Fresenius SE & Co. KGaA

Bad Homburg v.d.H.

2016

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

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

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

Balance Sheet as of December 31, 2016

Assets

	Note	Dec 31, 2016		Dec 31, 2015	
		kEUR	kEUR	kEUR	kEUR
A. Fixed Assets	(4)				
I. Intangible assets			1,584		1,220
II. Tangible assets			51,818		54,594
III. Fiinancial assets			8,171,510		8,397,575
			8,224,912		8,453,389
B. Current assets					
I. Accounts receivable and other assets	(5)				
1. Trade accounts receivable		1		-	
2. Accounts receivable from related parties		2,843,681		2,382,300	
3. Other assets		57,706	2,901,388	52,508	2,434,808
II. Cash and cash equivalents	(6)		306,665		144,423
			3,208,053		2,579,231
C. Deferred expense	(7)		29,282		32,832
			11,462,247		11,065,452

Liabilities and shareholders' equity

	Note	Dec 31, 2016	Dec 31, 2015
		kEUR	kEUR
A. Shareholders' equity			
I. Subscribed capital	(8, 9, 10, 11, 12)		
Ordinary shares		547,208	545,728
II. Capital reserves	(13)	2,808,965	2,779,211
III. Other reserves	(14)	2,339,395	2,107,395
IV. Retained earnings	(15)	343,649	300,199
		6,039,217	5,732,533
B. Special reserve for government investment grants	(16)	7	8
C. Accruals	(17)		
1. Pensions and similar obligations		54,757	52,700
2. Accruals for income taxes		101,524	70,571
3. Other accruals		49,730	32,577
		206,011	155,848
D. Liabilities	(18)		
1. Senior notes		2,200,000	0
2. Convertible bonds		500,008	500,008
3. Bank loans		987,316	916,863
4. Trade accounts payable		4,062	4,213
5. Accounts payable to related parties		1,437,647	3,695,688
6. Other liabilities		85,852	60,291
		5,214,885	5,177,063
E. Deferred income	(19)	2,127	0
		11,462,247	11,065,452

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

Profit and Loss Statement
January 1 to December 31, 2016

		Note	2016	2015
			kEUR	kEUR
1.	Income from participations	(22)	718,839	547,959
2.	Sales	(23)	57,829	52,315
3.	Other operating income	(24)	177,685	259,051
4.	Cost of materials	(25)	-12,652	-11,450
5.	Personnel expenses	(26)	-37,236	-40,396
6.	Depreciation and amortization on intangible assets and on property, plant and equipment	(27)	-4,706	-4,672
7.	Other operating expenses	(28)	-207,820	-293,806
8.	Net interest	(29)	-45,747	-44,523
9.	Income taxes	(30)	-69,921	-59,694
10.	After tax profit		576,271	404,784
11.	Other taxes		-670	-527
12.	Net income		575,601	404,257
13.	Retained earnings brought forward		48	942
14.	Increase of other reserves		-232,000	-105,000
15.	Retained earnings		343,649	300,199

Notes Fresenius SE & Co. KGaA

(1) General information

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

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

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

The prior year amounts in the profit and loss statement have been adjusted for the new definition of revenue in Section 277 (1) HGB. For the previous year €52,315 thousand were reclassified from other operating income to sales and €11,450 thousand from other operating expenses to costs of materials. Moreover €4,418 thousand trade account receivables are included in accounts receivables from third parties in the previous year.

(2) Structure

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

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

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

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

(3) Accounting principles and standards of valuation

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

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

The following useful lives were used for calculating depreciation:

Office and factory buildings	10 - 40 years
Technical equipment and machinery	5 - 10 years
Other fixtures and fittings, tools and equipment	3 - 10 years.

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

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

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

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

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

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

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

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

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

The **pension obligation** is determined according to actuarial principles on the basis of biometric probabilities as in the reference tables by Dr. Klaus Heubeck 2005 (RT 2005 G) using the Projected Unit Credit-Method. Future expected remuneration and pension increases are taken into account in calculating the obligation. Remuneration is currently adjusted depending on age by between 3% and 4% and pensions by 1.50%. The company specific fluctuation rate that is also taken into consideration for the calculation has been between 0% and 18%. The actuarial interest rate applicable to the pension obligation was 4.01%. This interest rate is based on the last-ten-year-average discount rate for an estimated remaining life of 15 years as determined and published by the German Federal Bank (Deutsche Bundesbank). In previous years the interest rate actuarial interest rate was based on the last seven year-average discount rate.

According to Section 253 (6) HGB the difference from this legal change amounts to €7,785,526. The effects of the interest change have been recorded in interest expense.

Pursuant to Section 253 (1) sentence 3 HGB (security-based pension obligations), the value of the provisions for the employee financed life work time account (Demografiefonds) is based on the performance of the asset value of the corresponding plan reinsurance.

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

Tax accruals and other accruals are accounted for recognizable risks and uncertain liabilities at the amounts to be paid and calculated on the basis of a reasonable commercial assessment. Long term accruals are accounted for taking into account future price and cost increases and are discounted with the last-seven-year-average discount rate that corresponds to the remaining life of the accrual.

Liabilities are valued at their settlement amounts.

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

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

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

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

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

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

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

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

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

Notes on balance sheet

(4) Fixed assets

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

	Acquisition costs				
	As of Jan. 01, 2016	Additions	Disposals	Reclassifications	As of Dec. 31, 2016
€ in thousands					
Intangible Assets					
Concessions, industrial and similar rights and assets as well as licenses acquired for consideration	2,628	801	0	-4	3,425
	2,628	801	0	-4	3,425
Tangible Assets					
Land, leasehold and buildings including buildings on third party property	113,160	169	0	87	113,416
Plant and machinery	871	0	0	0	871
Other fixtures and fittings, tools and equipment	13,502	848	831	52	13,571
Payments on account and tangible assets in course of construction	499	496	0	-135	860
	128,032	1,513	831	4	128,718
Financial assets					
Shares in related parties	7,404,094	230	2,079	0	7,402,245
Loans to related parties	954,424	255	185,227	0	769,452
	8,358,518	485	187,306	0	8,171,697
Fixed assets	8,489,178	2,799	188,137	0	8,303,840

€ in thousands	Write-ups / Depreciation: Cumulated write-ups and depreciation as of Jan. 01, 2016	Additions (depreciation)	Disposals (Write-ups / depreciation)	Cumulated write-ups and depreciation as of Dec. 31, 2016	Carrying amount: Dec. 31, 2016	Dec. 31, 2015
Intangible Assets						
Concessions, industrial and similar rights and assets as well as licenses acquired for consideration	1,408	433	0	1,841	1,584	1,220
	1,408	433	0	1,841	1,584	1,220
Tangible Assets						
Land, leasehold and buildings including buildings on third party property	63,051	2,809	0	65,860	47,556	50,109
Plant and machinery	507	50	0	557	314	364
Other fixtures and fittings, tools and equipment	9,880	1,414	811	10,483	3,088	3,622
Payments on account and tangible assets in course of construction	0	0	0	0	860	499
	73,438	4,273	811	76,900	51,818	54,594
Financial assets						
Shares in related parties	187	0	0	187	7,402,058	7,403,907
Loans to related parties	-39,244	0	-39,244	0	769,452	993,668
	-39,057	0	-39,244	187	8,171,510	8,397,575
Fixed assets	35,789	4,706	-38,433	78,928	8,224,912	8,453,389

Financial assets

As of December 31, 2016, Fresenius SE & Co. KGaA owns stakes in the following domestic management companies for business segments:

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

The percentage of Fresenius Medical Care AG & Co. KGaA´s (“FMC-AG & Co. KGaA”) subscribed capital held by Fresenius SE & Co. KGaA at the end of fiscal year 2016 was 30.82% (previous year 30.91%). 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.

