



Explanatory report on Agenda Item 6 (“Say on Pay”) of the Annual General Meeting of Fresenius SE & Co. KGaA

## **REVISION OF THE COMPENSATION SYSTEM – INTRODUCTION OF A NEW LONG TERM INCENTIVE PLAN**

The compensation system for the Management Board of the General Partner of Fresenius SE & Co. KGaA (“Fresenius SE”) sets incentives for sustainable corporate development and allows the members of the Management Board to appropriately share in the Company’s financial and economic success.

Since grants were no longer possible under the Long Term Incentive Program 2013 (“LTIP 2013”), which was approved by shareholders in 2013, the Supervisory Board of Fresenius Management SE comprehensively addressed this topic and approved a revised Long Term Incentive Plan 2018 (“LTIP 2018”), which will seamlessly replace the previously granted LTIP 2013. The LTIP 2018 takes account of both shareholders’ expectations and current market practice, while continuing to allow the members of the Management Board to participate – within a reasonable scope – in the long-term, sustainable success of the Company.

Further, the Supervisory Board has taken additional steps to ensure that Management Board compensation levels are appropriate. Going forward, the discretionary bonus, total allocated compensation for a single fiscal year and potential severance awards in the event board membership ending before the expiration of the appointment are all subject to defined limits (a detailed description can be found in section four of this report).

At Fresenius, it is standard practice that shareholders have the opportunity to vote on significant changes to the Management Board’s compensation system. The revised compensation system will therefore be submitted for approval according to § 120 para. 4 of the German Stock Corporations Act (“Say on Pay”). At the annual general meeting on May 17th, 2013, a strong majority (around 96 % of votes submitted) of shareholders of Fresenius SE & Co. KGaA approved the then-valid compensation system for the members of the Management Board of the General Partner.

This report offers a detailed description of the new LTIP 2018 as well as the additional adjustments to the compensation system. In addition, the entire compensation system for the Management Board is outlined in a transparent manner. The changes enacted by the Supervisory Board are thus presented in the context of the principles underlying the compensation policy for the Management Board.

A detailed description of the LTIP 2013, which remained in effect until the end of 2017, can be found in the 2017 compensation report (Fresenius SE annual report 2017, pp. 115ff.).

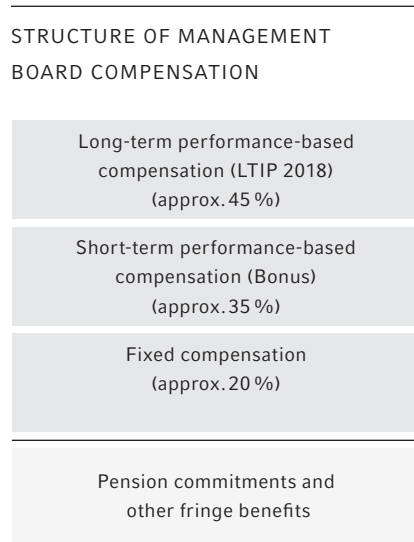
### 1. Principles and structure of Management Board compensation

The compensation system for the Management Board sets incentives for Fresenius' sustainable corporate development and is aligned with the Company's long-term strategy. Further, the design of the system takes account of the requirements set out in the German Stock Corporations Act, the requirements and recommendations found in the German Corporate Governance Code, as well as current best practices in Germany and international markets.

In fiscal year 2018, Management Board compensation comprises the following elements:

- ▶ Non-performance-based compensation (fixed compensation)
- ▶ Short-term performance-based compensation (bonus)
- ▶ Long-term performance-based compensation
- ▶ Pension commitments
- ▶ Other fringe benefits

To ensure that the compensation system for the Management Board is oriented toward sustainable corporate development, the compensation system provides that the share of long-term performance-based compensation amounts to at least half of the total variable compensation granted to the respective member of the Management Board. If necessary to guarantee this long-term orientation, the Supervisory Board can convert parts of the short-term performance-based compensation into multi-year variable compensation.



*Changes for 2018:*

From 2018 onward, the LTIP 2018 will replace the LTIP 2013, which has been granted since 2013.

### 2. Short-term performance-based compensation

The short-term performance-based compensation (bonus) is granted in the form of profit sharing. In this way, the profitability of the Company is directly tied to the Management Board's compensation. Fresenius SE's corporate structure is also reflected in the bonus. For those members of the Management Board with responsibility for business segments, a portion of their bonus payouts are dependent on the performance of their respective segments.

