs may enforce the settlement and compel payment by FMCH if the total of cases electing to participate in the settlement or dismissed by the courts with prejudice, voluntarily or involuntarily, comes to comprise 97% of all cases. The courts are entering "Lone Pine" orders requiring plaintiffs, on pain of dismissal, who have not elected to participate in the settlement to submit specific justification satisfactory to the courts for their complaints, including attorney verification of certain material factual representations and expert medical opinions relating to causation. FMCH may elect to void the settlement as of May 10, 2017 if the 97% threshold has not been achieved or if plaintiffs' non-participation falls into suspect patterns. Incidental change to this date is likely. Trials in cases not participating in the settlement may resume as scheduled in the discretion of their respective courts. FMCH expects that, in combination with elections to participate and notices of dismissal already submitted, the Lone Pine procedure will result in confirmation of the settlement.

FMCH's affected insurers have agreed to fund US\$220 million of the settlement fund if the settlement is not voided, with a reservation of rights regarding certain coverage issues between and among FMCH and its insurers. FMCH has accrued a net expense of US\$60 million for consummation of the settlement, including legal fees and other anticipated costs.

Subsequent to the agreement in principle, FMCH's insurers in the AIG group initiated an action for declaratory judgment in New York state court advancing various arguments for reducing the amount of their coverage obligations. FMCH filed an action in Massachusetts state court seeking to compel the AIG group carriers to honor their obligations under

applicable policies, including reimbursement to FMCH of litigation defense costs incurred before the agreement in principle was reached. The affected carriers have confirmed that the coverage litigation does not impact their commitment to fund US\$220 million of the settlement with plaintiffs.

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 & Co. KGaA and Fresenius Management SE as defendants, in addition to FMCH and its domestic United States affiliates. The agreement in principle provides for dismissals and releases of claims encompassing the European defendants.

Four institutional plaintiffs have 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 will not be 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. See, *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).

## Other litigation and potential exposures

### 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. See, *United States ex rel. Chris Drennen v. Fresenius Medical Care Holdings, Inc.*, 2009 Civ. 10179 (D. Mass.). The United States did not intervene initially in the case. The relator's complaint, which was first filed under seal in February 2009, alleged that FMCH 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. On October 2, 2015, the United States Attorney moved to intervene on the relator's complaint with respect only to certain hepatitis B surface antigen tests performed prior to 2011, when Medicare reimbursement rules for such tests changed. FMCH opposed the government's motion to intervene, which remains undecided.

### 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 to Fresenius Medical Care seeking information about utilization and invoicing by Fresenius Vascular Care facilities as a whole for a period beginning after Fresenius Medical Care's acquisition of American Access Care, LLC (AAC) in October 2011. Fresenius Medical Care is cooperating in the government's inquiry, which is being managed by the United States Attorney for the Eastern District of New York. Allegations against AAC arising in districts in Connecticut, Florida and Rhode Island relating to utilization and invoicing were settled in 2015.

### Internal review

Fresenius Medical Care has received communications alleging conduct in countries outside the United States that may violate the U.S. Foreign Corrupt Practices Act (FCPA) or other anti-bribery laws. The Audit and Corporate Governance Committee of Fresenius Medical Care's Supervisory Board is conducting investigations with the assistance of independent counsel. Fresenius Medical Care voluntarily advised the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ). Fresenius Medical Care's investigations and dialogue with the SEC and DOJ are ongoing. Fresenius Medical Care is cooperating with the government investigations.

Conduct has been identified that may result in monetary penalties or other sanctions under the FCPA or other anti-bribery laws. In addition, Fresenius Medical Care's ability to conduct business in certain jurisdictions could be negatively impacted. Fresenius Medical Care has previously recorded a non-material accrual for an identified matter. Given the current status of the investigations and remediation activities, Fresenius Medical Care cannot reasonably estimate the range of possible loss that may result from identified matters or from the final outcome of the investigations or remediation activities.

Fresenius Medical Care is implementing enhancements to its anti-corruption compliance program, including internal controls related to compliance with international anti-bribery laws. Fresenius Medical Care continues to be fully committed to FCPA and other anti-bribery law compliance.

### 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, including 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 subsidiaries of Fresenius Medical Care Holdings, Inc. (FMCH) overbilled

Hawaii Medicaid for Liberty's Epogen<sup>®</sup> administrations to Hawaii Medicaid patients during the period from 2006 through 2010, prior to the time of FMCH's acquisition of Liberty. See, *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.

#### **Subpoenas "Colorado and New York"**

On August 31 and November 25, 2015, respectively, Fresenius Medical Care Holdings, Inc. (FMCH) received subpoenas 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. FMCH is cooperating in the investigations.

#### **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 about the use and management of pharmaceuticals including Velporo<sup>®</sup> as well as FMCH's interactions with DaVita Healthcare Partners, Inc. FMCH understands that the subpoena relates to an investigation previously disclosed by DaVita and that the investigation encompasses DaVita, Amgen, and Sanofi. FMCH is cooperating in the investigation.

#### **Subpoena "New York"**

On November 18, 2016, Fresenius Medical Care Holdings, Inc. (FMCH) received a subpoena from the United States Attorney for the Eastern District of New York 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 has 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, Fresenius Medical Care North America initiated termination of the employee and notification to the United States Attorney of the termination and its circumstances. FMCH cannot at this time determine the scope of the conduct implicated in the employee's termination, or whether related liability for overpayments or penalties under the False Claims Act might be material.

#### **Subpoena "American Kidney Fund"/CMS Litigation**

On January 3, 2017, Fresenius Medical Care Holdings, Inc. (FMCH) received a subpoena from the United States Attorney for the District of Massachusetts inquiring into FMCH's interactions and relationships with the American Kidney Fund (AKF), including FMCH's charitable contributions to the Fund and the Fund's financial assistance to patients for insurance premiums. FMCH is cooperating in the investigation.

On December 14, 2016, the Centers for Medicare and Medicaid Services (CMS) published an Interim Final Rule (IFR) titled "Medicare Program; Conditions for Coverage for End-Stage Renal Disease Facilities-Third Party Payment" that would amend the Conditions for Coverage for dialysis providers, like Fresenius Medical Care North America (FMCNA). The IFR would have effectively enabled insurers to reject premium payments made by patients who received grants for individual market coverage from the AKF and therefore, could have resulted in those patients losing their individual market coverage. The loss of individual market 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, responding to litigation initiated by a patient advocacy group and dialysis providers including FMCNA, preliminarily enjoined CMS from implementing the IFR. Dialysis Patient Citizens v. Burrwell (E.D. Texas, Sherman Div.). The preliminary injunction is based on CMS' failure to follow appropriate notice-and-comment procedures in adopting the IFR. The preliminary injunction will remain in place in the absence of a contrary ruling by the district or appellate courts.

At this time, the extent to which CMS will continue to contest the preliminary injunction is unclear. It is also unclear whether CMS will elect to pursue, through notice and comment, another rule related to this topic. The operation of charitable assistance programs is also receiving increased attention by state regulators, including State Departments of Insurance. 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 expected to continue to take steps to thwart the premium assistance provided to Fresenius Medical Care's patients for individual market plans as well as other insurance coverages.