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

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

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

The companies Fresenius Konzernfinanzierung Erste GmbH and Fresenius Konzernfinanzierung Zweite GmbH were liquidated in March 2016, while Fresenius Finance B. V. was liquidated in December 2016.

In December 2016 Fresenius SE & Co. KGaA founded the wholly owned subsidiary Fresenius Finance Holdings Ltd. through which Fresenius SE & Co. KGaA indirectly wholly owns Fresenius Finance Ireland PLC.

Loans to related parties include mainly US-Dollar loans to American affiliated companies. The US$244.3 million loan due from Fresenius US Finance I, Inc. in December 2016 was replaced by a short term loan, which is included in accounts receivable from related parties. This loan was hedged against exchange rate fluctuations, bound in a hedging relationship and accounted for, together with the hedge according to the “Durchbuchungsmethode”. The cumulated write-up of €39,244 thousand shown as disposal in the statement of changes in fixed assets is a foreign currency gain from the valuation of this loan in previous years.

(5) Accounts receivable and other assets

	Dec. 31, 2016	Dec. 31, 2015
€ in thousands		
Trade accounts receivable	1	-
(amount with a remaining term of more than one year)	(0)	(0)
Accounts receivable from related parties	2,843,681	2,382,300
(amount with a remaining term of more than one year)	(16,597)	(19,383)
Other assets	57,706	52,508
(amount with a remaining term of more than one year)	(46,000)	(46,000)
	2,901,388	2,434,808

Accounts receivables from related parties include €2,472 thousand of trade accounts receivables (previous year €4,418 thousand) as well as €2,841,209 thousand mainly consisting of loans and financing related accounts in the context of inhouse banking (cash pool) (previous year €2,377,882 thousand).

Other assets mainly contain stock options (call options) held for hedging market price fluctuations of the derivative embedded in the convertible bond (€46,000 thousand) as well as VAT receivable (€4,316 thousand), and social security related receivables of €7 thousand (previous year €6 thousand). Also included are receivables from corporation tax law (Körperschaftsteuer) and solidarity surcharge (Solidaritätszuschlag) of €4,568 thousand which are the expected amount of outstanding tax assessments for the current and previous years; mainly for the years 2013 to 2015.

(6) Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks of €306,665 thousand (previous year €144,423 thousand).

(7) Deferred expense

The deferred expenses of €29,282 thousand (previous year €32,832 thousand) mainly consist of discounts with a net book value of €26,694 thousand as of December 31, 2016 (previous year: €31,364 thousand).

The placement of a convertible bond in March 2014 resulted in a discount of €46,000 thousand that will be released on a straight line basis over the lifetime of the convertible bond. As of December 31, 2016 it is included in deferred expenses with a value of €23,000 thousand. Moreover discounts of €4,114 thousand from Fresenius Finance B.V. Senior Notes were assumed and are included in deferred expenses with a value of €3,694 thousand as of December 31, 2016 and will be released on a straight line basis over the lifetime of the Senior Notes.

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

(8) Subscribed capital

During the fiscal year 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.

The subscribed capital developed as follows:

	2016	2015
€ in thousands		
As of January 1	545,728	541,533
Increase due to exercise of stock options	1,480	4,195
As of December 31	547,208	545,728

On January 31, 2017, and in relation with the acquisition of Quirónsalud, 6,108,176 new Fresenius SE & Co. KGaA shares were issued from authorized capital excluding shareholder’ subscription rights. These new shares have full dividend entitlement for the fiscal year 2016.

(9) Own shares

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

The basis for distributing the shares is an agreement negotiated between the Works Council and the Management Board in February 2016. The agreement awards €2,200 of profit-sharing to each full-time employee for 2015 as well as the employer contribution for social security payments. Half of the profit-sharing payment was settled in shares and half in cash which covers the tax and social contributions. The price to determine the number of shares to be allocated under the profit-sharing program was set on June 9, 2016.

To be eligible for the program, employees must have had three years of continuous employment at Fresenius SE & Co. KGaA on December 31, 2015, its direct affiliated companies or affiliated companies of Fresenius Kabi and certain other affiliated companies as identified in the Works Council agreement. At that time, eligible employees must have not been under notice or in an executive position, as defined by Fresenius. Intercompany transfers are counted in full.

As part of the Fresenius SE & Co. KGaA profit-sharing program for 2015, the following ordinary shares were purchased and distributed to employees, and the remaining, not distributed, shares re-sold:

	Date	Number	Price in € per share
Purchase	June 7, 2016	37,500	66.91
Disbursement	June 10, 2016	36,765	65.69
Sale	July 11, 2016	735	67.10

Purchased shares with a nominal value of €37,500 and committed shares with a nominal value of €36,765 represented 0.0069% and 0.0067% of the subscribed capital respectively.

The proceeds from the sale on July 11, 2016 have increased corporate funding.

As of December 31, 2016, no own shares were held.

(10) Notification by shareholders

The following table shows the notifications disclosed in 2016 in accordance with Section 26 (1) of the German Securities Trading Act (WpHG). In cases where holdings reached, exceeded or fell below the thresholds on several occasions, only the most recent notification is mentioned.

Notifying party	Registered office	Date of exceeding or falling below	Reporting threshold	Percentage of voting rights	Number of voting rights	Attribution pursuant to WpHG
BlackRock, Inc.	Wilmington, DE, United States	March 15, 2016	Falling below 5%	4.98	26,647,081	Sections 21,22
					256,095	Section 25 (1) No. 1
					293,623	Section 25 (1) No. 2
Allianz Global Investors GmbH	Frankfurt/Main, Germany	March 17, 2016	Exceeding 5%	5.11	27,872,638	Sections 21,22

The Else Kröner-Fresenius-Stiftung as major shareholder informed Fresenius SE & Co. KGaA on December 16, 2016, that it holds 144,695,094 ordinary shares of Fresenius SE & Co. KGaA representing 26.44% of the subscribed capital on December 31, 2016.