### Performance targets

The parameters underlying the profit sharing are based on Fresenius SE's net income growth, as well as net income attributable to Fresenius Helios (Dr. Francesco De Meo), Fresenius Kabi (Mats Henriksson) and Fresenius Vamed (Dr. Ernst Wastler). For 2018, the following bonus payouts are possible if performance targets are met:

	Net income growth Fresenius SE		Net income growth business segment	
	Min. Bonus	Max. Bonus	Min. Bonus	Max. Bonus
<b>Functional responsibility for the Group</b>				
Stephan Sturm (Chairman)	1,750 k€	2,300 k€	n/a	n/a
Rachel Empey (CFO)	760 k€	1,000 k€	n/a	n/a
Dr. Jürgen Götz (Legal & HR)	700 k€	950 k€	n/a	n/a
<b>Responsibility for business segments*</b>				
Dr. Francesco De Meo (Helios)	525 k€	875 k€	525 k€	875 k€
Mats Henriksson (Kabi)	650 k€	900 k€	650 k€	900 k€
Dr. Ernst Wastler (VAMED)	325 k€	475 k€	325 k€	475 k€

\* Rice Powell receives his compensation exclusively from Fresenius Medical Care and is therefore not shown here.

### Discretionary bonus

The Supervisory Board may grant members of the Management Board a discretionary bonus for extraordinary performance. No discretionary bonuses were granted in fiscal years 2017 and 2016.

### Changes for 2018

Starting in fiscal year 2018, the discretionary bonus is subject to a maximum award limit. The total compensation granted to a member of the Management Board in a fiscal year – including any potential discretionary bonus – may not exceed the sum resulting from adding the base salary plus the award limits (caps) on variable compensation elements (bonus and LTIP).

### 3. The new Long Term Incentive Plan 2018

The new Long Term Incentive Plan 2018 (LTIP 2018) measures the Company's performance over a period of four fiscal years, thereby incentivizing sustainable corporate development. To reflect a balanced picture of Fresenius SE's long-term financial and economic performance, the LTIP 2018 uses two equally-weighted performance targets, one based on capital market performance and one based on financial performance. The redesigned LTIP employs current practices, in particular in the following aspects:

- ▶ **Introduction of a maximum award limit:** A Management Board member’s potential payout entitlement is limited to a maximum of 250% of the grant value.
- ▶ **Performance comparison against relevant competitors:** In accordance with German and international best practice, going forward, 50% of target achievement under the LTIP will depend on the development of Fresenius’ shares compared with the Company’s relevant competitors.
- ▶ **Simplification by using only one plan type:** In contrast to the LTIP 2013, with its combination of a conditional capital-based stock option plan and phantom stocks, the LTIP 2018 is based exclusively on virtual shares (performance shares).
- ▶ **Introduction of malus and clawback provisions:** The LTIP 2018 provides that, in the event of a compliance violation, compensation from the plan can be forfeited or recovered.
- ▶ **Payout in cash:** The LTIP 2018 is paid out in cash to protect Fresenius SE’s shareholders from dilution.

Key information on the LTIP 2018 and the accompanying changes versus the LTIP 2013, as well as further changes to the compensation system, are described in the following.

*Grant*

Virtual shares (performance shares) issued through the plan are non-equity-backed, virtual compensation instruments. When performance targets are reached and other prerequisites are met, they guarantee the entitlement to a cash payment by the Company.

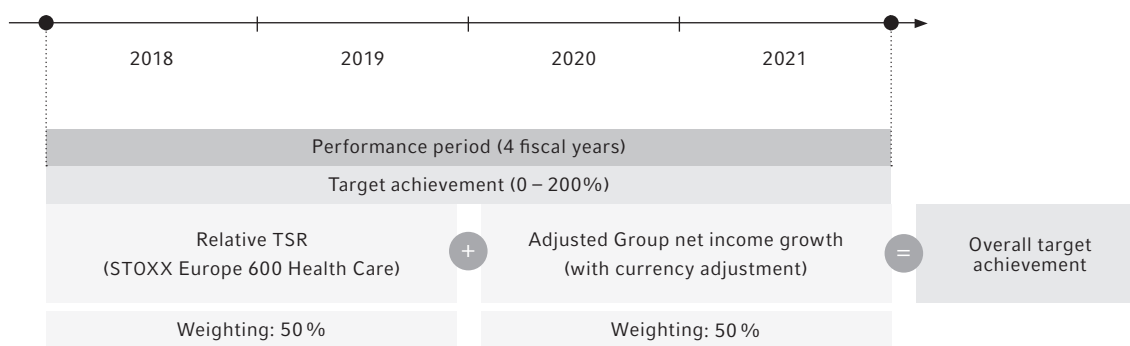
LONG TERM INCENTIVE PLAN 2018 – GRANT AND DETERMINATION OF PAYOUT \*



\* Fictional representation of the share price for the 2018 tranche for illustrative purposes.