#### **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.

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, 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 United States. 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 United States, 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 Fresenius Group's products and/or criminal prosecution. FMCH is currently engaged in remediation efforts with respect to one pending FDA warning letter, Fresenius Kabi with respect to two pending FDA warning letters. The Fresenius Group must also comply with the laws of the United States, including the federal Anti-Kick-back 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 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, 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 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 personal health information of its patients and beneficiaries throughout the United States and other parts of the world. In such a decentralized system, it is often difficult to maintain the desired level of oversight and control over the thousands of individuals employed by many affiliated companies. The 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 these employees. On occasion, the Fresenius Group may identify instances where employees or other agents deliberately, recklessly or inadvertently contravene 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, Health Insurance Portability

and Accountability Act, the Health Information Technology for Economic and Clinical Health Act and the Foreign Corrupt Practices Act, among other laws and comparable 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 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 Fresenius Group's reputation and business.

## 29. 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:

	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				▶ Shares in funds	
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 ▶ Senior Notes ▶ 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					▶ Noncontrolling interest subject to put provisions
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

Classes

## VALUATION OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments at December 31, classified into categories, were as follows:

€ in millions	2016	2015
Loans and receivables	5,798	5,342
Financial liabilities measured at amortized cost	18,223	18,039
Assets measured at fair value in the consolidated statement of income <sup>1</sup>	389	358
Liabilities measured at fair value in the consolidated statement of income <sup>1</sup>	624	411
Available for sale financial assets	258	257
Relating to no category	370	65

<sup>1</sup> There are no financial instruments designated as at fair value through profit or loss upon initial recognition.

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:

€ in millions	Fair value hierarchy level	2016		2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	1	1,579	1,579	1,044	1,044
Assets recognized at carrying amount	2	5,926	5,926	5,454	5,454
Assets recognized at fair value	1	258	258	257	257
Liabilities recognized at carrying amount	2	18,369	19,421	18,190	19,292
Liabilities recognized at fair value	3	601	601	404	404
Noncontrolling interest subject to put provisions recognized at fair value	3	1,184	1,184	947	947
Derivatives for hedging purposes	2	359	359	358	358

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 comprised of shares in funds. 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 variable 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.

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

€ in millions	Dec. 31, 2016		Dec. 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts (current)	0	0	0	2
Interest rate contracts (non-current)	5	1	0	1
Foreign exchange contracts (current)	14	24	16	6
Foreign exchange contracts (non-current)	–	1	1	1
<b>Derivatives designated as hedging instruments<sup>1</sup></b>	<b>19</b>	<b>26</b>	<b>17</b>	<b>10</b>
Interest rate contracts (current)	0	–	0	0
Interest rate contracts (non-current)	–	1	0	3
Foreign exchange contracts (current) <sup>1</sup>	27	23	23	7
Foreign exchange contracts (non-current) <sup>1</sup>	–	–	–	–
Derivatives embedded in the convertible bonds	0	362	0	335
Call options to secure the convertible bonds <sup>1</sup>	362	0	335	0
<b>Derivatives not designated as hedging instruments</b>	<b>389</b>	<b>386</b>	<b>358</b>	<b>345</b>

<sup>1</sup> Derivatives designated as hedging instruments, 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 €408 million and other liabilities in an amount of €411 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 accrued expenses 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 accrued expenses 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 €431 million and foreign currency transactions of €4 million. Interest income of €96 million resulted mainly from the valuation of call options in connection with the convertible bonds of Fresenius SE & Co. KGaA and the valuation of the derivatives embedded in the convertible bonds of Fresenius Medical Care AG & Co. KGaA, trade accounts receivable and loans to related parties. Interest expense of €678 million resulted mainly from financial liabilities, which are not recognized at fair value in the consolidated statement of income.

### EFFECT OF DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ in millions

Interest rate contracts	
Foreign exchange contracts	
<b>Derivatives in cash flow hedging relationships<sup>1</sup></b>	

<sup>1</sup> The amount of gain or loss recognized in the consolidated statement of income solely relates to the ineffective portion.

2016		
Gain or loss recognized in other comprehensive income (loss) (effective portion)	Gain or loss reclassified from accumulated other comprehensive income (loss) (effective portion)	Gain or loss recognized in the consolidated statement of income
3	36	0
-19	3	0
<b>-16</b>	<b>39</b>	<b>0</b>

€ in millions

Interest rate contracts	
Foreign exchange contracts	
<b>Derivatives in cash flow hedging relationships<sup>1</sup></b>	

<sup>1</sup> The amount of gain or loss recognized in the consolidated statement of income solely relates to the ineffective portion.

2015		
Gain or loss recognized in other comprehensive income (loss) (effective portion)	Gain or loss reclassified from accumulated other comprehensive income (loss) (effective portion)	Gain or loss recognized in the consolidated statement of income
-6	37	0
27	5	0
<b>21</b>	<b>42</b>	<b>0</b>

EFFECT OF DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS  
ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ in millions	Gain or loss recognized in the consolidated statement of income	
	2016	2015
Interest rate contracts	-	-
Foreign exchange contracts	-4	28
Derivatives embedded in the convertible bonds	-27	-190
Call options to secure the convertible bonds	27	190
<b>Derivatives not designated as hedging instruments</b>	<b>-4</b>	<b>28</b>

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.

The Fresenius Group expects to recognize a net amount of €4 million of the existing losses for foreign exchange contracts deferred in accumulated other comprehensive income (loss) in the consolidated statement of income within the next 12 months. For interest rate contracts, the Fresenius Group expects to recognize €29 million of losses in the

course of normal business during the next 12 months in interest expense.

Gains and losses from foreign exchange contracts and the corresponding underlying transactions are accounted for as cost of sales, selling, general and administrative expenses and net interest. Gains and losses resulting from interest rate contracts are recognized as net interest in the consolidated statement of income.

In 2016, gains of €13 thousand (2015: losses of €79 thousand) 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

€ in millions	expected in period of			
	1 year	1 to 3 years	3 to 5 years	over 5 years
Derivatives designated as hedging instruments	-10	-2	5	0
Derivatives not designated as hedging instruments	4	-1	-	-

## 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 senior notes 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.

Fresenius elects not to offset the fair values of derivative financial instruments subject to master netting agreements in the consolidated statement of financial position.

At December 31, 2016 and December 31, 2015, the Fresenius Group had €45 million and €37 million of derivative financial assets subject to netting arrangements and €46 million and €19 million of derivative financial liabilities subject to netting arrangements. Offsetting these derivative financial instruments would have resulted in net assets of €28 million as well as net liabilities of €29 million and €10 million at December 31, 2016 and December 31, 2015, 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, 2016, the notional amounts of foreign exchange contracts totaled €2,635 million. These foreign exchange contracts have been entered into to hedge risks from operational business and in connection with loans in foreign currency. Foreign exchange forward contracts to hedge risks from operational business were exclusively recognized as cash flow hedges. The fair value of cash flow hedges was -€11 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, 2016, the Fresenius Group was party to foreign exchange contracts with a maximum maturity of 19 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, 2016, the Fresenius Group's cash flow at risk amounts to €73 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 €73 million.

The following table shows the net positions in foreign currencies at December 31, 2016 which have a significant influence on Fresenius Group's foreign currency risk.