All WpHG-notifications by shareholders are published on the website of the Company www.fresenius.com/Shareholder Structure.

(11) 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.

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

	2016	2015
€ in thousands		
Brought forward from previous Authorized Capital I at January 1	120,960	120,960
As of December 31	120,960	120,960

(12) Conditional Capital

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

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

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

	Ordinary shares
in €	
As of January 1, 2016	5,261,987
Decrease due to exercise of stock options	-244,402
As of December 31, 2016	5,017,585

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

	Ordinary shares
in €	
As of January 1, 2016	7,216,907
Decrease due to exercise of stock options	-1,236,019
As of December 31, 2016	5,980,888

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

	Ordinary shares
in €	
As of January 1, 2016	48,971,202
As of December 31, 2016	48,971,202

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

	Ordinary shares
in €	
As of January 1, 2016	25,200,000
As of December 31, 2016	25,200,000

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

<u>2013 SOP</u>

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

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

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

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

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

Options granted have an eight-year term but can be exercised only after a four-year vesting period. The exercise of options is subject to the condition precedent, in each case, that the annual success target within a four-year waiting period is achieved. The success target is achieved in each case if, after the granting of the options to the respective entitled person, either (i) the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to 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 blackout periods.

<u>2013 PSP</u>

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

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

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

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

The exercise of phantom stock is subject to the condition precedent, in each case, that the annual success target within a four-year waiting period is achieved. The success target is achieved in each case if, after the granting of the subscription rights to the respective entitled person, either (i) the consolidated net income attributable to shareholders of Fresenius SE & Co. KGaA according to 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 blackout periods.

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

Stock Option Plan 2003

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

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. Stock options which have been exercised at the exercise date are recognized at exercise price in equity. Fresenius SE & Co. KGaA also awarded 234,987 phantom stocks under the 2013 LTIP, 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. Thereof the members of the Management Board of Fresenius Management SE were granted 34,574 phantom stocks while 25,312 phantom stocks were granted to employees of Fresenius SE & Co. KGaA with a combined market value of €4 million.

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, while employees of Fresenius SE & Co. KGaA held 100.232 phantom stocks.

Stock option transactions are summarized as follows:

	Stock options
	Number
Number as of December 31, 2015	10,649,309
plus new issues	2,254,663
less forfeited options	-523,275
less exercises	-1,480,421
Number as of December 31, 2016	10,900,276

(13) Capital reserves

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

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

	2016	2015
€ in thousands		
As of January 1	2,779,211	2,694,955
Increase due to exercise of stock options	29,754	84,256
As of December 31	2,808,965	2,779,211

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

(14) Other reserves

Other reserves developed as follows:

	2016	2015
€ in thousands		
As of January 1	2,107,395	2,002,395
Additions to other reserves from net income of the period	232,000	105,000
As of December 31	2,339,395	2,107,395

According to the restrictions in Section 268 (8) HGB, €26.9 thousand shall not be distributed. This amount relates exclusively to the fair value of the securities held to cover partial retirement agreement obligations in case of insolvency. €7,786 thousand are restricted and shall not be distributed according to Section 253 (6) HGB.

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

(15) Retained earnings

Accumulated profits from the prior year of €48 thousand are included in retained earnings in accordance with the decision taken at the Annual General Meeting on May 13, 2016.

(16) Special reserve for government investment grants

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

(17) Accrued expenses

The **pension obligation** has been determined according to the method described under Note (3) “Accounting principles and standards of valuation”. Included in accrued expenses is an obligation of €15,590 thousand in favor of Fresenius Management SE for pension obligations related to its Management Board members.

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

	Dec. 31, 2016
€ in thousands	
Amount to be paid for partial retirement agreements	590
Fair value of matching securities	263
Funded status (surplus of obligations over assets)	327
Acquisition cost of securities	236

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

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

	Dec 31, 2016
€ in thousands	
Amount to be paid for obligations from the demography fund	1,827
Fair value of matching insurance	1,827
Funded status (surplus of assets over obligations)	0
Acquisition cost of insurance	1,665

The statement of income includes €46 thousand of netted expense and income, respectively, from the valuation of the insurance product and the provision.

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

Other accruals mainly include accruals for personnel expenses of €24,471 thousand (previous year: €20,916 thousand) as well as accruals to cover contingent losses from interest rate swaps and foreign currency risks of €16,459 thousand (previous year: €5,194 thousand) and for invoices outstanding of €3,615 thousand (previous year: €2,073 thousand).

(18) Liabilities

Dec. 31, 2016

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

Dec. 31, 2015

	Total	Thereof with a remaining term of up to 1 year	1 year to 5 years	over 5 years
€ in thousands				
Convertible bonds	500,008	8	500,000	0
Bank loans	916,863	107,863	788,500	20,500
Trade accounts payable	4,213	4,213	0	0
Accounts payable to related parties	3,695,688	748,021	1,743,879	1,203,788
Other liabilities	60,291	14,291	46,000	0
	5,177,063	874,396	3,078,379	1,224,288

Senior Notes

On July, 2016, Fresenius SE & Co. KGaA replaced the originally issuer Fresenius Finance B.V., and took over €2,200 million Senior Notes. Consequently accounts payable to related companies have decreased. The following table shows the liabilities from the Senior Notes as of December 31, 2016.

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

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

Convertible bonds, equity-neutral

On March 18, 2014, Fresenius SE & Co. KGaA placed €500 million equity-neutral convertible bonds due 2019. The bonds were issued at par. The coupon was fixed at 0%. On December 31, 2016 the conversion price was €49.5184.

At December 31, 2016, the negative fair value of the derivative embedded in the convertible bonds was €267 million. Fresenius SE & Co. KGaA has purchased stock options (call options) to secure against future fair value fluctuations of this derivative. The positive fair value of the call options at December 31, 2016 was €267 million as well. The embedded derivative and the call options build a hedge relationship and are accounted for in other assets and other liabilities at a book value of €46 million each following the “Einfrierungsmethode”.

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

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.

Convertible bonds within the Stock Option Plan

Liabilities result from the issuance of convertible bonds worth €8 thousand as part of the Fresenius AG 2003 Stock Option Plan.

Bank loans

Bridge Financing Facility

As of December 31, 2016, Fresenius SE & Co. KGaA had a loan facility of €2,750 million outstandig, 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.

Schuldschein Loans

At December 31, 2016 Fresenius SE & Co. KGaA had €809 Million (previous year: €917 Million) liabilities from Schuldschein Loans.

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

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

Commercial-Paper-Program

Fresenius SE & Co. KGaA has a commercial paper program under which 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 (previous year: €0 Million).

Accounts payable to related parties

Accounts payable to related parties comprise loans and financing accounts with affiliated companies in the context of inhouse banking (cash pool) in an amount of €1,437,629 thousand (previous year €3,695,673 thousand).