Performance shares may be granted once annually over a period of five years. The grant to the members of the Management Board is made by the Supervisory Board of the General Partner on the basis of a determined grant value; the grant date is the second Monday in September. The grant value is determined at the reasonable discretion of the Supervisory Board. The number of performance shares granted is calculated through applying the grant value and the average stock market price of the Fresenius share over the period of 60 stock exchange trading days prior to the grant date.

#### LONG TERM INCENTIVE PLAN 2018 – PERFORMANCE ASSESSMENT \*



\* Illustrative for 2018 tranche

The number of performance shares may change over a period of four years, depending on the level of achievement of the ambitious performance targets (which are described in more detail below). This could entail the entire loss of all performance shares or also – at maximum – the doubling of their number (0–200%).

#### *Performance targets and determination of target achievement*

In contrast to the LTIP 2013, the LTIP 2018 contains two equally-weighted performance targets: first, the growth rate of adjusted Group net income (adjusted for currency effects) and, second, relative total shareholder return (TSR) based on the STOXX Europe 600 Health Care index. A payout can only occur if at least one of the two performance targets is fulfilled or exceeded over the four-year performance period.

For the performance target “Net Income Growth Rate”, a level of target achievement of 100 % is reached if growth is at least 8 % p.a. over the four-year performance period. If the growth rate falls below or corresponds to only 5 % p.a., the level of target achievement is 0 %. If the growth rate is between 5 % and 8 % p.a., the level of target achievement is between 0 % and 100 %, while a growth rate of between 8 % p.a. and 20 % p.a. corresponds to target achievement between 100 % and 200 %. Intermediate values are calculated through linear interpolation.

	Ø Adjusted Group net income growth p.a.	Target achievement
Cap	20 %	200 %
	...	...
Target	8 %	100 %
	...	...
Threshold	5 %	0 %

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

	Percentile rank TSR	Target achievement
Cap	75th Percentile	200 %
	...	...
Target	50th Percentile	100 %
	...	...
Threshold	25th Percentile	0 %

The ranking values are determined using the composition of STOXX Europe 600 Health Care on the grant date. For equalization purposes, the relevant market price for determining total shareholder return is the average market price over the period of 60 stock exchange trading days prior to the beginning and end of the performance period; the relevant currency is that of the main stock exchange on which the respective STOXX Europe 600 Health Care companies are listed, as of the grant date.

A level of target achievement in excess of 200 % is not possible for either performance target (limit on the number of shares).

To calculate the level of overall target achievement, the target achievement levels of the two performance targets are given equal weighting. The total number of performance shares vesting for each member of the Management Board is calculated by multiplying the number of performance shares granted by the overall target achievement.

#### *Determination of payout amount*

The resulting number of performance shares, which is determined after a performance period of four years and based on the overall target achievement, is deemed finally earned four years after the date of the respective grant (i. e., following the end of the four-year vesting period).

The number of vested performance shares is then multiplied by the average stock exchange price of the Company's share over a period of 60 stock exchange trading days prior to the end of this vesting period, plus the total of the dividends per share of the Company paid by the Company between the grant date and the vesting date. The resulting amount will be paid to the respective Management Board member in cash.

The potential payout entitlement for each member of the Management Board is limited to a maximum value of 250 % of the grant value (cap).

#### *Malus and clawback provisions*

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

#### *Plan participants*

The new plan is open to members of the Management Board (with the exception of Rice Powell, who receives his compensation from Fresenius Medical Care Management AG) and other executives. In accordance with the division of powers under law applicable to stock corporations, grants to other executives are made by the Management Board.