Nominal € in millions	2016
Chinese renminbi	164
Korean won	89
South African rand	79
Russian ruble	72
Brazilian real	32

### 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, 2016, euro denominated interest

rate swaps had a notional volume of €257 million and a fair value of -€2 million. These euro interest rate swaps expire in the years 2017 to 2022. They bear an average interest rate of 0.41%. Furthermore, the Fresenius Group had U.S. dollar denominated interest rate swaps in the amount of US\$200 million (€190 million) with a fair value of US\$5 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, 2016 with a notional volume of €200 million and a fair value of €4 thousand 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, 2016 and December 31, 2015, the Fresenius Group had €45 million and €68 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 €41 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 14, 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 21, Debt and capital lease obligations).

The following table shows the future undiscounted contractual cash flows (including interests) resulting from recognized financial liabilities as well as the fair value of noncontrolling interest subject to put provisions and the fair value of 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) <sup>1</sup>	720	3,295	1,768	218
Short-term debt	860	0	0	0
Senior Notes	840	3,190	2,950	1,922
Convertible bonds	4	509	402	0
Trade accounts payable	1,315	0	0	0
Other financial liabilities	2,281	174	0	0
Noncontrolling interest subject to put provisions	632	236	180	136
Derivative financial instruments – designated as cash flow hedge	24	2	0	0
Derivative financial instruments – not designated as hedging instruments	23	268	95	–
<b>Total</b>	<b>6,699</b>	<b>7,674</b>	<b>5,395</b>	<b>2,276</b>

<sup>1</sup> Future interest payments for financial liabilities with variable interest rates were calculated using the latest interest rates fixed prior to December 31, 2016.

### 30. 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, 2016	Dec. 31, 2015
Shareholders' equity	20,420	18,003
Total assets	46,447	42,959
Equity ratio	44.0%	41.9%

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 and convertible bonds on the basis of the existing 2003, 2008 and 2013 stock option plans (see note 33, Share-based compensation plans).

#### DEBT

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Debt	14,780	14,769
Total assets	46,447	42,959
Debt ratio	31.8%	34.4%

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, 2016, the leverage ratio was 2.4.

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, 2016	Dec. 31, 2015
Standard & Poor's		
Corporate Credit Rating	BBB-	BBB-
Outlook	stable	stable
Moody's		
Corporate Credit Rating	Baa3	Baa3
Outlook	stable	stable
Fitch		
Corporate Credit Rating	BBB-	BB+
Outlook	stable	stable

On July 29, 2016, Fitch has upgraded the credit rating from BB+ to BBB- with a stable outlook.

#### 31. SUPPLEMENTARY INFORMATION ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statements of cash flows of the Fresenius Group for the fiscal years 2016 and 2015 are shown on page 103.

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.

The following table provides additional information with regard to the consolidated statement of cash flows:

€ in millions	2016	2015
Received interest	45	65
Interest paid	562	575
Income taxes paid	894	860

In 2016, Fresenius Helios has used subsidies for investments in property, plant and equipment in the amount of €110 million (2015: €104 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	2016	2015
Assets acquired	955	428
Liabilities assumed	-83	-45
Noncontrolling interest	-58	-84
Notes assumed in connection with acquisitions	-251	-94
Cash paid	563	205
Cash acquired	-30	-4
<b>Cash paid for acquisitions, net</b>	<b>533</b>	<b>201</b>
Cash paid for investments, net of cash acquired	130	166
Cash paid for intangible assets, net	12	29
<b>Total cash paid for acquisitions and investments, net of cash acquired, and net purchases of intangible assets</b>	<b>675</b>	<b>396</b>

Proceeds from the sale of subsidiaries were €1 million in 2016 (2015: €149 million).

## 32. NOTES ON THE CONSOLIDATED SEGMENT REPORTING

### GENERAL

The consolidated segment reporting tables shown on pages 106 to 107 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, 2016.

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 FASB ASC Topic 280, Segment Reporting, 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 109 of the notes.

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 Senior 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 non-controlling 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, senior notes, 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	2016	2015
Total EBIT of reporting segments	4,358	3,990
Special items	0	-83
General corporate expenses Corporate/Other (EBIT)	-31	-32
<b>Group EBIT</b>	<b>4,327</b>	<b>3,875</b>
Interest expenses	-678	-868
Interest income	96	255
<b>Income before income taxes</b>	<b>3,745</b>	<b>3,262</b>

#### RECONCILIATION OF NET DEBT WITH THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Short-term debt	847	202
Short-term debt from related parties	6	4
Current portion of long-term debt and capital lease obligations	611	607
Current portion of Senior Notes	473	349
Long-term debt and capital lease obligations, less current portion	5,048	5,502
Senior Notes, less current portion	6,941	7,267
Convertible bonds	854	838
<b>Debt</b>	<b>14,780</b>	<b>14,769</b>
less cash and cash equivalents	1,579	1,044
<b>Net debt</b>	<b>13,201</b>	<b>13,725</b>

The following table shows the non-current assets by geographical region:

€ in millions	Dec. 31, 2016	Dec. 31, 2015
Germany	8,653	8,042
Europe (excluding Germany)	3,062	2,968
North America	19,486	18,385
Asia-Pacific	1,784	1,610
Latin America	684	556
Africa	52	43
<b>Total non-current assets<sup>1</sup></b>	<b>33,721</b>	<b>31,604</b>

<sup>1</sup> The aggregate amount of net non-current assets is the sum of non-current assets less deferred tax assets and less derivative financial instruments.



In 2016, the Fresenius Group generated sales of €6,913 million (2015: €6,625 million) in Germany. Sales in the United States were €13,543 million at actual rates (2015: €12,417 million) and €13,511 million in constant currency in 2016.

### 33. SHARE-BASED COMPENSATION PLANS

#### COMPENSATION COST IN CONNECTION WITH THE SHARE-BASED COMPENSATION PLANS OF THE FRESENIUS GROUP

In 2016, the Fresenius Group recognized compensation cost in an amount of €46 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 2016, the Fresenius Group recognized expenses of €52 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 2016 and 2015 are as follows:

€ in millions	2016		2015	
	July Grant	December Grant	July Grant	December Grant
Expected dividend yield	1.16%	1.22%	1.16%	1.09%
Risk-free interest rate	-0.30%	0.09%	0.44%	0.34%
Expected volatility	26.41%	24.22%	26.52%	26.57%
Life of options	8 years	8 years	8 years	8 years
Exercise price per option in €	66.02	67.15	60.64	67.99

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, 2016, Fresenius SE & Co. KGaA had three share-based compensation plans in place: the Fresenius AG Stock Option Plan 2003 (2003 Plan) which is based on convertible bonds, 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. In 2016, 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 U.S. GAAP, 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 U.S. GAAP, 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 and 2016 were met.

The adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA according to U.S. GAAP (currency adjusted) and changes thereto compared to the adjusted net income according to U.S. GAAP (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 U.S. GAAP, 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 U.S. GAAP, 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 and 2016 were met.

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

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

### Stock Option Plan 2008

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

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

The options granted have a seven-year term but can be exercised only after a three-year vesting period. The vesting of options granted is mandatorily subject to the condition, in each case, that the annual success target within the three-year vesting period is achieved. For each such year, the success target is achieved if the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA, adjusted for extraordinary effects, has increased by at least 8% compared to the respective adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA of the previous fiscal year. For each year in which the success target

has not been met, one-third of the options granted shall forfeit. The adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA shall be calculated on the basis of the calculation method of the accounting principles according to U.S. GAAP. For the purposes of the 2008 Plan, the adjusted net income attributable to shareholders of Fresenius SE & Co. KGaA is determined and will be verified with binding effect by Fresenius SE & Co. KGaA's auditor during the audit of the consolidated financial statements. The performance targets were met in all years. If all conditions are fulfilled, stock options may be exercised throughout the year with the exception of certain pre-determined 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.