Included in this item are liabilities of €5,826 thousand (previous year €4,908 thousand) in favor of the general partner Fresenius Management SE. Moreover, liabilities of €32,409 thousand (previous year €28,948 thousand) in favor of Fresenius Management SE are included in pension liability and other liabilities.

Other liabilities

Other liabilities primarily include €46,000 thousand liabilities from the derivative embedded in the convertible bond as well as tax liabilities, interest liabilities and payroll liabilities.

Tax liabilities amount to €1,337 thousand (previous year €1,144 thousand).

(19) Deferred income

Deferred income of €2,127 thousand (previous year €0 thousand) refers to a premium of €2,253 thousand arising from a senior note that was taken over from Fresenius Finance B.V. and shall be released on a straight line basis over the term of the senior note.

(20) Contingent liabilities

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

		2016		2015
€ in thousands				
Contingencies from indemnity agreements and guarantees		5,964,240		5,125,375
(thereof amount in favor of and from affiliated companies)	(5,962,184)		(5,125,375)	
Commitments from retirement provisions		15,214		16,117
(thereof amount to affiliated companies)		(15,214)		(16,117)
		5,979,454		5,141,492

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

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

Fresenius SE & Co. KGaA has committed itself, to the extent legally admissible, to indemnify the members of the Management Board of Fresenius Management SE against claims against them arising from their work for the Company and its affiliates, if such claims exceed their responsibilities under German law. To secure such obligations, the Company concluded a ‘Directors & Officers’ insurance with an excess, in compliance with stock corporation requirements. The indemnity applies for the time in which each member of the Management Board is in office and for claims in this connection after the ending of the membership of the Management Board in each case.

Senior Notes

Fresenius SE & Co. KGaA guarantees the Senior Notes of Fresenius US Finance II, Inc. – a wholly-owned subsidiary of Fresenius SE & Co. KGaA. The following table shows these liabilities of of Fresenius US Finance II, Inc as of December 31, 2016.

Issuer	Nominal Value	Maturity Date	Interest Rate
Fresenius US Finance II, Inc. 2014/2021	US$300 million	Feb. 1, 21	4.25%
Fresenius US Finance II, Inc. 2015/2023	US$300 million	Jan. 15, 23	4.50%

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

The Senior Notes of Fresenius US Finance II, Inc. and Fresenius Finance Ireland PLC are guaranteed by Fresenius SE & Co. KGaA, 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. The Senior Notes of Fresenius US Finance II, Inc. and Fresenius Finance Ireland PLC may be redeemed prior to their maturity at the option of the issuers at a price of 100% plus accrued interest and a premium calculated pursuant to the terms of the indentures under observance of certain notice periods.

Fresenius SE & Co. KGaA has agreed to a number of covenants which restrict the scope of action of Fresenius SE & Co. KGaA and its subsidiaries (excluding Fresenius Medical Care AG & Co. KGaA and its subsidiaries) to provide protection to the bondholders. These covenants consist of restrictions on further debt that can be raised, the mortgaging or sale of assets, the entering into sale and leaseback transactions as well as mergers or consolidations with other companies. Some of these restrictions were lifted automatically as the rating of the respective Senior Notes reached investment grade. In the event of non-compliance with certain terms of the Senior Notes, the bondholders (owning in aggregate more than 25% of the outstanding Senior Notes) are entitled to call the Senior Notes and demand immediate repayment plus interest. As of December 31, 2016, the Fresenius Group was in compliance with all of its covenants.

2013 Credit Agreement

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

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

As of December 31, 2015, 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. Those revolving credit facilities are available for Fresenius US Finance I, Inc., Fresenius Finance II B.V. and Fresenius SE & Co. KGaA. They have not been utilized at December 31, 2016.

- Term loan facilities of US$689 million and €933 million (together Term Loan A) which were borrowed by Fresenius US Finance I, Inc. and Fresenius Finance II B.V. respectively. Term Loan A amortizes and is repayable in quarterly installments with a final maturity 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 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 upon funding of the incremental facilities are additionally secured by a pledge of the capital stock of HELIOS Kliniken GmbH, in favor of the lenders.

(21) Other financial commitments

	2016	2015
€ in thousands		
Commitments from building leases, and leasing commitments		
due 2017 (prior year 2016)	7,770	8,087
due 2018-2021 (prior year 2017-2020)	6,066	10,136
	13,836	18,223
Commitments from ongoing capital expenditures	8,603	404
	22,439	18,627

Other financial commitments in their entirety are against third parties.

Notes on the profit and loss statement

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

(22) Income from participations

	2016	2015
€ in thousands		
Income from profit transfer agreements	632,307	463,115
Income from participations	86,532	84,844
(thereof amount from affiliated companies)	(86,532)	(84,844)
	718,839	547,959

(23) Sales

	2016	2015
€ in thousands		
Sales from personnel services	40,819	36,143
(thereof amount from affiliated companies)	17,010	16,172
	57,829	52,315

(24) Other operating income

Other operating income of €177,685 thousand in total (previous year €259,051 thousand) is comprised primarily of foreign currency gains of €141,619 thousand (previous year €236,941 thousand), cost transfers to group companies excluding own services of €17,231 thousand (previous year €20,523 thousand), and disposal gain of Fresenius Finance B.V. of €15,738 thousand (previous year €0) as well as other income from other accounting periods mainly income from the dissolution of short-term accruals of €2,232 thousand (previous year €739 thousand). The main reason for the decrease in other operating income is a decrease in foreign currency gains.

The total income from other accounting periods was €5,333 thousand in the fiscal year (previous year €1,097 thousand).

(25) Cost of materials

Cost of materials of €12,652 thousand (previous year €11,450 thousand) mainly consist of costs to attain sales from rentals and lease agreements such as rents and lease payments for buildings as well as repair, maintenance and cleaning costs for the mentioned buildings.

(26) Personnel expenses

	2016	2015
€ in thousands		
Salaries and wages	33,380	32,291
Social security and costs of retirement pensions and social assistance	3,856	8,105
(thereof amount of retirement pensions)	(-246)	(4,401)
	37,236	40,396

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

	2016	2015
Wage earners	18	19
Salaried employees	292	278
Apprentices	131	137
	441	434

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

Depreciation of intangible assets and property, plant and equipment of €4,706 thousand (previous year €4,672 thousand) is regular depreciation.

(28) Other operating expenses

Other operating expenses of €207,820 thousand in total (previous year €293,806 thousand) were primarily foreign currency losses of €144,097 thousand (previous year €237,946 thousand). Also included are IT-related expenses, insurance premiums and consulting expenses, as well as the costs of Fresenius Management SE for business management activities of €9,561 thousand that are passed on. Total expenses from other accounting periods were €890 thousand in the fiscal year (previous year €1,142 thousand).