#### *Changes for 2018*

The following table contains an overview of the changes in the LTIP 2018 compared with the LTIP 2013, which was in effect until 2017:

	Long Term Incentive Program 2013	Long Term Incentive Plan 2018
<b>Term</b>	Waiting period for each tranche: 4 years	Vesting period of each tranche: 4 years Performance period: 4 fiscal years
<b>Grant</b>	Determination at the reasonable discretion of the Supervisory Board  Management Board member's option: Ratio stock options to phantom stocks 50:50 or 75:25	Determination at the reasonable discretion of the Supervisory Board
<b>Limit</b>	Maximum limit (cap): ▶ Limit on the number of units (grant = maximum final number of shares/options) ▶ No payout limit	Maximum limit (cap): ▶ 200 % target achievement (cap on number of shares) ▶ + Share price increase ▶ Payout limit: 250 % of grant value (overall cap)
<b>Performance target(s)</b>	Annual adjusted net income target: ▶ Currency-adjusted growth of at least 8 % per year ▶ Average annual adjusted net income growth of at least 8 %	Average growth rate of adjusted net income (adjusted for currency effects) per year (weighting: 50 %) ▶ 20 % p.a. = 200 % target achievement ▶ 8 % p.a. = 100 % target achievement ▶ 5 % p.a. = 0 % target achievement  Relative Total Shareholder Return based on the STOXX Europe 600 Health Care index (weighting: 50 %) ▶ 75th percentile = 200 % target achievement ▶ 50th percentile = 100 % target achievement ▶ 25th percentile = 0 % target achievement
<b>Determination of payout amount/Exercise price</b>	Exercise of stock options or phantom stocks if the performance target described above is met.  If the target is not met, 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.  <b>Stock options:</b> The exercise price of an option equals the volume-weighted average stock market price of the non-par value bearer share of Fresenius SE & Co. KGaA on the last 30 calendar days prior to the respective grant date.  <b>Phantom stocks:</b> Each phantom stock award entitles the holder to receive an amount equal to the volume-weighted average stock market price (closing price) of the non-par value ordinary bearer share of Fresenius SE & Co. KGaA during the last three months prior to the date that the phantom stock is exercised.	Determination of the final number of performance shares at the end of the tranche's vesting period by multiplying the number of granted performance shares by the overall target achievement.  The overall target achievement is contingent on: ▶ 50 % on achieving the net income growth target ▶ 50 % on the relative ranking versus other companies in the STOXX Europe 600 Health Care index over the course the of performance period of the respective tranche  The number of vested performance shares is then multiplied by the average stock exchange price of the Company's share over a period of 60 stock exchange trading days prior to the end of this vesting period, plus the total of the dividends per share of the Company paid by the Company between the grant date and the vesting date.
<b>Payout/exercise</b>	<b>Stock options:</b> Exercise within four years following the end of the four-year waiting period.  <b>Phantom Stocks:</b> Payout in cash following the end of the four-year waiting period.	Payout in cash following the end of the four-year vesting period.



#### **4. Additional compensation limits valid starting in 2018 (caps)**

##### *Limit on allocated compensation*

In addition to the limit described above on compensation from the LTIP 2018 to a value of 250 % of the respective grant value, from the 2018 fiscal year onward, a cap was introduced for the compensation allocable in one fiscal year totaling €6 million for any one member of the Management Board and €9 million for the Chairman of the Management Board. Accordingly, a member of the Management Board cannot receive compensation in any one fiscal year that exceeds this amount, even if stock options granted in the past were exercised.

##### *Limit on discretionary bonuses*

Furthermore, the rules on discretionary bonuses from the fiscal year 2018 onward also stipulate a limit. It is not permitted for the total compensation granted in any one fiscal year to a member of the Management Board, including any discretionary bonus, to exceed the amount resulting from the base salary and the caps on the variable compensation components (see previous sections).

##### *Severance payment cap*

Payments in the event of a premature termination of a member's services for the Management Board, including fringe benefits, are now limited to two years' compensation, at maximum no more than the compensation due for the remaining term of the respective service agreement (severance payment cap). No severance payments will be due in the event of termination of the service agreement for cause on grounds attributable to the relevant member of the Management Board. The calculation of the severance payment cap is based on the total compensation within the meaning of § 285 para. 1 no. 9a of the German Commercial Code (HGB) for the past financial year as well as the anticipated total compensation for the fiscal year in which the termination occurs.

The new Long Term Incentive Plan 2018 and the other changes to the Management Board's compensation system represent a strengthening of the pay-for-performance approach. Maximum award limits on the LTIP 2018 as well as further caps on the discretionary bonus and potential severance payments ensure that compensation levels are appropriate. Going forward, German and international best practices, such as a relative performance assessment and malus and clawback provisions, will be even more strongly anchored in the compensation system.