### Transactions during 2016

In 2016, Fresenius SE & Co. KGaA awarded 2,254,663 stock options under the 2013 LTIP, including 348,750 options to members of the Management Board of Fresenius Management SE, at a weighted-average exercise price of €66.03, a weighted-average fair value of €15.31 each and a total fair value of €35 million, which will be amortized over the four-year vesting period. Fresenius SE & Co. KGaA also awarded

234,987 phantom stocks under the 2013 LTIP, including 34,574 phantom stocks granted to members of the Management Board of Fresenius Management SE, at a measurement date (December 31, 2016) fair value of €71.34 each and a total fair value of €17 million, which will be revalued if the fair value changes, and amortized over the four-year vesting period.

During the fiscal year 2016, Fresenius SE & Co. KGaA received cash of €31 million from the exercise of 1,480,421 stock options. The average stock price of the ordinary share at the exercise date was €67.30. The intrinsic value of convertible bonds and stock options exercised in 2016 was €65 million.

284,062 convertible bonds were outstanding and exercisable under the 2003 Plan at December 31, 2016. The members of the Fresenius Management SE Management Board held no more convertible bonds. At December 31, 2016, out of 2,560,201 outstanding and exercisable stock options issued under the 2008 Plan, 248,280 were held by the members of the Fresenius Management SE Management Board. 8,056,013 stock options issued under the 2013 LTIP were outstanding at December 31, 2016. The members of the Fresenius Management SE Management Board held 1,046,250 stock options. 1,056,188 phantom stocks issued under the 2013 LTIP were outstanding at December 31, 2016. The members of the Fresenius Management SE Management Board held 202,055 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
<b>Balance 2014</b>	<b>12,903,766</b>	<b>26.27</b>	<b>5,325,004</b>
Granted	2,260,465	60.76	
Exercised	4,195,350	21.08	
Forfeited	319,572	33.00	
<b>Balance 2015</b>	<b>10,649,309</b>	<b>35.44</b>	<b>4,335,892</b>
Granted	2,254,663	66.03	
Exercised	1,480,421	21.10	
Forfeited	523,275	41.54	
<b>Balance 2016</b>	<b>10,900,276</b>	<b>43.42</b>	<b>2,844,263</b>

The following table provides a summary of fully vested options outstanding and exercisable for ordinary shares at December 31, 2016:

#### OPTIONS FOR ORDINARY SHARES

Range of exercise price in €	Options outstanding			Options exercisable		
	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 €
15.01 – 20.00	560,164	0.50	18.46	560,164	0.50	18.46
20.01 – 25.00	730,602	1.49	23.76	730,602	1.49	23.76
25.01 – 30.00	1,553,497	2.51	26.24	1,553,497	2.51	26.24
30.01 – 35.00	1,761,462	4.62	32.25	0		
35.01 – 40.00	1,942,548	5.58	36.92	0		
60.01 – 65.00	2,062,465	6.58	60.64	0		
65.01 – 70.00	2,289,538	7.57	66.06	0		
	<b>10,900,276</b>	<b>5.06</b>	<b>43.42</b>	<b>2,844,263</b>	<b>1.85</b>	<b>24.07</b>

At December 31, 2016, the aggregate intrinsic value of exercisable options for ordinary shares was €143 million.

At December 31, 2016, total unrecognized compensation cost related to non-vested options granted under the 2008 Plan and the 2013 LTIP was €57 million. This cost is expected to be recognized over a weighted-average period of 2.9 years.

#### FRESENIUS MEDICAL CARE AG & CO. KGAA SHARE-BASED COMPENSATION PLANS

At December 31, 2016, 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 Program 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 predefined 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. The target ROIC is 7.3% for 2016 and will increase by 0.2 percentage points per year to 7.5% (2017), 7.7% (2018), 7.9% (2019) and 8.1% (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 (AGM). The 2011 SOP, together with the Phantom Stock Plan 2011, which was established by resolution of Fresenius Medical Care Management AG's (FMC Management AG) Management and Supervisory Boards, forms FMC-AG & Co. KGaA's Long Term Incentive Program 2011 (2011 Incentive Program). Under the 2011 Incentive Program, participants were granted awards, which consisted of a combination of stock options and phantom stock. The final grant under the 2011 Incentive Program was made in December 2015. Awards under the 2011 Incentive Program are subject to a four-year vesting period. Vesting of the awards granted is subject to achievement of pre-defined 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 2011 Incentive Program 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 2011 Incentive Program 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 2011 Incentive Program to U.S. participants are non-qualified stock options under the United States Internal Revenue Code of 1986, as amended. Stock options under the 2011 Incentive Program 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 2011 Incentive Program 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. Options granted under this plan are exercisable through December 2017.

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 pledged, assigned, or otherwise disposed of.

### Transactions during 2016

The first awards under the LTIP 2016 were granted on July 25, 2016. During 2016, under the LTIP 2016, FMC-AG & Co. KGaA awarded 642,349 performance shares, including 79,888 performance shares awarded to the members of the Management Board of FMC Management AG at a measurement date weighted-average fair value of €76.19 each and a total fair value of €49 million, which will be revalued if the fair value changes. The total fair value will be amortized over the four-year vesting period.

During 2016, FMC-AG & Co. KGaA received cash of €39 million from the exercise of stock options. The intrinsic value of stock options exercised in 2016 was €31 million. FMC-AG & Co. KGaA recorded a related tax benefit of €8 million for 2016. In connection with cash-settled share-based payment transactions under the LTIP 2011 and the LTIP 2016, FMC-AG & Co. KGaA recognized expenses of €35 million and €11 million for the years ending December 31, 2016 and 2015, respectively.

At December 31, 2016, the Management Board members of FMC Management AG held 1,010,784 stock options and employees of FMC-AG & Co. KGaA held 5,056,383 stock options under the various stock-based compensation plans of Fresenius Medical Care.

At December 31, 2016, the Management Board members of FMC Management AG held 81,019 phantom stocks and employees of FMC-AG & Co. KGaA held 812,970 phantom stocks under the 2011 Incentive Program.

At December 31, 2016, the Management Board members of FMC Management AG held 79,888 performance shares and employees of FMC-AG & Co. KGaA held 555,148 performance shares under the LTIP 2016.

The table below provides reconciliations for options outstanding at December 31, 2016 as compared to December 31, 2015:

	Number of options in thousands	Weighted-average exercise price in €
<b>Balance at December 31, 2015 (options for ordinary shares)</b>	<b>8,737</b>	<b>58.75</b>
Granted	0	
Exercised	908	43.45
Forfeited	1,762	52.08
<b>Balance at December 31, 2016 (options for ordinary shares)</b>	<b>6,067</b>	<b>62.98</b>

The following table provides a summary of fully vested options for ordinary shares outstanding and exercisable at December 31, 2016:

	Number of options in thousands	Weighted-average remaining contractual life in years	Weighted-average exercise price in €	Aggregate intrinsic value € in millions
Options for ordinary shares	1,162	2.02	49.68	36

At December 31, 2016, total unrecognized compensation cost related to non-vested options granted under all plans was €21 million. This cost is expected to be recognized over a weighted-average period of 2 years.