(29) Net interest

	2016	2015
€ in thousands		
Interest income from long-term loans	70,501	69,644
(thereof amount from affiliated companies)	(70,455)	(69,592)
Other interest and similar income	32,741	49,553
(thereof amount from affiliated companies)	(30,246)	(48,382)
Interest and similar expenses	-146,964	-161,711
(thereof amount from affiliated companies)	(-66,222)	(-108,714)
Expense from interest accrued for provisions	-2,025	-2,009
	-45,747	-44,523

(30) Income Taxes

Income taxes in the amount of €69,921 thousand (previous year €59,694 thousand) resulted from current income tax of €70,596 thousand for the year 2016 (previous year €52,007 thousand) as well as tax income from other accounting periods in the amount of €675 thousand (previous year tax expense from other accounting periods of €7,687 thousand).

The deferred tax for the Tax Group is calculated with a tax rate of 30.5%, which is the tax rate expected to be applicable at the time the temporary differences reverse. Deferred tax liabilities arise from differences in the valuation of accounts receivables and from other assets not recognized for tax purposes. Differences in the valuation of pensions and other provisions generate deferred tax assets that exceed the amount of deferred tax liabilities. For this reason there is no tax gain or expense recognized in the profit and loss statement.

(31) Derivatives

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

Foreign exchange risk

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

Fresenius SE & Co. KGaA entered into foreign exchange forward contracts with external partners to hedge foreign currency risks from accounts receivable and liabilities as well as highly probable forecasted transactions from the Company and its affiliates. On the balance sheet date, the Company had mainly US$ and € currency derivatives with a nominal value of €873,620 thousand and a negative fair value of €11,700 thousand with a maximum maturity of 19 months.

For foreign exchange forward contracts contracted with banks that were closed to hedge the foreign exchange risk of Fresenius SE & Co. KGaA Group companies' and that were passed down to the affected Group companies via Group internal transactions, hedges were built for the forward contracts and the underlying transactions with an offsetting fair value. The Company does not revaluate these hedges for financial reporting purposes until maturity ('Einfrierungsmethode'). The positive net fair value of internal and external hedges was €0 thousand. As of December 31, 2016, the notional amount of these transactions totaled €219,305 thousand. The offsetting cash flows will level after 19 months the latest.

Further hedges were built for loans in foreign currencies that Group Companies have borrowed from the Company or that the Company has borrowed from Group Companies, and their offsetting foreign exchange forward contracts closed for hedging purposes. The loan receivables and payment obligations hedged against currency risk had a net book value of €24,335 thousand (asset). External foreign currency hedging contracts for the individual loans receivables and payment obligations with a nominal value of €375,879 on December 31, 2016 had a positive fair value of €1,577 thousand and a negative fair value of €11,492 thousand. The changes in value of both the loan receivables and payment obligations and the foreign currency hedging contracts have been recognized as income ('Durchbuchungsmethode'). The offsetting cash flows will nearly level after 10 months the latest.

The rest of the currency derivative contracts can have positive and negative fair values. Positive fair values of €3,179 thousand were not recognized for financial reporting purposes. Negative fair values amounting to €4,964 thousand were recognized as provision for contingent losses.

Interest rate risk

The Company entered into interest rate swap transactions with banks with a nominal value of US$200,000 thousand or €189,735 thousand and a positive fair value on the balance sheet date of €5,146 thousand. These interest rate swap transactions are mirrored by hedge agreements with affiliated companies with the same nominal volume and a negative fair value of €5,146 thousand. These transactions build a hedge that is not revaluated for financial reporting purposes until maturity ('Einfrierungsmethode'). This interest rate swaps mature on March 10, 2021 the latest.

The provision for contingent losses that had been built in the previous year following the interest rate swaps becoming ineffective, has been reversed. Interest rate caps with a nominal volume of €200,000 thousand have been entered into to further hedge variable interest rate payments from the syndicated credit agreement. No hedging relationship has been built for the interest rate caps, which have been accounted for at a fair value of €4 thousand on the balance sheet date. This interest rate caps mature on March 28, 2018 the latest.

Standards of valuation

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

- The fair value is based on the market value of a derivative that could be reached in voluntary transactions by independent parties without taking forced or liquidation sales into account.

- To determine the market value of foreign exchange forward contracts, the contracted forward rate is compared to the current forward rate for the remaining term of the contract as of the date of the balance sheet. The result is then discounted on the basis of the market interest rates prevailing at the date of the statement of financial position for the respective currency.

- The value of interest rate swaps is calculated by discounting the future cash flows on the basis of the market interest rates applicable for the remaining term of the contract as of the date of the balance sheet.

- The premium paid for the caps was capitalized and is adjusted as of the respective balance sheet date. For this purpose, the internal option values of the caps are determined and discounted to the present value on the balance sheet date.

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

(32) Compensation of the Management Board and Supervisory Board

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

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

- non-performance-based compensation (fixed compensation and fringe benefits)

- short-term performance-based compensation (one-year variable compensation)

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

The cash compensation paid to the Management Board for the performance of its responsibilities was €14,573 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 paid to the Management Board was €25,051 thousand (2015: €27,065.)

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.

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

(33) 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.

Of the total purchase price of €5.76 billion for Quirónsalud, €5.36 billion had already been debt-financed and cash paid by the Fresenius Group (see notes (18) and (20) for further details). The balance of €0.4 billion was paid in the form of Fresenius shares. For this purpose, on January 31, 2017, 6,108,176 new shares from Fresenius SE Co. KGaA were issued from authorized capital excluding subscription rights.

In January and February 2017 Fresenius SE Co. KGaA has granted long term loans of €1.0 billion to Fresenius ProServe GmbH and of €0.3 billion to HELIOS International Holding GmbH, a wholly owned affiliated company thereof. Moreover €0.7 billion were contributed to equity of Fresenius Finance Holdings Ltd. Both the loans and the equity contribution relate to the acquisition of Quirónsalud.

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.

(34) Corporate Governance

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

(35) Consolidated Financial Statements

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

(36) Proposal for the distribution of earnings

The General Partner and the Supervisory Board of Fresenius SE & Co. KGaA propose to the Annual General Meeting that the earnings for 2016 of Fresenius SE & Co. KGaA be distributed as follows:

Payment of a dividend of € 0.62 per ordinary share on the 553,316,547 ordinary shares entitled to dividend	€343,056,259.14
Balance to be carried forward	€593,170.56
Retained earnings	€343,649,429.70

(37) Responsibility Statement

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

Bad Homburg v.d.H., February 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

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 May13, 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
Supersivory 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)
Klöckner & 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[1]
Dr. Dieter Schenk (Chairman)
Michael Diekmann
Dr. Gerd Krick
Dr. Karl Schneider

[1] The committee consists equally of two members each of the Supervisory Board of Fresenius SE & Co. KGaA and of Fresenius Management SE.