### 34. 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 2016, the Roland Berger group did not provide any consulting services to the Fresenius Group. In 2015, after discussion and approval by the Supervisory Board of Fresenius Management SE and Fresenius SE & Co. KGaA, the Fresenius Group paid €0.05 million to affiliated companies of the Roland Berger group for consulting services rendered.

Dr. Dieter Schenk, deputy chairman of the Supervisory Board of Fresenius Management SE, is a partner in the international law firm Noerr LLP, which provides legal services to the Fresenius Group. In 2016, after discussion and approval of each mandate by the Supervisory Board of Fresenius Management SE, the Fresenius Group paid about €0.9 million to this law firm for legal services rendered (2015: €1.4 million). This amount paid includes also payments for services already provided in 2015 which have been paid in 2016.

In 2016, €14 million (2015: €18 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, 2016, there were outstanding liabilities payable to Fresenius Management SE in the amount of €38 million (December 31, 2015: €34 million), consisting mainly of pension obligations and Management Board compensation.

The aforementioned payments are net amounts. In addition, VAT and insurance tax were paid.

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.

### 35. SUBSEQUENT EVENTS

On January 31, 2017, Fresenius Helios closed the acquisition of 100% of the share capital in IDC Salud Holding S.L.U. (Quirónsalud), Spain's largest private hospital operator, for a purchase price of €5.76 billion. For further details on the acquisition and the financing see notes 2, Acquisitions, divestitures and investments, 21, Debt and capital lease obligations, 22, Senior Notes, 23, Convertible bonds and 26, Fresenius SE & Co. KGaA shareholders' equity.

There have been no significant changes in the Fresenius Group's operating environment following the end of the fiscal year 2016 until February 21, 2017. 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)

### 36. 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 87 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 2016:

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

The cash compensation paid to the Management Board for the performance of its responsibilities was €14,573 thousand (2015: €13,998 thousand). Thereof, €5,319 thousand (2015: €6,055 thousand) is not performance-based and €9,254 thousand (2015: €7,943 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 348,750 stock options under the Fresenius SE & Co. KGaA Stock Option Plan 2013 and a share-based compensation with cash settlement in an amount of €5,140 thousand.

The total compensation of the Management Board was €25,051 thousand (2015: €27,065 thousand).

The total compensation paid to the Supervisory Boards of Fresenius SE & Co. KGaA and Fresenius Management SE and their committees was €4,388 thousand in 2016 (2015: €3,648 thousand). Of this amount, €220 thousand was fixed compensation (2015: €206 thousand), €100 thousand was compensation for committees services (2015: €100 thousand), and €4,068 thousand was variable compensation (2015: €3,342 thousand).

In 2016, based on pension commitments to former members of the Management Board, €1,094 thousand (2015: €1,081 thousand) was paid. The pension obligation for these persons amounted to €23,183 thousand in 2016 (2015: €17,835 thousand).

In the fiscal years 2016 and 2015, no loans or advance payments of future compensation components were made to members of the Management Board of Fresenius Management SE.

### 37. AUDITOR'S FEES

In 2016 and 2015, fees for the auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, and its affiliates were expensed as follows:

€ in millions	2016		2015	
	Total	Germany	Total	Germany
Audit fees	17	6	17	6
Audit-related fees	2	2	1	1
Tax consulting fees	1	0	1	0
Other fees	5	5	7	7
<b>Total auditor's fees</b>	<b>25</b>	<b>13</b>	<b>26</b>	<b>14</b>

The leading auditor has been responsible for the audit of the consolidated financial statements since 2012.

### 38. CORPORATE GOVERNANCE

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

### 39. 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 2016 of Fresenius SE & Co. KGaA are distributed as follows:

in €	
Payment of a dividend of €0.62 per bearer ordinary share on the 553,316,547 ordinary shares entitled to dividend	343,056,259.14
Balance to be carried forward	593,170.56
<b>Retained earnings</b>	<b>343,649,429.70</b>

#### 40. 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 21, 2017

Fresenius SE & Co. KGaA,  
represented by:  
Fresenius Management SE, its general partner

The Management Board



S. Sturm



Dr. F. De Meo



Dr. J. Götz



M. Henriksson



R. Powell



Dr. E. Wastler

## AUDITOR'S REPORT

To the Fresenius SE & Co. KGaA

We have audited the consolidated financial statements prepared by the Fresenius SE & Co. KGaA, Bad Homburg v. d. Höhe, comprising the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes to the consolidated financial statements for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP) is the responsibility of the legal representative of the Company. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. In addition, we have been engaged to express an opinion as to whether the voluntarily prepared group management report is in agreement with the group management report of Fresenius SE & Co. KGaA, Bad Homburg v. d. Höhe, prepared in accordance with § 290 and § 315 HGB [Handelsgesetzbuch "German Commercial Code"] apart from appropriate incorporation of U.S. GAAP financial data.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group

Frankfurt am Main, February 21, 2017

KPMG AG  
Wirtschaftsprüfungsgesellschaft



Rohrbach  
German Public Auditor



Walter  
German Public Auditor

management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representative, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with U.S. GAAP and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The voluntarily prepared group management report is consistent with the consolidated financial statements prepared in accordance with U.S. GAAP and is, apart from appropriate incorporation of U.S. GAAP financial data, in agreement with the group management report of Fresenius SE & Co. KGaA prepared in accordance with § 290 and § 315 HGB, on which we issued an unqualified statutory audit opinion. Based on this, the group management report complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.



## REPORT OF THE SUPERVISORY BOARD

In 2016, the Supervisory Board of Fresenius SE & Co. KGaA fulfilled its obligations in its respective terms 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 has 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 Board regularly kept the Supervisory Board informed – in a timely and comprehensive oral and written manner. Among other things, the Supervisory Board was informed about:

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

Based on the reports submitted from the Management Board of the general partner, the Supervisory Board discussed all business transactions that were important for the Company in its committees and at its meetings. The Management Board of the general partner also discussed the Company's strategic direction with the Supervisory Board. The Supervisory Board passed resolutions within the framework of its legal and statutory authority.

The Supervisory Board of Fresenius SE & Co. KGaA held four regular meetings in 2016 – in March, May, October, and December. In addition, there was an extraordinary meeting in September in which the members of the Supervisory Board were informed about the acquisition of the Spanish Hospital Group IDC Salud Holding S.L.U. ("Quirónsalud") by Fresenius Helios, and about the financing of the transaction. Before the meetings, the Management Board of the general partner had sent detailed reports and comprehensive approval submissions to the members of the Supervisory Board. At the meetings, the Supervisory Board discussed the general business development in detail, based on the reports from the general partner's Management Board. In addition, it dealt with important business decisions for the Company.

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

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

All members of the Supervisory Board attended the meeting in March 2016. In May, following the election of employee representatives by the European Works Council and the election of shareholder representatives at the Annual General Meeting, the Supervisory Board was reconstituted. All members then participated in the further meetings of the Supervisory Board in 2016.

Attendance at Supervisory Board and Audit Committee meetings is shown for each member individually on the Company website. This information can be found under the section "Supervisory Board".