MANAGEMENT BOARD FRESENIUS MANAGEMENT SE

(General partner of Fresenius SE & Co. KGaA)

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 Betriebsführungsges. 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)

MANAGEMENT REPORT FOR FRESENIUS SE & CO. KGAA

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

FUNDAMENTAL INFORMATION ABOUT THE GROUP

The group's business model

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

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

- **Fresenius Medical Care** offers services and products for patients with chronic kidney failure. As of December 31, 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 intra-venously 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.

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.

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

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 in the exhibit to the notes. The Company's annual corporate governance declaration describes the procedures of the Supervisory Board's committees. The declaration can be found on the website www.fresenius.com/corporate-governance.

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 in the exhibit to the Management Report. The Compensation Report is part of the Management Report.

Capital, shareholders, articles of association

The subscribed capital of Fresenius SE & Co. KGaA amounted to 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 Section 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 IDCSalud 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 Section 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, 2015.

Direct and indirect ownership interests in Fresenius SE Co. KGaA are listed in Note 10 of the Notes. As the largest shareholder, Else Kröner-Fresenius-Stiftung, Bad Homburg, Germany, informed the Company on December 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 existing products in the United States. Market share is to be expanded further through the launch of new products in the field of IV drugs, infusion therapy 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 conditions, we optimize our cost of capital if we hold the net debt/EBITDA ratio within a range of 2.5 to 3.0.

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

Corporate performance criteria

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

Research and development

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

- Dialysis
- Generic IV drugs
- 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%.

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.

Employees

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

The **number of employees** of Fresenius SE Co. KGaA at the end of 2016 was 456 (December 31, 2015: 433).

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.

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.

We support the development of our employees' **professional and personal skills** 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.

Profit-sharing

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

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

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

Changes to the 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 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.

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.

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 2017.

REPORT ON ECONOMIC POSITION

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.

Source: OECD Health Data 2016

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.

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 **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[1]

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

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

Thereof, the global **market for generic IV drugs** was worth about €29 billion[1]. Fresenius Kabi was able to enter additional market segments of the global addressable market due to targeted investments and the expansion of our product portfolio, among others, in the area of complex formulations, liposomal solutions, and 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[2] 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.

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

[2] German Society for Nutritional Medicine (DGEM) 2009; Ljungqvist O., Clinical Nutrition 2010, 29: 149–150

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.

The hospital market[1]

In 2015, the market of acute care hospitals in **Germany** was about €94 billion[2]. 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.

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

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[1] Most recent data available on the German hospital market
[2] Total costs, gross, of the German hospitals, less academic research and teaching

Sources: German Federal Statistical Office 2016; German Hospital Institute (DKI), Krankenhaus Barometer 2016; OECD Health Data 2016; Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI), Krankenhaus Rating Report 2016 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).

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[1] 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 standalone 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

[1] 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).

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 effect of the business results and significant factors affecting operating performance

The Management Board is of the opinion that the Fresenius Group's performance in 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%[1]. Fresenius Kabi achieved organic sales growth of 5% and increased EBIT 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[2] by 7% to €682 million. Fresenius Vamed achieved organic sales growth of 5%. EBIT[2] grew by 8% to €69 million.

[1] 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).
[2] 2015 before special items

Results of operations, financial position, assets and liabilities

Results of operations

Net income of Fresenius SE & Co. KGaA in the fiscal year 2016 was €576 million (previous year €404 million). The increase in net income mainly results from higher income from participations and transfers of profits. All the following companies have profit and loss transfer agreements with Fresenius SE & Co. KGaA: Fresenius Kabi AG, Fresenius ProServe GmbH, Fresenius Biotech Beteiligungs GmbH, Fresenius Versicherungsvermittlungs GmbH and Hyginus Publisher GmbH.

Fresenius ProServe GmbH contributed with earnings of €405 million (previous year €328 million) to the net income from participations. The higher earnings result from higher operative earnings of Helios affiliated companies as well as from newly concluded profit and loss transfer agreements within the Helios Group.

The profit and loss transfer agreement with Fresenius Kabi AG yielded earnings of €219 million (previous year €132 million). The increase mainly results from higher dividend income from Kabi affiliated companies.

Other significant income from participations came from a €76 million Fresenius Medical Care AG & Co. KGaA dividend (previous year €74 million).

In addition to earnings from dividends and from profit and loss transfer agreements, Fresenius SE & Co. KGaA receives €58 million of income from rents and from providing personnel services (previous year €52 million). Other operating income includes €142 million (previous year €237 million) of foreign currency gains while €144 million (previous year €238 million) of foreign currency losses are included in other operating expenses.

Personnel expenses have decreased by €3 million in comparison to previous year. Mainly due to the new requirement to calculate the pension obligation with a ten-year-average discount rate that led to a lower appropriation to pension obligation.

The General Partner and Supervisory Board of Fresenius SE & Co. KGaA will propose a dividend increase to the Annual General Meeting. For 2016, a dividend of €0.62 per ordinary share shall be paid to shareholders. This is an increase of 13%. The total dividend distribution will increase by 14% to €343.1 million (previous year €300.2 million).

Cash flow statement

	2016	2015[1]
	million €	million €
Net Income	576	404
Depreciation and amortization of non-current assets and financial assets	5	5
Increase in pension liabilities	2	8
Interest result	46	45
Income from investments	-719	-548
Earnings from the liquidation of affiliated companies	-16	0
Cash flow	**-106**	**-86**
Increase in accruals for income taxes and other accrued expenses	48	9
Decrease/increase in trade accounts payable	-	2
Increase in other operating assets and liabilities	26	17
Increase in working capital	**74**	**28**
Cash flows from operating activities	**-32**	**-58**
Payments for purchasing shares of subsidiaries	-	-
Proceeds from liquidation of affiliated companies	18	0
Payments for investments in intangible assets and property plant and equipment	-2	-2
Interest received	103	119
Dividends received	550	632
Cash flows from investing activities	**669**	**749**
Proceeds from bank loans	178	112
Repayment of bank loans	-108	-266
Change in financing activities with related parties	-126	-360
Proceeds from the exercise of stock options	31	88
Interest paid	-149	-164
Dividends paid	-300	-238
Cash flows from financing activities	**-474**	**-828**
Change of cash and cash equivalents	**163**	**-137**
Cash and cash equivalents at the beginning of the year	144	281
Cash and cash equivalents at the end of the year	307	144

[1] Previous year reclassified according to DRS 21

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

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

As of December 31, 2016, Fresenius SE & Co. KGaA complied with the covenants under all the credit agreements.

Financial position

Total assets of Fresenius SE & Co. KGaA increased by €397 million to €11,462 million (previous year €11,065 million).

On the asset side, receivables from related parties increased from €2,382 million to €2,844 million, due mainly to higher demand for intercompany loans by, Fresenius Kabi AG and HELIOS Kliniken GmbH.

The liability side includes €2,200 million Senior Notes that were taken over non-cash from Fresnius Finance B.V. Correspondingly, accounts payable to related parties have decreased from €3,696 million to €1,438 million. Following this transaction Fresenius Finance B.V. was liquidated.