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

In 2016, the Supervisory Board mostly focused its monitoring and advisory activities on business operations and investments by the business segments. Furthermore, the Supervisory Board discussed in detail all other significant business activities with the Management Board. This concerned acquisitions, especially the

acquisition of Quirónsalud by Fresenius Helios, and investments such as the planned expansion of the Group headquarters. The Supervisory Board also dealt with the following topics:

- ▶ the 2017 budget,
- ▶ the mid-term strategy for the Fresenius Group,
- ▶ corporate strategy (especially the business outlook for Fresenius Kabi and Fresenius Helios), and
- ▶ digitalization initiatives in all business sectors.

It also regularly informed itself about risk analysis, risk management and compliance within the Group, both in the Audit Committee and in plenary sessions. Another focus was the discussion of the proposals for the election of shareholder representatives at the Annual General Meeting of Fresenius SE & Co. KGaA in May 2016.

In the meeting on March 11, 2016, the Supervisory Board intensively dealt with the review and approval of the financial statements, the consolidated financial statements (IFRS and U.S. GAAP) as well as the management report and Group management report of Fresenius SE & Co. KGaA. Based on a detailed report from the Chairman of the Audit Committee and presentations by the auditors, the results for the fiscal year 2015 were discussed. At the same meeting, a vote was taken on the proposal from the general partner, Fresenius Management SE, for the distribution of earnings. In addition, each business segment reported in detail on business performance in the first two months of the fiscal year. This included discussions about the competitive situation of Fresenius Kabi in North America, as well as innovations in the Pharmaceuticals Division. Furthermore, the Supervisory Board was informed about the plans to extend the Group headquarters. Based on documents prepared by the Nomination Committee, the Supervisory Board also discussed at length the proposals for the election of shareholder representatives at the Annual General Meeting of the Company in May 2016. When doing so, the Supervisory Board considered the international activities of the Group, potential conflicts of interest, the question of the independence of candidates, as well as diversity, both in terms of qualifications and in the light of requirements to appoint women as members of the Supervisory Board. Finally, the Supervisory Board carried out its annual efficiency review during this meeting.

In its meeting on May 13, 2016, immediately following the election of the shareholder representatives by the Annual General Meeting, the Supervisory Board reconstituted itself. The Supervisory Board elected its chairman, the two deputy chairmen of the Supervisory Board, as well as members and chairmen of the Audit Committee and the Nomination Committee. Furthermore, the rules of procedure were approved. The



Management Board reported on the EU Market Abuse Regulation and its consequences for the Company and its directors, especially regarding the reportable securities transactions. The Management Board also reported on business performance for January to April 2016.

On September 5, 2016, an extraordinary meeting was held in the form of a conference call. In this meeting, the acquisition of the Spanish hospital group Quirónsalud by Fresenius Helios was intensively dealt with. The members of the Supervisory Board were provided with comprehensive information about the Spanish health care market, as well as the range of medical services provided, and the economic environment in which Quirónsalud operates.

The Supervisory Board's meeting on October 14, 2016, took the decision on utilizing Authorized Capital I to finance the acquisition of Quirónsalud, as well as setting up a committee to deal with further aspects of the equity financing of the transaction. The business performance from January to September 2016 was presented to the members of the Supervisory Board in detail with a particular focus on the business segment Fresenius Helios. In addition, all four business segments presented their digitalization initiatives and inter-company IT projects.

The focus of the Supervisory Board meeting on December 9, 2016, was on the one hand business performance in 2016. On the other hand, budgets and plans for the years 2017 to 2019 were presented with respect to the Group, as well as individually for each of the business segments. The Chairman of the Audit Committee reported in detail on the status of preparations for the financial statements. Other topics were the Declaration of Conformity in accordance with the German Corporate Governance Code, as well as information of the Supervisory Board about compliance, regulatory issues, and legal risks.

In addition to the Supervisory Board meetings, on October 13, 2016, a comprehensive "on-boarding" event was held. During this meeting, the Group with its four business segments was presented to the newly constituted Supervisory Board, also covering topics relating to governance and finance, as well as the Else Kröner-Fresenius foundation.

## CORPORATE GOVERNANCE

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 pursuant to Section 161 of the German Stock Corporation Act (AktG) on December 20, 2016.

The Management Board of the general partner and the Supervisory Board of Fresenius SE & Co. KGaA have a duty to act in the best interests of the Company. In performing their activities, they do not pursue

personal interests or bestow unjustified benefits on others. Any sideline activities or transactions 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 the ordinary course of business at 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, with which the Fresenius Group maintains business relationships at market conditions. Michael Diekmann is Deputy Chairman of the Supervisory Board as well as a member of the Supervisory Board of Fresenius Management SE. He was also a non-executive director of the board of directors of Allianz Australia Ltd. In 2016, the Fresenius Group paid insurance premiums to Allianz at market conditions.

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

During 2016, various companies of the Fresenius Group were advised by companies of the internationally active law firm Noerr. Dr. Dieter Schenk, Deputy Chairman of the Supervisory Board of Fresenius Management SE, is also a partner of the law firm Noerr LLP. In the reporting period, the Fresenius Group paid a total of €0.9 million to the law firm Noerr (2015: €1.4 million). This corresponds to less than 0.5% of the total amount paid by the Fresenius Group for services and legal advice in 2016 (2015: 1%). This payment also includes payments for services provided in 2015 that were actually paid only in 2016. Of the total amount for the year 2016, less than €0.1 million was attributable to services for Group companies not related to the business segment Fresenius Medical Care. Services rendered to 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 closely examined the mandating and approved it, while Dr. Schenk abstained from voting. The Supervisory Board of Fresenius SE & Co. KGaA, of which Dr. Schenk is not a member, dealt with the volume of legal fees paid to the law firm Noerr in relation to the fee volume paid to other law firms. The payments mentioned in this section are net amounts in euros. In addition, VAT was paid.

For more information on corporate governance at Fresenius, please refer to the Corporate Governance Declaration and Report on pages 72 to 84 of the Annual Report. Fresenius has disclosed the information on related parties in its quarterly reports and on page 181 of the Annual Report.

## WORK OF THE COMMITTEES

During the reporting year, the Audit Committee held three meetings and four conference calls. 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 2015 and discussions with the auditors on 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 2016. The Supervisory Board's proposal to the Annual General Meeting in 2016 to elect KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as auditor was based on a recommendation by the Audit Committee. Finally, the Audit Committee also reviewed in detail:

- ▶ the 2016 quarterly reports,
- ▶ controlling reports on the development of acquisitions,
- ▶ compliance,
- ▶ the risk management system, the internal control system, and the internal auditing system, and
- ▶ approval of non-audit services by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin.

The Chairman of the Audit Committee reported regularly to the Supervisory Board on the work of the Audit Committee at the respective subsequent meeting.

The Company's Nomination Committee met once in March 2016 in preparation for the Supervisory Board elections in May 2016.

The Joint Committee, whose approval is necessary for certain important transactions of Fresenius SE & Co. KGaA and for certain legal activities between the Company and the Else Kröner-Fresenius foundation, did not meet in 2016 because no transactions were effected that required the Joint Committee's approval.

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 76, 77, and 195 of the Annual Report.

## PERSONNEL

The term of office for all members of the Supervisory Board of the Company ended with the Annual General Meeting of Fresenius SE & Co. KGaA on May 13, 2016. We would like to thank the retiring members of the Supervisory Board for their valuable cooperation and their contribution to the successful development of the Company.