The equity ratio increased from 51.8% to 52.7%.

Investments, divestments and acquisitions

Total investments in property, plant and equipment and intangible assets were €2 million in 2016.

Changes in the financial assets in the fiscal year 2016 mainly resulted from following transactions:

- The liquidation in March 2016 of Fresenius Konzernfinanzierung Erste GmbH and Fresenius Konzernfinanzierung Zweite GmbH and in December 2016 of Fresenius Finance B.V. The later generated earnings of €16 million

- The incorporation in December 2016 of Fresenius Finance Holdings Ltd. as a wholly owned company from Fresenius SE Co. KGaA.

Loans to related parties mainly include US-Dollar loans to American affiliated companies. The loan of US$244.3 million against Fresenius Finance Holdings Ltd. that matured in December 2016 was substituted by a new short term loan which is included in accounts receivable from related parties.

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 starting on page 27.

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. With the successful completion of the acquisition of hospitals from Rhön-Klinikum AG, 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 Public Private Partnership (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 lifesaving 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.

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

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 dy-

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

Source: Company research

namic 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 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

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

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.

Economic outlook of Fresenius SE & Co. KGaA for the year 2017

For the fiscal year 2017 the company expects a slightly higher contribution to earnings from dividends and profit and loss transfers. Retained earnings are also expected to increase slightly.

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.

OPPORTUNITIES AND RISK REPORT

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

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

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

Opportunities management

Managing opportunities is an ongoing, integral part of corporate activity aimed at securing the Company's long-term success. In this way, we can explore new prospects and consolidate and improve on what we have already achieved. The organization and management of the Fresenius Group have a decentralized, regional structure. This enables us to recognize and analyze trends, requirements, and opportunities in the often fragmented markets and to focus our actions accordingly. We maintain regular contact and dialogue with research groups and scientific institutions, and keep a close watch on markets and competitors in order to identify opportunities. Within the Group, opportunities and synergies can be exploited through continuous communication involving the exchange of information and know-how between the business segments. Anticipated future opportunities for the Fresenius Group are discussed in the **Outlook** starting on page 21.

Risk management

Fresenius risk management system

Risk management is a continuous process. Identifying, controlling, and managing risks are key tools of solid corporate governance. The **Fresenius risk management system** is closely linked to its corporate strategy. Opportunities are not recognized in the risk management system. Responsibilities for the **risk management processes** and the **monitoring** of risks in the business segments have been assigned as follows:

- Using standardized processes, risk situations are evaluated regularly and compared with specified requirements. If negative developments emerge, responses can be initiated at an early stage.

- The managers responsible are required to report any relevant changes in the risk profile to the Management Board without delay.

- Markets are kept under constant observation and close contact is maintained with customers, suppliers, and institutions. These policies allow us to swiftly identify and react to changes in our business environment.

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

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

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

Internal financial reporting controls

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

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

financial data and key figures are reported, discussed, and compared on a regular monthly basis with the prior-year figures, budget, and latest forecast. In addition, all parameters, assumptions, and estimates that are of relevance for the externally reported Group and segment results are discussed intensively with the department responsible for preparing the Group's consolidated financial statements. These matters are also 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 US administration to possibly increase import duties, potential changes to the current health care programs and possible reductions in corporate taxes.

Risks in the healthcare sector

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

Financing of health care and reimbursement systems

In our largely regulated business environment, **changes in the law** – also with respect to reimbursement – can have a major impact on our business success. This applies especially in the United States, where a large portion of our sales are generated, and where changes in the government **reimbursement system**, in particular, for example in the reimbursement of dialysis treatments, could have a considerable impact on our business. In 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 a so called ESCOs under the Comprehensive ESRD 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 payment negotiations with insurers. Under 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 US 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 US 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.

<u>Development of new products and therapies</u>

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.

Recoverability of assets

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

Taxes

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

Debt and liquidity

Fresenius' debt was €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 in Note 18 of the Notes.

Compliance and legal risks

Compliance Risks

Fresenius is subject to comprehensive government regulation and control in nearly all countries. 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.

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.

<u>Other risks</u>

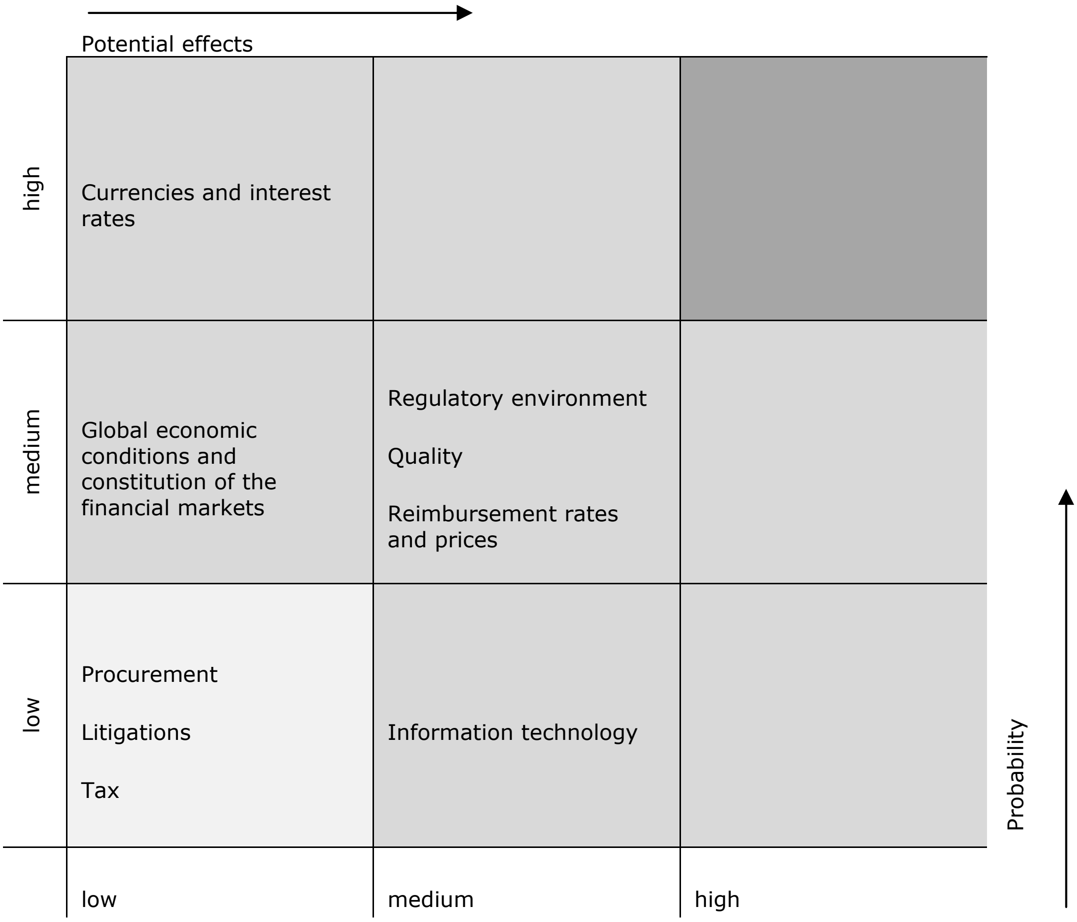
Other risks, such as **environmental risks** and **risks involving management and control systems**, were not considered to be significant.

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 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 US 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 US increase the risk in relation to reimbursements by private health insurance schemes.



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

Potential impact	Description of impact
High	Substantial negative impact on the 1-year forecast
Medium	Moderate negative impact on the 1-year forecast
Low	Small 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 goal. We believe the following will be particularly important for this:

- Risks relating to the quality, safety and effectiveness of our products and services (Operating risks see page 32),
- Risks arising from the financing of health systems and potential changes in reimbursement systems (Risks in the healthcare sector see page 30),
- Risks arising from the regulatory environment and compliance with laws and regulations (General economic risks and risks in the general operating framework see page 29).

Bad Homburg v.d.H., February 21, 2017

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[1], and Dr. Götz – the amount of the

[1] 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:

	Non-performance-based compensation				Short-term performance-based compensation		Cash compensation (without long-term incentive components)	
	Fixed compensation		Fringe benefits[2]		Bonus			
€ in thousands	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[1]	**1,242**	1,239	**121**	342	**2,403**	1,032[3]	**3,766**	2,613
Dr. Ernst Wastler	**500**	500	**72**	85	**775**	707	**1,347**	1,292
Total	**4,802**	5,099	**517**	956	**9,254**	7,943	**14,573**	13,998

[1] 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.
[2] Includes insurance premiums, private use of a company car, contributions to pension and health insurance, as well as other benefits.
[3] 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[2] 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.

[2] 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[1]				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 Götz	**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**[2]	941	**2,415**	3,185
Dr. Ernst Wastler	**67,500**	45,000	**1,033**	664	**0**	0	**442**	762	**1,475**	1,426
Total	**348,750**	486,900	**5,338**	7,224	**0**	0	**5,140**	5,843	**10,478**	13,067

[1] 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.
[2] 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 [1]	Dr. Ernst Wastler	**Total [2]**
Options outstanding on January 1, 2016							
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**
Options granted during fiscal year							
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**
Options exercised during the fiscal year							
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**
Options forfeited in the fiscal year							
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.**
Options outstanding on December 31, 2016							
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**
Exercisable options on December 31, 2016							
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**

[1] Mr. Rice Powell holds stock options under the Fresenius Medical Care stock option plan.
[2] Only stock options of Fresenius SE & Co. KGaA, excluding stock options of Mr. Rice Powell

The following table shows the total compensation of the Management Board of the general partner of Fresenius SE & Co. KGaA for the years 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
Total	**14,573**	13,998	**10,478**	13,067	**25,051**	27,065

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

	Stock options		Share-based compensation with cash settlement (phantom stocks)		Total expenses for share-based compensation	
€ in thousands	**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**[1]	699	**1,261**	1,076
Dr. Ernst Wastler	**469**	365	**1,039**	929	**1,508**	1,294
Total	**2,213**	2,921	**3,861**	6,546	**6,074**	9,467

[1] Includes expenses for performance shares and share based awards of Fresenius Medical Care AG & Co. KGaA

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

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**
Total	25,111	6,069	**31,180**

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).

Thirty percent 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

	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			
Benefits granted Value € thousands	**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
Total non-performance-based compensation	**893**	893	893	709	**622**	622	622	1,243	**623**	623	623	622
One-year variable compensation[1]	**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
Total non-performance-based and performance-based compensation	**4,829**	2,643	n. a.	3,277	**1,497**	1,222	n. a.	5,707	**3,348**	1,373	n. a.	3,290
Service cost	**276**	276	276	251	**191**	191	191	342	**300**	300	300	273
Value of benefits granted	**5,105**	2,919	n. a.	3,528	**1,688**	1,413	n. a.	6,049	**3,648**	1,673	n. a.	3,563

[1] 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.

[2] This amount contains a discretionary bonus for Mr. Rice Powell in the amount of €541 thousand for the 2016 fiscal year.

[3] 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[2]	**775**	650	950	707
1,475	0	n. a.	1,426	**1,475**	0	n. a.	1,426	**2,415**[3]	0	n. a.	3,185[3]	**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 **2016**	2015	**Dr. Ulf M. Schneider** Chairman of the Management Board (up to June 30, 2016) Board member since May 28, 2003 **2016**	2015	**Dr. Francesco De Meo** CEO Fresenius Helios Board member since January 1, 2008 **2016**	2015
Fixed compensation	**850**	600	**550**	1,100	**600**	600
Fringe benefits	**43**	109	**72**	143	**23**	22
Total non-performance-based compensation	**893**	709	**622**	1,243	**623**	622
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**[3]	4,819		3,492
Issue 2012			**6,802**[3]			
Thereof further phantom stocks						
Issue 2011	**267**		**267**		**267**	
Other	**0**	0	**0**	0	**0**	0
Total non-performance-based and performance-based compensation	**6,900**	7,608	**10,951**	13,545	**2,248**	11,197
Service cost	**276**	251	**191**	342	**300**	273
Allocation including multi-year variable compensation / components with long-term incentive effect	**7,176**	7,859	**11,142**	13,887	**2,548**	11,470
Allocation for the year under review (not including multi-year variable compensation / components with long-term incentive effect)	**2,942**	2,102	**1,688**	3,297	**2,173**	2,137

[1] This amount contains a discretionary bonus for Mr. Rice Powell in the amount of €541 thousand for the 2016 fiscal year.
[2] 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.
[3] 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.

	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	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 [1]	**775**	707
	267	5,993	**65**	1,878	**3,273** [2]	2,608 [2]	**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
Total	**153**	145	**67**	61	**60**	60	**40**	40	**2,805**	2,332	**1,263**	1,010	**4,388**	3,648

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.

GLOSSARY

Financial terms[1]

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

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

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

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

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

Cash flow from financing activities is calculated from additions to equity plus proceeds from the exercise of stock options less dividends paid plus proceeds from debt increase (loans, bonds, 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.

[1] Integral part of Management Report

Financial terms[1]

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 - taxes) / Invested capital

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

ROOA (Return on Operating Assets)
Calculated as the ratio of EBIT to operating assets (average)

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

SOI (Scope of Inventory)
Indicates the average number of days between receiving goods as inventory and the sale of the finished product.

Calculated by: (Inventories / Costs of goods sold) x 365 days.

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

[1] Integral part of Management Report

REPORT OF THE SUPERVISORY BOARD

In 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 intercompany 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 plannings 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