The regular election of the six shareholder representatives was carried out by the Annual General Meeting on May 13, 2016. Prof. Dr. Iris Löw-Friedrich and Ms. Hauke Stars were elected for the first time to the twelve-person panel. Prof. Dr. D. Michael Albrecht, Mr. Michael Diekmann, Dr. Gerd Krick, and Mr. Klaus-Peter Müller were re-elected. The European Works Council elected Mr. Konrad Kölbl, Mr. Rainer Stein and Mr. Niko Stumpfögger as employee representatives, who were already members of the Supervisory Board. It also elected Ms. Stefanie Lang, Ms. Frauke Lehmann and Mr. Oscar Romero De Paco.

At its first meeting on May 13, 2016, the Supervisory Board elected Dr. Gerd Krick as Chairman of the Supervisory Board of Fresenius SE & Co. KGaA. Upon the proposal of the shareholder representatives, Mr. Michael Diekmann and upon the proposal of the employee representatives, Mr. Niko Stumpfögger were elected as his deputies. At the same meeting, Ms. Hauke Stars and Mr. Konrad Kölbl, Dr. Gerd Krick, Mr. Klaus-Peter Müller and Mr. Rainer Stein were elected as members of the Audit Committee. Mr. Klaus-Peter Müller was elected Chairman of the Audit Committee. Furthermore, at the May 13, 2016, meeting, Mr. Michael Diekmann, Dr. Gerd Krick and Mr. Klaus-Peter Müller were elected as members of the Nomination Committee, and Dr. Gerd Krick was elected as Chairman.

The composition of the Management Board and Supervisory Board of the general partner, Fresenius Management SE, has also changed. At the Annual General Meeting of Fresenius Management SE on May 13, 2016, the Supervisory Board members were elected regularly. Dr. Kurt Bock newly joined the board. Mr. Michael Diekmann, Dr. Gerd Krick, Mr. Klaus-Peter Müller, Dr. Dieter Schenk and Dr. Karl Schneider were re-elected.

Effective on July 1, 2016, Mr. Stephan Sturm was appointed Chairman of the Management Board. Previously, he served more than 11 years as Chief Financial Officer of the company. Over that time, Mr. Stephan Sturm proved himself as an outstanding finance expert and entrepreneur, contributing significantly to the design and execution of the business strategy that has delivered continued growth. His appointment as Chairman of the Management Board demonstrates continuity in the company's leadership. Mr. Stephan Sturm succeeded Dr. Ulf M. Schneider, who left the company at his own request on June 30, 2016 to take on a new professional challenge. The Supervisory Board would like to thank Dr. Ulf M. Schneider for his tremendously successful efforts on behalf of Fresenius over the previous 13 years, through which he played a central role in the company's rapid, sustained growth: During his time as Chairman of the Management Board, Fresenius quadrupled sales and increased earnings 12-fold. Dr. Ulf M. Schneider's distinguished achievements helped make Fresenius what it is today.

## FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The accounting records, the financial statements prepared according to the German Commercial Code (HGB), and the 2016 Management Report of the Company were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. This was done in accordance with the resolution passed at the Annual General Meeting of Fresenius SE & Co. KGaA on May 13, 2016, and the subsequent appointment by the Supervisory Board. The auditors of KPMG issued their unqualified audit opinion on the Company's financial statements and Management Report. The same applies to the Company's consolidated financial statements, which were prepared in accordance with the IFRS accounting principles, and with the regulations that govern these statements pursuant to Section 315a of the German Commercial Code (HGB). It also applies to the Company's consolidated financial statements, which are prepared voluntarily according to U.S. GAAP.

The financial statements, the consolidated financial statements, the Management Reports, and the auditor's reports were submitted to each member of the Company's Supervisory Board in a timely manner. At their meetings on March 9 and 10, 2017, first 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. They found no weaknesses in the risk management system or the internal control system with regard to the accounting process. The auditors 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 results. Also, the Audit Committee's and the Supervisory Board's own review found 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 10, 2017, 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 of the Company.

The Supervisory Board concurs with the general partner's proposal on the allocation of the 2016 distributable profit.

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 10, 2017

The Supervisory Board



Dr. Gerd Krick  
Chairman

# BOARDS

## SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

### Dr. Gerd Krick

Former Chairman of Fresenius AG

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

### Prof. Dr. h. c. Roland Berger

(until May 13, 2016)

Management Consultant

#### Offices

#### Supervisory Board

Fresenius Management SE (until May 13, 2016)  
Rocket Internet SE  
Schuler AG  
WMP EuroCom AG (until July 27, 2016; Deputy Chairman)

#### Board of Directors

Banzai S.p.A., Italy (since April 14, 2016)  
Geox S.p.A., Italy (until May 19, 2016)

### Michael Diekmann

Former Chairman of the Management Board of Allianz SE

Deputy Chairman

#### Offices

#### Supervisory Board

BASF SE (Deputy Chairman)  
Fresenius Management SE  
Linde AG (Deputy Chairman)  
Siemens AG

#### Board of Directors

Allianz Australia Ltd., Australia (until December 31, 2016; Non-Executive Director)

### Dario Anselmo Ilossi

(until May 13, 2016)

Trade Union collaborator at FEMCA Cisl Energy, Fashion, and Chemicals

### 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

Deputy Chairman 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

(since May 13, 2016)

Full-time Works Council Member

Chairman of the Works Council of Fresenius Medical Care Deutschland GmbH

### Frauke Lehmann

(since May 13, 2016)

Full-time Works Council Member

Chairman of the Works Council of HELIOS Kliniken Schwerin 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

(since May 13, 2016)

Chief Medical Officer und 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

### Dieter Reuß

(until May 13, 2016)

Full-time Works Council Member

Chairman of the Joint Works Council of Fresenius SE & Co. KGaA/  
Bad Homburg site

Deputy Chairman of the General Works Council of Fresenius SE & Co. KGaA

### Gerhard Roggemann

(until May 13, 2016)

Management Consultant

#### Offices

#### Supervisory Board

Bremer AG (since August 16, 2016)  
Deutsche Beteiligungs AG (Deputy Chairman)  
Deutsche Börse AG (until May 11, 2016)  
GP Günter Papenburg AG (Chairman)  
WAVE Management AG (Deputy Chairman)

## SUPERVISORY BOARD FRESENIUS SE & CO. KGAA

### Oscar Romero De Paco

(since May 13, 2016)

Staff member production

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

### Stefan Schubert

(until May 13, 2016)

Hospital nurse and full-time Works Council Member

Chairman of the Works Council of HELIOS Klinik Bad Schwalbach and of HELIOS Klinik Idstein

Chairman of the Group Works Council of Wittgensteiner Kliniken GmbH (until September 9, 2016)

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

### Hauke Stars

(since May 13, 2016)

Member of the Executive Board Deutsche Börse AG

#### Offices

#### Supervisory Board

Eurex Frankfurt AG (Deutsche Börse AG Group mandate)  
GfK SE (until May 20, 2016)  
Klößner & Co. SE (until May 13, 2016)

#### Administrative Board

Eurex Zürich AG (Deutsche Börse AG Group mandate)  
Kühne + Nagel International AG (since May 3, 2016)

### 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

### 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

Prof. Dr. h. c. Roland Berger

(until May 13, 2016; Chairman)

Klaus-Peter Müller

(since May 13, 2016; Chairman)

Konrad Kölbl

Dr. Gerd Krick

Gerhard Roggemann

(until May 13, 2016)

Hauke Stars (since May 13, 2016)

Rainer Stein

### Nomination Committee

Dr. Gerd Krick (Chairman)

Prof. Dr. h. c. Roland Berger

(until May 13, 2016)

Michael Diekmann

Klaus-Peter Müller (since May 13, 2016)

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

Dr. Dieter Schenk (Chairman)

Michael Diekmann

Dr. Gerd Krick

Dr. Karl Schneider

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

## MANAGEMENT BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

### Dr. Ulf M. Schneider

(until June 30, 2016)

#### Chairman

##### Corporate Offices

##### Supervisory Board

Fresenius Kabi AG (until June 30, 2016; Chairman)  
Medical Care Management AG (until June 30, 2016; Chairman)

##### Board of Directors

Fresenius Kabi USA, Inc., USA (until June 30, 2016)

##### Offices

##### Board of Directors

E. I. du Pont de Nemours and Company, USA

### Stephan Sturm

Chairman (since July 1, 2016) and  
Chief Financial Officer

##### Corporate Offices

##### Supervisory Board

Fresenius Kabi AG (Deputy Chairman until August 29, 2016; Chairman since August 29, 2016)  
Fresenius Medical Care Management AG (since May 11, 2016; Chairman since June 30, 2016)  
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)

### 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  
Sino-Swed Pharmaceutical Corp, Ltd., China

### Rice Powell

Business Segment

Fresenius Medical Care

##### Corporate Offices

##### Administrative Board

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

##### Board of Directors

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

### Dr. Ernst Wastler

Business Segment Fresenius Vamed

##### Corporate Offices

##### Supervisory Board

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



## SUPERVISORY BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

**Dr. Gerd Krick**

Chairman

**Prof. Dr. h. c. Roland Berger**

(until May 13, 2016)

**Dr. Kurt Bock**

(since May 13, 2016)

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 (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.

### 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 anti-coagulants, 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.

### 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).

## Health care terms/Products and services

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### **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 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 his 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<sup>1</sup>

### Before special items

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

### Cash flow

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

### Operating cash flow

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

### Cash flow from investing activities

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

### Cash flow from financing activities

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

Cash flow from financing activities is calculated from additions to equity plus proceeds from the exercise of stock options less dividends paid plus proceeds from debt increase (loans, bonds, senior notes, 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.

### Days Sales Outstanding (DSO)

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.

### Organic growth

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

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

Financial terms<sup>1</sup>

## RECONCILIATION OF AVERAGE INVESTED CAPITAL AND ROIC

€ in millions, except for ROIC	December 31, 2016	December 31, 2015	December 31, 2014
<b>Total assets</b>	<b>46,447</b>	<b>42,959</b>	<b>39,788</b>
Plus: Cumulative goodwill amortization	551	537	495
Minus: Cash and cash equivalents	-1,579	-1,044	-1,175
Minus: Loans to related parties	-51	-109	-65
Minus: Deferred tax assets	-560	-540	-727
Minus: Accounts payable	-1,315	-1,291	-1,052
Minus: Accounts payable to related parties	-57	-9	-5
Minus: Provisions and other current liabilities <sup>1</sup>	-5,470	-4,963	-4,384
Minus: Income tax payable	-478	-416	-377
<b>Invested Capital</b>	<b>37,488</b>	<b>35,124</b>	<b>32,498</b>
<b>Average invested capital as of December 31, 2016/2015<sup>2</sup></b>	<b>36,495</b>	<b>33,811</b>	
Operating income <sup>3,4</sup>	4,316	3,958	
Income tax expense	-1,213	-1,164	
<b>NOPAT<sup>3,4</sup></b>	<b>3,103</b>	<b>2,794</b>	
<b>ROIC in %</b>	<b>8.5%</b>	<b>8.3%</b>	

<sup>1</sup> Includes non-current provisions and payments outstanding for acquisition; does not include pension liabilities and noncontrolling interest subject to put provisions.

<sup>2</sup> Includes adjustments for acquisitions in the respective reporting period with a purchase price above a certain level (2016: €378 million; 2015: -).

<sup>3</sup> Includes adjustments for acquisitions in the respective reporting period with a purchase price above a certain level (2016: -€11 million; 2015: -).

<sup>4</sup> 2015 before special items

## RECONCILIATION OF AVERAGE OPERATING ASSETS AND ROA

€ in millions, except for ROA	December 31, 2016	December 31, 2015	December 31, 2014
<b>Total assets</b>	<b>46,447</b>	<b>42,959</b>	<b>39,788</b>
Minus: Payments received on account	-87	-75	-68
Minus: Cash held in trust	-61	-57	-52
Minus: Loans to related parties	-51	-109	-65
Minus: Deferred tax assets	-560	-540	-727
Minus: Accounts payable	-1,315	-1,291	-1,052
Minus: Accounts payable to related parties	-57	-9	-5
Minus: Approved subsidies due to Hospital Funding Act („Krankenhausfinanzierungsgesetz“, KHG)	-180	-191	-177
<b>Operating assets</b>	<b>44,136</b>	<b>40,687</b>	<b>37,642</b>
<b>Average operating assets as of December 31, 2016/2015<sup>1</sup></b>	<b>42,622</b>	<b>39,165</b>	
Operating income <sup>2,3</sup>	4,316	3,958	
<b>ROA in %</b>	<b>10.1%</b>	<b>10.1%</b>	

<sup>1</sup> Includes adjustments for acquisitions in the respective reporting period with a purchase price above a certain level (2016: €421 million; 2015: -).

<sup>2</sup> Includes adjustments for acquisitions in the respective reporting period with a purchase price above a certain level (2016: -€11 million; 2015: -).

<sup>3</sup> 2015 before special items

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

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### 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 x 100.

### ROIC (Return on Invested Capital)

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

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

### ROA (Return on Operating Assets)

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

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

### SOI (Scope of Inventory)

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

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

### Working Capital

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

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



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# 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, 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 15, 2017, and it was published on March 16, 2017.

The Annual Report, the financial statements of Fresenius SE & Co. KGaA, and the consolidated statements in accordance with IFRS accounting principles 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](http://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.

**Design concept/realization:** Hilger & Boie Design, Wiesbaden  
**Print:** Ziegler GmbH & Co. KG, Neckarbischofsheim, Germany





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# FINANCIAL CALENDAR

Report on 1st quarter 2017	
Conference call, live webcast	May 3, 2017
Annual General Meeting, Frankfurt am Main, Germany	May 12, 2017
Payment of dividend <sup>1</sup>	May 17, 2017
Report on 2nd quarter 2017	
Conference call, live webcast	August 1, 2017
Report on 3rd quarter 2017	
Conference call, live webcast	November 2, 2017

<sup>1</sup> 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](http://www.fresenius.com/events-and-presentations)

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# 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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# CONTACT

## Corporate Headquarters

Else-Kröner-Straße 1  
Bad Homburg v. d. H.  
Germany

## Postal address

Fresenius SE & Co. KGaA  
61346 Bad Homburg v. d. H.  
Germany

## Contact for shareholders

Investor Relations  
Telephone: ++49 61 72 6 08-24 87  
Telefax: ++49 61 72 6 08-24 88  
E-mail: [ir-fre@fresenius.com](mailto:ir-fre@fresenius.com)

## Contact for journalists

Corporate Communications  
Telephone: ++49 61 72 6 08-23 02  
Telefax: ++49 61 72 6 08-22 94  
E-mail: [pr-fre@fresenius.com](mailto:pr-fre@fresenius.com)